

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

Subject: 16/252 : A246 : W085

Classification: Warehousing Consultation

Date: 14 July 2016

Subject: **CONSULTATION ON PROPOSED AMENDMENTS TO THE LME WAREHOUSE AGREEMENT IN RESPECT OF CHARGE-CAPPING**

Summary

1. The London Metal Exchange (“LME”) is today announcing a market-wide consultation (the “Consultation”) in respect of proposed amendments to its Warehouse Agreement (the “Warehouse Agreement”) regarding charge-capping. The LME is proposing a straightforward approach to controlling warehousing charges, by capping charges at specified frozen rates for a five year period, after which charges may be increased at the rate of CPI.

The Consultation process

2. The Consultation is open to all interested market participants, and also regulatory and governmental bodies.
3. Formal responses to the Consultation should be submitted in writing. Any market participant wishing to submit a response to the Consultation, or to arrange for further discussions seeking clarification in relation to the Consultation, is asked to contact Georgina Hallett at consultation@lme.com or +44 (0)20 7113 8780.
4. Although the LME will consider responses submitted in any format, it would be most helpful if respondents can reply to the numbered Consultation questions set out throughout this Consultation Notice.
5. The Consultation will be open for a five week period until 19 August 2016. During the period of the Consultation, the LME will, subject to reasonable logistical constraints, be available for meetings to discuss the subject matter of the Consultation.



6. Responses made after the closing date of the Consultation will not be taken into consideration. The LME may need to share responses received with regulatory authorities or its legal or other professional advisers, or as required by law. Apart from this, all responses received will be treated in confidence.

Background

7. It is recommended that this Notice (the “Charge-Capping Consultation Notice”) is read together with Notice 16/136 : A132 : W045 (“Discussion Paper relating to LME warehousing charges”, 6 April 2016, the “2016 Discussion Paper”) and Notice 16/251 : A245 : W084 (“Warehousing charges Discussion Paper – feedback and analysis”, 14 July 2016, the “2016 Discussion Paper Results Notice”).
8. On 6 April 2016, the LME issued the 2016 Discussion Paper relating to possible reforms to the LME physical network, designed to address market concerns as to whether customers are treated unfairly and unreasonably in respect of the headline rates of LME rent and free-on-truck (“FOT”) charges levied by LME-registered warehouse operators (collectively, “Headline Warehousing Charges”).
9. The 2016 Discussion Paper asked a number of questions (the “Discussion Points”) designed to elicit feedback from the market pertaining to a range of issues in respect of Headline Warehousing Charges, potential reform ideas (the “Discussion Items”) and the key considerations in respect of these ideas.
10. All the Discussion Items were possible adjuncts to existing reform, and related to the issue under discussion; namely, potential amendments to the LME network designed to address structural issues around high Headline Warehousing Charges. They fell into two groups based on the alternative routes identified to address this issue:
 - (a) Modify the LME ecosystem such that the economic rationale for high charges and upward movement is broken. This would most likely involve enhanced rights and / or protections for those in the back-book (i.e. takers of warrants through the LME settlement process), hence providing them with greater charge-bargaining power (supported by better price transparency of front-book pricing), and reducing the discrimination they currently face compared to front-book customers; or
 - (b) Accept that the economic incentive for high Headline Warehousing Charges exists, but impose some form of exogenous limitation on the level of Headline Warehousing Charges. This would address discriminatory back-book



charging by specifically limiting such charges to a level which was more fair and reasonable (and closer to those offered to front-book customers).

11. The Discussion Items were as follows, with the first four belonging to group (b) in paragraph 10 above, and the last belonging to group (a).
 - (a) Introduction of fixed term warehouse agreements (“FTAs”) – converting the LME Warehouse Agreement from an “in perpetuity” model to a “fixed term” model, with particular focus on warehouses’ Headline Warehousing Charges when renewing LME-listed warehouse status;
 - (b) Charge-capping (“CC”) – implementing a rule limiting Headline Warehousing Charges;
 - (c) Charge Threshold Guidance (“CTG”) – publishing, in respect of Headline Warehousing Charges, thresholds or “shadow caps” as guidance;
 - (d) Charge-based Incentive Guidance (“CBIG”) – monitoring Headline Warehousing Charges through the use of the LME’s powers in respect of incentive reporting and monitoring; and,
 - (e) FOT Conversion (“FOTC”) – conversion of the LME contract from an “in-warehouse” contract (buyer pays FOT) to an “FOT-paid” contract (seller pays FOT).
12. The Discussion Paper was open for six weeks and the LME would like to thank all those who gave feedback during this time.
13. Since the close of the Discussion Paper on 18 May 2016, the LME has been engaged in a careful consideration of all the feedback received. The 2016 Discussion Paper Results Notice explains why the LME, provisionally, and subject to this Consultation, believes that further action is necessary, and considers each of the Discussion Items, and the market feedback received in relation thereto, in accordance with a framework which is legally robust, objective and proportionate.
14. Taking the market feedback into close consideration, the LME is now consulting on its proposed route forward and welcomes comments and feedback from the market in respect of this.



Elements of the Consultation

15. This Consultation puts forward the following proposal (the “Proposal”) to be incorporated into the revised LME Warehouse Agreement:

Charge-capping (“CC”) – a rule to implement caps for Headline Warehouse Charges – with the first “capped” charges to come into effect on 1 April 2017, i.e. the start of the 2017-18 charge year.

16. A revised version of the Warehouse Agreement is contained in clean form at Appendix A, and in blackline form at Appendix B, blacklined to the in-force version pursuant to Notice W050 (“Minor amendment to the Warehouse Agreement”, 13 April 2016). Appendix C sets out the proposed charge caps for the 2017-18 charge year.
17. Capitalised terms not otherwise defined in this Notice shall have the meaning ascribed to them under the revised Warehouse Agreement, the Policy on Approval and Operation of Warehouses pursuant to Notice 15/372 : A359 : W121 (“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”, 25 November 2015), and the 2016 Discussion Paper.

Timing and steps following the Consultation

18. Following due consideration, the LME may implement either:
- (a) the Proposal, a modified version of the Proposal, an alternative to the Proposal, or no measure in respect of the Proposal;
 - (b) any other measure(s); or
 - (c) no measures.
19. In the event that the LME decides to adopt any new rules the LME presently intends to adhere to the following timetable:
- (a) the Consultation will run between 14 July 2016 and 19 August 2016;



- (b) the LME will aim to publish its conclusions by 30 September 2016¹; and
- (c) the LME aims that any revised policy will take effect following the 90 day notice period required under the Warehouse Agreement, i.e. by 29 December 2016¹.

The LME's financial interest

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

CHARGE-CAPPING ("CC")

21. The LME is proposing to implement charge-capping, under which all charges would be frozen for a fixed period of five years, following which the LME will issue annual caps on permissible increases applicable to rent and FOT rates at all LME-listed warehouses.

Background to the Proposal

22. A full background to the Proposal, including the LME's provisional assessment of the situation, including why it is necessary to take action, a survey of possible action, and an analysis of the proportionality of such actions (including an assessment as to why the LME believes CC to be the most proportionate course of action), is provided in the 2016 Discussion Paper and the 2016 Discussion Paper Results Notice.

Construction of CC

General observations

23. The CC proposal is set out in section 5 at Clauses 5.2-5.5 of the proposed revised Warehouse Agreement, as set out in Appendices A and B.

¹ As set out above, these dates are estimates only.



24. In summary, each year, the LME will publish a set of charge caps. Charge caps would apply at a per-country and per-metal level². Warehouses' Headline Warehousing Charges will be capped at (i.e. will not be permitted to be higher than) the published charge caps. The LME proposes that charge-capping would apply to both rent and FOT rates, so as to avoid the risk that warehouse operators raise the cost of rent disproportionately to cover possible revenue loss or lower than expected revenue generation caused by caps on FOTs only.
25. In summary, charge caps would be determined in three phases: phase 1 (the starting point, being the charge caps applicable to the 2017-18 charge year, calculated as the average of the maximum prices published for the 2015-16 and 2016-17 charge years, at a per-country and per-metal level), phase 2 (a charge freeze for five years, with reference to phase 1 charge caps), and phase 3 (an increase in the phase 1 charge caps on an annual basis, incorporating inflationary increases based on the Consumer Price Index ("CPI"), an external and independently formulated measure of inflation).
26. The annual rate setting process would include a right of appeal for any warehouse operator who believed that the caps set were not reflective of underlying costs at a particular location.
27. Warehouse operators would then be required to set their annual charges at or below these maximum charges. Any warehouse operator attempting to levy higher charges would be in breach of the Warehouse Agreement, and subject to commensurate disciplinary action – furthermore, the LME would have the right to set that operator's charges to the level of the applicable charge cap.

Key principles and parameters in respect of CC

28. Certain key principles and parameters are embedded into the formulation of CC. A fuller description of the basis of such principles and parameters is set out in the 2016 Discussion Paper, and a fuller description of the market's views on such parameters (which have informed the LME's construction of CC) and the LME's responses to those views are set out in the 2016 Discussion Paper Results Notice.

² Granularity for FOT is at the level of (i) cobalt, (ii) RMC, (iii) premium aluminium, and (iv) all other metals. Because premium aluminium is structured as a "seller pays FOT" contract, it is not proposed that this would be subject to charge caps.



Phase 1: starting point

29. The LME is proposing that the basis for the 2017-18 charge caps be the arithmetic mean average of (i) the highest relevant Headline Warehousing Charges levied by any operator during the 2015-16 charge year as published in December 2014, and (ii) the highest relevant Headline Warehousing Charges levied by any operator during the 2016-17 charge year as published in February 2016³.
30. Feedback received to the 2016 Discussion Paper broadly concurred with the LME's analysis that the increases submitted for the 2016-17 charge year were too high, and that freezing charges at these levels would lock in a disproportionate delta between Headline Warehousing Charges and the "real-world" price of such services. It is also consistent with the clear warning in Notice 15/410 : A397 : W138 ("Rent and FOT charges 1 April 2016 – 31 March 2017", 30 December 2015) that warehouse operators should consider the advisability of paying incentives on the basis of Headline Warehousing Charges in the 2016-17 charge year. Accordingly, the LME believes that simply applying maximum 2016-17 charges would lock-in rates which would be unjustifiably high.
31. However, the LME is aware that some market participants take a different view, and believe charges should be based on 2016-17 levels. Accordingly, the approach of setting charge caps as an average of maximum 2015-16 and maximum 2016-17 levels is designed to balance these competing views. The LME would be interested to hear feedback in respect of the approach it has thus chosen.
32. With regards to the basis of such charges, the LME's analysis in the 2016 Discussion Paper was that charge caps should be set on a per-Delivery Point basis (as the highest applicable rate charged during the 2015-16 and 2016-17 charge years), as a per-operator calculation would mean that those warehouse companies which had made the decision to set lower Headline Warehousing Charges for the relevant years (2015-16 and 2016-17 in the LME's proposal) would then be "locked-in" to these levels going forwards, and suffer a potential competitive disadvantage, even though no suggestion was made at the time of setting 2015-16 charges that they would apply to any other period other than 2015-16, and similarly for 2016-17.

³ Note that this includes the impact of re-submissions of 2016-17 rates, pursuant to the re-opening of the rate-setting window. Note also figures specifically refer to those rates published as part of the annual rate-setting process – subsequent intra-year changes (e.g. caused by the listing and delisting of warehouses) are not factored in, as these may reflect factors which emerged during the course of the rent year in question, hence reducing comparability. Where averages result in a non-whole number of US cents (rent) or smallest conventional local currency unit (FOT), figures will be rounded up.



33. However, upon further analysis, the LME is also concerned that this same disadvantage could apply to a particular Delivery Point where, for whatever reason, the resident warehouse operators set charges for 2015-16 and 2016-17 which were low compared to those in the same country or the same region. Setting the charges at a per-Delivery Point level may therefore be unfairly restrictive to these Delivery Points, “locking in” their lower rates in perpetuity.
34. As a result, the LME is proposing to set charge caps at a per-country level, calculated as the arithmetic mean average of (i) the highest relevant Headline Warehousing Charges levied by any operator in any location in that country during the 2015-16 charge year as published in December 2014, and (ii) the highest relevant Headline Warehousing Charges levied by any operator in any location in that country during the 2016-17 charge year as published in February 2016. The LME acknowledges that competitive factors may also apply across several countries in a particular region – however, the LME has received no feedback that country-level charge caps would constitute a competitive concern at a regional level.
35. On the basis of the above methodology, a charge cap will be published:
- For each country
 - In that country, for each metal which is authorised to be stored at any facility in that country (with the exception of premium aluminium)
 - A separate rent rate for each metal
 - An FOT rate for (i) cobalt (if applicable), (ii) RMC (if applicable), and (iii) a single rate for all other metals (with the exception of premium aluminium)
36. The resultant proposed 2017-18 charge caps are set out in Appendix C.
37. While the LME believes that the charge caps proposed in Appendix C are appropriate, respondents are invited to identify any concerns in respect of specific levels acting to deny warehouse operators a viable business model. If CC is adopted as a result of this Consultation, the LME will publish a final set of 2017-18 charge caps at the same time as the results of the Consultation are announced. In determining any final set of charge caps, the LME will take all feedback received as part of the Consultation into account⁴.

⁴ Hence there is no appeal process for 2016 in the proposed Warehouse Agreement – see below.



Phase 2: charge freeze

38. The LME is proposing to calculate charge caps by freezing charges for a fixed period of five years (i.e. for the charge years starting with 2017-18 and ending with 2021-22) before allowing annual increases commencing in the 2022-23 charge year.
39. In setting the five year time freeze period, the LME is reflecting its position (as fully set out in the 2016 Discussion Paper), and the broad concurrence of the market (as fully set out in the 2016 Discussion Paper Results Notice), that current levels of Headline Warehousing Charges (which are levied primarily on those receiving warrants through LME settlement) are significantly higher than the costs to warehouse operators of providing such services, and also significantly higher than the rates for such services which can be negotiated by a metal owner on a bilateral basis. Accordingly, it stands to reason that such current levels could be frozen for a period of time, without threatening the core economic viability of warehouse operators.
40. In order to determine the appropriate timeframe for freezing such charges, the LME has commissioned expert economic analysis, the assumptions, methodology and results of which are set out in Appendix D. This analysis assesses the increase in warehousing charges over recent years, with reference to economic comparators, and concludes that the proposed phase 1 caps are set at a sufficiently high level such that, if they were to be frozen for a five year period, it would still be unlikely that the “real-world” prices of such services (i.e. the prices available to a customer with a choice as to warehouse operator) would rise above the phase 1 caps. As more fully set out in the 2016 Discussion Paper, the LME believes that current Headline Warehousing Charges are significantly higher than the true fees charged on an arm’s-length basis for such services, and hence (even with the impact of inflationary and other increases) the LME’s economic advice indicates that – across the proposed five year freeze period – “real-world” prices are highly unlikely to converge with the frozen charge caps.
41. Charge caps for 2018-19, 2019-20, 2020-21 and 2021-22 will therefore be set equal to the final published charge caps for 2017-18, unless the result of a successful appeal, as further set out below.



Phase 3: CPI increase

42. From the 2022-23 charge year onwards, each charge cap will be incremented by the applicable rate of a country-specific CPI⁵. This process is designed to ensure that the charge caps keep pace with potential increases in the “real-world” price of the warehousing services to which such caps relate, and reflects the position (set out in the 2016 Discussion Paper Results Notice) that an exogenous index would represent the preferred approach to achieve such a result.
43. In choosing a CPI measure (as opposed to other potential exogenous indices, such as a Producer Price Index) the LME has taken expert economic advice, as further set out in Appendix D. The primary advantage of the use of a CPI is that increases would be objective, fair and transparent. A further advantage of a CPI measure is it enjoys greater comparability across countries than other potential exogenous indices. For example, the Organisation for Economic Co-operation and Development (“OECD”) compiles and publishes comparable CPI series for all OECD countries. Such comparability supports the necessity of a cap which is capable of reflecting changes in local prices across LME’s global network based on a common methodology.
44. The disadvantages of CPI – or indeed, any index – are that it does not allow the caps to reflect LME-specific items, such as a rule change, which could reasonably be expected to increase the cost burden to warehouses if providing LME warranting services. However, the LME believes this is addressed by the appeals process set out below.

Appeals process

45. The LME is also proposing to implement an appeals process to allow warehousing companies the opportunity to challenge any charge cap (starting in relation to 2018-19 charge caps) as set by the LME should they feel that there exist extenuating circumstances to justify such a challenge. Examples of such circumstances might include significant LME rule changes, or country-specific circumstances which materially impact the cost of providing LME warranting services in that country.
46. The LME proposes any warehouse company would have the right, within 14 days of the publication of charge caps for a given year, to write to the LME, including full reasons for such a challenge together with any supporting documentation. The challenge, along with any supporting evidence from the LME, would be submitted to

⁵ In the event of a zero-inflation or negative-inflation CPI scenario, the relevant charge cap would be maintained at its previous level.



the LME Special Committee which will then consider the arguments. Any changes agreed by the Special Committee as a result of their considerations would be published to the market via LME Notice, explaining the nature of the challenge and the reasons for accepting it. The Special Committee will endeavour to complete this within 14 days of the challenge being brought.

47. 2017-18 charge caps will not be subject to the appeal process so as not to delay their entry into force and because objections as to particular levels may be raised through this Consultation, as further set out in paragraph 37.

Process for adhering to charge caps

48. All warehouse companies would be asked to submit their final charges for the subsequent charge year by 15 December. As at present, companies will submit charges on a per-Delivery Point, per-metal basis², which must comply with any applicable charge cap (which, per above, will be expressed at a per-country level).
49. Individual warehouse operators would be able to set their rent and FOT rates below the charge caps; indeed, warehouse operators would be able to set different rent and FOT levels at all their relevant Delivery Points within that country, provided that they were not above the cap.

Special provisions for the 2017-18 charge year

50. Under the current formulation of the Warehouse Agreement, charges for the 2017-18 charge year must be submitted by 1 December 2016. If CC is adopted as a result of this Consultation, it is currently expected that an announcement will be made (at the latest) on 30 September 2016 (including the levels of 2017-18 charge caps), with the 90 days' notice period for changes taking effect (at the latest) on 29 December 2016¹.
51. Accordingly, the requirement on warehouse operators for submission of 2017-18 charges on 1 December 2016 will stand as of that date, although such submissions will not technically be subject to caps until the new Warehouse Agreement comes into force (at the latest) on 29 December 2016¹. In such event, if the proposal is implemented, the LME would encourage operators to submit charges on 1 December 2016 within the 2017-18 charge caps (which will have already been published to the market), although the LME would not be able to enforce this in respect of 1 December 2016 submissions.
52. However, the changes to the Warehouse Agreement envisaged by this Consultation (in particular clause 5.4.3) would create an additional requirement for any



warehouse whose 1 December 2016 submissions were above the charge caps, to re-submit such charges on 29 December 2016, with a contractual requirement that such re-submitted charges were in accordance with the charge caps.

53. Accordingly, the final charges published to the market by 31 December 2016, in respect of 2017-18 rent year, would then comply with the charge caps.

Benefits of CC

54. The benefits of CC include:
- (a) The effect of CC would be to reduce the incidence of high levels of Headline Warehousing Charges, hence reversing the negative market effects set out in the 2016 Discussion Paper, which in the view of the LME represents a key regulatory deliverable in the context of the LME market. While it is possible that certain operators' headline charges could rise (if they currently charge below the relevant charge cap), certainty would be provided to the market as to maximum allowable levels.
 - (b) CC would also impose order on the annual rate setting process, increasing transparency over rate setting and ending the existing issues with charge "leap-frogging" outlined in the 2016 Discussion Paper.
 - (c) CC, as outlined above, is clear, straightforward to implement and administrate, easy to understand and represents the most direct method of addressing the issue of high charges.

Potential issues in respect of CC

55. CC could have the following negative effects:
- (a) CC could render the business of LME warehousing less attractive than at present for any warehouse operator currently levying charges above the CC thresholds. Although the LME does not at present agree with this assessment (since, in the view of the LME, much of the high Headline Warehousing Charges generally are paid out as incentives), on this hypothesis warehouse operators may exit the market, hence reducing the provision of LME-listed warehousing services, and making it more difficult for metal owners to place their metal on LME warrant. This could cause problems for short position holders on the LME, who may not be able to deliver in metal and hence create an artificial backwardation



- (b) Given that warehouses will be required to adhere to the maximum Headline Warehousing Charges, there is a possibility of all operators converging on the maximum Headline Warehousing Charges, with an apparent reduction in the level of competition in the marketplace. As set out in the 2016 Discussion Paper Results Notice, the LME does not believe this would represent a valid interpretation of the fact-pattern, given that warehouse operators compete on the levels of discount from their maximum Headline Warehouse Charges and on other incentives offered, and that in the absence of CC it is likely that Headline Warehouse Charges would continue to rise unchecked. However, there would still exist a risk that others would take a different view, and any competition law or regulatory action could itself exert a disruptive impact on the LME market.
- (c) Warehouse operators or other market participants may take the view that the maximum Headline Warehousing Charges reallocate economics too severely from warehouses to metal owners, particularly if incentives have historically been paid in respect of the underlying metal. Accordingly, warehouse operators may challenge the CC rule itself, which could exert a disruptive impact on the LME market. The extent to which this is likely to happen will depend on the severity of the changes to Headline Warehousing Charges, as set out further in section 2 of the 2016 Discussion Paper. While the LME believes that its proposed approach should not engage such concerns for warehouse operators, the disruptive interim effects may be deemed sufficiently undesirable that it might be said to be preferable not to proceed with implementation.

Consultation Question 1: Do you support the CC Proposal?

Consultation Question 2: Do you agree that charge caps should be set at a per-country and per-metal level?

Consultation Question 3: Do you agree that the 2017-18 charge caps should be calculated as the arithmetic mean average of the highest 2015-16 and highest 2016-17 charges?

Consultation Question 4: Do you agree with the proposed 2017-18 charge caps set out in Appendix C?

Consultation Question 5: Do you agree with the 5 year charge freeze?



Consultation Question 6: Do you agree that, from the 2022-23 charge year onwards, each charge cap should be incremented by the applicable rate of CPI for the last measured 12-month period prior to publication of the relevant charge caps?

Consultation Question 7: Do you agree with the appeals process?

Consultation Question 8: Are there any other matters you wish the LME to consider in the context of any aspect of the Consultation?

**Matthew Chamberlain
Head of Business Development**

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

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Terms and conditions applicable to all LME listed warehouse companies

1 Conditions for and entitlements of listing

1.1 Application

To become a Warehouse, a warehouse company shall:

- 1.1.1 execute the Agreement of which these terms and conditions form a part;
- 1.1.2 duly complete the forms prescribed by the Exchange attached as Schedule A and B hereto and pay any initial listing fees prescribed by the Exchange; and
- 1.1.3 comply with regulation 2.2 of the LMEsword Regulations.

1.2 Capital

- 1.2.1 Each Warehouse must be adequately capitalised at all times at levels determined from time to time by the Exchange and notified to all Warehouses by way of periodical circulars.
- 1.2.2 The Exchange shall assess whether a Warehouse's available capital is adequate by using the most recent audited accounts of the Warehouse and applying generally accepted accounting principles to determine the extent to which net assets exceed net liabilities. The Exchange shall, from time to time, publish the basis on which it determines capital adequacy for Warehouses. In assessing whether a Warehouse's available capital is adequate, the Exchange shall, at its discretion, disregard what are, in its view, immaterial or temporary failures to meet the capital adequacy requirements.
- 1.2.3 In the event that the Exchange is not satisfied with the financial status or the insurance arrangements of any Warehouse, it may require a performance bond issued by a bank or insurance company as it considers suitable for such sums and on such terms and conditions as it may determine. However, where the deficiencies in the financial status or the insurance arrangements of any Warehouse are, in the view of the Exchange, not likely materially to prejudice the Warehouse's ability to perform its obligations as an LME listed warehouse company and are capable of remedy, the Exchange may allow 7 Business Days for the Warehouse to rectify its financial status and/or insurance arrangements before requiring such a performance bond.

1.3 London Agent

- 1.3.1 Each Warehouse must appoint and maintain at all times an agent in or, in the opinion of the Exchange, sufficiently proximate to the City of London (a "London Agent") to act on its behalf, to carry out certain of its obligations under this Agreement and the LMEsword Regulations, and, if the Warehouse is not incorporated in England and Wales, also to act as its agent for service of process.
- 1.3.2 A London Agent may be a person independent from the Warehouse or be a branch or affiliated company of the Warehouse.
- 1.3.3 The Warehouse must obtain the prior approval of the Exchange to the appointment, or any change in the appointment, of its London Agent from time to time.

- 1.3.4 Each Warehouse shall be responsible for all of the acts and omissions of its London Agent undertaken in its capacity as such. The Exchange and other persons shall be entitled to assume a Warehouse's London Agent acts with the full authority of the Warehouse until such time as the Exchange has received written notice from the Warehouse that the London Agent has ceased to act as such. This term shall not affect the rights and obligations of the Warehouse and its London Agent inter se.

1.4 LMEsword

Each Warehouse must comply, and procure that its London Agent complies, with the LMEsword Regulations and Operating Procedures, which shall insofar as they relate to the Warehouse or its London Agent be deemed to be incorporated into this Agreement.

1.5 Restrictions

- 1.5.1 An Authorised Warehouse may be used by only one Warehouse and to the extent that it is used for the storage of any metals which are permitted to be the subject of a Contract, may not also be used to store such metals which are deliverable on any other exchanges.
- 1.5.2 A Warehouse may not deal directly or indirectly in Contracts, and shall observe such other requirements contained in Relevant Law and Regulation, and any Exchange notice relating to the separation of Warehouses from Members and the maintenance of confidentiality in respect of price sensitive and customer confidential information.

1.6 Description of Warehouse

Each Warehouse may, following its approval by the Exchange as a listed Warehouse, describe itself as an "LME listed warehouse company" and its Authorised Warehouse as "LME listed warehouses", for as long as it retains its listed status as provided for herein.

1.7 Availability of Rules

Warehouses shall be sent a copy of the Rules and LMEsword Regulations and Operating Procedures as amended from time to time. Warehouses shall ensure that their London Agent obtains and keeps up to date their own copies of such documents direct from the Exchange and is also provided with a copy of this Agreement. Where the Warehouse operates in more than one location it shall ensure that each location is kept up to date with changes to the Rules, the LMEsword Regulations and Operating Procedures and this Agreement.

2 Issue of Warrants

2.1 Metal delivery

- 2.1.1 When receiving metal for placing on Warrant, a Warehouse need not undertake an assay of the metal itself but must carefully undertake a visual inspection of the metal and all supporting documentation and, if the metal or the supporting documentation is in any way patently sub-standard or anomalous the Warehouse must not issue a Warrant until any such shortcoming has been remedied. Without limitation to the foregoing, metal will be deemed to be patently sub-standard if:

- 2.1.1.1 there is broken or visibly corroded strapping which could make the bundle of metal unsafe to handle;
- 2.1.1.2 there is visible contamination of metal;
- 2.1.1.3 there is inconsistent branding of metal (for instance, where all of the metal or some of the metal is patently not an LME brand or where different LME brands have been visibly mixed within a bundle); and
- 2.1.1.4 the supporting documentation and paperwork does not accord with the Rules.

For the avoidance of doubt, a Warehouse is not required to break bundles or inspect metal ingots hidden from view within bundles, unless there are visible signs indicating or suggesting a defect in quality within a bundle or the Warehouse is in any way aware that there is a defect within a bundle not apparent from a visual inspection.

- 2.1.2 All metal delivered for placing on Warrant must be weighed by Warehouse personnel on equipment which is regularly tested for accuracy in accordance with Clause 7.4.3, and must conform to the relevant weights for those metals as outlined in the Special Contract Rules for Metals.
- 2.1.3 Subject to Clauses 2.1.1 and 2.1.2, no Warrant may be issued if the metal or supporting documentation does not conform to the relevant Special Contract Rules for Metals.
- 2.1.4 A Warrant may only be issued by the Warehouse or its London Agent when the metal in question is stored in an Authorised Warehouse of the Warehouse.

