

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

Ref: 15/191 : A187 : W063

Date: 1 July 2015

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

## Summary

1 The LME is today announcing a market-wide consultation (the “Consultation”) in respect of proposed amendments to its Policy on the Approval and Operation of Warehouses (the “Policy”) following on from the Discussion Paper relating to possible reforms of warehousing policy and physical delivery network (the “Discussion Paper”) released on 2 March 2015 (Notice 15/072 : A071 : W025).

## The Consultation process

- 2 The Consultation is open to all interested market participants, and also regulatory and governmental bodies.
- 3 Formal responses to the Consultation should be submitted in writing. Any market participant wishing to submit a response to the Consultation, or to arrange for further discussions seeking clarification in relation to the Consultation, is asked to contact Georgina Hallett at [consultation@lme.com](mailto:consultation@lme.com) or +44 (0)20 7423 5780.
- 4 Although the LME will consider responses submitted in any format, it would be most helpful if respondents can reply to the numbered Consultation Questions set out throughout this Consultation Notice.
- 5 The Consultation will be open until 17 August 2015. During the period of the Consultation, the LME will, subject to reasonable logistical constraints, be available for meetings to discuss the subject matter of the Consultation.
- 6 Responses made after the closing date of the Consultation (see below) will not be taken into consideration. The LME may need to share responses received with regulatory authorities or its legal or other professional advisers, or as required by law. Apart from this, all responses received will be treated in confidence.

## Background

7 On 2 March 2015, the LME issued the Discussion Paper which put forward eight possible warehouse reform proposals (the “Discussion Items”) relating to the LME’s warehousing policy and physical delivery network which were variously aimed at addressing (i) existing



queues; (ii) potential future queues; and (iii) the levels of rent and FOTs charged by warehouse companies. All eight Discussion Items were potential adjuncts to the LME's Linked Load-In / Load-Out ("LILO") Rule which was implemented on 1 February 2015, as amended<sup>1</sup>.

8 The eight Discussion Items were as follows:

Measures to address existing queues and/or the impact of existing queues

- (a) A near-term increase in the standard load-out rate (referred to as load-out rate increase or "LORI"); and
- (b) queue-based rent capping ("QBRC");

Measures to prevent accumulation of future queues

- (c) a queue-based warranting restriction ("QBWR");
- (d) a modification to the seller's option ("MSO");
- (e) a future queue length control mechanism ("FQLC");
- (f) a restriction on warrant holder behaviour ("WB"), consisting of a limit on the amount of metal which a warehouse can accept for cancellation and load-out by any one warrant holder, or any two or more warrant holders acting together, at any one time; and
- (g) a future proportionate increase in the load-out rate ("PILOR");

Measures to address the levels of rent and FOT rates charged by warehouses

- (h) charge-capping ("CC").

9 The Discussion Paper is part of a programme of twelve core elements of warehouse reform that the LME undertook to implement in the 2013 Consultation Report and Decision Notice (Notice 13/326 : A312 : W125). Of these twelve core elements, nine have already been implemented: (a) the LILO Rule, (b) separate steel load-out rate, (c) per-warehouse queue length report, (d) commitments of traders report, (e) creation of the Physical Market Committee, (f) specific powers for the LME to address behaviour that creates or maintains

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<sup>1</sup> Pursuant to LME Notice 15/142 : A138 : W044 dated 27 April 2015, the LME has announced that the decay factor under the LILO Rule will be amended from 0.5x to 1.0x with effect from 1 August 2015. All references to the LILO Rule in this Notice should be construed to include the amended decay factor



queues (clause 9.3.4 of the Warehouse Agreement<sup>2</sup>), (g) information barrier policy review, (h) legal review of the LME Warehouse Agreement, and (i) an independent logistical review and the consultation necessary to implement the recommended changes outlined in the subsequent report. The tenth item is the LME's commitment to explore the possibility of launching a set of regional premium contracts which required modifications to the LME's warehousing policies in order to function effectively. These changes have been consulted upon and the contracts are due to launch in Q4 2015, subject to regulatory approval and a rule change consultation.

- 10 The two final items – re-assessing the possibility of capping or banning rents in queues and re-assessing the possibility of capping the level of daily rents and FOTs – were two of the eight Discussion Items included in the Discussion Paper (QBRC and CC respectively).
- 11 The Discussion Paper was open for two months, during which time the LME invited comments and feedback from the market and held over 45 meetings to gather opinion from as broad a range of market participants as possible.
- 12 The LME would like to thank all those who responded to the Discussion Paper, or who contributed indirectly through committees, group and one-to-one meetings or calls. Since the close of the Discussion Paper on 2 May 2015, the LME has been engaged in a careful consideration of all the feedback received. Notice 15/190 : A186 : W062 (the “Discussion Paper Results Notice”) explains why the LME believes that further action is necessary, and considers each of the Discussion Items, and the market feedback received in relation thereto, in accordance with a framework which is legally robust, objective and proportionate.
- 13 Taking the market feedback into close consideration, the LME is now consulting on its proposed route forward and welcomes comments and feedback from the market in respect of this.

### **Elements of the Consultation**

- 14 This Consultation puts forward the following proposals (the “Proposals”), to be incorporated into the revised Policy:
  - (a) A near-term increase in the standard load-out rate (referred to as a load-out rate increase or “LORI”), with a proposed implementation date of 14 December 2015<sup>3</sup>; and

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<sup>2</sup> Now renumbered as Clause 9.3.5 of the Warehouse Agreement

<sup>3</sup> This date is currently an estimated date. The exact date will depend on the length of time required to consider the responses to the Consultation and issue a decision notice. In the event that the LME decides to implement LORI, warehouse companies would be given 90 days' notice of the amendment to the Policy as required by Clause 9.11.4 of the Warehouse Agreement



(b) Queue-based rent capping (“QBRC”), with a proposed implementation date of 1 May 2016.

15 A revised version of the Policy is contained at Appendices A (blackline) and B (clean). The blackline shows the changes as against the version due to take effect on 1 August 2015 (which incorporates the revised decay factor of 1.0x).

16 Capitalised terms not otherwise defined in this Notice shall have the meaning ascribed to them in the Policy.

### **Timing and steps following the Consultation**

17 Following due consideration, the LME may implement either:

- (a) in respect of each of the Proposals, that Proposal, a modified version of that Proposal, an alternative to that Proposal, or no measure in respect of that Proposal;
- (b) any other measure(s); or
- (c) no measures.

18 In the event that the LME decides to adopt any new rules following the Consultation, the LME presently intends to adhere to the following timetable:

- (a) the Consultation will run between 1 July 2015 and 17 August 2015;
- (b) the LME will aim to publish its conclusions by mid-September 2015<sup>4</sup>; and
- (c) the revised policy will take effect following the 90 day notice period required under the Warehouse Agreement, likely to be around 14 December 2015<sup>5</sup>.

### **The LME's financial interest**

19 As the market is aware, pursuant to the LME stock levy, the LME receives 1.1% of the rent charged by LME-licensed warehouses on LME-warranted metal (including metal waiting in queues). This rate has not increased since 2002, and the LME's decision-making process, and its conduct of the Consultation, is in no way influenced by the existence of the stock levy. The LME's focus on ensuring that prices can be effectively discovered on the LME is essential in order for the LME to ensure that the market functions in an orderly manner in accordance with its regulatory obligations. It is also important to the LME's value as an ongoing business. These two factors far outweigh any financial return which could accrue as a result of the stock levy on rents in any economic circumstance.

