

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

Ref: 24/174

Classification: Warehousing Brands

Date: 23 April 2024

Subject: **FURTHER DETAILS ON WARRANTING AND TRADING OF RUSSIAN METAL ON THE LME**

Summary

1. Further to Notice 24/171, this Notice provides additional details in respect of the London Metal Exchange's ("LME") response to the recently introduced UK sanctions on Russian metals.

Defined terms and Notice scope

2. This Notice sets out the LME's further understanding of how the UK legislation, trade licences and guidance affect the position of Russian metal for the LME, LME Clear, Members and Clients.¹ This Notice does not constitute legal advice or guidance and should not be relied upon in this way by any person. Individuals and/or entities should seek independent legal advice and conduct their own assessment as to the applicability of the sanctions to their operations. The Notice also does not cover restrictions imposed by other jurisdictions, or other UK sanction or tariff actions.
3. Capitalised terms not otherwise defined in this Notice shall have the meaning ascribed to them in Notice 24/171, the LME Rulebook or the LME Clear Rulebook, as applicable.

Background

4. On 12 April 2024, the UK government imposed amended sanctions in respect of Russian metal, which introduced restrictions on the acquisition of Russian metal produced on or after 13 April 2024. In response to this, on 13 April 2024, the LME issued a market notice imposing an immediate suspension on the warranting of Russian metal produced on or after 13 April 2024, as well as other restrictions relating to the ability of UK LME Members and Clients to cancel Russian Warrants and withdraw the underlying Relevant Metal from LME-listed warehouses. Full details are available in LME Notice 24/171.
5. Following the implementation of the new measures in response to the Amended Sanctions Package, the LME has undertaken engagement with market participants, with the aim of ensuring that the measures implemented to comply with the UK sanctions regime continue to be as efficient and effective as possible. Accordingly, the LME considers it appropriate to make some refinements to its approach, which are detailed in this Notice.

¹ Being the Russia (Sanctions) (EU Exit) Regulations 2019 (as amended), the trade licence for acquisition of metals dated 14 December 2023, the amendment of the trade licence for the acquisition of metals dated 12 April 2024, and the relevant guidance issued by the Department of Business and Trade in conjunction with the aforementioned trade licences and regulations.



LMEsword record-keeping for re-issued² / moved Russian Warrants

- 6. In order to enable some of the steps set out below (in particular, in respect of reporting of stocks of Type 1 Russian Warrants and Type 2 Russian Warrants (as defined in LME Notice 24/171), and also re-conversion to Type 1 Russian Warrants), the LME considers it necessary to introduce a procedure to track the status of re-issued Russian Warrants, or Russian Warrants moved between warehouses.
- 7. In accordance with clause 9.3.3 of the Warehouse Agreement, this will be achieved by the use of a re-issuance/movement code (“RIMO code”), consisting of a RIMO status identifier, followed by an original warrant ID in square brackets.
- 8. The RIMO status identifiers will be as per the following table:

Status of warrant before re-issuance or movement →	Status of re-issued / new warrant (per metal owner request)	→ New RIMO code
Type 1 Russian Warrant (with LMEsword warrant ID <i>original_warrant_ID</i>), no previous RIMO code	Type 1	RIMO_1_1[<i>original_warrant_ID</i>]
	Type 2	RIMO_1_2[<i>original_warrant_ID</i>]
Type 2 Russian Warrant (with LMEsword warrant ID <i>original_warrant_ID</i>), no previous RIMO code	Type 1	(Not permitted)
	Type 2	RIMO_2_2[<i>original_warrant_ID</i>]
Warrant with RIMO code RIMO_1_1[<i>original_warrant_ID</i>] (Type 1 Russian Warrant, re-issued from an original Type 1 Russian Warrant <u>or</u> Type 1 Russian Warrant moved between warehouses but remaining as a Type 1 Russian Warrant)	Type 1	RIMO_1_1[<i>original_warrant_ID</i>]
	Type 2	RIMO_1_2[<i>original_warrant_ID</i>]
Warrant with RIMO code RIMO_1_2[<i>original_warrant_ID</i>] (Type 2 Russian Warrant, re-issued from an original Type 1 Russian Warrant)	Type 1	RIMO_1_1[<i>original_warrant_ID</i>]
	Type 2	RIMO_1_2[<i>original_warrant_ID</i>]
Warrant with RIMO code RIMO_2_2[<i>original_warrant_ID</i>] (Type 2 Russian Warrant, re-issued from an original Type 2 Russian Warrant <u>or</u> a Type 2 Russian Warrant that cannot be converted to a Type 1 Russian Warrant)	Type 1	(Not permitted)
	Type 2	RIMO_2_2[<i>original_warrant_ID</i>]

