

LONDON METAL EXCHANGE

-----From Executive Director: Regulation and Compliance

To: ALL MEMBERS
Ref: 09/231 : R004
Date: 26 May 2009
Subject: **DAILY POSITION AND OTHER REPORTING**

Summary

1 This notice sets out the reporting requirements for LME warrants and for LME registered futures and options positions. It consolidates and replaces LME notices 02/124 and 06/029.

Background

2 In accordance with regulations 9.1 of Part 2 of the LME rules and regulations, Category 1, 2, 3 and 4 members must report to the Exchange all Warrant and trading positions for all customer accounts and all house accounts as at the close of business each business day. These Warrant and position reports must be made electronically and must reach the Exchange by 08:30 on the morning following the date of the report.

3 The Exchange has replaced the previous electronic reporting system (LPRS), which was operated by LCH.Clearnet, with a new daily position reporting system (LMEdprs). Members must now use LMEdprs when making their Warrant and position reports.

4 The reporting threshold for all positions is one lot and, therefore, the algorithm of netting positions over five consecutive prompt dates on a rolling basis set out in notice 02/124 is obsolete.

5 LME notice 98/090, dated 12 March 1998, sets out members' obligations to report to the Exchange market open interest (MOI) figures by 09:00 each business day. Members must use LMEdprs to make their MOI reports to the Exchange.

Members' Accounts to be Reported

6 Category 1, 2, 3 and 4 members must report every single Warrant holding and net LME positions for:

- Any single proprietary account of a member.

ExD09026.doc

- All aggregated proprietary accounts of a member.
- Any client account.
- Any group of associated client accounts (see paragraphs 12 & 19)

7 Each member's proprietary account and client account listed above must be given a code defined by the reporting member that is unique within the member. This code will be referred to as the client code and will be used to relate a member account or client to a reported position.

8 In respect of LME client contracts, the reports must be compiled on the basis of all clients who hold those LME contracts. Where a member operates an omnibus account on behalf of underlying clients of an intermediary, the reports must account for each of those underlying clients separately (except in the case of pooled funds). Members should not treat intermediaries as the holders of aggregated positions if the underlying clients are the holders of LME registered client contracts.

9 When a position refers to a group of proprietary accounts or a group of clients, then the position of each individual proprietary account or client ie each individual client code, must be reported separately.

10 Net market positions should be reported by contract and prompt date for each of the member accounts or clients described above. Positions should not be reported twice.

11 Members should only supply positions relating to proprietary accounts or client accounts for valid LME prompt dates. If a member has no positions to report then this situation must be notified to the LME market surveillance staff and files must still be submitted each day to distinguish this from a failure to report information.

12 Positions reported by members each morning are those at the close of business on the previous business day. Unmatched trades are not registered positions. Only on-exchange LME registered positions should be reported. OTC positions or LME look-alikes should not be reported nor netted with on-exchange positions.

Reporting of Account Details

13 Each member must supply details of any new or changed client codes, including any new or changed affiliations of the client. Please note that an account code can not be recycled for another account holder. This information must be supplied to LME market surveillance staff **prior** to the reporting of any position which includes these changes. This information should be transmitted to LME market surveillance staff by letter, fax or email (market.surveillance@lme.com) and must be in the format specified below and include:

- The member's code.
- The name of the client or proprietary account.

- The FSA 32 character mnemonic for the client (if known).
- The date on which the change will take effect.
- The current client code being used (if one exists).
- The new client code to be used (if the client code is new or the client code has changed). Do not recycle a code that has been previously used for another client or proprietary account.
- The client code of any affiliated clients and details of the affiliation.

LME Traded Options & TAPOs Reporting

14 Members are required to report, in the Options (OS) file, all Traded Options & TAPOs positions, strike by strike, irrespective of the size of the positions or whether these are puts or calls or longs or shorts. The OS file should not contain deltas or futures offset calculations.