2.2 Form of Warrant

- 2.2.1 From the date prescribed by the Exchange, all Warrants must be issued in accordance with the LMEsword Regulations.
- 2.2.2 Each Warehouse shall ensure that the form of the Warrant is such that the requirements set out in the Special Contract Rules for Metals, this Clause 2.2 and Clause 2.3 are satisfied.
- 2.2.3 Each Warrant must have a clearly identifiable space for endorsements to allow for transfers of ownership to a named transferee and also have a clearly identifiable space for endorsement of rents paid to be marked on the Warrant.
- 2.2.4 Each Warrant must show the applicable rent rate and the date of commencement of the obligation to pay rent which must be the same as the date of issue of the Warrant.
- 2.2.5 Each Warrant must include a term stating that responsibility for insuring the metal subject to the Warrant is that of the holder of the Warrant.
- 2.2.6 Each Warrant should be numbered consecutively wherever practicable.
- 2.2.7 No Warrant may be issued by a Warehouse until the printed format which the Warehouse proposes to adopt has been delivered to and approved by the Exchange. Any proposed change to such format must similarly be approved by the Exchange prior to its use.

- 2.2.8 Each Warrant must be signed by an authorised signatory of the Warehouse or its London Agent.
- 2.2.9 Each Warrant shall state that the Warehouse's standard terms of business are available on request or are printed on the reverse side of the Warrant.

2.3 Legal status of Warrants

- 2.3.1 Each Warrant must be transferable by delivery or by delivery and endorsement by the transferor and without requiring registration, attornment or notice to the Warehouse. A transferee of a Warrant shall be treated by the Warehouse as having the benefit of the contract of storage of the metal to which the Warrant relates and shall be bound by the Warehouse's standard terms of business insofar as they do not conflict with the Rules, the LMEsword Regulations or the Operating Procedures.
- 2.3.2 Each Warrant must be a document of title (or local equivalent concept) established in accordance with the law of the country in which the Warehouse is situated, or in accordance with such other law recognised as applicable to the Warrant by such law.
- 2.3.3 It must be a term of issue of each Warrant that the metal which it represents shall only be delivered up to the holder by the Warehouse on the Warrant being presented to the Warehouse or its London Agent or, in the event of a Warrant being lost, stolen, damaged or destroyed, against the provision of an indemnity substantially in the form prescribed by the Exchange from time to time and attached as the Appendix to Schedule A.
- 2.3.4 Subject only to Clause 2.3.5, a Warrant must be unlimited as to duration and remain valid until presented for cancellation to the Warehouse or its London Agent or otherwise cancelled in accordance with this Agreement and the LMEsword Regulations.
- 2.3.5 A Warehouse may have a right of retention in respect of metal under Warrant for unpaid rent in respect of the metal and other charges owed by the current holder of the Warrant but not otherwise and, in particular, without limitation, no person may have any right of retention in respect of charges owed by any other person.
- 2.3.6 Nothing in Clause 2.3.5 shall require the Warehouse to oppose any legally enforceable court order in respect of metal which is binding on the Warehouse and which prevents it from delivering stored metal to the Warrant holder, provided that the Warehouse immediately notifies the Exchange of the existence of such a court order as soon as it becomes aware of the same.

2.4 Warehouse's liability to Warrant holders

The Warehouse is required to give undertakings to each Warrant holder from time to time in respect of the metal under relevant Warrant that:

- 2.4.1 the Warehouse has complied with all Relevant Law and Regulation (including, without limitation, Clause 2.1 of this Agreement) in receiving that metal and placing it on Warrant;

2.4.2 the Warehouse will comply with the requirements of this Agreement concerning the storage of metal; and

2.4.3 the Warehouse is not aware of any latent defects in the metal.

It is a requirement of this Agreement that the undertakings referred to in Clauses 2.4.1 to 2.4.3 above are incorporated without delay into the Warehouse's written contract of storage with each Warrant holder. Pending such incorporation, the relevant undertakings shall be deemed to be incorporated into each such contract of storage immediately upon such contract arising.

3 Replacement of Warrants

3.1 Entitlement to replace

A Warehouse shall issue a replacement Warrant in accordance with this Agreement and the LMEsword Regulations and Operating Procedures in the following circumstances:

3.1.1 where a Warrant has been lost, stolen, destroyed, or damaged, on completion of its normal procedures and against delivery to it of an indemnity in the form prescribed by the Exchange from time to time and attached as the Appendix to Schedule A;

3.1.2 where any details on a Warrant which are capable of amendment in accordance with the LMEsword Regulations and Operating Procedures ("Amendable Details") require amendment, following the amendment of the electronic details of the Warrant in LMEsword in accordance with the LMEsword Regulations and against delivery to it of the original Warrant; and

3.1.3 where the space on a Warrant for endorsement of rent paid up and/or for transfers is full and against delivery to it of the original Warrant.

3.2 Entitlement to move metal

A Warehouse may move metal under Warrant between its own Authorised Warehouses within the same listed location at its own risk and expense subject to complying with Clause 3.3.

3.3 Notification of the Exchange

3.3.1 On the day that a Warehouse or its London Agent is notified or becomes aware of any circumstance which might reasonably cause suspicion that (a) a Warrant, or any underlying metal to which a Warrant relates, may have been lost, stolen, destroyed or damaged; or (b) the Amendable Details on a Warrant may require amendment; or (c) a Warrant may require cancellation in accordance with Clause 4.3, it shall forthwith:

(i) notify the Exchange by fax or email (or by such other means as the Exchange may prescribe from time to time) to the Exchange's Physical Operations Department; and

(ii) promptly investigate the circumstance.

3.3.2 The Warehouse will regularly update the Exchange on the investigation and report all findings to the Exchange.

- 3.3.3** On the day that a Warehouse or its London Agent is notified or becomes aware that (a) a Warrant, or any underlying metal to which a Warrant relates, has been lost, stolen, destroyed or damaged; or (b) the Amendable Details on a Warrant require amendment; or (c) a Warrant requires cancellation in accordance with Clause 4.3, it shall forthwith notify the Exchange by fax or email (or by such other means as the Exchange may prescribe from time to time) to the Exchange's Physical Operations Department containing full details thereof, including the following:
- 3.3.3.1** the date and details of loss or damage to or other matter affecting the metal or Warrant;
 - 3.3.3.2** the Warrant number(s);
 - 3.3.3.3** date of the Warrant;
 - 3.3.3.4** brand and shape of metal; and
 - 3.3.3.5** the quantity of metal (if any) missing, damaged, or otherwise affected.
- 3.3.4** The Warehouse shall keep the Exchange updated at all times and in addition take all such other steps, such as (without limitation) immediately notifying and cooperating with police authorities and insurers, as is necessary to protect the owner of the metal in question and assist with the orderly operation of the market.
- 3.3.5** Where a Warrant that requires replacement or cancellation is not lodged with the Depository, the Warehouse shall take all reasonable steps to identify the holder of the Warrant and notify it of the event and require that the Warrant be delivered up for replacement.

3.4 Liability for replacement Warrants

- 3.4.1** Where a Warrant is being replaced due to a change to its Amendable Details, the Warehouse shall indemnify the person surrendering the Warrant in respect of any reasonable loss or damage they may suffer as a result of the Warehouse not properly cancelling and retaining the original Warrant in accordance with this Agreement.
- 3.4.2** The Warehouse shall be responsible for the cost of replacing Warrants other than in the case of Warrants which have been lost, stolen, destroyed or damaged where such costs shall be the responsibility of the holder.
- 3.4.3** The Warehouse shall take all reasonable steps to ensure that no duplicate Warrants issued by it are in circulation and, in particular, shall make a notification to the Exchange pursuant to Clause 3.3.1 above.

4 Cancellation of Warrants

4.1 Process on replacement

- 4.1.1** Where a Warrant is delivered to a Warehouse for replacement, the original Warrant must first be made properly null and void by being stamped "cancelled and replaced".

- 4.1.2 If the original of the Warrant has been lost, stolen or destroyed, a copy of the original must be duly marked and retained in lieu of the original.

4.2 Process on cancellation and metal take-up

Where a Warrant is delivered to a Warehouse for cancellation and metal take-up, the original must be made properly null and void by being stamped “cancelled”. The Warehouse is required to expedite load-out from warehouses at the minimum rates published from time to time by the Exchange in accordance with Clause 9.11.1. For the avoidance of doubt, any change to the minimum rates would constitute a material increase in the obligations of a Warehouse which would require consultation and notification in accordance with Clause 9.11.4. The Warehouse shall prioritise all requests for cancellation strictly in the order in which they are received unless the Warrant holders seeking cancellation agree otherwise. The Warehouse shall use all reasonable endeavours to allocate to each Warrant holder seeking cancellation the delivery time that he has requested, unless that requested delivery time has already been allocated to another Warrant holder, in which case the Warehouse shall offer one or more alternative delivery times as close to the time originally requested as possible and where reasonably possible shall allocate the delivery time which is acceptable to the Warrant holder. The Warehouse must prepare and maintain such documentation as is sufficient to evidence compliance with the aforesaid requirement (e.g. a schedule detailing (at least) the dates and times of receipt of cancellation requests and the allocated dates and times of delivery) and shall provide a copy of the same to the Exchange if so requested. The Warehouse will, at all times, be responsible for ensuring that deliveries of metal are effected in accordance with the above requirements except where the Warrant holder taking delivery of metal provides its own transport and fails, due to no fault of the Warehouse, to keep to the agreed delivery schedule, in which case the Warehouse and that Warrant holder shall agree between them an alternative time for delivery.

4.3 Warrants requiring cancellation

Where a Warehouse or its London Agent is notified or becomes aware that any details on a Warrant which are not Amendable Details are incorrect, it shall:

- 4.3.1 notify the Exchange thereof in accordance with Clause 3.3;
- 4.3.2 take all reasonable steps to identify the holder of the Warrant and notify it of the event and require the Warrant to be delivered up for cancellation; and
- 4.3.3 on its being delivered to the Warehouse or London Agent, cancel the Warrant in accordance with the LMEsword Regulations and Operating Procedures and issue a new Warrant in respect of the relevant metal.

4.4 Storage

All cancelled Warrants (and a copy of the original in the event that it has been lost, stolen or destroyed) must be securely retained and be made available for inspection by the Exchange for five years or (if later) until any replacement Warrant is surrendered for cancellation and metal take-up.

5 Rent and Free On Truck ("FOT") charges

5.1 Calculation

- 5.1.1 Calculations of rent due on Warrants must be on round tonnages and not actual weights.
- 5.1.2 Rent on metal under Warrant must accrue on a daily basis and rent accrued must be payable annually as at 31 March each year, or at such other times and for such other periods as the Exchange may prescribe, or upon cancellation of a Warrant whichever is the sooner.

5.2 Warehouse Maximum Charge Levels

- 5.2.1 Each Warehouse shall be required to set maximum rent and FOT charges (the "Warehouse Maximum Charge Levels"), specifying the highest rates which may be levied, in accordance with the requirements of this Clause 5.
- 5.2.2 Warehouses may set separate Warehouse Maximum Charge Levels in respect of each Delivery Point in which the Warehouse operates licensed facilities, and in each such Delivery Point, (i) in respect of rent, a rate for each metal which the Warehouse is licensed to store in that Delivery Point, and (ii) in respect of FOT, (a) a rate for cobalt (if the Warehouse is licensed to store cobalt in that Delivery Point), (b) a rate for roasted molybdenum concentrate (if the Warehouse is licensed to store roasted molybdenum concentrate in that Delivery Point), (c) a rate for premium primary aluminium (if the Warehouse is licensed to store premium primary aluminium in that Delivery Point), and (d) a single rate for all other metals (if the Warehouse is licensed to store metals other than cobalt, roasted molybdenum concentrate and premium primary aluminium in that Delivery Point).
- 5.2.3 Rent must be quoted in the Major Currency of the Contract to which the Warrant relates is traded. FOT must be quoted in the currency of the listed location, except for FOTs in respect of aluminium premium Contracts, which must be quoted in the Major Currency of the relevant Contract.

5.3 Publication of Charge Caps

- 5.3.1 With the exception of 2016 (which is covered by Clause 5.3.2 below), the LME shall, by 31 October each year, in respect of the period from 1 April of the following year to 31 March of the next following year, publish a list of maximum permissible Warehouse Maximum Charge Levels ("Charge Caps"), in respect of each combination of (i) each Delivery Point Country, and (ii) each metal which is the subject of a physically-settled Contract (with the exception of aluminium premium Contracts) and licensed for storage by at least one Warehouse in that Delivery Point Country. For the avoidance of doubt, the relevant Charge Cap shall apply to all Delivery Points in a Delivery Point Country.
- 5.3.2 In respect of 2016, the LME shall publish the Charge Caps on [*date on which the revised version of this Agreement shall take effect*]. The Charge Caps for the period 1 April 2017 to 31 March 2018 shall be calculated as the arithmetic mean average of (i) the highest Warehouse Maximum Charge Levels published by the LME in December 2014 for the period 1 April 2015 to 31 March 2016

and (ii) the highest Warehouse Maximum Charge Levels published by the LME in February 2016 for the period 1 April 2016 to 31 March 2017, in each case in respect of that Delivery Point Country and that metal (and rounded up to the nearest smallest unit of the local currency, in the case of FOT, or the nearest US cent, in the case of rent).

- 5.3.3** Subject to Clause 5.3.6, the Charge Caps for the periods (i) 1 April 2018 to 31 March 2019, (ii) 1 April 2019 to 31 March 2020, (iii) 1 April 2020 to 31 March 2021, and (iv) 1 April 2021 to 31 March 2022 shall be the same as the Charge Caps for the period 1 April 2017 to 31 March 2018.
- 5.3.4** In respect of each subsequent period 1 April to 31 March, the Charge Caps shall either be kept the same, or increase, in accordance with the formula set out in Appendix A. In the event that the relevant index (or certain data points within the index) as specified in Appendix A is unavailable, the LME shall determine an appropriate comparable index (or data points), subject to the Warehouse's right of challenge as set out in Clause 5.3.6 below.
- 5.3.5** Where (i) the LME approves a new Delivery Point which is located in a new Delivery Point Country, or (ii) a Warehouse becomes authorised to store in a Delivery Point Country a metal for which Charge Caps have not previously been calculated, the LME shall, prior to or at the same time as admission of the new Delivery Point or storage authorisation of the Warehouse, publish Charge Caps for such Delivery Point Country in respect of the set of metals authorised for storage at one or more warehouses in that Delivery Point Country and in respect of which Charge Caps have not previously been published. In determining the relevant Charge Caps, the LME shall take into account all relevant factors, including, without limitation, the Charge Caps for geographically proximate countries, any factors relevant to the particular Delivery Point Country, and its expert judgment.
- 5.3.6** In respect of Charge Caps published from 2017 onwards, a Warehouse may challenge any Charge Cap on the basis that it does not adequately take into consideration any relevant increase in the Warehouse's costs, or on the basis of any other reason. Any Warehouse wishing to challenge any Charge Cap may submit such a challenge in writing to the LME, including full reasons for such challenge together with any relevant supporting documentation, within fourteen calendar days of the publication of the relevant Charge Cap. The challenge will be considered by the Special Committee of the LME. The LME shall have the opportunity to make written representations or provide supporting evidence to the Special Committee where the LME considers it appropriate to do so. The Special Committee may request such additional documentation or explanation from the Warehouse, or any other Warehouse, or the LME, as it considers appropriate, in considering the challenge. Having considered the challenge, the Special Committee may either (i) reject the challenge, or (ii) accept the challenge and require the LME to increase the relevant Charge Cap by such amount as it considers appropriate. Where the Special Committee accepts the challenge, it shall publish a notice to the market explaining the nature of the challenge and the reasons for accepting it. The amended Charge Cap(s) shall take effect on the following 1 April and shall be taken into account when calculating any increases to Charge Caps in future years in accordance with

Clause 5.3.4 and Appendix A. Where the Special Committee rejects the challenge, it may, where it considers it appropriate, publish a notice to the market explaining the nature of the challenge and the reasons for rejecting it (and, in the event that it does not publish such a notice, it shall still provide the Warehouse which brought the challenge with the reasons for rejecting it). The Special Committee shall endeavour to publish any notice to the market within fourteen calendar days of the challenge being brought, or such other date as it shall in its sole discretion consider appropriate.

- 5.3.7** While the LME endeavours to ensure the accuracy, reliability and completeness of the Charge Caps and any information (including third party information) with reference to which the Charge Caps are compiled (the “Charge Cap Information”), neither the LME nor any of its affiliates makes any warranty or representation, express or implied, or accepts any responsibility or liability for, the accuracy, completeness or reliability of the Charge Cap Information. The LME accepts no liability whatsoever to any Warehouse or other person for any loss or damage arising from any inaccuracy or omission in the Charge Cap Information.

5.4 Process for advising Warehouse Maximum Charge Levels

- 5.4.1** On 29 December 2016, each Warehouse must set its Warehouse Maximum Charge Levels in respect of the 12 month period commencing 1 April 2017. For the avoidance of doubt, if a Warehouse has already submitted Warehouse Maximum Charge Levels in respect of the 12 month period commencing 1 April 2017 pursuant to any requirement in a previous version of this Agreement, such charges must be resubmitted if they do not comply with clause 5.4.3.
- 5.4.2** From 15 December 2017, each Warehouse must set its Warehouse Maximum Charge Levels annually in respect of each 12 month period commencing 1 April of the following year by notification to the Exchange not later than 15 December in the preceding year.
- 5.4.3** No Warehouse Maximum Charge Level submitted pursuant to clause 5.4.1 or 5.4.2 may be higher than the corresponding Charge Cap. In the event that a Warehouse submits a Warehouse Maximum Charge Level in excess of the corresponding Charge Cap, the LME may revise the Warehouse Maximum Charge Level down to the corresponding Charge Cap (for the avoidance of doubt, such submission may also constitute a breach of this Agreement which may be subject to disciplinary action pursuant to the Disciplinary Procedures). For Warehouse Maximum Charge Levels not subject to a Charge Cap, levels may be set in the discretion of the Warehouse.
- 5.4.4** The Exchange shall publish each Warehouse’s Warehouse Maximum Charge Levels by 31 December. For the avoidance of doubt, no change in Maximum Charge Levels shall become effective until the following 1 April.

5.5 Dates

The Exchange may, by giving notice in writing to each Warehouse, amend any of the dates set out in clauses 5.3.1, 5.3.2 or 5.4 for any given relevant year in the event of a challenge to the Charge Caps pursuant to clause 5.3.6 or for any other reason.

5.6 Payment

Rent must be paid for metal under Warrant in stock at 31 March (or such other dates as the Exchange may prescribe) in each year by direct settlement between holders of Warrants and Warehouses.

5.7 LMEsword

Warehouses' other obligations in relation to rent shall be as set out in the LMEsword Regulations and the Operating Procedures.

6 Records

6.1 Storage records for metal under Warrant

- 6.1.1 Warehouses must have clearly organised systems for recording storage of metal under Warrant for use in their office and in each Authorised Warehouse.
- 6.1.2 Storage records must have a separate entry record for each lot and each such record must be numbered consecutively.
- 6.1.3 Storage records in respect of metal under Warrant must clearly identify the fact that the metal is under Warrant, include the Warrant number and note the Authorised Warehouse in which the metal is stored.
- 6.1.4 Metal under Warrant must be identifiable in an Authorised Warehouse by means of a label, or other marking method, as to lot or Warrant number.

6.2 Warrant records

- 6.2.1 Each Warehouse must maintain a Warrant register which shows the dates of issue and cancellation of each Warrant, any corresponding lot numbers and the details of the metal as shown on the Warrant. Each entry on the Warrant register must be initialled by an authorised person or, in the case of a register maintained on a computer, have noted next to each entry the initials or other identity of an authorised person.
- 6.2.2 To the extent that any Warehouse has pre-printed warrants in blank, these must be kept secure. The Warehouse must ensure that it, or its London Agent, maintains a written record of the number of unused blank Warrants at any given time and will provide a copy of that record to the Exchange on request.
- 6.2.3 A copy of each Warrant issued by or for a Warehouse must be kept secure.

6.3 Stock records

- 6.3.1 The stock of metal under Warrant of each Warehouse must be reported to the Exchange by the due completion of the form prescribed by the Exchange which must be faxed to the Exchange by 1200 hours London time each Business Day or delivered by such other means as the Exchange may prescribe and/or pursuant to LMEsword as the Exchange may from time to time prescribe in the LMEsword Regulations and Operating Procedures.
- 6.3.2 Until such time as stocks of metal are reported pursuant to LMEsword alone, metal taken off Warrant, but which is still on the Warehouse's premises, must be combined on the stock return with those stocks actually on Warrant rounded to the nearest complete Warrant lot and also separately identified on the return,

or shown in such other manner as prescribed by the Exchange by notice. If no stocks are held, a nil return must be submitted on each Business Day.

6.3.3 Information concerning stocks and Queues at Warehouses shall be treated as confidential by the Exchange save that the Exchange may publish such information concerning LME stocks and Queues at Warehouses as it considers necessary, acting reasonably, for the purposes of market transparency. In addition the Exchange may publish such information for regulatory purposes and may make such disclosure as is required by Relevant Law and Regulation or that is requested by any regulatory authority or other person to whom the Exchange is required to disclose it by Relevant Law or Regulation. In addition, the Exchange may publish such information together with that of other Warehouses without identifying the Warehouse by name and also make reference to such information, identifying the Warehouse, in any notice of a decision given under the Disciplinary Procedures in the event of a breach of this Agreement. Warehouses are prohibited from revealing their stock of metal under Warrant to any person except that this prohibition shall not apply to:

6.3.3.1 information supplied to a Warehouse's London Agent where the disclosure is reasonable and necessary to enable the recipient to perform the proper functions of his employment, profession or duties;

6.3.3.2 information disclosed pursuant to any Relevant Law and Regulation;

6.3.3.3 information disclosed to a Warehouse's professional advisers and to its usual bankers where the disclosure is reasonable and necessary to enable the recipient to perform the proper functions of his employment, profession or duties;

6.3.3.4 historical information on aggregate stocks held by a Warehouse without differentiation between stocks held under Warrants and other stocks which is required to be disclosed to the shareholders of the Warehouse;

6.3.3.5 historical information on aggregate stocks held by a Warehouse without differentiation between stocks held under Warrants and other stocks which is required to be disclosed to a parent company of the Warehouse for the purpose of that parent company preparing its budgets and financial forecasts for the Group; or

6.3.3.6 information which has already been published by the LME pursuant to clause 6.3.3.

6.4 Duty and Tax Records

6.4.1 Each Warehouse must maintain records on the duty and tax status of each lot of metal.

6.4.2 The Warehouse shall make the records specified in Clause 6.4.1, or information derived from such records, available on request and at no cost to Warrant holders and the Exchange.

7 Continuing Obligations

7.1 Insurance

- 7.1.1** Each Warehouse must maintain insurance in respect of all the types of risks marked with an asterisk in paragraph 9 of Schedule A at least at the levels from time to time prescribed by the Exchange. Such insurance must be maintained at all times until the Warehouse is no longer listed.
- 7.1.2** The Warehouse shall procure that the Exchange receives annually at renewal and/or at such other time as requested by the Exchange a certificate (or such other document as the Exchange may from time to time prescribe) evidencing that all the risks marked with an asterisk in paragraph 9 of Schedule A are protected and citing the maximum limit of cover per occurrence and the policy number. Any changes affecting the insurance cover are to be automatically notified to the Exchange by the insurance company. The Warehouse must ensure that its policy shows the Exchange as a notifiable party for amendments and renewal confirmations.

7.2 Security

- 7.2.1** The Warehouse must at least maintain the level of security measures referred to in its response(s) to Schedule B, Section (C) (as the same may be amended in writing between the Warehouse and the Exchange from time to time) at all its Authorised Warehouses and must keep them clean, dry (except outside storage areas as permitted by the LME), free from contaminants and in good repair. The Exchange may in its discretion reasonably require enhancements to the security measures maintained by a Warehouse as referred to in its response(s) to Schedule B, Section (C). Without prejudice to the requirements of Clause 7.3, in the event of any material change in the details relating to its Authorised Warehouses as set out in its response(s) to Schedule B, Section (C), or in the event that the Warehouse otherwise fails to comply with this Clause 7.2.1, the Warehouse must notify the Exchange of such change or failure within 5 Business Days of becoming aware of the same. In the event of any material change in the details relating to the Warehouse's Authorised Warehouses which could in the Exchange's reasonable view result in a degradation in the level of security as set out in the Warehouse's' response(s) to Schedule B, Section (C), or in the event that the Warehouse otherwise fails to comply with this Clause 7.2.1, the Exchange may, at its sole discretion, direct that any metal stored under Warrant in the Authorised Warehouse in question be relocated to another Authorised Warehouse, whether or not with the same Warehouse.
- 7.2.2** Any costs arising from such relocation, including, but not limited to, costs relating to re-inspection and re-approval, shall be met by the Warehouse.
- 7.2.3** The power of the Exchange under this Clause is without prejudice to its other powers under this Agreement, including the powers set out under the Disciplinary Procedures.

7.3 Monitoring and supply of information

- 7.3.1** Each Warehouse must notify the Exchange of any facts, events or changes which are material to its listing as a Warehouse within 5 Business Days of

becoming aware of the fact, event or change in question. This shall include, without limitation:

7.3.1.1 any changes that materially affect the information given by the Warehouse in connection with its application for listing as a Warehouse, or such other material information as it may have given to the Exchange in writing from time to time;

7.3.1.2 any changes affecting the Warehouse's ability to comply with its obligations hereunder or under the LMEsword Regulations.

7.3.2 A Warehouse shall not make any changes, or allow any changes which are within its power to prevent being made, to any of its Authorised Warehouses where such changes would involve a material change to any of the details provided in the answers given in Schedule B, without obtaining the Exchange's prior written approval in accordance with procedures published by the Exchange from time to time. In the event that the Warehouse becomes aware of such a change which is beyond its power to prevent, it must nonetheless notify the Exchange of such change immediately. The Exchange may, if it deems that the change materially affects the ability of the Authorised Warehouse(s) to operate, exercise its powers under this Agreement, including without limitation, those contained in Clause 9.2.

7.3.3 Each Warehouse shall provide to the Exchange on request such information from its storage records, Warrant records and/or stock records relating to the types of metals deliverable on the Exchange, as the Exchange may reasonably request from time to time in connection with any enquiries being made or to be made by the Exchange in accordance with the Rules or this Agreement. All such information so supplied shall be treated as confidential by the Exchange and shall be restricted to those authorised staff and officers within the Exchange responsible for conducting such enquiries in accordance with the Rules, the Exchange's professional advisors, regulatory authorities and other persons to whom the Exchange is required to disclose it by Relevant Law and Regulation. The Exchange shall not be entitled to have access to legally privileged documents. A list of those persons within the Exchange who are authorised to obtain information from Warehouses in accordance with this Clause 7.3.3 will be circulated to all Warehouses and will be updated from time to time. The Exchange may request information about metal held off-Warrant at the Warehouse only in connection with an investigation pursuant to the Disciplinary Procedures.

7.3.4 Each Warehouse shall permit Exchange staff to conduct routine and other inspections of its premises used for the storage of LME metal, including access to each relevant Authorised Warehouse and its offices supporting the operating of such warehouses. Warehouses shall use reasonable endeavours to procure similar access to the offices of their London Agents supporting those operations. Each Warehouse shall co-operate with the Exchange in the conduct of such inspections and give all reasonable assistance to the Exchange.

7.3.5 The Exchange shall give reasonable notice of its intention to make inspections, except that no such notice will be required to be given where the Exchange

deems it necessary or desirable in its absolute discretion for an immediate inspection to be undertaken by the Exchange or its appointed representatives.

- 7.3.6** Each Warehouse shall provide the Exchange with details of its officers and employees authorised to act as its authorised signatories for the purposes of this Agreement and keep such details up to date at all times, notifying the LME of any changes thereto promptly.

