

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

Ref: 15/070 : A069 : W023

Date: 2 March 2015

Subject: **AMENDMENTS TO THE POLICIES AND PROCEDURES RELATING TO THE LME'S PHYSICAL DELIVERY NETWORK**

Summary

1. This Notice confirms the amendments that the LME is making to the policies and procedures relating to its physical delivery network following the end of the market consultation announced by Notice 14/318 : A310 : W148.

Background

2. As a result of the consultation undertaken in 2013 (the "2013 Consultation"), the LME announced in Notice 13/326 : A312 : W125 its intention to commission a third-party logistical review of its physical delivery network. This review was undertaken by Oliver Wyman, and the report (the "Logistical Review Report") published to the market.
3. As a result of the 2013 Consultation, the LME also committed to investigate a series of premium hedging contracts. Following extensive market engagement, these contracts have been specified, and require certain changes to the LME's warehousing rules in order to be successfully introduced.
4. Notice 14/318 : A310 : W148 ("Consultation on proposed amendments to the policies and procedures relating to the LME's physical delivery network") initiated a three month consultation (the "Consultation") with market participants in respect of proposed amendments to the policies and procedures relating to its physical delivery network – and in particular:
 - Changes to the Policy on the Approval and Operation of Warehouses ("Warehouse Policy") and Policy on the Approval of Locations as Delivery Points ("DP Policy") arising from the logistical review (the "Logistical Review Report Proposal")
 - Changes to the Warehouse Policy in order to introduce premium contracts (the "Premium Contract Rule Proposal")
 - Changes to the Warehouse Policy to provide separate load-out rates for Aluminium Alloy and NASAAC (the "Aluminium Alloys Rule Proposal")
5. The Consultation closed on Monday 9 February 2015. The LME received 16 written responses to the Consultation (10 of which were from warehouse companies), and also met with a number of respondents in person to discuss. The LME would like to thank all those who participated in the Consultation.
6. The LME has collated and analysed all responses to this Consultation, and the below notice sets out the LME's response to comments received, including changes to the Warehouse Policy and DP Policy as a result of such comments.



7. The LME is today by separate notice announcing (a) the results of a consultation on proposed changes to its warehouse agreement, (b) a consultation on a proposed increase to the decay factor under the LME's Linked Load-In / Load-Out Rule (LILO), and (c) a discussion paper regarding possible future reforms to the LME's physical delivery network.

General observations on Consultation feedback

8. In general, respondents were in favour of the LME's aims in respect of the Consultation.
9. Some respondents included comments in respect of the LME's broader approaches to increasing load-out rates, including the Linked Load-In / Load-Out Rule ("LILO") and potential additional measures (including the possibility of capping or banning rents in queues or restricting the lengths of queues to 20 days or other defined length). Although these were not the subject of this Consultation, the LME would note that it has today published a discussion paper (Notice 15/072 : A071 : W025) in respect of such additional measures, and looks forward to engaging with the market in that context.
10. Several respondents raised the issue of capping rents and FOTs (by imposing maximum charges) in order to improve the functioning of the LME warehouse network, given the view that such charges are too high and may incentivise queues. Again, the LME is pleased to note that a fuller discussion of this topic is contained in the discussion paper. One respondent raised the possibility of the LME running its own warehouses: the LME does not believe this would be appropriate or practicable.
11. Certain respondents noted that – coming in addition to the LME's introduction of LILO and previous increases to the minimum load-out rates – this Consultation (and the parallel consultation on the Warehouse Agreement) represents too rapid an evolution of the LME's rule structures, with consequent negative ramifications in respect of logistics, health and safety, economic costs and perceived coherence of rule-making. However, the LME cannot agree with this assertion – the intention to undertake the logistical review, and the intention to introduce premium contracts, were clear outcomes (driven by market feedback) of the 2013 Consultation, as part of a 12-point plan of measures. Given legal and logistical constraints, it has been appropriate to introduce these 12 points over a period of time – but this does not in any way alter the fact that they represent an integrated package of measures to address the issue of queues and optimise the performance of the LME's physical delivery network, or the fact that the market has had broad visibility on the proposed reform package. Moreover, the changes are important in light of the LME's regulatory obligations, including to demonstrate and to provide assurance to the FCA that the LME has arrangements in place to ensure that its warehousing arrangements operate in a way that enables LME to continue to satisfy its regulatory obligations.
12. The LME accepts that the Aluminium Alloys Rule Proposal was not one of the 12 points arising from the 2013 Consultation. However, this arose from market feedback as to the development of the contract, and as such is consistent with the LME's commitment to the market to optimise the performance of its contracts (including their physical delivery). Furthermore, as set out below, the incremental impact of the Aluminium Alloys Rule Proposal is comparatively low, and hence the LME does not believe that its introduction represents a material cumulative additional burden above and beyond the original warehouse reform package.
13. Two respondents expressed the view that the LME's initiatives in respect of monthly liquidity and financial users of the exchange would have a disruptive effect on the LME's physical delivery network. One respondent queried whether the LME network has sufficient settlement capacity to cope with increasing financial participation. Given that financial users do not, in general, take physical delivery, the LME does not view such concerns as being relevant to a



consultation on the logistical effectiveness of its physical delivery network. However, the LME can confirm that it fully assesses the effectiveness and resilience of its market in this context.

14. One respondent also requested that the LME expand the range of information published in respect of its Commitments of Traders report. Again, this is not within the scope of the current Consultation – but the LME would note that its Physical Market Committee is currently considering the question of whether such additional data should be made available, and the LME proposes to wait for the Committee’s recommendation before taking such action. A second respondent requested that the LME review its lending guidance and need for position limits, and in particular to reflect the distinction between “free-float” and “locked-up” warrants. Again, the LME considers that the Physical Market Committee represents the best venue for this discussion, and will ensure that the topic is referred to the Committee for its full consideration.
15. One respondent requested that the LME enhance transparency by publishing the results of investigations – however, the LME believes that its current publication rules are sufficient to make the market aware of the outcomes of such investigations where these have a direct bearing on the market.

Responses to Consultation Question 1 (Logistical Review Report Proposal)

16. Respondents to the Consultation focused on a number of key areas, which are set out further below. Unless otherwise noted, references to the Warehouse Policy and DP Policy should be read as incorporating the proposed amendments in Notice 14/318 : A310 : W148.

Definition of “load-out”

17. In general, respondents welcomed the LME's proposal to introduce a clearer definition of “load-out” in paragraph C9 of the Warehouse Policy. For the avoidance of doubt, the LME expects that, at a minimum, a physical movement of metal must take place in all circumstances, and that the metal must leave the premises of the warehouse company.
18. A question which had already been raised, and considered by Oliver Wyman (in Section 4.3.8 of the Logistical Review Report), is in respect of whether the revised definition of load-out would restrict valid logistical operations. In particular, it has been suggested that metal owners taking metal from LME storage (particularly if having had to wait in a queue) may not immediately require receipt of the metal, and would prefer to store that metal in off-LME facilities provided by the same warehouse operator in the same location. Under the proposed definition of “load-out”, this would not be allowed, given that – to qualify as “load-out” – the metal would be required to be shipped either to another operator's facilities in the same location, or to the same operator's facilities in a different location. One respondent asserted that this topic was not, in fact, covered in the Logistical Review Report – however, this was the subject of considerable discussion between Oliver Wyman and the LME (leading to the proposed load-out definition), and the analysis in Section 4.3.8 of the Logistical Review Report is clearly predicated on the anticipated introduction of such a definition.
19. In the Consultation, only three respondents disagreed with the load-out definition; two of these were warehouse operators and only one was a metal owner. The warehouses who opposed the revised definition claimed that it would negatively impact consumer choice, and that the proposed definition of load-out infringes competition law. They say this is because it would (a) result in an artificial increase in cost to the customer because they would be forced to incur delivery costs which they might not otherwise incur, and warehouses are being forced to offer less efficient services; and (b) prevent LME warehouses from competing to continue to store the loaded-out metal once it is off-warrant. In respect of (a), it was noted that the frictional cost



of such movements would be enhanced in areas where the separation of storage facilities is greater, and hence discriminate against such locations.