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<sup>4</sup> As set out above, this date is an estimate date only

<sup>5</sup> Although, as set out above, it is proposed that QBRC would not come into effect until 1 May 2016



## **LOAD-OUT RATE INCREASE (“LORI”)**

20 The LME is proposing to increase the minimum load-out rates set out in the Policy.

### **Construction of LORI**

21 It is proposed that paragraphs C2, C3 and C7 of the Policy would be amended as shown in Appendices A and B. In summary, this would involve (a) a reduction in the threshold at which the higher band of load-out rates takes effect from 300,000 tonnes to 150,000 tonnes, and (b) an increase in each of the higher bands, with the highest standard load-out rate being 4,000 tonnes per day (rather than 3,000 tonnes per day, as previously) for warehouses storing over 900,000 tonnes of metal.

22 The increase in the standard load-out rates would operate alongside LILO.

23 The revised paragraphs of the Policy incorporating LORI would take effect as of the date of implementation of the revised Policy, estimated to be around 14 December 2015 (see above).

### **Benefits of LORI**

24 The primary benefit of LORI is that it would accelerate the rate of queue decay at warehouses with queues. Even with the proposed increase in the decay factor under LILO, an affected warehouse would only be obliged to load out more metal if it also loaded-in more metal. The advantage of LORI would be that, even in the event that an affected warehouse elected not to load in more material, it would still have to load out at an increased rate. In addition, the threshold for the increased rate taking effect has been lowered to include warehouses storing above 150,000 tonnes, rather than the current threshold of 300,000 tonnes.

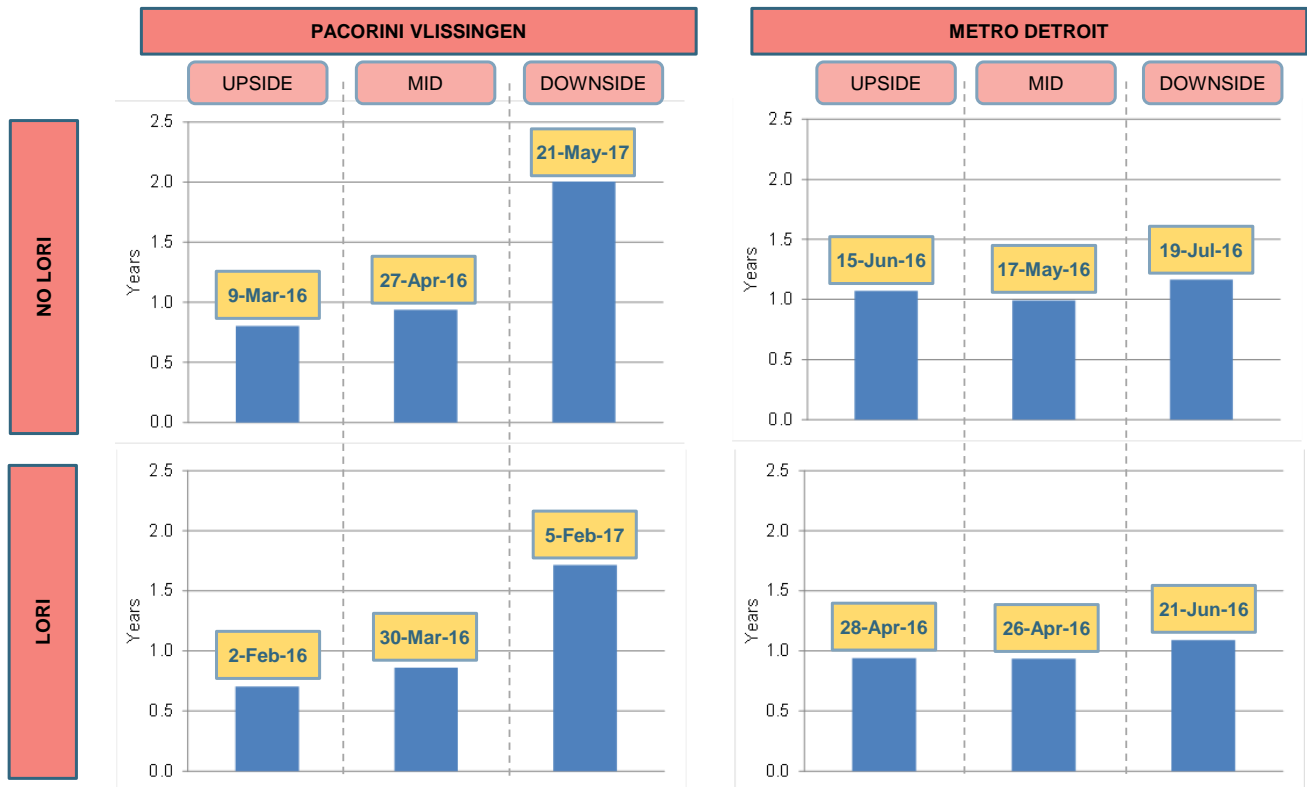
25 The LME believes that it is appropriate for the revised LORI rates to apply to all warehouses, rather than just warehouses with queues of over 50 days (or some other threshold). The LME notes that it is possible for a queue to accumulate at any warehouse. In addition to targeting existing queues, LORI will help to prevent the accumulation of future queues, and also ensure that, if such queues arise, the rate at which such queues will decay will be accelerated. LORI will have the additional benefit of ensuring that metal owners get access to their metal more quickly, thereby aiding the orderly functioning of the market in accordance with the LME's regulatory obligations.

26 LORI would affect the load-out behaviour of all LME-listed warehouses, but is expected to impact, in particular, the rate of queue decay at the two remaining warehouses with embedded queues of over 50 days: Metro Detroit and Pacorini Vlissingen.

27 The graphs below model the expected rate of queue decay in years (as of 22 May 2015) for queues to fall below the 50 day threshold, and the date on which this would be achieved, with and without the proposed implementation of LORI (and, for modelling simplicity,



assuming a 1 December 2015 implementation of LORI, rather than the 14 December 2015 date actually proposed)<sup>6</sup>.



28 There are a number of modelling assumptions underlying these figures. In the first instance, interested parties are asked to refer to Notice 15/071 : A070 : W024 for further detail regarding these modelling assumptions. Any interested party wishing to understand the LME's modelling approach in greater detail, including assumptions, is welcome to contact the LME to arrange such a discussion. This analysis is presented to assist market participants. The LME takes no responsibility for any errors or omissions contained in it and accordingly, market participants should not rely on it. Market participants are encouraged to undertake their own analysis to form their own view on such matters. This analysis can be performed on the basis of the published LILO Rule (including the adjustment to the decay factor), published LME per-warehouse stock and queue data, and proposed increases to load-out rates contained in this notice and the attached Policy (see Appendices A and B).

### Potential issues in respect of LORI

29 LORI would increase the obligations on warehouse companies, particularly those storing large tonnages of metal and those with queues. The potential logistical concerns were described in detail in the 2013 Consultation Report and the Discussion Paper. In short, a material increase in the obligations of warehouse companies could have three serious

<sup>6</sup> Mid case may be marginally better than upside case due to "overcompensation" effect of LILO i.e. the upside case assumes that the warehouse company discontinues load-in, meaning LILO has less impact on subsequent load-out



effects: (a) it is possible that a warehouse company may, for reasons beyond its control or otherwise, be unable to meet its delivery obligations, with negative consequences for the orderly functioning of the market, (b) the obligations on warehouse companies could be increased to the point where a warehouse company had no option but to withdraw from the market, and/or (c) warehouse companies may seek to compensate by increasing rent and FOT charges, which action may be viewed negatively by metal owners.

