

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

Ref: 15/372 : A359 : W121

Date: 25 November 2015

Subject: **AMENDMENTS TO THE POLICY ON APPROVAL AND OPERATION OF WAREHOUSES (IMPLEMENTATION OF LORI AND QBRC) AND CLARIFICATION OF CERTAIN POINTS RELATING TO THE LME'S PHYSICAL DELIVERY NETWORK**

Summary

1. Following two market-wide consultations, the LME is today announcing that it will implement a near-term increase in the standard load-out rate ("LORI") and a queue-based rent cap ("QBRC"). This Notice:
 - (a) considers the feedback received to Notice 15/191 : A187 : W063 (the "LORI/QBRC Consultation Notice"), which initiated a market-wide consultation on proposed amendments to its physical network (the "LORI/QBRC Consultation"), specifically the proposed implementation of LORI and QBRC;
 - (b) considers the feedback received to Notice 15/302 : A294 : W103 (the "Anti-Abuse Consultation Notice") which initiated a further two-week consultation to allow for comments on proposed anti-abuse provisions which would govern the application of QBRC (the "Anti-Abuse Consultation");
 - (c) considers timetables and next steps for implementation; and
 - (d) explains the definition of "Cancellation" and sets out more details regarding the acceptable payment of incentives by warehouse operators.

Background

2. On 2 March 2015, the LME issued a Discussion Paper relating to possible reforms of its warehousing policy and physical delivery network (the "Discussion Paper", Notice 15/072 : A071 : W025), specifically, eight warehouse reform proposals which were variously aimed at addressing: (i) the impact of existing queues; (ii) the emergence of potential future queues; and (iii) the levels of rent and FOTs charged by warehouse companies.
3. On 1 July 2015, the LME released Notice 15/190 : A186 : W062 (the "Discussion Paper Results Notice") which announced the outcome of the Discussion Paper and outlined the LME's rationale for further reform and its proposed route forward to consult on the implementation of LORI and QBRC, and adopt a "wait and see" approach in respect of charge-capping ("CC").



4. As noted above, on 1 July 2015, the LORI/QBRC Consultation Notice initiated a six week LORI/QBRC Consultation with all members, warehouse companies, London agents and other interested parties regarding the LME's proposal to introduce both LORI and QBRC. The LORI/QBRC Consultation Notice explained the background to, and reasons for, the proposed reforms, the proposed rules for their operation and management and a proposed timetable for implementation.
5. Following feedback received in respect of the LORI/QBRC Consultation, on 30 September 2015 the LME announced that it was minded to introduce LORI and QBRC but that it recognised the validity of concerns raised about the potentially abusive application of QBRC by warrant holders. Accordingly, the LME initiated the Anti-Abuse Consultation which closed on Wednesday 14 October 2015.
6. This Notice should be read alongside the Discussion Paper, the Discussion Paper Results Notice, the LORI/QBRC Consultation Notice and the Anti-Abuse Consultation Notice.
7. Capitalised terms not otherwise defined herein shall have the meaning ascribed to them in the Warehouse Agreement (the "Agreement") and the Policy on Approval and Operation of Warehouses (the "Policy", being, for the avoidance of doubt, the proposed new version attached to this Notice).

Consultation outcome

8. As outlined above, following the LORI/QBRC Consultation and the Anti-Abuse Consultation, the LME is today announcing its intention to implement LORI and QBRC. Specifically, these reform measures are:
 - (a) an increase in the standard load-out rate (referred to as a load-out rate increase or "LORI") as of 1 March 2016. As explained in detail in the LORI/QBRC Consultation Notice, LORI involves: (i) a reduction in the threshold at which the higher band of load-out rates take effect from 300,000 tonnes to 150,000 tonnes; and (ii) an increase in the load-out rate for each of the higher bands, with the highest standard load-out rate being 4,000 tonnes per day (rather than the previous 3,000 tonnes per day) for warehouses storing over 900,000 tonnes of metal; and
 - (b) a queue-based rent cap ("QBRC") as of 1 May 2016. As explained in detail in the LORI/QBRC Consultation Notice, QBRC contains a new performance obligation on warehouse companies to load out within 30 calendar days. Under QBRC, a warehouse which fails to load out within this timeframe is only able to charge, at most, half its maximum published rent subsequently. If a warehouse fails to load out within 50 calendar days, it would not be able to charge any rent at all subsequently. The QBRC rule will include measures designed to protect against any potentially abusive applications, for example, warrant holders cancelling large



clips of metal to create load-out queues which would, in time, allow them to benefit from either lower rent, or no rent at all.

9. Attached to this Notice is the revised Policy that the LME will introduce, which contains amendments for the purposes of bringing LORI and QBRC into force.
10. The changes from the version in the LORI/QBRC Consultation Notice are: (i) the modification to the LORI start date; and (ii) the addition of the anti-abuse measures which will govern the use of QBRC. The Policy is consistent with the version presented in the Anti-Abuse Consultation Notice.
11. This version of the Policy will take effect on 1 March 2016, being the start date for the implementation of LORI. This implementation timetable also satisfies the 90 days' contractual notice period stipulated in the Agreement.

The LME's financial interest

12. 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 LORI/QBRC Consultation and the Anti-Abuse 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; this is also important to the LME's value as an ongoing business.

The structure of this Notice

13. The LME received thirteen responses to the LORI/QBRC Consultation. Broadly, four supported the implementation of LORI and QBRC, three offered moderate support for either LORI or QBRC, four were opposed, one was ambiguous and one did not directly deal with the matters under consultation, but made a broader comment about market structure. Some responses offered potential amendments to LORI, QBRC or both.
14. The LME has read and considered all responses. The fact that any particular item raised in any particular response is not expressly included in this Notice does not indicate that the LME has not taken account of it.
15. The analysis of LORI and QBRC in this Notice mirrors the analytical framework set out in the Discussion Paper Results Notice and, as in that Notice, is designed to facilitate the LME in acting proportionately and objectively. Further to the Discussion Paper Results Notice, to which any interested party is encouraged to refer for further information (along with the LORI/QBRC Consultation Notice and the Anti-Abuse Consultation Notice), this Notice outlines the following:



Section A: The need for further action to address queues and the LME's responses to this feedback;

Section B: The reasons for adopting LORI and QBRC, including analysis of the following questions:

B.1 Does LORI/QBRC comply with the principle of proportionality? In particular:

- (a) Is LORI/QBRC capable of meeting the relevant objectives?
- (b) What are the most pertinent arguments for LORI/QBRC?
- (c) What are the most pertinent arguments against LORI/QBRC?
 - (c.1) For QBRC only – consideration of market feedback regarding the anti-warrantholder abuse provisions proposed in the Anti-Abuse Consultation
- (d) Are there any other, less restrictive means of achieving the same objective(s)?
- (e) Would the negative effects of LORI/QBRC be too great to justify implementation?
- (f) Is LORI/QBRC likely to have an effect on competition (noting that, for each proposal, even if it is likely to have an effect on competition, it may still be justifiable and proportionate)?

B.2 Does LORI/QBRC seek to achieve a regulatory, prudential or organisational objective?

Section C: General discussion regarding the LORI/QBRC Consultation and other issues; and

Section D: The definition of "Cancellation" and clarification regarding the acceptable payment of incentives by warehouse operators.

Section A: The need for further action to address queues and the LME's response to this feedback

Overview

16. At the heart of the LME's rationale for adopting LORI and QBRC is the fact that, notwithstanding the LME having implemented a series of other market reforms in recent years, queues at certain warehouses have persisted and are adversely affecting the functioning of the LME's market and the trading of its contracts. This, in turn, has affected the LME's ability to demonstrate and provide its regulators, particularly the Financial Conduct Authority ("FCA"), with assurance that the LME has arrangements in place that will ensure that its warehousing arrangements operate in a way that enables the LME to continue to satisfy its regulatory obligations.



17. The Discussion Paper and the 2013 Consultation Report noted the persistence of factors which have been viewed by certain sections of the market as problematic. These include: (i) high rates of rent and FOT charged by warehouses in comparison with historical levels (and also rates for off-warrant storage), and (ii) queues at certain warehouses. The information which follows summarises and supplements those documents.

Rent and FOT

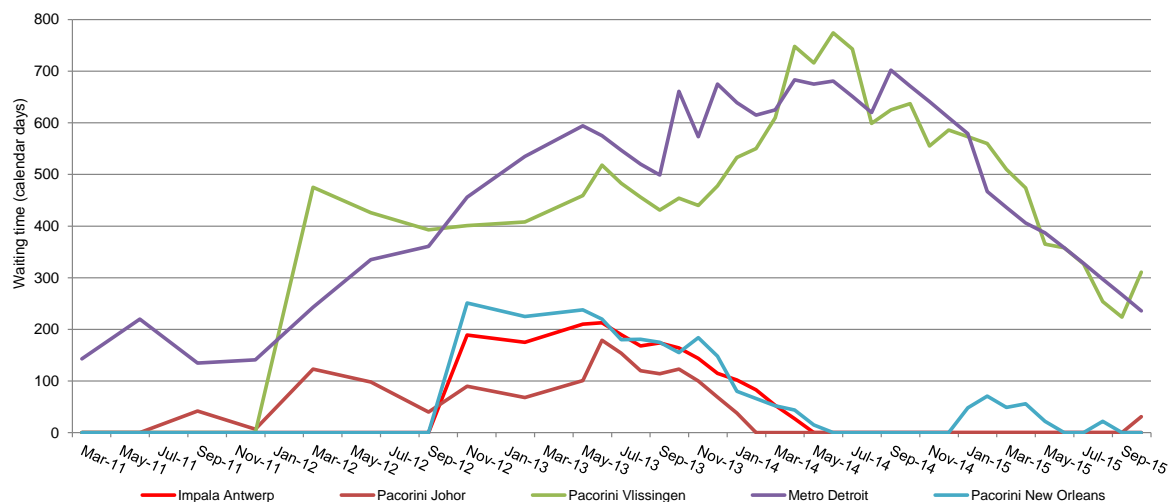
18. Headline LME rent and FOT rates have increased significantly in recent years. Charge increases from 2012/2013 to 2013/2014 were 7% for rent and 8% for FOT (computed as a stock-weighted average to accurately reflect the real financial implications). Following a call for voluntary restraint in respect of rate rises from the LME, for 2013/2014 to 2014/2015 the rate rises decreased to 3% and 2% respectively. From 2014/2015 to 2015/2016 (based on November 2014 stocks figures) charge increases were 3% and 2% respectively. In any event, and regardless of the rate of year-on-year increase, the LME understands that absolute levels of rent and FOT charged by warehouses for on-warrant metal are often significantly higher than off-warrant (i.e. non-LME) rates, even for metal of the same grade stored in the same location (although it should be noted that there is no published data regarding off-warrant material, so direct comparisons are difficult).
19. The LME's market exhibits some unique features which mean that there is very little downward pressure on LME rent and FOT rates. When a metal owner places metal on warrant, they have two options: (a) they may retain the warrant, or (b) they may sell the warrant through the Exchange. Where the metal owner intends to keep the warrant under model (a), or to sell the warrant bilaterally to a counterparty who will factor frictional costs of storage into the purchase price, that metal owner may be motivated to negotiate rent and FOT rates with the warehouse company. However, under model (b), the metal owner will sell the metal on the LME immediately upon, or shortly after, placing it on warrant (after which the metal may change hands a number of times before it is withdrawn from the warehouse). In this case, because negotiating lower rent and / or FOT rates for the particular metal being sold on the LME would not affect the price achieved on the LME, the metal owner has no motivation to negotiate rent and FOT rates with the warehouse company. Instead, the LME understands that it has become common practice for warehouse operators to offer financial incentives to metal owners to attract load-in of metal. These incentives are funded by the rent and FOT paid by the subsequent acquirer(s) of the warrant on the LME.
20. So, in summary, the party putting the metal on warrant with the intention of selling that warrant on the LME has no motivation to negotiate rents and FOT rates; in contrast, the subsequent acquirer of the warrant on the LME has no leverage over rents and FOT rates. The warehouse company will fund incentives through the profit element of FOTs, the rent paid by the acquirer of the warrant in the normal course of post-settlement storage, and the rent paid in queues (if such queues exist).



21. Because of the lack of downward pressure on rent and FOT rates, the LME understands that warehouse companies compete on incentives offered, rather than rent and FOT rates. Often such incentives will take the form of discounts on the published LME rent and FOT rates during any period of storage funded by the original metal owner prior to sale on the LME, but they may also take a number of other forms, such as free or discounted shipping or cash payments.
22. The LME believes that the level of incentive payments is an issue, both in the absence of queues (in which circumstance high levels of FOTs are the general route by which incentives are funded), and in the presence of queues (where high levels of rent contribute to the existence of persistently long queues). Incentive payments, rents and FOTs interact in a deterministic way, with high FOTs acting to lock in rents. The higher the rents and FOTs, the higher the financial incentives the warehouse operator can offer the metal owner. It is a self-reinforcing system. The large majority of metal loaded-in with the intention by the metal owner of immediate sale on the LME will be attracted, through the incentive mechanism, to warehouses with queues. This situation, combined with the fact that warrants in non-queued warehouses generally are not used in settlement, ensures that the vast majority of warrants used in LME settlement are located in warehouses with queues. The net effect is that a situation prevails in which queues are longer than desirable for the LME system as a whole.

Queues

23. The LME notes that long queues persist at Metro Detroit and Pacorini Vlissingen. Although the queues at these warehouses had been falling until late-October 2015, they remain higher than is desirable for the orderly functioning of the market. In order for the LME to be able to continue to demonstrate and provide the FCA with assurance that the LME's warehousing arrangements operate so as to allow the LME to continue to satisfy its regulatory obligations, the LME (together with large sections of the market) believes that further action is necessary to accelerate the rate of queue decay and prevent queues arising in the future. The graph below shows the longest waiting time in calendar days at the five warehouses with queues on 1 July 2013 (being the start of the LME's 2013 warehousing consultation).



Queue development at warehouses with queues as at 1 July 2013 (data as at 31 October 2015)

24. Long and persistent queues are damaging because they may inhibit the LME's price discovery process by limiting or preventing arbitrage between the LME and the physical market, increase physical premiums, damage the credibility of the LME system and thereby undermine the confidence of producers and consumers of metals in the LME price.
25. Queues make arbitrage more complex for three reasons:
 - (a) rent must be paid while metal is in the queue;
 - (b) the length of the queue is uncertain; and
 - (c) there are other uncoded inconveniences (for example, the impact of market movements during the period in which the metal sits in the queue).
26. In simple terms, queues depress the LME price compared to the "real world" or "all-in" price of metal, given that a buyer of an LME warrant must bear greater frictional costs to obtain that metal in a usable form, and hence will ascribe a discount to the value of that warrant.
27. Because the price of metal on the LME relates, through the possibility of physical delivery, to the value of the "least valuable" warrant, or "worst warrant", on the market, the effect of queues is to depress the LME price, and to create a discount between the LME price and the "real-world" price (which is generally observed by the market as the "real-world" price trading at a premium to the LME price). This can be damaging to the price discovery process because this reduction in value is a result of warrant cancellations and LME load-out requirements, rather than a result of developments in the physical market. Changes in the LME price are thus driven by changes in queue lengths, as well as to physical supply and demand.



28. It is of particular concern that long queues may have a significant impact on the value of warranted metal, because any warrants whose value is significantly lowered will be used to settle Exchange contracts, and thereby set the LME price. Prices that are “discovered” on the LME platforms are used as the global benchmark and basis for physical trading, valuation of portfolios and in commodity indices and metal ETFs. All of the value chain sectors (concentration, smelting, refining and metal products) use the LME price as a basis for their physical purchases and sales.

Market impacts

29. An LME-listed warehouse that does not charge high rents or FOTs may find that metal is withdrawn. In order to maintain its business, therefore, it may increase its charges or offer incentives to bring metal on warrant. If it offers incentives it will likely in any event have to raise its rents and FOTs to fund the cost of the incentives it offers. A warehouse company without queues will find it difficult to compete with a warehouse company with queues, given that a queue guarantees the warehouse company revenue for at least the duration of the queue. High incentives and the then necessarily high rents and FOTs risk artificially depressing the value of metal on the LME, affecting confidence in the proper operation of the market and price formation on which the physical market depends.
30. Notwithstanding the reforms to its physical delivery network which the LME has undertaken to date, and due partially to the delay to the introduction of the Linked Load-In / Load-Out Rule (“LILO”) caused by legal proceedings, there continues to be a dislocation between the LME price and the price of equivalent metal in the physical market. The graph below shows the development of the premium percentage of the “all-in” price of US Midwest aluminium (which is made up of the LME price plus the US Midwest premium) from the start of January 2008 to 13 November 2015.