20. Alternatively, it was suggested that warehouses may only be able to retain metal by offering discounted LME storage services – which would reduce economics to the warehouse operator. One respondent raised the issue of the LME stock levy, and highlighted that the retention of metal on-warrant in this manner would be beneficial to the LME. To the extent that any conflict of interest is asserted, the LME would note (i) the full disclosure of the stock levy in paragraph 17 of Notice 14/318 : A310 : W148, and (ii) the fact that the LME maintains procedures to manage any conflict of interest.
21. It should be noted that it has been proposed that the definition of “load-out” is revised so as to prevent circumvention of the load-out rates set by the LME in order to reduce queue lengths and thereby improve the functioning of the LME warehouse network. To this end, the revised definition of “load-out” is intended to avoid the potential for “merry-go-round” transactions, under which metal is loaded-out of a DP Warehouse and then immediately loaded-in again thereby circumventing the load-out rates. One respondent said that the effect of LIFO is to make such avoidance behaviour less achievable, and another commented that circular metal flow does not represent a problem in the current economic environment. The LME thinks that whilst LIFO may have such an ancillary effect, LIFO alone will not prevent circumvention – and furthermore, that its rules must prevent circumvention in all possible economic climates.
22. As a result of the prevailing economic circumstances of the last few years, the concept of “load-out” has become fundamental to the LME’s warehousing system, and must therefore stand alone. Under the revised definition, when considering whether to cancel a warrant, the customer is able to choose whether to continue to store the metal with the warehouse company on warrant, or whether to cancel the warrant, wait in the queue (if applicable) and transport it either to another location, or to a third-party warehouse company in the same location. The LME accepts that the revised definition may mean that on limited occasions metal owners will not be able to move cancelled metal to off-warrant storage at the same warehouse company in the same location. Certain respondents felt that this would lead to a loss of versatility in the LME network, with potential consequences for the economic viability of warehouses and the ability of the LME network to react to changes in market circumstances.
23. However, given the material practical difficulties of tracking metal once it is off-warrant¹, and given that there is a very real possibility of market abuse absent the revised definition, the LME thinks this is a trade-off that is reasonable and proportionate and necessary to ensure that the market continues to operate in an orderly manner. The LME does not think that that the revised definition contravenes competition law. To the extent that it may have the effects described in paragraph 19 above (which the LME does not accept), those would be outweighed by the benefits that would flow to all warehouses and customers from the positive effect the revised definition would have on the maintenance of an orderly market.
24. Furthermore, the LME considers that the provisions of paragraph C9 are important to the fulfilment of its regulatory obligations. The LME is a “recognised investment exchange” (“RIE”) recognised and supervised by the FCA under the UK Financial Services and Markets Act 2000

¹ Warehouse companies are obliged to report stocks of metal on warrant to the LME. Each warrant has an identifiable number and is easily tracked by the LME through its audits of warehouse companies. Once metal is cancelled and delivered out, the LME has no way of tracking the metal. It would be unable to tell whether the same metal was being delivered out and then immediately (or at some point later) delivered back into the warehouse again.



as amended (“FSMA”). To remain recognised, an RIE must at all times ensure, and be able to demonstrate, that it continues to satisfy the requirements for RIEs under FSMA (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001 (the “Recognition Requirements”). Under the Recognition Requirements, the LME must, among other requirements, ensure that: (a) contracts admitted to trading on its markets are capable of being traded in a fair, orderly and efficient manner, (b) the arrangements for determining the settlement price of its contracts must be such that the contract price properly reflects the price of the underlying metal, (c) there are adequate settlement and delivery procedures for the metal traded on the exchange, (d) business conducted by means of its facilities affords proper protection to investors, and (e) appropriate measures are adopted to reduce the extent to which the LME’s facilities can be used for a purpose connected with market abuse or financial crime, and to facilitate their detection and monitor their incidence. As the LME’s arrangements with its network of approved warehouses play an important role in the functioning of LME’s market and the trading of its contracts, LME needs to be able to demonstrate that it has arrangements in place to ensure those warehouses operate in a way that ensures LME continues to satisfy its regulatory obligations. The provisions of paragraph C9 are important to demonstrate and to provide assurance to the FCA that LME has arrangements in place to ensure that its warehousing arrangements operate in a way that enables LME to continue to satisfy its regulatory obligations, including to ensure that, amongst other things, the settlement of LME contracts is conducted in a fair and orderly manner and that scope for market abuse is minimised.

25. A compromise has been suggested and that is the concept of a “staging area”, whereby LME metal loaded out from a DP Warehouse could be temporarily stored in a demarcated off-LME compound in the same facility, on the condition that it was monitored, and eventually left the premises consistent with the proposed load-out definition. Oliver Wyman found the case for this service “not proven”², and the relatively limited number of respondents taking issue with the LME’s proposed definition of “load-out” would seem to support this conclusion.
26. However, the LME does recognise that its rules should, wherever possible, support the broadest possible range of usage of the warehousing network – and therefore, if the “staging area” concept can be incorporated into the Warehouse Policy in a manner which does not undermine the LME’s policy objective of avoiding “merry-go-round” or other potentially abusive transactions, the LME would, in principle, be supportive of such rules. It should be noted that the logistical implications of allowing a “staging area” are not trivial – and, at the very least, the LME would need to be assured that any metal placed into the “staging area” was readily identifiable as the same metal which had been loaded-out from LME storage, and that a full audit trail was produced to demonstrate that such metal either (i) remained in off-LME storage, or (ii) had been loaded-out pursuant to the LME’s new definition of “load-out” – and, in particular, had not been immediately returned to LME warrant at the same DP Warehouse.
27. Accordingly, the LME proposes that this matter be considered by both the Warehousing Committee and the Physical Market Committee at their March meetings. The LME will invite those warehouse operators who assert the need for such a facility to formulate proposed provisions, which will then be subject to full scrutiny by both Committees. Given the wide range of representation on the two Committees, the LME is confident that such consideration will reflect the views of all LME market participants – and, in particular, identify any route by which such provisions could be employed in an abusive manner. In the event that a proposal can be formulated in a manner which can be demonstrated not to be subject to potential abuse, the LME will consult with the market on a further change to the Warehouse Policy to include the

² See Logistical Review Report section 4.3.8.



“staging area” concept. In the event that a proposal cannot be formulated in a manner which can be demonstrated not to be subject to potential abuse, the LME will maintain the Warehouse Policy in its current form in this regard.

28. Some respondents suggested that it would be impossible for warehouse operators to compel metal owners to take their metal away from the premises (on the basis that warehouses do not choose the recipient and/or destination of loaded-out metal) and hence count towards the definition of “load-out”. It is true that the Warehouse Agreement does not bind metal owners, and hence it is a matter for warehouse operators, in their terms of business, to ensure that metal owners take possession of their metal and undertake shipment in a manner consistent with the definition of load-out. In the event that they do not, then the DP Warehouse will be unable to count such metal towards its daily load-out obligations³.
29. Two respondents made the specific point that an exemption should be available from the load-out definition if metal is moved from warranting on the LME to warranting on a different exchange, given the need for metal owners to be able to arbitrage between the different markets. However, the LME would be concerned that this could lead to a “merry-go-round” transaction between the two exchanges, with both exchanges’ load-out requirements being thus circumvented. Accordingly, the LME does not propose to alter the definition in this respect.
30. A number of respondents also highlighted logistical concerns in respect of needing to provide a “bill of lading or equivalent document issued by a carrier to the Warehouse” to show the onward destination of metal. It was suggested that, in certain circumstances (in particular, given shipment by railcar), such document would not be produced, with receipt of metal instead being performed via correspondence with the rail service provider, and in other circumstances, documentation may be provided by the warehouse to the shipping provider. Furthermore, in certain instances, the metal owner may wish to keep confidential the destination of the metal. Accordingly, the wording of paragraph C9 of the Warehouse Policy has been amended to reflect these practicalities, while retaining the LME’s overriding power to establish the absence of “merry-go-round” or other potentially abusive metal shipments.