- 30 However, in respect of effects (a) and (b), the LME believes the rates proposed under LORI are achievable for all warehouses. In particular, the LME notes that – by continuing to load in metal under LILO – warehouses are signalling that they are able to achieve load-out rates in excess of their current levels, and hence their ability to argue that the proposed LORI rates are logistically infeasible is reduced. Indeed, LORI proposes a maximum increase of 1,000 tonnes per day for warehouse companies in a delivery point (each a “DP Warehouse”) storing over 900,000 tonnes. Only one DP Warehouse is currently storing in excess of this amount. In the event this DP Warehouse does not believe it has the logistical capacity to load out in accordance with the combined requirements of LORI and LILO, it has the option to reduce its load-in, or to cease load-in altogether. In this respect, the LME notes that load-out capacity evidenced by warehouses under LILO (as discussed in paragraph 36 below). Additionally, the LME believes it should be possible to increase load-out capability as capacity increases; therefore the increases in the load-out rates proposed by LORI are reasonable and proportionate.
- 31 In respect of effect (c), the LME notes that high levels of rent and FOT are a concern. As set out in the Discussion Paper Results Notice, the LME is proposing to monitor the levels of rent and FOT on an ongoing basis. The LME reserves the right to introduce a cap on rents and FOT rates (subject to consultation), if the issue of high rents, FOT rates and incentives, and the structural problems caused thereby, persist or worsen.

### **Key parameters in respect of LORI**

- 32 In the example set out above, the minimum delivery out rates for warehouses storing less than 150,000 tonnes of metal are unchanged. 150,000 tonnes has been proposed as the threshold: only six DP Warehouses currently have tonnages above this level. Previously the level at which additional obligations took effect was 300,000 tonnes.
- 33 A warehouse storing over 150,000 tonnes must deliver out at least 2,000 tonnes per day. This would be an increase of 500 tonnes per day on current rates and is viewed by the LME as a realistic and achievable level for all warehouses. The LME notes that certain warehouses have already demonstrated capacity to deliver out up to 3,500 tonnes per day (through a combination of the standard load-out rates for warehouses storing over 900,000 tonnes, and the “non-dominant” metal rule).
- 34 A warehouse storing over 300,000 tonnes must deliver out at least 2,500 tonnes per day. This would be an increase of 500 tonnes per day on current rates and is viewed by the LME as a realistic and achievable level for all warehouses. The LME notes that certain warehouses have already demonstrated capacity to deliver out up to 3,500 tonnes per day.





- 35 A warehouse storing over 600,000 tonnes must deliver out at least 3,500 tonnes per day. This would be an increase of 1,000 tonnes per day on current rates and is viewed by the LME as a realistic and achievable level for all warehouses. The LME notes that this is only 500 tonnes above the maximum current daily delivery out rate of 3,000 tonnes per day which applies to warehouses storing over 900,000 tonnes of metal. The LME notes that certain warehouses have already demonstrated capacity to deliver out up to 3,500 tonnes per day.
- 36 A warehouse storing over 900,000 tonnes must deliver out at least 4,000 tonnes per day. This would be an increase of 1,000 tonnes per day on the current maximum rate (or 500 tonnes per day over the current maximum rate, plus the “non-dominant” metal rule). The LME expects that, based on current stock levels and behaviour, only one warehouse company in one location (Vlissingen) would be obligated to deliver out at this rate. The LME is of the view that the affected warehouse company has the logistical capability to deliver out at this rate, and further notes that the affected warehouse company has, since the introduction of LILO, been loading out over 4,500 tonnes per day on a number of days<sup>7</sup>. Other warehouse companies would, of course, have the choice about whether to take on stock above the level of 900,000 tonnes, thereby incurring the additional delivery out rates.

### **Consultation Question 1: Do you have any comments or feedback on the LORI proposal?**

#### **QUEUE-BASED RENT CAPPING (“QBRC”)**

- 37 In addition to LORI, the LME is also consulting on a proposal to implement QBRC with effect from 1 May 2016.

#### **Construction of QBRC**

- 38 The QBRC proposal is set out at section G of the proposed amended Policy (see Appendices A and B). In summary, QBRC contains a new performance obligation on warehouse companies to load out within 30 calendar days. The only sanction for failure to load out within this timescale<sup>8</sup> would be that a warehouse would be able to charge, at most, half its maximum published rent subsequently<sup>9</sup>. If a warehouse fails to load out within 50 calendar days, it would not be able to charge any rent at all subsequently. As of the proposed implementation date, QBRC would apply to all metal on warrant in all warehouses. The LME is proposing to reserve the right, with or without notice, to adjust the parameters of QBRC to suspend its application either on a market-wide basis or on a per-warehouse or per-DP Warehouse basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason. It is proposed that the power to act

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<sup>7</sup> Load-out under LILO is determined by load-in. Load-in is at the discretion of the warehouse company. Therefore it could be argued that a warehouse company loading in at this level is tacitly acknowledging that the consequent load-out is feasible

<sup>8</sup> The LME notes this is in contrast to failure to meet the load-out rates specified in Sections C, D and E of the Policy, where breach would constitute a failure to comply with the Warehouse Agreement which may result in disciplinary action pursuant to the Disciplinary Procedures

<sup>9</sup> This would not affect the ability (as at present) for metal owners to negotiate rent reductions with warehouses





without notice would be reserved for urgent cases where any change would be implemented on a temporary rather than a permanent basis. The LME is not proposing an “exit provision” for QBRC<sup>10</sup>.

## Benefits of QBRC

- 39 QBRC would help to preserve the orderly functioning of the market in accordance with the LME’s regulatory obligations. QBRC would ensure that warrant holders receive prompt access to their metal. The LME believes that somewhere between 30-50 days at most is an appropriate sourcing horizon for physical metal. Therefore, QBRC would be likely to encourage an increased utilisation of the LME as a point of delivery for physical metal. In other words, metal consumers might be more likely to source metal from the LME, rather than in the physical market, in times where they were unable to source metal anywhere else, or where the costs of doing so in the physical market were prohibitively high. As a result, QBRC is also likely to improve the arbitrage between the LME market and the physical market. As documented in the Discussion Paper and the 2013 Consultation Report, one effect of the queues has been to depress the LME price relative to the physical price of metal, as the waiting time for LME metal has been factored into the LME price. QBRC would be expected to improve the efficiency of the price discovery process to ensure that the LME price reflects the underlying price as effectively as possible<sup>11</sup>.
- 40 QBRC would further benefit warrant holders as they would receive rent discounts if their cancelled metal were subject to a queue greater than 30 days, and ensure that they would not pay any rent at all for a queue of over 50 days.
- 41 To the extent that any queues are in existence on the implementation date, or to the extent that queues arise in the future, QBRC would also have the effect of accelerating queue decay<sup>12</sup>. In addition, QBRC would make it less attractive for warehouse operators to allow queues to accumulate, given that such warehouse operators would not receive rent for metal in a queue of over a certain length. In addition, QBRC might reduce the financial attractiveness for warehouse operators to pay incentives which are modelled on queue length. The LME notes that a number of responses to the Discussion Paper assert that queues allow warehouse companies to pay materially increased incentives which may have a distortive effect on the LME’s market. QBRC would ensure that this situation cannot persist.

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<sup>10</sup> The Discussion Paper Results Notice explains the reasons for this

<sup>11</sup> The LME notes that the impact on the LME price could be an issue for certain sections of the market. Indeed, this was noted as an “issue” rather than a “benefit” in the Discussion Paper. However, in light of the responses to the Discussion Paper, and after further consideration, the LME is of the view that improving the efficiency of the price discovery process is important to the fulfilment of the LME’s regulatory obligations and will have beneficial effects for the functioning of the market as a whole

<sup>12</sup> Although there is no guarantee that warehouse companies would choose to load out more quickly – see below



