

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

Ref: 15/302 : A294 : W103

Date: 30 September 2015

Subject: **CONSULTATION ON PROPOSED AMENDMENTS TO THE POLICY ON APPROVAL AND OPERATION OF WAREHOUSES REGARDING LORI AND QBRC**

Summary

1. Notice 15/191 : A187 : W063 launched a market-wide consultation (the “LORI and QBRC Consultation”) in respect of proposed amendments to the LME’s Policy on the Approval and Operation of Warehouses (the “Policy”), specifically on the proposed introduction of a near-term increase in the load-out rate (“LORI”), and a queue-based rent cap (“QBRC”). The LORI and QBRC Consultation closed on 17 August 2015. Following feedback received in the LORI and QBRC Consultation, the LME is today opening a further two-week consultation (the “Consultation”), to allow for comments on proposed anti-abuse provisions which would govern the application of QBRC.

Background

2. On 2 March 2015, the LME issued Notice 15/072 : A071 : W025 (the “Discussion Paper”) which put forward eight possible warehouse reform proposals (the “Discussion Items”) relating to the LME’s warehousing policy and physical delivery network which were variously aimed at addressing (i) existing queues; (ii) potential future queues; and (iii) the levels of rent and FOTs charged by warehouse companies. All eight Discussion Items were potential adjuncts to the LME’s Linked Load-In / Load-Out (“LILO”) Rule which was implemented on 1 February 2015, as amended¹.
3. The Discussion Paper was open for two months, during which time the LME invited comments and feedback from the market and held over 45 meetings to gather opinion from as broad a range of market participants as possible.
4. After the close of the Discussion Paper on 2 May 2015, the LME engaged in a careful consideration of all the feedback received. Notice 15/190 : A186 : W062 (the “Discussion Paper Results Notice”) explained why the LME believes that further action is necessary, and considered each of the Discussion Items, and the market feedback received in relation thereto.

¹ Pursuant to LME Notice 15/142 : A138 : W044 dated 27 April 2015, as of 1 August 2015 the decay factor under the LILO Rule has been amended from 0.5x to 1.0x. All references to the LILO Rule in this Notice should be construed to include the amended decay factor



5. Taking the market feedback into close consideration and concurrently with the Discussion Paper Results Notice, the LME also launched the LORI and QBRC Consultation on its proposed route forward, namely the introduction of LORI and QBRC. The LORI and QBRC Consultation closed on 17 August 2015 and the LME has since been engaged in close consideration of all responses.
6. Following the LORI and QBRC Consultation, the LME is currently minded to proceed with the implementation of both LORI and QBRC. A final decision on whether to introduce LORI and QBRC will only be taken once the LME has finalised its analysis, including whether it is possible to adopt appropriate anti-abuse measures.
7. The LME is mindful that a significant volume of responses to the LORI and QBRC Consultation outlined concerns in respect of the potentially abusive application of QBRC by warrant holders; specifically, how the LME would ensure that no section of the market could take advantage of QBRC by cancelling large clips of metal in order to create load-out queues which would, in time, allow them to benefit from either lower rent, or no rent at all.
8. The LME recognises the validity of these concerns and in particular the possibility that a market participant may have, or may acquire, a large holding of metal with which it could take advantage of QBRC in the manner described in paragraph 7 above.
9. Consider, for example, a market participant amassing a holding of 300,000 tonnes of metal in a warehouse without a queue, and with a 3,000 tonne daily load-out capacity. By cancelling the entire clip, the warrant holder could (in the absence of any rule to the contrary) create a 100-day queue², which would mean that all of the tonnage not loaded out in the first 30 days would benefit from some degree of rent discount. In the event that the metal owner had in fact desired this load-out schedule (consider, for example, a merchant having bought a large quantity of metal from a smelter, with the intention of selling that metal to consumers over the course of the next year), the warrant holder would have extracted free storage from the warehouse, in a manner which might be viewed as abusive.
10. The LME does not wish QBRC to be a source of abuse, and as such, is today publishing a revised proposal containing additional anti-abuse provisions, and simultaneously launching this Consultation as a short additional period of market engagement to allow stakeholders to comment on the proposal.
11. Capitalised terms not otherwise defined herein shall have the meaning ascribed to them in the revised Warehouse Agreement (the “Agreement”) and Policy on Approval and Operation of Warehouses (the “Policy”, being for the avoidance of doubt the proposed version, which, subject to this Consultation, it is proposed will be introduced on 1 February 2016, and attached to this Notice).

²Not taking into account the effect of weekends or public holidays



Proposed anti-abuse provisions for QBRC

12. The LME recognises that market practice for a warrant holder wishing to make a substantial Cancellation (in particular, a Cancellation which – even if loaded-out in one day by the warehouse, could not practically be collected by the metal owner, due to – for example – an inability to organise trucking on that day) is that the Cancellation is nevertheless submitted on one particular day.
13. If the warehouse in question does not have a queue, market practice is for the warrant holder and the warehouse to discuss and agree a mutually-acceptable load-out schedule, which would likely result in a certain amount of metal being loaded-out each day for a period of several days. In general, rent will be paid on each tonne of metal up until the point that particular tonne is loaded-out.
14. If the warehouse in question does have a queue, this process is generally conducted automatically. The warehouse operator notifies to the warrant holder the date of the first available queue slot, and metal is scheduled on this date, up to the warehouse's daily load-out requirement. Further metal is then scheduled on the next available day, and so on until the entire Cancellation has been scheduled. Again, rent is paid on each tonne of metal until the load-out date of that particular tonne.
15. As such, market practice operates in an equitable manner.
16. However, were QBRC to be implemented, the LME anticipates that a more robust approach may be needed. The additional complexity in respect of QBRC is that, in the absence of an anti-abuse provision, the date from which load-out times are measured – and hence the date which determines when rent will be discounted at 30 days and stopped at 50 days – is the date of Cancellation. As such, it would be in a warrant holder's interest to cancel large amounts of metal as early as possible, and hence "start the QBRC clock" on the entire tonnage from that Cancellation date – even though that tonnage may be scheduled for load-out over a period of days per above. Alternatively, the warrant holder could threaten to effect such a cancellation unless the warehouse offered preferred economic terms for storage ("greenmail").
17. In the event of a substantial Cancellation as set out above, this might seem unfair in respect of the warehouse operator. A warrant holder requesting, for example, a 300,000 tonne load-out would clearly not be able to process that in the event that the warehouse did fulfil the load-out in the space of one day. As such, it might be said that it is inequitable for the "QBRC clock to start" on the day of Cancellation, in respect of the entire 300,000 tonnes.



18. Accordingly, the LME provisionally considers that – in such a circumstance the effective date of Cancellation (for the purposes of QBRC) would be staggered, pursuant to the warehouse’s load-out schedule³. For example:
- (a) Consider the Cancellation of a clip of 10,000 tonnes (the “First Cancellation Amount”), on 2 May 2016 (the “First Actual Cancellation Date”) at a DP Warehouse with a Queue of 150 calendar days, and a daily load-out requirement of 4,000 tonnes, by an owner who at present has no metal in the Queue at that DP Warehouse.
 - (b) The first 4,000 tonnes (the “First Day Load Out Amount”) of the clip will be scheduled on 29 September 2016 (a Thursday). The second 4,000 tonnes (the “Second Day Load Out Amount”) of the clip will be scheduled on 30 September 2016 (a Friday). The final 2,000 tonnes (the “Third Day Load Out Amount”) of the clip will be scheduled on 3 October 2016 (a Monday).
 - (c) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the first 4,000 tonnes (scheduled for load-out on 29 September 2016) will be the First Actual Cancellation Date, namely 2 May 2016. Half rent will become payable after 30 days (i.e. on 1 June 2016), and zero rent will become payable after 50 days (i.e. on 21 June 2016).
 - (d) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the second 4,000 tonnes (scheduled for load-out on 30 September 2016) will be 3 May 2016 (i.e. one day after the First Actual Cancellation Date).
 - (e) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the final 2,000 tonnes (scheduled for load-out on 3 October 2016) will be 6 May 2016 (i.e. four days after the First Actual Cancellation Date, taking into account the effect of the first weekend in October on the load-out scheduling).
19. The LME provisionally believes that this represents a fair and appropriate balance between the rights of warehouse operators, and those of metal owners, but would welcome comment from the industry on that issue.
20. In particular, it does not seem to the LME that such an approach impacts the operation of QBRC in disincentivising the creation of queues – it does not impact the ability of QBRC to disincentivise the payment of incentives based on the expectation of future queues, its ability to protect consumers looking to source metal on the LME market, or its role in assuring the ongoing validity of LME pricing. A warehouse must always plan, when taking in metal, that the warrants will become widely-distributed prior to their Cancellation, and hence cannot expect that the warrants will be cancelled in one single clip pursuant to the example above. Even if the warehouse did operate on this assumption, the incremental rent which could be realised from a queue under this scenario would be extremely limited. Most importantly, a theoretical consumer looking to extract a small quantity of metal from a warehouse would always benefit from the full protections of QBRC. Furthermore, the “marginal warrant” delivered on the LME

³Note that this does not change the warrant holders’ ability to cancel a large clip of metal at once in order to secure slots in the queue



market would also benefit from such protections, hence ensuring that the integrity of LME pricing was also protected by QBRC.

21. However, the LME provisionally considers that the rule does materially disincentivise the cancellation of large stocks of metal by a warrant holder (particularly stocks of metal so large the warrant holder could not be expected to have the logistical capability to take immediate delivery of them), with the intention or effect of exploiting the QBRC rule in order to achieve reduced rent or no rent.
22. The LME notes that warrant holders may argue that, in practice, their logistical capacity to take metal from the warehouse is greater than the warehouse's load-out rate, and hence the QBRC "clock" should be started in respect of a greater quantum of metal each day. However, this would place the LME in a position of needing to arbitrate, on a case-by-case basis, in the argument as to how much transportation a warrant holder could arrange, in the theoretical case that the warehouse could load-out that quantity of metal. The LME provisionally considers that this would not be tenable, and hence, subject to comments received in this consultation, will adopt the approach set out above.
23. The LME notes the potential for a warrant holder, or some number of warrant holders acting in concert, to structure around this rule by cancelling metal in a number of separate clips. Accordingly, in the event that a Cancellation is made by a warrant holder already holding metal in the queue (or acting in concert with another warrant holder or warrant holders holding metal in the queue) at the same DP Warehouse, the deemed Cancellation date, and hence the QBRC "clock", would be adjusted in respect of the metal already in the queue. So to continue the previous example:
 - (a) On 9 May 2016 (the "Additional Actual Cancellation Date"), the same warrant holder cancels an incremental 10,000 tonnes (the "Additional Cancellation Amount") at the same DP Warehouse. By this date, the Queue (including the effect of the warrant holder's first Cancellation and potentially other Cancellations but prior to the warrant holder's second Cancellation) has grown to 155 calendar days.
 - (b) The original 10,000 tonne Cancellation by that warrant holder is responsible for 5 days of the 155 day queue (rounded up, and including the effect of the first weekend in October on the scheduling).
 - (c) The first 4,000 tonnes (the "First Day Load Out Amount") of the second clip will be scheduled on 11 October 2016 (a Tuesday). The second 4,000 tonnes (the "Second Day Load Out Amount") of the clip will be scheduled on 12 October 2016 (a Wednesday). The final 2,000 tonnes (the "Third Day Load Out Amount") of the clip will be scheduled on 13 October 2016 (a Thursday).
 - (d) The Deemed Cancellation Date, and hence the start of the QBRC "clock", for the first 4,000 tonnes (scheduled for load-out on 11 October 2016) would ordinarily be the Additional Actual Cancellation Date, namely 9 May 2016. However, because the warrant holder's prior Cancellation contributes five days, the Deemed Cancellation Date will be five days later,



namely 14 May 2016. Half rent will become payable after 30 days (i.e. on 13 June 2016), and zero rent will become payable after 50 days (i.e. on 3 July 2016).

- (e) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the second 4,000 tonnes (scheduled for load-out on 12 October 2016) will be 15 May 2016.
- (f) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the final 2,000 tonnes (scheduled for load-out on 13 October 2016) will be 16 May 2016.