Dominant warehouse companies in a location

31. The issue of dominant operators in particular Delivery Points is covered in both paragraph A3 of the Warehouse Policy and paragraph A1 (final item) of the DP Policy. The LME’s intention in clarifying these points was to make a definitive statement to the market that it is not acceptable for one or more warehouse operators to take action to reduce competition between warehouse operators in any Delivery Point. The LME’s intention is that competition should be promoted.
32. This statement was generally welcomed by respondents. However, some questions were raised as to whether the LME could be more specific, including an absolute restriction on good delivery locations with only one licensed warehouse operator, not considering applications for new sheds from a warehouse operator controlling more than a given percentage of available space in a particular Delivery Point, and specifically prohibiting devices such as contractual “non-compete” clauses with landlords or effective control of local trucking. On the other hand, concerns were raised by one respondent that certain data (e.g. market share) would not itself be determinative of dominance.
33. The view of the LME is that it would be difficult to prescribe exactly the factual matrices that would give rise to a reasonable concern that the applicant already had a market presence in the

³ Note that, if a warehouse company did count such metal towards its daily load-out obligations in such circumstances, it would be in breach of the Warehouse Agreement and would face disciplinary proceedings.



delivery location such that if the applicant were added to it, competition may be negatively affected. The LME therefore considers it more appropriate to retain the current wording which, in the view of the LME, clearly sets out its intentions in this regard – namely, the test that any conduct or arrangements would need to be “detrimental to competition” (which is, in the view of the LME, a sufficiently objective and outcome-based test). In applying such test, the LME would clearly be mindful of governing legal frameworks, including relevant competition law issues. One respondent was concerned that such consideration could cause a delay in approval of applications – however, the LME does not anticipate such delay. The same respondent queried whether the approval process has been vetted pursuant to a competition law review – the LME believes that its processes are consistent with relevant law.

34. However, based on feedback, the LME does consider it appropriate to add a new paragraph D6 to the DP Policy, setting out the LME’s expectation as to continued compliance with the requirement for a competitive warehousing market in any location, and a route for concerned parties to bring suspected breaches to the attention of the LME. This also makes clear that Delivery Points will not enjoy “grandfathered” protection against the need for non-restrictive practices, but that any such assessment will be outcomes-based.
35. Two respondents enquired whether it would be possible to provide data as to approved capacity in each Delivery Point. The LME will discuss the publication of such information with the Physical Market Committee and the Warehousing Committee.

Definition of Inland Location, transport to berths and container ports

36. A question was raised as to whether the Great Lakes ports are Inland Locations for the purposes of the definitions to the DP Policy (given that they may offer short sea connections). It is the view of the LME that they are Inland Locations, and the definition has been amended accordingly.
37. Section C13 of the Warehouse Policy requires warehouse operators in non-inland locations to include the cost of shipment to the berth in their FOT rates. One respondent took the view that this was not currently the case, in particular in New Orleans – however, the LME restates its view (which is now clearly codified in the Warehouse Policy) that drayage to the quayside is the responsibility of the warehouse operator in non-inland locations (although the costs of loading the vessel will be for the metal owner’s account). The LME does accept the point that the use of the term “return” is potentially misleading as metal may not originally have been delivered by ship, and has amended the Warehouse Policy accordingly, with a conforming change to paragraph C14. One respondent suggested defining FOT pursuant to INCO terminology – however, the LME notes that INCO does not define the term “FOT”, and the LME believes that its definition of FOT (subject to the clarifications outlined here) is well-understood in the market.
38. One respondent suggested that certain existing Delivery Points do not meet the requirements of the LME in respect of container terminals. The LME’s view is that the requirements for container terminals are clearly set out in paragraph B4 of the DP Policy, and any alleged non-compliance may be reported to the LME. Section D of the DP Policy sets out the process to be followed in the event that an existing Delivery Point does not appear to continue to meet the LME’s criteria. Separately, a minor drafting amendment has been made to section B of the DP Policy to indicate that the requirements for berths, terminals etc may be waived in the case of inland locations.

Rail connectivity

39. Paragraph B of the Warehouse Policy proposes that all Authorised Warehouses in inland Delivery Points must have direct rail connectivity. Although one respondent pointed out that



this may restrain supply of available space (and proposed an alternative approach broadly similar to that the LME proposes for non-inland locations), this is a continuation of the current policy, and the LME believes that issues around restrained supply of space are best considered in the context of dominant warehouse companies as above.

40. In non-inland Delivery Points in countries requiring rail, the Warehouse Policy proposes that Authorised Warehouses must be in “close proximity” to railheads. A number of respondents queried the precise definition of “close proximity”. However, the LME believes this will be self-regulating, because paragraph C14 requires movement of metal to the railhead at the expense of the warehouse operator – accordingly, provided that the operator is prepared to bear the cost of moving metal from the Authorised Warehouse to the railhead, then the Authorised Warehouse would be viewed as being in sufficiently “close proximity” to that railhead.
41. One respondent raised the point that rail has not historically been required at Authorised Warehouses in New Orleans. However, the LME is satisfied that this remains consistent – New Orleans is not an inland Delivery Point, and as such the “close proximity” rule would apply per the above. One respondent raised a similar concern in relation to Hamburg, to which the same analysis would apply.

Publication of charges

42. Paragraph C12 of the Warehouse Policy mandates the publication of maximum charges by warehouses in respect of logistical operations. As currently formulated, the LME is requesting the publication of “all” fees. A large number of respondents felt this would be impractical, given the broad set of logistical services which may be provided by a warehouse.
43. This recommendation arises from section 4.5 of the Logistical Review Report. However, the LME accepts that this is aimed primarily at a more limited set of charges, namely (i) Free on Rail, (ii) Free Alongside, (iii) Free in Container Yard, (iv) metal re-warranting, and (v) slot rescheduling at the request of the metal owner. Consequently, the Warehouse Policy has been amended to refer to these specific charges. The LME can also confirm that these reflect maximum charges, and metal owners are free to negotiate lower charges with warehouse operators.
44. One respondent suggested that the LME should collate and publish the information for information purposes only. However, the LME believes it more practical for warehouses to take responsibility for the publication of their own fees.

Logistical best practice guidelines

45. In paragraph 20 of Notice 14/318 : A310 : W148, the LME references the Oliver Wyman recommendations relating to best practice for warehouse companies, and confirms that it intends to review how these are being implemented during the course of its routine audits.
46. A number of respondents commented that logistical practices are, by definition, a matter for warehouse operators, and that the LME should not be responsible for “policing” such practices. Furthermore, one respondent was concerned that, by communicating best practice from one warehouse operator to another, the competitive advantage of the best practice operator would be undermined.
47. The LME would like to confirm that it views the best practice recommendations as advisory, and furthermore that it does not propose to use observed best practice from one operator to update this list and communicate to other operators. Accordingly, the LME does not believe that any warehouse operator would be harmed by the intention as currently formulated.



Load-out requirements and slot scheduling

48. Paragraph C11 of the Warehouse Policy requires the publication of a “clear process” for slot scheduling. One respondent queried the definition of “clear process” – however, the LME believes this to be sufficiently descriptive as meaning a process which a metal owner would reasonably be able to follow in order to obtain a delivery slot and understand the basis on which such slot had been allocated. It was suggested that the LME could publish general principles (e.g. the slot scheduling diagram from the Logistical Review Report) in place of individual warehouse operators publishing their own processes, but the LME believes it important for metal owners to understand the process followed by their particular operator. Another respondent requested that such procedures be included in the Warehouse Policy – however, as set out above, the LME believes this should be published by warehouse operators to reflect their particular processes.
49. It was also suggested that the LME should include provision to investigate any abusive practices in respect of such scheduling – however, the LME is confident that it already has such powers under the Warehouse Agreement, and believes that the publication of processes per paragraph C11 will increase the willingness of market participants to report any potentially abusive deviations from such processes to the LME.
50. One respondent queried the circumstances under which the LIFO requirements might be “disapplied” per paragraph C8 of the Warehouse Policy. This would be an exceptional power which would only be used by the LME in order to (without limitation) (a) prevent abuse⁴ or (b) preserve the orderly functioning of the market.
51. Paragraph C15 of the Warehouse Policy contains a provision allowing a warehouse operator to count an unused slot towards load-out if it could be shown that such slot had been offered to every other metal owner in the queue. Some concern was raised that this would require a missed slot to be offered to every subsequent metal owner in a short timeframe. However, the intention of the LME was that this provision relates only to a slot which no metal owner had ever wished to take up. This point has been clarified in the drafting.
52. Clarity was also sought in relation to the “reasonable time of day” provision in paragraph C15 of the Warehouse Policy. However, given the very significant differences between Delivery Locations, the LME does not believe it appropriate for the Warehouse Policy to be any more prescriptive on this point. Warehouses and metal owners wishing further guidance are invited to contact the LME’s Physical Operations Department.