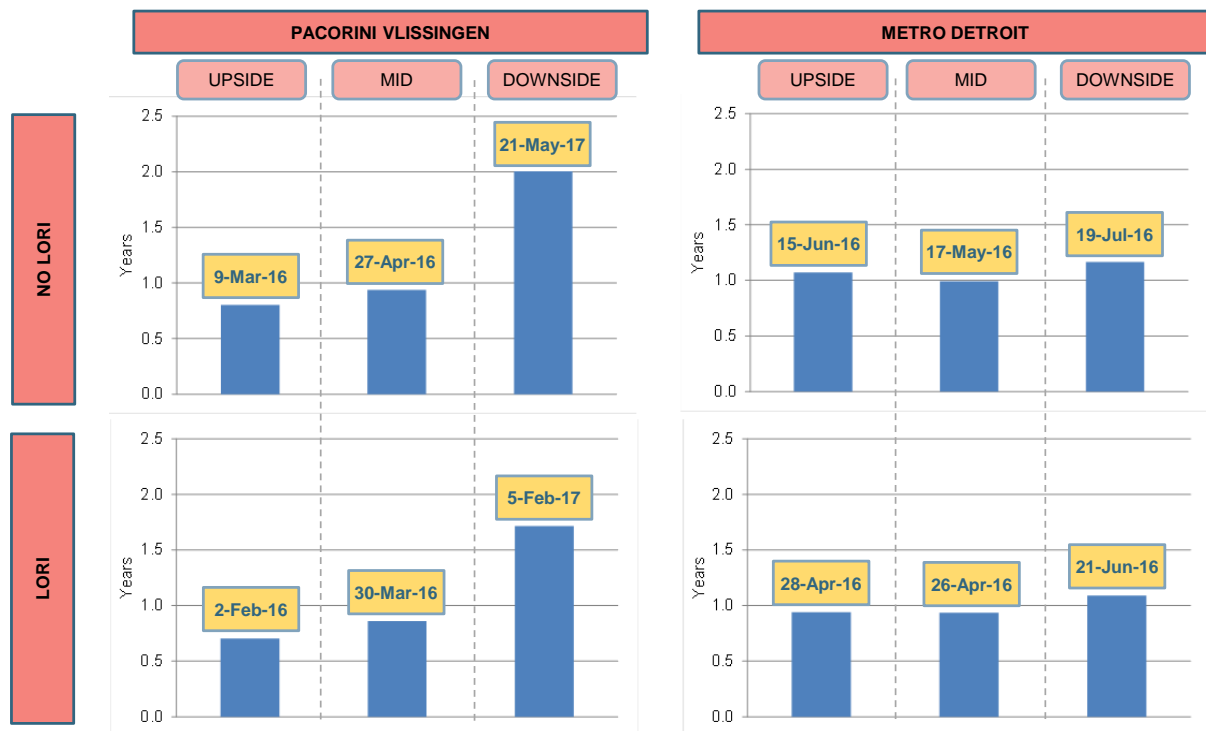


Premium percentage of “all-in” LME aluminium price (LME price + US Midwest premium per Metal Bulletin), from 1-Jan-08 to 13-Nov-15 inclusive

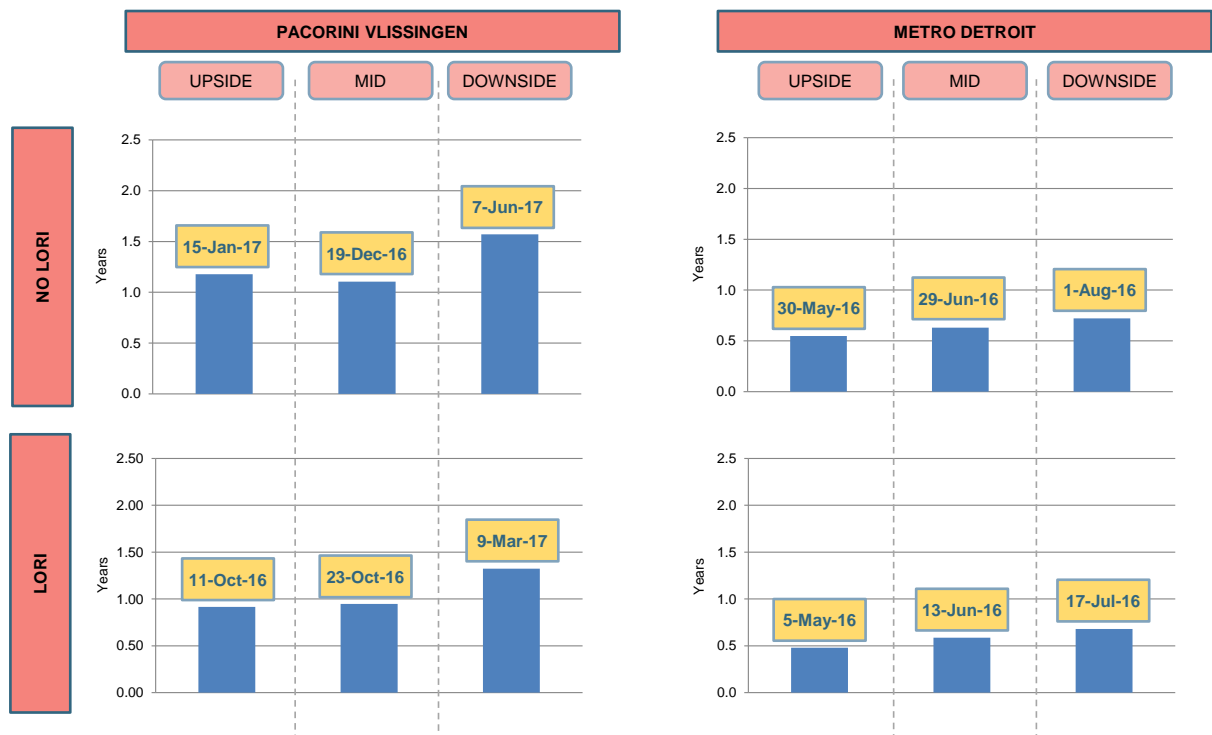


31. The price dislocation, together with the persistent queues at two warehouses, continues to pose a threat to the smooth and orderly functioning of the LME's market and the reliability and integrity of the LME's price discovery arrangements. They therefore also affect the LME's assurance to the FCA described above.
32. In order for the LME to be able to continue to demonstrate and to provide the FCA with assurance that the LME's warehousing arrangements operate so as to allow the LME to continue to satisfy its regulatory obligations, the LME considered in the Discussion Paper whether it should take further action to address these issues. This included whether and how:
 - (a) the existing queues at Vlissingen and Detroit could be reduced more quickly than could be achieved under the current load-out rates and LIFO (including the revised decay factor); and
 - (b) changes could be made to address structural factors which may have the effect of incentivising and perpetuating the development and elongation of queues. Given the issues which queues cause, it is important to ensure both that the existing queues are addressed, and that sufficient measures are put in place to mitigate, manage, and control queues in the future.
33. In this context, it is important to comment on recent further cancellation activity at Pacorini Vlissingen. Between 26 October and 13 November 2015, a total of 556,100 tonnes of primary aluminium warrants were cancelled at this DP Warehouse. This has had the impact of materially increasing queues – the impact of cancellations which took place before 31 October 2015 can be seen on the queues graph above, but the cancellations which took place after that date will have the impact of further lengthening the queue. Because Pacorini Vlissingen currently has the longest queue in the LME network, this is important in respect of the waiting time for the “marginal warrant” (i.e. a warrant obtained by a buyer on the LME's cash market, which by definition drives the price of the LME contract) delivered as a result of trading on the LME market.
34. In particular, this has the impact of changing the queue decay modelling¹ presented in the LORI/QBRC Consultation Notice. For reference, the data presented in the LORI/QBRC Consultation Notice was as follows (showing the time to reduce the queue to 50 days, but assuming a 1 December 2015 implementation date for LORI, rather than a 1 March 2016 implementation date, as is now proposed):

¹ For important information as to modelling approach and assumptions, interested parties are referred to Notices 15/071 : A070 : W024 and 15/191 : A187 : W063. Mid case may be marginally better than the upside case due to “overcompensation” effect of LIFO given three month measurement periods



35. The LME specifically noted, in the context of such modelling, that a key assumption was the behaviour of warrantholders. In particular, the “upside case” and “mid case” both anticipated that existing live warrants in the warehouse did not cancel, and hence were not added to the queue. The “downside case”, however, did anticipate such behaviour.
36. Accordingly, when that modelling is redrawn on the basis of the situation as of 13 November 2015, following the recent cancellations, both the “upside” and “mid” dates are later than previously anticipated, whereas the “downside” case is broadly unchanged¹:



37. There are many reasons why metal owners may request the load-out of their metal, including market demand or the availability of lower-cost storage. In particular, it may be the case that market participants have anticipated that QBRC may be introduced (notwithstanding that the results of the LORI/QBRC Consultation had not been announced at the time of these cancellations), and chose to cancel on the basis that the cost of withdrawing metal from queued warehouses would be reduced under QBRC². However, and as set out in more detail later in this Notice, the LME has always noted that the short-term effect of any policy aimed at reducing queues by giving metal owners more ready access to their metal may be, paradoxically, a short-term increase in queues, given that metal owners would look to take advantage of that policy by accessing their metal. The LME has further taken the view that these short-term impacts that have been felt and might be felt should not, in and of themselves, invalidate the efficacy of the policy in question given the overall benefits of QBRC.
38. In the view of the LME, the recent and potential future short-term increase in queue lengths (even if caused, to some extent, by the anticipation or implementation of QBRC) is an important factor in assessing the need for LORI and QBRC, in respect of the first policy objective set out in the Discussion Paper, namely reducing the impact of existing queues.
39. As outlined in the Discussion Paper, it is crucial that the structure and timing of the introduction of any additional measures strikes the right balance between a number of factors, including in particular (i) the need to reduce queues rapidly and ensure the continued orderly functioning of the market, (ii) the need to manage litigation risk and the

² As explained further in paragraphs 100-101 of this Notice



potentially disruptive effect such litigation could have on the market, and (iii) the need for LME-listed warehouses to have sufficient capacity to load in metal to allow the orderly settlement of contracts on the LME's market.

40. The LME believes that the implementation of the measures in the timeframes outlined in this Notice provides the best opportunity to achieve two of the aims described above, namely to implement reform which addresses both existing queues and their impact, and potential future queues. The third aim – that of addressing perceived high levels of rent and FOT – is not being addressed by immediate policy action, but rather by the “wait and see” approach in respect of CC, the rationale for which was set out in the Discussion Paper Results Notice.
41. In addition to the market concerns outlined above, some respondents were also concerned about a potential increase in market uncertainty and unpredictability of warehouse company behaviour caused by the introduction of further reform, which itself would create a disorderly market. This primarily seems to be founded on a belief that the increased reform would place an onerous and unsustainable burden on warehouse companies, creating a rules structure which is economically untenable and thus disincentivising warehouse companies (and other market participants) from continued participation in the LME physical network. These respondents stated that the logical conclusion of this would be a reduction in the storage liquidity of the LME physical network.
42. As an extension to this, some respondents stated that this issue is particularly relevant to the reforms proposed in the LORI/QBRC Consultation. They felt that these measures, individually and collectively, would reduce the LME physical network's capacity and / or willingness to absorb metal in time of oversupply, and that this capacity is already perceived to have been restricted by the introduction of LILO. They stated that an example of this is the impact of a lack of storage supply during what they refer to as the “Wheat Crisis”³, which was perceived to be caused by queue-based rent capping in another warehouse network.
43. The LME is aware that there is an underlying concern that QBRC (in addition to LILO) will create a shortage of warehouse capacity. The LME agrees that, given a combination of warehouse reform and evolving market conditions, the LME warehouse network is undergoing a recalibration as the market assesses what it needs from such a network. That said, the LME accepts that the network has to be capable of supporting the market in both positive and negative market conditions. However, given the LME's experience of regulating this market and of historical supply and demand, the LME has seen nothing to suggest that capacity is a current concern at any Delivery Point. The LME considers that

³ Interested parties are referred to the report produced in the U.S. by the Permanent Subcommittee on Investigations:

<http://www.hsgac.senate.gov/imo/media/doc/REPORTExcessiveSpeculationintheWheatMarketwoexhibitschartsJune2409.pdf?attempt=2>



the benefits of QBRC outweigh any concerns about future capacity. Furthermore, if capacity does become a material issue as a result of QBRC in the future (which the LME considers to be unlikely), the LME has reserved the ability, pursuant to paragraph 6 of section G of the Policy, 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.

44. Some respondents were pleased that the LME is addressing the final items in the reform package and noted the significant length of time during which some market participants have been asking the LME to introduce QBRC or something similar. One respondent, who supported QBRC, stated that it has taken too long to reach this point, resulting in an unnecessarily extended recovery period. However, some respondents, like the LME, recognised the consequences of ill-considered reform. The LME has always been cognisant of the fact that its reform timeline was never likely to suit all market participants, and is grateful that market participants are aware of the importance of balancing the need for reform with the potential disruption created.
45. More generally, some respondents viewed the proposals as key elements of self-regulation for the LME, which will have the effect of reducing waiting times, correcting other market inefficiencies and helping to make the LME more transparent and functional.
46. One respondent emphasised the importance of the continued review of the LME physical network's policy framework. This is entirely consistent with the LME's position – the LME will maintain a constant review to ensure that its systems and market represent best practice.
47. Finally, two respondents suggested potential amendments to implementation timelines, namely that the LME:
 - (a) would be prudent to allow time for the full consequences of existing reform, including any unintended consequences, to take effect and maintain a watching brief on falling stock levels, flat contango and high volatility in any of physical stocks, production or market prices. They suggested that the LME should delay any further reform if these market effects, which they consider to be negative, continue or worsen; or
 - (b) implement LORI and QBRC on a staggered basis, i.e. one reform measure at a time, and remain prepared to roll back one or both reform measures in the event of adverse circumstances.
48. As per paragraphs 44, 71-72 and 112-113, the LME is highly aware that its implementation timetable does not suit the requirements or preferences of some market participants. Indeed, the nature of the LME's role in regulating a market function which should by definition work for the market as a whole, means that any reform and implementation thereof is unlikely to satisfy every market user. While the LME recognises and agrees with the importance of maintaining a flexible approach and



adapting to changing market conditions, it believes that the timeline laid out in this Notice, and in previous Notices, represents a fair and proportionate balance of all market needs and is in the best interests of the market as a whole. Regarding the power to roll back any reform measure, the LME recognises that the nature of the change that QBRC represents to its market presents a compelling case for an exception to the general principle that the possibility of adjusting or disapplying warehouse rules creates market uncertainty. As such, and as outlined in paragraph 108, the LME retains the power, as laid out in Section G of the proposed Policy, 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.

Comments from respondents on the need for further reform

49. Although, as noted above, many respondents accepted that the proposed additional reform measures are designed to reduce existing queues and ensure that future queues do not build up, a number of respondents also had more general points to raise regarding the necessity of the LME conducting any further reform.
50. Predominantly, these related to concerns that the LME is engaged in a process of over-regulation, introducing unnecessary rule changes before the full impact of existing change has had a chance to materialise and that the LME is therefore interfering with the normal functioning of the market. These respondents pointed out that LILO (introduced on 1 February 2015) has already led to a reduction in queues and premiums, as well as resulting in a loss of metal from the LME system. It is anticipated by the LME that the reduction in queues and premiums will be amplified by the increase in the decay factor under LILO from 0.5x to 1.0x. This came into effect on 1 August 2015⁴ and (dependent on load-in behaviour during the Third Calculation Period) the LME, and indeed, the market, will see the effect (if any) of this increase during the corresponding load-out period – the Third Discharge Period (which will run from 1 December 2015 to 29 February 2016).
51. The LME recognises that the series of reforms implemented over the course of the last two years has represented a period of significant change for its physical network, however the LME considers that such change has been (and is) necessary. The LME's intention to implement reform – and the scope of that reform – was publically announced in November 2013, and the LME has been fully transparent as to its intentions in this regard and has engaged in market discussion and consultation at every stage. Market participants have therefore had opportunity to make appropriate adjustments. Further, the LME has made every effort to ensure that all its rules are clearly articulated and is, and has always been, willing to provide additional assistance should that be required. The LME does not believe, therefore, that any market participant, including warehouse

⁴ i.e. the start of the Third Calculation Period, running between 1 August 2015 and 31 October 2015



companies, will be unable to comply with LORI or QBRC rules on the basis of their perceived complexity.

52. The LME is fully committed to maintaining a transparent and orderly market, pursuant to its statutory duties, and a crucial component of this is an efficient physical network. The LME believes that the rule changes enacted since 2013 represent best practice for such a physical network, and although reforms enacted to date will have an impact on how the market functions (including the likely unintended consequence that metal may be lost from the network), the LME believes that these reforms represent a positive and proactive development for its network. The LME remains cognisant of the need to ensure the ongoing viability of warehousing as a business model, such that storage space will continue to be available, and to ensure that the network can continue to demonstrate space elasticity in times of significant market need.
53. Two respondents stated that the impact of the LME's over-regulation is compounded by the LME's misdiagnosis of queues as the root of the problem. They argued that the LME is over-estimating the impact of queues on prices given an overall fall in prices (40% during the five years before the LME's consultation on LILO in 2013⁵). They also questioned the perceived positive impact that a queue reduction would have on sourcing, asserting that LME-listed warehouses are not used by consumers to source metal.
54. One respondent stated that their concerns regarding the lack of necessity for further reform were exacerbated by their belief that the LME has failed to produce adequate evidence for: (i) the conclusion that LILO is not reducing queues and that the market is disorderly; and (ii) the assertion that LORI and QBRC would improve the orderliness of the market.
55. The LME recognises that market participants may disagree with the LME's analysis of queues (as laid out in the 2013 Consultation Report, including the LME's analysis of the relationship between queues and prices) and / or disagree with the LME's view as to the most efficacious method to reduce queues. Where market participants have expressed their views they have been considered by the LME, however, the LME has consistently made its position clear. This includes the rationale underpinning its belief in the necessity of a reduction in queues, namely for the purposes of price convergence and since the LME is a market of last resort, rather than to assist with sourcing as the LME agrees that LME-listed warehouses are not a primary source of metal for consumers. LILO has reduced queues, but the LME believes that further reductions are needed and more work is needed to prevent the future build-up of queues, and thus maintain an orderly market.

⁵ NB these figures were provided by the consultation respondent. The LME believes that these figures are verifiable based on a rounded price for both the LME price and the "all-in" price (LME plus premium) from July 2007 to July 2013 (being the start of the 2013 consultation process)



Section B: The reasons for adopting LORI and QBRC

LORI

B.1 Does LORI comply with the principle of proportionality?

(a) Is LORI capable of meeting the relevant objectives?

56. Historically, increases in load-out rates have proven ineffective in respect of reducing queues, since warehouses have had the ability to increase their load-in rates to compensate. However, with LIFO in force, the LME considers that this is no longer the case. LORI is aimed at accelerating the reduction of existing queues and mathematically, an increased load-out rate (in the presence of LIFO) would achieve this. The LORI/QBRC Consultation Notice explained the degree to which LORI is expected to accelerate the rate of queue decay. Although, as discussed below, some respondents have argued that LORI will be ineffective, for the reasons given below the LME considers that LORI will assist to reduce queues and is therefore capable of achieving the relevant objective.

(b) What are the most pertinent arguments for LORI?

