



Financial OTC Booking Fee Policy - FAQs

1 Introduction

Following a consultation, The London Metal Exchange (“LME”) introduced the Financial OTC Booking Fee Policy (“FOTCBF Policy”) on 1 March 2018 in notice 18/060 (“Decision Notice”). The Decision Notice sets out the LME’s responses to feedback received in response to the consultation and the FOTCBF Policy.

The purpose of this FAQs document is to assist market participants with the practical application of the FOTCBF Policy. The LME remains open to discussing any queries with market participants regarding the interpretation or application of the FOTCBF Policy. This FAQs document is for information purposes only and is not intended to be a substitute for the Decision Notice and related policies. Market participants are advised to refer to the Decision Notice.

Market participants that have any questions not covered by this FAQs document may contact the LME.

Terms not otherwise defined in this FAQs document shall have the meaning ascribed to them in the FOTCBF Policy.

2 Frequently Asked Questions

1.0 Registering

1.1 Q) I work for an LME Member firm. The LME Member firm has an affiliate that we believe is undertaking trading of Relevant OTC Contracts, but we have no trading relationship with this affiliate. Moreover, we have no visibility over this affiliate’s trading activities and I will struggle to procure their compliance with the FOTCBF Policy. What should I do?

A) The LME Member is advised to contact the LME as soon as possible, to agree with the LME the actions that are necessary to ensure compliance with FOTCBF Policy.

1.2 Q: I work for an LME Member. I have an Affiliate which is primarily involved in the trading of physical metals. Is this entity able to fall within the Physical Participant Exemption?

A: The LME would regard an Affiliate which is processing base metals by means of physical merchanting, where the majority of the affiliated entity’s use of Relevant OTC Contracts is for the purposes of hedging its own price exposure, as able to fall within the Physical Participant Exemption (as defined by the FOTCBF Policy). The LME would regard an Affiliate which is processing base metals by means of physical merchanting, where the majority of the affiliated entity’s use of Relevant OTC Contracts is for the purposes of offering price exposure hedging to its clients, as not able to fall within the Physical Participant Exemption.



2.0 Reporting

2.1 Q) Under the FOTCBF Policy, the Reporting Officer is required to approve and submit Reports to the LME. Must this individual undertake the activity of preparing the reporting themselves?

A) The Reporting Officer is responsible for ensuring the accuracy of Reports that are submitted to the LME such that the LME can rely on any report submitted by the Reporting Officer. The LME does not require the Reporting Officer to collate all the pertinent data for the Report, nor design and implement the processes by which such data is collated. That said, the Reporting Officer shall ultimately be responsible for the approval and submission of such Reports and should therefore be satisfied that such Reports are accurate.

2.2 Q) As a Booking Fee Participant, do I have to pay the fee on my OTC trades with both financial and physical counterparties?

A) Yes, the FOTC Booking Fee is paid by all Booking Fee Participants in respect of all their Relevant OTC Contracts irrespective of whether the entity on the other side of that transaction is a financial or physical counterparty (aside from those issued to an Affiliate within the same Reporting Group as per the FOTCBF Policy).

2.3 Q) Am I responsible for collecting the FOTC Booking Fee from my clients if I believe them to be a Booking Fee Participant?

A) No, you are only required to report and pay for your own transactions in Relevant OTC Contracts and do not have a responsibility to collect or report for any clients (unless such client is an Affiliate within your Reporting Group - see FOTCBF Policy for details).

2.4 Q) I work for a LME Member firm that does not undertake any OTC business. Do I still need to register and report?

A) Unless you qualify for the Non-Financial Group Exemption, you must register pursuant to the FOTCBF Policy and report on a monthly basis using the Reporting Template. However, the Reporting Template can be a 'nil' return with zeros in every column, which will then result in no FOTC Booking Fees being invoiced.

2.5 Q) I work for a Member that only trades OTC averages, or forwards for prompt dates that are not yet clearable, all of which are immediately brought-on to the exchange as soon as this is possible. Do I need to report and pay for these trades?

A) Yes, these OTC trades need to be reported to the LME. You can also then report the OTC bring-on trades and receive an offset in the month that these trades are brought-on to the LME (see the OTC Bring-On Offset in the FOTCBF Policy for details).

2.6 Q) How should I report QP trades (that is, a trade which is originally agreed at a price similar to a calendar spread, which then prices during an averaging period, either for physical delivery, or financial settlement at a later date)?