Payment of FOT prior to slot scheduling

53. Some respondents raised concerns in respect of paragraph C10 of the Warehouse Policy, which specifically requires metal owners to pay the FOT prior to being allocated a delivery-out slot. In particular, one respondent felt it inappropriate that metal owners should need to “pre-fund” warehouses with queues – particularly given the scope for a metal owner in the same group as the warehouse to “cut in line” by making a pre-funded cancellation.

⁴ For example, if the threat of LIFO was being misused by a market participant (e.g. a metal owner purchasing warrants in a particular warehouse, and then threatening to cancel those warrants, create a queue and subject the warehouse to LIFO, unless the warehouse operator made a payment to the metal owner).



54. This provision was designed to apply primarily to queued warehouses, given the concern that certain metal owners were cancelling metal in order to gain a place in the queue without having completed the requisite formalities – as such, the provision is designed to ensure that (i) all metal owners are treated equally in terms of slot scheduling (in particular, between third-party metal owners and metal owners in the same group as the warehouse), and (ii) all metal owners pay the FOT in effect at the time of requesting load-out, rather than at time of the eventual load-out slot. It should be noted that, in the understanding of the LME, warehouse operators with queues do demand payment of FOT at or shortly after the time of cancellation (i.e. metal owners are not currently benefitting from an ability to pay the FOT only once their metal has reached the end of the queue) – the effect of this rule would be to accelerate payment by only a few days, but with the benefit of consistent slot scheduling and rate calculation.
55. One respondent noted that this may have the effect of accelerating cancellations as metal owners would look to take advantage of cheaper FOTs in one year compared to the next – while the LME accepts this may be a consequence, it cannot be an LME policy objective to keep metal in the warehouse by making the economics of withdrawal more unattractive.
56. One respondent also suggested that the requirement should not apply to warehouses without queues, given that the difference in date between scheduling and load-out would likely be just a few days. However, in this event, it would seem that the disruption caused by requiring up-front payment would equally be limited, and the LME hence believes that the requirement for pre-scheduling payment is a justifiable one.
57. Per the wording of the revised Warehouse Policy, the requirement for pre-payment of FOT will come into effect as of the effective date of the revised Warehouse Policy, and will apply to all metal including existing inventory.

Load-out requirements for tin and nickel

58. One warehouse operator expressed concerns that the incremental logistical burden caused by the separation of nickel and tin did not justify the benefits to the market, and in particular that the benefits would be impossible to assess given the recent introduction of LILO and the economic environment of net outflow. However, given the relatively small quantities of both nickel and tin on LME warrant (the largest combined quantity of tin and nickel being held by any one DP Warehouse being 198,167 tonnes⁵), the fact that there are currently no queues for nickel and tin, and the fact that the metals are already treated differently to other LME metals, the LME believes any incremental burden to warehouse operators to be low.
59. One respondent commented that they would support the rule change if the individual daily load-out levels remain unaltered for these particular metals. While the LME cannot absolutely rule out future changes to its policies, the position of the LME is that the nickel and tin load-out levels as specified in the revised Warehouse Policy are appropriate for the market.

Application requirements for new Delivery Points

60. One respondent queried the need for the LME to require a minimum 8-hour working day (paragraph B3 of the DP Policy) and to gather information on labour practices (paragraph C1e of the DP Policy), corruption / bribery risk (paragraph C1g) and taxation (paragraph C1h). However, the LME believes it is important for its Delivery Points to deliver a broadly standard quality of service, certainty of storage, tax treatment for metal owners and compliance with

⁵ As of 19 February 2015.



international anti-corruption standards, and accordingly it is important that these standards be maintained.

61. A query was also raised as to why both warrants and warehouse receipts in paragraph C1h(i)(A) are required to be capable of being documents of title. The LME clarifies this is necessary to (i) provide certainty to metal owners that the status of metal prior to warranting and following cancellation (at which point it may be represented by a warehouse receipt) is assured, and (ii) to operate in jurisdictions where the concept of a “warrant” is not legally recognised, and instead warrants are viewed as a specific type of warehouse receipt.
62. One respondent noted that the quality of third-party specialists involved in assessing Delivery Point applications is crucial. The LME agrees, and believes that its newly-codified powers in paragraph C1h of the DP Policy are important in this respect. Another respondent broadly welcomed the regular reporting to the Warehousing Committee of Delivery Point applications by gate.

Responses to Consultation Question 2 (Aluminium Alloys Rule Proposal)

63. One warehouse operator expressed concerns that the incremental logistical burden caused by the Aluminium Alloys Rule Proposal did not justify the benefits to the market. However, the greatest stock of Aluminium Alloys held by any one DP Warehouse is 32,760 tonnes⁶. Accordingly, even if all of this metal were cancelled, the maximum number of days for which the Aluminium, Alloys Rules Proposal would be required to operate would be 66 days. Balanced against this is the very significant benefit to owners of Aluminium Alloy and NASAAC warrants, who would benefit from the guarantee of more expeditious access to their metal.
64. One respondent proposed instead a 20-day maximum queue time for Aluminium Alloys. The LME believes this is best considered in the context of the items published today in its discussion paper.
65. It was pointed out by respondents that this may require a change in stacking practices for alloys, which may have an effect on rent and FOT pricing. The LME accepts this possibility, but believes the benefits of ready access to metal outweigh concerns in this regard.
66. It was also suggested that this provision was unnecessary, given the effect of macroeconomic factors on metal demand. However, the LME has clearly stated that the reduction of queues is a policy objective, and the Aluminium Alloys Rule Proposal would clearly reduce potential waiting times for Aluminium Alloy and NASAAC.
67. One respondent requested that the LME publish worked examples of load-out requirements under the cumulative effect of the LME’s various load-out rules. The LME’s Physical Operations Department will be pleased to work through examples with any market participant.
68. Accordingly, the LME does not propose any changes to the Aluminium Alloys Rule Proposal.

Responses to Consultation Question 3 (Premium Contract Rule Proposal)

69. One respondent took the view that the structure of the Premium Contract Rule Proposal would create uncertainty for short position holders of the LME’s premium contract, given a lack of certainty that premium metal could be warranted for delivery – the respondent took the view that the load-out obligations in respect of premium contracts would make such warranting

⁶ As of 19 February 2015.



unattractive for warehouses, and that this would result in a failure of the premium contracts to allow physical market participants to manage regional premium risk.