15 For each account holding positions in Traded Options, the undiscounted delta should be calculated and included with the reported futures positions for the third Wednesday Prompt date of the option month in the Futures (LP) file.

16 In the case of TAPOs, **do not** calculate the TAPOs delta and do not net against any existing futures positions.

Warrant Holding Reports

17 Category 1, 2, 3 and 4 members are required to report by, beneficial owner, any holding of LME Warrants of a proprietary nature, those pledged to a third party, or those held on behalf of a client. Warrant holdings are reported in the WH file. Please note that in addition to reporting Warrants in the Warrant holding (WH) file, members must also report their Warrant holdings in the Futures positions (LP) file. Warrant holdings are represented in the LP file where the Prompt date equals to the Report date.

18 When another party has control (rather than possession of) over Warrants, then both the beneficial owner and the controller's names must be disclosed (see paragraph 20 below). This should be achieved by the use of a different client code for the beneficial owner and controller combination when reporting the Warrant holdings.

19 In order to avoid any double counting of Warrants held by one LME member for another:

- (a) Subject to (b) below, each category 1, 2, 3 and 4 member should report any Warrants:
 - (i) held by it for its own account;
 - (ii) held by it under a financing arrangement;

- (iii) held by it on behalf of a client; or
 - (iv) held by another person under a financing arrangement which it has with that other person, except where that other person is a category 1, 2, 3 or 4 member.
- (b) Each category 1, 2, 3 and 4 member who is a SWORD member must report Warrants in any of its SWORD accounts, except Warrants which are subject to a remote-participation agreement with a category 1, 2, 3 or 4 member. Each category 1, 2, 3 and 4 member which does not have a SWORD account, must report any Warrants which are subject to a remote-participation agreement it has with a SWORD account-holder.

20 Market Aberrations: The Way Forward issued in October 1998 outlined, in section 13, the LME's policy regarding dominant positions. Section 9 dealt with the connected issue of large positions. In particular, paragraphs 9.5 and 9.6 dealt with types of connected holdings where the LME would aggregate positions. Such connected holdings could include Warrant-financing arrangements. Paragraph 9.5 observed that Warrant-financing can encompass a wide variety of both arrangements and objectives: under some financing arrangements, the relevant Warrants are available to be lent by the party holding the Warrants, but under other arrangements, the Warrants in practice are not readily available to the market. LME notice 01/122, dated 23 March 2001, describes some such arrangements.

21 The LME's purpose in aggregating connected warrant holdings is to reflect the effect on the market that these holdings may have. It is not, in any way, to discourage commercial arrangements for the financing of Warrants.

22 The main principle which will guide the LME in determining whether Warrant holdings are connected is which party effectively controls the availability of those Warrants to the market. If effective control of the Warrants is with a party other than the party holding the Warrants, the LME will aggregate those Warrants with all other holdings of the party in control of the Warrants in question.

23 There are a number of ways in which a person can achieve effective control of Warrants held by another. The LME's concern is not so much with the mechanism but with the result. The relevant characteristics are:

- (a) the holder of Warrants has an obligation such that he will retain the Warrants while the obligation is outstanding;
- (b) the person to whom the holder of the Warrants owes the obligation is aware that the Warrants are being held against the obligation; and
- (c) the person to whom the obligation is owed has effective control over whether those Warrants can become available to the market.

24 The LME requires members to inform the LME compliance department of arrangements to which they are parties where they or their counterparties/customers do not hold but have effective control over Warrants. Such notification should be at the start of such an arrangement and should indicate for how long the arrangement

is expected to last. The member should also notify the LME when the arrangement ends. A member with effective control over Warrants, held by another member, should not report such Warrants in its daily Warrant position reports. Daily reporting continues to fall to the member holding the Warrants. This section clarifies the obligation of members to disclose connected holdings, which was set out in paragraph 9.6 of the Market Aberrations document.