A) This trade is initially traded as a spread, and so should be reported as such. Where all pricing and settlement legs of the trade occur within 60 days of each other (but not necessarily within 60 days of the trade date) this trade may benefit from a Short-Dated Spread Discount, comprising a 50% reduction to the FOTC Booking Fee (see the FOTCBF Policy for details).



2.7 Q) I have done an OTC trade with a client which was hedged by multiple cleared trades (such as a long dated forward, hedged with a 3-month trade, and a spread trade), do I need to report the multiple hedge trades?

A) No, you only need to report the OTC trade (i.e. the Relevant OTC Contract), irrespective of how that trade was hedged.

2.8 Q) How do I report calendar spread trades?

A) Spread trades should have both legs reported in the respective category specified in the Reporting Template. For example, a 100 lot June-September copper calendar spread (booked as physical forwards) would see 5000 tonnes reported in the "Physical Forward" category.

2.9 Q) How should I report options trades?

A) Options trades should be reported in:

- (i) the "Physical Forward" category, if they are an option which is physically settled; or
- (ii) the "Financial Swap" Category, if they are financially settled.

2.10 Q) I do LME business via an FCM which is not an LME Member, are my trades OTC? Do I have to register and report?

A) In both cases, no, if the client of the FCM receives a Client Contract or is an Indirect Client for the purposes of MiFIR. Clients should check their status with their FCM.

The LME recognises indirect clearing arrangements, provided that such arrangements comply with the requirements of MiFIR. Amongst other things, this means that positions and assets relating to any indirect clearing arrangement recorded at LME Clear must be appropriately segregated in Indirect Client accounts (either in a net omnibus or a gross omnibus segregated indirect client account). There must be identifiable open interest in the relevant Indirect Client account at LME Clear that is reflected through the indirect clearing chain and which can be ascribed to an indirect client. It is not possible for positions and assets relating to indirect clearing arrangements governed by MiFIR to be recorded in either the house account or a direct client account at LME Clear.

2.11 Q) If I am the initial client in an indirect clearing chain, can I use my Client Contract as an offset of other OTC trades under the FOTCBF Policy?

A) In this case, the initial Client Contract forms part of a chain. Consequently, the ultimate exposure to the Cleared Contract does not reside with the initial party it is issued to (the direct Client) and thus cannot be used as an offset under the FOTCBF Policy.

2.12 Q) If an OTC client position has been opened prior to 1 June 2018, before the FOTCBF Policy comes into effect, but then is either modified, cancelled or terminated early after 1 June 2018, is the FOTC Booking Fee payable in respect of the modification, cancellation or early termination?

A) The FOTC Booking Fee would not be payable in respect of an OTC contract (a "Legacy Contract") entered into before entry into force of the FOTCBF Policy (1 June 2018), even if it is subsequently modified, cancelled or terminated early (see limb (h) of the definition of "Relevant OTC Contract") . This provision was included in the FOTCBF Policy to avoid fees being incurred in respect of the closure of contracts agreed before the date that the policy enters into force.

However, this provision should not be used to avoid the FOTC Booking Fee in respect of trades in Relevant OTC Contracts which are agreed on after 1 June 2018 – and, in this respect, the FOTCBF



Policy provides that, where the LME believes that any trade or combination of trades are being used primarily to avoid payment of the FOTC Booking Fee, the FOTC Booking Fee would become payable (see paragraph 4.24 of the FOTCBF Policy).

In particular, the LME would not normally expect a Legacy Contract to be “modified” (without the payment of the FOTC Booking Fee) on or after 1 June 2018 in a manner which would more naturally be achieved by the booking of a new OTC contract. For example:

- the “modification” of a Legacy Contract after 1 June 2018 to increase the tonnage (where the more normal business practice would be to open a new contract for the incremental tonnage) could, in the view of the LME, represent an attempt to avoid payment of the FOTC Booking Fee (which would be payable if a new OTC contract for the incremental tonnage were to be opened after 1 June 2018); and/or
- the “modification” of a Legacy Contract after 1 June 2018 to settle on a more distant, future date than originally agreed (where a more normal business practice would be to open a new OTC contract to represent this carry trade) could, in the view of the LME, represent an attempt to avoid payment of the FOTC Booking Fee (which would be payable if an OTC carry contract were to be booked after 1 June 2018). Note that cancellation and early termination (i.e. causing the Legacy Contract to settle on a nearer date, rather than a future, more distant date) are specifically not chargeable in respect of a Legacy Contract; and/or
- the “modification” of a Legacy Contract after 1 June 2018 to become an apparently unrelated contract (for example, the substitution of one metal for another metal) could, in the view of the LME, represent an attempt to avoid payment of the FOTC Booking Fee (which would be payable if a new OTC contract were to be opened after 1 June 2018 in respect of the new metal).

