

LME Warehouse Reform: Discussion Paper conclusions and next steps

July 2015

Table of Contents

Section	Title
1.	Overview – LME warehouse reform
2.	Market update
3.	Discussion Paper and next steps

1. Overview – LME warehouse reform

Status of warehouse reform prior to 1-Jul-15

12 item reform package announced in 2013

Delivered

LIFO Rule (including an increased decay factor from 1-Aug-15)

Commitments of Traders transparency

Publication of queues and stock data by warehouse

Separate load-out rate for steel

Best-practice information barrier policy

Enhanced LME investigation and action powers for artificial queues

Creation of Physical Market Committee plus ongoing six-monthly reviews

Legal review of the LME Warehouse Agreement

Logistical review

Premium contracts (rule changes to facilitate premium hedging solutions)

Discussion
Paper closed
2-May-15

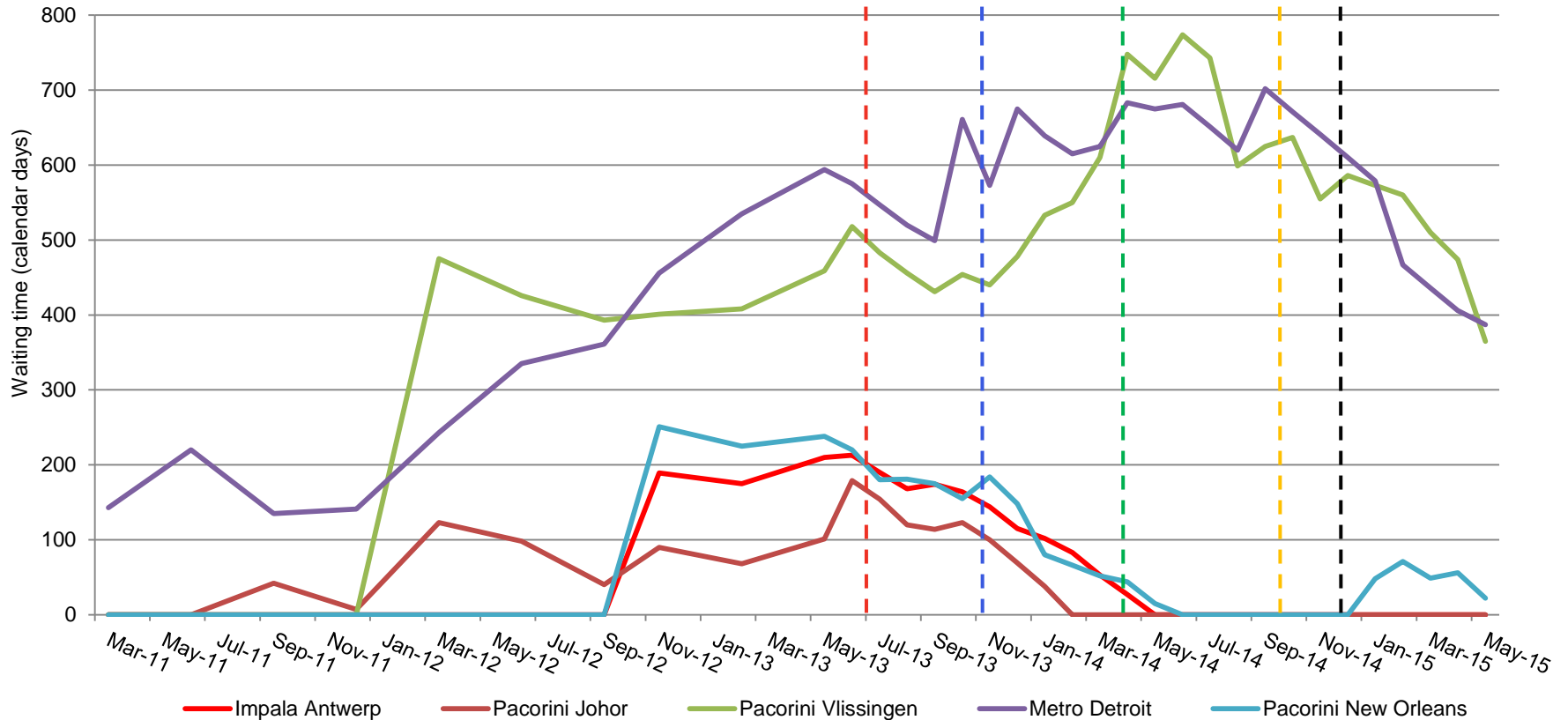
Assess powers to limit rents in queues as a future policy option

Assess structural solutions to high charges

2. Market update

Queue development

Queues falling as a direct result of LME's policy actions



- Key:
- Consultation announcement 1-Jul-13
 - Decision announcement 7-Nov-13
 - Initial Court Judgment 27-Mar-14
 - Court of Appeal Judgment 7-Oct-14
 - Supreme Court decision 17-Dec-14