## Potential issues in respect of QBRC

42 QBRC could have the following negative effects:

- (a) As referenced in the Discussion Paper, the possible increase in the LME price which may result from QBRC may be negative for holders of forward short positions. However, the LME believes that the proposed implementation date of 1 May 2016 is likely to ameliorate these concerns, as position holders will have a reasonable period to adjust.
- (b) The Discussion Paper outlined the LME's concerns around the risk of challenge, and the possible impact that uncertainty caused by litigation could have on the LME price, with consequent detrimental effects for the orderly functioning of the market. The LME believes that the risk of challenge is lessened by the proposed implementation date of 1 May 2016. As a result of the delayed proposed implementation date, QBRC will have a less immediate and acute economic impact on warehouses with queues, which may lessen the litigation risk. Further, if litigation is necessary, it should give sufficient time for such litigation to be resolved prior to implementation.
- (c) Concerns were expressed in the Discussion Paper regarding QBRC giving too much power to metal owners, particularly regarding the possibility of warrant holders undertaking (or perhaps threatening) large scale cancellations in order to obtain discounted or zero-cost storage from warehouse companies. A particular concern with QBRC (if implemented immediately) was that it might trigger large scale cancellations which could initially see queues rise rather than fall. The LME believes that such concerns are at least partially ameliorated by the proposed implementation date of 1 May 2016. Furthermore, the likelihood of warrant holder "greenmail" can perhaps be overstated. Such a strategy would require a large concentration of warrants in one location, together with transport and alternative storage for very large volumes of metal: this would be an expensive and possibly risky strategy. Nevertheless, the LME acknowledges that QBRC could, at least in theory, allow metal owners with large amounts of stock in one DP Warehouse more power than they presently have. In order to guard against warrant holder "greenmail" or other abusive behaviour, the LME is proposing to reserve the right, with or without notice, to adjust the parameters of QBRC or to suspend its application either on a market-wide basis or on a per-Warehouse or per-DP Warehouse basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason. The LME notes that, in such circumstances, it may be necessary to implement a temporary suspension on short notice, or even no notice, without any consultation with the market. For the avoidance of doubt, the power to act without notice will be reserved for urgent cases where any change would be implemented on a temporary rather than a permanent basis.
- (d) It is possible that warehouses could respond to QBRC by increasing charges (rents, FOTs or both) in order to counter the limitations placed on the number of days for which rent may be charged. In extremis, it would be possible for warehouses to



simply increase the FOT charge by the amount they expect to lose under QBRC, and hence in overall terms the economics for metal owners would remain unchanged. In order to disincentivise this behaviour on the part of warehouses, the LME, as outlined in the Discussion Paper Results Notice, reserves the right to introduce a cap on rents and FOT rates (subject to consultation), if the issue of high rents, FOT rates and incentives, and the structural problems caused thereby, persist or worsen. In particular, the LME notes the possibility that warehouses could increase charges for the 2016-17 rent year, in an attempt to recoup (during the period between 1 April 2016 and 30 April 2016) the rents which they would expect to lose subsequent to the introduction of QBRC on 1 May 2016. In this respect:

- (i) A substantial increase in the rate of FOT would likely give rise to large-scale warrant cancellations, since the proposed increased rates would be known to the market on 1 January 2016, and cancellations taking place prior to 1 April 2016 would be charged at the previous FOT rate. As such, the potential for warehouses to recoup economics is more limited – however, the effect on the market of a large-scale artificial cancellation (including the likely impact of initially lengthening queues) would be undesirable; and
- (ii) A substantial increase in the rate of rents could be used to recoup expected lost economics under QBRC, and – for metal owners at queued warehouses – would not be avoidable simply via cancellation of the metal.

Accordingly, the LME will pay the closest possible attention to the rates proposed for the 2016-17 rent year. Any attempt by warehouses to “recoup” expected lost rents under QBRC via unreasonable rate rises may trigger the introduction of a charge cap per the Discussion Paper Results Notice.

- (e) The Discussion Paper noted that there is no guarantee, even in the absence of rents being charged, that warehouse operators would choose to load out metal more quickly. On balance, however, it is likely that warehouse companies would load-out more quickly, in order to free up space for metal in respect of which the warehouse company was able to collect income. Furthermore, even if the rate of load-out were not increased, the fact that metal owners would not be compelled to pay rent while sitting in the queue would reduce, to a certain extent, the frictional cost associated with withdrawing metal from the LME network, and hence the discount of the LME price to the “real-world” price of aluminium.

### **Key parameters in respect of QBRC**

- 43 Following feedback from market participants through the Discussion Paper process, and after further consideration, the LME proposes an implementation date of 1 May 2016. The



LME believes that this date represents a point at which, based on queue modelling<sup>13</sup>, the market could reasonably expect all warehouse queues to be below the 50 day threshold, and as such, means that QBRC would be introduced at a point at which all warehouse companies are on a “level playing field” in terms of the potential impact of QBRC. Alternatively, if one or more queues persist as at 1 May 2016, the proposed date ensures there is a “long-stop date” for rent to be charged in queues, after which it is likely that any residual queues should be expected to fall rapidly. Further, as set out above, the proposed timing has two additional advantages: (a) it will have a less immediate and acute economic impact on warehouses with queues, which may lessen the litigation risk<sup>14</sup>, and (b) if litigation is necessary, it should give sufficient time for such litigation to be resolved prior to implementation. The LME has considered carefully whether to implement QBRC on a date later than 1 May 2016. However, a later date may risk affecting the LME’s assurance to the FCA that its warehousing arrangements are operating in a way that enables it to satisfy its regulatory obligations.

- 44 The LME is proposing to set the initial threshold at 30 days, which is viewed by the LME as being an average sourcing horizon for a metal consumer requiring access to metal bought on the LME cash market. The argument would be that it is appropriate that if metal is not available within this timescale, QBRC should begin to penalise the warehouse operator concerned.
- 45 At 50 days, the point at which no further rent may be charged is aligned with the 50 day proposed queue threshold under the LIFO Rule. The reasoning is similar to that of the LIFO Rule, namely the distinction between “operational” and “structural” queues. Queues over 50 days are viewed by the LME as highly likely to be “structural”, and so are precisely the queues which would be targeted most vigorously by QBRC.
- 46 A delay of between 30 and 50 days would result in no more than half rent being charged. This would provide a measured “glide-path” for metal in queues to move from charging full rent to zero rent. The LME believes that this provides a reasonable compromise between the interests of warehouse companies and metal owners.
- 47 The LME believes that it is appropriate for QBRC to apply to all warehouses, rather than just warehouses with existing queues. The LME notes that it is possible for a queue to accumulate at any warehouse. QBRC will help to prevent the accumulation of future queues, and also ensure that, if such queues arise, the rate at which such queues will decay will be accelerated. QBRC will have the additional benefit of ensuring that metal owners get access to their metal more quickly, thereby aiding the orderly functioning of the market in

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<sup>13</sup> The exact rate of queue decay is dependent on a number of factors, including whether and how quickly existing live stock is cancelled, and whether new metal is placed on warrant. For important information relating to modelling approach and assumptions, please see Notice 15/071 : A070 : W024 “Consultation on proposed amendments to the decay factor in the Linked Load-In / Load-Out Rule”

<sup>14</sup> As set out in the Discussion Paper, the LME’s concern was not the risk of litigation per se, but the market disruption which might result from litigation



accordance with the LME's regulatory obligations. The LME notes that, on the basis of its current modelling, the market could reasonably expect that all queues will be below the 50 day threshold by the proposed implementation date of 1 May 2016. Therefore, it is possible that QBRC will not have an immediate impact on any warehouse as of the implementation date. However, it will help to prevent future queues, and act as an important counterbalance to the negative effects of possible future queues.

- 48 For the avoidance of doubt, Warehouses are not required to pay the LME stock levy in respect of rents foregone as a result of QBRC. Warehouses entitled not to pay such stock levy will be responsible for the provision of a reconciliation to the LME of the amount of stock levy which should not be charged as a result of rents foregone pursuant to QBRC. In the event that QBRC is implemented, a notice will be issued to that effect at the appropriate time.

**Consultation Question 2: Do you have any comments or feedback on the QBRC proposal?**

**Consultation Question 3: Are there any other matters you wish the LME to consider in the context of any aspect of the Consultation?**

A handwritten signature in black ink, appearing to read 'Matthew Chamberlain', written over a horizontal line.