57. The LME set out what it considered to be the most pertinent arguments in favour of LORI in the Discussion Paper Results Notice (paragraph 44). In this section of this Notice, the LME sets out the most pertinent arguments for LORI raised by respondents in the LORI/QBRC Consultation.
58. Seven respondents were in favour of the implementation of LORI, citing its capacity to operate in conjunction with LIFO and its application across all warehouses as evidence that it will ensure clarity of requirements, prevention of future queues and availability of warrants. One respondent felt that load-out rates have been inadequate for a period of many years. Respondents commented that the minimum load-out rate is treated as a *de facto* maximum rate, and therefore should be raised, and that the new proposed threshold is well within the capabilities of normal metals warehouses and thus, operationally feasible. It was felt that LORI represents a sensible approach within the complexity and inherent risks of warehouse reform to solve outstanding issues including queues and availability of warrants. It was also felt that LORI would encourage efficiency in the warehouse system, investment in appropriate resources to manage capacity, and disincentivise warehouses from maintaining queues.
59. One respondent reiterated a previous argument that LORI should be applied at a per-shed level rather than at a per-location level or applied on a proportionate level based on total square footage. The LME acknowledges that there are a variety of possibilities for how LORI could be structured – indeed, a proportionate load-out rate increase (“PILOR”) was one of the reform measures included in the Discussion Paper. Interested readers are encouraged to refer to the Discussion Paper Results Notice for information on the



LME's rationale for not moving forward with the PILOR proposal. In so far as whether load-out rates should operate on a per-shed basis, as explained in the 2013 Consultation Report, the significant variation in LME warehouse sheds makes this difficult to apply on a fair and consistent basis.

(c) What are the most pertinent arguments against LORI?

60. The LME set out what it considered to be the most pertinent arguments against LORI in the Discussion Paper Results Notice (paragraph 45). In this section of this Notice, the LME sets out the most pertinent arguments against LORI raised by respondents in the LORI/QBRC Consultation.
61. From an operational perspective, some respondents argued that not all warehouses have the capacity to load out 4,000 tonnes per day.
62. The LME acknowledges that the warehouses in its network have varied operational (and storage) capacities and as a result, a maximum load-out rate of 4,000 tonnes per day represents more of a logistical challenge for some warehouses than for others. However, all warehouses have the capability to manage their stock levels based on their capacity to load out. As noted in the LORI/QBRC Consultation Notice, per stock levels on 13 November 2015, only seven warehouse companies have stock figures of over 150,000 tonnes meaning that few warehouses will be affected by the new minimum load-out rates and at those that are affected, an increased load-out rate is logistically feasible. Indeed, in certain cases, those warehouses have already (as a result of increased load-out requirements under LILO) demonstrated their ability to load out the tonnages which would be required pursuant to LORI.
63. In short, the LME believes that the proposed increased rates of load-out are reasonable, achievable and proportionate. For further detail on the LME's analysis of LORI, readers are encouraged to refer to the Discussion Paper and the Discussion Paper Results Notice.
64. From a structural perspective, some respondents argued that the LME has failed to produce sufficient evidence to demonstrate the positive impact of LORI in creating an orderly market. Additionally, some respondents felt that the acceleration of queue decay to below the 50-day threshold gained through LORI (between one and two months on the LME's mid-case modelling) represented insufficient incentive to implement the rule.
65. The LME accepts that the gains in queue reduction made by LORI may not seem significant to some respondents. However, the LME does believe that the necessity for further reform remains, as outlined in Section A, and that the combination of short-term acceleration of queue decay, plus the medium- and long-term benefits of the disincentivisation of the future build-up of queues and a minimum load-out rate which better reflects the demands of today's market, justify the load-out rate increase.



Furthermore, if cancellation activity increases (as has been observed recently), then the positive contribution of LORI to expedite queue decay becomes even more pronounced.

66. Other concerns centred on the perceived risk of warehouses reducing inventory levels to mitigate the risk of queue formation, leading to a lack of available storage space and a reduction in inventory volume as metal is moved off-warrant. Potential consequences of this were perceived as including a lack of transparency, a shorter and less predictable average duration of storage (potentially creating “hyper-liquidity” of stock leading to price and forward market volatility as traders adapt their strategies to try to take advantage), increased “private ownership” of metal (which the LME interprets as meaning off-warrant storage, given that all metal ownership is private) and ownership on competing exchanges, plant closures, and ultimately a “hand-to-mouth” system between consumers and producers.
67. Some respondents also considered that LORI would impact how warehouses build and resource their business, changing the landscape in which many have already made significant investments which might now be lost, thus disincentivising further expansion, reducing the economic viability of warehousing, and leading to de-listings with a consequent negative impact on the LME network’s ability to store excess metal in the event of another market recession. It was pointed out that warehouses need a clear and consistent set of rules to allow them to develop a long-term strategy and make appropriate commitments of capital.
68. While acknowledging the views of respondents who argued that LORI will not deliver a sufficiently significant positive impact to justify its implementation, the LME believes LORI is a necessary and proportionate measure, sufficiently balancing the diverse range of market needs. The LME does not consider that LORI is likely to lead to a fundamental change in how warehouses operate their businesses – especially given that only a small proportion of warehouses are likely to be affected. The LME does not believe that the increased level of stock being released into the market is likely to be significant, hyper-liquid or that LORI is likely to drive significant quantities of metal off-warrant creating a loss of transparency. The LME has been transparent as to its intentions for warehouse reform and this has allowed more than sufficient opportunity to adapt any long-term strategy and capital requirements.
69. Accordingly, and further to paragraph 43, the LME does not believe that there is valid concern regarding the ability and willingness of warehouses in the LME network to accept metal.
70. As with the general responses relating to the necessity for further change (see Section A above) one respondent stated that it was inappropriate for the LME to enact a change to the entire physical network in order to deal with one queue in one location. The LME notes that, as per data on 13 November 2015, there are two queues of over 50 days in the LME network. Regardless, as fully explored in Section A, the LME has been clear that the focus of this reform is not only to address queues currently in existence, but also



to disincentivise any potential future queues (which could arise at any warehouse) and to ensure that the LME network represents the highest possible standards for such a physically delivered system.

71. Some respondents stated that such changes would be compounded by the proposed introduction of LORI mid-rent cycle, preventing warehouses from adequately factoring in such changes to their underlying assumptions used to determine costs when setting rents, reducing the viability of remaining in the warehouse business. In addition, some respondents also expressed concerns that the proposed implementation of LORI in mid-December 2015 was impractical, since the holiday period means a foreseeable shortage of labour which would create training and health and safety issues. It was pointed out that these timing issues could be resolved by implementing LORI on 1 April 2016 rather than in mid-December 2015, since this would be a more appropriate fit within the annual rent-cycle.
72. In respect of the implementation date, the LME accepted that a mid-December, mid rent-cycle implementation may have raised difficulties. In any event, the time required for the full analysis of responses to the LORI/QBRC Consultation and for the Anti-Abuse Consultation means that it is no longer possible, given the need for three months' notice to warehouse companies, to achieve such a date. Thus, the LME has decided to postpone the implementation of LORI until 1 March 2016. This reduces the period for which warehouses would need to operate under LORI before they become able to modify rents on 1 April 2016 to one month. The rule changes associated with this are reflected in the Policy contained in the appendices. To delay the introduction of LORI any further would, in the view of the LME, materially reduce the benefit which could be delivered by this policy in addressing incumbent queues in the LME warehousing network, and is important in demonstrating to the LME's stakeholders, and in particular its regulators, that prompt action can be taken in respect of furthering the aims set out in the Discussion Paper.

(d) Are there any other, less restrictive means of achieving the same objective(s)?

73. The LME has considered alternative forms of LORI that some respondents consider might be less restrictive, but for the reasons given in the Discussion Paper Results Notice, the LME considers the simpler formulation described in this Notice to be the most appropriate means of addressing existing and potential future queues, bearing in mind the need to treat warehouses fairly and to operate a straightforward set of market rules.

(e) Would the negative effects of LORI be too great to justify implementation?

74. The LME believes that the proposed increased rates of load-out under LORI are reasonable, achievable and proportionate, and will not impose unreasonable demands on warehouse companies. Although, as discussed above, some respondents take a different view, the LME considers, for the reasons given above, that warehouse companies will be able to comply with LORI, and the increased burden on warehouse



operators is justified by the contribution that the LME anticipates LORI will make to restoring and maintaining an orderly market.

(f) Is LORI likely to have an effect on competition (noting that, even if LORI is likely to have an effect on competition, it may still be justifiable and proportionate)?

75. LORI would require certain warehouses to increase the rate at which they deliver out metal. Although some respondents have suggested that some warehouses might be unable to comply with this requirement, for the reasons given above the LME expects that all LME-listed warehouses will continue to be able to operate and does not anticipate that LORI will have any appreciable effect on competition.

B.2 Does LORI seek to achieve a regulatory, prudential or organisational objective?

76. The purpose of LORI is to accelerate the rate of queue decay. Although some respondents doubted the need for further reform to address queues, for the reasons given above, this is a legitimate regulatory objective.

Conclusion on LORI

77. In conclusion, having taken into account the responses received in the LORI/QBRC Consultation, the LME today announces its intention to implement LORI as of 1 March 2016.

QBRC

B.1 Does QBRC comply with the principle of proportionality?

(a) Is QBRC capable of meeting the relevant objectives?

78. The LME believes that QBRC is capable of reducing the impact of existing queues while incentivising faster load-out and disincentivising the formation of future queues. Although the proposal offers no guarantee that warehouse companies will load-out metal before the 30 and 50 day thresholds, it incentivises warehouses to load out metal and reduces the frictional cost to metal owners of being caught in queues.
79. Some respondents have highlighted the risk of unintended consequences in the form of encouraging some warrant holders to cancel warrants in greater volumes (thereby generating or lengthening queues). The LME agrees that a short-term effect of QBRC may be to heighten cancellation requests (as explained in paragraph 100). That said, the LME considers that the benefits of QBRC outweigh such concerns, particularly as such concerns have been mitigated by anti-abuse measures.



(b) What are the most pertinent arguments for QBRC?

80. The LME set out what it considered to be the most pertinent arguments in favour of QBRC in the Discussion Paper Results Notice (paragraph 58). In this section of this Notice, the LME sets out the most pertinent arguments for QBRC raised by respondents in the LORI/QBRC Consultation.
81. The respondents in favour of QBRC strongly support its implementation as a means to end long queues and disincentivise the payment of excessive incentives, both of which are seen as contributing to an artificial inflation of physical market premiums. These respondents stated that any delays in delivery affect the supply chain of consumers. Several respondents stated that QBRC represents the single most efficient and rational way of preventing long queues and that the persistence of queues has negatively affected the functioning of the LME's market and the trading of its contracts.
82. Several respondents acknowledged that the implementation of QBRC carries inherent risk of legal action as a means to delay or avoid implementation, but stated that the LME needs to assume this risk in order to maintain its ability to self-regulate and restore its status as a price discovery venue. One respondent commented that a future implementation date would be a sensible approach in light of this risk.
83. Other respondents were in favour of QBRC, but stated that they would like to see the threshold reduced further given the undesirability of seeing 50 day (or even 30 day) queues becoming the norm. These respondents stated that the threshold should be reduced to 30 or 20 days over time, which they view as commercially reasonable (as evidenced by similar standards of other futures exchanges) and not excessive (given that, in a fully efficient physically delivered market, the underlying commodity or cash would be available following the maturity of the position). One respondent commented that the LME physical network should strive to be as efficient as possible given that the liquidity of physical stocks is as important as market liquidity and clearing.

(c) What are the most pertinent arguments against QBRC?

84. The LME set out what it considered to be the most pertinent arguments against QBRC in the Discussion Paper Results Notice (paragraph 59). In this section of this Notice, the LME sets out the arguments against QBRC raised by respondents in the LORI/QBRC Consultation.
85. Many of the comments made against the implementation of QBRC echo those made more generally about the implication of further reform, as outlined above in Section A. In short, these respondents take the view that QBRC is unnecessary, unreasonable and counter-productive. Specifically, these respondents stated that QBRC:



- (a) would be disruptive to an orderly market, in particular given the uncertainty that would be created by the inherent legal risk associated with QBRC's susceptibility to challenge;
- (b) is unnecessary given the impact of existing reform;
- (c) is unjustified given that the LME would be changing its entire market to deal with one queue. Although the LME notes that this may be factually incorrect as, as at 13 November 2015, there are two warehouses with queues over fifty days, and new queues could potentially emerge at other warehouses; and
- (d) would mean the LME is interfering beyond its scope and restricting the commercial view of warehouses which will limit the incentive for free market enterprise and investment.

86. The LME shall address each of these points in turn. First, the LME acknowledges that the implementation of QBRC represents a significant change in how the LME physical network has operated to date, and recognises that such a change requires a substantial investment of time and adjustment from a large proportion of market participants, particularly warehouse companies. The LME is not insensitive as to the level of work and input that this requires. However, while the LME accepts that the process of change may incur some disruption, it does not believe that the change itself is disruptive to an orderly market. Furthermore, the LME does not accept that the process of warehouse rule change necessarily represents a fundamental change to its entire market.

87. The LME notes the concerns raised over potential litigation in respect of QBRC. The LME has consistently acknowledged the risk of litigation being launched, and this risk cannot be discounted. The LORI/QBRC Consultation Notice stated at paragraph 42(b):

“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.”

88. From the responses to the LORI/QBRC Consultation and the Anti-Abuse Consultation, it would appear that, despite the immediate economic effect on warehouses and other market participants being lessened by the proposed implementation date of 1 May 2016 (in contrast with an implementation date during 2015), the risk of litigation remains high due to the economic effect which the proposed implementation of QBRC may have on certain market participants, particularly given the lengthening of queues as further set out in paragraphs 33 and 113-115. Furthermore, the LME is issuing this final decision notice approximately 2.5 months later than estimated in the original LORI/QBRC Consultation Notice due to the additional Anti-Abuse Consultation and the time required to consider



the responses. Given the delay to the announcement of the decision notice, it may not be possible to resolve any litigation prior to the implementation date.

89. However, having taken account of all the relevant factors, including the risk of litigation and the adjusted timescale for announcement of the Decision Notice, the LME is minded to implement QBRC as the appropriate course of action. Having regard to the current circumstances, the LME cannot discount otherwise appropriate policy action simply because of the threat of litigation being launched. Furthermore, although the delay to the publication of this final decision notice has lessened the window available to resolve any potential litigation prior to the implementation date, the LME does not believe it appropriate to delay the implementation date of 1 May 2016. As noted in the LORI/QBRC Consultation, “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”, and the LME believes that this risk outweighs the impact of any potential litigation not being resolved prior to 1 May 2016.
90. As outlined in Section A, the LME is also cognisant of the fact that a number of respondents feel that existing reform has already had the desired impact and that consequently, further reform is unnecessary. The LME disagrees. As of 13 November 2015, two queues of over 50 days remain in the LME network. Further, QBRC is not just intended to reduce the impact of existing queues; QBRC will also prevent the build-up of future queues. Even when existing queues are reducing over time, the significant levels of stock in some LME-listed warehouses make them vulnerable in the future to potentially significant queues appearing in a short period of time. Thus, any policy lever designed to address this has to, by definition, apply to all warehouses in the global LME network.
91. The LME believes that these changes, far from being outside its regulatory scope, are essential for the LME to continue to meet its regulatory requirements and are consistent with wider reform in the commodities markets, especially in the context of ongoing regulatory changes. Mindful of the relevant regulatory requirements, the LME is working to ensure that its network continues to meet all standards for best practice. While the LME does recognise that this will have an impact on the economics of warehousing going forward, it does not view these changes as being restrictive or negating the positive impact of investment.
92. A number of respondents had concerns which centred on the potential impact of QBRC from a physical settlement perspective, namely that QBRC could:
 - (a) disincentivise warehouses from holding more metal than would constitute a 50 day queue if all warrants were cancelled immediately, thus limiting warehouses’ ability / willingness to take in excess metal when necessary, and consequently restricting access to LME warranting during periods of economic stress. This was perceived as presently leading to a movement of stock off-warrant, creating a reduction in warranted stock which would reduce liquidity and increase volatility in spreads – events at odds with the LME’s stated desire to maintain an orderly market; and / or



(b) lead to the delisting of warehouses. One respondent calculated the available storage space in the LME system and estimated that QBRC could force warehouses to reduce available space by up to 57% from current levels, on the basis of which there would have not been sufficient available space to store all of the metal on warrant in LME-listed warehouses in January 2012. Although the respondent acknowledged that these figures are hypothetical, the respondent also pointed to a wider pattern of warehouse delisting and noted their concern that if this trend continued, and was exacerbated by the implementation of QBRC, then this would raise questions as to the long-term viability of the LME as a market of last resort.

93. The LME's response to concerns around capacity and warehouses' inability to take in metal is set out in paragraph 43 above.
94. Some respondents warned that, under a QBRC regime, and in order to continue load-in (other than a finite volume by any one warehouse company in any one location), warehouse companies would need to know the terms of storage (for example, duration of storage, quantity of metal) up-front to gain sufficient visibility of future requirements in order to quote – given that a failure to understand such dynamics could result in large simultaneous cancellations, resulting in queues, and hence the need to deliver free storage under the terms of QBRC. The nature of the LME market is such that this information is not available (given that the warrant may be sold on the exchange to a new owner with different intentions in respect of storage) which means that warehouse companies would be forced to levy high charges in order to compensate for the potential need both to load out metal very rapidly and to cover the risk of storing metal with limited or no rental income. These respondents stated that increased storage costs would have potential onward impact on LME prices.
95. The LME understands that warehouse operators trying to gain certainty about the terms of storage for any clip of metal may, as now, prefer to offer a financing deal to metal owners and at terms which they judge to be fair for the costs and risks involved. However, the LME network is fundamentally competitive between operators, and metal owners always have the option of choosing a different warehouse operator should they not be comfortable with the economics on offer. The question of a sufficiency of metal being available for the settlement of warrants has been raised before, and interested parties are referred to Notice 15/161 : A157 : W051 ("Outstanding items from the consultation on amendments to the policies and procedures relating to the LME's physical delivery network", paragraphs 9-11). In summary, the LME believes that even warrants subject to financing deals will be released from such deals and made available for settlement if market conditions justified such a move, thus removing the potential for market tightness and subsequent market volatility.
96. Respondents have raised concerns from a cancellation incentivisation and price impact perspective, namely that QBRC could:



- (a) incentivise the cancellation of metal in order to benefit from discounted rent, where that metal was subject to financing deals, which would have the effect of reducing transparency (once the metal was eventually loaded out of the LME-listed warehouse) and leaving less metal freely available for use in the settlement of LME contracts. One respondent commented that QBRC's incentivisation of warrant cancellation at affected warehouses, in particular, would limit the market supply of the cheaper warrants typically used in the settlement of LME contracts. They stated that this would have a disproportionately large negative effect on LME Cash and Tom/Next markets, which would then struggle to find sufficient warrants for trading, with a consequent impact on market liquidity and the relevance of published prices. They urged the LME to consider fully the impact of this on trading; and / or
- (b) intensify the impact of LILO and exacerbate the potential impact of premiums and market participant behaviour – in particular given the increased temptation for some participants to “squeeze” the market to achieve free rents. This would create further disorder with volatility, swings in spreads and increases in movements between warehouses rather than into the market for consumption.