7.4 Periodical inspections

- 7.4.1** From time to time, and at least every 12 months, each Warehouse must:

7.4.1.1 carry out a visual inspection of all metal under Warrant in its Authorised Warehouses and of all supporting documentation;

7.4.1.2 at its own cost, appoint an independent third party auditor to perform a count of all the stock which is under Warrant in its Authorised Warehouse(s) which shall include metal taken off Warrant, but which is still on the Warehouse's premises awaiting load-out;

7.4.1.3 make a notification to the Exchange without delay following the end of each calendar year (and by not later than 1 March), such notification to contain a record of all such inspections which have been carried out throughout the previous year, and a copy of the report produced by the independent third party auditor pursuant to Clause 7.4.1.2; and

7.4.1.4 seek the approval of the Exchange in the selection of the independent third party auditor referred to in Clause 7.4.1.2 and provide to the Exchange such information concerning its preferred auditor as the Exchange may reasonably request.

- 7.4.2** Full records of such inspections must be kept, showing at least:

7.4.2.1 the details of all issued Warrants at the time of the inspection;

7.4.2.2 the date of the inspection; and

7.4.2.3 the name and job title of the person undertaking the inspection, who must also acknowledge that he has carried out the inspection and be of suitable seniority.

Without prejudice to the annual notification requirement in Clause 7.4.1, copies of such records will be made available to the Exchange at any time on request.

- 7.4.3** All weighing equipment used for weighing metal under Warrant must be checked for accuracy at least quarterly by an accredited and responsible institution which is not affiliated to the Warehouse and any material inaccuracies detected by such institution must be rectified by the Warehouse immediately. Written evidence of such inspections must be retained and made available to the Exchange on request.

7.5 Compliance with law and regulation

- 7.5.1** Each Warehouse shall at all times comply with all applicable law, including (without limitation) Relevant Law and Regulation, local port conditions, local and national customs, local anti-corruption laws, prohibitions on Market Abuse,

taxation law and other rules and regulations (where the aforesaid are not in conflict with the requirements of either this Agreement or of the LMEsword Regulations or of the Operating Procedures).

- 7.5.2 The Warehouse shall immediately notify the Exchange if it becomes aware that such law, customs or regulations conflict, or are likely to conflict, with the requirements of this Agreement, the LMEsword Regulations or the Operating Procedures. In the event of any such conflict, the Exchange shall, without prejudice to its rights under this Agreement, assess whether, in its reasonable opinion, such conflict in fact exists and, if so, whether it is reconcilable and shall determine in its absolute discretion what action (if any) to take. Where the Exchange is of the view that failure immediately to resolve the conflict will not materially prejudice the Warehouse's ability to comply with the requirements of this Agreement, the LMEsword Regulations or the Operating Procedures, it shall consult with the Warehouse as to the remedial action to be taken. In the event of a conflict between this Agreement and the LMEsword Regulations or Operating Procedures or any notice issued by the Exchange, the terms of this Agreement shall prevail.
- 7.5.3 The Warehouse will not, and nor will any of its officers, employees, shareholders, representatives or agents, directly or indirectly, either in private business dealings or in dealings with the public sector, offer, give or agree to offer or give (either itself or in agreement with others) any payment, gift or other advantage with respect to any matters which are the subject of this Agreement which (i) would violate any anti-corruption laws or regulations applicable to the Warehouse, (ii) is intended to, or does, influence or reward a person and acting in breach of an expectation of good faith, upholding or trust, or which it would otherwise be improper for the recipient to accept, or (iii) is made to a Public Official with the intention of influencing them and obtaining or retaining an exchange with conduct of terms ("**Corrupt Act**").
- 7.5.4 The Warehouse represents and warrants that it has not, and so far as it is aware its directors and officers have not:
- (i) engaged in, admitted to, or been found by a court in any jurisdiction to have engaged in any Corrupt Act; or
 - (ii) been investigated by a regulatory or law enforcement agency in any jurisdiction as a suspect in connection with an investigation into the commission of any Corrupt Act.
- 7.5.5 The Warehouse further agrees and undertakes:
- (i) to properly and accurately record in its books and records all transactions which relate in any way to this Agreement; and
 - (ii) to provide any such information as the Exchange may reasonably require by notice in writing in order to monitor the Warehouse's compliance with its obligations under Clauses 7.5.1 and 7.5.3 and 7.5.4; and
 - (iii) to notify the Exchange immediately if, at any time, it becomes aware that any of the representations set out at under Clause 7.5.4 are no longer correct.

7.6 Principles of Conduct

The Warehouse shall adhere to the Principles of Conduct set out at Clause 11.

8 Enforcement and Discipline

The Exchange may investigate any breach of this Agreement and take disciplinary action. The terms of the LME's Enforcement and Disciplinary Procedures applicable to all LME Warehouses, as amended by the Exchange from time to time and issued to Warehouses (the "Disciplinary Procedures") shall be deemed to be incorporated into this Agreement as if set out in full herein.

9 General

9.1 Fees

- 9.1.1** Each Warehouse shall pay the Exchange the fees and levies prescribed by the Exchange from time to time. The Exchange shall provide all Warehouses with reasonable notice of changes in its prescribed fees and levies.
- 9.1.2** Each Warehouse shall be responsible for the cost of inspections undertaken by the Exchange in accordance with the terms of this Agreement except where the inspection is specific to a single Warehouse and is initiated by the Exchange in which case the Exchange shall be responsible for the cost thereof (but without prejudice to the power of the Exchange to recover any such costs from a Warehouse pursuant to a sanction imposed under the Disciplinary Procedures).
- 9.1.3** Each Warehouse shall pay the fees prescribed by the LMEsword Regulations and Operating Procedures.
- 9.1.4** The Exchange shall consult with Warehouses if any proposed changes in its prescribed fees and levies or in the fees prescribed by the LMEsword Regulations and Operating Procedures would result in a material increase in such fees and/or levies. For these purposes, a "material increase" shall be any increase in the previously prescribed fee or levy of more than the greater of (a) 10 per cent or (b) the percentage figure equal to the aggregate of (i) the percentage increase in the retail prices index ("RPI") as published by the Office for National Statistics calculated by comparing the level of RPI (all items) for the month in which the previously prescribed fee or levy was fixed and comparing it to the level of RPI (all items) for the month in which the Exchange gives notice of its proposed increase and (ii) 5 per cent.

9.2 Withdrawal of right to store particular metal

Without prejudice to the other powers of the Exchange, the Directors may require a Warehouse to cease to store any one or more particular metals by giving the Warehouse 90 days' prior notice, or such shorter period as the Directors may consider in their sole discretion justified in the circumstances.

9.3 Proper functioning of the market

- 9.3.1** Warehouses play an important role in the markets in which the Exchange operates by ensuring, amongst other things, that Contracts are sufficiently anchored to the price of the underlying metal and that settlements are orderly. Warehouses must not prevent the proper functioning of the market, including by

doing anything which may directly or indirectly constrain the liquidity and elasticity of stocks of metal under Warrant. In consequence, Warehouses must not, without limitation, (i) give Inducements that in the ordinary course may reasonably be considered to be exceptional, (ii) impose charges for depositing or withdrawing metals that in the ordinary course may reasonably be considered to be unreasonable, or (iii) delay unreasonably the receipt or despatch of metal, (save where unavoidable due to Force Majeure), where such behaviour may have, directly or indirectly, a manipulative, distortive or disorderly effect on the market. In the event that the Exchange considers that the conduct of a Warehouse indicates circumstances which may constitute Market Abuse, it is required to report this to the Financial Conduct Authority.

- 9.3.2** All Warehouses must periodically supply to the Exchange information relating to all Inducements paid to, or received from, third parties, and charges levied, for example, those for loading and unloading metal for Warrant purposes; in the form, and at the times, specified by the Exchange and set out on the Exchange's website from time to time. Further, a Warehouse must supply such information or clarifications on such information on request by the Exchange.
- 9.3.3** In addition to the information supplied pursuant to Clause 9.3.2, each Warehouse shall provide to the Exchange, on request, such information as the Exchange may reasonably request from time to time, including, without limitation, details of all Inducements, and details of the provenance of loaded-in metal, including information about metal which may have been held previously in that Warehouse, or in another facility operated by the same Warehouse or member of the Warehouse's Group.
- 9.3.4** For the avoidance of doubt, the Exchange has a right to investigate Warehouses in connection with:
- (i) all Inducements and charges;
 - (ii) any behaviour it suspects may have, or has had, a manipulative, distortive, or disorderly effect on the market; and
 - (iii) a failure to meet any of the minimum loading-out standards and requirements from time to time laid down by the Exchange (save in an event of Force Majeure).

All investigations shall be conducted in accordance with Clause 8 above and the Disciplinary Procedures.

- 9.3.5** The Exchange may take disciplinary action and / or, in its discretion, impose additional load-out requirements on a Warehouse whose behaviour the Exchange considers may have, or has had, the effect of creating or maintaining a Queue and / or which has led to market manipulation or distortion; or otherwise created or maintained a disorderly market.
- 9.3.6** All information supplied pursuant to Clause 9.3 shall be treated as confidential by the Exchange and shall be restricted to those authorised staff and officers within the Exchange responsible for analysing such information and/or conducting investigations, the Exchange's professional advisors, regulatory authorities or other person to whom the Exchange is required to disclose it by Relevant Law and Regulation. The Exchange shall not be entitled to have

access to legally privileged documents. A list of those persons within the Exchange who are authorised to obtain information from Warehouses in accordance with this Clause 9.3.6 will be circulated to all Warehouses and will be updated from time to time.

9.4 Termination

9.4.1 Without prejudice to the provisions of Clause 8, this Agreement may be terminated, and the Warehouse delisted on a permanent basis, with or without notice, if:

9.4.1.1 the Warehouse commits a serious breach of this Agreement, the LMEsword Regulations or the Operating Procedures;

9.4.1.2 the Warehouse fails or ceases to satisfy the requirements of Clause 1.2 (capital) and/or becomes or is, in the opinion of the Exchange, likely to become insolvent;

9.4.1.3 the Warehouse breaches Clause 7.5 (compliance with law and regulation);

9.4.1.4 the Warehouse materially fails to meet any of its obligations to the holder for the time being of a Warrant and such obligations are not being disputed in good faith;

9.4.1.5 the Warehouse fails to pay a sum of £10,000 or more when it becomes due, or a lesser sum within 7 Business Days of it becoming due, to the Exchange under Clause 9.1 or in respect of a fine imposed on it under the Disciplinary Procedures; or

9.4.1.6 a Force Majeure occurs.

Any such termination and delisting will be effective upon by the Directors notifying the Warehouse accordingly. Without prejudice to Clause 9.4.1.5, and except in the case of a Force Majeure under Clause 9.4.1.6, the Exchange may at its discretion grant to the Warehouse 7 Business Days within which to remedy a default under this Clause 9.4.1.

9.4.2 The Exchange may by notice served on a Warehouse by no later than 1 October in any year delist the Warehouse with effect from the following 1 January where the Exchange reasonably believes that the Warehouse is no longer engaged in LME warehousing business.

9.4.3 Without prejudice to any other of the Exchange's powers, a Warehouse, or the Exchange, may terminate this Agreement and delist the Warehouse in question by the service of six months' prior notice (or such other period as they may agree or as provided under Clause 9.11) on the other. On the expiry of such notice, this Agreement shall be terminated and the Warehouse delisted. Subject thereto and the other powers of the Exchange hereunder, this Agreement shall be for an indefinite term.

9.4.4 On and following termination of this Agreement and the delisting of a Warehouse, the Warehouse shall not be entitled to any rebate of fees paid to the Exchange but shall remain liable for all pre-existing liabilities to the Exchange. In addition, the Warehouse shall remain subject to the obligations

imposed by this Agreement as if it were a Warehouse until a period of five years after delisting has elapsed but shall not be entitled to any of the benefits conferred hereunder, including the right to describe itself as an LME listed warehouse company, and may not issue any further Warrants.

- 9.4.5** On delisting, a Warehouse must, at its own expense, relocate all metal under Warrant to another Warehouse's Authorised Warehouse(s) and arrange for the cancellation of all of its issued and current Warrants. The Exchange's prior approval must be obtained before any relocation arrangements are finalised and in giving such approval (which may not be unreasonably withheld or delayed) the Exchange shall have all due regard to the reasonable instructions of the holders of the Warrants in question, to the extent known to it.

9.5 Notices

- 9.5.1** All notices and other communications shall be in writing and in the English language.

- 9.5.2** Subject to Clause 9.5.5, all notices and other communications required to be served under this Agreement shall be served by fax or by electronic messaging (i.e. e-mail). Service will be deemed effective:

Fax: 02072568864

Email: LMELegal@lme.com

9.5.2.1 in the case of notices sent by fax, on the date and time that transmission is received by an employee of the recipient in legible form or, if that date is not a Business Day or, if the fax is sent after normal working hours, the next following Business Day the burden of proving receipt to be met by a transmission report generated by the sender's facsimile machine; and

9.5.2.2 in the case of notices sent by electronic messaging, on the date and at the time that the sender receives a valid "read receipt".

- 9.5.3** All notices and other communication required to be served on the Warehouse shall be deemed to be validly served thereon if served on the Warehouse's London Agent. A copy of each such notice and communication shall also be sent to the registered office of the Warehouse but failure to send such a copy shall not affect valid service if the notice or other communication has been served on the Warehouse's London Agent.

- 9.5.4** In the event of difficulty in using fax or electronic messaging to send notices under this Agreement, notices and other communications may be served in person or by courier, with such service deemed effective on the date of receipt, unless that date is not a Business Day in which case the notice shall be deemed given and effective on the first following day that is a Business Day.

- 9.5.5** Notices and other communications shall only be validly served by a Warehouse if they are signed by an authorised signatory notified to the Exchange in accordance with Clause 7.3.6. For the avoidance of doubt, the effect of this Clause 9.5.5 is that, unless the Exchange otherwise prescribes, notices and

other communications to be served by a Warehouse may not be served by electronic messaging.

9.5.6 The Exchange shall not be liable for any actions taken or omitted to be taken in good faith on the basis of any notice or other communication however served which purports to have been given by or on behalf of a Warehouse. The Exchange shall not be under any duty to verify the genuineness of any signature nor the authority of the person which purports to sign a notice or other communication on behalf of a Warehouse.

9.5.7 Each party shall respond promptly to the communications of the other party, where such communications require a response.

9.6 Release

Any liability to the Exchange under this Agreement may in whole or in part be released, compounded or compromised or time or indulgence given by the Exchange in its absolute discretion as regards any Warehouse under such liability without in any way prejudicing or affecting its rights against any other or others of the Warehouses under the same or a like liability, whether joint and several or otherwise provided that a Warehouse's liability shall not be increased by such action, nor shall its right to claim compensation or contribution from any person be thereby reduced.

9.7 Waiver

No failure of the Exchange to exercise, and no delay by it in exercising, any right, power or remedy in connection with this Agreement (each a "Right") will operate as a waiver thereof, nor will any single or partial exercise of any Right preclude any other or further exercise of such Right or the exercise of any other Right. The Rights provided in this Agreement are cumulative and not exclusive of any other Rights (whether provided by law or otherwise). Any express waiver of any breach of this Agreement shall not be deemed to be a waiver of any subsequent breach.

9.8 Invalidity

If any provision in this Agreement shall be held to be illegal, invalid or unenforceable, in whole or in part, under any enactment or rule of law, such provision or part shall to that extent be deemed not to form part of this Agreement but the legality, validity and enforceability of the remainder of this Agreement shall not be affected.

9.9 Governing law and agreement to arbitrate

9.9.1 This Agreement shall be governed by and construed in accordance with English law.

9.9.2 Any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the Rules of the LCIA, which rules are deemed to be incorporated by reference into this Clause. The LCIA shall appoint a sole arbitrator. The place of arbitration shall be London. The language to be used in the arbitral proceedings shall be English.

9.9.3 If the Warehouse is not incorporated in England and Wales, it hereby appoints its London Agent as its agent for service of process for the purposes of any proceedings commenced in the English Court seeking interim relief in support

of an existing or prospective LCIA arbitration or enforcing any award granted by a tribunal in any such LCIA arbitration.

9.10 Exclusion of Liability

Neither the LME, nor any member of the LME Group, nor any of their Directors nor other officers or members of its Warehousing Committee shall have any liability for any damage, loss, expense or liability of any nature which a Warehouse may suffer or incur in respect of any act or omissions in relation to the provision of warehouse services to Members or its activities or status as a listed Warehouse except to the extent of losses or expenses attributable to its fraud, negligence or wilful default. The terms of this Clause 9.10 shall take precedence over Regulation 11.8.1 of the LMEsword Regulations insofar as that Regulation relates to Warehouses and the Exchange.

9.11 Notices and Amendments

- 9.11.1 The Exchange may issue notices from time to time concerning any matter relevant to the performance by a Warehouse of its obligations under this Agreement.
- 9.11.2 Each Warehouse shall comply with the terms of any such notice and such notices (including, without limitation, the Exchange's Policy on the Approval of Locations as Delivery Points and the Exchange's Policy on the Approval and Operation of Warehouses) shall be deemed to be incorporated into this Agreement.
- 9.11.3 The Exchange may amend this Agreement from time to time. Unless it is considered to be an emergency and essential for the proper operation of the market, any such change shall, subject to Clause 9.11.4 below, only take effect after each Warehouse has been given 30 days' prior written notice of any proposed change.
- 9.11.4 In the event that any such proposed change, or any proposed change to the LMEsword Regulations or Operating Procedures, or any proposed notice under Clause 9.11.1, would have the effect of materially increasing the obligations of any Warehouse, it shall only take effect after the Warehouse has been given 90 days prior written notice thereof. The Exchange undertakes to consult with the affected Warehouses in relation to the proposed change, where practicable for a reasonable period and in reasonable time prior to the start of that 90 day period, and shall have reasonable regard to representations received. In the event that the Warehouse does not wish to be bound by any such proposed change which has the effect of materially increasing the obligations of the Warehouse, it may serve notice of termination of this Agreement at any time prior to the expiry of such notice period, in which event such change shall not at any time take effect with respect to the Warehouse in question and the Warehouse shall be delisted with effect from the date 90 days after the day the notice of termination is served.
- 9.11.5 Clauses 9.11.3 and 9.11.4 shall not apply to the Disciplinary Procedures.

9.12 No Assignment

A Warehouse may not assign the benefit of this Agreement to, or declare a trust over such benefit in favour of, any other person (or enter into any analogous arrangement in any jurisdiction) without the prior written consent of the Exchange.

9.13 Information Barriers

Each Related Warehouse shall maintain effective information barriers between it and the relevant Trading Company as specified by the Exchange from time-to-time as set out in the Notice: Information barriers between Warehouse Companies and Trading Companies (Ref: 14/202: A195: W098), or any successor notice. The Related Warehouse shall engage a firm of professional accountants in public practice, the choice to be agreed with the Exchange, to assure that the information barriers it has in place meet the criteria specified by the Exchange, under such assurance standard(s) and in such manner as the Exchange may specify from time to time.

10 Interpretation

10.1 Definitions

In this Agreement, unless the context otherwise specifies, the words includes, including, for example and in particular shall be construed as being "without limitation". Further, the following words and expressions in this Agreement shall, unless the context otherwise requires, bear the following meanings:

"Amendable Details" has the meaning given in Clause 3.1.2;

"Authorised Warehouse" means a warehouse storage facility operated by a Warehouse in a particular Delivery Point, which has been approved by the Exchange for the purpose of this Agreement;

"Business Day" has the meaning given in the Rules;

"Charge Cap Information" has the meaning given in Clause 5.3.7;

"Charge Caps" has the meaning given in Clause 5.3.1;

"Contract" has the meaning given in the Rules;

"Corrupt Act" has the meaning given in Clause 7.5.3

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

"Delivery Point Country" shall mean a country in which one or more Delivery Points is located;

"Depository" means the person appointed by the Exchange from time to time to act as such for the purposes of LMEsword;

"Directors" means the directors of the Exchange from time to time;

"Disciplinary Procedures" has the meaning given in Clause 8;

"the Exchange" means The London Metal Exchange;

"the Financial Conduct Authority" means the regulator (Company No. 01920623) currently based at 25 The North Colonnade, Canary Wharf, London E14 5HS, or any successor body;

"Force Majeure" means an event which is beyond the reasonable control of the Warehouse and which is, in the opinion of the Exchange, likely to render the Warehouse unable to perform its obligations under this Agreement either permanently or for more than 30 days or such other period of time that would, in the Exchange's view, have such a serious effect on the Warehouse that in business terms it would be tantamount to a permanent cessation, including, without limitation, any act of war, terrorism, insurrection, revolution, act of God or the imposition of legal, regulatory or tax restrictions in any relevant location;

"FOT" means free on truck;

"Group" means, 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;

"Inducement" means, without limitation, any fee, commission, discount, rebate, provision of transport services, or any other monetary or non-monetary benefit given to attract the load-in of metal or deter the load-out of metal;

"LCIA" means the London Court of International Arbitration;

"LME" means The London Metal Exchange;

"LME Group" means, in relation to the LME, any subsidiary or any holding company from time to time of the LME, and any subsidiary from time to time of a holding company of the LME, including without limitation, the Hong Kong Exchanges and Clearing Limited (HKEx). The terms "holding company" and "subsidiary" shall have the meanings given to them in section 1159 of the Companies Act 2006.

"load-out" has the meaning given in the Exchange's Policy on the Approval and Operation of Warehouses, as revised from time to time;

"London Agent" has the meaning given in Clause 1.3.1;

"Major Currency" has the meaning given in the Rules;

"Market Abuse" means the types of behaviour proscribed by section 118 of the Financial Services and Markets Act 2000 or any successor law or regulation;

"Member" means a member of the Exchange;

"Operating Procedures" means the manual issued by the Exchange pursuant to the LMEsword Regulations setting out detailed procedures and information relating to the operation of LMEsword;

"person" includes an individual, partnership, unincorporated association and body corporate;

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

"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.

"Related Warehouse" means a Warehouse which is associated with a Trading Company. For the purpose of this definition, a Warehouse is associated with a Trading Company where the Warehouse is a subsidiary or holding company of a Trading Company, or a subsidiary or holding company of one of a Trading Company's subsidiaries or holding companies or otherwise has a Close Connection with a Trading Company. The terms "holding company" and "subsidiary" have the meanings given to them in section 1159 of the Companies Act 2006. A Warehouse shall have a "Close Connection" with a Trading Company if any person or company either directly or indirectly holds or otherwise effectively controls 20% or more of the shares or voting rights in both the Warehouse and the Trading Company; or any Trading Company directly or indirectly holds or effectively controls 20% or more of the shares or voting rights of the relevant Warehouse (or vice versa);

"Relevant Law and Regulation" means the laws, rules and regulations of any statutory, governmental or regulatory authority in any country relevant to the operations of the Warehouse including without limitation the principles, rules and standards of the Financial Conduct Authority as in force from time to time;

"Rules" means the rules and regulations issued by the Exchange (and incorporating the LMEsword Regulations) governing the London Metal Exchange administered by the Exchange as the same may be amended in accordance with Article 71 of the Articles of Association of the Exchange and a reference to a Rule shall be construed accordingly;

"Secretary" means any person appointed to perform the duties of Secretary of the Exchange;

"Special Committee" means the Special Committee of the LME, as maintained by the LME from time-to-time, details of which are published on the LME's website;

"Special Contract Rules for Metals" means Part 6 of the Rules as the same may be amended from time to time;

"LMEsword" means the system for, inter alia, the electronic transfer of title to Warrants governed and constituted by the LMEsword Regulations;

"LMEsword Regulations" means the regulations governing the operation of LMEsword issued by the Exchange as amended from time to time in accordance with the terms thereof;

"this Agreement" means the agreement between each Warehouse and the Exchange incorporating these terms and conditions as amended from time to time in accordance herewith and incorporating the Disciplinary Procedures in accordance with Clause 8 hereof;

"Trading Company" shall mean any Member or non-Member company that enters into Contracts or trades metal that is deliverable against a Contract;

"Warehouse" means a warehouse company which is party to this Agreement, accepted as such by the Exchange and listed in Appendix III of the Rules;

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

"Warehouse Maximum Charge Levels" has the meaning given in Clause 5.2.1;

"Warrant" means a warehouse warrant for the storage of metal, issued by a Warehouse in accordance with this Agreement and in a form approved by the Exchange.

10.2 Interpretation

- 10.2.1** Where this Agreement refers to a document or thing being "prescribed", that shall mean prescribed by the Exchange from time to time in a notice issued by it to Warehouses.
- 10.2.2** Words importing the singular shall, where the context permits, include the plural and vice versa. Words importing gender shall include each gender.
- 10.2.3** Where this Agreement refers to an act being undertaken by the Exchange, that act may be performed by the Exchange acting through the Directors of the Exchange or any duly authorised committee of the Directors of the Exchange or duly authorised individual.

11 Principles of conduct

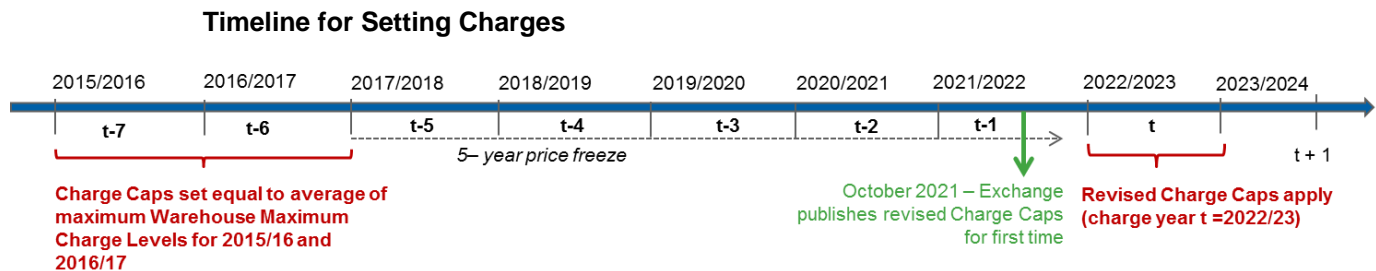
A Warehouse shall:

- 11.1** Conduct its business with due skill, care and diligence, observing high standards of conduct and safety, complying with the warehouse agreement, the LME's word regulations, these principles, the common standards of working practice for warehouse companies, other requirements for warehouse companies set by the Exchange, and Relevant Law and Regulation.
- 11.2** Not engage in behaviour which would manipulate or distort the Exchange's markets, nor create or attempt to create a disorderly market, nor require or encourage or assist others to do so. In particular, without limitation, not engage in any behaviour which would be likely to manipulate or distort the market with the effect of creating or maintaining a Queue.
- 11.3** At all times observe high standards of integrity and fair dealing, observe high standards of market conduct, and not enter into any arrangement or agreement that prohibits the provision of any information that the LME requests in its role as a Recognised Investment Exchange.
- 11.4** Maintain financial resources at or above the minimum level set by the LME to ensure continuity in the provision of services for owners of metal on LME warrant, and shall have in place a performance bond (if required by the Exchange) in the manner and of the amount prescribed by the Exchange.
- 11.5** Manage conflicts of interest fairly, both between itself and holders of metal on LME warrant and between holders of metal on LME warrant, ensuring fair and equitable treatment to all holders of metal on LME warrant at all times.