70. However, based on the significant market engagement which informed the construction of the LME's premium contracts, the LME cannot agree with this assessment. Premium contracts would have no value if they did not guarantee metal owners ready access to metal – and so the load-out obligations are fundamental to the success of the contract. Furthermore, it is a fundamental element of any delivery-based market that short-sellers must find a venue for delivery of their goods – for example, in respect of the LME's current contracts, there is no explicit guarantee that warranting facilities will be available, and it is the responsibility of the short position holder to arrange for warranting services prior to contract expiry.
71. The LME's aim with the Premium Contract Rule Proposal, therefore, is to create a regime which provides metal owners with sufficient protection as to the availability of premium metal, and warehouse operators with an attractive business activity. The LME has received positive feedback from key warehouse operators on the attractiveness of such business, and is hence confident that premium warrant creation capacity will exist as and when required by market users.
72. The same respondent also suggested that warehouses may charge a premium for the creation of premium warrants. The Premium Contract Rule Proposal envisages that warehouses can set different fees in respect of premium warrants. However, the LME is confident that the "seller pays FOT" design of the contract, in addition to the number of warehouses interested in participating, will ensure that the market for premium warranting services is fully competitive.
73. One respondent commented on the complexity of the rule – however, this is necessary in order to protect those receiving premium warrants from the subsequent accumulation of queues, which would undermine the functioning of the LME's premium contract. The same respondent queried whether the contracts would work given liquidity considerations and other options available to the metals market – however, the LME has received significant positive feedback in relation to its proposed contracts.
74. One respondent took the view that the European Premium Contract should include broader regions of Europe as a valid delivery area. It should be noted that the Premium Contract Rule Proposal (and hence the narrow scope of this Consultation) does not specifically define the geographical areas in which premium warrants may be delivered – this is a feature of the contract specifications. However, it is true that the LME's proposed European Premium Contract is for delivery in northern Europe, given feedback from the market that this would provide the most meaningful price convergence behaviour to the reference northern European price. The LME is discussing with the market the possibility of further regions within the premium contract suite, including a specific southern European contract.
75. One respondent noted that it would be difficult to ensure that warehouse operators agree rates for rents and FOTs in respect of premium contracts – however, the LME envisages a competitive warehousing market for premium warranting services, and hence believes that metal owners will enjoy choice as to which warehouse operator to use, based on the rates and service offered by that operator.
76. One respondent wished the LME to clarify that rents and FOTs for premium warrants are set annually in accordance with the existing process, or at the point a Warehouse opts-in to the premium warrant regime. This is indeed the intention of the rule, and the LME believes that the drafting in paragraph D3a of the Warehouse Policy captures such intention.



77. One respondent requested that the LME clarify the process for cancellation of premium warrants – and, in particular, the need for formalities including the payment of FOT and completion of customs formalities. The LME believes this requirement is captured by the provisions of paragraph C10 (which apply equally to premium warrants as to standard warrants).
78. One respondent proposed instead a 20-day maximum queue time for premium warrants. The LME believes that the Premium Contract Rule Proposal imposes an effective 34-day maximum queue time for premium warrants, which will achieve the aims of the contract. Additionally, this respondent suggested it would be simpler to formulate the rule in relation to maximum waiting time – however, the LME believes that a percentage stock load-out is clearer in respect of metal which may have entered the queue at different points in time.
79. Accordingly, the LME does not propose any changes to the Premium Contract Rule Proposal.

Responses to Consultation Question 4 (other items)

Representation of warehouse companies within the LME's governance structures

80. A number of respondents suggested that warehouse operators would appreciate greater representation on key LME committees.
81. The LME views warehouse operators as a core element of its physical market infrastructure. Accordingly, and following consultation with the Chairman of the Physical Market Committee, the LME is inviting the Warehousing Committee to nominate a representative to the Physical Market Committee. The Warehousing Committee will be asked to discuss the most effective form of representation and, provided acceptable to the Chairman of the Physical Market Committee, the Warehousing Committee representative will be appointed to the Physical Market Committee by the LME. The LME expects that this will further strengthen the links between these two important committees.
82. In addition, the LME is pleased to announce that Fabian Somerville-Cotton, Chairman of the Warehousing Committee, has accepted a place on the User Committee. The LME believes this will provide another conduit for the views and concerns of warehouse operators to be raised within the LME's governance structure.

Other matters

83. One respondent suggested that all warehouse operators should be subjected to Information Barrier Audits. At present, only those operators with links to trading companies are required to undertake such audits. However, the LME believes that its information barrier policies (as updated in the recent external legal review per Notice 14/201 : A194 : W097) remain best-practice, and does not consider that it would be appropriate to extend the scope of such audits in such a way.

Final version of the policies and procedures documents

84. The final version of the LME Policy on the Approval and Operation of Warehouses is attached at Appendix A. A version showing the changes as against the version proposed in Notice 14/318 : A310 : W148 is attached as Appendix B.
85. The final version of the LME Policy on the Approval of Locations as Delivery Points is attached at Appendix C. A version showing the changes as against the version proposed in Notice 14/318 : A310 : W148 is attached as Appendix D.



86. The changes shall take effect on 1 June 2015.

Matthew Chamberlain
Head of Business Development

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

Appendices:

- A. LME Policy on the Approval and Operation of Warehouses – clean
- B. LME Policy on the Approval and Operation of Warehouses – showing changes against consultation version
- C. LME Policy on the Approval of Locations as Delivery Points – clean
- D. LME Policy on the Approval of Locations as Delivery Points – showing changes against consultation version



**LME POLICY ON THE APPROVAL AND OPERATION OF WAREHOUSES,
REVISED [1 JUNE 2015]**

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
900,000 tonnes and over	3,000 tonnes

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

3. Where a DP Warehouse's tonnage stored increases beyond any of the 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 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 out¹ 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.
4. 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

¹ For the purposes of this policy, the terms "delivery out" and "load-out" are used interchangeably.



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).
- (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 LILO 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 300,000 tonnes of steel. For DP Warehouses who are storing 300,000 tonnes and above, the following table is applicable:



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

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) 0.5 (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 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, 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) Review of LME policy for Warehouses

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

H) 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.

"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.

"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 [-1 JUNE 2015]**

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
900,000 tonnes and over	3,000 tonnes

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

3. Where a DP Warehouse's tonnage stored increases beyond any of the 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 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 out¹ 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.
4. 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

¹ For the purposes of this policy, the terms "delivery out" and "load-out" are used interchangeably.



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 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 300,000 tonnes of steel. For DP Warehouses who are storing 300,000 tonnes and above, the following table is applicable:



DP Warehouse's tonnage stored (steel only)	Minimum daily delivery tonnage for steel
300,000 tonnes to 599,999 tonnes	2,000 tonnes
600,000 tonnes to 899,999 tonnes	2,500 tonnes
900,000 tonnes and over	3,000 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 ~~and acknowledging receipt of~~ 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 ~~all fees that they charge to charges in respect of (i) Free on Rail, (ii) Free Alongside, (iii) Free in Container Yard, (iv) metal owners-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 ~~returning~~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 ~~returning~~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 ~~has 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. LIFO 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).

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) 0.5 (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, 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) Review of LME policy for Warehouses

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

H) 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.

"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.

"LIFO 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.

"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 OF LOCATIONS AS DELIVERY POINTS,
REVISED [1 JUNE 2015]****A) Policy Criteria**

- 1 For a new Location to be approved as a Delivery Point, the following criteria shall be met:
 - (a) For any particular metal subject to LME Contracts to be deliverable therein, the Location should be in an Area of Net Consumption and away from adjacent areas of production for that particular metal.
 - (b) The Location should be capable of becoming, a natural, logistically sound conduit for the passage of metal on to eventual consumption points:
 - (i) The Location should be positioned on the natural route (e.g. trade lanes which would exist without Authorised Warehouses) – current or potential if a consumption is believed to happen in the future (e.g. set-up of a new plant) - to the consumption centres that it serves. This is assessed, without limitation, to the quantity of metal going through the Location;
 - (ii) The Location should be connected to major trade lanes, allowing other consumption centres to be reached. This is assessed, without limitation, by reference to the number of deep sea connections (number of origins and destinations ("O/D") services, frequency of services, number of shipping lines serving the Location) and the volume handled by the Location (both break-bulk and containers).
 - (c) The Location should be, in the reasonable view of the LME, safe, well managed, politically and economically stable, commercially sensible, fiscally appropriate, legally sound and not subject to corruption.
 - (d) In the event of bankruptcy or insolvency of the Warehouse or other such contingency, there must be no restrictions placed upon owners of metal wishing to take possession of their individually identified metal and remove it from the Authorised Warehouse(s) (provided rent and handling charges are paid). This must be incorporated in the law of the jurisdiction in which the Location is situated.
 - (e) Metal stored in Authorised Warehouses is the subject of international banking finance activity and, as such, the LME will only approve Locations where it is satisfied that the international banking community accepts the fully negotiable nature of the warehouse receipts ("LME warrants") being on a par with already approved Delivery Points.