- 24. The LME notes that warrant holders may cancel metal in multiple clips for valid reasons – however, the general rule set out above would still stand. The LME believes that this approach is the most proportionate approach.
- 25. The LME notes concerns that QBRC will cause warrant holders to cancel metal more rapidly, and hence initially increase queues. While the LME believes that the powers referenced above will offset the abusive cancellation of warrants, it is entirely possible that metal owners who previously did not cancel their metal for fear of being stuck in a queue may take the view that, under QBRC, the impact of cancellation is less onerous, and hence choose to cancel metal accordingly. However, the LME considers that it cannot reject reform simply because users may avail themselves of the benefits of that reform. Furthermore, even if queues do lengthen initially due to such cancellations, that will be a short term issue. In the longer term, the LME believes that the introduction of QBRC will benefit the market.
- 26. The LME has proposed a threshold of 10,000 tonnes for the cumulative amount of metal cancelled, and residing in the queue, in respect of a single warrant holder (or multiple warrant holders acting in concert), at or above which the anti-abuse provisions would take effect. The LME believes that 10,000 tonnes represents an appropriate threshold between a smaller metal withdrawal (which has no scope for abusive behaviour) and a larger metal withdrawal (where the scope to extract meaningful free storage, as set out above, would be greater). Furthermore, this proposed threshold would provide absolute QBRC protection to smaller metal users, and indeed to the “marginal warrant” on the LME which drives LME pricing. The LME would welcome views on the appropriateness of this threshold.
- 27. The LME has drafted and amended clauses in the Policy (Clauses G1 - G5 in the attached proposed version) to give effect to these anti-abuse rules.
- 28. The LME further notes its proposed powers, under Clause G6 of the Policy, to “adjust the parameters of the Queue-Based Rent Cap or to suspend its application either on a market-wide basis or on a per-Warehouse or per-DP Warehouse basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason”. If QBRC were to be implemented, the LME would reserve the right to take any other necessary action under Clause G6 to ensure the effective functioning of the market.



LORI implementation timing

29. The time required for the extension of, and the full analysis of responses to, the Consultation means that it is no longer possible, given the need for three months' notice to warehouse companies, to achieve the proposed LORI implementation date of 14 December 2015. Thus, the LME is proposing to postpone any implementation of LORI until 1 March 2016. The rule changes associated with this are reflected in the attached proposed version of the Policy.

The Consultation process

30. The Consultation is open to all interested market participants, and also regulatory and governmental bodies, and the LME welcomes comments or feedback on the proposed anti-abuse provisions set out in this Notice and the Policy, as well as any other any other matters you wish the LME to consider in the context of any aspect of the Consultation.
31. Formal responses to the Consultation should be submitted in writing. Any market participant wishing to submit a response to the Consultation, or to arrange for further discussions seeking clarification in relation to the Consultation, is asked to contact Georgina Hallett at consultation@lme.com or +44 (0)20 7423 5780.
32. The Consultation will be open for two weeks and will close on 14 October 2015. If any party wishes to request an extension of the Consultation period, then it should provide the LME with its request, together with full reasoning, in writing and the LME will consider whether the Consultation period should be extended. During the period of the Consultation, the LME will, subject to reasonable logistical constraints, be available for meetings to discuss the subject matter of the Consultation.
33. Responses made after the closing date of the Consultation will not be taken into consideration. The LME may need to share responses received with regulatory authorities and/or its legal and/or other professional advisers, and/or as required by law. Apart from this, all responses received will be treated in confidence.
34. Following this Consultation, the LME will announce next steps on both LORI and QBRC, and a full analysis of responses received during the LORI and QBRC Consultation and this Consultation.



Matthew Chamberlain
Head of Business Development

cc: Board directors
User Committee
All metals committees
Physical Market Committee
Warehouse Committee

List of Appendices

APPENDIX A: Proposed LME Policy on the Approval and Operation of Warehouses – blackline to current version

APPENDIX B: Proposed LME Policy on the Approval and Operation of Warehouses – blackline to version proposed in the LORI and QBRC Consultation



Appendix A

LME POLICY ON THE APPROVAL AND OPERATION OF WAREHOUSES, REVISED [1 AUGUST 2015 MARCH 2016]

A) Warehouses

1. Applicants to be a Warehouse will be considered for approval and listing in an existing or new Delivery Point subject to completion of a Warehouse Agreement application form supported by evidence of insurance, capital adequacy and other documents as detailed by the LME from time to time. The LME will inspect premises and operations offered for warehousing to the LME prior to any listing to ensure they suit the logistical nature of the Location as required by the LME. The LME will state its needs in this respect when sending the applicant the application form. The LME has discretion to accept or decline an application for approval to be a Warehouse or attach specific conditions to approval to be a Warehouse.
2. A Warehouse shall have staff with sufficient experience in metal storage, logistics and systems to ensure that the Warehouse is able to comply with all applicable requirements on an ongoing basis. The LME may, in its reasonable discretion, reject an application from an applicant which is unable to demonstrate compliance with this requirement.
3. Applicants for approval shall be required to demonstrate that they do not:
 - (a) control the operation of any infrastructure or the provision of any service in the Location / Delivery Point that would be critical to any other Warehouse, or any company wishing to become a Warehouse, in the Location / Delivery Point concerned (including, without limitation, terminal operators which may operate all or most of the berths within a port; a logistics company providing all or most of the logistics services in the port (haulage and warehouse operations); or a company that owns all or most of the real estate/warehouses of the Location); or
 - (b) otherwise exercise control in the Location / Delivery Point;

such that the LME would have a reasonable concern that the applicant's operation of a Warehouse could be detrimental to competition.

4. A Warehouse must comply at all times without limitation with: this policy and any other notices or policies issued by the LME, from time to time which apply to Warehouses; and the Warehouse Agreement (together the "Warehouse Requirements").



B) Transportation

Transport links

1. All Authorised Warehouses must have adequate transport links and be situated in close proximity to major highways.
2. With the exception of inland Delivery Points, all Authorised Warehouses must have adequate transport links and be situated in close proximity to water loading facilities.
3. All Authorised Warehouses located in Germany, Belgium, Netherlands, Sweden and the US must have adequate transport links and be situated in close proximity to railheads.
4. All Authorised Warehouses in inland Delivery Points must be directly connected to a rail network.

The LME, respecting such confidentiality as it deems necessary and appropriate, will undertake its own enquiries, as it sees fit, from its members/trade entities etc. to evaluate any applications prior to submission to EXCOM for consideration.

C) Common standards of working practices and facilities for Warehouses

1. For each 2500 sq. metres of space (not including open storage compounds for steel) there must be access by means of an operational door for vehicle loading/unloading, with a minimum of 2 doors per Authorised Warehouse.
2. The minimum daily delivery tonnage must be in accordance with the tables below. Where the delivery requests exceed the minimum daily delivery tonnage for the capacity on the table below, the LME will regard the standard as applying over the number of days necessary to complete the deliveries, as per the table (e.g. if the requests for the delivery of 2000 tonnes apply to a DP Warehouse's capacity of 2500 sq. metres, the standard would be to deliver in 3 days with no reference to the performance on any one of those days). The LME would, however, expect the DP



Warehouse to act reasonably when allocating the tonnage delivered out in each of those days.

DP Warehouse's authorised space in sq. metres (excluding steel storage facilities)	Minimum daily delivery tonnage for all metals (excluding cobalt, RMC and steel)
2,500	800 tonnes
5,000	1,200 tonnes
7,500	1,500 tonnes

The above table applies to all DP Warehouses who are storing up to 300,000 tonnes of metal. For DP Warehouses who are storing 300,000 tonnes and above, the following table is applicable.

DP Warehouse's tonnage stored (excluding steel)	Minimum daily delivery tonnage for all metals (excluding cobalt, RMC and steel)
300,000 tonnes to 599,999 tonnes	2,000 tonnes
600,000 tonnes to 899,999 tonnes	2,500 tonnes
<u>600,000 tonnes to 899,999 tonnes</u>	<u>3,500 tonnes</u>
900,000 tonnes and over	<u>34,000 tonnes</u>

NB: The daily delivery tonnage is for deliveries out only and does not include deliveries in.

- Where a DP Warehouse's tonnage stored increases beyond any of the 150,000, 300,000, 600,000 or 900,000 tonnes thresholds, the applicable revised minimum daily delivery tonnage shall have effect from the date which is 30 days from the date the threshold is passed. This will allow the Warehouse to implement the necessary scheduling changes in order to meet the increased minimum daily delivery tonnage. However, where a DP Warehouse's tonnage stored falls beneath any of the 150,000,



300,000, 600,000 or 900,000 tonnes thresholds, a Warehouse will still be required to deliver out all outstanding deliveries scheduled on or prior to the date the tonnage falls beneath such threshold.

4. In addition to the daily rates stipulated above and below, a DP Warehouse who satisfies the following conditions:
 - (a) the DP Warehouse has scheduled delivery out⁴ commitments of 30,000 tonnes or more; and
 - (b) a minimum of 30,000 tonnes of those scheduled commitments are for one metal (being the first metal scheduled to be delivered out that day) (the “Daily Dominant Metal”);

shall be required to deliver out in that Delivery Point a minimum of 500 tonnes per day of a metal other than the Daily Dominant Metal, provided that such deliveries are requested.

5. In addition to the daily delivery out rates referred to in this policy, the DP Warehouse is required to load-out minimum quantities of certain metals in any particular Delivery Point, so as to meet the following requirements:
 - (a) Tin: DP Warehouses delivering out the minimum rates stipulated elsewhere in this policy will be required to deliver out an additional daily total of 60 tonnes of tin, which may include the normal course scheduling of metal in the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LILO Rule).
 - (b) Nickel: DP Warehouses delivering out the minimum rates stipulated elsewhere in this policy will be required to deliver out an additional daily total of 60 tonnes of nickel, which may include the normal course scheduling of metal in the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LILO Rule).

⁴ For the purposes of this policy, the terms "delivery out" and "load-out" are used interchangeably.



- (c) Metal warranted pursuant to the LME's specifications for the aluminium alloy contract and the North American Special Aluminium Alloy Contract ("NASAAC") (together "Aluminium Alloys"): DP Warehouses licensed to warrant Aluminium Alloys delivering out the minimum rates stipulated in this policy will be required to deliver out an additional daily total of 500 tonnes of Aluminium Alloys, which may include the normal course scheduling of metal in the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LIFO Rule).

For the avoidance of doubt, the extra metal to be delivered out under this paragraph would only be required to be delivered out if the DP Warehouse had reached its minimum daily load-out rate without delivering out 60 tonnes of tin, 60 tonnes of nickel, and 500 tonnes of Aluminium Alloys, as part of these deliveries.

6. The daily delivery out rate does not include deliveries out for cobalt and RMC. Any deliveries out for either of these metals must be in addition to the rates stipulated in the above table.
7. The daily delivery out rate does not include deliveries out for steel billet. For each Delivery Point in which it is licensed to store steel billet, a DP Warehouse must deliver out in accordance with the minimum requirements stipulated in the tables below, provided demand is present.

DP Warehouse's authorised space in sq. metres (steel storage facilities only)	Minimum daily delivery tonnage for steel
2,500	800 tonnes
5,000	1,200 tonnes
7,500	1,500 tonnes

The above table applies to all DP Warehouses who are storing up to ~~300~~150,000 tonnes of steel. For DP Warehouses who are storing ~~300~~150,000 tonnes and above, the following table is applicable:

DP Warehouse's tonnage stored (steel only)	Minimum daily delivery tonnage for steel
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300 <u>150</u> ,000 tonnes to 599 <u>299</u> ,999 tonnes	2,000 tonnes
600 <u>300</u> ,000 tonnes to 899 <u>599</u> ,999 tonnes	2,500 tonnes
<u>600,000 tonnes to 899,999 tonnes</u>	<u>3,500 tonnes</u>
900,000 tonnes and over	<u>34</u> ,000 tonnes

8. In addition to the daily rates stipulated above, an “Affected DP Warehouse” (as defined at paragraph 3 of Section E below) shall be required to comply with the Linked Load-In and Load-Out Requirements set out in Section E below. However, the LME, acting reasonably in its sole discretion, shall have the power to disapply such requirements on a per-case basis. The LME will agree Queue scheduling with Affected DP Warehouses and how this will be monitored. In the event that a DP Warehouse becomes subject to increased minimum load-out requirements under this policy, it is the responsibility of the Warehouse to reschedule the whole Queue for the given Delivery Point, by offering the additional slots to metal owners depending on their order in the Queue (starting with the first metal owners in the Queue).

9. To qualify as a load-out:

(a) The load-out must be accompanied by a bill of lading or other document or correspondence (issued by a carrier to the Warehouse or issued by the Warehouse to a carrier), no matter the form of transportation, listing goods for transport and the intended recipient; and

(b) The recipient on the document at (a) above cannot be an entity which is an Authorised Warehouse or an off-Warrant warehouse located in the same Delivery Point where the metal is loaded out, if such Authorised Warehouse or off-Warrant warehouse is owned or operated by the Warehouse loading out the metal, or is a company in the Warehouse's Group. In the event that the document at (a) is issued by the Warehouse, then the Warehouse shall be responsible for the veracity of the information contained therein. In the event that the metal owner wishes to keep confidential from the Warehouse the destination of the metal, the Warehouse must contact the LME to discuss bespoke arrangements to demonstrate the load-out of the metal.



Any movement of metal which is not accompanied by a bill of lading or equivalent meeting the requirements of paragraphs (a) and (b) above shall not be counted towards a Warehouse's load-out requirements. Material placed into containers within an Authorised Warehouse may be counted as a load-out by the Warehouse provided that the container is sealed on that day. For the avoidance of doubt, a high volume of sealed containers should have no impact on the load-out requirements.