- 11.6 Ensure that all metal held on LME warrants is stored continuously in good delivery condition and that it is identified and stored so as to facilitate easy access and delivery without undue delay.
- 11.7 Deal with those placing metal on LME warrant, those holding LME warrants and those taking metal off LME warrant on a fair and equitable basis.
- 11.8 Organise and control its affairs in a responsible manner, keep proper records, retain all relevant documentation, have well-defined procedures for handling metal stored on LME warrant and for delivering it out expeditiously, ensure that its employees or agents are suitable, adequately trained and properly supervised, and that it has well-defined procedures to ensure compliance with this Agreement, the LMEsword Regulations and the Operating Procedures and all other LME rules and requirements applicable to Warehouses.
- 11.9 Pay due regard to the information needs of LME warrant holders by having transparency of: normal hours of work, all delivery in and load-out charges, rent and rent payment dates, and total average daily load-out volume rates by metal and mode of transport.
- 11.10 Arrange adequate protection for metal held on LME warrant by insuring it against unexplained losses and losses caused by error, negligence, or fraudulent actions of its servants or agents or its personnel.
- 11.11 Deal with the LME in an open and co-operative manner, keeping it informed promptly of anything concerning the suitability of its warehouses or its continued suitability as a warehouse company, or about metal stored with it or that it knows will be placed on or taken off LME warrant, that the LME, as a Recognised Investment Exchange (as defined by the Financial Conduct Authority), which has responsibility for ensuring that its markets are proper and orderly and not subject to abuse, might reasonably expect to be disclosed to it.

Appendix A

Charge Cap Increase Mechanism



Formula for FOT

The Exchange shall apply the following formula for increasing the Charge Cap for FOT in accordance with Clause 5.3.4 of the Agreement:

(1) Define the Charge Cap applied in 2017/18 as follows:

$P_{avg, 2015-17, local\ currency}$ is the arithmetic average of the highest Warehouse Maximum Charge Level levied by any Warehouse within the Delivery Point Country, as published by the Exchange in (i) December 2014, for the period 1 April 2015 to 31 March 2016, and (ii) February 2016, for the period 1 April 2016 to 31 March 2017.

(2) Apply historical change in CPI to the price in local currency

For all charging years following 1 April 2021-31 March 2022, for each charge year t , set the Charge Cap (P_t) as follows:

$$P_{t, local} = P_{avg, 2015-17, local\ currency} \times ACPI_{august\ t-1} / ACPI_{august\ 2020}$$

Where

$ACPI_{august\ t-1}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year $t-1$; and

$ACPI_{august\ 2020}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year 2020.

However, if $P_{t, local}$ would be lower than $P_{t-1, local}$, then $P_{t, local}$ will instead be set to $P_{t-1, local}$.

The above formula assumes that the CPI index value shall be measured relative to August, on the basis that the Exchange publishes the Charge Cap in October (CPI monthly data is published with a one month lag). If the Exchange publishes the Charge Cap in a different month, the formula shall be adjusted accordingly. This shall be the case for all formula in this Appendix A.

Formula for rental charges

The Exchange shall apply the following formula for increasing the Charge Cap for rent in accordance with Clause 5.3.4 of the Agreement:

(1) Define the Charge Cap applied in 2017-2018 as follows:

$P_{avg, 2015-17, \$}$ is the arithmetic average of the highest Warehouse Maximum Charge Level levied by any Warehouse within the Delivery Point Country, as published by the Exchange in (i) December 2014, for the period 1 April 2015 – 31 March 2016, and (ii) February 2016, for the period 1 April 2016 – 31 March 2017.

Define the Charge Cap for rent in the local currency as follows:

$$P_{\text{avg 2015 - 17, local currency}} = P_{\text{avg 2015 - 17, US\$}} \times \text{FX\$}_{\text{avg 2015 - 17}}$$

Where

$\text{FX\$}_{\text{avg 2015 - 17}}$ corresponds to the average daily local currency/US\$ exchange rate for the two charge years, running over the period 1 April 2015 – 31 March 2017 and 1 April 2016 – 31 March 2017.

(2) Apply historical change in CPI (12M average) to the price in local currency

For all charging years following 1 April 2021 – 31 March 2022, for each charge year t, set the Charge Cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{avg 2015 - 17, local currency}} \times \text{ACPI}_{\text{august t-1}} / \text{ACPI}_{\text{august 2020}}$$

Where

$\text{ACPI}_{\text{august t-1}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year t-1; and

$\text{ACPI}_{\text{august 2020}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year 2020.

(3) Convert back to US\$

$$P_{t, \$} = P_{t, \text{local}} / \text{FX\$}_{\text{august t-1}}$$

where $\text{FX\$}_{\text{august t-1}}$ is the average daily local currency/US\$ exchange rate, measured over an annual period up to and including 31 August in the year prior to the charge year t.

However, if $P_{t, \$}$ would be lower than $P_{t-1, \$}$, then $P_{t, \$}$ will instead be set to $P_{t-1, \$}$.

ADDITIONAL FORMULAE

- (1) Where the Exchange determines a new Charge Cap in accordance with Clause 5.3.5 of the Agreement, or the Special Committee determines a Charge Cap in accordance with Clause 5.3.6 of the Agreement, in either case during the five year price freeze period contemplated by Clauses 5.3.2 and 5.3.3 of the Agreement, the following formulae shall apply when increasing the Charge Cap in accordance with Clause 5.3.4 of the Agreement:

FOT

(1) Define the Charge Cap determined by the Exchange / Special Committee as follows:

$P_{\text{sp cmte, local}}$ is the Charge Cap for FOT determined by the Exchange / Special Committee in the local currency.

(2) Apply historical change in CPI to the price in local currency

For all charging years following 1 April 2021 – 31 March 2022, for each charge year t, set the Charge Cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{sp cmte, local}} \times \text{ACPI}_{\text{august t-1}} / \text{ACPI}_{\text{august 2020}}$$

Where

$\text{ACPI}_{\text{august t-1}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year t-1; and

$\text{ACPI}_{\text{august 2020}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year 2020.

However, if $P_{t, \text{local}}$ would be lower than $P_{t-1, \text{local}}$, then $P_{t, \text{local}}$ will instead be set to $P_{t-1, \text{local}}$.

Rental Charges

(1) Define the Charge Cap determined by the Exchange / Special Committee as follows:

$P_{\text{sp cmte, US\$}}$ is the Charge Cap for rent determined by the Exchange / Special Committee in US\$.

Define the Charge Cap for rent in the local currency as follows:

$$P_{\text{sp cmte, local currency}} = P_{\text{sp cmte, US\$}} \times \text{FX\$}_{\text{sp cmte}}$$

Where

$\text{FX\$}_{\text{sp cmte}}$ is the average daily local currency/US\$ for the annual period measured up to and including 31 August in the year prior to the year for which the Exchange / Special Committee determines a Charge Cap.

(2) Apply historical change in CPI (12M average) to the price in local currency

For all charging years following 1 April 2021 – 31 March 2022, for each charge year t, set the Charge Cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{sp cmte, local currency}} \times \text{ACPI}_{\text{august } t-1} / \text{ACPI}_{\text{august } 2020}$$

Where

$\text{ACPI}_{\text{august } t-1}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year t-1; and

$\text{ACPI}_{\text{august } 2020}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year 2020.

(3) Convert back to US\$

$$P_{t, \$} = P_{t, \text{local}} / \text{FX\$}_{\text{august } t-1}$$

where $\text{FX\$}_{\text{august } t-1}$ is the average daily local currency/US\$ exchange rate, measured over an annual period up to and including 31 August in the year prior to the charge year t.

However, if $P_{t, \$}$ would be lower than $P_{t-1, \$}$, then $P_{t, \$}$ will instead be set to $P_{t-1, \$}$.

- (2) Where the Exchange determines a new Charge Cap in accordance with Clause 5.3.5 of the Agreement, or the Special Committee determines a Charge Cap in accordance with Clause 5.3.6 of the Agreement, in either case after the five year price freeze period contemplated by Clauses 5.3.2 and 5.3.3 of the Agreement, the following formulae shall apply when increasing the Charge Cap in accordance with Clause 5.3.4 of the Agreement:

FOT

(1) Define the Charge Cap determined by the Exchange / Special Committee as follows:

$P_{\text{sp cmte, local}}$ is the Charge Cap for FOT determined by the Exchange / Special Committee in the local currency.

(2) Apply historical change in CPI to the price in local currency

For charge years t following the charge year for which the Exchange / Special Committee made a determination, set Charge Cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{sp cmte, local currency}} \times \text{ACPI}_{\text{august } t-1} / \text{ACPI}_{\text{august sp cmte } -2}$$

Where

$\text{ACPI}_{\text{august } t-1}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year t-1; and

$\text{ACPI}_{\text{august sp cmte } -2}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year two years prior to the determination of the Charge Cap by the Exchange / Special Committee. For example, if the Exchange / Special Committee makes a determination for the charge year beginning 1 April 2025, the relevant CPI in this case is the 12 months up to and including August 2023.

However, if $P_{t, \text{local}}$ would be lower than $P_{t-1, \text{local}}$, then $P_{t, \text{local}}$ will instead be set to $P_{t-1, \text{local}}$.

Rental Charges

(1) Define the Charge Cap determined by the Exchange / Special Committee as follows:

$P_{sp\ cmtc, US\$}$ is the Charge Cap for rent determined by the Exchange / Special Committee in US\$.

Define the Charge Cap in the local currency as follows:

$$P_{sp\ cmtc, local\ currency} = P_{sp\ cmtc, US\$} \times FX\$_{sp\ cmtc}$$

Where

$FX\$_{sp\ cmtc}$ is the average daily local currency/US\$ for the annual period measured up to and including 31 August for the year prior to the year for which the Exchange / Special Committee determines a Charge Cap.

(2) Apply historical change in CPI (12M average) to the price in local currency

For each charging year t following a determination by the Exchange / Special Committee, set the Charge Cap (P_t) as follows:

$$P_{t, local} = P_{sp\ cmtc, local\ currency} \times ACPI_{august\ t-1} / ACPI_{august\ sp\ cmtc\ -2}$$

Where

$ACPI_{august\ t-1}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year $t-1$; and

$ACPI_{august\ sp\ cmtc\ -2}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year two years prior to the determination of the Charge Cap by the Exchange / Special Committee. For example, if the Exchange / Special Committee makes a determination for the charge year beginning 1 April 2025, the relevant CPI in this case is the 12 months up to and including August 2023.

(3) Convert back to US\$

$$P_{t, \$} = P_{t, local} / FX\$_{august\ t-1}$$

where $FX\$_{august\ t-1}$ is the average daily local currency/US\$ exchange rate, measured over an annual period up to and including 31 August in the year prior to the charge year t .

However, if $P_{t, \$}$ would be lower than $P_{t-1, \$}$, then $P_{t, \$}$ will instead be set to $P_{t-1, \$}$.

DEFINITIONS AND AVAILABILITY OF CPI

The following table sets out the official index name and source for the CPI indexation of Charge Caps.

CPI measures by country

Country	Official index name	Definition	Original source	Data available monthly
Belgium	Consumer Price Index - General index	The Belgium IPC measures the changes in the retail prices, inclusive of VAT, of a fixed set of goods and services used by households.	Statistics Belgium	✓
Germany	Consumer Price Index - Overall index	The index tracks the change in the prices of a basket of goods and services bought by the reference population for the purposes of consumption. Types of prices: Prices measured are actual prices to the consumer and include turnover taxes and VAT, taking into account rebates.	Statistisches Bundesamt Deutschland	✓
Italy	Consumer Price Index - All items	The index provides a measure of temporal change in the prices of a basket of goods and services destined to final private consumption. Types of prices: the total prices of products, whether fully or partially paid by consumers.	ISTAT	✓
Japan	Consumer Price Index - All items	The index measures monthly changes in the general level of prices of goods and services that households acquire for consumption. Type of prices: Prices are transaction prices, excluding temporary reductions, special sales, etc.	Statistics Bureau of Japan	✓
Korea	Consumer Price Survey (Index) - Total	The Consumer price index is produced by collecting the prices of goods and services purchased for consumption purposes. Type of prices: Actual transaction prices inclusive of sales taxes.	KOSTAT	✓
Netherlands	Consumer Price Index - All Categories	The index measures monthly changes in the general level of prices of goods and services bought for consumption. Types of prices: Consumption expenditure is valued at purchasers' prices.	CBS	✓
Spain	Consumer Price Index - Overall index	The Consumer Price Index (CPI) measures monthly changes in the general level of prices of goods and services bought by private households for consumption purposes. Types of prices: Retail prices, including sales taxes and other taxes, and price reductions (since January 2002) but excludes special offers and deferred payments.	INE	✓
Sweden	Consumer Price Index - Total	The CPI shows the average change in prices of a fixed basket of goods and services available for private consumption. Types of prices: Prices actually paid by consumers including taxes and without any addition of subsidies.	SCB	✓
United Kingdom	CPI All Items Index	The index provide an average measure of change in prices of goods and services bought for the purpose of consumption. Type of prices: Cash prices, inclusive of taxes such as VAT. Rebates are considered on a case by case basis.	ONS	✓
United States	Consumer Price Index-All Urban Consumers - U.S. All items	The CPI measures pure price change in a market basket of goods and services of constant quality purchased for everyday living by all residents in urban areas. Tax/rebates: The prices include any applicable taxes, discounts and rebates.	US Bureau of Labour Statistics	✓
Malaysia	Total Consumer Price Index	The Consumer Price Index (CPI) measures the percentage change through time in the cost of purchasing a constant "basket" of goods and services representing the average pattern of purchases made by a particular population group in a specified time period.	Department of Statistics, Malaysia	✓
Singapore	Consumer Price Index - All items	The CPI is designed to measure the average price changes of a fixed basket of goods and services commonly purchased by the households over time. Types of prices: Transaction prices (including taxes) actually paid.	Department of Statistics, Singapore	✓
Taiwan	Consumer Price Index	The consumer price index (CPI) is a weighted average price which measures the changes in the price level of consumer goods and services generally purchased by households for consumption purposes.	National Statistics, Republic of China (Taiwan)	✓
UAE	Consumer Price Index - All items	The Consumer Price Index (CPI) measures the average price changes in a fixed basket of consumption goods and services.	Federal Competitiveness and Statistics Authority	✓

FX data sources

Country	Data periodicity	Original source
Belgium	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Germany	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Italy	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Japan	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Korea	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Netherlands	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Spain	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Sweden	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
United Kingdom	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
United States	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Malaysia	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Singapore	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Taiwan	Daily, monthly, annual	Federal Reserve
UAE	Daily, monthly, annual	International Monetary Fund, International Financial Statistics

Note: Data available from the IMF, defined as: Official exchange rate (LCU per US\$, period average): this rate refers to the exchange rate determined by national authorities or to the rate determined in the legally sanctioned exchange market.

Terms and conditions applicable to all LME listed warehouse companies

1 Conditions for and entitlements of listing

1.1 Application

To become a Warehouse, a warehouse company shall:

- 1.1.1 execute the Agreement of which these terms and conditions form a part;
- 1.1.2 duly complete the forms prescribed by the Exchange attached as Schedule A and B hereto and pay any initial listing fees prescribed by the Exchange; and
- 1.1.3 comply with regulation 2.2 of the LMEsword Regulations.

1.2 Capital

- 1.2.1 Each Warehouse must be adequately capitalised at all times at levels determined from time to time by the Exchange and notified to all Warehouses by way of periodical circulars.
- 1.2.2 The Exchange shall assess whether a Warehouse's available capital is adequate by using the most recent audited accounts of the Warehouse and applying generally accepted accounting principles to determine the extent to which net assets exceed net liabilities. The Exchange shall, from time to time, publish the basis on which it determines capital adequacy for Warehouses. In assessing whether a Warehouse's available capital is adequate, the Exchange shall, at its discretion, disregard what are, in its view, immaterial or temporary failures to meet the capital adequacy requirements.
- 1.2.3 In the event that the Exchange is not satisfied with the financial status or the insurance arrangements of any Warehouse, it may require a performance bond issued by a bank or insurance company as it considers suitable for such sums and on such terms and conditions as it may determine. However, where the deficiencies in the financial status or the insurance arrangements of any Warehouse are, in the view of the Exchange, not likely materially to prejudice the Warehouse's ability to perform its obligations as an LME listed warehouse company and are capable of remedy, the Exchange may allow 7 Business Days for the Warehouse to rectify its financial status and/or insurance arrangements before requiring such a performance bond.

1.3 London Agent

- 1.3.1 Each Warehouse must appoint and maintain at all times an agent in or, in the opinion of the Exchange, sufficiently proximate to the City of London (a "London Agent") to act on its behalf, to carry out certain of its obligations under this Agreement and the LMEsword Regulations, and, if the Warehouse is not incorporated in England and Wales, also to act as its agent for service of process.
- 1.3.2 A London Agent may be a person independent from the Warehouse or be a branch or affiliated company of the Warehouse.
- 1.3.3 The Warehouse must obtain the prior approval of the Exchange to the appointment, or any change in the appointment, of its London Agent from time to time.

- 1.3.4 Each Warehouse shall be responsible for all of the acts and omissions of its London Agent undertaken in its capacity as such. The Exchange and other persons shall be entitled to assume a Warehouse's London Agent acts with the full authority of the Warehouse until such time as the Exchange has received written notice from the Warehouse that the London Agent has ceased to act as such. This term shall not affect the rights and obligations of the Warehouse and its London Agent inter se.

1.4 LMEsword

Each Warehouse must comply, and procure that its London Agent complies, with the LMEsword Regulations and Operating Procedures, which shall insofar as they relate to the Warehouse or its London Agent be deemed to be incorporated into this Agreement.

1.5 Restrictions

- 1.5.1 An Authorised Warehouse may be used by only one Warehouse and to the extent that it is used for the storage of any metals which are permitted to be the subject of a Contract, may not also be used to store such metals which are deliverable on any other exchanges.
- 1.5.2 A Warehouse may not deal directly or indirectly in Contracts, and shall observe such other requirements contained in Relevant Law and Regulation, and any Exchange notice relating to the separation of Warehouses from Members and the maintenance of confidentiality in respect of price sensitive and customer confidential information.

1.6 Description of Warehouse

Each Warehouse may, following its approval by the Exchange as a listed Warehouse, describe itself as an "LME listed warehouse company" and its Authorised Warehouse as "LME listed warehouses", for as long as it retains its listed status as provided for herein.

1.7 Availability of Rules

Warehouses shall be sent a copy of the Rules and LMEsword Regulations and Operating Procedures as amended from time to time. Warehouses shall ensure that their London Agent obtains and keeps up to date their own copies of such documents direct from the Exchange and is also provided with a copy of this Agreement. Where the Warehouse operates in more than one location it shall ensure that each location is kept up to date with changes to the Rules, the LMEsword Regulations and Operating Procedures and this Agreement.

2 Issue of Warrants

2.1 Metal delivery

- 2.1.1 When receiving metal for placing on Warrant, a Warehouse need not undertake an assay of the metal itself but must carefully undertake a visual inspection of the metal and all supporting documentation and, if the metal or the supporting documentation is in any way patently sub-standard or anomalous the Warehouse must not issue a Warrant until any such shortcoming has been remedied. Without limitation to the foregoing, metal will be deemed to be patently sub-standard if:

- 2.1.1.1 there is broken or visibly corroded strapping which could make the bundle of metal unsafe to handle;
- 2.1.1.2 there is visible contamination of metal;
- 2.1.1.3 there is inconsistent branding of metal (for instance, where all of the metal or some of the metal is patently not an LME brand or where different LME brands have been visibly mixed within a bundle); and
- 2.1.1.4 the supporting documentation and paperwork does not accord with the Rules.

For the avoidance of doubt, a Warehouse is not required to break bundles or inspect metal ingots hidden from view within bundles, unless there are visible signs indicating or suggesting a defect in quality within a bundle or the Warehouse is in any way aware that there is a defect within a bundle not apparent from a visual inspection.

- 2.1.2 All metal delivered for placing on Warrant must be weighed by Warehouse personnel on equipment which is regularly tested for accuracy in accordance with Clause 7.4.3, and must conform to the relevant weights for those metals as outlined in the Special Contract Rules for Metals.
- 2.1.3 Subject to Clauses 2.1.1 and 2.1.2, no Warrant may be issued if the metal or supporting documentation does not conform to the relevant Special Contract Rules for Metals.
- 2.1.4 A Warrant may only be issued by the Warehouse or its London Agent when the metal in question is stored in an Authorised Warehouse of the Warehouse.

2.2 Form of Warrant

- 2.2.1 From the date prescribed by the Exchange, all Warrants must be issued in accordance with the LMEsword Regulations.
- 2.2.2 Each Warehouse shall ensure that the form of the Warrant is such that the requirements set out in the Special Contract Rules for Metals, this Clause 2.2 and Clause 2.3 are satisfied.
- 2.2.3 Each Warrant must have a clearly identifiable space for endorsements to allow for transfers of ownership to a named transferee and also have a clearly identifiable space for endorsement of rents paid to be marked on the Warrant.
- 2.2.4 Each Warrant must show the applicable rent rate and the date of commencement of the obligation to pay rent which must be the same as the date of issue of the Warrant.
- 2.2.5 Each Warrant must include a term stating that responsibility for insuring the metal subject to the Warrant is that of the holder of the Warrant.
- 2.2.6 Each Warrant should be numbered consecutively wherever practicable.
- 2.2.7 No Warrant may be issued by a Warehouse until the printed format which the Warehouse proposes to adopt has been delivered to and approved by the Exchange. Any proposed change to such format must similarly be approved by the Exchange prior to its use.

- 2.2.8 Each Warrant must be signed by an authorised signatory of the Warehouse or its London Agent.
- 2.2.9 Each Warrant shall state that the Warehouse's standard terms of business are available on request or are printed on the reverse side of the Warrant.

2.3 Legal status of Warrants

- 2.3.1 Each Warrant must be transferable by delivery or by delivery and endorsement by the transferor and without requiring registration, attornment or notice to the Warehouse. A transferee of a Warrant shall be treated by the Warehouse as having the benefit of the contract of storage of the metal to which the Warrant relates and shall be bound by the Warehouse's standard terms of business insofar as they do not conflict with the Rules, the LMEsword Regulations or the Operating Procedures.
- 2.3.2 Each Warrant must be a document of title (or local equivalent concept) established in accordance with the law of the country in which the Warehouse is situated, or in accordance with such other law recognised as applicable to the Warrant by such law.
- 2.3.3 It must be a term of issue of each Warrant that the metal which it represents shall only be delivered up to the holder by the Warehouse on the Warrant being presented to the Warehouse or its London Agent or, in the event of a Warrant being lost, stolen, damaged or destroyed, against the provision of an indemnity substantially in the form prescribed by the Exchange from time to time and attached as the Appendix to Schedule A.
- 2.3.4 Subject only to Clause 2.3.5, a Warrant must be unlimited as to duration and remain valid until presented for cancellation to the Warehouse or its London Agent or otherwise cancelled in accordance with this Agreement and the LMEsword Regulations.
- 2.3.5 A Warehouse may have a right of retention in respect of metal under Warrant for unpaid rent in respect of the metal and other charges owed by the current holder of the Warrant but not otherwise and, in particular, without limitation, no person may have any right of retention in respect of charges owed by any other person.
- 2.3.6 Nothing in Clause 2.3.5 shall require the Warehouse to oppose any legally enforceable court order in respect of metal which is binding on the Warehouse and which prevents it from delivering stored metal to the Warrant holder, provided that the Warehouse immediately notifies the Exchange of the existence of such a court order as soon as it becomes aware of the same.

2.4 Warehouse's liability to Warrant holders

The Warehouse is required to give undertakings to each Warrant holder from time to time in respect of the metal under relevant Warrant that:

- 2.4.1 the Warehouse has complied with all Relevant Law and Regulation (including, without limitation, Clause 2.1 of this Agreement) in receiving that metal and placing it on Warrant;

2.4.2 the Warehouse will comply with the requirements of this Agreement concerning the storage of metal; and

2.4.3 the Warehouse is not aware of any latent defects in the metal.

It is a requirement of this Agreement that the undertakings referred to in Clauses 2.4.1 to 2.4.3 above are incorporated without delay into the Warehouse's written contract of storage with each Warrant holder. Pending such incorporation, the relevant undertakings shall be deemed to be incorporated into each such contract of storage immediately upon such contract arising.

3 Replacement of Warrants

3.1 Entitlement to replace

A Warehouse shall issue a replacement Warrant in accordance with this Agreement and the LMEsword Regulations and Operating Procedures in the following circumstances:

3.1.1 where a Warrant has been lost, stolen, destroyed, or damaged, on completion of its normal procedures and against delivery to it of an indemnity in the form prescribed by the Exchange from time to time and attached as the Appendix to Schedule A;

3.1.2 where any details on a Warrant which are capable of amendment in accordance with the LMEsword Regulations and Operating Procedures ("Amendable Details") require amendment, following the amendment of the electronic details of the Warrant in LMEsword in accordance with the LMEsword Regulations and against delivery to it of the original Warrant; and

3.1.3 where the space on a Warrant for endorsement of rent paid up and/or for transfers is full and against delivery to it of the original Warrant.

3.2 Entitlement to move metal

A Warehouse may move metal under Warrant between its own Authorised Warehouses within the same listed location at its own risk and expense subject to complying with Clause 3.3.

3.3 Notification of the Exchange

3.3.1 On the day that a Warehouse or its London Agent is notified or becomes aware of any circumstance which might reasonably cause suspicion that (a) a Warrant, or any underlying metal to which a Warrant relates, may have been lost, stolen, destroyed or damaged; or (b) the Amendable Details on a Warrant may require amendment; or (c) a Warrant may require cancellation in accordance with Clause 4.3, it shall forthwith:

(i) notify the Exchange by fax or email (or by such other means as the Exchange may prescribe from time to time) to the Exchange's Physical Operations Department; and

(ii) promptly investigate the circumstance.

3.3.2 The Warehouse will regularly update the Exchange on the investigation and report all findings to the Exchange.

- 3.3.3** On the day that a Warehouse or its London Agent is notified or becomes aware that (a) a Warrant, or any underlying metal to which a Warrant relates, has been lost, stolen, destroyed or damaged; or (b) the Amendable Details on a Warrant require amendment; or (c) a Warrant requires cancellation in accordance with Clause 4.3, it shall forthwith notify the Exchange by fax or email (or by such other means as the Exchange may prescribe from time to time) to the Exchange's Physical Operations Department containing full details thereof, including the following:
- 3.3.3.1** the date and details of loss or damage to or other matter affecting the metal or Warrant;
 - 3.3.3.2** the Warrant number(s);
 - 3.3.3.3** date of the Warrant;
 - 3.3.3.4** brand and shape of metal; and
 - 3.3.3.5** the quantity of metal (if any) missing, damaged, or otherwise affected.
- 3.3.4** The Warehouse shall keep the Exchange updated at all times and in addition take all such other steps, such as (without limitation) immediately notifying and cooperating with police authorities and insurers, as is necessary to protect the owner of the metal in question and assist with the orderly operation of the market.
- 3.3.5** Where a Warrant that requires replacement or cancellation is not lodged with the Depository, the Warehouse shall take all reasonable steps to identify the holder of the Warrant and notify it of the event and require that the Warrant be delivered up for replacement.

3.4 Liability for replacement Warrants

- 3.4.1** Where a Warrant is being replaced due to a change to its Amendable Details, the Warehouse shall indemnify the person surrendering the Warrant in respect of any reasonable loss or damage they may suffer as a result of the Warehouse not properly cancelling and retaining the original Warrant in accordance with this Agreement.
- 3.4.2** The Warehouse shall be responsible for the cost of replacing Warrants other than in the case of Warrants which have been lost, stolen, destroyed or damaged where such costs shall be the responsibility of the holder.
- 3.4.3** The Warehouse shall take all reasonable steps to ensure that no duplicate Warrants issued by it are in circulation and, in particular, shall make a notification to the Exchange pursuant to Clause 3.3.1 above.

4 Cancellation of Warrants

4.1 Process on replacement

- 4.1.1** Where a Warrant is delivered to a Warehouse for replacement, the original Warrant must first be made properly null and void by being stamped "cancelled and replaced".

- 4.1.2 If the original of the Warrant has been lost, stolen or destroyed, a copy of the original must be duly marked and retained in lieu of the original.

