



Onboarding to LME Clear

Clearing Member Onboarding

Please respond to:

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Relationship Management

LME CLEAR LIMITED

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A private limited company. Registered in England no 07611628. Registered office as above.

[LME.COM/CLEAR](https://lme.com/clear)

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1 Introduction

The purpose of this document is to outline the processes undertaken to on-board new participants to the LME Clear service.

Onboarding of a new Clearing Member is likely to take around 4 months to allow for documentation, operational and financial requirements. Any timings presented are approximate and dependant on available resources at the Member and the intention to complete onboarding in the best possible timeframe.

2 Onboarding Steps

1. Membership Requirements
2. Documentation Required
3. Project Initiation
4. Implementation
5. Connectivity to LME Clear
6. Member Training
7. Account Structures
8. Preparation for Testing
9. Testing (including fire drill)
10. Access to Secure Payments System (SPS)
11. LME Clear Clearing Member Approval
12. Default Fund
13. Go Live

3 Clearing Member Requirements

To join the LME Clear service the prospective Clearing Member must satisfy the following criteria:

- Membership of the LME (Cat 1-3)
- Minimum net capital of \$10 million
- Access to the Secure Payments System (SPS)
- Connectivity to LME systems
- Connectivity to LME Clear systems
- Appropriate systems to manage clearing activities
- Testing with LME Clear and successful completion of fire drill
- Confirmation of staff with sufficient experience and knowledge of the products to be cleared
- Completion of all Membership documentation
- Completion of a successful due diligence visit
- Payment of default fund contribution

For full Clearing Member status criteria, refer to the Rulebook which is available on the website:

<http://lme.com/lme-clear/rules-and-regulations/>

4 Documentation Required

The standard documentation required from Members is likely to include:

- LME Clearing Member Application Form
- LME Clearing Membership Agreement
- Evidence resolving to apply for Clearing Member status
- Certificate of Incorporation / Partnership Agreement or equivalent
- Company level audited financial statements for the last three years
- Most recent management accounts (signed) or returned to the applicant's regulatory body/bodies
- Most recent audited financial statements for the company's ultimate parent
- Corporate Tree / Group Structure / Confirmation of Major Shareholders & Subsidiaries
- Details of any support from group or external entities
- Evidence of Authorised Signatures with Specimen Signatures
- Secure Payments System Mandates – UK and US minimum
- Evidence of regulation for non-UK entities
- Security Deed (UK) and Security Agreements (Belgium and New York)
- Porting Documents
- Anti-Money Laundering Questionnaire
- Static Data Forms
- VAT Exemption Letter for non-UK Members
- LME Clear Mercury Super User Request Form

5 Initial Review

Prospective Members should provide the following documents to enable LME Clear to carry out an initial review to confirm that they meet the minimum criteria:

- the most recent annual financial statements along with any interim statements that show the current financial position
- details of any implicit or explicit support available from group or external entities.

Following receipt of this information LME Clear will carry out an initial review, considering factors such as external market data, country of incorporation, financial position and any support arrangements in place.

6 Project Initiation

Members should:

- Assign an internal project manager
- Determine which testing phases they will be participating in
- Obtain resources – operations, IT, risk, credit, legal, compliance
- Confirm account structure required
- Engage vendors (if utilised)
- Confirm any internal approvals required

7 Implementation

Process and connectivity impact:

- Set up payment accounts and processes – SPS (USD and GBP minimum)
- Confirm Connectivity to LME Clear systems
 - LMEmercury GUI
 - FIX interface if connecting directly rather than via LMEsmart
 - Connectivity to retrieve SPAN files via sFTP and/or the GUI
- Put collateral lodgement procedures in place
- Ensure operations procedures are in place
- Ensure margin posting process is in place

Supporting Documentation Available:

- Connectivity guide
- Testing script
- Report and Data File specification
- DSS – BAU and DMP

Many other LME Clear documents with background and additional information are available on the LME Clear Member section of the website, for example sample files and FIX specifications. If you do not have access please contact itservicedesk@lme.com

8 Due Diligence Visit

The application process for new Clearing Members may include a due diligence visit at the applicant's offices. The purpose of this meeting is to discuss corporate structure and strategy; the scope of the new Clearing Member's business generally and clearing activities specifically (planned and current); financials, regulation, operational processes, banking facilities, risk management (of clients) and any proprietary business, margining, credit management policy, stress testing and so on.