- (f) Indefinite storage of metals must be permitted in a secure customs warehousing regime wherein any LME listed brand of metal may be stored without liability for duties prior to customs clearance. Domestically produced metal and any metal previously customs cleared, and with any duty accounted for, must also be allowed to be stored in the same Authorised Warehouses as bonded metal. There must be no liability for taxes on transactions for metal held in such Authorised Warehouses, nor a need for the Warehouse to determine ownership of the metal whilst in store. There must also be no taxes on storage costs.

The LME will not usually be prepared to approve a Location where there would be only a single Warehouse in such Location. A Location must be capable of hosting more than one Warehouse. The LME reserves the right to delist a Delivery Point which no longer hosts a Warehouse.

B) Criteria related to Working Practices and Facilities for Locations

- 1 It is required that there are a minimum of 3 working berths, private or public and accessible by each Warehouse, with a minimum water depth of 11 metres at all times.
- 2 The port must have the facilities available to be able to load 1500 tonnes per berth, per Weather Working Day. This standard has been set on the basis of aluminium ingots and, although the LME has an expectation that ports would be able to achieve higher rates for other metals, no specific separate standard has been set for them.
- 3 Standard working practice must be a minimum 8-hour working day (with labour normally available to work overtime if demand warrants) and on the basis of a 5-day working week.
- 4 Each Location must have container and break bulk terminals.
- 5 Rail connectivity is required in the US and in the following European countries: Germany, Belgium, Netherlands, Sweden. When considering an application to be a Delivery Point in a new country, the LME will carry out a specific study to determine if rail is required.
- 6 An Inland Location may be approved as a Delivery Point on a case by case basis and, if necessary, the criteria in paragraphs 1-5 above may be waived. Applications for Inland Locations to be Delivery Points shall be considered with reference to the following criteria related to working practices and facilities for Locations:
 - (a) Whether they are positioned on land trade lanes (i.e. metal naturally goes from production to consumption centres only through land transportation) with significant volumes;
 - (b) Barge and rail connectivity;



- (c) In addition to connectivity to consumption centres in the Area, the existence of connectivity to major export ports of the relevant Area, through rail and barging;
- (d) Minimum capacity of 4,500 tonnes per Weather Working Day, through a combination of rail and barging terminals accessible by each Warehouse.

- 7 The maximum geographical distance of the Location of an Authorised Warehouse from the appropriate water and rail terminals (when necessary) is to be established by the LME. The existing Delivery Point boundaries may be increased on a case by case basis in circumstances of shortage of storage capacity by small increments of driving distance and subject to reasonable transit time. The demonstration of shortage of storage capacity will have to be made by the applicant before being reviewed by the LME.
- 8 While there may be exceptions to the above criteria, such exceptions are expected to be rare.

C) Application process

- 1 Applications for approval as Delivery Points by the LME should comply with the following process:
- (a) The presentation of the initial Location application, with the supporting information requested, should be made by the port authority or (in exceptional cases) such other relevant authority controlling warehousing in the Location. If there is no such authority then an application may be made by a Warehouse.
 - (b) It should be noted that there is no set time scale for approving or otherwise any application due to the indeterminate time required to process all aspects of the application. The application process is structured with at least four gates, whereby each needs to be passed before proceeding to the next gate
 - (i) Gate 1: complete submission of all documents required by the LME to process the application and determine whether the basic criteria are satisfied;
 - (ii) Gate 2: technical assessment by the LME based on the criteria listed in this policy;
 - (iii) Gate 3: committee input (Metal Committee giving non-binding opinion on the Area of Net Consumption and Warehousing Committee giving non-binding opinion on logistics connectivity and infrastructure); and
 - (iv) Gate 4: Final assessment by the LME and formal decision.



- (c) Should an application be accepted by the EXCOM, commencement of LME approved operations would not take place for a minimum of 90 days after Board approval and would be subject to applicant Warehouses being similarly approved.
- (d) A Location should have substantial logistical connections on international trading routes. It is the responsibility of the applicant to provide at least the following information:
 - (i) Statistical evidence of throughput tonnages of LME metals by means of contact with the metals trade, forwarding agents, fabricators, producers, warehouse companies, traders etc to support the application:
 - (A) Statistics on production and consumption as well as imports and exports in the Area;
 - (B) Major production plants and consumption and associated volumes in the Area; and
 - (C) Trade flows serviced (i.e., O/D served) with associated services in the Area.
 - (ii) Logistics connections:
 - (A) Maritime: number of short sea and deep sea connections, number of shipping lines calling at the port, frequency of services;
 - (B) Rail: frequency of service and time to access major consumption points; and
 - (C) If applicable, barge: frequency of services and time to access major consumption points.
 - (iii) Detail/data of the logistics support services of the Location:
 - (A) Container terminals, break-bulk terminals and rail terminals (including crane infrastructure);
 - (B) Number, length and depth of berths (including draft for access e.g. river draft); and
 - (C) Number and capacity of rail terminals.
 - (iv) Approximate percentage utilisation of services of road/rail/water (as applicable) for both inbound and outbound traffic in metals.
 - (v) Logistics infrastructure:



- (A) Estimation of number of available sheds that warehousing companies can use for LME storage operations; and
 - (B) Detailed maps / plans showing the outline of the Location evidencing the logistical connections and locations of short/long term warehouse facilities are required.
- (vi) If applicable, description of any potential or actual exercise of control in activities such as terminal operations, warehouse ownership, logistics operations within the port, etc and the anticipated impact on competition in relation to warehousing operations in the Location.
- (e) A description of the Location's work labour practices is required; and should include at least the following elements:
 - (i) Working / overtime hours;
 - (ii) Labour costs; and
 - (iii) Time to load truck / rail / container.
- (f) This should illustrate the degree of integrated warehousing/ forwarding/stevedoring activities and whether it/they are privately/ municipality run. Normal working hours and overtime potential should be explained so that the LME may gauge productivity in comparison with currently approved Delivery Points.
- (g) A description of matters relevant to the Location's corruption and bribery risk is required. This should describe in broad terms whether the Location has enacted, and whether it routinely enforces, laws relating to the corruption of Public Officials; whether demands for facilitation payments are commonly made by Public Officials in the Location; and (if relevant) what, if any, steps are underway or planned to address such issues.
- (h) The LME is entitled to request any external third party studies that it deems necessary to investigate any specific aspects, at the applicant's expense. This diligence may cover, without limitation, at least the following areas:
 - (i) Metal ownership – confirmation that:
 - (A) Warrants and warehouse receipts would be capable of being the document of title, and ownership of warrants can be transferred using LMEsword or any successor system; and



- (B) Metal belonging to the owner can be removed in case of bankruptcy or insolvency of a potential applicant Warehouse, subject only to any outstanding rent and handling charges having been paid.
- (ii) Companies – confirmation that:
 - (A) Potential applicant Warehouses can be owned by foreign entities;
 - (B) Operations in foreign currency are allowed;
 - (C) There is no restriction on the repatriation of profits from the location.
- (iii) Taxes - confirmation that:
 - (A) The tax and duty free environment is appropriate in connection with transactions involving metal stored in the location, or on services provided in relation to the metal e.g. storage, ancillary services, stevedoring & handling;
 - (B) There would be no location duties and no time limit on storage of metal;
 - (C) Any seller / buyer who is not established in the territory of the country would not be obliged to have a tax registration or to submit a tax return solely on account of the trading of metal in warehouse; and
 - (D) Metal bound for export or moving between different Warehouses / Locations would not be liable to tax or duty.
- (iv) Others – confirmation that:
 - (A) There would be no conflict between LME requirements and insurance laws that preclude potential applicant Warehouses from obtaining the necessary cover under the Warehouse Agreement;
 - (B) There would be no requirement to keep lists of metal owners;
 - (C) There should be no requirement to report sales of metals made within the Warehouse;
 - (D) There would be no embargo (other than an United Nations-related embargo) against origin countries for



metals for which a location is seeking approval as a Delivery Point;

- (E) There are no export license requirements;
 - (F) Domestic and foreign goods can be stored in the same warehouse environment; and
 - (G) Metals within the same (HS) harmonized system codes as LME listed brands will be treated in like manner as LME listed brands
- (i) The LME will need to be satisfied by its own members, warehousing and appropriate metals committees, professional advisers and independent research that each facet of the application is accurate before indicating acceptance in principle of a Location. At this stage it would be necessary for potential applicant Warehouses to be identified which would apply for LME approval, if this has not already been done.
- (j) The LME will report to the Warehousing Committee the number and identity of Delivery Point applicants by gate on a regular basis.

