

Secure Payment System



SETTING THE GLOBAL STANDARD

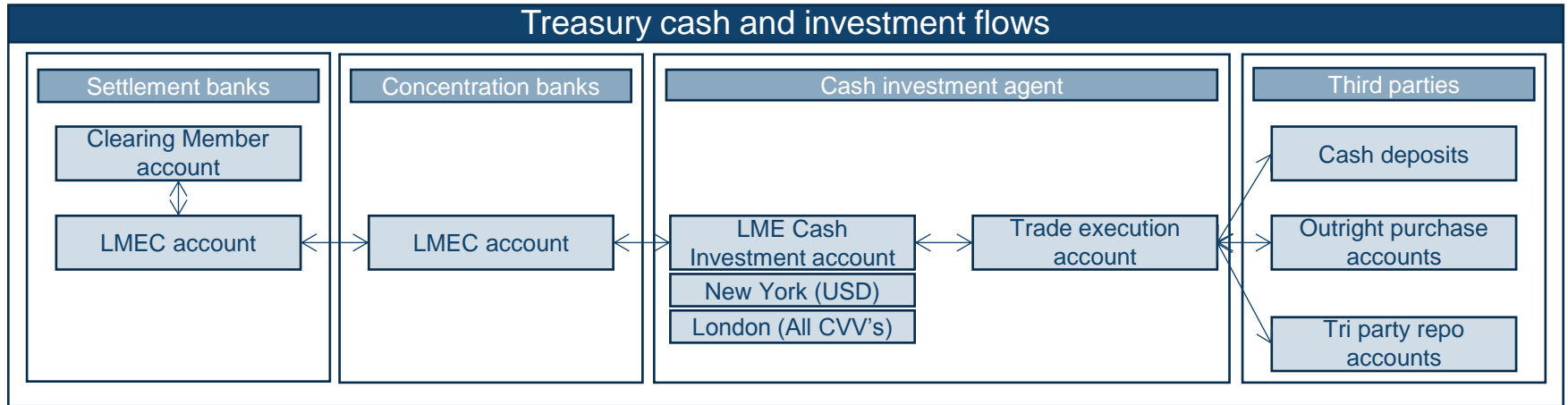


Key principles

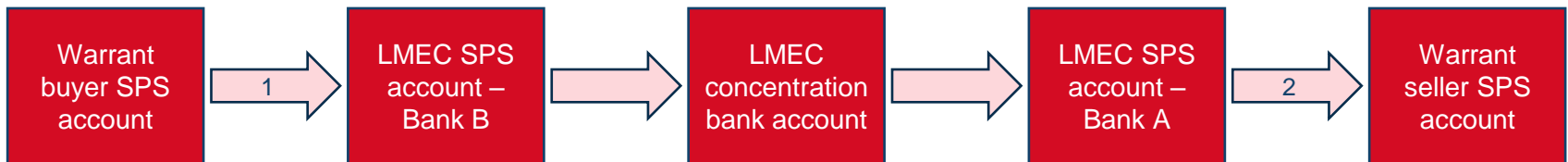
- Covers activities related to
 - The collection, processing and investment of cash
 - Settlement activity in relation to investment and cleared products
- Supported by
 - Robust legal arrangements
 - Enforcement of settlement finally through LME Clear rules and procedures
 - Minimum credit standards on external counterparts within activity; and
- Wherever possible
 - Central bank exposure, not commercial
 - Use of Securities Settlement Systems/CSDs for securities custody with accounts in the name of LME Clear

