

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

Ref: 20/172

Classification: Warehousing

Date: 9 July 2020

Subject: **Publication of Off-Warrant Stock Reports**

Summary

1. This Notice announces that, from 9 July 2020, the LME is to commence the publishing of summary statistics of off-warrant metal reported pursuant to clause 6.3.4 of the Warehouse Agreement (the “Off-Warrant Stock Reports”).

Background

2. Terms not otherwise defined in this Notice have the meaning given to them in the Warehouse Agreement.
3. The obligation for Warehouses to report metal subject to an LME Off-Warrant Storage Agreement (“Off-Warrant Stock”) to the LME (pursuant to clause 6.3.4 of the Warehouse Agreement) was introduced following a consultation in LME Decision Notice 19/347 (the “Decision Notice”).
4. Pursuant to the Decision Notice, the LME introduced a rule into the Warehouse Agreement whereby Off-Warrant Stock would need to be reported by Warehouses if (i) their storage agreement with a metal owner specified that metal must be held in an LME-registered shed (including metal not eligible for warranting metal)¹, (ii) their storage agreement specified that metal could be warranted on request of the owner (including metal that was not currently held in an LME Delivery Point)², or finally, (iii) the metal owner voluntarily requested that the Warehouse disclose the stock to the LME³. Reporting under the new rule (contained in clause 6.3.4 of the Warehouse Agreement) commenced on 10 March 2020 (in respect of the quantity of metal held by the Warehouse on the final day of the preceding calendar month of February 2020). The LME developed

¹ Referred to as an “LME Facility Storage Agreement” in the Warehouse Agreement (see clause 6.3.1.1)

² Referred to as an “LME Warranting Agreement” in the Warehouse Agreement (see clause 6.3.1.2)

³ Referred to as an “LME Voluntary Reporting Agreement” in the Warehouse Agreement (see clause 6.3.1.3)



and published, through the Warehousing Committee, guidance on how to ensure compliance with the new reporting obligations (including a reporting template)⁴.

5. The Decision Notice (see section 3.11, in particular page 11) explained that, before making any decisions as to whether to publish any data relating to Off-Warrant Stocks, the LME would be assessing it, for three key reasons: (i) to see whether its publication is warranted (or whether further changes should be made to the reporting regime); (ii) to ensure that it will increase visibility for market participants, and (iii) to ensure it will not create undue opportunities for “gaming”.
6. The LME has now had the opportunity to collate and assess the data contained in the submissions of Off-Warrant Stock from Warehouses for the 29 February 2020, 31 March 2020, 30 April and 31 May 2020. In relation to the assessment of the factors outlined at paragraph 5 above: (i) the LME has not identified any reason for proposing to change the reporting regime at this stage (although this will be kept under review); (ii) the LME is satisfied that the Off-Warrant Stock submitted by Warehouses will, if published, provide the market with greater transparency of metal stocks, in order to inform the decision making of market participants; and (iii) the LME is satisfied that publication of the stocks has not created any undue opportunities for “gaming”.
7. The LME would like to thank all of the Warehouses for the significant work they have undertaken in order to submit the Off-Warrant Stock data to the LME

Publication of stocks

8. Clause 6.3.4(vi)(b)(II) of the Warehouse Agreement states:

“the Exchange may publish (on a free or charged-for basis) summary statistics of off-warrant metal reported pursuant to Clause 6.3.4, in such format as the Exchange shall notify to the market by written notice from time to time (subject that such statistics may not be disaggregated by Warehouse, but may be disaggregated by LME Good Delivery Location, metal type, or both),”

9. This Notice notifies the market that the LME will begin publishing Off-Warrant Stock Reports on the LME website on and from 9 July 2020 at the close of the electronic market. This will include the Off-Warrant Stock for the submissions which covered 29 February 2020, 31 March 2020, 30 April 2020, 31 May 2020. Thereon after the LME will publish the Off-Warrant Stock Report on the 10th day of every month (or the first UK business day after the 10th) at 5pm for each month on a month’s delayed basis, i.e. the report for 30 June will be published on 10 August. Furthermore it should be noted that the reports will initially be published free of charge however, as highlighted in Clause 6.3.4 of the Warehouse

⁴ Please see the LME Guidance Note Reporting of Off Warrant-Stock on the LME’s website at: <https://www.lme.com/en-GB/Trading/Warehousing/Reporting-of-off-warrant-stock>



Agreement, the LME at a future date may decide to introduce a fee to access and view these reports.