**Matthew Chamberlain**  
**Head of Business Development**

Cc: Board Directors  
Warehousing Committee  
Special Committee  
Physical Market Committee  
User Committee  
All metals committees

**List of Appendices**

- APPENDIX A. Proposed LME Policy on the Approval and Operation of Warehouses – blackline to version dated 1 August 2015
- APPENDIX B. Proposed LME Policy on the Approval and Operation of Warehouses – clean

**LME POLICY ON THE APPROVAL AND OPERATION OF WAREHOUSES,  
REVISED [1-AUGUST14 DECEMBER 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~~150,000 tonnes of metal. For DP Warehouses who are storing ~~300~~150,000 tonnes and above, the following table is applicable.

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

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 150,000, 300,000, 600,000 or 900,000 tonnes thresholds, the applicable revised minimum daily delivery tonnage shall have effect from the date which is 30 days from the date the threshold is passed. This will allow the Warehouse to implement the necessary scheduling changes in order to meet the increased minimum daily delivery tonnage. However, where a DP Warehouse's tonnage stored falls beneath any of the 150,000, 300,000, 600,000 or 900,000 tonnes thresholds, a Warehouse will still be required to deliver out all outstanding deliveries scheduled on or prior to the date the tonnage falls beneath such threshold.
4. In addition to the daily rates stipulated above and below, a DP Warehouse who satisfies the following conditions:
  - (a) the DP Warehouse has scheduled delivery out<sup>1</sup> commitments of 30,000 tonnes or more; and
  - (b) a minimum of 30,000 tonnes of those scheduled commitments are for one metal (being the first metal scheduled to be delivered out that day) (the "Daily Dominant Metal");shall be required to deliver out in that Delivery Point a minimum of 500 tonnes per day of a metal other than the Daily Dominant Metal, provided that such deliveries are requested.
5. In addition to the daily delivery out rates referred to in this policy, the DP Warehouse is required to load-out minimum quantities of certain metals in any particular Delivery Point, so as to meet the following requirements:

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



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

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

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

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

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



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

8. In addition to the daily rates stipulated above, an "Affected DP Warehouse" (as defined at paragraph 3 of Section E below) shall be required to comply with the Linked Load-In and Load-Out Requirements set out in Section E below. However, the LME, acting reasonably in its sole discretion, shall have the power to disapply such requirements on a per-case basis. The LME will agree Queue scheduling with Affected DP Warehouses and how this will be monitored. In the event that a DP Warehouse becomes subject to increased minimum load-out requirements under this policy, it is the responsibility of the Warehouse to reschedule the whole Queue for the given Delivery Point, by offering the additional slots to metal owners depending on their order in the Queue (starting with the first metal owners in the Queue).
9. To qualify as a load-out:
  - (a) The load-out must be accompanied by a bill of lading or other document or correspondence (issued by a carrier to the Warehouse or issued by the Warehouse to a carrier), no matter the form of transportation, listing goods for transport and the intended recipient; and
  - (b) The recipient on the document at (a) above cannot be an entity which is an Authorised Warehouse or an off-Warrant warehouse located in the same Delivery Point where the metal is loaded out, if such Authorised Warehouse or off-Warrant warehouse is owned or operated by the Warehouse loading out the metal, or is a company in the Warehouse's Group. In the event that the document at (a) is issued by the Warehouse, then the Warehouse shall be responsible for the veracity of the information contained therein. In the event that the metal owner wishes to keep confidential from the Warehouse the destination of the metal, the Warehouse must contact the LME to discuss bespoke arrangements to demonstrate the load-out of the metal.

Any movement of metal which is not accompanied by a bill of lading or equivalent meeting the requirements of paragraphs (a) and (b) above shall not be counted towards a Warehouse's load-out requirements. Material placed into containers within an Authorised Warehouse may be counted as a load-out by the Warehouse provided that the container is sealed on that day. For the avoidance



of doubt, a high volume of sealed containers should have no impact on the load-out requirements.

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



have been delivered in that slot towards delivery out if it can verify that the empty slot had originally been offered to all metal owners in the Queue.

#### **D) The Premium Contract Rule**

1. DP Warehouses without Queues in a particular Delivery Point are eligible for the delivery of Warrants in that Delivery Point against contracts designated by the LME as “Premium Contracts” (“Premium Warrants”). The specification of Premium Contracts is made by the LME pursuant to the requirements in the “Premium Contract Regulations” set out in the LME Rulebook. Warrants not so endorsed will be referred to as “Standard Warrants”. The ability to endorse Premium Warrants applies at the level of the DP Warehouse. Accordingly, if a Warehouse has a Queue in one Delivery Point, this will not prevent the Warehouse endorsing Premium Warrants at its Authorised Warehouses in a different Delivery Point, provided that the second facility does not have a Queue.
2. In order for a Warehouse to endorse a Warrant as a Premium Warrant, the following conditions must be satisfied:
  - (a) the DP Warehouse must be located in one of the premium regions, as set out in the Premium Contract Regulations;
  - (b) the DP Warehouse must have opted-in to the Premium Warrant regime, by completing the appropriate agreement with the LME - the LME will publish a list of all DP Warehouses which have opted-in to the premium warrant regime; and
  - (c) at the time of endorsement of the Premium Warrant, the DP Warehouse must not have a Queue in respect of any LME metal.
3. A Premium Warrant can only be endorsed if the metal owner so requests, and the Warehouse agrees to do so. There are two routes by which a Premium Warrant may be created:
  - (a) In connection with fresh metal loaded-in to the DP Warehouse, a Warrant is issued in respect of that metal, and is immediately endorsed as a Premium Warrant. Warehouses may set a different rent and FOT rate in respect of Premium Warrants – such rates will be reported to the LME by Warehouses and published annually in the same way as for Standard Warrant rent and FOT rates. As with current metal load-in, no Warehouse is obligated to accept metal for warranting, and metal owners must ensure that Premium Warrant creation capacity is available at their intended DP Warehouse – in particular, it is expected that Warehouses will not wish to warrant more premium metal than they could logistically load-out pursuant to the greater requirements attaching to such metal. However, the LME would expect Warehouses which have opted-in to the Premium Warrant regime not to unreasonably refuse the load-in of metal and the creation of Premium Warrants; or



- (b) An existing Standard Warrant is converted to a Premium Warrant. Warehouses opting-in to the premium warrant regime may indicate whether or not they are prepared to undertake such conversion, and to identify if they wish to charge a conversion fee (the amount of which will be reported to the LME and published annually by the Warehouse) which will be levied in this event. Warehouses may also set a maximum quota (expressed as a tonnage) in respect of the maximum amount of Standard Warrants which they will be prepared to convert to Premium Warrants. This may be important for Warehouses with large stocks of Standard Warrants, and which would not be able to take on the additional requirements were the entire stock to be converted to Premium Warrants. However, within their stated quota, Warehouses will be expected to convert Standard Warrants into Premium Warrants on a non-discriminatory and first-come-first-served basis. Once a Standard Warrant has been converted into a Premium Warrant, then the Warehouse's published Premium Warrant rents and FOTs will apply
- 4. In the event that a Premium Warrant is cancelled and a Queue develops at the DP Warehouse in the Delivery Point, such that any metal owner who, having cancelled a Warrant; paid FOT, or equivalent, and rent; provided shipping instructions; and requested prompt load-out, is told that load-out cannot be completed within 48 hours; the Warehouse will have an immediate duty to inform the LME, which will, within one London business day, announce to the market that the Warehouse will cease to be able to endorse Premium Warrants in that Delivery Point three London business days following such announcement. Warehouses which have cleared their Queues in the relevant Delivery Point will be entitled to resume the issuance of Premium Warrants following the publication by the LME of the next monthly Queues report confirming that no Queues remain. The emergence of a Queue at a DP Warehouse does not change the status of Premium Warrants previously issued by that DP Warehouse - such Warrants remain Premium Warrants.
- 5. However, and notwithstanding the three day adjustment period, metal owners should note that, given the above, the emergence of a Queue at a DP Warehouse may impact their ability to create Premium Warrants in that Delivery Point. Accordingly, those holding short positions in respect of LME Premium Contracts are urged to ensure that they have created the requisite Premium Warrants in good time prior to delivery.
- 6. Where a Queue arises, pursuant to the conditions set out in paragraph D4, the DP Warehouse will have an obligation to load-out metal relating to cancelled Premium Warrants in a separate Queue. The minimum daily load-out rate for such metal will be the higher of:
  - (a) 1,000 tonnes per day; and
  - (b) 3% of the total stock relating to Premium Warrants (live and cancelled) in the DP Warehouse.