4.2 Process on cancellation and metal take-up

Where a Warrant is delivered to a Warehouse for cancellation and metal take-up, the original must be made properly null and void by being stamped “cancelled”. The Warehouse is required to expedite load-out from warehouses at the minimum rates published from time to time by the Exchange in accordance with Clause 9.11.1. For the avoidance of doubt, any change to the minimum rates would constitute a material increase in the obligations of a Warehouse which would require consultation and notification in accordance with Clause 9.11.4. The Warehouse shall prioritise all requests for cancellation strictly in the order in which they are received unless the Warrant holders seeking cancellation agree otherwise. The Warehouse shall use all reasonable endeavours to allocate to each Warrant holder seeking cancellation the delivery time that he has requested, unless that requested delivery time has already been allocated to another Warrant holder, in which case the Warehouse shall offer one or more alternative delivery times as close to the time originally requested as possible and where reasonably possible shall allocate the delivery time which is acceptable to the Warrant holder. The Warehouse must prepare and maintain such documentation as is sufficient to evidence compliance with the aforesaid requirement (e.g. a schedule detailing (at least) the dates and times of receipt of cancellation requests and the allocated dates and times of delivery) and shall provide a copy of the same to the Exchange if so requested. The Warehouse will, at all times, be responsible for ensuring that deliveries of metal are effected in accordance with the above requirements except where the Warrant holder taking delivery of metal provides its own transport and fails, due to no fault of the Warehouse, to keep to the agreed delivery schedule, in which case the Warehouse and that Warrant holder shall agree between them an alternative time for delivery.

4.3 Warrants requiring cancellation

Where a Warehouse or its London Agent is notified or becomes aware that any details on a Warrant which are not Amendable Details are incorrect, it shall:

- 4.3.1 notify the Exchange thereof in accordance with Clause 3.3;
- 4.3.2 take all reasonable steps to identify the holder of the Warrant and notify it of the event and require the Warrant to be delivered up for cancellation; and
- 4.3.3 on its being delivered to the Warehouse or London Agent, cancel the Warrant in accordance with the LMEsword Regulations and Operating Procedures and issue a new Warrant in respect of the relevant metal.

4.4 Storage

All cancelled Warrants (and a copy of the original in the event that it has been lost, stolen or destroyed) must be securely retained and be made available for inspection by the Exchange for five years or (if later) until any replacement Warrant is surrendered for cancellation and metal take-up.

5 Rent and Free On Truck ("FOT") charges

5.1 Calculation

- 5.1.1 Calculations of rent due on Warrants must be on round tonnages and not actual weights.
- 5.1.2 Rent on metal under Warrant must accrue on a daily basis and rent accrued must be payable annually as at 31 March each year, or at such other times and for such other periods as the Exchange may prescribe, or upon cancellation of a Warrant whichever is the sooner.

5.2 Warehouse Maximum Charge Levels

- 5.2.1 Each Warehouse shall be required to set maximum rent and FOT charges (the "Warehouse Maximum Charge Levels"), specifying the highest rates which may be levied, in accordance with the requirements of this Clause 5.
- 5.2.2 Warehouses may set separate Warehouse Maximum Charge Levels in respect of each Delivery Point in which the Warehouse operates licensed facilities, and in each such Delivery Point, (i) in respect of rent, a rate for each metal which the Warehouse is licensed to store in that Delivery Point, and (ii) in respect of FOT, (a) a rate for cobalt (if the Warehouse is licensed to store cobalt in that Delivery Point), (b) a rate for roasted molybdenum concentrate (if the Warehouse is licensed to store roasted molybdenum concentrate in that Delivery Point), (c) a rate for premium primary aluminium (if the Warehouse is licensed to store premium primary aluminium in that Delivery Point), and (d) a single rate for all other metals (if the Warehouse is licensed to store metals other than cobalt, roasted molybdenum concentrate and premium primary aluminium in that Delivery Point).
- ~~5.1.3~~ Rent must be quoted in the Major Currency of the Contract to which the Warrant relates is traded.
- 5.2.3 Each Warehouse FOT must be quoted in the currency of the listed location, except for FOTs in respect of aluminium premium Contracts, which must be quoted in the Major Currency of the relevant Contract.

5.3 Publication of Charge Caps

- 5.3.1 With the exception of 2016 (which is covered by Clause 5.3.2 below), the LME shall, by 31 October each year, in respect of the period from 1 April of the following year to 31 March of the next following year, publish a list of maximum permissible Warehouse Maximum Charge Levels ("Charge Caps"), in respect of each combination of (i) each Delivery Point Country, and (ii) each metal which is the subject of a physically-settled Contract (with the exception of aluminium premium Contracts) and licensed for storage by at least one Warehouse in that Delivery Point Country. For the avoidance of doubt, the relevant Charge Cap shall apply to all Delivery Points in a Delivery Point Country.
- 5.3.2 In respect of 2016, the LME shall publish the Charge Caps on [date on which the revised version of this Agreement shall take effect]. The Charge Caps for the period 1 April 2017 to 31 March 2018 shall be calculated as the arithmetic mean average of (i) the highest Warehouse Maximum Charge Levels published

by the LME in December 2014 for the period 1 April 2015 to 31 March 2016 and (ii) the highest Warehouse Maximum Charge Levels published by the LME in February 2016 for the period 1 April 2016 to 31 March 2017, in each case in respect of that Delivery Point Country and that metal (and rounded up to the nearest smallest unit of the local currency, in the case of FOT, or the nearest US cent, in the case of rent).

5.3.3 Subject to Clause 5.3.6, the Charge Caps for the periods (i) 1 April 2018 to 31 March 2019, (ii) 1 April 2019 to 31 March 2020, (iii) 1 April 2020 to 31 March 2021, and (iv) 1 April 2021 to 31 March 2022 shall be the same as the Charge Caps for the period 1 April 2017 to 31 March 2018.

5.3.4 In respect of each subsequent period 1 April to 31 March, the Charge Caps shall either be kept the same, or increase, in accordance with the formula set out in Appendix A. In the event that the relevant index (or certain data points within the index) as specified in Appendix A is unavailable, the LME shall determine an appropriate comparable index (or data points), subject to the Warehouse's right of challenge as set out in Clause 5.3.6 below.

5.3.5 Where (i) the LME approves a new Delivery Point which is located in a new Delivery Point Country, or (ii) a Warehouse becomes authorised to store in a Delivery Point Country a metal for which Charge Caps have not previously been calculated, the LME shall, prior to or at the same time as admission of the new Delivery Point or storage authorisation of the Warehouse, publish Charge Caps for such Delivery Point Country in respect of the set of metals authorised for storage at one or more warehouses in that Delivery Point Country and in respect of which Charge Caps have not previously been published. In determining the relevant Charge Caps, the LME shall take into account all relevant factors, including, without limitation, the Charge Caps for geographically proximate countries, any factors relevant to the particular Delivery Point Country, and ~~its maximum rent rates and FOT charges expert~~ judgment.

5.3.6 In respect of Charge Caps published from 2017 onwards, a Warehouse may challenge any Charge Cap on the basis that it does not adequately take into consideration any relevant increase in the Warehouse's costs, or on the basis of any other reason. Any Warehouse wishing to challenge any Charge Cap may submit such a challenge in writing to the LME, including full reasons for such challenge together with any relevant supporting documentation, within fourteen calendar days of the publication of the relevant Charge Cap. The challenge will be considered by the Special Committee of the LME. The LME shall have the opportunity to make written representations or provide supporting evidence to the Special Committee where the LME considers it appropriate to do so. The Special Committee may request such additional documentation or explanation from the Warehouse, or any other Warehouse, or the LME, as it considers appropriate, in considering the challenge. Having considered the challenge, the Special Committee may either (i) reject the challenge, or (ii) accept the challenge and require the LME to increase the relevant Charge Cap by such amount as it considers appropriate. Where the Special Committee accepts the challenge, it shall publish a notice to the market explaining the nature of the challenge and the reasons for accepting it. The amended Charge Cap(s) shall

take effect on the following 1 April and shall be taken into account when calculating any increases to Charge Caps in future years in accordance with Clause 5.3.4 and Appendix A. Where the Special Committee rejects the challenge, it may, where it considers it appropriate, publish a notice to the market explaining the nature of the challenge and the reasons for rejecting it (and, in the event that it does not publish such a notice, it shall still provide the Warehouse which brought the challenge with the reasons for rejecting it). The Special Committee shall endeavour to publish any notice to the market within fourteen calendar days of the challenge being brought, or such other date as it shall in its sole discretion consider appropriate.

5.3.7 While the LME endeavours to ensure the accuracy, reliability and completeness of the Charge Caps and any information (including third party information) with reference to which the Charge Caps are compiled (the "Charge Cap Information"), neither the LME nor any of its affiliates makes any warranty or representation, express or implied, or accepts any responsibility or liability for, the accuracy, completeness or reliability of the Charge Cap Information. The LME accepts no liability whatsoever to any Warehouse or other person for any loss or damage arising from any inaccuracy or omission in the Charge Cap Information.

5.4 Process for advising Warehouse Maximum Charge Levels

5.4.1 On 29 December 2016, each Warehouse must set its Warehouse Maximum Charge Levels in respect of the 12 month period commencing 1 April 2017. For the avoidance of doubt, if a Warehouse has already submitted Warehouse Maximum Charge Levels in respect of the 12 month period commencing 1 April 2017 pursuant to any requirement in a previous version of this Agreement, such charges must be resubmitted if they do not comply with clause 5.4.3.

5.4.2 From 15 December 2017, each Warehouse must set its Warehouse Maximum Charge Levels annually in respect of each 12 month period commencing 1 April of the following year by notification to the Exchange not later than 415 December in the preceding year. At any time within 10 Business Days of receiving such notification, the

5.4.3 No Warehouse Maximum Charge Level submitted pursuant to clause 5.4.1 or 5.4.2 may be higher than the corresponding Charge Cap. In the event that a Warehouse submits a Warehouse Maximum Charge Level in excess of the corresponding Charge Cap, the LME may revise the Warehouse Maximum Charge Level down to the corresponding Charge Cap (for the avoidance of doubt, such submission may also constitute a breach of this Agreement which may be subject to disciplinary action pursuant to the Disciplinary Procedures). For Warehouse Maximum Charge Levels not subject to a Charge Cap, levels may be set in the discretion of the Warehouse.

~~5.1.4~~ 5.4.4 The Exchange may, at its discretion, require the Warehouse to provide within 10 Business Days, a comprehensive, written explanation of the economic circumstances which, in the view of the Warehouse, necessitate the shall publish each Warehouse's Warehouse Maximum Charge Levels by 31 December. For the avoidance of doubt, no change in its maximum rent rates

~~and/or FOT charges. The Exchange shall publish the Warehouse's maximum rent rates and FOT charges by 31 December provided that no change in maximum rent rates or FOT charges~~Maximum Charge Levels shall become effective until the following 1 April.

5.5 Dates

The Exchange may, by giving notice in writing to each Warehouse, amend any of the dates set out in clauses 5.3.1, 5.3.2 or 5.4 for any given relevant year in the event of a challenge to the Charge Caps pursuant to clause 5.3.6 or for any other reason.

5.25.6 Payment

Rent must be paid for metal under Warrant in stock at 31 March (or such other dates as the Exchange may prescribe) in each year by direct settlement between holders of Warrants and Warehouses.

5.35.7 LMEsword

Warehouses' other obligations in relation to rent shall be as set out in the LMEsword Regulations and the Operating Procedures.

6 Records

6.1 Storage records for metal under Warrant

- 6.1.1 Warehouses must have clearly organised systems for recording storage of metal under Warrant for use in their office and in each Authorised Warehouse.
- 6.1.2 Storage records must have a separate entry record for each lot and each such record must be numbered consecutively.
- 6.1.3 Storage records in respect of metal under Warrant must clearly identify the fact that the metal is under Warrant, include the Warrant number and note the Authorised Warehouse in which the metal is stored.
- 6.1.4 Metal under Warrant must be identifiable in an Authorised Warehouse by means of a label, or other marking method, as to lot or Warrant number.

6.2 Warrant records

- 6.2.1 Each Warehouse must maintain a Warrant register which shows the dates of issue and cancellation of each Warrant, any corresponding lot numbers and the details of the metal as shown on the Warrant. Each entry on the Warrant register must be initialled by an authorised person or, in the case of a register maintained on a computer, have noted next to each entry the initials or other identity of an authorised person.
- 6.2.2 To the extent that any Warehouse has pre-printed warrants in blank, these must be kept secure. The Warehouse must ensure that it, or its London Agent, maintains a written record of the number of unused blank Warrants at any given time and will provide a copy of that record to the Exchange on request.
- 6.2.3 A copy of each Warrant issued by or for a Warehouse must be kept secure.

6.3 Stock records

- 6.3.1** The stock of metal under Warrant of each Warehouse must be reported to the Exchange by the due completion of the form prescribed by the Exchange which must be faxed to the Exchange by 1200 hours London time each Business Day or delivered by such other means as the Exchange may prescribe and/or pursuant to LMEsword as the Exchange may from time to time prescribe in the LMEsword Regulations and Operating Procedures.
- 6.3.2** Until such time as stocks of metal are reported pursuant to LMEsword alone, metal taken off Warrant, but which is still on the Warehouse's premises, must be combined on the stock return with those stocks actually on Warrant rounded to the nearest complete Warrant lot and also separately identified on the return, or shown in such other manner as prescribed by the Exchange by notice. If no stocks are held, a nil return must be submitted on each Business Day.
- 6.3.3** Information concerning stocks and Queues at Warehouses shall be treated as confidential by the Exchange save that the Exchange may publish such information concerning LME stocks and Queues at Warehouses as it considers necessary, acting reasonably, for the purposes of market transparency. In addition the Exchange may publish such information for regulatory purposes and may make such disclosure as is required by Relevant Law and Regulation or that is requested by any regulatory authority or other person to whom the Exchange is required to disclose it by Relevant Law or Regulation. In addition, the Exchange may publish such information together with that of other Warehouses without identifying the Warehouse by name and also make reference to such information, identifying the Warehouse, in any notice of a decision given under the Disciplinary Procedures in the event of a breach of this Agreement. Warehouses are prohibited from revealing their stock of metal under Warrant to any person except that this prohibition shall not apply to:
- 6.3.3.1** information supplied to a Warehouse's London Agent where the disclosure is reasonable and necessary to enable the recipient to perform the proper functions of his employment, profession or duties;
 - 6.3.3.2** information disclosed pursuant to any Relevant Law and Regulation;
 - 6.3.3.3** information disclosed to a Warehouse's professional advisers and to its usual bankers where the disclosure is reasonable and necessary to enable the recipient to perform the proper functions of his employment, profession or duties;
 - 6.3.3.4** historical information on aggregate stocks held by a Warehouse without differentiation between stocks held under Warrants and other stocks which is required to be disclosed to the shareholders of the Warehouse;
 - 6.3.3.5** historical information on aggregate stocks held by a Warehouse without differentiation between stocks held under Warrants and other stocks which is required to be disclosed to a parent company of the Warehouse for the purpose of that parent company preparing its budgets and financial forecasts for the Group; or
 - 6.3.3.6** information which has already been published by the LME pursuant to clause 6.3.3.

6.4 Duty and Tax Records

- 6.4.1** Each Warehouse must maintain records on the duty and tax status of each lot of metal.
- 6.4.2** The Warehouse shall make the records specified in Clause 6.4.1, or information derived from such records, available on request and at no cost to Warrant holders and the Exchange.

7 Continuing Obligations

7.1 Insurance

- 7.1.1** Each Warehouse must maintain insurance in respect of all the types of risks marked with an asterisk in paragraph 9 of Schedule A at least at the levels from time to time prescribed by the Exchange. Such insurance must be maintained at all times until the Warehouse is no longer listed.
- 7.1.2** The Warehouse shall procure that the Exchange receives annually at renewal and/or at such other time as requested by the Exchange a certificate (or such other document as the Exchange may from time to time prescribe) evidencing that all the risks marked with an asterisk in paragraph 9 of Schedule A are protected and citing the maximum limit of cover per occurrence and the policy number. Any changes affecting the insurance cover are to be automatically notified to the Exchange by the insurance company. The Warehouse must ensure that its policy shows the Exchange as a notifiable party for amendments and renewal confirmations.

7.2 Security

- 7.2.1** The Warehouse must at least maintain the level of security measures referred to in its response(s) to Schedule B, Section (C) (as the same may be amended in writing between the Warehouse and the Exchange from time to time) at all its Authorised Warehouses and must keep them clean, dry (except outside storage areas as permitted by the LME), free from contaminants and in good repair. The Exchange may in its discretion reasonably require enhancements to the security measures maintained by a Warehouse as referred to in its response(s) to Schedule B, Section (C). Without prejudice to the requirements of Clause 7.3, in the event of any material change in the details relating to its Authorised Warehouses as set out in its response(s) to Schedule B, Section (C), or in the event that the Warehouse otherwise fails to comply with this Clause 7.2.1, the Warehouse must notify the Exchange of such change or failure within 5 Business Days of becoming aware of the same. In the event of any material change in the details relating to the Warehouse's Authorised Warehouses which could in the Exchange's reasonable view result in a degradation in the level of security as set out in the Warehouse's response(s) to Schedule B, Section (C), or in the event that the Warehouse otherwise fails to comply with this Clause 7.2.1, the Exchange may, at its sole discretion, direct that any metal stored under Warrant in the Authorised Warehouse in question be relocated to another Authorised Warehouse, whether or not with the same Warehouse.
- 7.2.2** Any costs arising from such relocation, including, but not limited to, costs relating to re-inspection and re-approval, shall be met by the Warehouse.

- 7.2.3 The power of the Exchange under this Clause is without prejudice to its other powers under this Agreement, including the powers set out under the Disciplinary Procedures.

7.3 Monitoring and supply of information

- 7.3.1 Each Warehouse must notify the Exchange of any facts, events or changes which are material to its listing as a Warehouse within 5 Business Days of becoming aware of the fact, event or change in question. This shall include, without limitation:
- 7.3.1.1 any changes that materially affect the information given by the Warehouse in connection with its application for listing as a Warehouse, or such other material information as it may have given to the Exchange in writing from time to time;
 - 7.3.1.2 any changes affecting the Warehouse's ability to comply with its obligations hereunder or under the LMEsword Regulations.
- 7.3.2 A Warehouse shall not make any changes, or allow any changes which are within its power to prevent being made, to any of its Authorised Warehouses where such changes would involve a material change to any of the details provided in the answers given in Schedule B, without obtaining the Exchange's prior written approval in accordance with procedures published by the Exchange from time to time. In the event that the Warehouse becomes aware of such a change which is beyond its power to prevent, it must nonetheless notify the Exchange of such change immediately. The Exchange may, if it deems that the change materially affects the ability of the Authorised Warehouse(s) to operate, exercise its powers under this Agreement, including without limitation, those contained in Clause 9.2.
- 7.3.3 Each Warehouse shall provide to the Exchange on request such information from its storage records, Warrant records and/or stock records relating to the types of metals deliverable on the Exchange, as the Exchange may reasonably request from time to time in connection with any enquiries being made or to be made by the Exchange in accordance with the Rules or this Agreement. All such information so supplied shall be treated as confidential by the Exchange and shall be restricted to those authorised staff and officers within the Exchange responsible for conducting such enquiries in accordance with the Rules, the Exchange's professional advisors, regulatory authorities and other persons to whom the Exchange is required to disclose it by Relevant Law and Regulation. The Exchange shall not be entitled to have access to legally privileged documents. A list of those persons within the Exchange who are authorised to obtain information from Warehouses in accordance with this Clause 7.3.3 will be circulated to all Warehouses and will be updated from time to time. The Exchange may request information about metal held off-Warrant at the Warehouse only in connection with an investigation pursuant to the Disciplinary Procedures.
- 7.3.4 Each Warehouse shall permit Exchange staff to conduct routine and other inspections of its premises used for the storage of LME metal, including access to each relevant Authorised Warehouse and its offices supporting the

operating of such warehouses. Warehouses shall use reasonable endeavours to procure similar access to the offices of their London Agents supporting those operations. Each Warehouse shall co-operate with the Exchange in the conduct of such inspections and give all reasonable assistance to the Exchange.

- 7.3.5 The Exchange shall give reasonable notice of its intention to make inspections, except that no such notice will be required to be given where the Exchange deems it necessary or desirable in its absolute discretion for an immediate inspection to be undertaken by the Exchange or its appointed representatives.
- 7.3.6 Each Warehouse shall provide the Exchange with details of its officers and employees authorised to act as its authorised signatories for the purposes of this Agreement and keep such details up to date at all times, notifying the LME of any changes thereto promptly.

7.4 Periodical inspections

- 7.4.1 From time to time, and at least every 12 months, each Warehouse must:

- 7.4.1.1 carry out a visual inspection of all metal under Warrant in its Authorised Warehouses and of all supporting documentation;

- 7.4.1.2 at its own cost, appoint an independent third party auditor to perform a count of all the stock which is under Warrant in its Authorised Warehouse(s) which shall include metal taken off Warrant, but which is still on the Warehouse's premises awaiting load-out;

- 7.4.1.3 make a notification to the Exchange without delay following the end of each calendar year (and by not later than 1 March), such notification to contain a record of all such inspections which have been carried out throughout the previous year, and a copy of the report produced by the independent third party auditor pursuant to Clause 7.4.1.2; and

- 7.4.1.4 seek the approval of the Exchange in the selection of the independent third party auditor referred to in Clause 7.4.1.2 and provide to the Exchange such information concerning its preferred auditor as the Exchange may reasonably request.

- 7.4.2 Full records of such inspections must be kept, showing at least:

- 7.4.2.1 the details of all issued Warrants at the time of the inspection;

- 7.4.2.2 the date of the inspection; and

- 7.4.2.3 the name and job title of the person undertaking the inspection, who must also acknowledge that he has carried out the inspection and be of suitable seniority.

Without prejudice to the annual notification requirement in Clause 7.4.1, copies of such records will be made available to the Exchange at any time on request.

- 7.4.3 All weighing equipment used for weighing metal under Warrant must be checked for accuracy at least quarterly by an accredited and responsible institution which is not affiliated to the Warehouse and any material inaccuracies detected by such institution must be rectified by the Warehouse

immediately. Written evidence of such inspections must be retained and made available to the Exchange on request.

7.5 Compliance with law and regulation

- 7.5.1** Each Warehouse shall at all times comply with all applicable law, including (without limitation) Relevant Law and Regulation, local port conditions, local and national customs, local anti-corruption laws, prohibitions on Market Abuse, taxation law and other rules and regulations (where the aforesaid are not in conflict with the requirements of either this Agreement or of the LMEsword Regulations or of the Operating Procedures).
- 7.5.2** The Warehouse shall immediately notify the Exchange if it becomes aware that such law, customs or regulations conflict, or are likely to conflict, with the requirements of this Agreement, the LMEsword Regulations or the Operating Procedures. In the event of any such conflict, the Exchange shall, without prejudice to its rights under this Agreement, assess whether, in its reasonable opinion, such conflict in fact exists and, if so, whether it is reconcilable and shall determine in its absolute discretion what action (if any) to take. Where the Exchange is of the view that failure immediately to resolve the conflict will not materially prejudice the Warehouse's ability to comply with the requirements of this Agreement, the LMEsword Regulations or the Operating Procedures, it shall consult with the Warehouse as to the remedial action to be taken. In the event of a conflict between this Agreement and the LMEsword Regulations or Operating Procedures or any notice issued by the Exchange, the terms of this Agreement shall prevail.
- 7.5.3** The Warehouse will not, and nor will any of its officers, employees, shareholders, representatives or agents, directly or indirectly, either in private business dealings or in dealings with the public sector, offer, give or agree to offer or give (either itself or in agreement with others) any payment, gift or other advantage with respect to any matters which are the subject of this Agreement which (i) would violate any anti-corruption laws or regulations applicable to the Warehouse, (ii) is intended to, or does, influence or reward a person and acting in breach of an expectation of good faith, upholding or trust, or which it would otherwise be improper for the recipient to accept, or (iii) is made to a Public Official with the intention of influencing them and obtaining or retaining an exchange with conduct of terms ("**Corrupt Act**").
- 7.5.4** The Warehouse represents and warrants that it has not, and so far as it is aware its directors and officers have not:
- (i) engaged in, admitted to, or been found by a court in any jurisdiction to have engaged in any Corrupt Act; or
 - (ii) been investigated by a regulatory or law enforcement agency in any jurisdiction as a suspect in connection with an investigation into the commission of any Corrupt Act.
- 7.5.5** The Warehouse further agrees and undertakes:
- (i) to properly and accurately record in its books and records all transactions which relate in any way to this Agreement; and

- (ii) to provide any such information as the Exchange may reasonably require by notice in writing in order to monitor the Warehouse's compliance with its obligations under Clauses 7.5.1 and 7.5.3 and 7.5.4; and
- (iii) to notify the Exchange immediately if, at any time, it becomes aware that any of the representations set out at under Clause 7.5.4 are no longer correct.

7.6 Principles of Conduct

The Warehouse shall adhere to the Principles of Conduct set out at Clause 11.

8 Enforcement and Discipline

The Exchange may investigate any breach of this Agreement and take disciplinary action. The terms of the LME's Enforcement and Disciplinary Procedures applicable to all LME Warehouses, as amended by the Exchange from time to time and issued to Warehouses (the "Disciplinary Procedures") shall be deemed to be incorporated into this Agreement as if set out in full herein.

9 General

9.1 Fees

- 9.1.1 Each Warehouse shall pay the Exchange the fees and levies prescribed by the Exchange from time to time. The Exchange shall provide all Warehouses with reasonable notice of changes in its prescribed fees and levies.
- 9.1.2 Each Warehouse shall be responsible for the cost of inspections undertaken by the Exchange in accordance with the terms of this Agreement except where the inspection is specific to a single Warehouse and is initiated by the Exchange in which case the Exchange shall be responsible for the cost thereof (but without prejudice to the power of the Exchange to recover any such costs from a Warehouse pursuant to a sanction imposed under the Disciplinary Procedures).
- 9.1.3 Each Warehouse shall pay the fees prescribed by the LMEsword Regulations and Operating Procedures.
- 9.1.4 The Exchange shall consult with Warehouses if any proposed changes in its prescribed fees and levies or in the fees prescribed by the LMEsword Regulations and Operating Procedures would result in a material increase in such fees and/or levies. For these purposes, a "material increase" shall be any increase in the previously prescribed fee or levy of more than the greater of (a) 10 per cent or (b) the percentage figure equal to the aggregate of (i) the percentage increase in the retail prices index ("RPI") as published by the Office for National Statistics calculated by comparing the level of RPI (all items) for the month in which the previously prescribed fee or levy was fixed and comparing it to the level of RPI (all items) for the month in which the Exchange gives notice of its proposed increase and (ii) 5 per cent.

9.2 Withdrawal of right to store particular metal

Without prejudice to the other powers of the Exchange, the Directors may require a Warehouse to cease to store any one or more particular metals by giving the Warehouse

90 days' prior notice, or such shorter period as the Directors may consider in their sole discretion justified in the circumstances.