- 97. Indeed, a number of respondents had concerns about the impact of queue lengthening, driven by the possibility of achieving cheaper or free rent in a queue. Because metal owners could create, maintain or lengthen queues by cancelling metal and then benefit from discounted rent as a result of those same queues, the scope for enhanced cancellation, and hence queue growth, would become significant.
- 98. One respondent went on to comment that, as formulated in the LORI/QBRC Consultation, there would be no obligation for warrant holders to request their load-out before the implementation date, and no motivation to do so given the potential financial advantages in waiting until after QBRC is implemented. They felt that, even if they did wait until after QBRC is implemented, this would not provide sufficient time for some warehouses to avoid being penalised by loading-out all queued metal before the implementation of QBRC.
- 99. A further and related concern in respect of administration was that increased cancellations designed to take advantage of cheaper or free rent would lead to a paradoxical and counter-intuitive short- to medium-term increase in queues. This respondent asserted that, although the LME acknowledged this risk, it was not perceived to have offered any measures to mitigate the problem. They stated that this problem is symptomatic of the fact that control of queue length is said to reside with warrant holders and not warehouse companies and that, for as long as the LME places the onus of a reform “solution” on warehouse companies, the LME will fail to address the real issue. They also stated that, in reality, long queues are the result of speculative manoeuvres by financially-motivated metal owners, as evidenced by Goldman Sachs' offer to end-users to swap queued metal for immediately available metal, which no market participant accepted despite claims that the long queues had driven up prices.



100. The LME acknowledges that the introduction of QBRC (or even the anticipation of the introduction of QBRC) may result in the greater cancellation of metal, because metal owners will generally undertake an analysis of whether it is economically rational to cancel metal in queued warehouses. The metal owner will assess whether the “frictional cost” of cancellation (being rent paid in the queue, FOT charge and other logistical charges) outweighs the uplift which can be realised once the metal has been loaded-out (cheaper storage in another warehouse, either on- or off-warrant, or the sale of the metal in the physical market for a premium). The impact of QBRC will be to reduce the frictional costs of such withdrawals, which may cause the marginal metal owner to decide to cancel warrants. In the short-term, this would have the effect of lengthening queues. Although it may be argued that QBRC will result in a more expeditious load-out of metal by warehouses not wishing to store goods in exchange for zero rent, this cannot be guaranteed, and will depend on that particular warehouse’s balance between the cost of providing free storage (i.e. shed leases), and the cost of providing enhanced logistics to increase the rate of load-out.
101. Concerns regarding short-term increase in queue length may to some extent be mitigated by the amendments to QBRC proposed in the Anti-Abuse Consultation (at least to the extent that the amendments protect against a party cancelling large tonnages of metal benefitting from the application of QBRC to the increase in the queue caused by that party’s own cancellation). Sub-section c.1 below covers the feedback received to this consultation and the LME’s responses, starting at paragraph 121.
102. In the circumstances, and with the protection of an anti-abuse mechanism, the LME believes that the short-term impact of likely increased cancellations and the potential initial queue increases do not offset the medium-term benefit to the network of the protections afforded by QBRC, particularly since QBRC itself provides a degree of relief from the effects of any queues which may be thus created.
103. As set out more fully in paragraph 33, this may indeed be the case in respect of Pacorini Vlissingen, given recent cancellation activity at that DP Warehouse. While it is impossible to ascribe such activity to any one cause, the LME believes it is possible that the anticipation by certain market participants of the potential introduction of QBRC may have represented a contributory factor to such cancellations. If this is the case, then the LME restates its view that the medium-term benefits of QBRC will outweigh the short-term impact of existing and potential future increased queues – and, furthermore, that QBRC will provide a degree of relief from the effect of such queues.
104. Further concerns about practicalities included how QBRC would work if a warehouse operator chose to load out metal above the minimum daily tonnage, but the related warrant holder was unable to schedule sufficient onward transportation for that metal. There is an assumption from certain warehouse operators that, under these circumstances, this metal would not qualify for reduced rental charges – indeed, that any metal (assuming the application of a reasonable schedule for load-out) not delivered out due to the warrant holder rather than the warehouse would revert to the back of the queue



and not be subject to the QBRC rules. Some respondents commented that any other interpretation would be unreasonable and put the warehouse company in an extremely vulnerable situation, including excessive vulnerability to “greenmail” (i.e. where a warrant holder threatens to effect a cancellation unless the warehouse offers preferred economic terms for storage).

105. As outlined in the Anti-Abuse Consultation Notice (paragraphs 13-14) if a warehouse does not have a queue, market practice is for the warrant holder and the warehouse to discuss and agree a mutually-acceptable load-out schedule, which would likely result in a certain amount of metal being loaded-out each day for a period of several days. In general, rent will be paid on each tonne of metal up until the point that particular tonne is loaded-out.
106. If the warehouse in question does have a queue, this process is generally conducted automatically. The warehouse operator notifies the warrant holder of the date of the first available queue slot, and metal is scheduled on this date, up to the warehouse’s daily load-out requirement. Further metal is then scheduled on the next available day, and so on until the entire Cancellation has been scheduled. Again, rent is paid on each tonne of metal until the load-out date of that particular tonne.
107. As such, market practice operates in an equitable manner. However, the LME is aware that in a QBRC environment metal owners may wish to deliberately slow the rate of metal load-out (by, for example, claiming that sufficient trucks were unavailable) in order to maximise the period of discounted or free rent under QBRC. This is the reason why the LME chose to conduct an additional consultation on anti-abuse provisions (see sub-section c.1).
108. Provided that both parties have agreed a mutually acceptable load-out schedule, the LME sees no reason why the consequences for missing a pick up slot would not function as per current practice – i.e. that the metal would revert to the back of the queue (assuming the metal owner would still intend to cancel their warrants) and the QBRC “clock” would revert to zero⁶. It may be appropriate in those circumstances for any rent discounts received during any initial queue term to be repaid to the warehouse operator. However, this is the LME’s view based on its understanding of market practice. The LME would expect that, ordinarily, this would be a matter for the warehouse operator to agree with the owner of the metal. The LME notes that paragraph 15 of Section C of the Policy states that “metal owners are also reminded of their obligations in respect of observing reasonable logistical arrangements in respect of metal collection”. The LME further notes that, pursuant to paragraph 6 of Section G of the proposed Policy, the LME has the power, with or without notice, to adjust the parameters of the QBRC or to suspend its application either on a market-wide basis or on a per-Warehouse or per-DP Warehouse

⁶ With the consequence that, whilst the metal was waiting to be delivered out, full rent would be payable up to 30 days, half rent would be payable after 30 days, and zero rent would be payable after 50 days, subject also to the provisions regarding “Deemed Cancellation Dates” set out in paragraphs 1 and 2 of Section G of the proposed Policy



basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason. In the event of missed pick-up slots at a DP Warehouse affected by QBRC, where the warehouse operator and the metal owner cannot reach a mutually acceptable solution, it may be appropriate for the LME to utilise its powers under paragraph 6 of Section G of the Policy.

109. Further to this, the LME notes a concern from one respondent that the lack of guidance issued in respect of when the LME would use its power to adjust QBRC parameters or suspend its application as articulated in Section G of the proposed Policy means the power is unprincipled and does not mitigate concerns regarding the abusive use of QBRC. The LME's recognition of the need to protect against abusive queue creation is reflected in its Anti-Abuse Consultation as outlined below in sub-section c.1. However, this does not mean that the LME agrees that its power to adjust or suspend QBRC is unprincipled – the power is designed to assist the LME in running an orderly market by ensuring that it retains the flexibility to react to changing market circumstances. The LME would undertake full analysis and investigation of any such scenario before implementing any suspension or ban but is hopeful that the rules as set out in this Notice will mean such action is unnecessary in the ordinary course.
110. Some respondents raised concerns about the increased requirement for constant queue rescheduling incurring significant costs and scheduling confusion. The LME is aware that the implementation of the QBRC rule will impact the specifics of how queues are scheduled and that, as with all changes, this will require a period of adaptation which will require the input of time and effort on the part of warehouse operators and possibly also metal owners. However, the LME believes that once all parties have adjusted to the change there is no reason why this process cannot work as effectively and smoothly as per current operations.
111. Another respondent raised an issue with the potential additional disadvantage faced as a result of QBRC by metal owners already in a queue. The LME does not believe that there is any additional disadvantage, as QBRC will apply to all metal in a queue as of 1 May 2016 (including metal cancelled prior to that date). It would create an unfair and unmanageable system if QBRC only applied to metal cancelled on or after 1 May 2016, as well as a potential distortion in the pricing of that metal. In addition, it would also create an incentive for metal owners to wait to cancel their metal until 1 May 2016 which would have an additionally distortive effect and disrupt the orderly functioning of the market.
112. In terms of implementation timeline, one respondent stated that the timetable set out by the LME goes beyond the need to disincentivise queue build-up and is in fact punitive, disproportionate and more onerous than necessary to achieve the stated aim. They stated that warehouse companies should be afforded sufficient time to reduce queues to below the 30 day threshold (i.e. the point at which QBRC would start to take effect), not the 50 day threshold proposed by the LME. Additionally, they stated that the start date should be at the mid-point of the window in which warehouse companies could be



reasonably expected to achieve this threshold, not at the beginning of this period as proposed. They also stated that the modelling for this date should only start once QBRC has been definitively announced, since it is only from that point that warehouse companies can be expected to start complying with a new rule. They stated that the rules as proposed do not allow all warehouse companies to comply by the proposed QBRC implementation date and thus avoid penalisation.

113. The LME notes comments as to the implementation date of QBRC. The LME has acknowledged that, given market conditions, there will be queues above 50 days at 1 May 2016 and therefore QBRC will have a greater impact on the economics for certain warehouse operators. Furthermore, the LME agrees that even warehouses with queues below 50 days may be partially impacted by QBRC in respect of queues above 30 days. However, in the final analysis, the LME must balance the economic interests of warehouses with the reasonable expectations of the market that the issue of queues be addressed as quickly as possible. In particular, the LME rejects the notion that warehouse operators are “entitled” to the economic benefits of queues accumulated prior to the introduction of QBRC.
114. Furthermore, the recent cancellation activity at Pacorini Vlissingen, as set out more fully at paragraph 33, would be expected to have the effect of further delaying the date at which the queues will fall at that DP Warehouse until after 1 May 2016. However, the LME has never suggested that there should be a formulaic linkage between the start date of QBRC and the disappearance of queues at warehouses, given that this would invalidate the role of QBRC in achieving the first policy objective set out in the Discussion Paper, namely to aid in reducing the impact of existing queues. The start date of 1 May 2016 was set with reference to a number of factors, one of which was the date which – as cancellations stood at that point in time – the market could reasonably expect all warehouse queues to be below the 50 day threshold.
115. However, the fact that market activity has (counter to the reasonable expectation at the start of the LORI/QBRC Consultation) changed this particular queue decay profile adds, in the view of the LME, further weight to the need for a 1 May 2016 implementation date. In particular, the LORI/QBRC Consultation Notice stated (at paragraph 43) that “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”. As such, the introduction of QBRC on 1 May 2016 is consistent with the provision of such a “long-stop date”, given that QBRC will provide an incentive for warehouse operators to load out more expeditiously, and will lessen the impact on metal owners of the existence of such queues.
116. One respondent stated that QBRC is disproportionate to achieve the LME’s stated aim of queue reduction, since it would impose substantial losses on one particular warehouse company whilst not having any reasonable expectation of achieving queue reduction, and would increase queues in the short- to medium-term. This respondent also stated that, in not achieving a reasonable compromise between warehouse companies and metal



owners in this measure, the LME would fail in its requirement to introduce reform which is capable of achieving its desired aim and thus would also fail to be a legitimate exercise by the LME of its regulatory powers.

117. The LME is aware that some market participants view the QBRC rule as favouring certain sectors of its market over others. However, the LME would point out that it has rejected calls to make the QBRC rules more stringent, either by a more immediate implementation date or a reduction of the thresholds to 20 days or lower. The LME remains committed to its regulatory role of making its market fair for all participants and notes that, in practice, this is likely to mean requiring compromise from all sides. The LME's analysis behind the fairness of QBRC is fully outlined in the Discussion Paper and the LME refers readers to that Notice for further information.
118. One respondent commented that QBRC has been a significant factor in the failure of physically settled contracts on other futures markets, arguing that this is because it works directly against using warehouses to deliver metal. The LME can only comment in respect of its own market. The LME does not anticipate settlement failures as a result of QBRC.
119. Some respondents suggested various amendments to the structure of QBRC as outlined in the LORI/QBRC Consultation Notice, as explained below.
 - (a) One respondent requested that the LME instigate a cancellation reporting requirement on warrant holders to mitigate potentially abusive behaviour. They acknowledged that this would not fully address this issue and would be difficult to monitor from a practical perspective, but stated that it would have the benefit of forcing warrant holders at least to consider their behaviour before executing large cancellations. The LME believes that the risk of this behaviour is sufficiently mitigated by its existing procedures by which cancellations can be monitored and, if necessary, investigated.
 - (b) One respondent suggested setting the rent cap in proportion to the stock level at each warehouse company in a specific location, since this would disincentivise the creation of a large mass of stock at one location in times of over-supply and thus eliminate the possibility of a long queue when the situation is reversed. The LME accepts that there are a number of ways to disincentivise the creation of long queues building up in the future. This was explored in the Discussion Paper. The LME's decision to progress with LORI and QBRC for further discussion / consultation is outlined in the Discussion Paper Results Notice and readers are referred to this Notice for a full explanation of the LME's rationale.
 - (c) One respondent suggested reinstating an "exit provision", which would exempt from QBRC any warehouse which is unable to comply with QBRC rules by the implementation date. They stated that this would reduce the risk of "greenmail", cancellations leading to significant queue increases at such warehouses, and the



investment made by those warehouses in increasing storage capabilities which they would now be unable or unwise to utilise. The LME does not believe it would be practical to introduce an “exit provision” of the type anticipated by this one warehouse company respondent. The “exit provision” suggested in the Discussion Paper was one whereby live warrants at an “exiting” warehouse would be moved (at the expense of that warehouse operator) to a new warehouse. The interpretation of an “exit provision” put forward by this respondent is, rather, a blanket exemption from QBRC for a particular DP Warehouse. This suggestion is not being introduced because it would undermine the effective functioning of QBRC, as well as being inequitable between warehouse operators.

- (d) One respondent recommended amending the thresholds to 100 days at full rent, and 50% thereafter with no end date, and a second suggested the introduction of a notional rate of rent after the 50 day queue threshold such as USD 0.10 per tonne per day, designed to reduce warrant holder capacity to create queues and warehouse companies being forced to suffer significant losses. The LME cannot accede to these requests. The purpose of QBRC is to disincentivise the accumulation of queues. At the “nominal” rent level suggested by the respondent in question (USD 0.10 per tonne per day) the LME believes the economic disincentive may be substantially affected, especially when the contribution of FOT is factored-in. Although the quantum of premiums payable would clearly be reduced, the situation may still persist whereby a queue was more economically attractive than the absence of a queue. Furthermore, a blanket nominal figure would be disadvantageous to those operators in higher-cost warehousing locations, and a per-location figure may be logistically impractical to set.

- 120. The LME further refers the market to its observation in the Discussion Paper Results Notice that any attempt to circumvent QBRC by the application of unjustified increases in rents and FOTs for the 2016-17 rent year and beyond may result in an expedited introduction of CC to offset such avoidance behaviour, in addition to other measures which the LME may deem appropriate.

(c.1) Market feedback regarding the anti-warrant holder abuse provisions proposed in the Anti-Abuse Consultation

- 121. The LME noted the high volume of concern voiced during the LORI/QBRC Consultation around the potential for abusive behaviour predicated on the introduction of QBRC. Indeed, the LME itself has consistently noted the danger, under QBRC, of a warrant holder cancelling a large clip of metal, and attempting to extract free storage via QBRC. Consider, for example, a warrant holder amassing a holding of 300,000 tonnes of metal in a warehouse without a queue, and with a 3,000 tonne daily load-out capacity. By cancelling the entire clip, the warrant holder could (in the absence of the additional guidance) create a 100-day queue⁷, which would mean that all of the tonnage not loaded

⁷ Not taking into account the effect of weekends or public holidays



out in the first 30 days would benefit from some degree of rent discount. In the event that the metal owner had in fact desired a staggered load-out schedule (consider, for example, a merchant having bought a large quantity of metal from a smelter, with the intention of selling that metal to consumers over the course of the next year), the warrant holder would have extracted free storage from the warehouse, in a manner which could be viewed as abusive.