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

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

#### **E) Linked Load-In and Load-Out Requirements**

##### 1. Principle

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

##### 2. 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).

The Decay Factor shall be the coefficient applied in the equation at Section E, paragraph 4(b)(i). Until 31 July 2015 (i.e. for use in the First and Second Calculation Periods), the value of the Decay Factor shall be 0.5. From 1 August 2015 (i.e. for use in the Third and subsequent Calculation Periods), the value of the Decay Factor shall be 1.0. For the avoidance of doubt, the current and future values of the Decay Factor remain subject to modification pursuant to Section E, paragraph 6.

### 3. Affected DP Warehouses

On any given Business Day, an Affected DP Warehouse is a DP Warehouse with a Queue of greater than the Queue Threshold (the “Affected DP Warehouse”). Queue lengths will continue to be measured and reported to the LME by DP



Warehouses, with the LME continuing to exercise oversight in respect of such measurements. For the avoidance of doubt, to the extent that a DP Warehouse has scheduled deliveries pursuant to any Incremental Load-Out Requirement arising per this policy, then the Queue length may take into account such incremental scheduled deliveries.

#### 4. Calculating the Incremental Load-Out Requirement

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

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

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

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

less,

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

On the final Business Day of the Preliminary Calculation Period, a DP Warehouse shall establish whether it is an Affected DP Warehouse at the end of that Business Day. If (i) the DP Warehouse is not an Affected DP Warehouse, or (ii) the calculated Cumulative Incremental Load-Out Quantity is less than or equal to zero, then the Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to zero, and no additional



load-out requirements will hence be incurred during the Preliminary Discharge Period. If (i) the DP Warehouse is an Affected DP Warehouse, and (ii) the calculated Cumulative Incremental Load-Out Quantity is greater than zero, then the Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to the Cumulative Incremental Load-Out Quantity in relation to the Preliminary Calculation Period, and must be satisfied by the DP Warehouse during the Preliminary Discharge Period as set out in paragraph 5 below.

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

For each Business Day during the Calculation Period, the Cumulative Load-In will be increased by the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal, steel, RMC nor cobalt).

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

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

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

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



## 5. Discharging the Incremental Load-Out Requirement

At the end of each Calculation Period, the then current Incremental Load-Out Requirement must be satisfied by the DP Warehouse during the Discharge Period associated with the Calculation Period having just concluded, provided load-out demand is present.

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

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

## 6. Adjusting the Decay Factor and/or Queue Threshold

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

## 7. A worked example of the calculation

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

(a) Consider a notional DP Warehouse with stocks of 2,000,000 tonnes of a single metal. Pursuant to the LME Policy Regarding the Approval of Warehouses, revised 1 February 2015, the Normal Daily Minimum Load-Out Rate is 3,000 tonnes per Business Day. Consider further that the DP Warehouse chooses to loadout precisely its Normal Daily Minimum Load-Out Rate (3,000 tonnes) on each Business Day.

(b) Consider that, of the DP Warehouse's stocks, 1,000,000 tonnes are represented by cancelled metal. Assuming that owners of all of the cancelled metal have completed the necessary formalities, then the DP Warehouse's load-out Queue will hold 1,000,000 tonnes of metal. At a load-out rate of 3,000 tonnes per Business Day, the Queue length will be:

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



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

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

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

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

less,

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

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

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

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

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



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

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

On each day during the First Calculation Period, the Cumulative Normal Minimum Load-Out will be increased by the Normal Daily Minimum Load-Out Rate for the Business Day in question – in this case 3,000 tonnes.

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

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

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

plus,

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

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

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

- (i) During the First Discharge Period (1 June 2015 to 31 August 2015), the DP Warehouse will be required to load-out the Incremental Load-Out Requirement relating to the First Calculation Period (102,400 tonnes in total over the course of the First Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day, provided load-out demand is present.
- (j) This process continues through the Second Calculation Period (and associated Second Discharge Period), Third Calculation Period (and





associated Third Discharge Period) and so on, incorporating the increased value of the Decay Factor in the Third and subsequent Calculation Periods, and any increases in load-out requirements as implemented by the LME, until such time as the DP Warehouse ceases to be an Affected DP Warehouse.

#### **F) Continued compliance with the LME policy for Warehouses**

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

#### **G) Queue Based Rent Cap**

The provisions of this Section G shall take effect on [1 May 2016] (the "Effective Date"). The provisions of this Section G shall be referred to as the "Queue Based Rent Cap".

1. A Warehouse shall track the waiting time for delivery out of metal from Cancellation (or, in the case of metal whose Cancellation occurred prior to the Effective Date, from the Effective Date). Notwithstanding any other provisions of this Policy, a Warehouse should generally deliver out metal from its Authorised Warehouses as quickly as possible, and at worst within 30 calendar days of Cancellation. Failure to achieve delivery within this timescale shall result in the Warehouse being obliged to reduce its Rent in accordance with the provisions set out below (but, for the avoidance of doubt, the Warehouse shall not incur any other penalty for failure to meet the timescales set out in this Section G unless in contravention of other provisions of the Policy, Warehouse Agreement or other requirements of the LME).





2. Where the waiting time exceeds 30 calendar days from Cancellation, but before the waiting time exceeds 50 calendar days from Cancellation, the Warehouse shall be permitted to charge at most 50% of its Rent for the cancelled metal; and where the waiting time exceeds 50 calendar days from Cancellation, the Warehouse may not charge any further Rent for the cancelled metal.
3. The LME, acting reasonably, reserves the right, with or without notice, to adjust the parameters of the Queue Based Rent Cap or to suspend its application either on a market-wide basis or on a per-Warehouse or per-DP Warehouse basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason. The power to act without notice will be reserved for urgent cases where any change would be implemented on a temporary rather than a permanent basis.
4. For the avoidance of doubt, Warehouses may still enter into rent discount agreements with metal owners, provided that the maximum rates set out in this Section G are respected.

#### **H) Review of LME policy for Warehouses**

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

#### **I) General Definitions**

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

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

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

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

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

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



"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.

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

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

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

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

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

**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 150,000 tonnes of metal. For DP Warehouses who are storing 150,000 tonnes and above, the following table is applicable.