² Any metal that was previously on warrant as a Type 1 Russian Warrant but has since been cancelled (which is considered Cancelled Tonnage and is defined in the LME Rulebook as underlying metal that has been taken off warrant but which at the relevant time remained on the warehouse company’s premises), and then subsequently placed back on warrant again in the same warehouse company’s premises. The LME, in the remainder of the Notice, will refer to this metal being “re-issued”, noting that such re-issuance will have a new warrant ID (and a record of the original warrant ID in LMEsword). The LME notes that paragraph E2 of the Policy for the Approval and Operation of Warehouses refers to the aforementioned as “Re-warranted Metal”; however, for the purpose of this Notice, the LME will refer to such metal being re-issued, as noted above. For the avoidance of doubt, any Relevant Metal on warrant cannot be re-issued as a Type 1 Russian Warrant unless it was on warrant as at the end of 12 April 2024.



9. As of the date of this Notice, LME-listed warehouses will be required to populate the “Warrant Ref 2” field of LMEsword, in respect of any re-issued Russian Warrant (or new Russian Warrant arising from a movement between warehouses per paragraph 26 of Notice 24/171), with the appropriate RIMO code. Any other data stored in the “Warrant Ref 2” field can continue to be stored, provided that the RIMO code is the first item in the field.
10. For the avoidance of doubt, non-Russian Warrants, and Russian Warrants which have not been re-issued or moved and re-warranted will not carry a RIMO code.
11. It is anticipated that this approach will make it more convenient for warrant holders to establish the type of a particular Russian Warrant. Any Russian Warrant with:
 - a. An issuance date on or before 12 April 2024; or
 - b. A RIMO status of RIMO_1_1

will be a Type 1 Russian Warrant. Any other Russian Warrant will be a Type 2 Russian Warrant.

Expedited procedure for re-issuance of Type 1 Russian Warrants

12. Under Notice 24/171, re-issuance of Russian Warrants at the same warehouse is only possible once the requirements in paragraph 22 (and, if being re-issued as a Type 1 Russian Warrant, paragraph 27) are met. The LME has received enquiries as to whether this process could be expedited as the underlying metal will not have moved locations subsequent to the Relevant Metal being on warrant as at the end of 12 April 2024.
13. The LME notes that when a warehouse company re-issues a warrant, it ensures that the warrant is re-issued in relation to the same underlying metal as the original warrant, and the LME can hence take confidence from the warehouse company’s procedures in ensuring that the metal has not changed during the time between cancellation and re-issuance. The record-keeping requirements, as set out in paragraph 10 above, will provide traceability of the re-issued Russian Warrant back to the original warrant. Additionally, the LME recognises that its system will benefit from greater availability of Type 1 Russian Warrants, given their general usability.
14. Accordingly, in the case of the re-issuance of a warrant where the re-issued warrant is a Type 1 Russian Warrant, the LME will accept a confirmation from the warehouse, in the form required by Appendix A³, that the underlying metal has remained the same (per the standard procedure for the re-issuance of warrants), that it was on warrant as at the end of 12 April 2024, and that it will not require the steps in paragraphs 22 or 27 of Notice 24/171.⁴ The LME notes that Russian Warrants of copper which have been cancelled, but not yet delivered out of the warehouse, may also be re-issued without a Certificate of Analysis (“CoA”), as long as the above requirements are complied with⁵.