122. Given these concerns, on 30 September 2015 the LME launched the additional two-week market-wide Anti-Abuse Consultation via the Anti-Abuse Consultation Notice in respect of proposed guidance on the interpretation of these rules in respect of cancellations in a QBRC environment. The LME believes that this approach is more proportionate than, and hence preferable to, any specific rulemaking (e.g. the Warrant holder Behaviour item in the Discussion Paper, which the LME chose not to pursue for reasons set out in the Discussion Paper Results Notice).
123. In summary, the anti-abuse provision means that, where a queue is lengthened by an individual metal owner, or two or more parties acting in concert, cancelling over 10,000 tonnes, the metal owner(s) will not be protected against that element of the queue caused by their own cancellation behaviour. So if the queue is 100 days at the time of cancellation, and a metal owner (who currently has no metal in that queue) effects a cancellation contributing a further 50 days to the queue length, that metal owner will receive QBRC protection against the 100 days of queue length not attributable to his cancellation, but not against the 50 days which are attributable to his cancellation.
124. The LME is grateful for the continued engagement of respondents on this topic, and in particular to the seven respondents who replied to this Consultation.
125. A number of respondents used the opportunity to reiterate feedback from the LORI/QBRC Consultation. Three respondents reiterated their feedback that they believe the LME should not be implementing further reform which is “interventionist” or hinders the action of free market competitive forces and economics by imposing artificial restrictions. The respondents complained that the addition of the anti-abuse provisions only exacerbated their concern that LORI/QBRC reform adds an unnecessary layer of complexity to the market. The LME’s response to these points is fully outlined in Section A.
126. Other reiterated concerns include:
 - (a) that QBRC would impose a “notional cap” on LME stocks at relatively low volumes at a per-warehouse level which would be especially difficult during times of oversupply. They questioned the LME’s ability to cope with the additional demand for warehouse authorisation that this could create. The LME’s response to concerns about capacity is set out in paragraph 43 above. Additionally, the LME does not believe, if this problem were to emerge, that the solution would lie in the emergency authorisation of additional sheds. However, were this not to be the case, the LME



Physical Operations team stands ready, as always, to audit any potential new sheds and warehouse companies, and provide the relevant authorisation should those entities comply with LME standards;

- (b) that, notwithstanding the differing deemed cancellation dates, the application of zero rent after 50 days will be financially crippling for warehouse companies and allow sophisticated traders and financiers to manufacture financial solutions to take advantage. The LME outlined its response to suggested amendments to QBRC in paragraph 119(d). It is worth adding, however, that the LME believes that the QBRC anti-abuse provisions will sufficiently disincentivise the use of potentially abusive actions to take advantage of QBRC. In the LME's opinion, the anti-abuse provisions are expressly designed to negate such behaviour and is yet to hear compelling evidence to the contrary;
- (c) that the current drafting appears to suggest that QBRC could apply to cancellations made before 1 May 2016. If this is the case, the respondent argued that it would be inequitable as it would provide a windfall benefit to warrant holders (at the expense of warehouse operators – both of whom made decisions on the basis of prior rules). The respondent contended that no market participant should have a genuine issue if the QBRC rules are only applicable to cancellations made on or after 1 May 2016. The LME's response to this is outlined in paragraph 111; and
- (d) that the rules as drafted are not clear on what would happen in the event that a metal owner misses a scheduled pick-up slot. The LME's response to this is outlined in paragraph 108.

127. Finally, one respondent returned to the issues of staging areas, previously covered in Notice 15/161 : A157 : W051 ("Outstanding items from the consultation on amendments to the policies and procedures relating to the LME's physical delivery network", paragraphs 6-8). This respondent argued that no coherent rationale had been provided for not allowing staging areas given that they believed they would result in efficiencies and reduced costs for the metal market by offering greater choice, and further, that the LME needs to take more proactive steps in receiving balanced views and assisting the industry as a whole. The LME believes that it addressed this point in Notice 15/161 : A157 : W051 and has not heard any arguments subsequently which present new or compelling evidence to prompt a change in its position. Regarding assisting the industry, the LME's view on staging areas was determined following extensive canvassing of market opinions, including presentations in favour of staging areas at the Physical Market and Warehousing Committees. Despite this, the clear consensus of opinion was that there was no need for such areas which were perceived by the majority as offering too much scope for nefarious use. Thus, the LME believes that, were it to pursue introducing such areas, it would in fact be acting in direct contravention of the prevailing body of market opinion.



128. In respect of the anti-abuse provision itself, those in favour of the measures recognised that they would diminish the probability of very large cancellations and represent an effective approach to help allay fears of “greenmailing” and the abusive seeking of free rent. One of these respondents acknowledged the LME’s expectation that, in practice, QBRC and the anti-abuse measures are unlikely to be widely invoked.
129. Two respondents were categorically against the implementation of the anti-abuse provision. In particular, these respondents were concerned that, with the anti-abuse provision, warehouses would continue to be able to pay “abusive” incentives.
130. These respondents did acknowledge the possibility of abusive behaviour as outlined by the LME, but believe these instances to be unlikely in reality because a metal owner would be unlikely to take the risk of paying FOT and transport on their cancelled metal on the uncertain possibility that the warehouse would not be able to load out the full amount sufficiently quickly to avoid being penalised by QBRC rules. If this were to happen, they feel that it could be addressed via other means – specifically by the LME providing a right to appeal to the LME for a QBRC disapplication for warehouses who feel they have been subject to this kind of behaviour. Fundamentally they believe that it is more important to entrench a system that does not automatically accept queues of over 50 days.
131. It is indeed a key policy outcome for the LME that warehouses do not pay “abusive” incentives. Although the LME has powers to discipline warehouses which pay such incentives, and has further clarified that any incentive funded by a queue is by definition abusive, it is also appropriate to ensure that the LME’s rules in respect of queues make the payment of abusive incentives economically unviable for warehouse operators. A key element of QBRC is to ensure that – even if metal is caught in a queue – the warehouse operator will not be able to charge rent while the metal is in the queue beyond a certain length (being 30 days at full rent and 20 days at half rent, i.e. the economic equivalent of 40 days at full rent). Because queue-based incentives are funded from the rent to be collected during the queue, the impact of QBRC is materially to limit this element of any incentive.
132. It is valid to ask whether the proposed anti-abuse provision would weaken this position, i.e. whether it would allow warehouses to pay a greater incentive. However, the LME believes this is not the case. It is important to note first of all that the proposed anti-abuse provision is only relevant to cancellations (by one party, or by two or more parties acting in concert) of over 10,000 tonnes in total. The “marginal warrant” on the LME will be unaffected by the proposed amendment. Furthermore, the proposed anti-abuse provision only protects the warehouse company against the effect of the large cancellation on the queue, i.e. against the number of days by which the queue increases as a result of the large cancellation. In practice, the LME does not believe that the proposed anti-abuse provision would have any effect on the ability of warehouses to pay queue-based incentives (notwithstanding that this would be prohibited by the Agreement in any event). To illustrate this, consider the following example of a warehouse looking to pay a queue-based incentive to a metal owner:



- (a) The incentive would be paid to the metal owner who loads the metal into the warehouse. Assume this represents a large “clip” of metal. The warehouse would pay an incentive based on the rent they expected to collect in the queue.
- (b) The warehouse would only benefit from the proposed anti-abuse provision (and hence be able to collect more than 40 days’ rent in the queue, being 30 days at full rent and 20 days at half rent) if:
 - (i.) The large clip of metal was cancelled by the metal owner who originally loaded it in. However, in this case, the incentive is meaningless, because it is paid to that metal owner, and then recouped from the same metal owner via rent in the queue – i.e. the net economics are zero.
 - (ii.) The large clip of metal is sold as a whole to a single buyer (likely a merchant or bank), who then cancels, and pays rent in line with the proposed anti-abuse provision. But it would not be rational for the acquirer to buy the large clip at “true value” knowing that they would have to pay rent in view of the proposed anti-abuse provision, and hence the incentive received by the original party would be offset by the discount they would have to take on selling the metal – hence it would not be economically rational to accept the incentive in the first instance.
 - (iii.) The large clip of metal is sold on the LME, but all of the warrants are picked up by one party who then cancels. In practice, this may well be difficult and expensive to achieve through clearing, and thus unlikely. Further, a rational party would be unlikely to pick up the warrants knowing they would be subject to the proposed anti-abuse provision in this way.
- (c) The most likely outcome, therefore, is that the original owner sells the metal on the LME, and the warrants are purchased by a variety of owners, who then cancel independently and are entitled to the full protections of QBRC (i.e. anti-abuse does not come into play). In this case, the warehouse would not make more than the economic equivalent of 40 days’ rent in the queue, and would hence economically not be able to fund a large incentive using rent arising out of a queue.

133. Accordingly, the LME does not believe that the proposed anti-abuse provision adversely affects the impact of QBRC on excessive incentive payments.

134. The respondents opposed to the anti-abuse provision also advanced the argument that an additional impact of QBRC is that warehouses will be encouraged to load out metal more quickly, given the lack of desire to hold metal in the warehouse on which rent is not being paid. Because the anti-abuse provision allows warehouses to collect rent within a single clip cancellation, that incentive to load out more quickly would be, to a certain extent, mitigated.



135. The position of the LME is that, regardless of the anti-abuse provision, such an acceleration of load-out under QBRC is not guaranteed to happen. Although it would seem sensible that warehouses would not wish to see non-rent paying stock, the behaviour of a warehouse under QBRC will be dictated by the balance between the greater logistical costs of loading-out more than the LME minimum load-out rate (e.g. more forklift operators), and the potential saving from the freed-up floor space (the economic value of which will be determined by whether other goods can be stored there – which will depend on the warehouse’s particular business model – and / or whether the lease on the shed can be returned – which will be specific to the dynamics of such lease).
136. Working, however, on the assumption that a warehouse will attempt to clear its stock more quickly under QBRC, the two respondents raised a question as to whether the proposed anti-abuse provision would limit this propensity. The argument advanced is that, if the queue features one large clip cancelled by a single party, and hence subject to the proposed anti-abuse provision, the warehouses would be incentivised to load out that clip at the minimum load-out rate (since QBRC does not apply to the scheduling within the clip, and hence rent is maximised by loading-out as slowly as possible). This would then mean that a cancellation behind the large clip – although benefitting financially from QBRC – would temporally be disadvantaged by the warehouse’s decision to load out the large clip more slowly with the proposed anti-abuse provision, than it would in the absence of the proposed anti-abuse provision.
137. However, in the view of the LME, the argument is more balanced. First, it is important to note that QBRC as amended in no way enshrines the minimum delivery out rates as a maximum. Warehouses are free to schedule the delivery out of as much metal as they are capable of processing (in agreement with the metal owner), irrespective of the LME-prescribed minimum delivery out rates. Although in the worked example in paragraph 5 of Section G of the proposed Policy, the amount used is a daily load-out requirement of 4,000 tonnes, the wording of the rule itself (i.e. paragraph 2) refers to “Cancellation Amounts” (first, second, third etc): these “Cancellation Amounts” could be the minimum prescribed amount, or any amount over the minimum. Furthermore, the LME is concerned that, without the proposed anti-abuse provision, the potential for metal owners to make large cancellations and achieve free storage under QBRC may well give rise to large cancellations which would not otherwise occur. *In extremis*, this could take the form of large metal owners engaged in financing deals always looking to hold cancelled stock (on which rent which would not be paid under QBRC) as opposed to live stock (on which rent would be paid). Even if the warehouses worked to their true logistical capacity (as it is argued they would be incentivised to do in the absence of QBRC), the impact of merchants and banks aggressively cancelling stock in this manner may be to cause waiting times for a smaller warrant holder stuck behind such cancellations to be even greater. Further, it would not even be necessary, under QBRC without the proposed anti-abuse provision, for a warrant-holder actually to cancel metal: a warrant holder could threaten to effect a cancellation unless the warehouse offered preferred economic terms for storage (i.e. greenmail).



138. Furthermore, it should be noted that the recent cancellation activity, as set out in more detail in paragraph 33, has had the effect of creating a large stock of cancelled metal which, due to the mechanics of the anti-abuse mechanism⁸ (and assuming no re-warranting activity) will all become subject to the QBRC rule as of 1 May 2016, and so – if warehouses do choose to load out non-rent bearing metal more quickly – this behaviour should be observed, even with the anti-abuse mechanism in operation.
139. Ultimately, the anti-abuse provision represents a balance. In the view of the LME, given the combination of (i) an inability to guarantee that QBRC will accelerate load-out rates, and (ii) the risk of very large queues created by free-rent-seeking cancellations in the absence of the anti-abuse provision, the LME considers that the more prudent approach is to adopt the anti-abuse mechanism.
140. The two respondents further suggested that metal owners may look to effect large cancellations not necessarily to benefit from free storage under QBRC, but instead to deliberately lengthen queues, and hence inflate market premiums. Under QBRC, the market (i.e. the “marginal warrant”) would be more protected from the effect of the queue than without QBRC (since the rent payable in the queue is reduced), but the effect of the delay does also impact the premium.
141. For the avoidance of doubt, the LME takes the view that the “all-in” price of aluminium would not change under this behaviour (since the LME’s view is that the LME base price would likely fall by an equal amount). However, the LME has nonetheless stated that the presence of a large queue-based premium is undesirable in terms of price visibility and hedge effectiveness. It should also be noted that the LME would look to take action against such cancellation behaviour via its general anti-abuse remit.
142. A key question is whether this behaviour to effect large cancellations to lengthen queues and inflate market premiums is more likely with the proposed anti-abuse mechanism. Per the argument above, it could be argued that a warrant holder effecting the cancellation of a large clip with an abusive intention (and hence hoping the warehouse would load-out such metal as slowly as possible in order to propagate the queue and hence the existence of the queue-based premium) would have greater hope of so doing with the existence of the anti-abuse provision, because (although that warrant holder would be economically disadvantaged by having to pay rent during the course of the load-out), it might be expected that the warehouse would load-out the metal more slowly

⁸ If a large quantity of metal is cancelled with an Actual Cancellation Date in advance of 1 May 2016, the Deemed Cancellation Dates in respect of the metal parcels are calculated on the basis of the Actual Cancellation Date. It is therefore possible that the entire sequence of Deemed Cancellation Dates falls before 1 May 2016, in which case the entire cancellation becomes subject to QBRC on 1 May 2016. The anti-abuse provision has been formulated in this manner because such a circumstance will only arise at a warehouse which already has queues at the time of the cancellation, and where such queues extend forward to at least 1 May 2016, and hence the formulation is consistent with the aim of protecting the metal owner from the queue which existed at the time the metal was cancelled



in order to collect such rent. However, the LME believes that – if this were truly the intent of the warrant holder – it would be possible (even in the absence of the anti-abuse provision) to either employ this strategy at a warehouse which had a genuine logistical capacity constraint, or to identify a cooperative warehouse which would agree to limit load-out to the LME minimum rates in order to maximise the queue. Accordingly, the LME views this as a broader challenge of abusive behaviour (which it has the general powers to address), and not one on which the presence or absence of a specific QBRC anti-abuse mechanism would have a material impact.

143. Other responses in respect of the anti-abuse provisions include concerns regarding the administration, monitoring and policing of the new rules, specifically, that the LME should be aware of the potential increased need for the LME to act as arbitrator given their complex nature. They additionally suggested that the LME should impose additional requirements on warrant holders (e.g. reporting requirement / declarations for each cancellation), as well as provisions to prevent them from achieving free rent.
144. The LME believes that it has made the rules for the governance of LORI and QBRC clear and transparent, and, as with all LME rules, is fully prepared to administer, monitor and police both new measures. As such, and as fully outlined in paragraph 51, the LME does not believe that the new rules represent a cause for concern in respect of operational feasibility. However, it remains cognisant of the fact that, especially in the early stages of implementation, there might be additional calls for the LME to take on an advisory or arbiter role until the new rules are embedded into the warehouse network. The LME will, of course, fulfil this function if and when it is required. It does not, however, believe that placing additional reporting requirements on warrant holders is necessary. The anti-abuse provisions as formulated mean that there is no incentive for a warrant holder to make a large cancellation with the aim of achieving cheaper or free rent; therefore, there should be no necessity to monitor the reasons for every cancellation.
145. Other responses received included several requests for clarifications including:
 - (a) The definition of “warrant holder” for the purposes of the QBRC rule, given that brokers may cancel metal for their own account and / or for the order of their customers. Even with this definition, however, a concern remains that the anti-abuse provisions will incentivise metal owners to obfuscate the true identity of those cancelling metal, in order to avoid the rules which will be very difficult for the LME to monitor. Some participants operate both on behalf of clients and on a proprietary basis and the LME confirms that the definition of “warrant holder” will continue as per current understanding, namely that all cancellations registered under the same beneficial owner will be considered as one “warrant holder” and will therefore contribute to the total for that cancellation. If a warehouse operator or other party is concerned that any cancellation has been conducted under a deal designed to circumnavigate the QBRC rules, including the anti-abuse provisions, they are welcome to address such concerns to the LME for further investigation.



- (b) Whether the stock levy applies in full after 30 and 50 days under the QBRC proposal and if the anti-abuse provisions would also apply. The LME has decided that the stock levy will reduce on a percentage basis in line with QBRC and the anti-abuse provisions. Thus, the stock levy will be 1.1% of the total rent received by the warehouse – in full from 0-30 days (with potential staggering of the deemed cancellation date, and hence the “day 0” timing, based on the anti-abuse provision) and 50% between 31-50 days. No stock levy would be applicable after the 50 day threshold has been passed. Anti-abuse provisions will remain in force until the metal has left the queue, either through load-out or rewarranting.
- (c) Whether QBRC will affect rent deals – specifically rent discounts. Rent deals are typically bilateral agreements with multiple potential variables (including time) and as such are a matter between the warehouse operator and metal owner. The LME intends that all metal, regardless of any deals, will be subject to QBRC and the anti-abuse provisions. Thus, if a metal owner is paying storage fees pursuant to a rent deal and is not aware that they would be paying less rent under the QBRC rules while in a queue, it is the warehouse operator’s obligation to inform them, and make the necessary arrangements for the rent to be adjusted accordingly.