10. Once all formalities permitting delivery, including payment of applicable delivery out charges (including without limitation Free on Truck charges ("FOT") or equivalent for other modes of transport), have been completed, the Warehouse shall endeavour to process requests for deliveries out on the basis of 48 hours' notice and strictly in the order in which they are received, unless the Warrant holders seeking cancellation agree otherwise. The FOT charges imposed by a Warehouse shall be the rates published at the date of cancellation not at the date of delivery.
11. Warehouses shall publish (on their website or other appropriate method) a clear process for scheduling and handling delivery slots (including required documents, timing of operations, etc.).
12. Warehouses are required to supply the LME with their current rent and FOT charges. In addition, Warehouses are also required to publish on their website in an easily accessible manner the current level of charges in respect of (i) Free on Rail, (ii) Free Alongside, (iii) Free in Container Yard (which, for the avoidance of doubt, shall relate to the cost of packing a container at a facility nominated by the Warehouse, with the cost of transportation of such container to and from the facility being for the account of the metal owner), (iv) metal re-warranting, and (v) slot rescheduling at the request of the metal owner. Certain of these charges may not be applicable given the transportation modes available at the Delivery Point, in which case this should be noted on the website. Warehouses may not charge fees for these services that exceed the levels published on their website, and may not impose any other compulsory charges on metal owners in respect of these logistical activities, other than those so published.
13. With the exception of inland Delivery Points, there should be no charges above the FOT for transferring metal to the Warehouse's approved and nominated loading berths (as advised to the LME in schedule B of the warehouse application); the unloading of such metal from the truck being for the receiver's account.
14. There should be no charges above the FOT for transferring metal to the nearest railhead in Delivery Points situated in the countries referred to in section B3 above (as



advised to the LME in schedule B of the warehouse application); the loading of such metal onto a railcar being for the receiver's account.

15. Warehouses are reminded that, in general, the daily delivery tonnages set out in this policy are minimum delivery out requirements, not minimum scheduling requirements. However, metal owners are also reminded of their obligations in respect of observing reasonable logistical arrangements in respect of metal collection. In particular, in the event that no metal owner wishes to avail themselves of a delivery slot offered on a reasonable basis and at a reasonable time of day, a Warehouse will be permitted to count the tonnage which would have been delivered in that slot towards delivery out if it can verify that the empty slot had originally been offered to all metal owners in the Queue.

D) The Premium Contract Rule

1. DP Warehouses without Queues in a particular Delivery Point are eligible for the delivery of Warrants in that Delivery Point against contracts designated by the LME as "Premium Contracts" ("Premium Warrants"). The specification of Premium Contracts is made by the LME pursuant to the requirements in the "Premium Contract Regulations" set out in the LME Rulebook. Warrants not so endorsed will be referred to as "Standard Warrants". The ability to endorse Premium Warrants applies at the level of the DP Warehouse. Accordingly, if a Warehouse has a Queue in one Delivery Point, this will not prevent the Warehouse endorsing Premium Warrants at its Authorised Warehouses in a different Delivery Point, provided that the second facility does not have a Queue.
2. In order for a Warehouse to endorse a Warrant as a Premium Warrant, the following conditions must be satisfied:
 - (a) the DP Warehouse must be located in one of the premium regions, as set out in the Premium Contract Regulations;
 - (b) the DP Warehouse must have opted-in to the Premium Warrant regime, by completing the appropriate agreement with the LME - the LME will publish a list of all DP Warehouses which have opted-in to the premium warrant regime; and
 - (c) at the time of endorsement of the Premium Warrant, the DP Warehouse must not have a Queue in respect of any LME metal.



3. A Premium Warrant can only be endorsed if the metal owner so requests, and the Warehouse agrees to do so. There are two routes by which a Premium Warrant may be created:
 - (a) In connection with fresh metal loaded-in to the DP Warehouse, a Warrant is issued in respect of that metal, and is immediately endorsed as a Premium Warrant. Warehouses may set a different rent and FOT rate in respect of Premium Warrants – such rates will be reported to the LME by Warehouses and published annually in the same way as for Standard Warrant rent and FOT rates. As with current metal load-in, no Warehouse is obligated to accept metal for warranting, and metal owners must ensure that Premium Warrant creation capacity is available at their intended DP Warehouse – in particular, it is expected that Warehouses will not wish to warrant more premium metal than they could logistically load-out pursuant to the greater requirements attaching to such metal. However, the LME would expect Warehouses which have opted-in to the Premium Warrant regime not to unreasonably refuse the load-in of metal and the creation of Premium Warrants; or
 - (b) An existing Standard Warrant is converted to a Premium Warrant. Warehouses opting-in to the premium warrant regime may indicate whether or not they are prepared to undertake such conversion, and to identify if they wish to charge a conversion fee (the amount of which will be reported to the LME and published annually by the Warehouse) which will be levied in this event. Warehouses may also set a maximum quota (expressed as a tonnage) in respect of the maximum amount of Standard Warrants which they will be prepared to convert to Premium Warrants. This may be important for Warehouses with large stocks of Standard Warrants, and which would not be able to take on the additional requirements were the entire stock to be converted to Premium Warrants. However, within their stated quota, Warehouses will be expected to convert Standard Warrants into Premium Warrants on a non-discriminatory and first-come-first-served basis. Once a Standard Warrant has been converted into a Premium Warrant, then the Warehouse's published Premium Warrant rents and FOTs will apply
4. In the event that a Premium Warrant is cancelled and a Queue develops at the DP Warehouse in the Delivery Point, such that any metal owner who, having cancelled a Warrant; paid FOT, or equivalent, and rent; provided shipping instructions; and requested prompt load-out, is told that load-out cannot be completed within 48 hours; the Warehouse will have an immediate duty to inform the LME, which will, within one London business day, announce to the market that the Warehouse will cease to be able to endorse Premium Warrants in that Delivery Point three London business days following such announcement. Warehouses which have cleared their Queues in the relevant Delivery Point will be entitled to resume the issuance of Premium Warrants following the publication by the LME of the next monthly Queues report confirming that



no Queues remain. The emergence of a Queue at a DP Warehouse does not change the status of Premium Warrants previously issued by that DP Warehouse - such Warrants remain Premium Warrants.

5. However, and notwithstanding the three day adjustment period, metal owners should note that, given the above, the emergence of a Queue at a DP Warehouse may impact their ability to create Premium Warrants in that Delivery Point. Accordingly, those holding short positions in respect of LME Premium Contracts are urged to ensure that they have created the requisite Premium Warrants in good time prior to delivery.
6. Where a Queue arises, pursuant to the conditions set out in paragraph D4, the DP Warehouse will have an obligation to load-out metal relating to cancelled Premium Warrants in a separate Queue. The minimum daily load-out rate for such metal will be the higher of:
 - (a) 1,000 tonnes per day; and
 - (b) 3% of the total stock relating to Premium Warrants (live and cancelled) in the DP Warehouse.

For the avoidance of doubt, load-out obligations in respect of Premium Warrants are in addition to load-out obligations for Standard Warrants. In particular, the basis on which minimum load-out rates for Standard Warrants are calculated takes into account total stored tonnage in the DP Warehouse, related to both Standard Warrants and Premium Warrants.

7. Once it has opted into the Premium Contract Rule, a DP Warehouse may only opt-out if its stock of Premium Warrants is zero.
8. Premium Warrants may be converted back to Standard Warrants by agreement between the metal owner and the Warehouse. However, there shall be no obligation on Warehouses to facilitate such transfers.
9. Premium Warrants may be re-warranted by agreement between the metal owners and the Warehouse. However, there is no requirement on the Warehouse to re-warrant



cancelled Premium Warrants as new Premium Warrants, and a Warehouse may reasonably offer to re-warrant a cancelled Premium Warrant as a Standard Warrant.

E) Linked Load-In and Load-Out Requirements

1. Principle

The general principle of this requirement is to link load-in and load-out for DP Warehouses with Queues of greater than 50 calendar days (the “Queue Threshold”).

2. LILO Rule Definitions

In relation to a particular DP Warehouse, a Business Day (“Business Day”) is any day on which that particular DP Warehouse is operating and subject to the current LME minimum load-out requirement.

The Preliminary Calculation Period (“Preliminary Calculation Period”) shall be the period between 1 July 2013 and 31 January 2015, inclusive.

The First Calculation Period (“First Calculation Period”) shall be the period between 1 February 2015 and 30 April 2015, inclusive.

Each subsequent Calculation Period (“Calculation Period”) shall be the three months immediately following the preceding Calculation Period. By way of example, the Second Calculation Period (“Second Calculation Period”) shall be the period between 1 May 2015 and 31 July 2015, inclusive (being the three months immediately following the First Calculation Period).

The Preliminary Discharge Period, (the “Preliminary Discharge Period”) which will apply in relation to the Preliminary Calculation Period, will be the three month period between 1 March 2015 and 31 May 2015, inclusive.



For each subsequent Calculation Period, the related Discharge Period (i.e. the period during which the Incremental Load-Out Requirement calculated in accordance with paragraph 4 below must be met) shall be the three month period starting on the date one calendar month following the end of that Calculation Period (the “Discharge Period”). By way of example, the First Discharge Period shall be the period between 1 June 2015 and 31 August 2015, inclusive (being the three month period starting on the date one calendar month following the end of the First Calculation Period) (the “First Discharge Period”).

In relation to a particular DP Warehouse on any given Business Day, the Normal daily Minimum Load-Out Rate is the amount of metal required to be loaded out according to the LME requirements set out in Section C of this Policy (the “Normal Daily Minimum Load-Out Rate”) as follows:

- (a) If, on the Business Day in question, a DP Warehouse is required to make an additional load-out of non-dominant metal (pursuant to paragraph 4 of Section C above), such additional load-out will be counted towards the Normal Daily Minimum Load- Out Rate for the Business Day in question.
- (b) If, on the Business Day in question, a DP Warehouse is required to make an additional load-out of nickel, tin and/or Aluminium Alloys (pursuant to paragraph 5 of Section C above), such additional load-out will be counted towards the Normal Daily Minimum Load-Out Rate for the Business Day in question.
- (c) Load-out of cobalt and RMC (paragraph 6 of Section C above) and steel billet (paragraph 7 of Section C above) will not be counted towards the Normal Daily Minimum Load-Out Rate, given that these metals are treated separately for the purposes of DP Warehouse load-out rates.

Re-warranted Metal (“Re-warranted Metal”) is metal in respect of which a Warrant has been cancelled, but has not been loaded out of the DP Warehouse (due to the presence of a Queue or other operational constraint), and in respect of which the metal owner has requested that the Warehouse issues a new Warrant (and hence reverses the original request to deliver out that metal).

The Decay Factor shall be the coefficient applied in the equation at Section E, paragraph 4(b)(i). Until 31 July 2015 (i.e. for use in the First and Second Calculation



Periods), the value of the Decay Factor shall be 0.5. From 1 August 2015 (i.e. for use in the Third and subsequent Calculation Periods), the value of the Decay Factor shall be 1.0. For the avoidance of doubt, the current and future values of the Decay Factor remain subject to modification pursuant to Section E, paragraph 6.

3. Affected DP Warehouses

On any given Business Day, an Affected DP Warehouse is a DP Warehouse with a Queue of greater than the Queue Threshold (the “Affected DP Warehouse”). Queue lengths will continue to be measured and reported to the LME by DP Warehouses, with the LME continuing to exercise oversight in respect of such measurements. For the avoidance of doubt, to the extent that a DP Warehouse has scheduled deliveries pursuant to any Incremental Load-Out Requirement arising per this policy, then the Queue length may take into account such incremental scheduled deliveries.

4. Calculating the Incremental Load-Out Requirement

The Incremental Load-Out Requirement shall mean the additional amount of metal that must be discharged by a DP Warehouse during the course of the relevant Discharge Period, over and above the load-out required by the Normal Daily Minimum Load-Out Rate on each day of that Discharge Period (the “Incremental Load-Out Requirement”). The Incremental Load-Out Requirement is derived on the final day of the relevant Calculation Period, as set out more fully in this section E, paragraph 4.

- (a) During the Preliminary Calculation Period, each DP Warehouse shall maintain the calculation of its Cumulative Incremental Load-Out Quantity which is the quantity set to zero at the beginning of the Preliminary Calculation Period and increased incrementally on each Business Day of the Preliminary Calculation Period by the process set out in this section E, paragraph 4(a) (the “Cumulative Incremental Load-Out Quantity”).

During the Preliminary Calculation Period, on each Business Day, the following value will be added to the Cumulative Incremental Load-Out Quantity:

- (i) the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal, steel, RMC nor cobalt);



less,

- (ii) the higher of (i) the Normal Daily Minimum Load-Out Rate, and (ii) the actual amount of metal loaded-out of the DP Warehouse on the Business Day in question – provided that, for the purposes of (ii), load-out in excess of the Normal Daily Minimum Load-Out Rate which is made to compensate for a shortfall in load-out on a previous or subsequent Business Day (due, inter alia, to scheduling variations within a single load-out request per paragraph 2 of Section C above) shall not count towards the actual amount of metal loaded-out of the DP Warehouse.