Members and other interested parties wishing to discuss any specific cases are welcome to contact the LME.

2.13 Q) If I submit an FOTCBF Policy Report to the LME which I later realise is incorrect, how do I correct the report?

A) Please contact the LME on discovery of the error. If the error is a genuine one-off mistake, the LME will ask you to promptly re-submit a corrected Report and an adjustment will be made to your next invoice to reflect any additional payment or credit that is due. Where there are continued reporting errors, or a recurring pattern of issues with reporting, the LME may charge interest in respect of unpaid sums pursuant to the FOTCBF Policy.

3.0 Data Usage Licence

3.1 Q) I work for an LME Member firm and received an amendment to my LME Data Usage Licence. What is the impact of this?

A) As an LME Member, the FOTCBF Policy applies to you via the LME Rulebook. You are not required to do anything with regards to the Data Usage Licence.

4.0 Structured Products Licence

4.1 Q) The LME has launched a new Structured Products Licence: am I required to enter into this licence if I want to trade structured products?

A) The LME’s Structured Products Licence allows certain structured products to be created pursuant to a separate licence, which would then not need to be reported pursuant the FOTCBF Policy. A



Structured Products Licence is not a requirement, and these trades may be reported instead under the FOTCBF Policy.

5.0 Derived Data Licence

5.1 Q) I enter into OTC trades in index products that have an LME component, but I already pay a licence fee for this index, do I need to report and pay for these trades?

A) Trades that are within the scope of a LME Derived Data Licence do not need to be reported under the FOTCBF Policy. If you are unsure as to whether a particular index product you are trading is covered by a Derived Data Licence, please contact the LME Market Data Team (lmemarket.data@lme.com).

6.0 Billing and payments

6.1 Q) As a Member, where will I see the FOTCBF invoiced?

A) The FOTC Booking Fee will appear as a new line item on a Member's monthly invoice from the LME. The FOTCBF will be invoiced in the February, May, August and November invoices.

6.2 Q) As a non-Member, where will I see the FOTCBF invoiced?

A) The LME will issue you an invoice directly using the Data Usage Licensee's details registered with the LME. Should you wish to amend these details, please contact the LME. For invoicing queries please contact LME Finance at sales.invoicing@lme.com

7.0 Additional Support

7.1 Q) To whom at the LME should I address any questions or comments about the FOTCBF Policy?

A) If any market participant has any questions or requests for further clarification regarding the FOTCBF Policy, please contact your Relationship Manager, Sales representative, or email to: FOTCBF@lme.com. For Derived Data or structured product data licensing please contact lmemarket.data@lme.com. For invoicing queries please contact LME Finance at sales.invoicing@lme.com.

3 Reporting Categories

Please use the guide below when determining how to report the various categories of trades in the Reporting Template.

Client Contracts received: This is the total tonnage represented in Client Contracts issued to any non-Member entity within the Reporting Group by any Member.

Financial Swap: This is the total tonnage of Relevant OTC Contracts which have financial settlement. Calendar spreads should have both legs reported in this category (aside from those which are eligible for the Short-Dated Spread Discount).

Eligible Spreads – Financial: This is the total tonnage of Relevant OTC Contract which have financial settlement and are eligible for the Short-Dated Spread Discount. Both legs of the spread should be reported in this category.



OTC Bring-On: This is the total tonnage of OTC Bring-On trades done by the Group Reporting Participant.

Physical Forward: This is the total tonnage of Relevant OTC Contracts which have physical settlement. Calendar spreads should have both legs reported in this category (aside from those which are eligible for the Short-Dated Spread Discount).

Eligible Spreads – Physical: This is the total tonnage of Relevant OTC Contracts which have physical settlement and are eligible for the Short-Dated Spread Discount. Both legs of the spread should be reported in this category.

Physical Spot: This is the total tonnage of Relevant OTC Contracts which are covered by the Physical Spot Waiver (each being a Physical Spot Trade – that is, a trade which physically settles either one or two Business Days after the trade date).



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