

To: All members, warehouse companies, London agents and other interested parties

Ref: 15/161 : A157 : W051

Date: 22 May 2015

Subject: **OUTSTANDING ITEMS FROM THE CONSULTATION ON AMENDMENTS TO THE POLICIES AND PROCEDURES RELATING TO THE LME'S PHYSICAL DELIVERY NETWORK**

Summary

1. This Notice confirms the outcome of the five outstanding items resulting from the recent LME consultation on amendments to the policies and procedures relating to the LME's physical delivery network.

Background

2. On 2 March 2015, the LME announced the results of two consultations (Notice 15/069 : W022, "Changes to the Warehouse Agreement" and Notice 15/070 : A069 : W023, "Amendments to the policies and procedures relating to the LME's physical delivery network").
3. In Notice 15/070 : A069 : W023, the LME noted five outstanding items which were referred to Committees for further discussion: (1) the proposed introduction of a "staging area" as part of the review of the LME's load-out definition; (2) possible amendments to the LME's lending guidance and consideration of the need for position limits; (3) the possibility of introducing further transparency into the LME's Commitments of Traders Report; (4) the nomination of a member of the LME's Warehousing Committee onto the Physical Market Committee to represent the views of all warehouse companies on that Committee; and (5) the possibility of providing approved capacity data for each warehouse location.
4. The relevant Committees have now met and the LME has had the opportunity to consider the Committees' feedback. This Notice updates the market on outcomes and next steps.
5. Capitalised terms not otherwise defined in this Notice shall have the meaning ascribed to them in the Policy on Approval and Operation of Warehouses which will come into force on 1 June 2015 (the "Policy").



Staging Areas and Guidance regarding Delivery Out

6. Further to Notice 15/070 : A069 : W023, the issue of staging areas has been discussed by the Physical Market Committee and the Warehousing Committee and the consensus of opinion was that the Policy allows more than adequate provision for load-out to take place. Moreover, it was felt that the inclusion of a staging area in the Policy could create unintended consequences leading to the sub-optimal operation of warehouses at the expense of metal owners. These include the risks of bottlenecks in the systems – especially in the staging areas themselves, the potential for the levying of high additional charges and the difficulties in auditing such a system, including providing adequate transparency.
7. As such, the Physical Market Committee and the Warehousing Committee recommended that no changes to the Policy should be made to allow this to take place. The LME concurs with this recommendation. Consequently, the LME is not recommending any change to the Policy in this regard.
8. Separately, attention is drawn to Section C2 of the Policy. When processing a single cancellation of metal which will require multiple days to deliver out based on the required load-out rate, a Warehouse will be required to deliver out over the number of days necessary to complete the delivery, with no reference to the performance on any one of those days. This means that the Warehouse and the metal owner may establish the precise daily scheduling, provided that the entire cancellation is loaded out in the period implied by the load-out requirements. However, Warehouses are reminded that they will be expected to ensure that each cancellation is fully loaded out within its corresponding period.

Lending Guidance and Position Limits

9. In Notice 15/070 : A069 : W023, the LME noted that one respondent to the consultation requested that the LME review its Lending Guidance and the need for position limits, in particular, to reflect the distinction between “free-float” and “locked-up” Warrants.
10. This item was discussed at the Special Committee at its meeting on 26 February 2015. The Special Committee is responsible for oversight of the Lending Guidance in accordance with the LME Rulebook. The view of the Committee was that the current guidelines represent best practice. Warrants available for delivery represent all warrants in the network and it was not viewed as necessary or appropriate for the LME to identify which warrants are subject to financing deals and subsequently exclude them from the calculation. Ultimately, the Committee considered that even warrants subject to financing deals might be released from such deals and made available for settlement if market conditions justified such a move. Subsequently it was felt that there is no need to propose a change. The Physical Market Committee also considered this issue at its meeting held on 19 March 2015 and concurred with the Special Committee.
11. Consequently, the LME is not recommending any change to the LME Lending Guidance.



Commitments of Traders Report

12. In respect of the Commitments of Traders report, following a request from one respondent, the LME noted that the possibility of increasing the granularity of the report was on the agenda for the next Physical Market Committee meeting. Following further discussion, the key request regarding Commitments of Traders disclosure was the production of an analysis breaking down trading volumes (in addition to the market-standard open interest report as currently produced) into the various categories of market participant.
13. Following discussion with the Physical Market Committee, it is apparent that this is not a request which is broadly endorsed by the LME community and that, therefore, demand for this change is very low. Furthermore, while the LME is not averse to the publication of such data, further analysis has indicated that the required systems modification work would be significant, and would negatively impact the delivery of other projects to which the LME has committed.
14. Accordingly, the LME cannot immediately implement the revised report as requested. However, the LME has specified the format of such a report, and will reassess the achievability of delivery when the relevant systems are next scheduled for upgrading in the normal course of business.

Representation

15. A number of respondents to the consultation on amendments to the policies and procedures relating to the LME's physical delivery network suggested that Warehouse Companies would appreciate greater representation on key LME Committees. The LME was pleased to invite the Warehousing Committee to nominate a representative to sit on the Physical Market Committee.
16. The LME's company secretarial team has subsequently run a confidential nomination and voting process, and the LME is delighted to announce that Graham Hawkins of Henry Bath has been voted on to the Physical Market Committee.
17. Graham Hawkins's appointment takes place with immediate effect and he will attend the next Physical Market Committee meeting on 25 June 2015 as a full member.

Capacity Data

18. Notice 15/070 : A069 : W023 advised that, following a request by two respondents, the LME would discuss with the Physical Market and Warehousing Committees the possibility of providing approved capacity data for each location.
19. Following discussion with both Committees, the LME will publish this data on a quarterly basis beginning 1 June 2015.



Matthew Chamberlain
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cc: Board directors
All metals committees
Physical Market Committee
Special Committee
User Committee
Warehousing Committee