On the final Business Day of the Preliminary Calculation Period, a DP Warehouse shall establish whether it is an Affected DP Warehouse at the end of that Business Day. If (i) the DP Warehouse is not an Affected DP Warehouse, or (ii) the calculated Cumulative Incremental Load-Out Quantity is less than or equal to zero, then the Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to zero, and no additional load-out requirements will hence be incurred during the Preliminary Discharge Period. If (i) the DP Warehouse is an Affected DP Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Quantity is greater than zero, then the Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to the Cumulative Incremental Load-Out Quantity in relation to the Preliminary Calculation Period, and must be satisfied by the DP Warehouse during the Preliminary Discharge Period as set out in paragraph 5 below.

- (b) During the First Calculation Period, and each subsequent Calculation Period, a DP Warehouse shall measure its Cumulative Load-In and Cumulative Normal Minimum Load-Out. Cumulative Normal Minimum Load-Out shall mean the sum of metal across every Business Day of the relevant Calculation Period that a DP Warehouse is required to load-out pursuant to the Normal Daily Minimum Load Out Rate (the “Cumulative Normal Minimum Load-Out”). Cumulative Load-In shall mean the sum, increased incrementally each Business Day of the relevant Calculation Period, of metal that the DP Warehouse loads-in during the relevant Calculation Period (the “Cumulative Load-In”). Both quantities will be set to zero at the beginning of the Calculation Period.

For each Business Day during the Calculation Period, the Cumulative Load-In will be increased by the amount of new metal placed on-warrant in the



DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal, steel, RMC nor cobalt).

For each Business Day during the Calculation Period, the Cumulative Normal Minimum Load-Out will be increased by the Normal Daily Minimum Load-Out Rate for the Business Day in question.

At the end of the Calculation Period, and if the DP Warehouse has been an Affected DP Warehouse on any Business Day during that Calculation Period, then the Incremental Load-Out Requirement will be calculated as:

- (i) the Decay Factor multiplied by the Cumulative Load-In, up to and including the Cumulative Normal Minimum Load-Out;

plus,

- (ii) the Cumulative Load-In above the Cumulative Normal Minimum Load- Out.

For the avoidance of doubt, if the DP Warehouse has not been an Affected DP Warehouse on any day during that Calculation Period, then the Incremental Load-Out Requirement will be zero in respect of that Calculation Period.

5. Discharging the Incremental Load-Out Requirement

At the end of each Calculation Period, the then current Incremental Load-Out

Requirement must be satisfied by the DP Warehouse during the Discharge Period associated with the Calculation Period having just concluded, provided load-out demand is present.



During the associated Discharge Period, the DP Warehouse will be required to load-out the Incremental Load-Out Requirement, in addition to its load-out obligations in accordance with Section C above. For the avoidance of doubt, the DP Warehouse will not be held to any particular daily incremental load-out rate – however, in aggregate over the course of the Discharge Period, the full Incremental Load-Out Requirement must be satisfied.

The DP Warehouse must offer additional slots created to meet the Incremental Load-Out Requirement to metal owners strictly in order of their position in the Queue.

6. Adjusting the Decay Factor and/or Queue Threshold

The LME, acting reasonably, reserves the right to adjust the Decay Factor and/or the Queue Threshold either on a market-wide basis or on a per-DP Warehouse basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason.

7. A worked example of the calculation

This worked example is provided for illustrative purposes only and should not be relied upon for any reason.

- (a) Consider a notional DP Warehouse with stocks of 2,000,000 tonnes of a single metal. Pursuant to the LME Policy Regarding the Approval of Warehouses, revised 1 February 2015, the Normal Daily Minimum Load-Out Rate is 3,000 tonnes per Business Day. Consider further that the DP Warehouse chooses to loadout precisely its Normal Daily Minimum Load-Out Rate (3,000 tonnes) on each Business Day.
- (b) Consider that, of the DP Warehouse's stocks, 1,000,000 tonnes are represented by cancelled metal. Assuming that owners of all of the cancelled metal have completed the necessary formalities, then the DP Warehouse's load-out Queue will hold 1,000,000 tonnes of metal. At a load-out rate of 3,000 tonnes per Business Day, the Queue length will be:



- (i) 1,000,000 tonnes / 3,000 tonnes per Business Day
- (ii) = 333.3 Business Days
- (iii) = 465.3 calendar days (assuming all weekdays are Business Days)

For the avoidance of doubt, in practice, the Queue length will be determined by the Warehouse concerned on the basis of schedules provided to metal owners.

- (c) Consider that the DP Warehouse places on-warrant a constant amount of 3,100 tonnes per Business Day. Consider also that, on each Business Day, Warrant holders cancel an amount of 3,000 tonnes of metal (thus balancing the delivery out of 3,000 tonnes per Business Day, resulting in a constant Queue length until such time as the Incremental Load-Out Requirement comes into effect). There is assumed to be no re-warranting of metal in this scenario.
- (d) At the start of the Preliminary Calculation Period (1 July 2013), the Cumulative Incremental Load-Out Quantity is zero.

On each day during the Preliminary Calculation Period, the following value will be added to the Cumulative Incremental Load-Out Quantity:

- (i) the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal) (3,100 tonnes);

less,

- (ii) the higher of (i) the Normal Daily Minimum Load-Out Rate (3,000 tonnes), and (ii) the actual amount of metal loaded-out of the DP Warehouse on the Business Day in question (also 3,000 tonnes).

$$= 3,100 \text{ tonnes} - 3,000 \text{ tonnes} = 100 \text{ tonnes}$$



- (e) At the end of the Preliminary Calculation Period (31 January 2015), and assuming that each weekday during the Preliminary Calculation Period is a Business Day for the DP Warehouse (resulting in a total of 415 Business Days during the Preliminary Calculation Period), then the Cumulative Incremental Load-Out Quantity will total 41,500 tonnes.

Given that, per (c) above, the Queue will have retained a constant length, the Queue length at the end of the Preliminary Calculation Period will remain at 465.3 calendar days. On this basis, the Queue length is greater than 50 days, and the DP Warehouse is hence an Affected DP Warehouse at the end of the Preliminary Calculation Period.

Given that, on the final Business Day of the Preliminary Calculation Period, (i) the DP Warehouse is an Affected DP Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Quantity is greater than zero, then the Incremental Load-Out Requirement will be set to the Cumulative Incremental Load-Out Quantity (41,500 tonnes), and must be satisfied by the DP Warehouse during the Preliminary Discharge Period.

- (f) During the Preliminary Discharge Period (1 March 2015 to 31 May 2015), the DP Warehouse will be required to load-out the Incremental Load-Out Requirement relating to the Preliminary Calculation Period (41,500 tonnes in total over the course of the Preliminary Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day.
- (g) At the start of the First Calculation Period (1 February 2015), the Cumulative Load-In and Cumulative Normal Minimum Load-Out are set to zero.

On each day during the First Calculation Period, the Cumulative Load-In will be increased by the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal) – in this case 3,100 tonnes.

On each day during the First Calculation Period, the Cumulative Normal

Minimum Load-Out will be increased by the Normal Daily Minimum Load-Out Rate for the Business Day in question – in this case 3,000 tonnes.



- (h) At the end of the First Calculation Period (30 April 2015), and assuming that each weekday during the First Calculation Period is a Business Day for the DP Warehouse (resulting in a total of 64 Business Days during the First Calculation Period), then the Cumulative Load-In will total 198,400 tonnes, and the Cumulative Normal Minimum Load-Out will total 192,000 tonnes.

On the basis that the DP Warehouse has been an Affected DP Warehouse for at least one Business Day during the First Calculation Period, then the Incremental Load-Out Requirement will be calculated as follows:

- (i) Decay Factor multiplied by the Cumulative Load-In, up to and including the Cumulative Normal Minimum Load-Out;

plus,

- (ii) the Cumulative Load-In above the Cumulative Normal Minimum Load-Out.

$$= 0.5 \times 192,000 + (198,400 - 192,000) = 96,000 + 6,400$$

$$= 102,400 \text{ tonnes}$$

- (i) During the First Discharge Period (1 June 2015 to 31 August 2015), the DP Warehouse will be required to load-out the Incremental Load-Out Requirement relating to the First Calculation Period (102,400 tonnes in total over the course of the First Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day, provided load-out demand is present.
- (j) This process continues through the Second Calculation Period (and associated Second Discharge Period), Third Calculation Period (and associated Third Discharge Period) and so on, incorporating the increased value of the Decay Factor in the Third and subsequent Calculation Periods, and any increases in load-out requirements as implemented by the LME, until such time as the DP Warehouse ceases to be an Affected DP Warehouse.



F) Continued compliance with the LME policy for Warehouses

1. A Warehouse must at all times comply with the Warehouse Requirements. In the event that a Warehouse does not appear to meet the Warehouse Requirements, there will be an initial review by the LME and consultation with the Warehouse concerned.
2. If the Warehouse can demonstrate that it will upgrade facilities or work practices to meet the LME's new standards, the LME will consider the appropriate amount of time to allow for such a process. Warehouses could, for example, be given, a period of time to upgrade their facilities or relocate to a more suitable building within the Delivery Point, but this would be determined on a case by case basis, according to the circumstances.
3. If after consultation with the Warehouse, the Warehouse is unwilling or unable to upgrade its facilities or work practices to meet the LME's standards, the LME retains the right to restrict the capacity of that Warehouse (or DP Warehouse as appropriate) or to delist it. In particular, if a Warehouse fails to comply with the Linked Load-In and Load-Out Requirements per Section E, then the Board may (among other actions) restrict the ability of that Warehouse to create Warrants in that Delivery Point until load-in and load-out are brought into alignment pursuant to the requirements.
4. Prior to implementation, the LME would give the necessary notice of any action to be taken to the Warehouse and allow for formal representations to be made.

GG) Queue Based Rent Cap

The provisions of this Section G shall take effect on 1 May 2016 (the "Effective Date"), save that the calculations in paragraphs 1 and 2 may be applied historically in determining when the Rent Cap in respect of a particular tonnage of metal subject to a Cancellation prior to 1 May 2016 should take effect⁵. The provisions of this Section G shall be referred to as the "Queue Based Rent Cap".

⁵ Under no circumstances would the Rent Cap take effect prior to 1 May 2016.



1. When Warrants representing in aggregate an amount of metal (in tonnes) which is equal to or larger than 10,000 tonnes (the total amount of such Cancellation being the “First Cancellation Amount”) are the subject of a Cancellation at a DP Warehouse on a specific date (the “First Actual Cancellation Date”) by a single warrant holder, or multiple warrant holders acting in concert as determined by the LME in its sole discretion, who owned no Warrants in respect of metal in the Queue of that DP Warehouse before such Cancellation, the “Deemed Cancellation Dates” in respect of that First Cancellation Amount shall be as follows⁶:
 - (a) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the first available day in the schedule⁷ (the “First Day Load-Out Amount”) forming part of the First Cancellation Amount shall be the First Actual Cancellation Date.
 - (b) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the second available day in the schedule⁸ (the “Second Day Load-Out Amount”) forming part of the First Cancellation Amount shall be X calendar days after the First Actual Cancellation Date (where “X” is the number of calendar days between the scheduled delivery slots⁹ for the First Day Load-Out Amount and the Second Day Load-Out Amount).
 - (c) The Deemed Cancellation Date in respect of the amount of metal scheduled in the Queue on the third available day of the schedule (the “Third Day Load-Out Amount”) forming part of the First Cancellation Amount shall be Y calendar days after the First Actual Cancellation Date (where “Y” is the number of calendar days between the scheduled delivery slots⁹ for the First Day Load-Out Amount and the Third Day Load-Out Amount).
 - (d) This shall continue for the calculation of the Deemed Calculation Date in respect of each Day Load-Out Amount forming part of the First Cancellation Amount, including, lastly, in respect of the final part of the First Cancellation Amount.

⁶ It should be noted that the concept of “Deemed Cancellation” is relevant only for the purposes of Queue Based Rent Cap calculations. It does not impact the fact that stock is cancelled for the purposes of stock reporting, queue calculation etc.

⁷ For the avoidance of doubt, the quantum of the First Day Load-Out Amount will be determined by (i) the minimum daily delivery tonnage of the relevant DP Warehouse applicable on the scheduled date of delivery out, and (ii) the amount of metal from any previous Cancellation already scheduled into the Queue on that day.

⁸ For the avoidance of doubt, the quantum of the Second Day Load-Out Amount will be determined by the minimum daily delivery tonnage of the relevant DP Warehouse applicable on the scheduled date of delivery out.

⁹ For the avoidance of doubt, this means the actual slot scheduled including the effect of any weekend.