25 Where the LME has reason to believe that a person's degree of control is sufficient to require the controlled Warrants to be aggregated with any other Warrants held by or to his order, the LME will notify that person. The result of such notification will be that the total number of Warrants will be counted towards that person's Warrant holdings, cash today and cash positions, for the purposes of the lending guidance set out in paragraph 13.24 of the Market Aberrations document.

26 Members holding Warrants under a financing arrangement should continue to report those Warrants. In addition, however, Warrants which are held against an obligation having the characteristics set out in paragraph 23 above should be separately identified as such, together with the identity of the party to whom the obligation is owed. This will prevent the lending obligations being incorrectly placed on the holder of the Warrants and allow the LME to aggregate holdings properly.

27 Positions for the same metal and prompt date held in each account should be netted off across all LME cleared currencies.

28 The positions of groups of clients or proprietary accounts that are reportable should be reported by client code ie each client or proprietary account should be reported separately, not as a group aggregated position.

29 Any reportable position must only be reported once, even if it contributes to more than one position ie if a client has a reportable position on a specific prompt date and is part of a group that has a reportable position on the same prompt date for the same metal then the client's position on that prompt date, for that metal should only be reported once.

Groups and Affiliates

30 Please note that "any group of associated client accounts" should include groups consisting of an affiliate's accounts together with those belonging to the member. This should include accounts which are subject to common control or a common trading advisor or strategy to the best of the member's knowledge. CTAs who have power of attorney to commit trades to the accounts of the funds which they manage would fall within this description.

Reporting Procedure

31 Category 1, 2, 3 and 4 members must submit to the LME market surveillance team the required reports using LMEdprs as a reporting tool for each client and each proprietary position, identified by their account codes, by 08:30 (Market Open Interest by 09:00) each business day.

32 Each member must submit in advance to the LME market surveillance team under separate cover, a list of account names, which refer to the account codes in the reported files and will submit amendments to the list whenever necessary in good time. Members may email the information to market.surveillance@lme.com. The daily Warrant and position reports and the account code lists are available only to the LME compliance department staff.

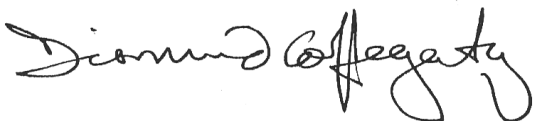
33 Details on how to connect to LMEdprs are in Schedule 1 of LME notice 09/182 : A178 and the file format of the electronic reports must conform to the latest version of the "LMEdprs Member specification document" which can be downloaded from the LME projects website www.LMEprojects.net. Members should also refer to LME notice 09/229 : A 225.

34 Members should log a call with the LME helpdesk (020 7488 2500) when they have problems connecting to LME systems. If a member anticipates that it will not be able to meet the reporting deadline, it should inform the LME compliance department immediately by phone or by email to market.surveillance@lme.com.

35 Members who have to re-submit their data files after the reporting deadline in order to correct errors in their reports must notify Market Surveillance staff of all re-submissions. Members who automate their file submissions to be sent overnight should check their report status for transmission or validation error messages well before the reporting deadline to ensure that they can correct and re-submit their reports correctly to the LME by the required deadlines.

36 Members' compliance with Warrant and position reporting requirements will be subject to audit by the LME compliance department. While members may delegate the calculation and transmission of their daily position and Warrant holding reports to third parties, they retain the responsibility for the accuracy of the data. Therefore, members are reminded that they should conduct sufficient testing of systems and control procedures used to report to the Exchange to ensure that the information reported is accurate.

37 Members are reminded that Warrant and position reports are essential for the Exchange to monitor LME markets and failure by members to report timely and accurately is a serious matter. Significant or persistent breaches of these reporting requirements will be considered to be a disciplinary offence and members who are found to be in violation of the requirements may be subject to the Exchange's disciplinary process.



Diarmuid O'Hegarty

cc: Board directors