Key cashflows

Cash collateral / investment



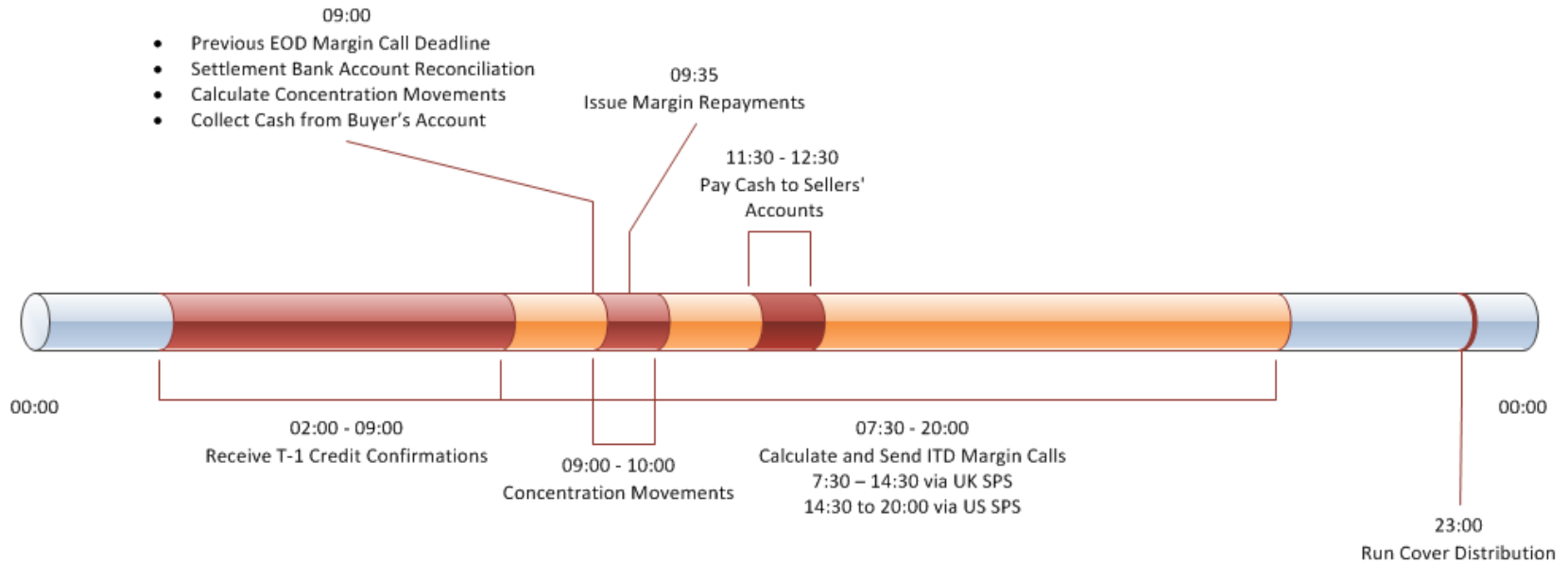
Warrant delivery (cashflows)



¹ Payment for the purchase of Warrants is collected by 9am as part of the normal SPS procedures

² Warrant nomination completes by 11am. Payments of Warrants are not included in normal SPS pays but are instead made after the allocation is complete. Warrants are collected in LMEsword

Cash management timelines



Secure payment system (SPS)

- SPS is a designated payment system
- 10 banks currently service LME members providing SPS services
- All SPS banks are required to meet minimum credit standards – internal credit rating 4 or above
- SPS calls are made in USD (GBP on US holidays). Pre-funding is also available in GBP, EUR and JPY
- Members must have, at a minimum, USD SPS accounts in London and NY (or global) and GBP SPS Account
- ‘Extended Member Liability’ (EML) connect is applied through the LME Clear rules, removing LME Clear credit risk upon SPS banks
- Communication is set up via standard Swift messaging, with contingency measures contractually agreed if Swift becomes unavailable
- All members are required to have contingency payment arrangements in place in accordance with LME Clear rules
- SPS forums will be held at least semi-annually
- Any balance left overnight is treated as an unsecured exposure and consolidated with investment limits

Secure payment system (SPS) – contingencies

DEPENDENCIES	CONTINGENCY
Settlement Banks	LME Clear Rules (Clearing Procedures Part E, 2.14) state that all Members must have contingency payment arrangements in place. This will be regularly confirmed with Members
Cash Concentration Bank	LME Clear has live accounts open at a secondary cash concentration bank
SWIFT	LME Clear will have access to all available online GUI's of the providers. Transfers can be instructed using these GUIs
LMEmercury	LME Clear will have access to all available online GUI's of the providers. Transfers can be instructed using these GUIs

Concentration banks

LME Clear has concentration bank arrangements with;