2. Further, if a warrant holder, or several warrant holders acting in concert as determined by the LME in its sole discretion, who has cancelled Warrants and the metal for those Warrants has not yet been loaded out, subsequently cancels Warrants representing any amount (the “Additional Cancellation Amount”) in the same DP Warehouse on the same or a different date (the “Additional Actual Cancellation Date”), and where the aggregate holding in the Queue (including the Additional Cancellation Amount) is equal to or exceeds 10,000 tonnes, the “Deemed Cancellation Dates” for the Additional Cancellation Amount shall be as follows:
- (a) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the first available day in the schedule⁷ (the “First Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N calendar days after the Additional Actual Cancellation Date (where “N” is the number of calendar days occupied in the Queue by any previous Cancellations in the Queue, not including the effect of the Additional Cancellation Amount, attributable to the warrant holder or other warrant holders acting in concert, rounded up to the nearest whole calendar day).
 - (b) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the second available day in the schedule⁸ (the “Second Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N+X calendar days after the Additional Actual Cancellation Date (where “X” is the number of calendar days between the scheduled delivery slots⁹ for the First Day Load-Out Amount and the Second Day Load-Out Amount).
 - (c) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the third available day in the schedule (the “Third Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N+Y calendar days after the Additional Actual Cancellation Date (where “Y” is the number of calendar days between the scheduled delivery slots⁹ for the First Day Load-Out Amount and the Third Day Load-Out Amount).
 - (d) This shall continue for the calculation of the Deemed Calculation Date in respect of each Day Load-Out Amount forming part of the Additional Cancellation Amount, including, lastly, in respect of the final part of the Additional Cancellation Amount.
3. A Warehouse shall track the waiting time for delivery out of metal from the “Applicable Cancellation Date”, being the latest of: (i) the date of Cancellation; (ii) the Effective Date; and (iii) the Deemed Cancellation Date (in the case of Warrants which meet the conditions described in paragraph 1 or 2 of this Section G above). Notwithstanding any other provisions of this Policy, a Warehouse should generally deliver out metal from its



Authorised Warehouses as quickly as possible, and at worst within 30 calendar days of the Applicable Cancellation Date. Failure to achieve delivery within this timescale shall result in the Warehouse being obliged to reduce its Rent in accordance with the provisions set out below (but, for the avoidance of doubt, the Warehouse shall not incur any other penalty for failure to meet the timescales set out in this Section G unless in contravention of other provisions of the Policy, Warehouse Agreement or other requirements of the LME).

4. Where the waiting time exceeds 30 calendar days from the Applicable Cancellation Date, but before the waiting time exceeds 50 calendar days from the Applicable Cancellation Date, the Warehouse shall be permitted to charge at most 50% of its Rent for the cancelled metal; and where the waiting time exceeds 50 calendar days from the Applicable Cancellation Date, the Warehouse may not charge any further Rent for the cancelled metal.

5. A worked example of the calculation.

This worked example is provided for illustrative purposes only and is not intended to replace or vary the framework in paragraphs 1 and 2 above. Accordingly, this worked example should not be relied upon for any reason.

(a) Consider the Cancellation of a clip of 10,000 tonnes (the “First Cancellation Amount”), on 2 May 2016 (the “First Actual Cancellation Date”) at a DP Warehouse with a Queue of 150 calendar days, and a daily load-out requirement of 4,000 tonnes, by an owner who at present has no metal in the Queue at that DP Warehouse.

(b) The first 4,000 tonnes (the “First Day Load Out Amount”) of the clip will be scheduled on 29 September 2016 (a Thursday). The second 4,000 tonnes (the “Second Day Load Out Amount”) of the clip will be scheduled on 30 September 2016 (a Friday). The final 2,000 tonnes (the “Third Day Load Out Amount”) of the clip will be scheduled on 3 October 2016 (a Monday).

(c) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the first 4,000 tonnes (scheduled for load-out on 29 September 2016) will be the First Actual Cancellation Date, namely 2 May 2016. Half rent will become payable after 30 days (i.e. on 1 June 2016), and zero rent will become payable after 50 days (i.e. on 21 June 2016).

(d) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the second 4,000 tonnes (scheduled for load-out on 30 September 2016) will be 3 May 2016 (i.e. one day after the First Actual Cancellation Date).



- (e) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the final 2,000 tonnes (scheduled for load-out on 3 October 2016) will be 6 May 2016 (i.e. four days after the First Actual Cancellation Date, taking into account the effect of the first weekend in October on the load-out scheduling).
 - (f) On 9 May 2016 (the “Additional Actual Cancellation Date”), the same warrant holder cancels an incremental 10,000 tonnes (the “Additional Cancellation Amount”) at the same DP Warehouse. By this date, the Queue (including the effect of the warrant holder’s first Cancellation and potentially other Cancellations but prior to the warrant holder’s second Cancellation) has grown to 155 calendar days.
 - (g) The original 10,000 tonne Cancellation by that warrant holder is responsible for 5 days of the 155 day queue (rounded up, and including the effect of the first weekend in October on the scheduling).
 - (h) The first 4,000 tonnes (the “First Day Load Out Amount”) of the second clip will be scheduled on 11 October 2016 (a Tuesday). The second 4,000 tonnes (the “Second Day Load Out Amount”) of the clip will be scheduled on 12 October 2016 (a Wednesday). The final 2,000 tonnes (the “Third Day Load Out Amount”) of the clip will be scheduled on 13 October 2016 (a Thursday).
 - (i) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the first 4,000 tonnes (scheduled for load-out on 11 October 2016) would ordinarily be the Additional Actual Cancellation Date, namely 9 May 2016. However, because the warrant holder’s prior Cancellation contributes five days, the Deemed Cancellation Date will be five days later, namely 14 May 2016. Half rent will become payable after 30 days (i.e. on 13 June 2016), and zero rent will become payable after 50 days (i.e. on 3 July 2016).
 - (j) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the second 4,000 tonnes (scheduled for load-out on 12 October 2016) will be 15 May 2016.
 - (k) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the final 2,000 tonnes (scheduled for load-out on 13 October 2016) will be 16 May 2016.
6. The LME, acting reasonably, reserves the right, with or without notice, to adjust the parameters of the Queue Based Rent Cap or to suspend its application either on a market-wide basis or on a per-Warehouse or per-DP Warehouse basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason. The power to act without notice will be reserved for urgent cases where any change would ordinarily be implemented on a temporary rather than a permanent basis.



7. For the avoidance of doubt, Warehouses may still enter into rent discount agreements with metal owners, provided that the maximum rates set out in this Section G are respected.

H) Review of LME policy for Warehouses

This policy will be reviewed at least on a biennial basis.

HI) General Definitions

"Authorised Warehouse" shall mean a warehouse storage facility operated by a Warehouse in a particular Delivery Point, which has been approved by the LME for the purposes of the Warehouse Agreement.

"Cancellation" shall mean the point when a Warrant is cancelled, delivery requested from the Warehouse by the metal owner, and all associated formalities have been completed by the metal owner (including payment of charges and provision of shipping instructions).

"Delivery Point" shall mean a specific geographic area within which warehouses are listed and approved by the LME for the issue of Warrants.

"DP Warehouse" shall mean all the Authorised Warehouses of a particular Warehouse within a Delivery Point.

"EXCOM" shall mean the Executive Committee of the LME.

"Group" shall mean, in relation to a company, any subsidiary or any holding company from time to time of that company, and any subsidiary from time to time of a holding company of that company. The terms "holding company" and "subsidiary" have the meanings given to them in section 1159 of the Companies Act 2006.

"LILO Rule" shall mean the requirements set out in Section E of this policy.

"LME" or the "Exchange" shall mean the London Metal Exchange.

"LME Special Committee" shall mean the LME Committee to which the LME Directors have delegated the emergency powers under Regulation 15 of Part 3 of the LME Rulebook, as permitted by the Articles of Association of the LME.



"LME Contract" shall mean a contract as defined by the LME Rulebook.

"Load-out" shall mean a delivery of metal out of the premises of an Authorised Warehouse which meets the requirements of this policy (including for the avoidance of doubt paragraph C9).

"Location" shall mean a geographic area capable of being a Delivery Point.

"Queue" means circumstances where load-out requests cannot be serviced immediately by a Warehouse, measured by the number of calendar days a metal owner cancelling a Warrant today must wait for a scheduled delivery slot.

"RMC" shall mean roasted molybdenum concentrate.

"Rent" means the maximum rent published by the Warehouse each year in accordance with the provisions of the Warehouse Agreement.

"Warehouse" shall mean a warehouse company which has been approved by the LME and which has agreed to be bound by the terms and conditions applicable to all LME approved warehouses, as amended by the LME from time to time.

"Warehouse Agreement" shall mean the terms and conditions entered into between the Warehouse and the LME, as applicable to all LME listed Warehouses.

"Warrant" shall mean a warehouse warrant for the storage of metal, issued by a Warehouse and in a form approved by the LME.





**LME POLICY ON THE APPROVAL AND OPERATION OF WAREHOUSES,
REVISED [14 DECEMBER 2015] MARCH 2016]**

A) Warehouses

5. Applicants to be a Warehouse will be considered for approval and listing in an existing or new Delivery Point subject to completion of a Warehouse Agreement application form supported by evidence of insurance, capital adequacy and other documents as detailed by the LME from time to time. The LME will inspect premises and operations offered for warehousing to the LME prior to any listing to ensure they suit the logistical nature of the Location as required by the LME. The LME will state its needs in this respect when sending the applicant the application form. The LME has discretion to accept or decline an application for approval to be a Warehouse or attach specific conditions to approval to be a Warehouse.
6. A Warehouse shall have staff with sufficient experience in metal storage, logistics and systems to ensure that the Warehouse is able to comply with all applicable requirements on an ongoing basis. The LME may, in its reasonable discretion, reject an application from an applicant which is unable to demonstrate compliance with this requirement.
7. Applicants for approval shall be required to demonstrate that they do not:
 - (a) control the operation of any infrastructure or the provision of any service in the Location / Delivery Point that would be critical to any other Warehouse, or any company wishing to become a Warehouse, in the Location / Delivery Point concerned (including, without limitation, terminal operators which may operate all or most of the berths within a port; a logistics company providing all or most of the logistics services in the port (haulage and warehouse operations); or a company that owns all or most of the real estate/warehouses of the Location); or
 - (b) otherwise exercise control in the Location / Delivery Point;

such that the LME would have a reasonable concern that the applicant's operation of a Warehouse could be detrimental to competition.

8. A Warehouse must comply at all times without limitation with: this policy and any other notices or policies issued by the LME, from time to time which apply to Warehouses; and the Warehouse Agreement (together the "Warehouse Requirements").



B) Transportation

Transport links

5. All Authorised Warehouses must have adequate transport links and be situated in close proximity to major highways.
6. With the exception of inland Delivery Points, all Authorised Warehouses must have adequate transport links and be situated in close proximity to water loading facilities.
7. All Authorised Warehouses located in Germany, Belgium, Netherlands, Sweden and the US must have adequate transport links and be situated in close proximity to railheads.
8. All Authorised Warehouses in inland Delivery Points must be directly connected to a rail network.

The LME, respecting such confidentiality as it deems necessary and appropriate, will undertake its own enquiries, as it sees fit, from its members/trade entities etc. to evaluate any applications prior to submission to EXCOM for consideration.

C) Common standards of working practices and facilities for Warehouses

4. For each 2500 sq. metres of space (not including open storage compounds for steel) there must be access by means of an operational door for vehicle loading/unloading, with a minimum of 2 doors per Authorised Warehouse.
5. The minimum daily delivery tonnage must be in accordance with the tables below. Where the delivery requests exceed the minimum daily delivery tonnage for the capacity on the table below, the LME will regard the standard as applying over the number of days necessary to complete the deliveries, as per the table (e.g. if the requests for the delivery of 2000 tonnes apply to a DP Warehouse's capacity of 2500 sq. metres, the standard would be to deliver in 3 days with no reference to the performance on any one of those days). The LME would, however, expect the DP Warehouse to act reasonably when allocating the tonnage delivered out in each of those days.



DP Warehouse's authorised space in sq. metres (excluding steel storage facilities)	Minimum daily delivery tonnage for all metals (excluding cobalt, RMC and steel)
2,500	800 tonnes
5,000	1,200 tonnes
7,500	1,500 tonnes

The above table applies to all DP Warehouses who are storing up to 150,000 tonnes of metal. For DP Warehouses who are storing 150,000 tonnes and above, the following table is applicable.

DP Warehouse's tonnage stored (excluding steel)	Minimum daily delivery tonnage for all metals (excluding cobalt, RMC and steel)
150,000 tonnes to 299,999 tonnes	2,000 tonnes
300,000 tonnes to 599,999 tonnes	2,500 tonnes
600,000 tonnes to 899,999 tonnes	3,500 tonnes
900,000 tonnes and over	4,000 tonnes

NB: The daily delivery tonnage is for deliveries out only and does not include deliveries in.

6. Where a DP Warehouse's tonnage stored increases beyond any of the 150,000, 300,000, 600,000 or 900,000 tonnes thresholds, the applicable revised minimum daily delivery tonnage shall have effect from the date which is 30 days from the date the threshold is passed. This will allow the Warehouse to implement the necessary scheduling changes in order to meet the increased minimum daily delivery tonnage. However, where a DP Warehouse's tonnage stored falls beneath any of the 150,000, 300,000, 600,000 or 900,000 tonnes thresholds, a Warehouse will still be required to deliver out all outstanding deliveries scheduled on or prior to the date the tonnage falls beneath such threshold.



4. In addition to the daily rates stipulated above and below, a DP Warehouse who satisfies the following conditions:
 - (a) the DP Warehouse has scheduled delivery out¹⁰ commitments of 30,000 tonnes or more; and
 - (b) a minimum of 30,000 tonnes of those scheduled commitments are for one metal (being the first metal scheduled to be delivered out that day) (the "Daily Dominant Metal");

shall be required to deliver out in that Delivery Point a minimum of 500 tonnes per day of a metal other than the Daily Dominant Metal, provided that such deliveries are requested.