9 Connectivity

Members who have connectivity via LMEnet will need to add the IP addresses and ports required to access the LME Clear test and production environments. Existing connectivity for LME can be utilised. Members who currently connect to the LME via other methods will need to implement LMEnet as this is the only method of connectivity supported for the LME Clear production environment. Internet connectivity can be utilised, if require, for test access only prior to LMEnet being installed.

The IP and port information for both test and production environments are detailed in the connectivity guide. Members are requested to test and confirm successful connectivity to their Relationship Manager as soon as possible.

Separate logins will be issued for GUI, FIX and sFTP users, please advise your Relationship Manager if you require FIX logins; GUI users are required at a minimum. Any Members using ISVs will need to grant them access to the GUI and sFTP, as required.

10 Training

LME Clear requirements state that at least two personnel are fully conversant with clearing procedures, and detailed training will be provided for all new Clearing Members. Member firms should identify staff to attend training sessions, LME Clear will hold open training sessions at the LME on the LMEmercury clearing GUI, and further individual sessions can be arranged if necessary.

11 Preparation for Mandatory Testing

In order to be ready for the test phases Members should confirm in advance that they have the following in place:

- Connectivity tested for LMEmercury GUI, FIX and sFTP as required for both of the test and production systems
- Able to access the LMEmercury GUI login screen
- Agreed operations and reconciliation procedures
- Static data set up completed and confirmed with LME Clear
- Account structures confirmed with LME Clear
- Able to access reports via either sFTP and / or the GUI
- FIX development completed (if required)
- Key individuals trained
- Internal system testing completed

12 Testing

A robust testing framework, including scripted activities is available.

Prospective Members need to have confirmed access to all relevant LME, LME Clear, internal and third party environments in advance of the LME Clear mandatory testing phases.

12.1 Mandatory testing

There are two components of mandatory testing:

- All Members will need to complete the compulsory scripted end to end test cycle.
- Formal conformance testing will also take place which will include a fire drill of a simulated Member default, a regulatory requirement for Default Management Process validation.

13 Access to the Secure Payment System

The Secure Payment System is a Direct Debit system for the transfer of funds to and from Clearing Members. Each Member must establish and maintain an account with one or more of the approved Settlement Banks capable of holding and making payments in eligible currencies for LME Clear.

There is a requirement for Members to maintain an SPS account for GBP and USD payments at a minimum, including late USD payment up to 9pm London time (some SPS providers offer USD payments services covering both the European and American working days).

A full list of LME Clear SPS banks is available on the public website

UK and US SPS mandate forms will be sent out as part of the LME Clear Membership pack.

Please note that the original should be kept by the relevant SPS providers with a copy sent to LME Clear. Transactions to and from Settlement Bank account(s) will be tested prior to launch using a nominal amount as part of the onboarding process.

14 Approval of LME Clear Clearing Membership

Once a full and complete set of documents has been received by LME Clear, the approval process will take approximately 4 weeks. LME Clear Clearing Members need to be approved by the Executive Risk Committee.

15 Default Fund Contribution

Clearing Members are required to contribute to the Default Fund for LME Clear, the minimum contribution is USD \$1m.

LME Clear will notify the contact advised by the Member in the Contacts Form (part of the Membership pack) in writing at least 2 days in advance of the default fund being called. The funds in USD cash need to be received by LME Clear 2 full days in advance of the Members go live date.

On an on-going basis the default fund will be calculated every day and updated monthly or when necessary, subject to the EMIR guidelines.

16 Membership Fees

There is a one-off Membership Application fee of US \$1,700 which will be applied the month following go live.

The annual membership fee will depend on the type of membership requested; the fee schedule is available on the website: <http://lme.com/lme-clear/fees/>. The annual fee will be pro-rated for firms which join mid-way through a year.

17 Contact Us

For further information please contact the Relationship Management team on: imeclearing@lme.com