10. The Off-Warrant Stock Reports will combine the figures submitted for the categories GDL⁵ and Non-GDL⁶. Each category will then be filtered by location and LME metal contract save for any locations which have less than 50,000mt reported in any one month. In this scenario that location's total will be combined with the totals of other locations within the same region that also are reporting less than 50,000mt. The Off-Warrant Stock Reports reference 3 regions: Asia (which for the avoidance of doubt includes Dubai), Europe and the US. As detailed in paragraph 12 of this Notice, the LME will not currently be publishing any data reported to it under a LME Voluntary Reporting Agreement. Furthermore, it should also be noted that the LME may decide at a future date to provide more granularity in the report in particular by providing a breakdown by reporting categories.
11. For the avoidance of doubt, the LME (while undertaking certain checks to assess the validity of Off-Warrant Stock submissions by warehouses, including enquiries to understand the linkage between Off-Warrant Stock and subsequent warranting activity) does not verify any of the Off-Warrant Stock data, and shall not accept any responsibility thereof, or liability in relation thereto⁷.

LME Voluntary Reporting Agreement

12. The LME has, to date, seen very little metal reported pursuant to the LME Voluntary Reporting Agreement route and hence has taken the decision not to publish this data. As set out in the Decision Notice, the LME always expected that voluntary reporting would be unlikely to arise organically, and the Exchange has provided for additional powers in respect of promoting enhanced voluntary reporting, including financial implications for market participants who warrant metal which has not previously been voluntarily reported. The LME will be investigating the best way forward on this topic, via discussions with its newly formed Market Conduct Working Group.
13. This Notice also provides a supplement to the "LME Guidance Note: Reporting of Off-Warrant Stock", with regard to how Warehouses should report any metal

⁵ "GDL" means an area which is within a 10 mile radius of any LME-registered shed in a LME Good Delivery Location. For more information regarding which metal is reported as "GDL" or Non-GDL metal (and the reporting of Off-Warrant Stock in general), please see the LME Guidance Note Reporting of Off Warrant-Stock on the LME's website at: <https://www.lme.com/en-GB/Trading/Warehousing/Reporting-of-off-warrant-stock>

⁶ "Non-GDL" means any area or location situated more than a 10 mile radius from any LME-registered shed in a LME Good Delivery Location.

⁷ The full terms on which the Off-Warrant Stock data will be made available are contained in the disclaimer on the LME website.



reported to them under an LME Voluntary Reporting Agreement. Going forward, if metal is reported under an LME Voluntary Reporting Agreement, Warehouses must complete an additional total row excluding any metal reported under an LME Voluntary Reporting Agreement. The Guidance Note and templates will be updated to reflect this reporting amendment. To note, as set out in the Guidance Note, Warehouses should also continue to follow the existing requirements of reporting the tonnages of metal under each category separately and in the event the metal in question falls under more than one category, it should only be included once in the overall total of tonnage reported, irrespective of whether the same metal is reported under one or more category.

14. Warehouses are also currently required to report to the LME metal under the category “Other”; this category is defined as any metal that is not or is not believed to be LME warrantable but is subject to either an LME Facility Storage Agreement or an LME Voluntary Reporting Agreement. Warehouses should continue to report this tonnage to the LME but the LME will not currently publish this data as it does not reflect metal that will be or can be warranted

Summary

15. The LME believes that the new Off-Warrant Stock Report data provides helpful visibility to the market as to the presence of metal which has a reasonable probability of being warranted at a future date. In this regard, the new reporting is complementary to the existing warranted stock data, and further expands the transparency available to the market.
16. It should of course be noted that not all metal will fall into the reportable categories – and, therefore, the report does not claim to give a full account of all potentially-warrantable metal. However, because many participants will enter into LME Facility Storage Agreements and/or LME Warranting Agreements as a prelude to warranting, the LME believes the data will provide meaningful insight into such stocks.
17. The LME notes the time delay between the date to which reports relate, and their publication; however, the LME believes that it is important to allow sufficient time to collate submissions and perform certain checks on the data. Furthermore, given the fact that metals cannot move instantaneously, the Exchange anticipates that such data will still provide meaningful insight into global metal inventory patterns.
18. Ultimately, it will be for the market to determine the usefulness of the data. Views from users on this topic are, of course, welcomed.
19. Any questions regarding this Notice should be directed to the LME Physical Operations Department at: operations@lme.com.



Robert Hall
Head of Physical Operations

cc: Board directors
Warehousing Committee