³ The LME notes that it may update the appendix to this Notice, as required, without updating this Notice. In the event that this appendix is updated, the LME will include the updated appendix on its website.

⁴ For the avoidance of doubt, if there has been any replacement of component pieces of a Russian Warrant during the period the metal was on warrant, the provisions of this section cannot be engaged, and the Relevant Metal will need to be moved to a new warehouse in order to be re-warranted.

⁵ The LME is aware that in respect of copper Type 1 Russian Warrants there is a degree of concern regarding sourcing CoAs, given that in the normal course, a CoA is not required to warrant copper, and that copper Type 1 Russian Warrants are therefore unlikely to have an associated CoA already. As such, holders of these warrants face a higher administrative burden in sourcing a relevant CoA if they would like to re-issue or move their copper Russian Warrants. The LME recognises this concern, and is facilitating the re-issuance of copper Type 1 Russian Warrants without a CoA as outlined in paragraphs 12-14 above. However, given the need to prove chain of custody when moving metal between warehouses, the LME will still require that all conditions for moving and re-warranting copper, as outlined in paragraphs 25-28 of Notice 24/171, are still met – including provision of a CoA. Further, and for the avoidance of doubt, Relevant Metal being warranted as Type 2 Russian Warrants in copper will still require the CoA in order for the warrants to be issued.



Re-conversion to Type 1 Russian Warrants

15. When a Type 1 Russian Warrant is re-issued, the owner has the option to convert it to a Type 2 Russian Warrant. However, this does not change the fact that, pursuant to paragraph 3 of the Amended Trade Licence, the warrant may still be cancelled and loaded-out by UK Persons (because it was on warrant as at the end of 12 April 2024).
16. As such, the LME is introducing the ability for Type 1 Russian Warrants which have subsequently been converted to Type 2 Russian Warrants to be re-converted to Type 1 Russian Warrants. Eligible warrants will be those with the RIMO status RIMO_1_2, i.e. a Type 2 Russian Warrant which was re-issued from a Type 1 Russian Warrant.
17. The re-conversion to a Type 1 Russian Warrant can be achieved in one of two ways:
 - a. The warrant may be cancelled, and then re-issued as a Type 1 Russian Warrant; or
 - b. The warrant holder may apply to the LME for the conversion to be undertaken by providing the LME with the relevant RIMO code. The LME will review the relevant RIMO code and if it has no objection, it will inform the metal owner that it can instruct the warehouse company to change the RIMO status of the Russian Warrant to RIMO_1_1. At this point, the metal will be reported as a Type 1 Russian Warrant.
18. Given the need for chain of custody to be demonstrated, it will only be possible to undertake a re-conversion for metal which was cancelled and then moved between warehouses if the procedures in paragraphs 22 and 27 of Notice 24/171 were followed.

Rent shares on Russian Warrants

19. The LME understands that, in respect of Russian Warrants, metal owners may wish to enter into Post-Sale Economic Incentive Arrangements (“PSEIAs”, as defined in the LME Warehouse Agreement, of which rent share agreements are a sub-category). All market participants are reminded of the general Warehouse Agreement and Rulebook requirements in respect of rent, and in particular, the use of PSEIAs.
20. In the specific case of market participants converting Type 1 Russian Warrants to Type 2 Russian Warrants (through either the re-issuance of warrants at the same warehouse, or the issuance of new warrants at a different warehouse) and then entering into a PSEIA, the LME would note clause 9.3.8(vii)(a) of the Warehouse Agreement, which states that “*no Warehouse shall agree any Post-Sale Economic Incentive Arrangement in respect of any Warrants and/or Underlying Metal, the terms or effect of which is to prevent a Later Metal Owner from withdrawing from the Warehouse the Underlying Metal and/or making alternative arrangements for the storage of such Underlying Metal*”.
21. Given that the conversion of Type 1 Russian Warrants to Type 2 Russian Warrants could have the effect of reducing the ability of UK Persons to withdraw underlying metal from the warehouse (and would not appear to have any obvious benefits), the LME is reminding warehouse companies of their obligations in respect of PSEIAs and will request the information in paragraph 22 below to be satisfied that any PSEIA associated with Russian Warrants is compliant with Clause 9.3.8(vii)(a) of the Warehouse Agreement.
22. Accordingly, the LME is requiring (using its powers under clauses 9.3.2 and 9.3.3 of the Warehouse Agreement) that warehouse companies provide to the LME (in respect of any proposed warranting of Type 2 Russian Warrants) details of any associated PSEIA, including:



- a. Details of whether the proposed Type 2 Russian Warrants consist (or substantially consist) of metal which (in the knowledge of either the warehouse company or the metal owner) was previously the subject of Type 1 Russian Warrants (either at that warehouse, or a different warehouse);
- b. If the metal was previously the subject of Type 1 Russian Warrants, the rationale for the conversion to Type 2 Russian Warrants; and
- c. If the metal was previously the subject of Type 1 Russian Warrants, confirmation that the conversion to Type 2 Russian Warrants does not render the PSEIA in violation of Clause 9.3.8(vii)(a) of the Warehouse Agreement.

23. For the avoidance of doubt, a warehouse company will need to confirm either (i) that there is no PSEIA in place in respect of metal being re-issued or warranted as Type 2 Russian Warrants; or (ii) that there is a PSEIA in place in respect of Type 1 Russian Warrants which are being re-issued or warranted as Type 2 Russian Warrants, and further provide the information in paragraph 22 above. The LME may refuse to grant non-objection for a warranting of Type 2 Russian Warrants until the above information is provided.

Flexibility around the movement of Type 1 Russian Warrants between warehouses

24. Paragraphs 25-26 of Notice 24/171 clarified that the LME would facilitate the issuance of new Type 1 Russian Warrants only in the case of (i) a re-warranting of a cancelled Type 1 Russian Warrant within the same warehouse, or (ii) a transfer of metal between warehouses (compliant with the Policy for the Approval and Operation of Warehouses) for the purposes of moving the Relevant Metal underlying a Type 1 Russian Warrant. These limitations were imposed because of the need to prove the chain of custody of the Relevant Metal while it was off warrant, in order to ensure that only eligible Relevant Metal could be re-warranted in a new location as Type 1 Russian Warrants.

25. Subsequently, however, the LME has been made aware of circumstances where the metal owner could cancel and withdraw the Type 1 Russian Warrants from a warehouse (for example, to deliver to a consumer works, or to store off warrant), but subsequently prefers to return them to an LME warehouse to be re-warranted. The LME accepts that the Relevant Metal can still be re-warranted (either at the original warehouse location or a new warehouse location) as Type 1 Russian Warrants, provided that the conditions of paragraphs 22 and 27 of Notice 24/171 are still met.

26. For the avoidance of doubt, the LME confirms that it places no restrictions on either (a) the amount of time the Relevant Metal spends off warrant before it can be re-warranted as Type 1 Russian Warrants or (b) the distance over which the Relevant Metal can be moved before it is re-warranted as Type 1 Russian Warrants, provided that the conditions of paragraphs 22 and 27 of Notice 24/171 are all met.

LME reporting of Russian Warrants in on- and off-warrant stock reports

27. A number of market participants have requested that the LME provide a breakdown of Russian Warrants by type on the country of origin stocks data. Using the data which (per the requirements above) will be inputted into LMEsword, the LME confirms that it is planning to meet this request.

28. The LME intends to divide the Russian entries on the country of origin stocks report into three categories:

- a. Type 1 Russian Warrants (an issuance date on or before 12 April 2024, or a RIMO status RIMO_1_1)
- b. Type 2 Russian Warrants, eligible for Type 1 re-conversion (RIMO status RIMO_1_2)
- c. Type 2 Russian Warrants, not eligible for Type 1 re-conversion (Russian Warrants not classified above)



29. In order to give the LME time to assess the reporting process and accuracy, the first report in the revised format will be published – at the earliest – on 10 June 2024, in respect of data as at 31 May 2024.
30. The LME can also confirm that its Off-Warrant Stock Reporting (“OWSR”) will not include stocks of Relevant Metal stored off warrant unless it is eligible to be warranted at some point in the future. LME OWSR requires that LME-listed brands of metal stored in LME registered sheds must be included in the off-warrant stock reports submitted by warehouses; however, if the Relevant Metal is not currently eligible to be warranted, it will be excluded and warehouse companies are asked to only submit data to the LME on stock eligible to be warranted.