D) Continued compliance with policy and guidelines

- 1 In the event that an existing Delivery Point does not appear to continue to meet the LME's criteria, there will be an initial review by the LME and consultation with the Warehouse and the port authority in that Delivery Point.
- 2 If, after consultation the port authority is able to demonstrate that it will upgrade its facilities, transitional arrangements can be made to allow an acceptable length of time for completion and this would be determined on a case by case basis, according to the circumstances.
- 3 If, after consultation, the relevant port authority is unwilling or unable to upgrade the facilities or work practices to meet the LME's standards, the LME retains the right to limit the capacity in that Delivery Point or to delist it.
- 4 Where a Delivery Point's corruption risk changes, LME retains the right to limit the capacity in that Delivery Point or to delist it.
- 5 Generally speaking, implementation of capacity limits would, unless there are exceptional circumstances, be implemented over a reasonable period by imposing a ban on new warrants being issued and allowing natural wastage to bring levels down to the required tonnage. Similarly, delisting a Delivery Point would require a run down of stocks over a reasonable period of time by imposing a ban on the issuing of new warrants and natural wastage, followed by an eventual de-warranting of any remaining metal and its removal to another Delivery Point for re-warranting. In both these instances the LME would assess what implementation period would be reasonable on a case by



case basis, taking into account all factors put forward in the consultation process, and it could be several years where the LME deems appropriate.

- 6 Delivery Points are, in particular, expected to continue to support the operation of multiple warehouse operators on a non-discriminatory basis. To the extent that a prospective operator of an Authorised Warehouse is of the view that they are prevented from establishing LME operations at a given Delivery Point, this may be reported to the Exchange, which will subsequently investigate the situation, mindful of relevant factors including those listed at paragraph A3 of the LME Policy on the Approval and Operation of Warehouses, paragraph A of this Policy, and applicable competition law.

E) Review of LME policy and guidelines for good delivery points

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

F) 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.

"Area" shall mean a country, regions of large countries, or an aggregation of small countries with an integrated logistics land network as determined by the LME acting reasonably.

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

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

"Inland Location" means a geographic area away from all of (i) the sea; (ii) a deltaic area; or (iii) an estuarine area.

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

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

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

"Metal Committee" shall mean the relevant LME metal committee, details of which are set out on the LME website www.lme.com.

"Net Consumption" shall mean a significant negative trade balance for the metal in question across two consecutive years.

"Public Official" means an official, whether elected or appointed, who holds a legislative, administrative or judicial position of any kind of a country or territory inside or outside the UK.



"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.

"Warehousing Committee" shall mean the LME warehousing committee, details of which are set out on the LME website www.lme.com.

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

"Weather Working Day" shall mean any day in which meteorological conditions permit normal operations.

**LME POLICY ON THE APPROVAL OF LOCATIONS AS DELIVERY POINTS,
REVISED [1 JUNE 2015]****A) Policy Criteria**

- 1 For a new Location to be approved as a Delivery Point, the following criteria shall be met:
 - (a) For any particular metal subject to LME Contracts to be deliverable therein, the Location should be in an Area of Net Consumption and away from adjacent areas of production for that particular metal.
 - (b) The Location should be capable of becoming, a natural, logistically sound conduit for the passage of metal on to eventual consumption points:
 - (i) The Location should be positioned on the natural route (e.g. trade lanes which would exist without Authorised Warehouses) – current or potential if a consumption is believed to happen in the future (e.g. set-up of a new plant) - to the consumption centres that it serves. This is assessed, without limitation, to the quantity of metal going through the Location;
 - (ii) The Location should be connected to major trade lanes, allowing other consumption centres to be reached. This is assessed, without limitation, by reference to the number of deep sea connections (number of origins and destinations ("O/D") services, frequency of services, number of shipping lines serving the Location) and the volume handled by the Location (both break-bulk and containers).
 - (c) The Location should be, in the reasonable view of the LME, safe, well managed, politically and economically stable, commercially sensible, fiscally appropriate, legally sound and not subject to corruption.
 - (d) In the event of bankruptcy or insolvency of the Warehouse or other such contingency, there must be no restrictions placed upon owners of metal wishing to take possession of their individually identified metal and remove it from the Authorised Warehouse(s) (provided rent and handling charges are paid). This must be incorporated in the law of the jurisdiction in which the Location is situated.
 - (e) Metal stored in Authorised Warehouses is the subject of international banking finance activity and, as such, the LME will only approve Locations where it is satisfied that the international banking community accepts the fully negotiable nature of the warehouse receipts ("LME warrants") being on a par with already approved Delivery Points.



- (f) Indefinite storage of metals must be permitted in a secure customs warehousing regime wherein any LME listed brand of metal may be stored without liability for duties prior to customs clearance. Domestically produced metal and any metal previously customs cleared, and with any duty accounted for, must also be allowed to be stored in the same Authorised Warehouses as bonded metal. There must be no liability for taxes on transactions for metal held in such Authorised Warehouses, nor a need for the Warehouse to determine ownership of the metal whilst in store. There must also be no taxes on storage costs.

The LME will not usually be prepared to approve a Location where there would be only a single Warehouse in such Location. A Location must be capable of hosting more than one Warehouse. The LME reserves the right to delist a Delivery Point which no longer hosts a Warehouse.

B) Criteria related to Working Practices and Facilities for Locations

- 1 It is required that there are a minimum of 3 working berths, private or public and accessible by each Warehouse, with a minimum water depth of 11 metres at all times.
- 2 The port must have the facilities available to be able to load 1500 tonnes per berth, per Weather Working Day. This standard has been set on the basis of aluminium ingots and, although the LME has an expectation that ports would be able to achieve higher rates for other metals, no specific separate standard has been set for them.
- 3 Standard working practice must be a minimum 8-hour working day (with labour normally available to work overtime if demand warrants) and on the basis of a 5-day working week.
- 4 Each Location must have container and break bulk terminals.
- 5 Rail connectivity is required in the US and in the following European countries: Germany, Belgium, Netherlands, Sweden. When considering an application to be a Delivery Point in a new country, the LME will carry out a specific study to determine if rail is required.
- 6 An Inland Location may be approved as a Delivery Point on a case by case basis: and, if necessary, the criteria in paragraphs 1-5 above may be waived. Applications for Inland Locations to be Delivery Points shall be considered with reference to the following criteria related to working practices and facilities for Locations:
 - (a) Whether they are positioned on land trade lanes (i.e. metal naturally goes from production to consumption centres only through land transportation) with significant volumes;



- (b) Barge and rail connectivity;
- (c) In addition to connectivity to consumption centres in the Area, the existence of connectivity to major export ports of the relevant Area, through rail and barging;
- (d) Minimum capacity of 4,500 tonnes per Weather Working Day, through a combination of rail and barging terminals accessible by each Warehouse.

7 The maximum geographical distance of the Location of an Authorised Warehouse from the appropriate water and rail terminals (when necessary) is to be established by the LME. The existing Delivery Point boundaries may be increased on a case by case basis in circumstances of shortage of storage capacity by small increments of driving distance and subject to reasonable transit time. The demonstration of shortage of storage capacity will have to be made by the applicant before being reviewed by the LME.

