

Member Exposure Limits Disclosure



1 Background

As part of the review of LME Clear's credit related membership requirements and risk mitigation tools to create a more resilient and transparent CCP, we are formalising the Exposure Limits applied to Members.

The purpose of this disclosure is to provide transparency to Members on exposure (being the sum of Initial Margin (IM) and Concentration Additional Margin (CAM)) to which limits are applied by LME Clear ("**Exposure Limit**"); specifically how the Members' exposure is controlled, including an overview of how the Exposure Limits are calculated and exposures managed. Exposure Limits look to align the risk exposures with the financial capacity of LME Clear Members to service and manage their positions. They look to limit the risk to which a Member can expose LME Clear and its Members collectively. Overall the measures mitigate systemic risk.

As part of the Ongoing Membership Requirements, Members are required to comply with "any credit standards applied by LME Clear, from time to time, to the Member or Members generally" (Rule 3.2.3(e)). **LME Clear reserves the right to take action in accordance with the LME Clear Rules where a Member fails to operate within their Exposure Limits.**

Unless otherwise defined in this disclosure, defined terms have the meaning given to them in the LME Clear Rules.

2 Exposure Management

This disclosure provides Members with an explanation of the following:

1. Exposure Limits
2. Exposure management

2.1 Exposure Limits

Exposure Limits are a key way to align the risk exposures with the financial capacity of LME Clear Members to service and manage their positions. The Exposure Limit structure differentiates between margin funded by segregated (security interest over Client funds/assets) vs. title transfer ("TTCA") Client assets at Member level. Client margin account classification is disclosed to LME Clear by each Member.

Setting and monitoring Exposure Limits:

Each Member should inform LME Clear of the classification of margin accounts. Members should inform LME Clear immediately if the characterisation of any account changes, or if a new account is set up. If there are any changes or new accounts created, please let your relationship manager know.

LME Clear sets Exposure Limits based on Net Capital and account type. The Exposure Limits are monitored daily by LME Clear using the end-of-day Member exposures. An early warning alert will be established to trigger closer monitoring of the Exposure Limits and LME Clear will engage with Members when the alert levels are breached (see below). The following Exposure Limits and alert levels will be applied:

Calculation	Exposure Limit	Early warning alert
<u>IM in TTCA accounts + CAM</u> Net Capital	2.5	2.0
<u>IM across all accounts + CAM</u> Net Capital	3.0	2.5

**Different classifications of margin accounts at the Member level (as disclosed to LME Clear)**

Description	Segregated Client accounts (security interest over client funds/assets) at Member	TTCA Client accounts at Member
Client assets vs Member's own funds	Client assets segregated from Member's own funds. Member's own funds may be used to cover the shortfall in a Client account.	Client transfers assets by way of title transfer to the Member.
Client assets in aggregate	Commingled in the client segregated pool unless ISA Identifiable per Client	Commingled in total own funds of Member Identifiable per Client
Usage	Liquidity can only be used to meet margin calls within the segregated pool.	Liquidity can be used for anything (including to provide credit lines)
Protection from Member's financial troubles	Yes	No

2.2 Exposure Management

Exposure Limits early warning alert:

Alert levels have been set up below the Exposure Limits to notify LME Clear when a Member is nearing the Exposure Limits. This will trigger a discussion with the Member to ensure they are aware of the Exposure Limits and the possible future need to manage down the IM and/or CAM exposure or increase Net Capital to prevent a breach of the Exposure Limits.

Exposure Limits breach:

LME Clear reserves the right to take action in accordance with the LME Clear Rules where a Member fails to operate within their Exposure Limits.

3 Other Considerations

Members must manage their positions within the Exposure Limits. LME Clear regularly reviews and may adjust its margin parameters where necessary.

Members are reminded that LME Clear may use other risk management tools specified in the LME Clear Rules and Procedures from time to time. These may include specific IM limits not linked with Net Capital to control the risk exposure of a Member.

Where Members would like to discuss and/or clarify the application of this disclosure, please contact your LME Clear relationship manager and / or risk manager in the first instance.