146. One respondent appreciated the intention behind the anti-abuse proposal, but felt that the language falls short of its intention and had concerns about the current structure. The expressed concern focused primarily on the fact that the anti-abuse provisions are limited to the start date of the QBRC “clock” for incremental tonnage based on the number of ship days for an entire release. Should the metal owner take all the available ship days the process should be straightforward, and the metal owner will know exactly how much rent the metal will incur through to the final shipping date. A similar analysis will apply if a cancellation is made by a warrant holder already holding metal in a queue. However, the respondent was concerned that if a metal owner does not take all the available shipping dates offered by the warehouse, the number of cumulative ship days for all cancelled tonnage could increase dramatically and the metal owner would be able to gain more free rent than if maximum tonnage was scheduled to ship each day. Their suggested solution was to modify the deemed cancellation date formula to account for a protracted load-out schedule but concluded that this would be too complicated and that ultimately, it would be more practical to specify that any warrant holder not scheduling the full available shipping slots offered by the warehouse operator would not be subject to QBRC rules.
147. The LME refers interested parties to paragraphs 105-108 regarding load-out schedules which are mutually agreed between warehouse operators and metal owners and agrees with the above analysis that, should a metal owner request a staggered delivery schedule, this would protract the load-out time, and hence reduce the ability for metal owners further back in the queue to gain access to their metal. However, the LME does not agree that the answer is to disapply QBRC to all instances and instead would suggest instead that warehouse operators schedule more than one cancellation concurrently. Say, for example, a metal owner cancels 16,000 tonnes of metal at a



warehouse with a stated daily load-out capacity of 6,000 tonnes. Should the metal owner only wish to take delivery of 2,000 tonnes a day, the warehouse operator could utilise their remaining 4,000 tonnes capacity to schedule and load-out the cancellation of a separate metal owner. Conducted in this manner, the QBRC anti-abuse provisions enable the warehouse operator and metal owner to agree a mutually acceptable load-out schedule which does not penalise the warehouse operator and allows them to continue to maximise their load-out capacity. Importantly, with the anti-abuse provision in place, the metal owner would not benefit from lengthening the period of time over which his metal was loaded out, because the anti-abuse provision ensures that QBRC does not provide protection within the metal owner's load-out slot, regardless of how long that may be based on scheduling.

148. Similarly, one respondent voiced a concern that warehouse operators would be less inclined to allow rewarranting of metal which was benefitting from reduced or zero rent while in the queue. The LME agrees that this does carry the potential that metal owners would cancel metal speculatively, and as such clarifies that, as per current rules, warehouse operators have the right to refuse the rewarranting of metal. Alternatively, any warrant holder who has benefitted from QBRC while their cancellation was in a queue and subsequently asks to rewarrant their metal could be required by the warehouse to pay the unpaid rental charges during QBRC period in order to rewarrant the metal.
149. On a more operational level, one respondent reported concerns with how the "deemed cancellation date" impacts IT administration systems which use the cancellation date as a trigger for generating invoices and delivery planning, amongst other things. The necessary changes to implement this create IT development work at additional costs for warehouse companies and creates a higher possibility of unintentional issues and rule breaches.
150. The LME recognises that changes will need to be made to existing systems in order to adapt them for use in a QBRC (including anti-abuse provisions) environment. However, the LME does not accept that the work involved and difficulties created in adapting systems for the rule change is a reason not to implement the changes. The LME considers that warehouse operators can ready themselves for the implementation of both LORI and QBRC at the appropriate time.
151. Suggested amendments to the anti-abuse provisions included:
 - (a) Removing the 10,000 tonnes threshold altogether (on the basis that potential abuse is not related to the cumulative amount of metal cancelled); and
 - (b) Lowering the threshold to 3,000 tonnes. This amount was considered to be unlikely to impact standard cancellations (thought to be between 100 and 5,000 tonnes) but would further reduce the likelihood of orchestrated cancellations between different parties as it would require a significant increase in the number of parties involved in the concurrent cancellations.



152. The LME accepts that the thresholds proposed for the governance of the anti-abuse provisions are subject to individual views, but believes the number proposed represents a fair and proportionate level which does not interfere with the “marginal warrant” but does offer sufficient protection against potential “greenmail” behaviour. The LME will maintain a review of this figure and is prepared to adapt should it not prove appropriate for this purpose.

(d) Are there any other, less restrictive means of achieving the same objective?

153. The LME acknowledges that, with LILO and LORI, the queues at Vlissingen and Detroit would previously have been likely to fall under the queue threshold during 2016. However, given significant recent cancellations at Pacorini Vlissingen, this is no longer the case. As such, the LME considers that LILO and LORI alone are not sufficient to address the problem of queues on an ongoing basis. Rather, QBRC is necessary to ensure that the impact of current queues can be reduced, and to put the right incentives in place to prevent future queues from arising. As discussed above, the LME has carefully considered alternative, less restrictive versions of QBRC as well (such as a compulsory rent reduction to a nominal rent charge instead of cancellation of rent, or opt out “exit” options for warehouses (see paragraph 119), or a more limited QBRC rule that only applies to particular warehouses), but does not consider them to be sufficiently effective alternatives.

(e) Would the negative effects of QBRC be too great to justify implementation?

154. As discussed above, the LME acknowledges the potential for QBRC to give rise to the adverse effects that have been raised by some respondents. As discussed above, however, the LME concludes, on balance, that the benefits of the rule, combined with measures to mitigate the risks (such as not implementing the rule immediately and the application of anti-abuse rules) outweigh the risks.

(f) Is QBRC likely to have an effect on competition (noting that, even if QBRC is likely to have an effect on competition, it may still be justifiable and proportionate)?

155. QBRC is a prohibition on charging in certain circumstances (i.e. when queues reach a certain level). QBRC, in isolation, would still leave warehouses free to compete regarding the levels of rent, FOT rates and incentives. Arguably, QBRC would improve the ability of warehouses without queues to compete with warehouses which have queues – in other words, it would level the playing field on which warehouse companies compete.

B.2 Does QBRC seek to achieve a regulatory, prudential or organisational objective?

156. QBRC is expected to help to reduce the impact of existing queues, while incentivising faster load-out, and to prevent the occurrence of future queues. Although some



respondents doubted the need for further reform to address queues, for the reasons given above, this is a legitimate regulatory objective.

Conclusion on QBRC

157. In conclusion, having taken into account the responses received in the LORI/QBRC and the Anti-Abuse Consultations, the LME today announces its intention to implement QBRC with the addition of the proposed anti-abuse provisions on 1 May 2016.

Section C: General discussion regarding the LORI/QBRC Consultation and other issues

158. As set out further below, in addition to comments on the specifics of the proposed reform, some respondents also provided broader comments regarding the nature of the LORI/QBRC Consultation, the consultation process and / or various other issues.

Nature of the LORI/QBRC Consultation

159. A number of respondents commented in respect of the fairness of the LORI/QBRC Consultation. The LME has made every effort to ensure that all of its consultations are conducted in a fair, open and transparent manner, that it considers concerns raised by consultation respondents, and that it uses this feedback to shape and structure its ongoing reform process.
160. One respondent expressed concerns that the perceived aim of the current reforms was to lower premiums and that they believed this change would favour only one side of the market. More generally, several respondents stated that the LME must act in an impartial manner in accordance with its rules and regulatory mandate and conduct a fair, open and transparent consultation which takes an holistic approach to any and all reforms, and fully considers the potential ramifications thereof.
161. As highlighted in the Discussion Paper Notice, the LME recognises that it is regulating for a very broad range of market users and as such, changes made to its structures are unlikely to receive positive feedback from the whole market. The LME has previously noted that not only do market participants disagree on whether any reform is necessary, but there is also little consensus among market participants (and even amongst those who support reform) as to what reform(s) should be implemented. Against that backdrop, the LME's role is to discern a path forwards which is objective and proportionate. The LME's analysis regarding LORI and QBRC was clearly articulated in the Discussion Paper Results Notice, which explained why the LME believed action was necessary, and why the LME viewed LORI and QBRC as the most proportionate response.
162. Two respondents expressed concerns about communications between the LME and the U.S. Commodity Futures Trading Commission (CFTC), specifically communications which have become public and which are believed by those respondents to have exercised an unduly influential impact on the conduct of the LORI/QBRC Consultation.



163. When considering potential market reform measures, the LME, as the decision-maker, takes account of feedback from all relevant parties, including regulators, and has done this during the LORI/QBRC Consultation in relation to LORI and QBRC. The LME must also be mindful of its statutory obligations and regulatory responsibilities, and make decisions in that context.
164. One of the respondents was concerned that, until very recently, the LME had viewed QBRC as “unviable” and questioned the lack of evidence provided by the LME for what is seen as a position reversal, which is further called into question by the LME’s continued acknowledgement of the ongoing threat of litigation in particular in relation to QBRC. The LME has consistently acknowledged the risk of litigation being launched, and this risk cannot be discounted. However, having taken account of all the relevant factors including the risk of litigation and changing factual circumstances, the LME is minded to implement LORI and QBRC as the appropriate course of action.
165. One respondent argued that the LME had failed to take into consideration any of the feedback provided during previous consultation periods, indicating (in the mind of that respondent) a lack of willingness on the part of the LME to treat warehouse companies as equal stakeholders in the LME system. Respectfully, the LME cannot agree with this. The LME has always recognised, and continues to recognise, the crucial role that warehouse companies play with the LME system, and that the physical settlement of its contracts in warehouses represents a cornerstone of its price discovery capabilities. The LME hopes that its continued engagement with warehouse companies is reflected not only in the consultation process but also in ongoing and regular one-to-one meetings and committee meetings. Additionally, the LME would like to highlight the extension of the Warehousing Committee to include a seat for each LME-listed warehouse company, as well as the ability of the Warehousing Committee to elect a representative to the Physical Markets Committee, which demonstrate that the LME fully acknowledges the vital role that all warehouse companies play, as well as the LME’s desire to maintain a positive and open dialogue with all of its warehouse companies.
166. The LME is prohibited from publishing in full the comments it receives from consultation respondents because of the need for confidentiality. However, the LME would like to underline the extent to which its actions following previous consultations have been shaped by feedback from respondents. Indeed, the twelve item reform package introduced in 2013 was almost entirely shaped by market feedback. This includes, but is not limited to, the instigation of the commitments of traders report, the per-warehouse queue report (and subsequently, per-warehouse storage space report), the creation of the Physical Market Committee, the separate load-out rate for steel (and later, also for aluminium alloys), and the thorough independent reviews of the Warehouse Agreement, the LME information barrier requirements and logistics of the warehouse network. Additionally, in November 2015 the LME has launched a set of premium futures contracts based on significant level of market demand. All these changes and their origins in market feedback are fully outlined in the 2013 Consultation Report, and in Notice 13/326



: A312 : W125 (“Result of consultation on changes to LME policy regarding approval of warehouses in relation to delivery out rates”).

167. There are also many examples of the LME amending the detail of proposed rules on the basis of market feedback received during a consultation. It would be impractical to list them all but by way of evidence of the LME’s good faith with the consultation process the LME would highlight a few examples, namely:
- (a) LILO was originally proposed with a 100 day queue threshold, which was subsequently reduced to 50 days as a result of market feedback.
 - (b) The new definition of “load-out” originally demanded “a bill of lading of equivalent document issues by a carrier to the Warehouse” to show the onward destination of metal. The LME accepted feedback that in some circumstances, (e.g. shipment by railcar) such a document would not be produced. Accordingly, the LME amended the wording of the relevant Policy clause to reflect these practicalities.
 - (c) The reporting of incentives was amended to allow first instance reports to be submitted on an anonymised basis and implementation was delayed following a request for additional time to agree the precise format of reporting.
168. Finally, one respondent outlined the tests which they believe any reform should meet in order to constitute a proper exercise by the LME of its regulatory power. These are that the reform should be: (i) effective to achieve a legitimate aim; (ii) no more onerous than is required to meet that aim; (iii) the least onerous course if there is a choice of equally effective measures; and (iv) proportionate to the aim pursued. Although this respondent stated that it did not believe that the LME has met these tests in regard to the proposed implementation of LORI and QBRC, the LME believes that these tests are in line with its own analytical framework as outlined in paragraph 15 above, and are fully explored and justified in this Notice and the Discussion Paper Results Notice.
169. The same respondent also put forward criteria by which a consultation can be judged. The consultation process must: (i) be objective and meaningful; (ii) seriously consider alternative proposals; and (iii) be made at a time when the decision making is still open to change. They argue that the LME’s openness with regard to the role played by its regulator, the Financial Conduct Authority (FCA), added to the perceived influence of the CFTC, means that the LORI/QBRC Consultation has failed to meet the first criterion, since it is not free of such prejudice allowing all warehouse operators to comply with new rules and their implementation dates in a non-punitive and proportionate manner. This respondent also stated that the LME has failed to meet the second criterion, since it has failed to implement feedback submitted to previous consultations without providing adequate justification or analysis. The respondent stated that this is evidence of the LME’s preconceived understanding of the causes of queues and lack of willingness to consider alternative measures which do not focus solely on warehouse company behaviour regardless of their objective merits. The respondent stated that a second



example of this is the LME's reluctance to take on board reasoning provided to suggest that the Rusal judicial review did not create a sufficient delay in the implementation of LILO to justify increasing the decay factor from 0.5x to 1.0x. The respondent stated that this is concerning for the LORI/QBRC Consultation, since it proves that the LME has a history of ignoring feedback and implementing disproportionate rule changes solely on the basis of its own justifications.

170. This respondent also stated that these factors have additional relevance for the third criterion, since it adds weight to that respondent's statement that the LME cannot, therefore, be considered to be genuinely open to other possibilities based on feedback received during the consultation process. Thus there is no real potential for QBRC to change as part of the current LORI/QBRC Consultation review process. They believe that the LME has favoured one sector of the market – specifically consumers – over others, by not allowing the concept of logistical staging areas to be implemented despite a willingness to implement safeguards designed to ensure that these areas could not be subject to abuse.
171. The LME agrees with the criteria by which a consultation should be judged set out in paragraph 169. The LME has taken great care over the course of the last two years of reform to ensure that its consultation processes, including the LORI/QBRC Consultation, have been fair. As per paragraphs 165-167, the LME believes that it has demonstrated its willingness and capacity to implement change based on consultation feedback. As per paragraph 168, the LME considers that, for reasons fully explored and justified in this Notice and the Discussion Paper Results Notice, its decision now to implement LORI and QBRC constitutes a proper exercise of its regulatory power. As regards the LME's work with the FCA, the LME believes that working closely with its primary regulator to ensure that any and all amendments the LME has decided to implement are in line with its regulatory obligations is an essential aspect of the LME's statutory role. This ongoing dialogue with the FCA does not, of course, obviate the LME's role as sole decision maker in relation to what reforms are appropriate to implement following consultation, having regard to regulatory obligations among other considerations.

Other issues

172. The LME would like to acknowledge additional points raised by market participants which, although they do not directly deal with consultation subject matter, remain important to the LME system as a whole.
173. Various, these include a query over the new definition of cancellation, requests for greater clarity on inappropriate vs appropriate incentives; the ability of the LME's Lending Guidance to ensure effective investigations against regular tightness in the market, especially given the belief that fundamentals do not adequately explain these periods of backwardation, and concerns about the adequacy of LME information barriers.



174. Although the LME believes that the new definition of cancellation and questions regarding incentives to be unrelated to the LORI/QBRC and Anti-Abuse Consultations, it also believes that these are still worthy of comment and are explored more fully in Section D.
175. Questions around the LME's Lending Guidance have been raised in previous consultations. The LME's Lending Guidance falls under the purview of the Market Operations Department of the LME and the LME Special Committee which regularly reviews market fundamentals and ensures that the LME is consistently meeting its requirements to maintain an orderly market. The LME is aware that changes to the warehouse network are capable of having an impact on market positions, but firmly believes that ultimately these changes have a positive forward impact on market stability and orderliness. Interested parties are encouraged to refer to Notice 15/161 : A157 : W015 ("Outstanding items from the consultation on amendments to the policies and procedures relating to the LME's physical delivery network"), released on 22 May 2015.
176. As with its Lending Guidance, the LME is fully cognisant of the fact that maintaining information barriers which are relevant and representative of best practice at all times is fundamental to the success of its market. To this end, in 2014 the LME consulted upon changes to its information barriers following a full independent legal review, as part of a continuous process of ensuring that its information barriers represent market best practice. The LME has also committed to publishing an annual statement confirming that the required third party external audit reports have been received pursuant to the information barrier requirements and identifying any general issues arising from such reports.
177. The points also included a request for the LME to issue a general set of clarifications and guidance for increased market understanding of different scenarios. There was a sense that the significant level of reform has left it difficult for market participants to understand, and for warehouse companies to comply. The LME is very happy to do so, and indeed, has included a number of examples in the Policy as attached (see appendices) as well as further clarifications regarding the operation of QBRC in this Notice. The LME welcomes any further queries.
178. Finally, one respondent reiterated a point made in previous consultations that in the longer term, they believe it to be wrong (taking into account conflicts of interest) for traders to own or operate warehouse companies and vice versa. The LME acknowledges the weight of market opinion in this respect, but remains of the view that questions on the fundamentals of general market structure such as this are a matter for review at a governmental policy level. The LME remains ready to contribute to any such review of this policy question if and when this becomes appropriate.



Section D: The definition of “Cancellation” and clarification regarding the acceptable payment of incentives by warehouse operators

179. The LME has received a number of queries from market participants relating to certain matters in respect of the Agreement and the Policy. This section provides further information in respect of: (i) the definition of “Cancellation”; and (ii) the acceptable payment of incentives by warehouse operators.

Definition of “Cancellation”

180. The revised Policy introduces a defined term “Cancellation”, defined as “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)”.
181. This definition is used in the construction of QBRC, and is designed to ensure that the QBRC “clock” cannot start until such time as the warrant holder has completed all formalities in respect of load-out – that is to say, that the warrant holder cannot delay the load-out process while the QBRC “clock” is “ticking”, in an attempt to gain reduced-cost storage.
182. The LME is aware that, in non-queued warehouses, market practice may be to allow warrant holders to cancel metal before e.g. the provision of shipping instructions – and, in particular, the reporting of cancelled stocks to the LME will include such cancelled stock.
183. For the avoidance of doubt, the LME does not propose to change this process, and will continue to permit warehouses to report as “cancelled” metal which has not yet received customer shipping instructions, provided that the warehouse operator and metal owner are in agreement that cancellation has, indeed, taken place. This “cancellation” should be seen as distinct from the defined term “Cancellation” pursuant to the revised Agreement, which is specifically for the purposes of identifying when the QBRC “clock” should be started.

Acceptable payment of incentives by warehouse operators

184. Notice 15/069 : W022 set out important information as to the payment of incentives by LME-licensed warehouses. The LME has received a number of requests to provide further clarification as to the nature of acceptable incentive payments, and is pleased to provide further information in this Notice.
185. The LME notes that certain market participants continue to hold the view that no incentives should be paid by LME-licensed warehouses. However, the LME does not believe that such a change could be implemented, or would indeed be desirable, given that:



- (a) it is not clear whether the LME has the power to make such a prohibition; and
- (b) even if the LME could proscribe the payment of incentives of LME-warranted metal in LME-registered warehouses, the LME has no such powers in respect of off-warrant storage. Accordingly, the key result of such a policy would likely be to further drive metal off-warrant, and out of sight of the market.