9.3 Proper functioning of the market

- 9.3.1** Warehouses play an important role in the markets in which the Exchange operates by ensuring, amongst other things, that Contracts are sufficiently anchored to the price of the underlying metal and that settlements are orderly. Warehouses must not prevent the proper functioning of the market, including by doing anything which may directly or indirectly constrain the liquidity and elasticity of stocks of metal under Warrant. In consequence, Warehouses must not, without limitation, (i) give Inducements that in the ordinary course may reasonably be considered to be exceptional, (ii) impose charges for depositing or withdrawing metals that in the ordinary course may reasonably be considered to be unreasonable, or (iii) delay unreasonably the receipt or despatch of metal, (save where unavoidable due to Force Majeure), where such behaviour may have, directly or indirectly, a manipulative, distortive or disorderly effect on the market. In the event that the Exchange considers that the conduct of a Warehouse indicates circumstances which may constitute Market Abuse, it is required to report this to the Financial Conduct Authority.
- 9.3.2** All Warehouses must periodically supply to the Exchange information relating to all Inducements paid to, or received from, third parties, and charges levied, for example, those for loading and unloading metal for Warrant purposes; in the form, and at the times, specified by the Exchange and set out on the Exchange's website from time to time. Further, a Warehouse must supply such information or clarifications on such information on request by the Exchange.
- 9.3.3** In addition to the information supplied pursuant to Clause 9.3.2, each Warehouse shall provide to the Exchange, on request, such information as the Exchange may reasonably request from time to time, including, without limitation, details of all Inducements, and details of the provenance of loaded-in metal, including information about metal which may have been held previously in that Warehouse, or in another facility operated by the same Warehouse or member of the Warehouse's Group.
- 9.3.4** For the avoidance of doubt, the Exchange has a right to investigate Warehouses in connection with:
- (i) all Inducements and charges;
 - (ii) any behaviour it suspects may have, or has had, a manipulative, distortive, or disorderly effect on the market; and
 - (iii) a failure to meet any of the minimum loading-out standards and requirements from time to time laid down by the Exchange (save in an event of Force Majeure).
- All investigations shall be conducted in accordance with Clause 8 above and the Disciplinary Procedures.
- 9.3.5** The Exchange may take disciplinary action and / or, in its discretion, impose additional load-out requirements on a Warehouse whose behaviour the Exchange considers may have, or has had, the effect of creating or maintaining

a Queue and / or which has led to market manipulation or distortion; or otherwise created or maintained a disorderly market.

- 9.3.6** All information supplied pursuant to Clause 9.3 shall be treated as confidential by the Exchange and shall be restricted to those authorised staff and officers within the Exchange responsible for analysing such information and/or conducting investigations, the Exchange's professional advisors, regulatory authorities or other person to whom the Exchange is required to disclose it by Relevant Law and Regulation. The Exchange shall not be entitled to have access to legally privileged documents. A list of those persons within the Exchange who are authorised to obtain information from Warehouses in accordance with this Clause 9.3.6 will be circulated to all Warehouses and will be updated from time to time.

9.4 Termination

- 9.4.1** Without prejudice to the provisions of Clause 8, this Agreement may be terminated, and the Warehouse delisted on a permanent basis, with or without notice, if:

- 9.4.1.1** the Warehouse commits a serious breach of this Agreement, the LMEsword Regulations or the Operating Procedures;
- 9.4.1.2** the Warehouse fails or ceases to satisfy the requirements of Clause 1.2 (capital) and/or becomes or is, in the opinion of the Exchange, likely to become insolvent;
- 9.4.1.3** the Warehouse breaches Clause 7.5 (compliance with law and regulation);
- 9.4.1.4** the Warehouse materially fails to meet any of its obligations to the holder for the time being of a Warrant and such obligations are not being disputed in good faith;
- 9.4.1.5** the Warehouse fails to pay a sum of £10,000 or more when it becomes due, or a lesser sum within 7 Business Days of it becoming due, to the Exchange under Clause 9.1 or in respect of a fine imposed on it under the Disciplinary Procedures; or
- 9.4.1.6** a Force Majeure occurs.

Any such termination and delisting will be effective upon by the Directors notifying the Warehouse accordingly. Without prejudice to Clause 9.4.1.5, and except in the case of a Force Majeure under Clause 9.4.1.6, the Exchange may at its discretion grant to the Warehouse 7 Business Days within which to remedy a default under this Clause 9.4.1.

- 9.4.2** The Exchange may by notice served on a Warehouse by no later than 1 October in any year delist the Warehouse with effect from the following 1 January where the Exchange reasonably believes that the Warehouse is no longer engaged in LME warehousing business.
- 9.4.3** Without prejudice to any other of the Exchange's powers, a Warehouse, or the Exchange, may terminate this Agreement and delist the Warehouse in question by the service of six months' prior notice (or such other period as they may

agree or as provided under Clause 9.11) on the other. On the expiry of such notice, this Agreement shall be terminated and the Warehouse delisted. Subject thereto and the other powers of the Exchange hereunder, this Agreement shall be for an indefinite term.

- 9.4.4 On and following termination of this Agreement and the delisting of a Warehouse, the Warehouse shall not be entitled to any rebate of fees paid to the Exchange but shall remain liable for all pre-existing liabilities to the Exchange. In addition, the Warehouse shall remain subject to the obligations imposed by this Agreement as if it were a Warehouse until a period of five years after delisting has elapsed but shall not be entitled to any of the benefits conferred hereunder, including the right to describe itself as an LME listed warehouse company, and may not issue any further Warrants.
- 9.4.5 On delisting, a Warehouse must, at its own expense, relocate all metal under Warrant to another Warehouse's Authorised Warehouse(s) and arrange for the cancellation of all of its issued and current Warrants. The Exchange's prior approval must be obtained before any relocation arrangements are finalised and in giving such approval (which may not be unreasonably withheld or delayed) the Exchange shall have all due regard to the reasonable instructions of the holders of the Warrants in question, to the extent known to it.

9.5 Notices

- 9.5.1 All notices and other communications shall be in writing and in the English language.
- 9.5.2 Subject to Clause 9.5.5, all notices and other communications required to be served under this Agreement shall be served by fax or by electronic messaging (i.e. e-mail). Service will be deemed effective:

Fax: 02072568864

Email: LMELegal@lme.com
 - 9.5.2.1 in the case of notices sent by fax, on the date and time that transmission is received by an employee of the recipient in legible form or, if that date is not a Business Day or, if the fax is sent after normal working hours, the next following Business Day the burden of proving receipt to be met by a transmission report generated by the sender's facsimile machine; and
 - 9.5.2.2 in the case of notices sent by electronic messaging, on the date and at the time that the sender receives a valid "read receipt".
- 9.5.3 All notices and other communication required to be served on the Warehouse shall be deemed to be validly served thereon if served on the Warehouse's London Agent. A copy of each such notice and communication shall also be sent to the registered office of the Warehouse but failure to send such a copy shall not affect valid service if the notice or other communication has been served on the Warehouse's London Agent.
- 9.5.4 In the event of difficulty in using fax or electronic messaging to send notices under this Agreement, notices and other communications may be served in

person or by courier, with such service deemed effective on the date of receipt, unless that date is not a Business Day in which case the notice shall be deemed given and effective on the first following day that is a Business Day.

9.5.5 Notices and other communications shall only be validly served by a Warehouse if they are signed by an authorised signatory notified to the Exchange in accordance with Clause 7.3.6. For the avoidance of doubt, the effect of this Clause 9.5.5 is that, unless the Exchange otherwise prescribes, notices and other communications to be served by a Warehouse may not be served by electronic messaging.

9.5.6 The Exchange shall not be liable for any actions taken or omitted to be taken in good faith on the basis of any notice or other communication however served which purports to have been given by or on behalf of a Warehouse. The Exchange shall not be under any duty to verify the genuineness of any signature nor the authority of the person which purports to sign a notice or other communication on behalf of a Warehouse.

9.5.7 Each party shall respond promptly to the communications of the other party, where such communications require a response.

9.6 Release

Any liability to the Exchange under this Agreement may in whole or in part be released, compounded or compromised or time or indulgence given by the Exchange in its absolute discretion as regards any Warehouse under such liability without in any way prejudicing or affecting its rights against any other or others of the Warehouses under the same or a like liability, whether joint and several or otherwise provided that a Warehouse's liability shall not be increased by such action, nor shall its right to claim compensation or contribution from any person be thereby reduced.

9.7 Waiver

No failure of the Exchange to exercise, and no delay by it in exercising, any right, power or remedy in connection with this Agreement (each a "Right") will operate as a waiver thereof, nor will any single or partial exercise of any Right preclude any other or further exercise of such Right or the exercise of any other Right. The Rights provided in this Agreement are cumulative and not exclusive of any other Rights (whether provided by law or otherwise). Any express waiver of any breach of this Agreement shall not be deemed to be a waiver of any subsequent breach.

9.8 Invalidity

If any provision in this Agreement shall be held to be illegal, invalid or unenforceable, in whole or in part, under any enactment or rule of law, such provision or part shall to that extent be deemed not to form part of this Agreement but the legality, validity and enforceability of the remainder of this Agreement shall not be affected.

9.9 Governing law and agreement to arbitrate

9.9.1 This Agreement shall be governed by and construed in accordance with English law.

9.9.2 Any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination, shall be referred to and

finally resolved by arbitration under the Rules of the LCIA, which rules are deemed to be incorporated by reference into this Clause. The LCIA shall appoint a sole arbitrator. The place of arbitration shall be London. The language to be used in the arbitral proceedings shall be English.

- 9.9.3** If the Warehouse is not incorporated in England and Wales, it hereby appoints its London Agent as its agent for service of process for the purposes of any proceedings commenced in the English Court seeking interim relief in support of an existing or prospective LCIA arbitration or enforcing any award granted by a tribunal in any such LCIA arbitration.

9.10 Exclusion of Liability

Neither the LME, nor any member of the LME Group, nor any of their Directors nor other officers or members of its Warehousing Committee shall have any liability for any damage, loss, expense or liability of any nature which a Warehouse may suffer or incur in respect of any act or omissions in relation to the provision of warehouse services to Members or its activities or status as a listed Warehouse except to the extent of losses or expenses attributable to its fraud, negligence or wilful default. The terms of this Clause 9.10 shall take precedence over Regulation 11.8.1 of the LMEsword Regulations insofar as that Regulation relates to Warehouses and the Exchange.

9.11 Notices and Amendments

- 9.11.1** The Exchange may issue notices from time to time concerning any matter relevant to the performance by a Warehouse of its obligations under this Agreement.
- 9.11.2** Each Warehouse shall comply with the terms of any such notice and such notices (including, without limitation, the Exchange's Policy on the Approval of Locations as Delivery Points and the Exchange's Policy on the Approval and Operation of Warehouses) shall be deemed to be incorporated into this Agreement.
- 9.11.3** The Exchange may amend this Agreement from time to time. Unless it is considered to be an emergency and essential for the proper operation of the market, any such change shall, subject to Clause 9.11.4 below, only take effect after each Warehouse has been given 30 days' prior written notice of any proposed change.
- 9.11.4** In the event that any such proposed change, or any proposed change to the LMEsword Regulations or Operating Procedures, or any proposed notice under Clause 9.11.1, would have the effect of materially increasing the obligations of any Warehouse, it shall only take effect after the Warehouse has been given 90 days prior written notice thereof. The Exchange undertakes to consult with the affected Warehouses in relation to the proposed change, where practicable for a reasonable period and in reasonable time prior to the start of that 90 day period, and shall have reasonable regard to representations received. In the event that the Warehouse does not wish to be bound by any such proposed change which has the effect of materially increasing the obligations of the Warehouse, it may serve notice of termination of this Agreement at any time prior to the expiry of such notice period, in which event such change shall not at any time take effect with respect to the Warehouse in question and the

Warehouse shall be delisted with effect from the date 90 days after the day the notice of termination is served.

9.11.5 Clauses 9.11.3 and 9.11.4 shall not apply to the Disciplinary Procedures.

9.12 No Assignment

A Warehouse may not assign the benefit of this Agreement to, or declare a trust over such benefit in favour of, any other person (or enter into any analogous arrangement in any jurisdiction) without the prior written consent of the Exchange.

9.13 Information Barriers

Each Related Warehouse shall maintain effective information barriers between it and the relevant Trading Company as specified by the Exchange from time-to-time as set out in the Notice: Information barriers between Warehouse Companies and Trading Companies (Ref: 14/202: A195: W098), or any successor notice. The Related Warehouse shall engage a firm of professional accountants in public practice, the choice to be agreed with the Exchange, to assure that the information barriers it has in place meet the criteria specified by the Exchange, under such assurance standard(s) and in such manner as the Exchange may specify from time to time.

10 Interpretation

10.1 Definitions

In this Agreement, unless the context otherwise specifies, the words includes, including, for example and in particular shall be construed as being "without limitation". Further, the following words and expressions in this Agreement shall, unless the context otherwise requires, bear the following meanings:

"Amendable Details" has the meaning given in Clause 3.1.2;

"Authorised Warehouse" means a warehouse storage facility operated by a Warehouse in a particular Delivery Point, which has been approved by the Exchange for the purpose of this Agreement;

"Business Day" has the meaning given in the Rules;

"Charge Cap Information" has the meaning given in Clause 5.3.7;

"Charge Caps" has the meaning given in Clause 5.3.1;

"Contract" has the meaning given in the Rules;

"Corrupt Act" has the meaning given in Clause 7.5.3

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

"Delivery Point Country" shall mean a country in which one or more Delivery Points is located;

"Depository" means the person appointed by the Exchange from time to time to act as such for the purposes of LMEsword;

"Directors" means the directors of the Exchange from time to time;

“Disciplinary Procedures” has the meaning given in Clause 8;

“the Exchange” means The London Metal Exchange;

“the Financial Conduct Authority” means the regulator (Company No. 01920623) currently based at 25 The North Colonnade, Canary Wharf, London E14 5HS, or any successor body;

“Force Majeure” means an event which is beyond the reasonable control of the Warehouse and which is, in the opinion of the Exchange, likely to render the Warehouse unable to perform its obligations under this Agreement either permanently or for more than 30 days or such other period of time that would, in the Exchange’s view, have such a serious effect on the Warehouse that in business terms it would be tantamount to a permanent cessation, including, without limitation, any act of war, terrorism, insurrection, revolution, act of God or the imposition of legal, regulatory or tax restrictions in any relevant location;

“FOT” means free on truck;

“Group” means, 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;

“Inducement” means, without limitation, any fee, commission, discount, rebate, provision of transport services, or any other monetary or non-monetary benefit given to attract the load-in of metal or deter the load-out of metal;

“LCIA” means the London Court of International Arbitration;

“LME” means The London Metal Exchange;

“LME Group” means, in relation to the LME, any subsidiary or any holding company from time to time of the LME, and any subsidiary from time to time of a holding company of the LME, including without limitation, the Hong Kong Exchanges and Clearing Limited (HKEx). The terms “holding company” and “subsidiary” shall have the meanings given to them in section 1159 of the Companies Act 2006.

“load-out” has the meaning given in the Exchange’s Policy on the Approval and Operation of Warehouses, as revised from time to time;

“London Agent” has the meaning given in Clause 1.3.1;

“Major Currency” has the meaning given in the Rules;

“Market Abuse” means the types of behaviour proscribed by section 118 of the Financial Services and Markets Act 2000 or any successor law or regulation;

“Member” means a member of the Exchange;

“Operating Procedures” means the manual issued by the Exchange pursuant to the LMEsword Regulations setting out detailed procedures and information relating to the operation of LMEsword;

“person” includes an individual, partnership, unincorporated association and body corporate;

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

"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.

"Related Warehouse" means a Warehouse which is associated with a Trading Company. For the purpose of this definition, a Warehouse is associated with a Trading Company where the Warehouse is a subsidiary or holding company of a Trading Company, or a subsidiary or holding company of one of a Trading Company's subsidiaries or holding companies or otherwise has a Close Connection with a Trading Company. The terms "holding company" and "subsidiary" have the meanings given to them in section 1159 of the Companies Act 2006. A Warehouse shall have a "Close Connection" with a Trading Company if any person or company either directly or indirectly holds or otherwise effectively controls 20% or more of the shares or voting rights in both the Warehouse and the Trading Company; or any Trading Company directly or indirectly holds or effectively controls 20% or more of the shares or voting rights of the relevant Warehouse (or vice versa);

"Relevant Law and Regulation" means the laws, rules and regulations of any statutory, governmental or regulatory authority in any country relevant to the operations of the Warehouse including without limitation the principles, rules and standards of the Financial Conduct Authority as in force from time to time;

"Rules" means the rules and regulations issued by the Exchange (and incorporating the LMEsword Regulations) governing the London Metal Exchange administered by the Exchange as the same may be amended in accordance with Article 71 of the Articles of Association of the Exchange and a reference to a Rule shall be construed accordingly;

"Secretary" means any person appointed to perform the duties of Secretary of the Exchange;

"Special Committee" means the Special Committee of the LME, as maintained by the LME from time-to-time, details of which are published on the LME's website;

"Special Contract Rules for Metals" means Part 6 of the Rules as the same may be amended from time to time;

"LMEsword" means the system for, inter alia, the electronic transfer of title to Warrants governed and constituted by the LMEsword Regulations;

"LMEsword Regulations" means the regulations governing the operation of LMEsword issued by the Exchange as amended from time to time in accordance with the terms thereof;

"this Agreement" means the agreement between each Warehouse and the Exchange incorporating these terms and conditions as amended from time to time in accordance herewith and incorporating the Disciplinary Procedures in accordance with Clause 8 hereof;

"Trading Company" shall mean any Member or non-Member company that enters into Contracts or trades metal that is deliverable against a Contract;

"Warehouse" means a warehouse company which is party to this Agreement, accepted as such by the Exchange and listed in Appendix III of the Rules;

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

"Warehouse Maximum Charge Levels" has the meaning given in Clause 5.2.1;

"Warrant" means a warehouse warrant for the storage of metal, issued by a Warehouse in accordance with this Agreement and in a form approved by the Exchange.

10.2 Interpretation

- 10.2.1 Where this Agreement refers to a document or thing being "prescribed", that shall mean prescribed by the Exchange from time to time in a notice issued by it to Warehouses.
- 10.2.2 Words importing the singular shall, where the context permits, include the plural and vice versa. Words importing gender shall include each gender.
- 10.2.3 Where this Agreement refers to an act being undertaken by the Exchange, that act may be performed by the Exchange acting through the Directors of the Exchange or any duly authorised committee of the Directors of the Exchange or duly authorised individual.

11 Principles of conduct

A Warehouse shall:

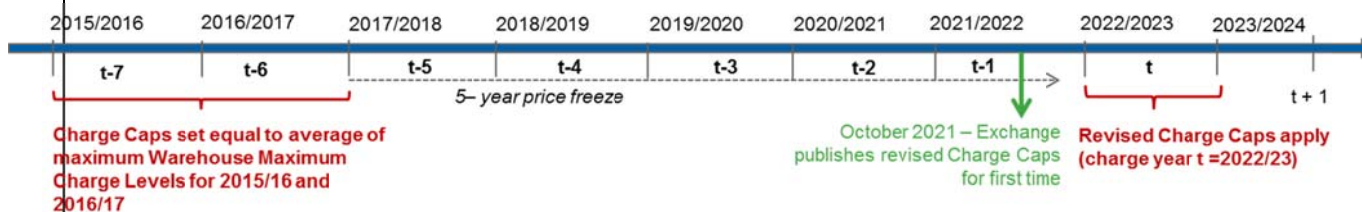
- 11.1 Conduct its business with due skill, care and diligence, observing high standards of conduct and safety, complying with the warehouse agreement, the LME's rules and regulations, these principles, the common standards of working practice for warehouse companies, other requirements for warehouse companies set by the Exchange, and Relevant Law and Regulation.
- 11.2 Not engage in behaviour which would manipulate or distort the Exchange's markets, nor create or attempt to create a disorderly market, nor require or encourage or assist others to do so. In particular, without limitation, not engage in any behaviour which would be likely to manipulate or distort the market with the effect of creating or maintaining a Queue.
- 11.3 At all times observe high standards of integrity and fair dealing, observe high standards of market conduct, and not enter into any arrangement or agreement that prohibits the provision of any information that the LME requests in its role as a Recognised Investment Exchange.
- 11.4 Maintain financial resources at or above the minimum level set by the LME to ensure continuity in the provision of services for owners of metal on LME warrant, and shall have in place a performance bond (if required by the Exchange) in the manner and of the amount prescribed by the Exchange.

- 11.5 Manage conflicts of interest fairly, both between itself and holders of metal on LME warrant and between holders of metal on LME warrant, ensuring fair and equitable treatment to all holders of metal on LME warrant at all times.
- 11.6 Ensure that all metal held on LME warrants is stored continuously in good delivery condition and that it is identified and stored so as to facilitate easy access and delivery without undue delay.
- 11.7 Deal with those placing metal on LME warrant, those holding LME warrants and those taking metal off LME warrant on a fair and equitable basis.
- 11.8 Organise and control its affairs in a responsible manner, keep proper records, retain all relevant documentation, have well-defined procedures for handling metal stored on LME warrant and for delivering it out expeditiously, ensure that its employees or agents are suitable, adequately trained and properly supervised, and that it has well-defined procedures to ensure compliance with this Agreement, the LMEsword Regulations and the Operating Procedures and all other LME rules and requirements applicable to Warehouses.
- 11.9 Pay due regard to the information needs of LME warrant holders by having transparency of: normal hours of work, all delivery in and load-out charges, rent and rent payment dates, and total average daily load-out volume rates by metal and mode of transport.
- 11.10 Arrange adequate protection for metal held on LME warrant by insuring it against unexplained losses and losses caused by error, negligence, or fraudulent actions of its servants or agents or its personnel.
- 11.11 Deal with the LME in an open and co-operative manner, keeping it informed promptly of anything concerning the suitability of its warehouses or its continued suitability as a warehouse company, or about metal stored with it or that it knows will be placed on or taken off LME warrant, that the LME, as a Recognised Investment Exchange (as defined by the Financial Conduct Authority), which has responsibility for ensuring that its markets are proper and orderly and not subject to abuse, might reasonably expect to be disclosed to it.

Appendix A

Charge Cap Increase Mechanism

Timeline for Setting Charges



Formula for FOT

The Exchange shall apply the following formula for increasing the Charge Cap for FOT in accordance with Clause 5.3.4 of the Agreement:

(1) Define the Charge Cap applied in 2017/18 as follows:

$P_{avg, 2015-17, local\ currency}$ is the arithmetic average of the highest Warehouse Maximum Charge Level levied by any Warehouse within the Delivery Point Country, as published by the Exchange in (i) December 2014, for the period 1 April 2015 to 31 March 2016, and (ii) February 2016, for the period 1 April 2016 to 31 March 2017.

(2) Apply historical change in CPI to the price in local currency

For all charging years following 1 April 2021-31 March 2022, for each charge year t, set the Charge Cap (P_t) as follows:

$$P_{t, local} = P_{avg, 2015-17, local\ currency} \times ACPI_{august\ t-1} / ACPI_{august\ 2020}$$

Where

$ACPI_{august\ t-1}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year t-1; and

$ACPI_{august\ 2020}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year 2020.

However, if $P_{t, local}$ would be lower than $P_{t-1, local}$, then $P_{t, local}$ will instead be set to $P_{t-1, local}$.

The above formula assumes that the CPI index value shall be measured relative to August, on the basis that the Exchange publishes the Charge Cap in October (CPI monthly data is published with a one month lag). If the Exchange publishes the Charge Cap in a different month, the formula shall be adjusted accordingly. This shall be the case for all formula in this Appendix A.

Formula for rental charges

The Exchange shall apply the following formula for increasing the Charge Cap for rent in accordance with Clause 5.3.4 of the Agreement:

(1) Define the Charge Cap applied in 2017-2018 as follows:

$P_{avg, 2015-17, \$}$ is the arithmetic average of the highest Warehouse Maximum Charge Level levied by any Warehouse within the Delivery Point Country, as published by the Exchange in (i) December 2014, for the period 1 April 2015 – 31 March 2016, and (ii) February 2016, for the period 1 April 2016 – 31 March 2017.

Define the Charge Cap for rent in the local currency as follows:

$$P_{\text{avg 2015 - 17, local currency}} = P_{\text{avg 2015 - 17, US\$}} \times \text{FX\$}_{\text{avg 2015 - 17}}$$

Where

$\text{FX\$}_{\text{avg 2015 - 17}}$ corresponds to the average daily local currency/US\$ exchange rate for the two charge years, running over the period 1 April 2015 – 31 March 2017 and 1 April 2016 – 31 March 2017.

(2) Apply historical change in CPI (12M average) to the price in local currency

For all charging years following 1 April 2021 – 31 March 2022, for each charge year t, set the Charge Cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{avg 2015 - 17, local currency}} \times \text{ACPI}_{\text{august t-1}} / \text{ACPI}_{\text{august 2020}}$$

Where

$\text{ACPI}_{\text{august t-1}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year t-1; and

$\text{ACPI}_{\text{august 2020}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year 2020.

(3) Convert back to US\$

$$P_{t, \$} = P_{t, \text{local}} / \text{FX\$}_{\text{august t-1}}$$

where $\text{FX\$}_{\text{august t-1}}$ is the average daily local currency/US\$ exchange rate, measured over an annual period up to and including 31 August in the year prior to the charge year t.

However, if $P_{t, \$}$ would be lower than $P_{t-1, \$}$, then $P_{t, \$}$ will instead be set to $P_{t-1, \$}$.

ADDITIONAL FORMULAE

- (1) Where the Exchange determines a new Charge Cap in accordance with Clause 5.3.5 of the Agreement, or the Special Committee determines a Charge Cap in accordance with Clause 5.3.6 of the Agreement, in either case during the five year price freeze period contemplated by Clauses 5.3.2 and 5.3.3 of the Agreement, the following formulae shall apply when increasing the Charge Cap in accordance with Clause 5.3.4 of the Agreement:

FOT

(1) Define the Charge Cap determined by the Exchange / Special Committee as follows:

$P_{\text{sp cmte, local}}$ is the Charge Cap for FOT determined by the Exchange / Special Committee in the local currency.

(2) Apply historical change in CPI to the price in local currency

For all charging years following 1 April 2021 – 31 March 2022, for each charge year t, set the Charge Cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{sp cmte, local}} \times \text{ACPI}_{\text{august t-1}} / \text{ACPI}_{\text{august 2020}}$$

Where

$\text{ACPI}_{\text{august t-1}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year t-1; and

$\text{ACPI}_{\text{august 2020}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year 2020.

However, if $P_{t, \text{local}}$ would be lower than $P_{t-1, \text{local}}$, then $P_{t, \text{local}}$ will instead be set to $P_{t-1, \text{local}}$.

Rental Charges

(1) Define the Charge Cap determined by the Exchange / Special Committee as follows:

$P_{\text{sp cmte, US\$}}$ is the Charge Cap for rent determined by the Exchange / Special Committee in US\$.

Define the Charge Cap for rent in the local currency as follows:

$$P_{\text{sp cmte, local currency}} = P_{\text{sp cmte, US\$}} \times \text{FX\$}_{\text{sp cmte}}$$

Where

$\text{FX\$}_{\text{sp cmte}}$ is the average daily local currency/US\$ for the annual period measured up to and including 31 August in the year prior to the year for which the Exchange / Special Committee determines a Charge Cap.

(2) Apply historical change in CPI (12M average) to the price in local currency

For all charging years following 1 April 2021 – 31 March 2022, for each charge year t, set the Charge Cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{sp cmte, local currency}} \times \text{ACPI}_{\text{august t-1}} / \text{ACPI}_{\text{august 2020}}$$

Where

$\text{ACPI}_{\text{august t-1}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year t-1; and

$\text{ACPI}_{\text{august 2020}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year 2020.

(3) Convert back to US\$

$$P_{t, \$} = P_{t, \text{local}} / \text{FX\$}_{\text{august t-1}}$$

where $\text{FX\$}_{\text{august t-1}}$ is the average daily local currency/US\$ exchange rate, measured over an annual period up to and including 31 August in the year prior to the charge year t.

However, if $P_{t, \$}$ would be lower than $P_{t-1, \$}$, then $P_{t, \$}$ will instead be set to $P_{t-1, \$}$.

(2) Where the Exchange determines a new Charge Cap in accordance with Clause 5.3.5 of the Agreement, or the Special Committee determines a Charge Cap in accordance with Clause 5.3.6 of the Agreement, in either case after the five year price freeze period contemplated by Clauses 5.3.2 and 5.3.3 of the Agreement, the following formulae shall apply when increasing the Charge Cap in accordance with Clause 5.3.4 of the Agreement:

FOT

(1) Define the Charge Cap determined by the Exchange / Special Committee as follows:

$P_{\text{sp cmte, local}}$ is the Charge Cap for FOT determined by the Exchange / Special Committee in the local currency.