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

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

3. Where a DP Warehouse's tonnage stored increases beyond any of the 150,000, 300,000, 600,000 or 900,000 tonnes thresholds, the applicable revised minimum daily delivery tonnage shall have effect from the date which is 30 days from the date the threshold is passed. This will allow the Warehouse to implement the necessary scheduling changes in order to meet the increased minimum daily delivery tonnage. However, where a DP Warehouse's tonnage stored falls beneath any of the 150,000, 300,000, 600,000 or 900,000 tonnes thresholds, a Warehouse will still be required to deliver out all outstanding deliveries scheduled on or prior to the date the tonnage falls beneath such threshold.
4. In addition to the daily rates stipulated above and below, a DP Warehouse who satisfies the following conditions:
  - (a) the DP Warehouse has scheduled delivery out<sup>1</sup> commitments of 30,000 tonnes or more; and
  - (b) a minimum of 30,000 tonnes of those scheduled commitments are for one metal (being the first metal scheduled to be delivered out that day) (the "Daily Dominant Metal");shall be required to deliver out in that Delivery Point a minimum of 500 tonnes per day of a metal other than the Daily Dominant Metal, provided that such deliveries are requested.
5. In addition to the daily delivery out rates referred to in this policy, the DP Warehouse is required to load-out minimum quantities of certain metals in any particular Delivery Point, so as to meet the following requirements:
  - (a) Tin: DP Warehouses delivering out the minimum rates stipulated elsewhere in this policy will be required to deliver out an additional daily total of 60 tonnes of tin, which may include the normal course scheduling of metal in

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<sup>1</sup> 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 150,000 tonnes of steel. For DP Warehouses who are storing 150,000 tonnes and above, the following table is applicable:



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

8. In addition to the daily rates stipulated above, an "Affected DP Warehouse" (as defined at paragraph 3 of Section E below) shall be required to comply with the Linked Load-In and Load-Out Requirements set out in Section E below. However, the LME, acting reasonably in its sole discretion, shall have the power to disapply such requirements on a per-case basis. The LME will agree Queue scheduling with Affected DP Warehouses and how this will be monitored. In the event that a DP Warehouse becomes subject to increased minimum load-out requirements under this policy, it is the responsibility of the Warehouse to reschedule the whole Queue for the given Delivery Point, by offering the additional slots to metal owners depending on their order in the Queue (starting with the first metal owners in the Queue).
  9. To qualify as a load-out:
    - (a) The load-out must be accompanied by a bill of lading or other document or correspondence (issued by a carrier to the Warehouse or issued by the Warehouse to a carrier), no matter the form of transportation, listing goods for transport and the intended recipient; and
    - (b) The recipient on the document at (a) above cannot be an entity which is an Authorised Warehouse or an off-Warrant warehouse located in the same Delivery Point where the metal is loaded out, if such Authorised Warehouse or off-Warrant warehouse is owned or operated by the Warehouse loading out the metal, or is a company in the Warehouse's Group. In the event that the document at (a) is issued by the Warehouse, then the Warehouse shall be responsible for the veracity of the information contained therein. In the event that the metal owner wishes to keep confidential from the Warehouse the destination of the metal, the Warehouse must contact the LME to discuss bespoke arrangements to demonstrate the load-out of the metal.
- Any movement of metal which is not accompanied by a bill of lading or equivalent meeting the requirements of paragraphs (a) and (b) above shall not be counted towards a Warehouse's load-out requirements. Material placed into containers within an Authorised Warehouse may be counted as a load-out by the Warehouse provided that the container is sealed on that day. For the avoidance of doubt, a high volume of sealed containers should have no impact on the load-out requirements.
10. Once all formalities permitting delivery, including payment of applicable delivery out charges (including without limitation Free on Truck charges ("FOT") or equivalent for other modes of transport), have been completed, the Warehouse





shall endeavour to process requests for deliveries out on the basis of 48 hours' notice and strictly in the order in which they are received, unless the Warrant holders seeking cancellation agree otherwise. The FOT charges imposed by a Warehouse shall be the rates published at the date of cancellation not at the date of delivery.

11. Warehouses shall publish (on their website or other appropriate method) a clear process for scheduling and handling delivery slots (including required documents, timing of operations, etc.).
12. Warehouses are required to supply the LME with their current rent and FOT charges. In addition, Warehouses are also required to publish on their website in an easily accessible manner the current level of charges in respect of (i) Free on Rail, (ii) Free Alongside, (iii) Free in Container Yard (which, for the avoidance of doubt, shall relate to the cost of packing a container at a facility nominated by the Warehouse, with the cost of transportation of such container to and from the facility being for the account of the metal owner), (iv) metal re-warranting, and (v) slot rescheduling at the request of the metal owner. Certain of these charges may not be applicable given the transportation modes available at the Delivery Point, in which case this should be noted on the website. Warehouses may not charge fees for these services that exceed the levels published on their website, and may not impose any other compulsory charges on metal owners in respect of these logistical activities, other than those so published.
13. With the exception of inland Delivery Points, there should be no charges above the FOT for transferring metal to the Warehouse's approved and nominated loading berths (as advised to the LME in schedule B of the warehouse application); the unloading of such metal from the truck being for the receiver's account.
14. There should be no charges above the FOT for transferring metal to the nearest railhead in Delivery Points situated in the countries referred to in section B3 above (as advised to the LME in schedule B of the warehouse application); the loading of such metal onto a railcar being for the receiver's account.
15. Warehouses are reminded that, in general, the daily delivery tonnages set out in this policy are minimum delivery out requirements, not minimum scheduling requirements. However, metal owners are also reminded of their obligations in respect of observing reasonable logistical arrangements in respect of metal collection. In particular, in the event that no metal owner wishes to avail themselves of a delivery slot offered on a reasonable basis and at a reasonable time of day, a Warehouse will be permitted to count the tonnage which would have been delivered in that slot towards delivery out if it can verify that the empty slot had originally been offered to all metal owners in the Queue.



## **D) The Premium Contract Rule**

1. DP Warehouses without Queues in a particular Delivery Point are eligible for the delivery of Warrants in that Delivery Point against contracts designated by the LME as “Premium Contracts” (“Premium Warrants”). The specification of Premium Contracts is made by the LME pursuant to the requirements in the “Premium Contract Regulations” set out in the LME Rulebook. Warrants not so endorsed will be referred to as “Standard Warrants”. The ability to endorse Premium Warrants applies at the level of the DP Warehouse. Accordingly, if a Warehouse has a Queue in one Delivery Point, this will not prevent the Warehouse endorsing Premium Warrants at its Authorised Warehouses in a different Delivery Point, provided that the second facility does not have a Queue.
2. In order for a Warehouse to endorse a Warrant as a Premium Warrant, the following conditions must be satisfied:
  - (a) the DP Warehouse must be located in one of the premium regions, as set out in the Premium Contract Regulations;
  - (b) the DP Warehouse must have opted-in to the Premium Warrant regime, by completing the appropriate agreement with the LME - the LME will publish a list of all DP Warehouses which have opted-in to the premium warrant regime; and
  - (c) at the time of endorsement of the Premium Warrant, the DP Warehouse must not have a Queue in respect of any LME metal.
3. A Premium Warrant can only be endorsed if the metal owner so requests, and the Warehouse agrees to do so. There are two routes by which a Premium Warrant may be created:
  - (a) In connection with fresh metal loaded-in to the DP Warehouse, a Warrant is issued in respect of that metal, and is immediately endorsed as a Premium Warrant. Warehouses may set a different rent and FOT rate in respect of Premium Warrants – such rates will be reported to the LME by Warehouses and published annually in the same way as for Standard Warrant rent and FOT rates. As with current metal load-in, no Warehouse is obligated to accept metal for warranting, and metal owners must ensure that Premium Warrant creation capacity is available at their intended DP Warehouse – in particular, it is expected that Warehouses will not wish to warrant more premium metal than they could logistically load-out pursuant to the greater requirements attaching to such metal. However, the LME would expect Warehouses which have opted-in to the Premium Warrant regime not to unreasonably refuse the load-in of metal and the creation of Premium Warrants; or
  - (b) An existing Standard Warrant is converted to a Premium Warrant. Warehouses opting-in to the premium warrant regime may indicate whether or not they are prepared to undertake such conversion, and to identify if they



wish to charge a conversion fee (the amount of which will be reported to the LME and published annually by the Warehouse) which will be levied in this event. Warehouses may also set a maximum quota (expressed as a tonnage) in respect of the maximum amount of Standard Warrants which they will be prepared to convert to Premium Warrants. This may be important for Warehouses with large stocks of Standard Warrants, and which would not be able to take on the additional requirements were the entire stock to be converted to Premium Warrants. However, within their stated quota, Warehouses will be expected to convert Standard Warrants into Premium Warrants on a non-discriminatory and first-come-first-served basis. Once a Standard Warrant has been converted into a Premium Warrant, then the Warehouse's published Premium Warrant rents and FOTs will apply