186. Accordingly, the LME's preference is to ensure that any incentives paid are proportionate and non-distortive of the market. This requirement is codified in Clause 9.3.1 of the Agreement, and the LME is providing further interpretation in this Notice.
187. As a general matter, the LME believes an appropriate framework for considering the potentially abusive impact of incentives is to consider a metal owner holding readily-accessible metal.

Various scenarios

188. Consider further that the metal owner has the choice between: (i) selling the metal to a consumer (for LME price plus a negotiated premium); (ii) loading the metal into an LME warehouse (receiving an incentive) and financing the metal, intending to hold the metal through the financing period; and (iii) loading the metal into an LME warehouse (receiving an incentive) and selling the warrants on the LME (receiving the LME price). A rational metal owner will take the route which maximises their financial return.
189. The LME's concern is therefore to ensure that consumers buying metal under scenario (i) are not unfairly disadvantaged by the "counter-bid" of a warehouse incentive paid under scenarios (ii) or (iii).

Scenario (ii)

190. Under scenario (ii), the incentive which a warehouse should logically be willing to pay is a proportion of the rent, FOT and other charges which it anticipates collecting in the period during which the metal is in storage. In many cases, the warehouse operator will negotiate a storage period with the metal owner, and hence the total fees will be known. It would therefore be commercially understandable for the warehouse to rebate some proportion of these total charges.
191. It would arguably be preferable for the market if such rebates took the form of a rent / FOT reduction, without the payment of an upfront incentive. However, the LME recognises that, in many cases, market practice is for some proportion of the expected charges to be paid initially to the metal owner as an incentive. For the avoidance of doubt, provided that: (i) a warehouse can demonstrate that the incentive is lower than the expected charges to be levied; (ii) the warehouse has not engaged in behaviour with the aim or effect of creating a queue in order to "lock-in" the amount of expected charges to be levied; and (iii) the incentive is not otherwise exceptional (in amount or structure) and



would not directly or indirectly constrain the liquidity and elasticity of stocks of metal under warrant or otherwise have a manipulative, distortive or disorderly effect on the market, the incentive may be justifiable.

192. The LME further accepts that warehouses may wish to take “premium risk”, i.e. the hope that metal will remain in the warehouse for a longer period of time than that originally contracted with the metal owner. This may occur, for example, if the metal owner originally finances the metal for three months (and commits to store in the warehouse for that period of time), but the warehouse operator takes the view that, given market conditions, it is likely that the financing period (and hence the storage period) will be extended. The payment of an initial incentive in excess of the charges in the contractual period could represent the warehouse’s premium risk.
193. Provided that the warehouse can clearly articulate the basis on which such premium risk has been accepted (and provided the other caveats set out in paragraph 191 above are met), the LME believes these incentive payments may be acceptable. Ultimately, the warehouse’s tolerance for premium risk will limit the ability for incentives to be paid. Furthermore, if the warehouse bases its decision on market conditions (e.g. a contango forward curve suggesting a roll in the financing transaction), this would not generally be viewed as “dealing in LME contracts” for the purposes of clause 1.5.2 of the Agreement.
194. A specific case will occur when the warehouse and metal owner are under common control, or otherwise have a business relationship which means that premium risk does not limit the premiums payable by the warehouse. In this case, the LME would expect the warehouse to demonstrate (by reference to incentive transactions with unconnected third parties) that the premiums offered to connected parties are in-line with those offered to unconnected third parties and are not otherwise manipulative, distortive or disorderly.
195. As a general observation, the LME recognises that these situations arise from financing transactions. As such, the economics of the transaction (including the ability of the metal owner to pay charges to the warehouse, and hence the ability of the warehouse to pay an incentive to the metal owner) arises from the profit from the financing transaction. For the avoidance of doubt, the LME does not view this as the warehouse “dealing in LME contracts” for the purposes of clause 1.5.2 of the Agreement. Even if the charges negotiated by the warehouse are calibrated at the outset of the transaction by reference to the expected profits from the financing transaction, this is generally acceptable in the view of the LME.
196. The LME acknowledges that parties to the financing trade (in particular, the metal owner and the financing bank) may generate trading profits, and may make payments between themselves pursuant to the specific agreement existing amongst them. However, the warehouse should not be party to any such agreement. Any arrangement which takes the form of the warehouse participating, in a variable basis, in the actual outcome of LME trades would represent the warehouse “dealing in LME contracts”, and would not be acceptable.



197. Furthermore, as set out in paragraph 22 of Notice 15/069 : W022, the LME thinks it is inappropriate for a warehouse company to act as a conduit for the remittance of trading profits (in whatever form) by the trading house (regardless of whether or not it is in the same group as the warehouse operator) to a metal owner. The proper course would be for such payment to be structured directly between the trading house and the metal owner.
198. The LME recognises that many agreements between warehouse operators and metal owners include a “break clause” if metal is withdrawn from storage early. The LME views these as being acceptable, provided that the entire quantum of the original incentive was economically justified, per the guidelines above, at the time the deal was agreed. The LME further recognises that break clauses are normally exercised as a result of market conditions, particularly in backwardated markets, where metal owners require prompt access to their metal for use in delivery. As such, the LME recognises that the quantum of the break fee will be, to some extent, linked to the market conditions. Provided that such break fees are agreed at the outset of a transaction, and are not a variable quantity set by reference to the price curve at the time of exercising the break, the LME again does not view such break fees as constituting dealing in contracts on the part of the warehouse company.
199. However, the LME has material concerns as to the use of “clawback” incentives, i.e. structures where the warehouse pays a given incentive with a “break clause”, but with the expectation (at the outset of the transaction) that the clawback will indeed be paid. The distinction between a “break clause” and a “clawback” would hence be that, in the case of the break clause, the warehouse could demonstrate at the outset that it did not expect the metal owner to break the contract (with reference to the indicators set out above as to reasonable expectations for metal rest-time in the warehouse), whereas such an articulation would not be possible in the case of a clawback.
200. The concern arises due to the fact that, with a clawback structure, the warehouse may be able to pay a greater incentive than would be justified by the rest-time economics set out above, forcing consumers to compete by paying a similar premium. However, the warehouse would be able to clawback its incentive, whereas a consumer would not be able to clawback its premium. *In extremis*, this could be used as a mechanism to convince consumers that they would need to pay very high premiums in order to compete with warehouse incentives which were not, in fact, “firm” incentives. This would clearly represent an unacceptable distortion of the market.
201. The provisions set out in this scenario (ii) relate to transactions where the metal owner intends to withdraw the metal from the warehouse at the end of the financing period. If the metal owner intends instead to sell the metal on the LME at the end of the financing period, the considerations under scenario (iii) will also be relevant.



Scenario (iii)

202. In the event that the metal owner intends to sell the metal on the LME, then the expectation must be that the new owner of the metal will not have a business relationship with the warehouse in question. As such, in general, the warehouse would not be expected to anticipate a significant fee stream from the metal (limited to FOT charge and a statistical assessment of the likely rest-time of the metal in the warehouse prior to withdrawal by the new owner). Accordingly, the LME would expect incentives to be more limited in this case, and justified by reference to these factors.
203. In particular, the market has asked about the use of “back-ended” incentives, whereby the metal owner placing metal onto warrant, and subsequently selling the metal, is then entitled to a proportion of the rent collected by the warehouse from the new owner (with the total payment being open-ended, based on the actions of the subsequent metal owner and the rest-time of the metal in the warehouse). Whether or not such incentives are permissible would have to be decided on the basis of all available facts. However, there are some circumstances in which such arrangements would clearly be inappropriate. Any arrangements where the new metal owner is prevented from withdrawing the metal and making alternative storage and on-sale arrangements must be prohibited. Equally, any arrangements having a distortive, manipulative or disorderly effect on the market would clearly be inappropriate. This might include arrangements which had the object or effect of creating or maintaining a queue, for example arrangements which encouraged the new metal owner to cancel the metal. This might be achieved, for example, where the original metal owner benefitted from a significant rent discount, meaning that the subsequent metal owner would not receive a competitive rent deal (or any rent deal at all), thereby encouraging the new owner to cancel the metal and move it to a different warehouse. However, where such “back-ended” arrangements are modest in scope and quantum, and will not have a manipulative, distortive or disorderly effect on the market, such arrangements may be permitted.
204. Historically, incentives under this scenario (iii) may have been paid on the basis of warehouse queues, and the warehouse’s guaranteed rent in the queue from the new owner of the metal. As set out above and in Notice 15/069 : W022 (see in particular paragraph 20), such incentives are strictly prohibited, and may not be paid.

General

205. The LME has been asked whether it would introduce a “pre-clearance” system for warehouses proposing to pay incentives of a particular nature, and looking for the LME’s approval (or otherwise) for the proposed payment.
206. The LME does not believe it would be appropriate or practicable to operate such a system. Ultimately, it is for warehouse operators to form their own view on the compatibility of such payments with the LME’s rules. However, the LME hopes that the guidance it has set out above will be helpful in making such an assessment.



207. The LME will be pleased to speak in general terms with warehouse operators (and other market participants) as to the general guidance, and will also interact with warehouse operators on this topic in the context of the incentive reporting regime, which comes into effect from 1 January 2016.

Conclusion

208. LORI will be implemented on 1 March 2016 and QBRC (including the anti-abuse provisions) will be implemented on 1 May 2016.
209. Implementation will be via amendments to the Policy. The revised Policy that the LME is to introduce including the new rules for LORI and QBRC is attached to this Notice. The changes from the version in the LORI/QBRC Consultation are: (i) the modification to the LORI start date; and (ii) the addition of the anti-abuse provisions to govern QBRC as outlined in the Anti-Abuse Consultation Notice. The Policy is consistent with the version presented in the Anti-Abuse Consultation Notice. This version of the Policy will take effect on 1 March 2016⁹, being the start date for the implementation of LORI, and including the requisite 90 days' contractual notice period stipulated in the Agreement.
210. Full information on all aspects of the LME's warehouse reform programme, including the LORI/QBRC and Anti-Abuse Consultations can be found on the LME website at <http://www.lme.com/trading/warehousing-and-brands/warehousing/lme-warehouse-reform/>
211. The LME would like to thank all market participants who have responded to the LORI/QBRC and Anti-Abuse Consultations, many of whom have been engaged in the reform process since 2013 and of whose continued collaboration the LME remains highly appreciative.

Matthew Chamberlain
Head of Business Development

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

⁹ But the provisions relating to QBRC will, as stated in the Policy, take effect on 1 May 2016



Appendices:

- A. Revised Policy on Approval and Operation of Warehouses, effective 1 March 2016 (clean copy)
- B. Revised Policy on Approval and Operation of Warehouses, effective 1 March 2016 (changes tracked to version proposed in LORI/QBRC Consultation Notice)
- C. Revised Policy on Approval and Operation of Warehouses, effective 1 March 2016 (changes tracked to previous version, effective 1 August 2015)



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

A) Warehouses

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



B) Transportation

Transport links

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

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

C) Common standards of working practices and facilities for Warehouses

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

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



The above table applies to all DP Warehouses who are storing up to 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 out¹ commitments of 30,000 tonnes or more; and
 - (b) a minimum of 30,000 tonnes of those scheduled commitments are for one metal (being the first metal scheduled to be delivered out that day) (the "Daily Dominant Metal");

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

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

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



the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LILO Rule).

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

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

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

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

The above table applies to all DP Warehouses who are storing up to 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 load-out 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"), save that the calculations in paragraphs 1 and 2 may be applied historically in determining when the Rent Cap in respect of a particular tonnage of metal subject to a Cancellation prior to 1 May 2016 should take effect². The provisions of this Section G shall be referred to as the "Queue Based Rent Cap".

1. When Warrants representing in aggregate an amount of metal (in tonnes) which is equal to or larger than 10,000 tonnes (the total amount of such Cancellation being the "First Cancellation Amount") are the subject of a Cancellation at a DP Warehouse on a specific date (the "First Actual Cancellation Date") by a single warrant holder, or multiple warrant holders acting in concert as determined by the LME in its sole discretion, who owned no Warrants in respect of metal in the Queue of that DP Warehouse before such Cancellation, the "Deemed Cancellation Dates" in respect of that First Cancellation Amount shall be as follows³:

² Under no circumstances would the Rent Cap take effect prior to 1 May 2016.

³ It should be noted that the concept of "Deemed Cancellation" is relevant only for the purposes of Queue Based Rent Cap calculations. It does not impact the fact that stock is cancelled for the purposes of stock reporting, queue calculation etc.



- (a) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the first available day in the schedule⁴ (the “First Day Load-Out Amount”) forming part of the First Cancellation Amount shall be the First Actual Cancellation Date.
 - (b) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the second available day in the schedule⁵ (the “Second Day Load-Out Amount”) forming part of the First Cancellation Amount shall be X calendar days after the First Actual Cancellation Date (where “X” is the number of calendar days between the scheduled delivery slots⁶ for the First Day Load-Out Amount and the Second Day Load-Out Amount).
 - (c) The Deemed Cancellation Date in respect of the amount of metal scheduled in the Queue on the third available day of the schedule (the “Third Day Load-Out Amount”) forming part of the First Cancellation Amount shall be Y calendar days after the First Actual Cancellation Date (where “Y” is the number of calendar days between the scheduled delivery slots⁶ for the First Day Load-Out Amount and the Third Day Load-Out Amount).
 - (d) This shall continue for the calculation of the Deemed Calculation Date in respect of each Day Load-Out Amount forming part of the First Cancellation Amount, including, lastly, in respect of the final part of the First Cancellation Amount.
2. Further, if a warrantholder, or several warrantholders acting in concert as determined by the LME in its sole discretion, who has cancelled Warrants and the metal for those Warrants has not yet been loaded out, subsequently cancels Warrants representing any amount (the “Additional Cancellation Amount”) in the same DP Warehouse on the same or a different date (the “Additional Actual Cancellation Date”), and where the aggregate holding in the Queue (including the Additional Cancellation Amount) is equal to or exceeds 10,000 tonnes, the “Deemed Cancellation Dates” for the Additional Cancellation Amount shall be as follows:
- (a) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the first available day in the schedule⁴ (the “First Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall

⁴ For the avoidance of doubt, the quantum of the First Day Load-Out Amount will be determined by (i) the minimum daily delivery tonnage of the relevant DP Warehouse applicable on the scheduled date of delivery out, and (ii) the amount of metal from any previous Cancellation already scheduled into the Queue on that day.

⁵ For the avoidance of doubt, the quantum of the Second Day Load-Out Amount will be determined by the minimum daily delivery tonnage of the relevant DP Warehouse applicable on the scheduled date of delivery out.

⁶ For the avoidance of doubt, this means the actual slot scheduled including the effect of any weekend.



- be N calendar days after the Additional Actual Cancellation Date (where “N” is the number of calendar days occupied in the Queue by any previous Cancellations in the Queue, not including the effect of the Additional Cancellation Amount, attributable to the warrant holder or other warrant holders acting in concert, rounded up to the nearest whole calendar day).
- (b) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the second available day in the schedule⁵ (the “Second Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N+X calendar days after the Additional Actual Cancellation Date (where “X” is the number of calendar days between the scheduled delivery slots⁶ for the First Day Load-Out Amount and the Second Day Load-Out Amount).
 - (c) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the third available day in the schedule (the “Third Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N+Y calendar days after the Additional Actual Cancellation Date (where “Y” is the number of calendar days between the scheduled delivery slots⁶ for the First Day Load-Out Amount and the Third Day Load-Out Amount).
 - (d) This shall continue for the calculation of the Deemed Calculation Date in respect of each Day Load-Out Amount forming part of the Additional Cancellation Amount, including, lastly, in respect of the final part of the Additional Cancellation Amount.
3. A Warehouse shall track the waiting time for delivery out of metal from the “Applicable Cancellation Date”, being the latest of: (i) the date of Cancellation; (ii) the Effective Date; and (iii) the Deemed Cancellation Date (in the case of Warrants which meet the conditions described in paragraph 1 or 2 of this Section G above). Notwithstanding any other provisions of this Policy, a Warehouse should generally deliver out metal from its Authorised Warehouses as quickly as possible, and at worst within 30 calendar days of the Applicable Cancellation Date. Failure to achieve delivery within this timescale shall result in the Warehouse being obliged to reduce its Rent in accordance with the provisions set out below (but, for the avoidance of doubt, the Warehouse shall not incur any other penalty for failure to meet the timescales set out in this Section G unless in contravention of other provisions of the Policy, Warehouse Agreement or other requirements of the LME).
 4. Where the waiting time exceeds 30 calendar days from the Applicable Cancellation Date, but before the waiting time exceeds 50 calendar days from the Applicable Cancellation Date, the Warehouse shall be permitted to charge at most 50% of its Rent for the cancelled metal; and where the waiting time exceeds 50 calendar days from the Applicable Cancellation Date, the Warehouse may not charge any further Rent for the cancelled metal.