8 While there may be exceptions to the above criteria, such exceptions are expected to be rare.

C) Application process

1 Applications for approval as Delivery Points by the LME should comply with the following process:

(a) The presentation of the initial Location application, with the supporting information requested, should be made by the port authority or (in exceptional cases) such other relevant authority controlling warehousing in the Location. If there is no such authority then an application may be made by a Warehouse.

(b) It should be noted that there is no set time scale for approving or otherwise any application due to the indeterminate time required to process all aspects of the application. The application process is structured with at least four gates, whereby each needs to be passed before proceeding to the next gate

(i) Gate 1: complete submission of all documents required by the LME to process the application and determine whether the basic criteria are satisfied;

(ii) Gate 2: technical assessment by the LME based on the criteria listed in this policy;

(iii) Gate 3: committee input (Metal Committee giving non-binding opinion on the Area of Net Consumption and Warehousing



Committee giving non-binding opinion on logistics connectivity and infrastructure); and

- (iv) Gate 4: Final assessment by the LME and formal decision.
- (c) Should an application be accepted by the EXCOM, commencement of LME approved operations would not take place for a minimum of 90 days after Board approval and would be subject to applicant Warehouses being similarly approved.
- (d) A Location should have substantial logistical connections on international trading routes. It is the responsibility of the applicant to provide at least the following information:
 - (i) Statistical evidence of throughput tonnages of LME metals by means of contact with the metals trade, forwarding agents, fabricators, producers, warehouse companies, traders etc to support the application:
 - (A) Statistics on production and consumption as well as imports and exports in the Area;
 - (B) Major production plants and consumption and associated volumes in the Area; and
 - (C) Trade flows serviced (i.e., O/D served) with associated services in the Area.
 - (ii) Logistics connections:
 - (A) Maritime: number of short sea and deep sea connections, number of shipping lines calling at the port, frequency of services;
 - (B) Rail: frequency of service and time to access major consumption points; and
 - (C) If applicable, barge: frequency of services and time to access major consumption points.
 - (iii) Detail/data of the logistics support services of the Location:
 - (A) Container terminals, break-bulk terminals and rail terminals (including crane infrastructure);
 - (B) Number, length and depth of berths (including draft for access e.g. river draft); and
 - (C) Number and capacity of rail terminals.



- (iv) Approximate percentage utilisation of services of road/rail/water (as applicable) for both inbound and outbound traffic in metals.
 - (v) Logistics infrastructure:
 - (A) Estimation of number of available sheds that warehousing companies can use for LME storage operations; and
 - (B) Detailed maps / plans showing the outline of the Location evidencing the logistical connections and locations of short/long term warehouse facilities are required.
 - (vi) If applicable, description of any potential or actual exercise of control in activities such as terminal operations, warehouse ownership, logistics operations within the port, etc and the anticipated impact on competition in relation to warehousing operations in the Location.
- (e) A description of the Location's work labour practices is required; and should include at least the following elements:
- (i) Working / overtime hours;
 - (ii) Labour costs; and
 - (iii) Time to load truck / rail / container.
- (f) This should illustrate the degree of integrated warehousing/ forwarding/stevedoring activities and whether it/they are privately/ municipality run. Normal working hours and overtime potential should be explained so that the LME may gauge productivity in comparison with currently approved Delivery Points.
- (g) A description of matters relevant to the Location's corruption and bribery risk is required. This should describe in broad terms whether the Location has enacted, and whether it routinely enforces, laws relating to the corruption of Public Officials; whether demands for facilitation payments are commonly made by Public Officials in the Location; and (if relevant) what, if any, steps are underway or planned to address such issues.
- (h) The LME is entitled to request any external third party studies that it deems necessary to investigate any specific aspects, at the applicant's expense. This diligence may cover, without limitation, at least the following areas:
- (i) Metal ownership – confirmation that:



- (A) Warrants and warehouse receipts would be capable of being the document of title, and ownership of warrants can be transferred using LMEsword or any successor system; and
 - (B) Metal belonging to the owner can be removed in case of bankruptcy or insolvency of a potential applicant Warehouse, subject only to any outstanding rent and handling charges having been paid.
- (ii) Companies – confirmation that:
- (A) Potential applicant Warehouses can be owned by foreign entities;
 - (B) Operations in foreign currency are allowed;
 - (C) There is no restriction on the repatriation of profits from the location.
- (iii) Taxes - confirmation that:
- (A) The tax and duty free environment is appropriate in connection with transactions involving metal stored in the location, or on services provided in relation to the metal e.g. storage, ancillary services, stevedoring & handling;
 - (B) There would be no location duties and no time limit on storage of metal;
 - (C) Any seller / buyer who is not established in the territory of the country would not be obliged to have a tax registration or to submit a tax return solely on account of the trading of metal in warehouse; and
 - (D) Metal bound for export or moving between different Warehouses / Locations would not be liable to tax or duty.
- (iv) Others – confirmation that:
- (A) There would be no conflict between LME requirements and insurance laws that preclude potential applicant Warehouses from obtaining the necessary cover under the Warehouse Agreement;
 - (B) There would be no requirement to keep lists of metal owners;



- (C) There should be no requirement to report sales of metals made within the Warehouse;
 - (D) There would be no embargo (other than an United Nations-related embargo) against origin countries for metals for which a location is seeking approval as a Delivery Point;
 - (E) There are no export license requirements;
 - (F) Domestic and foreign goods can be stored in the same warehouse environment; and
 - (G) Metals within the same (HS) harmonized system codes as LME listed brands will be treated in like manner as LME listed brands
- (i) The LME will need to be satisfied by its own members, warehousing and appropriate metals committees, professional advisers and independent research that each facet of the application is accurate before indicating acceptance in principle of a Location. At this stage it would be necessary for potential applicant Warehouses to be identified which would apply for LME approval, if this has not already been done.
 - (j) The LME will report to the Warehousing Committee the number and identity of Delivery Point applicants by gate on a regular basis.

D) Continued compliance with policy and guidelines

- 1 In the event that an existing Delivery Point does not appear to continue to meet the LME's criteria, there will be an initial review by the LME and consultation with the Warehouse and the port authority in that Delivery Point.
- 2 If, after consultation the port authority is able to demonstrate that it will upgrade its facilities, transitional arrangements can be made to allow an acceptable length of time for completion and this would be determined on a case by case basis, according to the circumstances.
- 3 If, after consultation, the relevant port authority is unwilling or unable to upgrade the facilities or work practices to meet the LME's standards, the LME retains the right to limit the capacity in that Delivery Point or to delist it.
- 4 Where a Delivery Point's corruption risk changes, LME retains the right to limit the capacity in that Delivery Point or to delist it.
- 5 Generally speaking, implementation of capacity limits would, unless there are exceptional circumstances, be implemented over a reasonable period by imposing a ban on new warrants being issued and allowing natural wastage to



bring levels down to the required tonnage. Similarly, delisting a Delivery Point would require a run down of stocks over a reasonable period of time by imposing a ban on the issuing of new warrants and natural wastage, followed by an eventual de-warranting of any remaining metal and its removal to another Delivery Point for re-warranting. In both these instances the LME would assess what implementation period would be reasonable on a case by case basis, taking into account all factors put forward in the consultation process, and it could be several years where the LME deems appropriate.

6 Delivery Points are, in particular, expected to continue to support the operation of multiple warehouse operators on a non-discriminatory basis. To the extent that a prospective operator of an Authorised Warehouse is of the view that they are prevented from establishing LME operations at a given Delivery Point, this may be reported to the Exchange, which will subsequently investigate the situation, mindful of relevant factors including those listed at paragraph A3 of the LME Policy on the Approval and Operation of Warehouses, paragraph A of this Policy, and applicable competition law.

E) Review of LME policy and guidelines for good delivery points

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

F) 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.

"Area" shall mean a country, regions of large countries, or an aggregation of small countries with an integrated logistics land network as determined by the LME acting reasonably.

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

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

“Inland Location” means a geographic area away from ~~the sea without direct short-sea and deep-sea connections.~~ all of (i) the sea; (ii) a deltaic area; or (iii) an estuarine area.

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