(2) Apply historical change in CPI to the price in local currency

For charge years t following the charge year for which the Exchange / Special Committee made a determination, set Charge Cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{sp cmte, local currency}} \times \text{ACPI}_{\text{august t-1}} / \text{ACPI}_{\text{august sp cmte -2}}$$

Where

$\text{ACPI}_{\text{august t-1}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year t-1; and

$\text{ACPI}_{\text{august sp cmte -2}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year two years prior to the determination of the Charge Cap by the Exchange / Special Committee. For example, if the Exchange / Special Committee makes a determination for the charge year beginning 1 April 2025, the relevant CPI in this case is the 12 months up to and including August 2023.

However, if $P_{t, \text{local}}$ would be lower than $P_{t-1, \text{local}}$, then $P_{t, \text{local}}$ will instead be set to $P_{t-1, \text{local}}$.

Rental Charges

(1) Define the Charge Cap determined by the Exchange / Special Committee as follows:

$P_{sp\ cmte, US\$}$ is the Charge Cap for rent determined by the Exchange / Special Committee in US\$.

Define the Charge Cap in the local currency as follows:

$$P_{sp\ cmte, local\ currency} = P_{sp\ cmte, US\$} \times FX\$_{sp\ cmte}$$

Where

$FX\$_{sp\ cmte}$ is the average daily local currency/US\$ for the annual period measured up to and including 31 August for the year prior to the year for which the Exchange / Special Committee determines a Charge Cap.

(2) Apply historical change in CPI (12M average) to the price in local currency

For each charging year t following a determination by the Exchange / Special Committee, set the Charge Cap (P_t) as follows:

$$P_{t, local} = P_{sp\ cmte, local\ currency} \times ACPI_{august\ t-1} / ACPI_{august\ sp\ cmte -2}$$

Where

$ACPI_{august\ t-1}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year $t-1$; and

$ACPI_{august\ sp\ cmte -2}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year two years prior to the determination of the Charge Cap by the Exchange / Special Committee. For example, if the Exchange / Special Committee makes a determination for the charge year beginning 1 April 2025, the relevant CPI in this case is the 12 months up to and including August 2023.

(3) Convert back to US\$

$$P_{t, \$} = P_{t, local} / FX\$_{august\ t-1}$$

where $FX\$_{august\ t-1}$ is the average daily local currency/US\$ exchange rate, measured over an annual period up to and including 31 August in the year prior to the charge year t .

However, if $P_{t, \$}$ would be lower than $P_{t-1, \$}$, then $P_{t, \$}$ will instead be set to $P_{t-1, \$}$.

DEFINITIONS AND AVAILABILITY OF CPI

The following table sets out the official index name and source for the CPI indexation of Charge Caps.

CPI measures by country

Country	Official index name	Definition	Original source	Data available monthly
Belgium	Consumer Price Index - General index	The Belgium IPC measures the changes in the retail prices, inclusive of VAT, of a fixed set of goods and services used by households.	Statistics Belgium	✓
Germany	Consumer Price Index - Overall index	The index tracks the change in the prices of a basket of goods and services bought by the reference population for the purposes of consumption. Types of prices: Prices measured are actual prices to the consumer and include turnover taxes and VAT, taking into account rebates.	Statistisches Bundesamt Deutschland	✓
Italy	Consumer Price Index - All items	The index provides a measure of temporal change in the prices of a basket of goods and services destined to final private consumption. Types of prices: the total prices of products, whether fully or partially paid by consumers.	ISTAT	✓
Japan	Consumer Price Index - All items	The index measures monthly changes in the general level of prices of goods and services that households acquire for consumption. Type of prices: Prices are transaction prices, excluding temporary reductions, special sales, etc.	Statistics Bureau of Japan	✓
Korea	Consumer Price Survey (Index) - Total	The Consumer price index is produced by collecting the prices of goods and services purchased for consumption purposes. Type of prices: Actual transaction prices inclusive of sales taxes.	KOSTAT	✓
Netherlands	Consumer Price Index - All Categories	The index measures monthly changes in the general level of prices of goods and services bought for consumption. Types of prices: Consumption expenditure is valued at purchasers' prices.	CBS	✓
Spain	Consumer Price Index - Overall index	The Consumer Price Index (CPI) measures monthly changes in the general level of prices of goods and services bought by private households for consumption purposes. Types of prices: Retail prices, including sales taxes and other taxes, and price reductions (since January 2002) but excludes special offers and deferred payments.	INE	✓
Sweden	Consumer Price Index - Total	The CPI shows the average change in prices of a fixed basket of goods and services available for private consumption. Types of prices: Prices actually paid by consumers including taxes and without any addition of subsidies.	SCB	✓
United Kingdom	CPI All Items Index	The index provide an average measure of change in prices of goods and services bought for the purpose of consumption. Type of prices: Cash prices, inclusive of taxes such as VAT. Rebates are considered on a case by case basis.	ONS	✓
United States	Consumer Price Index-All Urban Consumers - U.S. All items	The CPI measures pure price change in a market basket of goods and services of constant quality purchased for everyday living by all residents in urban areas. Tax/rebates: The prices include any applicable taxes, discounts and rebates.	US Bureau of Labour Statistics	✓
Malaysia	Total Consumer Price Index	The Consumer Price Index (CPI) measures the percentage change through time in the cost of purchasing a constant "basket" of goods and services representing the average pattern of purchases made by a particular population group in a specified time period.	Department of Statistics, Malaysia	✓
Singapore	Consumer Price Index - All items	The CPI is designed to measure the average price changes of a fixed basket of goods and services commonly purchased by the households over time. Types of prices: Transaction prices (including taxes) actually paid.	Department of Statistics, Singapore	✓
Taiwan	Consumer Price Index	The consumer price index (CPI) is a weighted average price which measures the changes in the price level of consumer goods and services generally purchased by households for consumption purposes.	National Statistics, Republic of China (Taiwan)	✓
UAE	Consumer Price Index - All items	The Consumer Price Index (CPI) measures the average price changes in a fixed basket of consumption goods and services.	Federal Competitiveness and Statistics Authority	✓

FX data sources

Country	Data periodicity	Original source
Belgium	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Germany	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Italy	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Japan	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Korea	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Netherlands	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Spain	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Sweden	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
United Kingdom	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
United States	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Malaysia	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Singapore	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Taiwan	Daily, monthly, annual	Federal Reserve
UAE	Daily, monthly, annual	International Monetary Fund, International Financial Statistics

Note: Data available from the IMF, defined as: Official exchange rate (LCU per US\$, period average): this rate refers to the exchange rate determined by national authorities or to the rate determined in the legally sanctioned exchange market.

Appendix C. Proposed 2017-18 charge caps

	Rents per tonne per day in US cents										
Country	Aluminium Alloy	Copper	Lead	NASAAC	Nickel	Primary Aluminium	Tin	Zinc	Cobalt	RMC	Steel
Belgium	54	51	51	-	58	55	55	53	59	-	44
Germany	52	47	47	-	56	52	53	48	-	-	-
Italy	56	53	53	-	59	56	56	54	-	-	49
Japan	-	-	-	-	-	45	-	-	-	-	-
Korea (South)	56	51	51	-	59	55	56	-	-	-	-
Malaysia	56	53	53	-	59	56	55	54	-	-	-
Netherlands	54	51	51	-	58	55	55	53	60	56	46
Singapore	54	51	51	-	58	55	55	53	59	55	-
Spain	53	47	47	-	56	52	53	48	-	-	25
Sweden	-	47	47	-	56	52	-	48	-	-	-
Taiwan	53	47	47	-	56	53	54	49	-	-	-
U.A.E	-	47	47	-	56	-	-	49	-	-	-
U.K.	51	47	47	-	55	52	52	48	-	-	-
USA	-	54	53	57	59	57	56	55	60	55	-

	FOT rates per tonne in local currency			
Country	Currency	FOT rate incl. steel	Cobalt	RMC
Belgium	€	33.00	39.80	-
Germany	€	30.50	-	-
Italy	€	34.25	-	-
Japan	¥	3,380.00	-	-
Korea (South)	KW	49,600.00	-	-
Malaysia	MR	162.50	-	-
Netherlands	€	33.00	39.80	33.25
Singapore	S\$	68.50	73.70	64.30
Spain	€	31.00	-	-
Sweden	SKr	304.00	-	-
Taiwan	T\$	1,455.00	-	-
U.A.E	Dir	136.00	-	-
U.K.	£	22.00	-	-
USA	\$	45.00	48.37	45.57



Indexation of Warehouse Charge Caps

For the London Metal Exchange (LME)

14 July 2016

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1. Introduction

The London Metal Exchange (LME) is considering imposing a charge cap on the rent and free on truck (FOT) charges (Headline Warehousing Charges) that LME licensed warehouses could levy to customers.

In that context, the LME asked NERA Economic Consulting (NERA):

1. To investigate potential exogenous indices to allow for the annual change in maximum Headline Warehousing Charges under an indexation approach, to be applied following the price freeze. We have considered a range of indices including general price inflation indices, e.g. consumer price indices (CPI), producer price indices (PPI), as well as specific cost indices of potential relevance to LME licensed warehouses.
2. To assess the extent to which the highest Headline Warehousing Charges are above underlying costs as proxied by CPI, PPI or other measures of cost inflation, in order to inform the period for which maximum Headline Warehousing Charges could remain constant in nominal terms (i.e. charge freeze) before such charges were exceeded by underlying economic costs.
3. To set out the indexation mechanism for setting maximum Headline Warehousing Charges for the period following a price freeze.

This report is set out as follows:

- We set out the general and cost-specific index options and discuss our preferred index in section 2;
- We compare changes in the highest Headline Warehousing Charges to underlying measures of cost inflation, in order to inform the price freeze, in section 3; and
- We set out indexation options and formulae in section 4.

2. Index Options for Proxying Warehouse Cost Inflation

In this section, we investigate potential exogenous indices, i.e. published by independent bodies such as national statistical offices (NSO), to allow for changes to the maximum Headline Warehousing Charges under an indexation approach.

We investigate consumer price indices (CPI) and producer price indices or “factory gate” (PPI). Both indices are commonly employed to index payment terms in commercial contracts and permitted charges in regulated utility and infrastructure sectors.¹ We also investigate specific cost indices of potential relevance to LME licensed warehouses, namely warehouse and storage specific cost and price indices.

We evaluate the potential use of these indices to index Headline Warehousing Charges based on the following criteria:

- how well the indices are likely to track changes in LME licensed warehouses’ costs (*cost-reflectivity*);
- the *comparability* of the indices across the countries with LME licensed warehouses; and
- the *availability* of the indices in terms of cross-country availability, and timeliness of the publication of the indices.

The comparability and availability criteria are important in this context given the desirability of implementing common indexation arrangements across the fourteen countries with LME licensed warehouses.

2.1. Indices of General Price or Cost Inflation

The CPI and PPI indices are two distinct measures of the general price level in an economy, which we discuss in greater detail in the sections below.

2.1.1. CPI

The main measure of headline inflation in an economy is the movement of the Consumer Price Index (CPI), which tracks the average price of a basket of goods and services consumed by households. The CPI was constructed to compensate wage-earners for the effects of inflation on workers’ purchasing power, by indexing wages to the CPI index.² Since its inception, its use has been extended to include indexation of pension and social security benefits, interest payments, rents, through to private contracts, commercial contracts as well as for setting regulated price caps in the regulated utility infrastructure sectors.³

¹ For example, indexation of allowed revenues or tariffs by a consumer or producer price index is common in regulated utilities in Europe, US and Australia.

² See OECD, *An Introduction to Consumer Price Index Methodology*, p. 2. Accessed here: <http://www.ilo.org/public/english/bureau/stat/download/cpi/ch1.pdf>

³ Ibid.

CPI is recognised as a comparable cross-country measure of inflation, as it is based on methodologies and structures following international legislation and guidelines.⁴

In terms of data sources, we have drawn on an OECD statistical database for ten of the fourteen countries with LME licensed warehouses which are OECD members.⁵ The OECD compiles and publishes a number of comparable CPI indices, and we draw on *CPI- All Items* data which is a measure of economy wide price inflation.^{6,7} For the countries not covered by the OECD database – Korea, Malaysia, Taiwan and UAE – we draw on the closest equivalent CPI series (i.e. all economy inflation measures) published by their respective National Statistical Offices.⁸

2.1.2. PPI

PPI indices differ from CPI indices, in that a PPI measures the level of general price inflation from the perspective of domestic producers, as opposed to consumers.⁹ Specifically, PPIs generally measure the average movement of prices received by domestic producers for goods and services they sell on the domestic and/or export markets.¹⁰

According to the OECD, while international databases aim to compile comparable measures of PPI inflation, little publically available information exists on the comparability and conceptual/ methodological differences across countries.¹¹ OECD, which assembles a database of PPIs, identifies a number of differences affecting international comparability of PPI data around the scope and coverage, data collection techniques, and construction of the indices.¹²

For this report, we have assembled the PPI for industrial activities to provide for comparability as far as we can across countries. Specifically, drawing on the OECD database,

⁴ See for example Office of National Statistics, *Differences between the RPI and PCI Measures of Inflation*, p. 1.

⁵ These are: Belgium, Germany, Italy, Japan, Korea, Netherlands, Spain, Sweden, United Kingdom and United States.

⁶ The OECD notes that “a lot of effort has been made to ensure that the data are internationally comparable across all countries” Source: OECD, <https://stats.oecd.org/index.aspx?queryid=221>.

⁷ The OECD publishes the data drawing on data from the respective National Statistical Offices (NSOs)

⁸ The CPI All – Items covers 12 broad consumer goods and services categories, following a COICOP classification, including: Food and non-alcoholic beverages; Alcoholic beverages, tobacco and narcotics; Clothing and footwear; Housing, water, electricity, gas and other fuels; Furnishings, household equipment and routine household maintenance; Health; Transport; Communication; Recreation and culture; Education; Restaurants and hotels; Miscellaneous goods and services. Detailed definitions and availability of the CPI index is given in Appendix A.

⁹ There are two main types of PPI indices – “output” PPIs, which measure the average price producers receive for their goods and services, and “input” PPIs, which measure the average level of prices paid by producers for raw materials and intermediary goods.

¹⁰ <http://www.oecd.org/std/prices-ppp/producerpriceindices-frequentlyaskedquestionsfaqs.htm>

¹¹ See OECD (2011), *Producer Price Indices – Comparative Methodological Analysis*, p. 3.

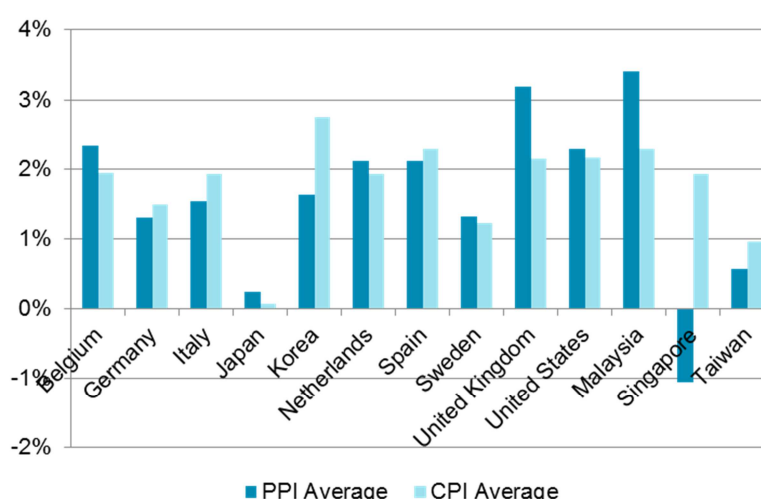
¹² These are: i) Differences in scope and coverage, e.g. due to differences in classification. Specifically, some countries report PPI breakdown using product classification, e.g. using national classifications designed to categorize products by common characteristics, while others using activity classification e.g. using national industry classifications that reflects the structure of their own economies; some report data in “basic”, other in “produce price” valuations etc.; ii) Differences in the basic data, e.g. due to differences in sampling methodologies; and, iii) Differences due to index calculation choices e.g. due to the choice of how to construct aggregates (e.g. whether to use a geometric or arithmetic averaging) etc. Source: OECD (2010) op. cit. p. 4-5.

we have collected PPI data for the general classification “Industrial Activities”, which is available for eight of the ten OECD countries with LME licensed warehouses. For the remaining countries, we have collected data from the NSOs, again reflecting all-industry PPIs as available. We note that there remain differences in the PPIs across countries in terms of coverage, and index construction.¹³

2.1.3. Comparison of long term difference between CPI and PPI

Figure 2.1 compares the historical average of the CPI and PPI indices for each LME country, except for UAE where there was limited PPI data. As shown, the CPI and PPI long-term historical annual averages are similar, and broadly in the range of 1 to 3 per cent per annum. We may expect CPI (and therefore PPI) to be on average around 2 per cent over the long-term given that this is the official central bank inflation target in many of the LME countries with licensed warehouses, e.g. the Eurozone, US, UK. Of the set of countries, the difference between CPI and PPI is marked only for Singapore, where its PPI has average negative growth, driven by a large drop in the PPI Index during the financial crisis years, where in 2009 it declined by around 13.5%.

Figure 2.1
Average Annual Increase of CPI/PPI (2001 - 2016)



Source: NERA Analysis of OECD/ National Statistical Offices data. Data from OECD available for all countries except Malaysia, Singapore, Taiwan and UAE (missing both CPI and PPI) and Korea / Japan (missing PPI only).

Note: Historic averages calculated for the period 2001 – 2016 except for Malaysia, for which PPI data available up to 2014. UAE comparison not shown as data for PPI available only for the period 2008 – 2012.

¹³ For example, while we generally use indices constructed using “total producer prices” quoted in the OECD database which are constructed including both domestic sales and exports, we use the “domestic producer prices” for the UK, as the Total Producer Price index is available only from 2009 (we note the two indices move closely together, over the period for which both are available). For the US, the OECD does not quote the “Industrial Activities” index; instead, we use the “Manufacturing” Total Producer Price index. Data for a broader “All Industry” equivalent index (AMUM Total mining, utilities, and manufacturing industries) is available from the US Bureau of Labor Statistics over a shorter period of time (since 2006).

2.2. Specific Indices of Warehouse Cost Inflation

2.2.1. Warehouse and Storage Index

Countries in the European Union (EU) publish data according to the *Statistical Classification of Economic Activities in the European Union (NACE)*. Under this classification, EU countries also report Service PPIs (SPPIs) for the classification *Warehouse and Storage*.^{14,15}

The general Warehouse and Storage index (H 52.1)¹⁶, is available both as a general activity index and as an ancillary services index, where specifically:

- *Warehousing and storage* covers all services related to the sole and actual activity of operating warehousing and storage facilities, whereas
- *Warehouse and storage services* covers ancillary services related to warehousing and storage – mainly supply chain services such as picking, labelling, packing etc.

We have generally presented data for the first of these two indices or both indices, where they are available.

The Warehouse and Storage classification is also available for the US, which uses the North American Industry Classification System (NAICS) classification for the purpose of collecting, analysing, and publishing statistical data related to the U.S. business economy. However, we note that such indices are not available for all fourteen countries which have licenced warehouse facilities, e.g. UAE.

As set out above, the warehouse specific indices do not score well on our availability criterion, and the OECD highlights general concerns about the comparability of PPIs. In relation to cost-reflectivity, while we note that the specific warehouse and storage index may provide a cost-reflective index for Warehousing Charges in general, it may not provide a good measure for either or both of the rental or FOT charges that LME proposes to subject to charge caps. For example, the FOT charge may be explained principally by labour costs as opposed to a wider warehouse cost index.

2.2.2. Comparison of CPI / PPI to Warehouse cost indices

Figure 2.2 compares the level of general cost or price inflation, as measured by the more general CPI and PPI indices, with the warehouse specific indices, for a number of European countries and the US for which data are readily available.

As can be seen from the comparisons in Figure 2.2, the change in Warehouse and Storage costs index has generally been below CPI and PPI measures for most of the countries over the

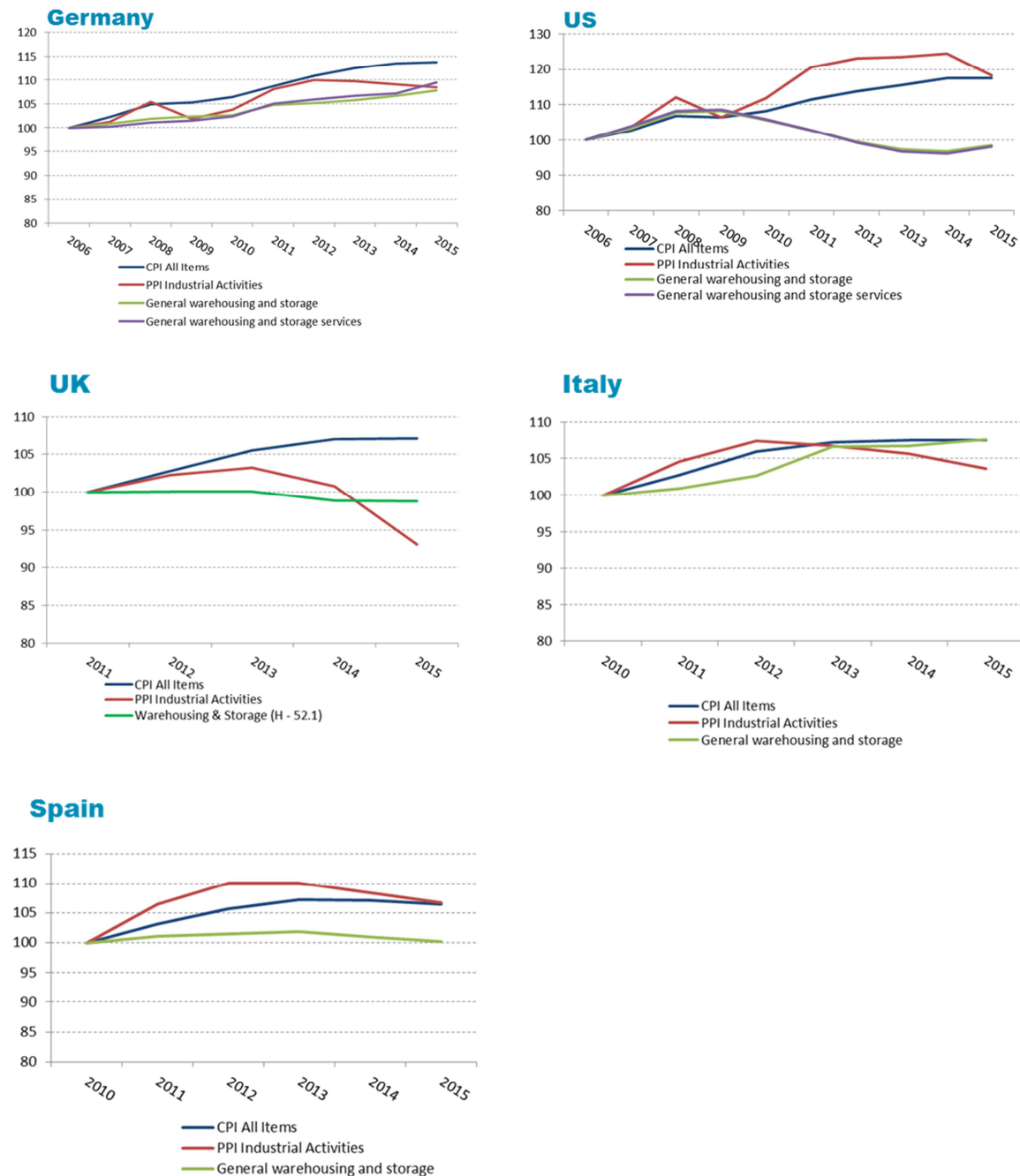
¹⁴ NACE Classification H, 52.1

¹⁵ Generally, the published SPPIs measure “*changes in the price received for selected services provided by UK businesses to other UK businesses and government*”. Such PPIs would be appropriate measures of warehouse costs to the extent that prices in the industry reflect costs, as we would expect on average.

¹⁶ The classification 52.1 – Warehousing and Storage - covers the following subcategories: operation of warehousing and storage activities for water transport activities (52.10/1), storage facilities for air transport activities (52.10/2) and storage facilities for land transport activities (52.10/3).

period for which data is available with the exception of Italy where the change in CPI index and Warehouse and Storage index have been broadly similar.

Figure 2.2
Comparison of Warehouse and Storage Index to CPI and PPI



Source: NERA Analysis of NSO data. Note: In the US, we proxy the PPI Industrial Activities with PPI Manufacturing. Data for the former is available over a shorter period of time.

2.3. Evaluation of Indexation Options

Table 2.1 sets out our evaluation of the potential CPI, PPI and warehouse specific indices against our cost-reflectivity, comparability, and availability criteria. As set out, while the Warehouse and Storage indices may be a more relevant measure of cost inflation for LME warehouses, we do not recommend the use of this index given its lack of availability and comparability across countries. Instead, we recommend the CPI index on the basis that it is well-established, internationally comparable measure of inflation, available for all countries with LME licensed warehouses.

In terms of cost-reflectivity of the CPI index, we note that for most countries over the period analysed CPI is broadly in line with the PPI. Over the period for which we have specific Warehouse and Storage index data (since 2010), we observe that the CPI has generally exceeded the Warehouse and Storage Index.

Table 2.1
Evaluation of indices for updating maximum Headline Warehousing Charges

	CPI		PPI		Warehouse index	
Cost reflectivity	Reflects general price inflation	✓	Reflects general changes in cost or price of domestic goods	✓	Most relevant but may not reflect rent or FOT specifically	✓✓
Comparability	Cross-country efforts to promote consistency	✓✓	Subject to less effort to ensure comparability	✓	Subject to less effort to ensure comparability	✓
Availability	Available and published in timely manner (typically with one month lag)	✓✓	Available for all countries but less timely publication	✓	Not available for all countries	✗

Legend: ✓✓ = performs well against criteria; ✓ = performs satisfactorily against criteria; ✗ = performs poorly against criteria.

3. Comparison of Highest Headline Warehousing Charges to Underlying Measures of Cost Inflation

In this section, we assess the extent to which the highest Headline Warehousing Charges (the proposed basis for setting maximum charge caps in 2017/18) are above underlying economic costs. We do not have access to data on changes in LME licensed warehouses' actual costs to compare to Warehousing Charges, and therefore we draw on CPI/PPI indices as proxy measures for changes in costs. As set out in section 2, we consider that CPI/PPI provide reasonable measures of the change in warehouses costs.

The objective of the analysis is to inform the period for which the maximum Headline Warehousing Charges could remain constant in nominal terms (i.e. charge freeze) before such charges were exceeded by economic costs.

3.1. Methodology

In order to assess the extent to which maximum Headline Warehousing Charges may be in excess of underlying economic costs, we compare the change over time of:

- The highest Headline Warehousing Charge in each country calculated as the highest relevant Headline Warehousing Charges levied per country for the 2015/16 and 2016/17 charge years (taking an arithmetic average of the highest observed value in each of the two years). We examine rental and FOT charges, taking an average of charges across metals in each year.
- The level of the CPI and PPI index as our proxy for the change in underlying costs.

We draw on changes in Warehousing Charges and costs indices for the period from 2001 (the earliest available data for Warehousing Charges) to date, and rebase all indices and Warehousing Charges to 2001 (=100).¹⁷ If we assume that: i) the highest Headline Warehouse Charges in 2001 were at least as high as underlying costs, which we consider is a reasonable assumption given that it is unlikely that warehouses would have set charges below costs; and, ii) that CPI and/or PPI provides a reasonable proxy for the change in warehouse costs, the difference between the indices of Warehouse Charges and CPI/ PPI reflects the extent to which charges are above /below costs.

Table 3.1 shows the extent to which the highest Warehouse Charges per country exceed (or fall below) CPI and PPI indices, our proxy for the change in underlying warehouse cost inflation. As seen from Table 3.1, the highest Warehouse Charges by country exceed the CPI/PPI level.

¹⁷ Rental charges are expressed in US\$. We convert the published US\$ rental charge into local currency to examine the change relative to the local CPI/PPI, based on an assumption that rental charges are explained by local cost conditions.