5. A worked example of the calculation.

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

- (a) Consider the Cancellation of a clip of 10,000 tonnes (the “First Cancellation Amount”), on 2 May 2016 (the “First Actual Cancellation Date”) at a DP Warehouse with a Queue of 150 calendar days, and a daily load-out requirement of 4,000 tonnes, by an owner who at present has no metal in the Queue at that DP Warehouse.
- (b) The first 4,000 tonnes (the “First Day Load Out Amount”) of the clip will be scheduled on 29 September 2016 (a Thursday). The second 4,000 tonnes (the “Second Day Load Out Amount”) of the clip will be scheduled on 30 September 2016 (a Friday). The final 2,000 tonnes (the “Third Day Load Out Amount”) of the clip will be scheduled on 3 October 2016 (a Monday).
- (c) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the first 4,000 tonnes (scheduled for load-out on 29 September 2016) will be the First Actual Cancellation Date, namely 2 May 2016. Half rent will become payable after 30 days (i.e. on 1 June 2016), and zero rent will become payable after 50 days (i.e. on 21 June 2016).
- (d) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the second 4,000 tonnes (scheduled for load-out on 30 September 2016) will be 3 May 2016 (i.e. one day after the First Actual Cancellation Date).
- (e) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the final 2,000 tonnes (scheduled for load-out on 3 October 2016) will be 6 May 2016 (i.e. four days after the First Actual Cancellation Date, taking into account the effect of the first weekend in October on the load-out scheduling).
- (f) On 9 May 2016 (the “Additional Actual Cancellation Date”), the same warrant holder cancels an incremental 10,000 tonnes (the “Additional Cancellation Amount”) at the same DP Warehouse. By this date, the Queue (including the effect of the warrant holder’s first Cancellation and potentially other Cancellations but prior to the warrant holder’s second Cancellation) has grown to 155 calendar days.
- (g) The original 10,000 tonne Cancellation by that warrant holder is responsible for 5 days of the 155 day queue (rounded up, and including the effect of the first weekend in October on the scheduling).
- (h) The first 4,000 tonnes (the “First Day Load Out Amount”) of the second clip will be scheduled on 11 October 2016 (a Tuesday). The second 4,000 tonnes (the “Second Day Load Out Amount”) of the clip will be scheduled on 12 October 2016 (a Wednesday). The final 2,000 tonnes (the “Third Day



Load Out Amount”) of the clip will be scheduled on 13 October 2016 (a Thursday).

- (i) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the first 4,000 tonnes (scheduled for load-out on 11 October 2016) would ordinarily be the Additional Actual Cancellation Date, namely 9 May 2016. However, because the warrant holder’s prior Cancellation contributes five days, the Deemed Cancellation Date will be five days later, namely 14 May 2016. Half rent will become payable after 30 days (i.e. on 13 June 2016), and zero rent will become payable after 50 days (i.e. on 3 July 2016).
 - (j) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the second 4,000 tonnes (scheduled for load-out on 12 October 2016) will be 15 May 2016.
 - (k) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the final 2,000 tonnes (scheduled for load-out on 13 October 2016) will be 16 May 2016.
6. The LME, acting reasonably, reserves the right, with or without notice, to adjust the parameters of the Queue Based Rent Cap or to suspend its application either on a market-wide basis or on a per-Warehouse or per-DP Warehouse basis in order to enhance the orderly functioning of the market or to prevent abusive behaviour or for any other reason. The power to act without notice will be reserved for urgent cases where any change would ordinarily be implemented on a temporary rather than a permanent basis.
7. For the avoidance of doubt, Warehouses may still enter into rent discount agreements with metal owners, provided that the maximum rates set out in this Section G are respected.

H) Review of LME policy for Warehouses

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

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 1 MARCH 2016]**

A) Warehouses

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

such that the LME would have a reasonable concern that the applicant's operation of a Warehouse could be detrimental to competition.
4. A Warehouse must comply at all times without limitation with: this policy and any other notices or policies issued by the LME, from time to time which apply to Warehouses; and the Warehouse Agreement (together the "Warehouse Requirements").



B) Transportation

Transport links

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

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

C) Common standards of working practices and facilities for Warehouses

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

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



The above table applies to all DP Warehouses who are storing up to 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 out¹ commitments of 30,000 tonnes or more; and
 - (b) a minimum of 30,000 tonnes of those scheduled commitments are for one metal (being the first metal scheduled to be delivered out that day) (the "Daily Dominant Metal");

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

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

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



the Queue (including the non-dominant metal load-out requirements, but not including any additional requirements under the LILO Rule).

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

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

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

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

The above table applies to all DP Warehouses who are storing up to 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 load-out 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"), save that the calculations in paragraphs 1 and 2 may be applied historically in determining when the Rent Cap in respect of a particular tonnage of metal subject to a Cancellation prior to 1 May 2016 should take effect². The provisions of this Section G shall be referred to as the "Queue Based Rent Cap".

1. When Warrants representing in aggregate an amount of metal (in tonnes) which is equal to or larger than 10,000 tonnes (the total amount of such Cancellation being the "First Cancellation Amount") are the subject of a Cancellation at a DP Warehouse on a specific date (the "First Actual Cancellation Date") by a single warrant holder, or multiple warrant holders acting in concert as determined by the LME in its sole discretion, who owned no Warrants in respect of metal in the Queue of that DP Warehouse before such Cancellation, the "Deemed Cancellation Dates" in respect of that First Cancellation Amount shall be as follows³:

² Under no circumstances would the Rent Cap take effect prior to 1 May 2016.

³ It should be noted that the concept of "Deemed Cancellation" is relevant only for the purposes of Queue Based Rent Cap calculations. It does not impact the fact that stock is cancelled for the purposes of stock reporting, queue calculation etc.



- (a) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the first available day in the schedule⁴ (the “First Day Load-Out Amount”) forming part of the First Cancellation Amount shall be the First Actual Cancellation Date.
- (b) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the second available day in the schedule⁵ (the “Second Day Load-Out Amount”) forming part of the First Cancellation Amount shall be X calendar days after the First Actual Cancellation Date (where “X” is the number of calendar days between the scheduled delivery slots⁶ for the First Day Load-Out Amount and the Second Day Load-Out Amount).
- (c) The Deemed Cancellation Date in respect of the amount of metal scheduled in the Queue on the third available day of the schedule (the “Third Day Load-Out Amount”) forming part of the First Cancellation Amount shall be Y calendar days after the First Actual Cancellation Date (where “Y” is the number of calendar days between the scheduled delivery slots⁶ for the First Day Load-Out Amount and the Third Day Load-Out Amount).
- (d) This shall continue for the calculation of the Deemed Calculation Date in respect of each Day Load-Out Amount forming part of the First Cancellation Amount, including, lastly, in respect of the final part of the First Cancellation Amount.
- 2. Further, if a warrant holder, or several warrant holders acting in concert as determined by the LME in its sole discretion, who has cancelled Warrants and the metal for those Warrants has not yet been loaded out, subsequently cancels Warrants representing any amount (the “Additional Cancellation Amount”) in the same DP Warehouse on the same or a different date (the “Additional Actual Cancellation Date”), and where the aggregate holding in the Queue (including the Additional Cancellation Amount) is equal to or exceeds 10,000 tonnes, the “Deemed Cancellation Dates” for the Additional Cancellation Amount shall be as follows:

 - (a) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the first available day in the schedule⁴ (the “First Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall

⁴ For the avoidance of doubt, the quantum of the First Day Load-Out Amount will be determined by (i) the minimum daily delivery tonnage of the relevant DP Warehouse applicable on the scheduled date of delivery out, and (ii) the amount of metal from any previous Cancellation already scheduled into the Queue on that day.

⁵ For the avoidance of doubt, the quantum of the Second Day Load-Out Amount will be determined by the minimum daily delivery tonnage of the relevant DP Warehouse applicable on the scheduled date of delivery out.

⁶ For the avoidance of doubt, this means the actual slot scheduled including the effect of any weekend.



be N calendar days after the Additional Actual Cancellation Date (where “N” is the number of calendar days occupied in the Queue by any previous Cancellations in the Queue, not including the effect of the Additional Cancellation Amount, attributable to the warrant holder or other warrant holders acting in concert, rounded up to the nearest whole calendar day).

(b) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the second available day in the schedule⁵ (the “Second Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N+X calendar days after the Additional Actual Cancellation Date (where “X” is the number of calendar days between the scheduled delivery slots⁶ for the First Day Load-Out Amount and the Second Day Load-Out Amount).

(c) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the third available day in the schedule (the “Third Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N+Y calendar days after the Additional Actual Cancellation Date (where “Y” is the number of calendar days between the scheduled delivery slots⁶ for the First Day Load-Out Amount and the Third Day Load-Out Amount).

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

4.3. A Warehouse shall track the waiting time for delivery out of metal from the “Applicable Cancellation (or, in Date”, being the easelatest of metal whose: (i) the date of Cancellation occurred prior to; (ii) the Effective Date, from the Effective Date; and (iii) the Deemed Cancellation Date (in the case of Warrants which meet the conditions described in paragraph 1 or 2 of this Section G above).

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

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



5. A worked example of the calculation.

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

- (a) Consider the Cancellation of a clip of 10,000 tonnes (the “First Cancellation Amount”), on 2 May 2016 (the “First Actual Cancellation Date”) at a DP Warehouse with a Queue of 150 calendar days, and a daily load-out requirement of 4,000 tonnes, by an owner who at present has no metal in the Queue at that DP Warehouse.
- (b) The first 4,000 tonnes (the “First Day Load Out Amount”) of the clip will be scheduled on 29 September 2016 (a Thursday). The second 4,000 tonnes (the “Second Day Load Out Amount”) of the clip will be scheduled on 30 September 2016 (a Friday). The final 2,000 tonnes (the “Third Day Load Out Amount”) of the clip will be scheduled on 3 October 2016 (a Monday).
- (c) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the first 4,000 tonnes (scheduled for load-out on 29 September 2016) will be the First Actual Cancellation Date, namely 2 May 2016. Half rent will become payable after 30 days (i.e. on 1 June 2016), and zero rent will become payable after 50 days (i.e. on 21 June 2016).
- (d) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the second 4,000 tonnes (scheduled for load-out on 30 September 2016) will be 3 May 2016 (i.e. one day after the First Actual Cancellation Date).
- (e) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the final 2,000 tonnes (scheduled for load-out on 3 October 2016) will be 6 May 2016 (i.e. four days after the First Actual Cancellation Date, taking into account the effect of the first weekend in October on the load-out scheduling).
- (f) On 9 May 2016 (the “Additional Actual Cancellation Date”), the same warrant holder cancels an incremental 10,000 tonnes (the “Additional Cancellation Amount”) at the same DP Warehouse. By this date, the Queue (including the effect of the warrant holder’s first Cancellation and potentially other Cancellations but prior to the warrant holder’s second Cancellation) has grown to 155 calendar days.
- (g) The original 10,000 tonne Cancellation by that warrant holder is responsible for 5 days of the 155 day queue (rounded up, and including the effect of the first weekend in October on the scheduling).
- (h) The first 4,000 tonnes (the “First Day Load Out Amount”) of the second clip will be scheduled on 11 October 2016 (a Tuesday). The second 4,000 tonnes (the “Second Day Load Out Amount”) of the clip will be scheduled on



12 October 2016 (a Wednesday). The final 2,000 tonnes (the “Third Day Load Out Amount”) of the clip will be scheduled on 13 October 2016 (a Thursday).

(i) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the first 4,000 tonnes (scheduled for load-out on 11 October 2016) would ordinarily be the Additional Actual Cancellation Date, namely 9 May 2016. However, because the warrant holder’s prior Cancellation contributes five days, the Deemed Cancellation Date will be five days later, namely 14 May 2016. Half rent will become payable after 30 days (i.e. on 13 June 2016), and zero rent will become payable after 50 days (i.e. on 3 July 2016).

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

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

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

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

H) Review of LME policy for Warehouses

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

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 [1 AUGUST 2015 MARCH 2016]**

A) Warehouses

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



B) Transportation

Transport links

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

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

C) Common standards of working practices and facilities for Warehouses

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

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



The above table applies to all DP Warehouses who are storing up to ~~300~~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)
300 <u>150</u> ,000 tonnes to 599 <u>299</u> ,999 tonnes	2,000 tonnes
600 <u>300</u> ,000 tonnes to 899 <u>599</u> ,999 tonnes	2,500 tonnes
<u>600,000 tonnes to 899,999 tonnes</u>	<u>3,500 tonnes</u>
900,000 tonnes and over	<u>34</u> ,000 tonnes

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 out¹ commitments of 30,000 tonnes or more; and
 - (b) a minimum of 30,000 tonnes of those scheduled commitments are for one metal (being the first metal scheduled to be delivered out that day) (the "Daily Dominant Metal");shall be required to deliver out in that Delivery Point a minimum of 500 tonnes per day of a metal other than the Daily Dominant Metal, provided that such deliveries are requested.
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:

¹ 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
300 150,000 tonnes to 599 299,999 tonnes	2,000 tonnes
600 300,000 tonnes to 899 599,999 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>

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.

GG) Queue Based Rent Cap

The provisions of this Section G shall take effect on 1 May 2016 (the "Effective Date"), save that the calculations in paragraphs 1 and 2 may be applied historically in determining when the Rent Cap in respect of a particular tonnage of metal subject to a Cancellation prior to 1 May 2016 should take effect². The provisions of this Section G shall be referred to as the "Queue Based Rent Cap".

1. When Warrants representing in aggregate an amount of metal (in tonnes) which is equal to or larger than 10,000 tonnes (the total amount of such Cancellation being the "First Cancellation Amount") are the subject of a Cancellation at a DP Warehouse on a specific date (the "First Actual Cancellation Date") by a single warrant holder, or multiple warrant holders acting in concert as determined by the

² Under no circumstances would the Rent Cap take effect prior to 1 May 2016.



LME in its sole discretion, who owned no Warrants in respect of metal in the Queue of that DP Warehouse before such Cancellation, the “Deemed Cancellation Dates” in respect of that First Cancellation Amount shall be as follows³:

- (a) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the first available day in the schedule⁴ (the “First Day Load-Out Amount”) forming part of the First Cancellation Amount shall be the First Actual Cancellation Date.
 - (b) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the second available day in the schedule⁵ (the “Second Day Load-Out Amount”) forming part of the First Cancellation Amount shall be X calendar days after the First Actual Cancellation Date (where “X” is the number of calendar days between the scheduled delivery slots⁶ for the First Day Load-Out Amount and the Second Day Load-Out Amount).
 - (c) The Deemed Cancellation Date in respect of the amount of metal scheduled in the Queue on the third available day of the schedule (the “Third Day Load-Out Amount”) forming part of the First Cancellation Amount shall be Y calendar days after the First Actual Cancellation Date (where “Y” is the number of calendar days between the scheduled delivery slots⁶ for the First Day Load-Out Amount and the Third Day Load-Out Amount).
 - (d) This shall continue for the calculation of the Deemed Calculation Date in respect of each Day Load-Out Amount forming part of the First Cancellation Amount, including, lastly, in respect of the final part of the First Cancellation Amount.
2. Further, if a warrantholder, or several warrantholders acting in concert as determined by the LME in its sole discretion, who has cancelled Warrants and the metal for those Warrants has not yet been loaded out, subsequently cancels Warrants representing any amount (the “Additional Cancellation Amount”) in the same DP Warehouse on the same or a different date (the “Additional Actual Cancellation Date”), and where the aggregate holding in the Queue (including

³ It should be noted that the concept of “Deemed Cancellation” is relevant only for the purposes of Queue Based Rent Cap calculations. It does not impact the fact that stock is cancelled for the purposes of stock reporting, queue calculation etc.

⁴ For the avoidance of doubt, the quantum of the First Day Load-Out Amount will be determined by (i) the minimum daily delivery tonnage of the relevant DP Warehouse applicable on the scheduled date of delivery out, and (ii) the amount of metal from any previous Cancellation already scheduled into the Queue on that day.

⁵ For the avoidance of doubt, the quantum of the Second Day Load-Out Amount will be determined by the minimum daily delivery tonnage of the relevant DP Warehouse applicable on the scheduled date of delivery out.

⁶ For the avoidance of doubt, this means the actual slot scheduled including the effect of any weekend.



the Additional Cancellation Amount) is equal to or exceeds 10,000 tonnes, the “Deemed Cancellation Dates” for the Additional Cancellation Amount shall be as follows:

- (a) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the first available day in the schedule⁴ (the “First Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N calendar days after the Additional Actual Cancellation Date (where “N” is the number of calendar days occupied in the Queue by any previous Cancellations in the Queue, not including the effect of the Additional Cancellation Amount, attributable to the warrant holder or other warrant holders acting in concert, rounded up to the nearest whole calendar day).
 - (b) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the second available day in the schedule⁵ (the “Second Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N+X calendar days after the Additional Actual Cancellation Date (where “X” is the number of calendar days between the scheduled delivery slots⁶ for the First Day Load-Out Amount and the Second Day Load-Out Amount).
 - (c) The Deemed Cancellation Date in respect of the amount of metal scheduled into the Queue on the third available day in the schedule (the “Third Day Load-Out Amount”) forming part of the Additional Cancellation Amount shall be N+Y calendar days after the Additional Actual Cancellation Date (where “Y” is the number of calendar days between the scheduled delivery slots⁶ for the First Day Load-Out Amount and the Third Day Load-Out Amount).
 - (d) This shall continue for the calculation of the Deemed Calculation Date in respect of each Day Load-Out Amount forming part of the Additional Cancellation Amount, including, lastly, in respect of the final part of the Additional Cancellation Amount.
3. A Warehouse shall track the waiting time for delivery out of metal from the “Applicable Cancellation Date”, being the latest of: (i) the date of Cancellation; (ii) the Effective Date; and (iii) the Deemed Cancellation Date (in the case of Warrants which meet the conditions described in paragraph 1 or 2 of this Section G above). Notwithstanding any other provisions of this Policy, a Warehouse should generally deliver out metal from its Authorised Warehouses as quickly as possible, and at worst within 30 calendar days of the Applicable Cancellation Date. Failure to achieve delivery within this timescale shall result in the Warehouse being obliged to reduce its Rent in accordance with the provisions set out below (but, for the avoidance of doubt, the Warehouse shall not incur any other penalty for failure to meet the timescales set out in this Section G unless in contravention of other provisions of the Policy, Warehouse Agreement or other requirements of the LME).



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

5. A worked example of the calculation.

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

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

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

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

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

(e) The Deemed Cancellation Date, and hence the start of the QBRC “clock”, for the final 2,000 tonnes (scheduled for load-out on 3 October 2016) will be 6 May 2016 (i.e. four days after the First Actual Cancellation Date, taking into account the effect of the first weekend in October on the load-out scheduling).

(f) On 9 May 2016 (the “Additional Actual Cancellation Date”), the same warrant holder cancels an incremental 10,000 tonnes (the “Additional Cancellation Amount”) at the same DP Warehouse. By this date, the Queue (including the effect of the warrant holder’s first Cancellation and potentially other Cancellations but prior to the warrant holder’s second Cancellation) has grown to 155 calendar days.



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

H) Review of LME policy for Warehouses

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

HI) General Definitions

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



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

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

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

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

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

"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.