6. In addition to the daily delivery out rates referred to in this policy, the DP Warehouse is required to load-out minimum quantities of certain metals in any particular Delivery Point, so as to meet the following requirements:
 - (a) Tin: DP Warehouses delivering out the minimum rates stipulated elsewhere in this policy will be required to deliver out an additional daily total of 60 tonnes of tin, which may include the normal course scheduling of metal in the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LIFO Rule).
 - (b) Nickel: DP Warehouses delivering out the minimum rates stipulated elsewhere in this policy will be required to deliver out an additional daily total of 60 tonnes of nickel, which may include the normal course scheduling of metal in the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LIFO Rule).
 - (c) Metal warranted pursuant to the LME's specifications for the aluminium alloy contract and the North American Special Aluminium Alloy Contract ("NASAAC") (together "Aluminium Alloys"): DP Warehouses licensed to warrant Aluminium Alloys delivering out the minimum rates stipulated in this policy will be required to deliver out an additional daily total of 500 tonnes of Aluminium Alloys, which may

¹⁰ For the purposes of this policy, the terms "delivery out" and "load-out" are used interchangeably.



include the normal course scheduling of metal in the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LIFO Rule).

For the avoidance of doubt, the extra metal to be delivered out under this paragraph would only be required to be delivered out if the DP Warehouse had reached its minimum daily load-out rate without delivering out 60 tonnes of tin, 60 tonnes of nickel, and 500 tonnes of Aluminium Alloys, as part of these deliveries.

6. The daily delivery out rate does not include deliveries out for cobalt and RMC. Any deliveries out for either of these metals must be in addition to the rates stipulated in the above table.
7. The daily delivery out rate does not include deliveries out for steel billet. For each Delivery Point in which it is licensed to store steel billet, a DP Warehouse must deliver out in accordance with the minimum requirements stipulated in the tables below, provided demand is present.

DP Warehouse's authorised space in sq. metres (steel storage facilities only)	Minimum daily delivery tonnage for steel
2,500	800 tonnes
5,000	1,200 tonnes
7,500	1,500 tonnes

The above table applies to all DP Warehouses who are storing up to 150,000 tonnes of steel. For DP Warehouses who are storing 150,000 tonnes and above, the following table is applicable:



DP Warehouse's tonnage stored (steel only)	Minimum daily delivery tonnage for steel
150,000 tonnes to 299,999 tonnes	2,000 tonnes
300,000 tonnes to 599,999 tonnes	2,500 tonnes
600,000 tonnes to 899,999 tonnes	3,500 tonnes
900,000 tonnes and over	4,000 tonnes

8. In addition to the daily rates stipulated above, an "Affected DP Warehouse" (as defined at paragraph 3 of Section E below) shall be required to comply with the Linked Load-In and Load-Out Requirements set out in Section E below. However, the LME, acting reasonably in its sole discretion, shall have the power to disapply such requirements on a per-case basis. The LME will agree Queue scheduling with Affected DP Warehouses and how this will be monitored. In the event that a DP Warehouse becomes subject to increased minimum load-out requirements under this policy, it is the responsibility of the Warehouse to reschedule the whole Queue for the given Delivery Point, by offering the additional slots to metal owners depending on their order in the Queue (starting with the first metal owners in the Queue).

9. To qualify as a load-out:
 - (a) The load-out must be accompanied by a bill of lading or other document or correspondence (issued by a carrier to the Warehouse or issued by the Warehouse to a carrier), no matter the form of transportation, listing goods for transport and the intended recipient; and

 - (b) The recipient on the document at (a) above cannot be an entity which is an Authorised Warehouse or an off-Warrant warehouse located in the same Delivery Point where the metal is loaded out, if such Authorised Warehouse or off-Warrant warehouse is owned or operated by the Warehouse loading out the metal, or is a company in the Warehouse's Group. In the event that the document at (a) is issued by the Warehouse, then the Warehouse shall be responsible for the veracity of the information contained therein. In the event that the metal owner wishes to keep confidential from the Warehouse the destination of the metal, the Warehouse must contact the LME to discuss bespoke arrangements to demonstrate the load-out of the metal.



Any movement of metal which is not accompanied by a bill of lading or equivalent meeting the requirements of paragraphs (a) and (b) above shall not be counted towards a Warehouse's load-out requirements. Material placed into containers within an Authorised Warehouse may be counted as a load-out by the Warehouse provided that the container is sealed on that day. For the avoidance of doubt, a high volume of sealed containers should have no impact on the load-out requirements.

10. Once all formalities permitting delivery, including payment of applicable delivery out charges (including without limitation Free on Truck charges ("FOT") or equivalent for other modes of transport), have been completed, the Warehouse shall endeavour to process requests for deliveries out on the basis of 48 hours' notice and strictly in the order in which they are received, unless the Warrant holders seeking cancellation agree otherwise. The FOT charges imposed by a Warehouse shall be the rates published at the date of cancellation not at the date of delivery.
11. Warehouses shall publish (on their website or other appropriate method) a clear process for scheduling and handling delivery slots (including required documents, timing of operations, etc.).
12. Warehouses are required to supply the LME with their current rent and FOT charges. In addition, Warehouses are also required to publish on their website in an easily accessible manner the current level of charges in respect of (i) Free on Rail, (ii) Free Alongside, (iii) Free in Container Yard (which, for the avoidance of doubt, shall relate to the cost of packing a container at a facility nominated by the Warehouse, with the cost of transportation of such container to and from the facility being for the account of the metal owner), (iv) metal re-warranting, and (v) slot rescheduling at the request of the metal owner. Certain of these charges may not be applicable given the transportation modes available at the Delivery Point, in which case this should be noted on the website. Warehouses may not charge fees for these services that exceed the levels published on their website, and may not impose any other compulsory charges on metal owners in respect of these logistical activities, other than those so published.
13. With the exception of inland Delivery Points, there should be no charges above the FOT for transferring metal to the Warehouse's approved and nominated loading berths (as advised to the LME in schedule B of the warehouse application); the unloading of such metal from the truck being for the receiver's account.
14. There should be no charges above the FOT for transferring metal to the nearest railhead in Delivery Points situated in the countries referred to in section B3 above (as



advised to the LME in schedule B of the warehouse application); the loading of such metal onto a railcar being for the receiver's account.

15. Warehouses are reminded that, in general, the daily delivery tonnages set out in this policy are minimum delivery out requirements, not minimum scheduling requirements. However, metal owners are also reminded of their obligations in respect of observing reasonable logistical arrangements in respect of metal collection. In particular, in the event that no metal owner wishes to avail themselves of a delivery slot offered on a reasonable basis and at a reasonable time of day, a Warehouse will be permitted to count the tonnage which would have been delivered in that slot towards delivery out if it can verify that the empty slot had originally been offered to all metal owners in the Queue.

D) The Premium Contract Rule

1. DP Warehouses without Queues in a particular Delivery Point are eligible for the delivery of Warrants in that Delivery Point against contracts designated by the LME as "Premium Contracts" ("Premium Warrants"). The specification of Premium Contracts is made by the LME pursuant to the requirements in the "Premium Contract Regulations" set out in the LME Rulebook. Warrants not so endorsed will be referred to as "Standard Warrants". The ability to endorse Premium Warrants applies at the level of the DP Warehouse. Accordingly, if a Warehouse has a Queue in one Delivery Point, this will not prevent the Warehouse endorsing Premium Warrants at its Authorised Warehouses in a different Delivery Point, provided that the second facility does not have a Queue.
2. In order for a Warehouse to endorse a Warrant as a Premium Warrant, the following conditions must be satisfied:
 - (a) the DP Warehouse must be located in one of the premium regions, as set out in the Premium Contract Regulations;
 - (b) the DP Warehouse must have opted-in to the Premium Warrant regime, by completing the appropriate agreement with the LME - the LME will publish a list of all DP Warehouses which have opted-in to the premium warrant regime; and
 - (c) at the time of endorsement of the Premium Warrant, the DP Warehouse must not have a Queue in respect of any LME metal.



3. A Premium Warrant can only be endorsed if the metal owner so requests, and the Warehouse agrees to do so. There are two routes by which a Premium Warrant may be created:
 - (a) In connection with fresh metal loaded-in to the DP Warehouse, a Warrant is issued in respect of that metal, and is immediately endorsed as a Premium Warrant. Warehouses may set a different rent and FOT rate in respect of Premium Warrants – such rates will be reported to the LME by Warehouses and published annually in the same way as for Standard Warrant rent and FOT rates. As with current metal load-in, no Warehouse is obligated to accept metal for warranting, and metal owners must ensure that Premium Warrant creation capacity is available at their intended DP Warehouse – in particular, it is expected that Warehouses will not wish to warrant more premium metal than they could logistically load-out pursuant to the greater requirements attaching to such metal. However, the LME would expect Warehouses which have opted-in to the Premium Warrant regime not to unreasonably refuse the load-in of metal and the creation of Premium Warrants; or
 - (b) An existing Standard Warrant is converted to a Premium Warrant. Warehouses opting-in to the premium warrant regime may indicate whether or not they are prepared to undertake such conversion, and to identify if they wish to charge a conversion fee (the amount of which will be reported to the LME and published annually by the Warehouse) which will be levied in this event. Warehouses may also set a maximum quota (expressed as a tonnage) in respect of the maximum amount of Standard Warrants which they will be prepared to convert to Premium Warrants. This may be important for Warehouses with large stocks of Standard Warrants, and which would not be able to take on the additional requirements were the entire stock to be converted to Premium Warrants. However, within their stated quota, Warehouses will be expected to convert Standard Warrants into Premium Warrants on a non-discriminatory and first-come-first-served basis. Once a Standard Warrant has been converted into a Premium Warrant, then the Warehouse's published Premium Warrant rents and FOTs will apply
4. In the event that a Premium Warrant is cancelled and a Queue develops at the DP Warehouse in the Delivery Point, such that any metal owner who, having cancelled a Warrant; paid FOT, or equivalent, and rent; provided shipping instructions; and requested prompt load-out, is told that load-out cannot be completed within 48 hours; the Warehouse will have an immediate duty to inform the LME, which will, within one London business day, announce to the market that the Warehouse will cease to be able to endorse Premium Warrants in that Delivery Point three London business days following such announcement. Warehouses which have cleared their Queues in the relevant Delivery Point will be entitled to resume the issuance of Premium Warrants following the publication by the LME of the next monthly Queues report confirming that



no Queues remain. The emergence of a Queue at a DP Warehouse does not change the status of Premium Warrants previously issued by that DP Warehouse - such Warrants remain Premium Warrants.

5. However, and notwithstanding the three day adjustment period, metal owners should note that, given the above, the emergence of a Queue at a DP Warehouse may impact their ability to create Premium Warrants in that Delivery Point. Accordingly, those holding short positions in respect of LME Premium Contracts are urged to ensure that they have created the requisite Premium Warrants in good time prior to delivery.
6. Where a Queue arises, pursuant to the conditions set out in paragraph D4, the DP Warehouse will have an obligation to load-out metal relating to cancelled Premium Warrants in a separate Queue. The minimum daily load-out rate for such metal will be the higher of:
 - (a) 1,000 tonnes per day; and
 - (b) 3% of the total stock relating to Premium Warrants (live and cancelled) in the DP Warehouse.

For the avoidance of doubt, load-out obligations in respect of Premium Warrants are in addition to load-out obligations for Standard Warrants. In particular, the basis on which minimum load-out rates for Standard Warrants are calculated takes into account total stored tonnage in the DP Warehouse, related to both Standard Warrants and Premium Warrants.

7. Once it has opted into the Premium Contract Rule, a DP Warehouse may only opt-out if its stock of Premium Warrants is zero.
8. Premium Warrants may be converted back to Standard Warrants by agreement between the metal owner and the Warehouse. However, there shall be no obligation on Warehouses to facilitate such transfers.
9. Premium Warrants may be re-warranted by agreement between the metal owners and the Warehouse. However, there is no requirement on the Warehouse to re-warrant



cancelled Premium Warrants as new Premium Warrants, and a Warehouse may reasonably offer to re-warrant a cancelled Premium Warrant as a Standard Warrant.

E) Linked Load-In and Load-Out Requirements

1. Principle

The general principle of this requirement is to link load-in and load-out for DP Warehouses with Queues of greater than 50 calendar days (the “Queue Threshold”).

2. LILO Rule Definitions

In relation to a particular DP Warehouse, a Business Day (“Business Day”) is any day on which that particular DP Warehouse is operating and subject to the current LME minimum load-out requirement.

The Preliminary Calculation Period (“Preliminary Calculation Period”) shall be the period between 1 July 2013 and 31 January 2015, inclusive.

The First Calculation Period (“First Calculation Period”) shall be the period between 1 February 2015 and 30 April 2015, inclusive.