Table 3.1
Extent to which change in the highest Warehouse Charges in each country is above or below change in CPI/ PPI, our proxy for underlying costs

	Rental Charge 2015 - excess over:		FOT Charge 2015 - excess over:	
	CPI	PPI	CPI	PPI
Taiwan	16%	35%	10%	28%
Singapore	26%	117%	64%	180%
UK	33%	25%	13%	6%
Spain	36%	39%	32%	35%
Korea	42%	64%	31%	51%
Italy	43%	54%	26%	36%
Belgium	44%	45%	72%	73%
Germany	44%	50%	40%	46%
Netherlands	46%	55%	75%	86%
Japan	51%	50%	296%	294%
Malaysia	54%	40%	126%	105%
UAE	64%	n/a*	59%	n/a*
US	86%	90%	46%	50%
Sweden	88%	85%	82%	79%

Source: NERA Analysis. Note: The rebasing year for Korea, Malaysia, Taiwan, and UAE (CPI) differs from 2001 due to limited availability of data.

**The PPI index for the UAE is not available since 2012.*

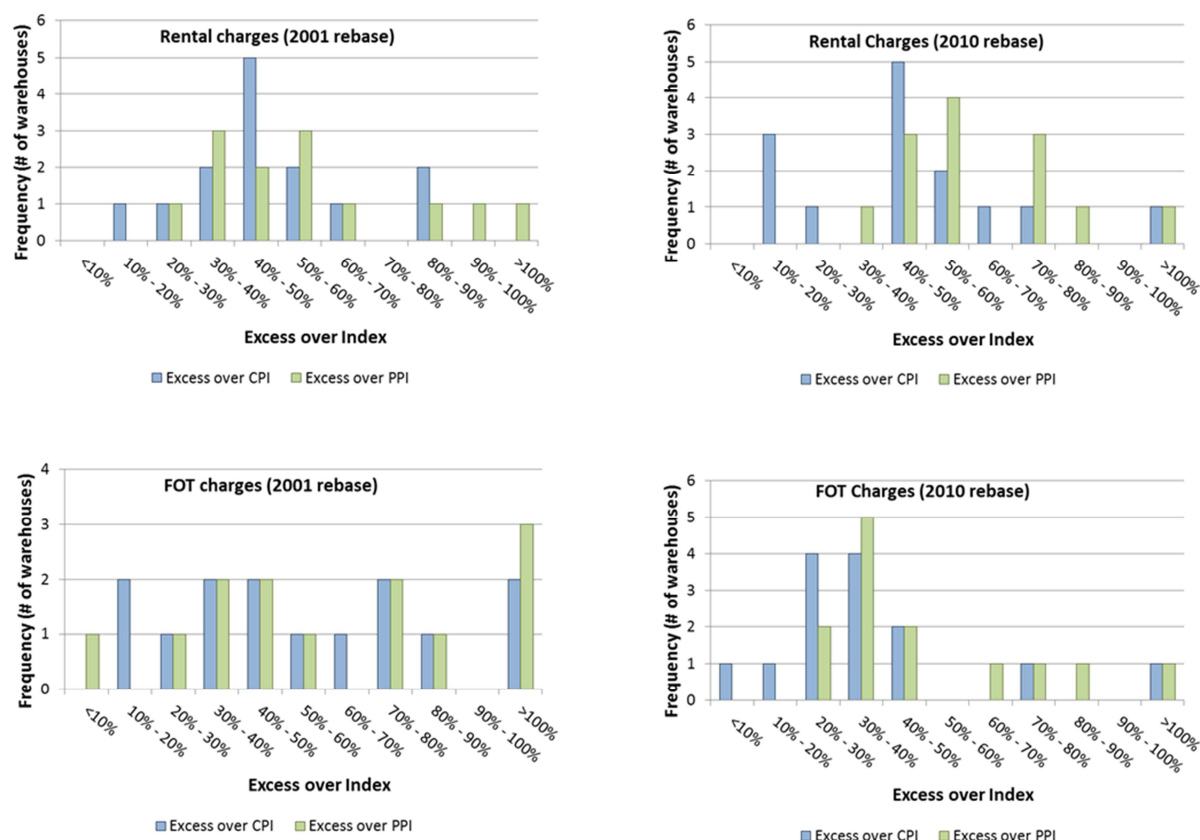
3.2. Assessing Period for Potential Price Freeze

- We have also undertaken the analysis presented in section 3.1 assuming a base year of 2010 to test the sensitivity to the base year assumption, i.e. we examine the change in the highest Warehousing Charge per country and the CPI/PPI indices since 2010.

Figure 3.1 shows the frequency charts for Rental/ FOT charges for the base years 2001 (left hand side), and 2010 (right hand side). We observe that:

- Rental charges are generally 10%- 60% higher than CPI/PPI (2001 base) or 10%-80% (2010 base)
- FOT charges are generally 10-80% higher than CPI/PPI (2001 base) or 10-50% (2010 base)

Figure 3.1
Comparison of highest Warehousing Charges to underlying economic costs, as proxied
by CPI/PPI for different base years:
2001 base (LHS), 2010 base (RHS)

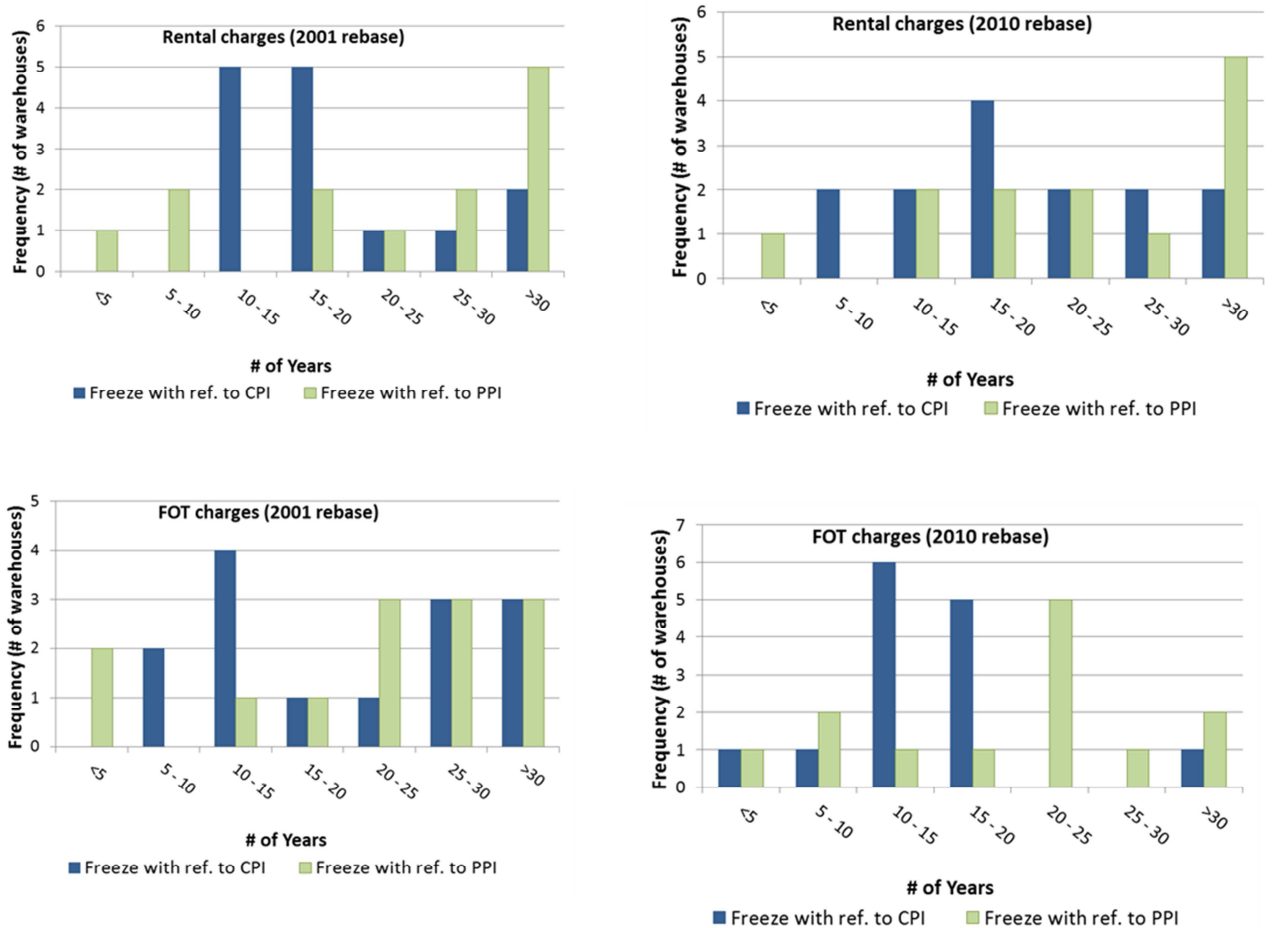


Source: NERA Analysis.

Note: (1) The rebasing year for Korea, Malaysia, Taiwan, and UAE (CPI) differs from 2001 due to limited availability of data. The PPI index for the UAE is not available since 2012. (2) For the year 2016-2017, we assume the change in CPI equals to that in the previous year. To convert the rental charges to local currency we use the following FX estimates for 2016: For Belgium, Germany, Italy, Japan, South Korea, the Netherlands, Spain, Sweden, the UK and the US, FX rates for 2016 were calculated as the average of the monthly FX rates for the period January-June 2016, based on data from the OECD. For Taiwan, FX rates for 2016 were calculated as the average of the monthly FX rates for the period January-June 2016, based on data from the Federal Reserve. For Malaysia, Singapore, and the UAE, FX rates for 2016 were calculated as the average of the monthly FX rates for the period January-May 2016, based on data from the IMF.

In Figure 3.2, we show the number of years over which maximum Warehousing Charges could be frozen before they are exceeded by underlying costs, assuming CPI / PPI (as proxy for underlying costs) grow in line with historical trends. As shown in Figure 3.2, if CPI/PPI increase in line with historical trends, Warehousing Charges could be held constant in nominal terms for at least 5 years in almost all cases before charges fall below measures of underlying economic costs.

Figure 3.2
Number of years for which Warehouse Charges could be frozen before less than
underlying cost: 2001 base (LHS), 2010 base (RHS)



Source: NERA Analysis.

Note: (1) The rebasing year for Korea, Malaysia, Taiwan, and UAE (CPI) differs from 2001 due to limited availability of data. The PPI index for the UAE is not available since 2012. (2) For the year 2016- 2017, we assume the change in CPI equals to that in the previous year. To convert the rental charges to local currency we use the following FX estimates for 2016: For Belgium, Germany, Italy, Japan, South Korea, the Netherlands, Spain, Sweden, the UK and the US, FX rates for 2016 were calculated as the average of the monthly FX rates for the period January-June 2016, based on data from the OECD. For Taiwan, FX rates for 2016 were calculated as the average of the monthly FX rates for the period January-June 2016, based on data from the Federal Reserve. For Malaysia, Singapore, and the UAE, FX rates for 2016 were calculated as the average of the monthly FX rates for the period January-May 2016, based on data from the IMF.

4. Options and Recommendations for an Indexation Formula

4.1. Evaluation of Options

We have considered three indexation mechanisms for updating the maximum Headline Warehousing Charges, drawing on common practices by utility regulators in Europe and elsewhere. The options are:

- Historical CPI based on 12 months average : Calculate the allowed change as: a) the annual average CPI index value for the 12 months preceding the decision on Warehousing Charges relative to b) the 12-month average CPI value in a base year
- Historical CPI based on year-on-year change : Calculate the allowed change as: a) the CPI index value for the month just prior to the reset (e.g. the month prior to the decision on Warehousing Charges) relative to b) a base year index value for the corresponding month
- Forecast CPI plus true-up for forecast error: Set the allowed change based on CPI inflation for the charging year, combined with an ex post “true-up” or correction in the following year, for the difference in the expected and outturn inflation value

We have considered these options against the following criteria:

- the extent to which the proposed method allows for timely cost recovery (*cost-recovery*); and,
- the extent to which the proposed method allows for easy implementation (*complexity*).

Our assessment of the options is summarised in Figure 4.1. As set out, we recommend the implementation of option 1, i.e. update the maximum Warehousing Charges based on the 12 month average CPI inflation prior to the charging year relative to the base year. Option 1 scores satisfactorily on our cost-reflectivity criteria, and is simple to implement. Option 3 may more closely reflect the change in costs in the charging year (as based on a CPI forecast, our proxy for cost changes) but is relatively more complex to implement compared to options 1 and 2. Compared to option 2, option 1 is more likely to reflect changes in costs (as less affected by a single month index value).

Table 4.1
Evaluation of Indexation Options

	Historical CPI: 12m average		Historical CPI : YoY change		Forecast CPI + True-up	
Cost reflectivity	Allows annual CPI cost inflation with one year lag. Draws on 12 month average – less affected by individual month	✓	Allows annual CPI cost inflation with one year lag. Draws on single month data point which may be affected by shocks	✗	Allows expected annual CPI inflation. Forecast error corrected via a true-up mechanism	✓✓
Complexity	Uses outturn change in inflation	✓✓	Uses outturn change in inflation	✓✓	Complex - requires ex ante CPI forecast and ex post adjustment for error	✗

Legend: ✓✓ = performs well against criteria; ✓ = performs satisfactorily against criteria; ✗ = performs poorly against criteria.

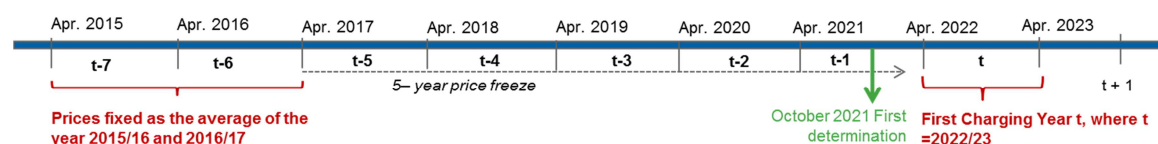
4.1. Indexation Formulae

In this section, we set out the formulae associated with our preferred indexation mechanism.

As per Appendix B of its Consultation, LME is proposing to set charge caps at a per-country level, calculated as the arithmetic mean average of (i) the highest relevant Headline Warehousing Charges levied by any operator in any location in that country during the 2015-16 charge year as published in December 2014, and (ii) the highest relevant Headline Warehousing Charges levied by any operator in any location in that country during the 2016-17 charge year as published in February 2016¹⁸.

LME proposes to freeze prices from 2017 onwards over a 5 year period (i.e. for the charge years starting with 2017-18 and ending with 2021-22) before allowing annual increases commencing in the 2022-23 charge year¹⁹. We illustrate this in the timeline below.

Figure 4.1
Timeline for Setting Charges



¹⁸ LME (2016) Consultation on Proposed Amendments to the LME Warehouse Agreement in Respect of Charge Capping, Appendix B

¹⁹ LME (2016) op. cit., Appendix B

4.1.1. Formulae for FOT

We propose the following formula for setting the FOT charge cap within each country, and separately for (i) cobalt (if applicable), (ii) RMC (if applicable) and (iii) a single rate for all other metals²⁰ for all charge years from 2022-23 onwards:

(1) Define the maximum Warehousing Charge applied in 2017/18 as follows:

$P_{\text{avg 2015-17, local currency}}$ is the average of the maximum Headline Warehousing Charge levied by any operator within the country, as published by the LME in (i) December 2014, for the charging year 2015–2016, and (ii) February 2016, for the charging year 2016–2017.

(2) Apply historical change in CPI to the price in local currency

For all charging years following 2021/22 (the final year of the proposed price freeze), for each charge year t , set charge cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{avg 2015 - 17, local currency}} \times \frac{ACPI_{\text{august } t-1}}{ACPI_{\text{august 2020}}}$$

Where

$ACPI_{\text{august } t-1}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year $t-1$; and

$ACPI_{\text{august 2020}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year 2020.

However, if $P_{t, \text{local}}$ would be lower than $P_{t-1, \text{local}}$, then $P_{t, \text{local}}$ will instead be set to $P_{t-1, \text{local}}$.

We propose the CPI index value is measured relative to August in the year prior to the charge year assuming that LME makes a decision on the maximum Headline Warehouse Charge in October prior to the charge year, with CPI monthly data published with a one month lag.

4.1.2. Formulae for rental charges

Separately, we propose the following formula for setting the rental charge cap within each country, and separately for each metal which is authorised to be stored at any facility in that country (with the exception of premium primary aluminium).²¹

(1) Define the maximum Warehousing Charge as follows:

$P_{\text{avg 2015-17, \$}}$ is the arithmetic average of the maximum Headline Warehousing Charge levied by any operator within the country, as published by the LME in (i) December 2014, for the charging year 2015–2016, and (ii) February 2016, for the charging year 2016–2017.

²⁰ LME (2016) op. cit., Appendix B

²¹ LME (2016) op. cit., Appendix B

Define the maximum Headline Warehousing Charge in the local currency as follows:

$$P_{\text{avg 2015 -17, local currency}} = P_{\text{avg 2015 - 17, US\$}} \times FX_{\text{avg 2015 - 17}}$$

Where

$FX_{\text{avg 2015 - 17}}$ corresponds to the average daily local currency/US\$ exchange rate for the two charge years, running over the period 1 April 2015 – 31 March 2017 and 1 April 2016 – 31 March 2017.

(2) Apply historical change in CPI (12M average) to the price in local currency

For all charge years following 2021/22, for each charge year t, set charge cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{avg 2015 - 17, local currency}} \times ACPI_{\text{august } t-1} / ACPI_{\text{august 2020}}$$

Where

$ACPI_{\text{august } t-1}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year t-1; and

$ACPI_{\text{august 2020}}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year 2020.

(3) Convert back to US\$

$$P_{t, \$} = P_{t, \text{local}} / FX_{\text{august } t-1}$$

where $FX_{\text{august } t-1}$ is the average daily local currency/US\$ exchange rate, measured over an annual period up to and including 31 August in the year prior to the charge year t.

However, if $P_{t, \$}$ would be lower than $P_{t-1, \$}$, then $P_{t, \$}$ will instead be set to $P_{t-1, \$}$.

Appendix A. Additional Formulae

In this Appendix, we set out additional formulae where the Warehousing Charges are set by Special Committee, and/or where a rate is determined, distinguishing between the period within the price freeze (i.e. up to and including charge year 2021/22), and following price freeze period.

A.1. Formulae for determining maximum Warehouse Charges determined by Special Committee or where new charge introduced within the price freeze period

Where the Warehousing Charge is determined by Special Committee, or a new charge is introduced during the price freeze period the following formulae apply.

A.1.1. FOT

If the Special Committee makes a determination, or there is a new charge introduced during the price freeze period, the formulae in section 4.1 will apply.

(1) Define the maximum Warehousing Charge determined by Special Committee or LME as follows:

$P_{sp\ cmte, local}$ is the Special Committee or LME determined charge in the local currency (or alternatively new charge introduced).

(2) Apply historical change in CPI to the price in local currency

For all charge years following 2021/22 (the final year of the proposed price freeze), for each charge year t , set charge cap (P_t) as follows:

$$P_{t, local} = P_{sp\ cmte, local} \times ACPI_{august\ t-1} / ACPI_{august\ 2020}$$

Where

$ACPI_{august\ t-1}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year $t-1$; and

$ACPI_{august\ 2020}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year 2020.

However, if $P_{t, local}$ would be lower than $P_{t-1, local}$, then $P_{t, local}$ will instead be set to $P_{t-1, local}$.

A.1.2. Rental Charges

(1) Define the maximum Warehousing Charge determined by Special Committee or LME as follows:

$P_{sp\ cmte, US\$}$ is the Special Committee or LME determined charge in US\$ (or alternatively new charge introduced).

Define the maximum Headline Warehousing Charge in the local currency as follows:

$$P_{\text{sp cmte, local currency}} = P_{\text{sp cmte, US\$}} \times \text{FX\$}_{\text{sp cmte}}$$

Where

$\text{FX\$}_{\text{sp cmte}}$ is the average daily local currency/US\$ for the annual period measured up to and including 31 August in the year prior to the year for which the Special Committee or LME determines a charge

(2) Apply historical change in CPI (12M average) to the price in local currency

For all charge years following 2021/22, for each charge year t , set charge cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{sp cmte, local currency}} \times \text{ACPI}_{\text{august } t-1} / \text{ACPI}_{\text{august } 2020}$$

Where

$\text{ACPI}_{\text{august } t-1}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year $t-1$; and

$\text{ACPI}_{\text{august } 2020}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year 2020. **(3) Convert back to US\$**

$$P_{t, \$} = P_{t, \text{local}} / \text{FX\$}_{\text{august } t-1}$$

where $\text{FX\$}_{\text{august } t-1}$ is the average daily local currency/US\$ exchange rate, measured over an annual period up to and including 31 August in the year prior to the charge year t .

However, if $P_{t, \$}$ would be lower than $P_{t-1, \$}$, then $P_{t, \$}$ will instead be set to $P_{t-1, \$}$.

A.2. Formulae for determining maximum Warehouse Charges determined by Special Committee or where new charge introduced following the price freeze period

Where the Warehousing Charge is determined by Special Committee, or a new charge is introduced following the price freeze period, the following formulae apply.

A.2.1. FOT

(1) Define the maximum Warehousing Charge determined by Special Committee or LME as follows:

$P_{\text{sp cmte, local}}$ is the Special Committee or LME determined charge in the local currency (or alternatively new charge introduced).

(2) Apply historical change in CPI to the price in local currency

For charge years t following the charge year for which the Special Committee or LME made a determination, set charge cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{sp cmte, local currency}} \times ACPI_{\text{august } t-1} / ACPI_{\text{august sp cmte } -2}$$

Where

$ACPI_{\text{august } t-1}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year $t-1$; and

$ACPI_{\text{august sp cmte } -2}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year two years prior to the determination of the charge by the Special Committee or LME. For example, if the Special Committee or LME makes a determination for charge year beginning April 2025, the relevant CPI in this case is the 12 months up to and including August 2023.

However, if $P_{t, \text{local}}$ would be lower than $P_{t-1, \text{local}}$, then $P_{t, \text{local}}$ will instead be set to $P_{t-1, \text{local}}$.

A.2.2. Rental Charge

(1) Define the maximum Warehousing Charge determined by Special Committee or LME as follows:

$P_{\text{sp cmte, US\$}}$ is the Special Committee or LME determined charge in US\$ (or alternatively new charge introduced).

Define the maximum Headline Warehousing Charge in the local currency as follows:

$$P_{\text{sp cmte, local currency}} = P_{\text{sp cmte, US\$}} \times FX\$_{\text{sp cmte}}$$

Where

$FX\$_{\text{sp cmte}}$ is the average daily local currency/US\$ for the annual period measured up to and including 31 August for the year prior to the year for which the Special Committee or LME determines a charge

(2) Apply historical change in CPI (12M average) to the price in local currency

For each charge year t following a determination by the Special Committee or LME, set charge cap (P_t) as follows:

$$P_{t, \text{local}} = P_{\text{sp cmte, local currency}} \times ACPI_{\text{august } t-1} / ACPI_{\text{august sp cmte } -2}$$

Where

$ACPI_{\text{august } t-1}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August of year $t-1$; and

$ACPI_{\text{august sp cmte } -2}$ is the arithmetic average of the local monthly CPI index published in the 12 months up to and including August in the year two years prior to the determination of the charge by the Special Committee or LME. For example, if the Special Committee or LME makes a determination for charge year beginning April 2025, the relevant CPI in this case is the 12 months up to and including August 2023.

(3) Convert back to US\$

$$P_{t,\$} = P_{t,\text{local}} / \text{FX}_{\text{august } t-1}$$

where $\text{FX}_{\text{august } t-1}$ is the average daily local currency/US\$ exchange rate, measured over an annual period up to and including 31 August in the year prior to the charge year t .

However, if $P_{t,\$}$ would be lower than $P_{t-1,\$}$, then $P_{t,\$}$ will instead be set to $P_{t-1,\$}$.

Appendix B. Definitions and Availability of CPI

B.1. CPI

The following table sets out the official index name and source for our proposed CPI indexation of Warehousing Charges.

Table B.1
Proposed CPI measures by country

Country	Official index name	Definition	Original source	Data available monthly
Belgium	Consumer Price Index - General index	The Belgium IPC measures the changes in the retail prices, inclusive of VAT, of a fixed set of goods and services used by households.	Statistics Belgium	✓
Germany	Consumer Price Index - Overall index	The index tracks the change in the prices of a basket of goods and services bought by the reference population for the purposes of consumption. Types of prices: Prices measured are actual prices to the consumer and include turnover taxes and VAT, taking into account rebates.	Statistisches Bundesamt Deutschland	✓
Italy	Consumer Price Index - All items	The index provides a measure of temporal change in the prices of a basket of goods and services destined to final private consumption. Types of prices: the total prices of products, whether fully or partially paid by consumers.	ISTAT	✓
Japan	Consumer Price Index - All items	The index measures monthly changes in the general level of prices of goods and services that households acquire for consumption. Type of prices: Prices are transaction prices, excluding temporary reductions, special sales, etc.	Statistics Bureau of Japan	✓
Korea	Consumer Price Survey (Index) - Total	The Consumer price index is produced by collecting the prices of goods and services purchased for consumption purposes. Type of prices: Actual transaction prices inclusive of sales taxes.	KOSTAT	✓
Netherlands	Consumer Price Index - All Categories	The index measures monthly changes in the general level of prices of goods and services bought for consumption. Types of prices: Consumption expenditure is valued at purchasers' prices.	CBS	✓
Spain	Consumer Price Index - Overall index	The Consumer Price Index (CPI) measures monthly changes in the general level of prices of goods and services bought by private households for consumption purposes. Types of prices: Retail prices, including sales taxes and other taxes, and price reductions (since January 2002) but excludes special offers and deferred payments.	INE	✓
Sweden	Consumer Price Index - Total	The CPI shows the average change in prices of a fixed basket of goods and services available for private consumption. Types of prices: Prices actually paid by consumers including taxes and without any addition of subsidies.	SCB	✓
United Kingdom	CPI All Items Index	The index provide an average measure of change in prices of goods and services bought for the purpose of consumption. Type of prices: Cash prices, inclusive of taxes such as VAT. Rebates are considered on a case by case basis.	ONS	✓
United States	Consumer Price Index-All Urban Consumers - U.S. All items	The CPI measures pure price change in a market basket of goods and services of constant quality purchased for everyday living by all residents in urban areas. Tax/rebates: The prices include any applicable taxes, discounts and rebates.	US Bureau of Labour Statistics	✓
Malaysia	Total Consumer Price Index	The Consumer Price Index (CPI) measures the percentage change through time in the cost of purchasing a constant "basket" of goods and services representing the average pattern of purchases made by a particular population group in a specified time period.	Department of Statistics, Malaysia	✓
Singapore	Consumer Price Index - All items	The CPI is designed to measure the average price changes of a fixed basket of goods and services commonly purchased by the households over time. Types of prices: Transaction prices (including taxes) actually paid.	Department of Statistics, Singapore	✓
Taiwan	Consumer Price Index	The consumer price index (CPI) is a weighted average price which measures the changes in the price level of consumer goods and services generally purchased by households for consumption purposes.	National Statistics, Republic of China (Taiwan)	✓
UAE	Consumer Price Index - All items	The Consumer Price Index (CPI) measures the average price changes in a fixed basket of consumption goods and services.	Federal Competitiveness and Statistics Authority	✓

B.2. FX Rates

Table B.2
FX data sources

Country	Data periodicity	Original source
Belgium	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Germany	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Italy	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Japan	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Korea	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Netherlands	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Spain	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Sweden	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
United Kingdom	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
United States	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Malaysia	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Singapore	Daily, monthly, annual	International Monetary Fund, International Financial Statistics
Taiwan	Daily, monthly, annual	Federal Reserve
UAE	Daily, monthly, annual	International Monetary Fund, International Financial Statistics

Note: Data available from the IMF, defined as: Official exchange rate (LCU per US\$, period average); this rate refers to the exchange rate determined by national authorities or to the rate determined in the legally sanctioned exchange market.

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