- Bank of England¹
- Bank of New York Mellon²

Where a concentration bank is also an SPS bank, separate accounts are required for this purpose. Balances on concentration bank accounts will be monitored in a range of upper and lower limits managing;

- Intra-day credit exposure – by size, duration and links to investment limits
- Use of daylight liquidity facilities

Secondary arrangements are in place³ and arrangements are tested at least semi-annually

¹ GBP, EUR

² USD, JPY

³ Citibank NA – USD, JPY

Settlement activity

Warrants, Gold and Silver OTC settlement process is not DVP;

- Cash calls for purchases are completed through overnight SPS processes
- Warrant nomination is completed by 11am, with Sword allocation thereafter
- Gold/Silver is matched via Aurum and settled using JPM as custodian
- Cash payments are withheld to sellers until delivery. Payments are made through SPS accounts but outside of standard Pays

LME mechanisms are in place to facilitate a no fails environment for Warrants. Positions can be “rolled” on Exchange and Gold/Silver can be financed overnight

Securities are settled at CSD’s¹, tri-party platforms² and through custody arrangements

All securities settlements are expected to be DVP

All CSDs, tri-party platforms and custodians are subject to minimum credit standards and periodic due diligence³

¹ Euro clear, EUI, FED

² Euroclear, EUI, BNY Mellon, JP Morgan

³ Internal credit rating of 4 and above. Due diligence completed at least annually

Custody – legal framework

Cash collateral

- Under the Rules, cash is provided by the Member to LMEC with full title. Ownership is then transferred to LMEC and, in exchange, the Member is owed a corresponding debt by LMEC. Note that LMEC is taking a security over any cash owed to the Member under terms of a security deed

Non-cash collateral

- LMEC takes a security interest over all non-cash collateral provided by a Member under a security deed.
- LMEC rules state that cash collateral and default funds are provided to LMEC freely to use. Under its rules, LMEC will invest such cash in accordance with its investment policy, cash not invested will be deposited in accordance with the rules. Cash can also be used for liquidity provision purposes.
- Concentration exposures with custodians for investment securities will be monitored with a target of these not exceeding 50% of the cash portfolio, provided meeting this does not impact other risk measures e.g. liquidity risk management

Monitoring

- LME Clear SPS, concentration and cash investment agent banks are reflected in its core system (LMEmercury) and balances will be updated as Swift messages are received
- Snapshots of the balances extracted and stored in the Data Warehouse every 15 minutes
- Cash flows will be monitored by Risk to produce MI and tread analysis in respect of;
 - Daily inflows and outflows (volume and amount)
 - Maximum liquidity requirement (and credit exposure) related to commercial banks
 - Usage of intra-day liquidity
 - Average timings through the day
 - The impact on intra-day liquidity related to large prompt/settlement dates
- All bank accounts and collateral positions will be reconciled daily

Settlement finality and designated payment system

- LMEC is a designated system for the purpose of the SFD
- The clearing system is operated by LMEC together with the Rules, technical and operational processes and contractual arrangements in order to for a system SFD purpose

The system will enable LMEC to:

- give instruction to transfer money to or from accounts at settlement banks on behalf of members
- give instructions to transfer money to or from its concentration banks accounts
- to give instructions to custodians, account operators and CSDs to transfer money or securities
- act as a CCP to Members and centrally clear client trades
- fulfil respective obligations under contracts
- complete transfers, assignments and novation of contracts between Members under rules

Disclaimer

Nothing in this document constitutes an offer or a solicitation of an offer to buy or sell any security or other financial instrument or constitutes any investment advice or recommendation of any security or other financial instrument. To the best of LME Clear's knowledge and belief, statements made are correct at the time of going to press. All such statements and all opinions expressed herein are published for the general information of readers but are not to be taken as recommendations of any course of action. LME Clear accepts no liability for the accuracy of any statement or representation. LME contracts may only be offered or sold to United States foreign futures and options customers by firms registered with the Commodity Futures Trading Commission (CFTC), or firms who are permitted to solicit and accept money from US futures and options customers for trading on the LME pursuant to CFTC rule 30.10.

© LME Clear Limited 2018. A private limited company, registered in England no. 07611628. An HKEX Company. LME Clear is a Recognised Clearing House authorised and regulated in the UK by the Bank of England.