Each subsequent Calculation Period (“Calculation Period”) shall be the three months immediately following the preceding Calculation Period. By way of example, the Second Calculation Period (“Second Calculation Period”) shall be the period between 1 May 2015 and 31 July 2015, inclusive (being the three months immediately following the First Calculation Period).

The Preliminary Discharge Period, (the “Preliminary Discharge Period”) which will apply in relation to the Preliminary Calculation Period, will be the three month period between 1 March 2015 and 31 May 2015, inclusive.



For each subsequent Calculation Period, the related Discharge Period (i.e. the period during which the Incremental Load-Out Requirement calculated in accordance with paragraph 4 below must be met) shall be the three month period starting on the date one calendar month following the end of that Calculation Period (the “Discharge Period”). By way of example, the First Discharge Period shall be the period between 1 June 2015 and 31 August 2015, inclusive (being the three month period starting on the date one calendar month following the end of the First Calculation Period) (the “First Discharge Period”).

In relation to a particular DP Warehouse on any given Business Day, the Normal daily Minimum Load-Out Rate is the amount of metal required to be loaded out according to the LME requirements set out in Section C of this Policy (the “Normal Daily Minimum Load-Out Rate”) as follows:

- (a) If, on the Business Day in question, a DP Warehouse is required to make an additional load-out of non-dominant metal (pursuant to paragraph 4 of Section C above), such additional load-out will be counted towards the Normal Daily Minimum Load- Out Rate for the Business Day in question.
- (b) If, on the Business Day in question, a DP Warehouse is required to make an additional load-out of nickel, tin and/or Aluminium Alloys (pursuant to paragraph 5 of Section C above), such additional load-out will be counted towards the Normal Daily Minimum Load-Out Rate for the Business Day in question.
- (c) Load-out of cobalt and RMC (paragraph 6 of Section C above) and steel billet (paragraph 7 of Section C above) will not be counted towards the Normal Daily Minimum Load-Out Rate, given that these metals are treated separately for the purposes of DP Warehouse load-out rates.

Re-warranted Metal (“Re-warranted Metal”) is metal in respect of which a Warrant has been cancelled, but has not been loaded out of the DP Warehouse (due to the presence of a Queue or other operational constraint), and in respect of which the metal owner has requested that the Warehouse issues a new Warrant (and hence reverses the original request to deliver out that metal).

The Decay Factor shall be the coefficient applied in the equation at Section E, paragraph 4(b)(i). Until 31 July 2015 (i.e. for use in the First and Second Calculation



Periods), the value of the Decay Factor shall be 0.5. From 1 August 2015 (i.e. for use in the Third and subsequent Calculation Periods), the value of the Decay Factor shall be 1.0. For the avoidance of doubt, the current and future values of the Decay Factor remain subject to modification pursuant to Section E, paragraph 6.

3. Affected DP Warehouses

On any given Business Day, an Affected DP Warehouse is a DP Warehouse with a Queue of greater than the Queue Threshold (the “Affected DP Warehouse”). Queue lengths will continue to be measured and reported to the LME by DP Warehouses, with the LME continuing to exercise oversight in respect of such measurements. For the avoidance of doubt, to the extent that a DP Warehouse has scheduled deliveries pursuant to any Incremental Load-Out Requirement arising per this policy, then the Queue length may take into account such incremental scheduled deliveries.

4. Calculating the Incremental Load-Out Requirement

The Incremental Load-Out Requirement shall mean the additional amount of metal that must be discharged by a DP Warehouse during the course of the relevant Discharge Period, over and above the load-out required by the Normal Daily Minimum Load-Out Rate on each day of that Discharge Period (the “Incremental Load-Out Requirement”). The Incremental Load-Out Requirement is derived on the final day of the relevant Calculation Period, as set out more fully in this section E, paragraph 4.

- (a) During the Preliminary Calculation Period, each DP Warehouse shall maintain the calculation of its Cumulative Incremental Load-Out Quantity which is the quantity set to zero at the beginning of the Preliminary Calculation Period and increased incrementally on each Business Day of the Preliminary Calculation Period by the process set out in this section E, paragraph 4(a) (the “Cumulative Incremental Load-Out Quantity”).

During the Preliminary Calculation Period, on each Business Day, the following value will be added to the Cumulative Incremental Load-Out Quantity:

- (i) the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal, steel, RMC nor cobalt);



less,

- (ii) the higher of (i) the Normal Daily Minimum Load-Out Rate, and (ii) the actual amount of metal loaded-out of the DP Warehouse on the Business Day in question – provided that, for the purposes of (ii), load-out in excess of the Normal Daily Minimum Load-Out Rate which is made to compensate for a shortfall in load-out on a previous or subsequent Business Day (due, inter alia, to scheduling variations within a single load-out request per paragraph 2 of Section C above) shall not count towards the actual amount of metal loaded-out of the DP Warehouse.

On the final Business Day of the Preliminary Calculation Period, a DP Warehouse shall establish whether it is an Affected DP Warehouse at the end of that Business Day. If (i) the DP Warehouse is not an Affected DP Warehouse, or (ii) the calculated Cumulative Incremental Load-Out Quantity is less than or equal to zero, then the Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to zero, and no additional load-out requirements will hence be incurred during the Preliminary Discharge Period. If (i) the DP Warehouse is an Affected DP Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Quantity is greater than zero, then the Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to the Cumulative Incremental Load-Out Quantity in relation to the Preliminary Calculation Period, and must be satisfied by the DP Warehouse during the Preliminary Discharge Period as set out in paragraph 5 below.

- (b) During the First Calculation Period, and each subsequent Calculation Period, a DP Warehouse shall measure its Cumulative Load-In and Cumulative Normal Minimum Load-Out. Cumulative Normal Minimum Load-Out shall mean the sum of metal across every Business Day of the relevant Calculation Period that a DP Warehouse is required to load-out pursuant to the Normal Daily Minimum Load Out Rate (the “Cumulative Normal Minimum Load-Out”). Cumulative Load-In shall mean the sum, increased incrementally each Business Day of the relevant Calculation Period, of metal that the DP Warehouse loads-in during the relevant Calculation Period (the “Cumulative Load-In”). Both quantities will be set to zero at the beginning of the Calculation Period.

For each Business Day during the Calculation Period, the Cumulative Load-In will be increased by the amount of new metal placed on-warrant in the



DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal, steel, RMC nor cobalt).

For each Business Day during the Calculation Period, the Cumulative Normal Minimum Load-Out will be increased by the Normal Daily Minimum Load-Out Rate for the Business Day in question.

At the end of the Calculation Period, and if the DP Warehouse has been an Affected DP Warehouse on any Business Day during that Calculation Period, then the Incremental Load-Out Requirement will be calculated as:

- (i) the Decay Factor multiplied by the Cumulative Load-In, up to and including the Cumulative Normal Minimum Load-Out;

plus,

- (ii) the Cumulative Load-In above the Cumulative Normal Minimum Load- Out.

For the avoidance of doubt, if the DP Warehouse has not been an Affected DP Warehouse on any day during that Calculation Period, then the Incremental Load-Out Requirement will be zero in respect of that Calculation Period.

5. Discharging the Incremental Load-Out Requirement

At the end of each Calculation Period, the then current Incremental Load-Out

Requirement must be satisfied by the DP Warehouse during the Discharge Period associated with the Calculation Period having just concluded, provided load-out demand is present.

During the associated Discharge Period, the DP Warehouse will be required to load-out the Incremental Load-Out Requirement, in addition to its load-out obligations in accordance with Section C above. For the avoidance of doubt, the DP Warehouse will



not be held to any particular daily incremental load-out rate – however, in aggregate over the course of the Discharge Period, the full Incremental Load-Out Requirement must be satisfied.

The DP Warehouse must offer additional slots created to meet the Incremental Load-Out Requirement to metal owners strictly in order of their position in the Queue.

6. Adjusting the Decay Factor and/or Queue Threshold

The LME, acting reasonably, reserves the right to adjust the Decay Factor and/or the Queue Threshold either on a market-wide basis or on a per-DP Warehouse basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason.

7. A worked example of the calculation

This worked example is provided for illustrative purposes only and should not be relied upon for any reason.

- (a) Consider a notional DP Warehouse with stocks of 2,000,000 tonnes of a single metal. Pursuant to the LME Policy Regarding the Approval of Warehouses, revised 1 February 2015, the Normal Daily Minimum Load-Out Rate is 3,000 tonnes per Business Day. Consider further that the DP Warehouse chooses to loadout precisely its Normal Daily Minimum Load-Out Rate (3,000 tonnes) on each Business Day.
- (b) Consider that, of the DP Warehouse's stocks, 1,000,000 tonnes are represented by cancelled metal. Assuming that owners of all of the cancelled metal have completed the necessary formalities, then the DP Warehouse's load-out Queue will hold 1,000,000 tonnes of metal. At a load-out rate of 3,000 tonnes per Business Day, the Queue length will be:
 - (i) $1,000,000 \text{ tonnes} / 3,000 \text{ tonnes per Business Day}$



(ii) = 333.3 Business Days

(iii) = 465.3 calendar days (assuming all weekdays are Business Days)

For the avoidance of doubt, in practice, the Queue length will be determined by the Warehouse concerned on the basis of schedules provided to metal owners.

- (c) Consider that the DP Warehouse places on-warrant a constant amount of 3,100 tonnes per Business Day. Consider also that, on each Business Day, Warrant holders cancel an amount of 3,000 tonnes of metal (thus balancing the delivery out of 3,000 tonnes per Business Day, resulting in a constant Queue length until such time as the Incremental Load-Out Requirement comes into effect). There is assumed to be no re-warranting of metal in this scenario.
- (d) At the start of the Preliminary Calculation Period (1 July 2013), the Cumulative Incremental Load-Out Quantity is zero.

On each day during the Preliminary Calculation Period, the following value will be added to the Cumulative Incremental Load-Out Quantity:

- (i) the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal) (3,100 tonnes);

less,

- (ii) the higher of (i) the Normal Daily Minimum Load-Out Rate (3,000 tonnes), and (ii) the actual amount of metal loaded-out of the DP Warehouse on the Business Day in question (also 3,000 tonnes).

= 3,100 tonnes – 3,000 tonnes = 100 tonnes



- (e) At the end of the Preliminary Calculation Period (31 January 2015), and assuming that each weekday during the Preliminary Calculation Period is a Business Day for the DP Warehouse (resulting in a total of 415 Business Days during the Preliminary Calculation Period), then the Cumulative Incremental Load-Out Quantity will total 41,500 tonnes.

Given that, per (c) above, the Queue will have retained a constant length, the Queue length at the end of the Preliminary Calculation Period will remain at 465.3 calendar days. On this basis, the Queue length is greater than 50 days, and the DP Warehouse is hence an Affected DP Warehouse at the end of the Preliminary Calculation Period.

Given that, on the final Business Day of the Preliminary Calculation Period, (i) the DP Warehouse is an Affected DP Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Quantity is greater than zero, then the Incremental Load-Out Requirement will be set to the Cumulative Incremental Load-Out Quantity (41,500 tonnes), and must be satisfied by the DP Warehouse during the Preliminary Discharge Period.

- (f) During the Preliminary Discharge Period (1 March 2015 to 31 May 2015), the DP Warehouse will be required to load-out the Incremental Load-Out Requirement relating to the Preliminary Calculation Period (41,500 tonnes in total over the course of the Preliminary Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day.
- (g) At the start of the First Calculation Period (1 February 2015), the Cumulative Load-In and Cumulative Normal Minimum Load-Out are set to zero.

On each day during the First Calculation Period, the Cumulative Load-In will be increased by the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal) – in this case 3,100 tonnes.

On each day during the First Calculation Period, the Cumulative Normal

Minimum Load-Out will be increased by the Normal Daily Minimum Load-Out Rate for the Business Day in question – in this case 3,000 tonnes.



- (h) At the end of the First Calculation Period (30 April 2015), and assuming that each weekday during the First Calculation Period is a Business Day for the DP Warehouse (resulting in a total of 64 Business Days during the First Calculation Period), then the Cumulative Load-In will total 198,400 tonnes, and the Cumulative Normal Minimum Load-Out will total 192,000 tonnes.

On the basis that the DP Warehouse has been an Affected DP Warehouse for at least one Business Day during the First Calculation Period, then the Incremental Load-Out Requirement will be calculated as follows:

- (i) Decay Factor multiplied by the Cumulative Load-In, up to and including the Cumulative Normal Minimum Load-Out;

plus,

- (ii) the Cumulative Load-In above the Cumulative Normal Minimum Load-Out.

$$= 0.5 \times 192,000 + (198,400 - 192,000) = 96,000 + 6,400$$

$$= 102,400 \text{ tonnes}$$

- (i) During the First Discharge Period (1 June 2015 to 31 August 2015), the DP Warehouse will be required to load-out the Incremental Load-Out Requirement relating to the First Calculation Period (102,400 tonnes in total over the course of the First Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day, provided load-out demand is present.
- (j) This process continues through the Second Calculation Period (and associated Second Discharge Period), Third Calculation Period (and associated Third Discharge Period) and so on, incorporating the increased value of the Decay Factor in the Third and subsequent Calculation Periods, and any increases in load-out requirements as implemented by the LME, until such time as the DP Warehouse ceases to be an Affected DP Warehouse.