Notification requirements

31. The LME notes that any notifications to the Department of Business and Trade as required by the Amended Trade Licence, and as outlined in Notice 24/171, should be sent to records.importlicences@businessandtrade.gov.uk.

Timeline for warranting of Relevant Metal

32. Since the publication of Notice 24/171, a number of market participants have enquired as to the time required by the LME to process a warranting application. Unfortunately, the LME is unable to provide such an estimate as a number of factors will influence the time needed, including the volume of applications, and the quality of documentation submitted in support of such applications. Having reviewed early submissions, the LME does believe that this process will require detailed review and as a result, take time. As such, it encourages early submission of any applications. The LME will review applications in the order in which they are submitted. The LME has also expedited the process for re-issuing Type 1 Russian Warrants – as outlined in paragraphs 12-14 – with the aim of facilitating the circulation of Type 1 Russian Warrants in compliance with UK sanctions, and reducing the administrative burden without compromising the protection of its market from potential breaches of UK sanctions.

Matthew Chamberlain
Chief Executive Officer

Cc: Board directors
All committees

Appendix

Appendix A: Re-issuing of Russian Metal



Appendix A – Re-issuing of Russian Metal

London Metal Exchange
10 Finsbury Square
London
EC2A 1AJ

By email only (metalwarranting@lme.com)

[DATE]

Dear Sir/Madam,

Re-issuing of Russian Metal

1. We write in relation to LME Notice 24/171 and Notice 24/174 which set out the LME's understanding of the amendment to the trade licence for the acquisition of metals published on 12 April 2024 by the UK Department for Business and Trade, in respect of the direct or indirect acquisition of a Russian warrant on a global metal exchange which would otherwise be prohibited by the Russia (Sanctions) (EU Exit) Regulations 2019 (the "Amended Sanctions Package"). As required by Notice 24/171 in response to the Amended Sanctions Package, the LME will only allow Russian metal, including metal produced by the Russian brands listed in section 1 of Appendix 1 of Notice 24/171, to be placed on warrant if the metal owner can demonstrate to the LME that the Russian metal was produced before 13 April 2024 and therefore can be acquired by UK Persons, including LME Clear, UK Members and UK Clients. As stated in the Amended Sanctions Package and as set out in Notice 24/171, UK Persons cannot acquire Russian metal which was produced on or after 13 April 2024, and therefore the LME is not allowing the warranting of such metal.
2. Furthermore, as noted in Notice 24/174, the LME will allow Russian metal to be re-issued at the same warehouse without the need to complete the steps in paragraphs 22 or 27 of Notice 24/171, if the relevant warehouse company confirms that the metal was on warrant as at the end of 12 April 2024 and has remained within the same warehouse since the metal was cancelled in LMEsword.
3. We acknowledge that warranting metal which was produced on or after 13 April 2024 would be a breach of the Amended Sanctions Package, and we confirm that placing the below metal on warrant (the "Metal") will not involve any breach of the Amended Sanctions Package. We note the obligation on warehouse companies to comply with sanctions pursuant to clause 7.5.1 of the LME Warehouse Agreement. We also confirm that the Metal was on warrant at [warehouse company to insert the relevant location] as at the end of 12 April 2024 and has remained within this location since it was on warrant, as evidenced by the following original warrant ID numbers which correspond to the underlying metal:
4. We await a response from the LME prior to re-issuing the Metal.

Yours faithfully

[Signed]

[FULL NAME AND TITLE OF AN OFFICER OF WAREHOUSE COMPANY]