4. In the event that a Premium Warrant is cancelled and a Queue develops at the DP Warehouse in the Delivery Point, such that any metal owner who, having cancelled a Warrant; paid FOT, or equivalent, and rent; provided shipping instructions; and requested prompt load-out, is told that load-out cannot be completed within 48 hours; the Warehouse will have an immediate duty to inform the LME, which will, within one London business day, announce to the market that the Warehouse will cease to be able to endorse Premium Warrants in that Delivery Point three London business days following such announcement. Warehouses which have cleared their Queues in the relevant Delivery Point will be entitled to resume the issuance of Premium Warrants following the publication by the LME of the next monthly Queues report confirming that no Queues remain. The emergence of a Queue at a DP Warehouse does not change the status of Premium Warrants previously issued by that DP Warehouse - such Warrants remain Premium Warrants.
5. However, and notwithstanding the three day adjustment period, metal owners should note that, given the above, the emergence of a Queue at a DP Warehouse may impact their ability to create Premium Warrants in that Delivery Point. Accordingly, those holding short positions in respect of LME Premium Contracts are urged to ensure that they have created the requisite Premium Warrants in good time prior to delivery.
6. Where a Queue arises, pursuant to the conditions set out in paragraph D4, the DP Warehouse will have an obligation to load-out metal relating to cancelled Premium Warrants in a separate Queue. The minimum daily load-out rate for such metal will be the higher of:
  - (a) 1,000 tonnes per day; and
  - (b) 3% of the total stock relating to Premium Warrants (live and cancelled) in the DP Warehouse.

For the avoidance of doubt, load-out obligations in respect of Premium Warrants are in addition to load-out obligations for Standard Warrants. In particular, the basis on which minimum load-out rates for Standard Warrants are calculated



takes into account total stored tonnage in the DP Warehouse, related to both Standard Warrants and Premium Warrants.

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

## **E) Linked Load-In and Load-Out Requirements**

### 1. Principle

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

### 2. LILO Rule Definitions

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

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

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

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

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

For each subsequent Calculation Period, the related Discharge Period (i.e. the period during which the Incremental Load-Out Requirement calculated in accordance with paragraph 4 below must be met) shall be the three month



period starting on the date one calendar month following the end of that Calculation Period (the “Discharge Period”). By way of example, the First Discharge Period shall be the period between 1 June 2015 and 31 August 2015, inclusive (being the three month period starting on the date one calendar month following the end of the First Calculation Period) (the “First Discharge Period”).

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

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

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

The Decay Factor shall be the coefficient applied in the equation at Section E, paragraph 4(b)(i). Until 31 July 2015 (i.e. for use in the First and Second Calculation Periods), the value of the Decay Factor shall be 0.5. From 1 August 2015 (i.e. for use in the Third and subsequent Calculation Periods), the value of the Decay Factor shall be 1.0. For the avoidance of doubt, the current and future values of the Decay Factor remain subject to modification pursuant to Section E, paragraph 6.

### 3. Affected DP Warehouses

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



arising per this policy, then the Queue length may take into account such incremental scheduled deliveries.

#### 4. Calculating the Incremental Load-Out Requirement

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

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

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

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

less,

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

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





than zero, then the Incremental Load-Out Requirement for the Preliminary Calculation Period shall be set to the Cumulative Incremental Load-Out Quantity in relation to the Preliminary Calculation Period, and must be satisfied by the DP Warehouse during the Preliminary Discharge Period as set out in paragraph 5 below.

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

For each Business Day during the Calculation Period, the Cumulative Load-In will be increased by the amount of new metal placed on-warrant in the DP Warehouse on the Business Day in question (which, for the avoidance of doubt, shall not include Re-warranted Metal, steel, RMC nor cobalt).

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

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

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

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

## 5. Discharging the Incremental Load-Out Requirement

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





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

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

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

#### 6. Adjusting the Decay Factor and/or Queue Threshold

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

#### 7. A worked example of the calculation

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

- (a) Consider a notional DP Warehouse with stocks of 2,000,000 tonnes of a single metal. Pursuant to the LME Policy Regarding the Approval of Warehouses, revised 1 February 2015, the Normal Daily Minimum Load-Out Rate is 3,000 tonnes per Business Day. Consider further that the DP Warehouse chooses to loadout precisely its Normal Daily Minimum Load-Out Rate (3,000 tonnes) on each Business Day.
- (b) Consider that, of the DP Warehouse's stocks, 1,000,000 tonnes are represented by cancelled metal. Assuming that owners of all of the cancelled metal have completed the necessary formalities, then the DP Warehouse's load-out Queue will hold 1,000,000 tonnes of metal. At a load-out rate of 3,000 tonnes per Business Day, the Queue length will be:
  - (i) 1,000,000 tonnes / 3,000 tonnes per Business Day
  - (ii) = 333.3 Business Days
  - (iii) = 465.3 calendar days (assuming all weekdays are Business Days)

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



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

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

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

less,

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

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

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

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

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

- (f) During the Preliminary Discharge Period (1 March 2015 to 31 May 2015), the DP Warehouse will be required to load-out the Incremental Load-Out Requirement relating to the Preliminary Calculation Period (41,500 tonnes in



total over the course of the Preliminary Discharge Period), in addition to its Normal Daily Minimum Load-Out Rate of 3,000 tonnes per Business Day.

- (g) At the start of the First Calculation Period (1 February 2015), the Cumulative Load-In and Cumulative Normal Minimum Load-Out are set to zero.

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

On each day during the First Calculation Period, the Cumulative Normal Minimum Load-Out will be increased by the Normal Daily Minimum Load-Out Rate for the Business Day in question – in this case 3,000 tonnes.

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

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

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

plus,

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

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

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

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



until such time as the DP Warehouse ceases to be an Affected DP Warehouse.

#### **F) Continued compliance with the LME policy for Warehouses**

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

#### **G) Queue Based Rent Cap**

The provisions of this Section G shall take effect on 1 May 2016 (the "Effective Date"). The provisions of this Section G shall be referred to as the "Queue Based Rent Cap".

1. A Warehouse shall track the waiting time for delivery out of metal from Cancellation (or, in the case of metal whose Cancellation occurred prior to the Effective Date, from the Effective Date). Notwithstanding any other provisions of this Policy, a Warehouse should generally deliver out metal from its Authorised Warehouses as quickly as possible, and at worst within 30 calendar days of Cancellation. Failure to achieve delivery within this timescale shall result in the Warehouse being obliged to reduce its Rent in accordance with the provisions set out below (but, for the avoidance of doubt, the Warehouse shall not incur any other penalty for failure to meet the timescales set out in this Section G unless in contravention of other provisions of the Policy, Warehouse Agreement or other requirements of the LME).



2. Where the waiting time exceeds 30 calendar days from Cancellation, but before the waiting time exceeds 50 calendar days from Cancellation, the Warehouse shall be permitted to charge at most 50% of its Rent for the cancelled metal; and where the waiting time exceeds 50 calendar days from Cancellation, the Warehouse may not charge any further Rent for the cancelled metal.
3. The LME, acting reasonably, reserves the right, with or without notice, to adjust the parameters of the Queue Based Rent Cap or to suspend its application either on a market-wide basis or on a per-Warehouse or per-DP Warehouse basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason. The power to act without notice will be reserved for urgent cases where any change would be implemented on a temporary rather than a permanent basis.
4. For the avoidance of doubt, Warehouses may still enter into rent discount agreements with metal owners, provided that the maximum rates set out in this Section G are respected.

#### **H) Review of LME policy for Warehouses**

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

#### **I) General Definitions**

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

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

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

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

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

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

"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.

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

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

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

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