F) Continued compliance with the LME policy for Warehouses

1. A Warehouse must at all times comply with the Warehouse Requirements. In the event that a Warehouse does not appear to meet the Warehouse Requirements, there will be an initial review by the LME and consultation with the Warehouse concerned.
2. If the Warehouse can demonstrate that it will upgrade facilities or work practices to meet the LME's new standards, the LME will consider the appropriate amount of time to allow for such a process. Warehouses could, for example, be given, a period of time to upgrade their facilities or relocate to a more suitable building within the Delivery Point, but this would be determined on a case by case basis, according to the circumstances.
3. If after consultation with the Warehouse, the Warehouse is unwilling or unable to upgrade its facilities or work practices to meet the LME's standards, the LME retains the right to restrict the capacity of that Warehouse (or DP Warehouse as appropriate) or to delist it. In particular, if a Warehouse fails to comply with the Linked Load-In and Load-Out Requirements per Section E, then the Board may (among other actions) restrict the ability of that Warehouse to create Warrants in that Delivery Point until load-in and load-out are brought into alignment pursuant to the requirements.
4. Prior to implementation, the LME would give the necessary notice of any action to be taken to the Warehouse and allow for formal representations to be made.

G) Queue Based Rent Cap

The provisions of this Section G shall take effect on [1 May 2016] (the "Effective Date"), save that the calculations in paragraphs 1 and 2 may be applied historically in determining when the Rent Cap in respect of a particular tonnage of metal subject to a Cancellation prior to 1 May 2016 should take effect¹¹. The provisions of this Section G shall be referred to as the "Queue Based Rent Cap".

8. When Warrants representing in aggregate an amount of metal (in tonnes) which is equal to or larger than 10,000 tonnes (the total amount of such Cancellation being the "First Cancellation Amount") are the subject of a Cancellation at a DP Warehouse on a

¹¹ Under no circumstances would the Rent Cap take effect prior to 1 May 2016.



specific date (the “First Actual Cancellation Date”) by a single warrant holder, or multiple warrant holders acting in concert as determined by the LME in its sole discretion, who owned no Warrants in respect of metal in the Queue of that DP Warehouse before such Cancellation, the “Deemed Cancellation Dates” in respect of that First Cancellation Amount shall be as follows¹²:

(a) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the first available day in the schedule¹³ (the “First Day Load-Out Amount”) forming part of the First Cancellation Amount shall be the First Actual Cancellation Date.

(b) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the second available day in the schedule¹⁴ (the “Second Day Load-Out Amount”) forming part of the First Cancellation Amount shall be X calendar days after the First Actual Cancellation Date (where “X” is the number of calendar days between the scheduled delivery slots¹⁵ for the First Day Load-Out Amount and the Second Day Load-Out Amount).

(c) The Deemed Cancellation Date in respect of the amount of metal scheduled in the Queue on the third available day of the schedule (the “Third Day Load-Out Amount”) forming part of the First Cancellation Amount shall be Y calendar days after the First Actual Cancellation Date (where “Y” is the number of calendar days between the scheduled delivery slots⁹ for the First Day Load-Out Amount and the Third Day Load-Out Amount).

(d) This shall continue for the calculation of the Deemed Calculation Date in respect of each Day Load-Out Amount forming part of the First Cancellation Amount, including, lastly, in respect of the final part of the First Cancellation Amount.

9. Further, if a warrant holder, or several warrant holders acting in concert as determined by the LME in its sole discretion, who has cancelled Warrants and the metal for those

¹² It should be noted that the concept of “Deemed Cancellation” is relevant only for the purposes of Queue Based Rent Cap calculations. It does not impact the fact that stock is cancelled for the purposes of stock reporting, queue calculation etc.

¹³ For the avoidance of doubt, the quantum of the First Day Load-Out Amount will be determined by (i) the minimum daily delivery tonnage of the relevant DP Warehouse applicable on the scheduled date of delivery out, and (ii) the amount of metal from any previous Cancellation already scheduled into the Queue on that day.

¹⁴ For the avoidance of doubt, the quantum of the Second Day Load-Out Amount will be determined by the minimum daily delivery tonnage of the relevant DP Warehouse applicable on the scheduled date of delivery out.

¹⁵ For the avoidance of doubt, this means the actual slot scheduled including the effect of any weekend.



Warrants has not yet been loaded out, subsequently cancels Warrants representing any amount (the “Additional Cancellation Amount”) in the same DP Warehouse on the same or a different date (the “Additional Actual Cancellation Date”), and where the aggregate holding in the Queue (including the Additional Cancellation Amount) is equal to or exceeds 10,000 tonnes, the “Deemed Cancellation Dates” for the Additional Cancellation Amount shall be as follows:

- (a) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the first available day in the schedule⁷ (the “First Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N calendar days after the Additional Actual Cancellation Date (where “N” is the number of calendar days occupied in the Queue by any previous Cancellations in the Queue, not including the effect of the Additional Cancellation Amount, attributable to the warrant holder or other warrant holders acting in concert, rounded up to the nearest whole calendar day).

- (b) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the second available day in the schedule⁸ (the “Second Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N+X calendar days after the Additional Actual Cancellation Date (where “X” is the number of calendar days between the scheduled delivery slots⁹ for the First Day Load-Out Amount and the Second Day Load-Out Amount).

- (c) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the third available day in the schedule (the “Third Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N+Y calendar days after the Additional Actual Cancellation Date (where “Y” is the number of calendar days between the scheduled delivery slots⁹ for the First Day Load-Out Amount and the Third Day Load-Out Amount).

- (d) This shall continue for the calculation of the Deemed Calculation Date in respect of each Day Load-Out Amount forming part of the Additional Cancellation Amount, including, lastly, in respect of the final part of the Additional Cancellation Amount.

4.10. A Warehouse shall track the waiting time for delivery out of metal from the “Applicable Cancellation (or, in Date”, being the earliest of metal whose: (i) the date of Cancellation occurred prior to; (ii) the Effective Date, from the Effective Date; and (iii) the Deemed Cancellation Date (in the case of Warrants which meet the conditions described in paragraph 1 or 2 of this Section G above). Notwithstanding any other provisions of this Policy, a Warehouse should generally deliver out metal from its Authorised Warehouses as quickly as possible, and at worst within 30 calendar days of



the Applicable Cancellation Date. Failure to achieve delivery within this timescale shall result in the Warehouse being obliged to reduce its Rent in accordance with the provisions set out below (but, for the avoidance of doubt, the Warehouse shall not incur any other penalty for failure to meet the timescales set out in this Section G unless in contravention of other provisions of the Policy, Warehouse Agreement or other requirements of the LME).

2.11. Where the waiting time exceeds 30 calendar days from the Applicable Cancellation Date, but before the waiting time exceeds 50 calendar days from the Applicable Cancellation Date, the Warehouse shall be permitted to charge at most 50% of its Rent for the cancelled metal; and where the waiting time exceeds 50 calendar days from the Applicable Cancellation Date, the Warehouse may not charge any further Rent for the cancelled metal.

12. A worked example of the calculation.

This worked example is provided for illustrative purposes only and is not intended to replace or vary the framework in paragraphs 1 and 2 above. Accordingly, this worked example should not be relied upon for any reason.

(l) Consider the Cancellation of a clip of 10,000 tonnes (the “First Cancellation Amount”), on 2 May 2016 (the “First Actual Cancellation Date”) at a DP Warehouse with a Queue of 150 calendar days, and a daily load-out requirement of 4,000 tonnes, by an owner who at present has no metal in the Queue at that DP Warehouse.

(m) The first 4,000 tonnes (the “First Day Load Out Amount”) of the clip will be scheduled on 29 September 2016 (a Thursday). The second 4,000 tonnes (the “Second Day Load Out Amount”) of the clip will be scheduled on 30 September 2016 (a Friday). The final 2,000 tonnes (the “Third Day Load Out Amount”) of the clip will be scheduled on 3 October 2016 (a Monday).

(n) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the first 4,000 tonnes (scheduled for load-out on 29 September 2016) will be the First Actual Cancellation Date, namely 2 May 2016. Half rent will become payable after 30 days (i.e. on 1 June 2016), and zero rent will become payable after 50 days (i.e. on 21 June 2016).

(o) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the second 4,000 tonnes (scheduled for load-out on 30 September 2016) will be 3 May 2016 (i.e. one day after the First Actual Cancellation Date).



- (p) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the final 2,000 tonnes (scheduled for load-out on 3 October 2016) will be 6 May 2016 (i.e. four days after the First Actual Cancellation Date, taking into account the effect of the first weekend in October on the load-out scheduling).
- (q) On 9 May 2016 (the “Additional Actual Cancellation Date”), the same warrant holder cancels an incremental 10,000 tonnes (the “Additional Cancellation Amount”) at the same DP Warehouse. By this date, the Queue (including the effect of the warrant holder’s first Cancellation and potentially other Cancellations but prior to the warrant holder’s second Cancellation) has grown to 155 calendar days.
- (r) The original 10,000 tonne Cancellation by that warrant holder is responsible for 5 days of the 155 day queue (rounded up, and including the effect of the first weekend in October on the scheduling).
- (s) The first 4,000 tonnes (the “First Day Load Out Amount”) of the second clip will be scheduled on 11 October 2016 (a Tuesday). The second 4,000 tonnes (the “Second Day Load Out Amount”) of the clip will be scheduled on 12 October 2016 (a Wednesday). The final 2,000 tonnes (the “Third Day Load Out Amount”) of the clip will be scheduled on 13 October 2016 (a Thursday).
- (t) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the first 4,000 tonnes (scheduled for load-out on 11 October 2016) would ordinarily be the Additional Actual Cancellation Date, namely 9 May 2016. However, because the warrant holder’s prior Cancellation contributes five days, the Deemed Cancellation Date will be five days later, namely 14 May 2016. Half rent will become payable after 30 days (i.e. on 13 June 2016), and zero rent will become payable after 50 days (i.e. on 3 July 2016).
- (u) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the second 4,000 tonnes (scheduled for load-out on 12 October 2016) will be 15 May 2016.
- (v) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the final 2,000 tonnes (scheduled for load-out on 13 October 2016) will be 16 May 2016.

3-13. The LME, acting reasonably, reserves the right, with or without notice, to adjust the parameters of the Queue Based Rent Cap or to suspend its application either on a market-wide basis or on a per-Warehouse or per-DP Warehouse basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason. The power to act without notice will be reserved for urgent cases where any change would ordinarily be implemented on a temporary rather than a permanent basis.



4.14. For the avoidance of doubt, Warehouses may still enter into rent discount agreements with metal owners, provided that the maximum rates set out in this Section G are respected.

H) Review of LME policy for Warehouses

This policy will be reviewed at least on a biennial basis.

I) General Definitions

"Authorised Warehouse" shall mean a warehouse storage facility operated by a Warehouse in a particular Delivery Point, which has been approved by the LME for the purposes of the Warehouse Agreement.

"Cancellation" shall mean the point when a Warrant is cancelled, delivery requested from the Warehouse by the metal owner, and all associated formalities have been completed by the metal owner (including payment of charges and provision of shipping instructions).

"Delivery Point" shall mean a specific geographic area within which warehouses are listed and approved by the LME for the issue of Warrants.

"DP Warehouse" shall mean all the Authorised Warehouses of a particular Warehouse within a Delivery Point.

"EXCOM" shall mean the Executive Committee of the LME.

"Group" shall mean, in relation to a company, any subsidiary or any holding company from time to time of that company, and any subsidiary from time to time of a holding company of that company. The terms "holding company" and "subsidiary" have the meanings given to them in section 1159 of the Companies Act 2006.

"LILO Rule" shall mean the requirements set out in Section E of this policy.

"LME" or the "Exchange" shall mean the London Metal Exchange.

"LME Special Committee" shall mean the LME Committee to which the LME Directors have delegated the emergency powers under Regulation 15 of Part 3 of the LME Rulebook, as permitted by the Articles of Association of the LME.



"LME Contract" shall mean a contract as defined by the LME Rulebook.

"Load-out" shall mean a delivery of metal out of the premises of an Authorised Warehouse which meets the requirements of this policy (including for the avoidance of doubt paragraph C9).

"Location" shall mean a geographic area capable of being a Delivery Point.

"Queue" means circumstances where load-out requests cannot be serviced immediately by a Warehouse, measured by the number of calendar days a metal owner cancelling a Warrant today must wait for a scheduled delivery slot.

"RMC" shall mean roasted molybdenum concentrate.

"Rent" means the maximum rent published by the Warehouse each year in accordance with the provisions of the Warehouse Agreement.

"Warehouse" shall mean a warehouse company which has been approved by the LME and which has agreed to be bound by the terms and conditions applicable to all LME approved warehouses, as amended by the LME from time to time.

"Warehouse Agreement" shall mean the terms and conditions entered into between the Warehouse and the LME, as applicable to all LME listed Warehouses.

"Warrant" shall mean a warehouse warrant for the storage of metal, issued by a Warehouse and in a form approved by the LME.