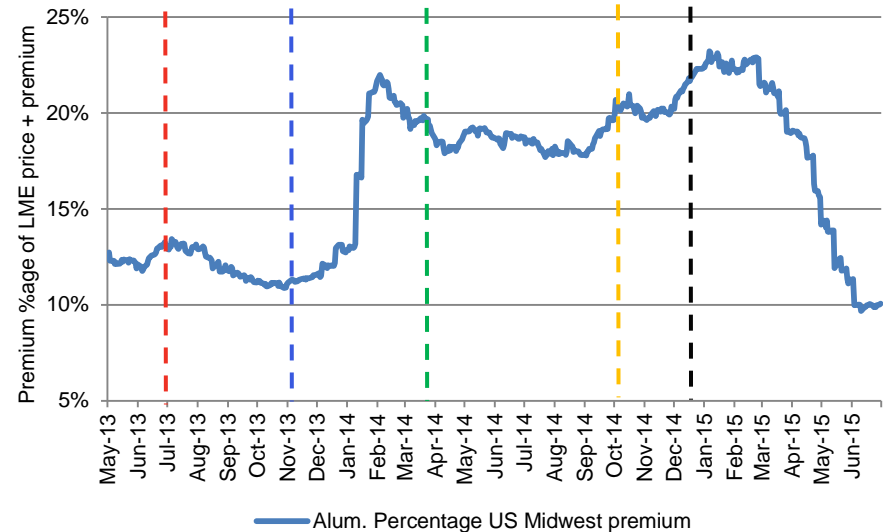
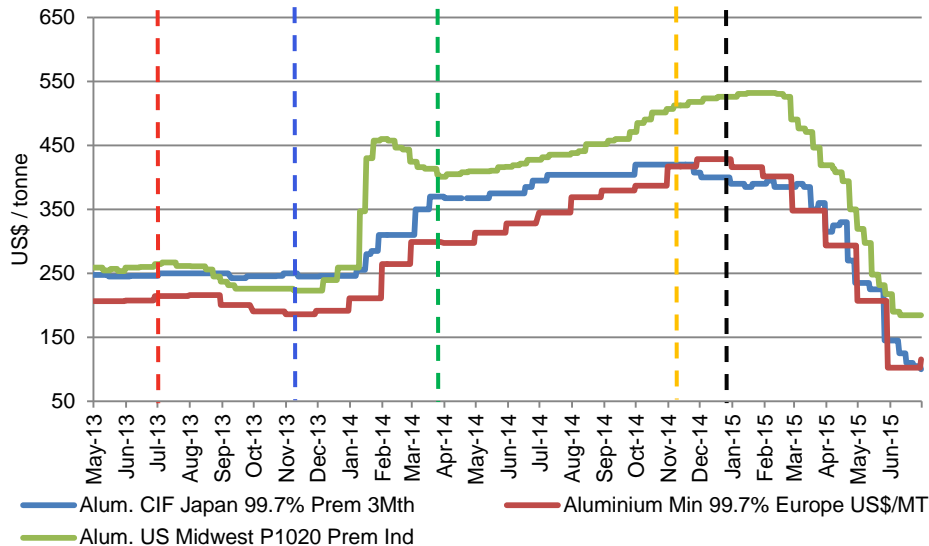
Data as of 31-May-15

Development of market premiums

Significant fall in premiums over early 2015

- Premiums have both queue-based and non-queue-based components
- LME has taken action to address the queues; market premiums have fallen
- Market forces relevant in the non-queue-based component

Premium development



Key:

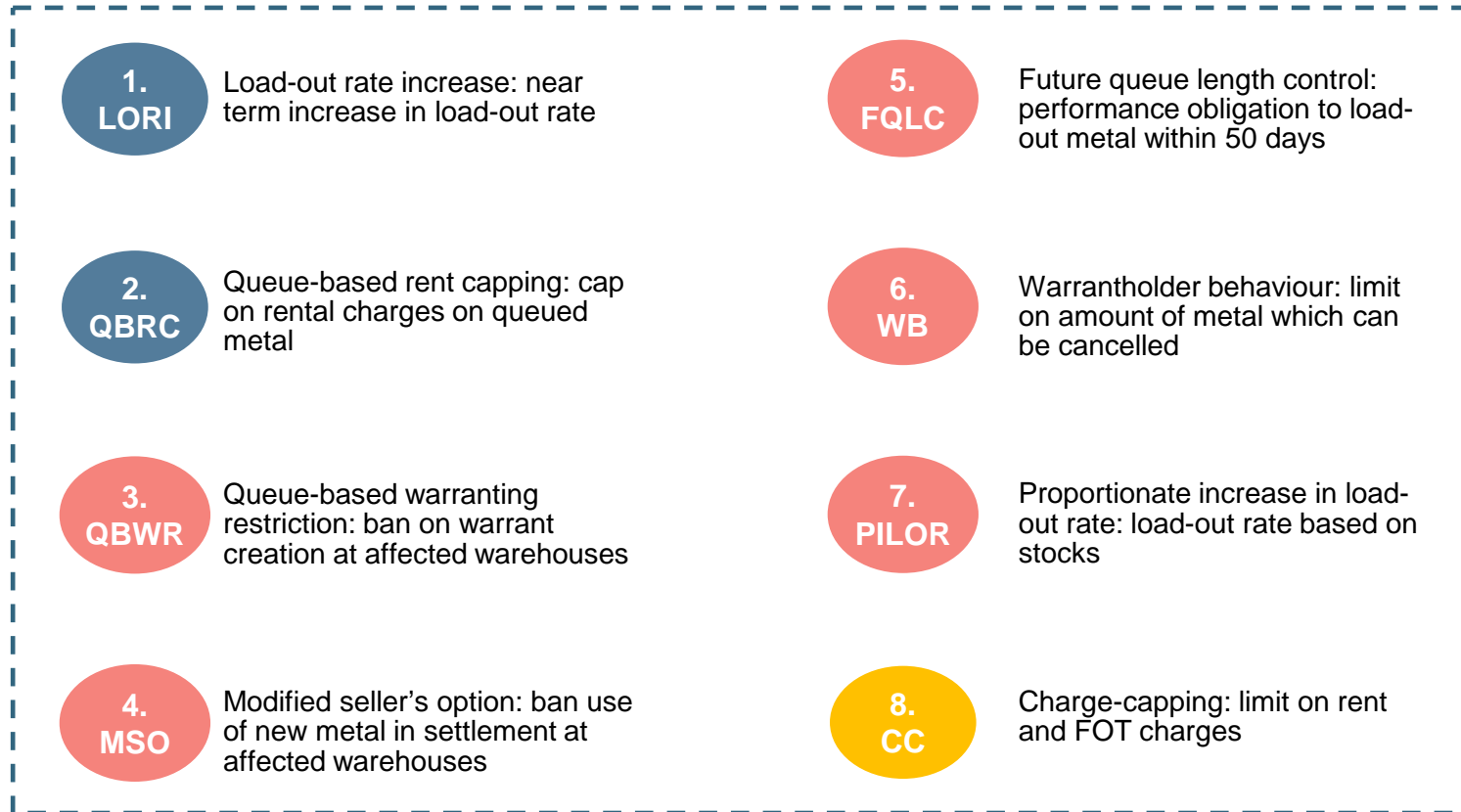
- - - Consultation announcement 1-Jul-13
- - - Decision announcement 7-Nov-13
- - - Initial Court Judgment 27-Mar-14
- - - Court of Appeal Judgment 7-Oct-14
- - - Supreme Court decision 17-Dec-14

Data as of 30-Jun-15

3. Discussion Paper and next steps

Discussion Paper options

Broad set of options published for market discussion



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



Measures to prevent accumulation of future queues



Measures to address levels of rent and FOTs



LONDON METAL EXCHANGE

Discussion Paper options

Summary of market feedback

1.
LORI

Broadly positive, easy to understand, queries over increasing effectiveness by implementing more aggressive rates. Critics concerned not sufficiently focused on affected warehouses.

2.
QBRC

Predominantly positive, prevent future queues and disincentivise use of incentives. Concerns over legal risk although felt to be acceptable given benefits. Critics highlighted potential for abuse and unintended consequences.

3.
QBWR

Predominantly negative with concerns focused on risk of market disruption caused by prevention of short sellers warranting metal for settlement. Magnitude of reform out of proportion. Supporters refuted this risk and argued for LME panel to arbitrate legitimate cases.

4.
MSO

Very negative, wealth of concerns around difficulty of assessing consequences and negative impact on short sellers. Critics felt MSO would not achieve aims but would facilitate “queue engineering” and cause market disruption across a broad spectrum of participants including warehouse companies.

5.
FQLC

Mixed feedback with questions about how penalties would be assessed. Proponents supported potential creation of new locations and increase competition while critics argued that would act as a de facto load-in restriction and make LME warehousing uneconomic.

6.
WB

Mixed feedback with supporters positive re affording some protection to warehouse companies and limiting possibility of “flash queues”, but critics concerned about feasibility of monitoring. Generally less artificial measures were preferred.

7.
PILOR

Reasonably broad support; easy to understand, likely to lead to increased competition and allow warehouse companies to match load-in to load-out capacity. Concerns regarding unfair advantage to water-based locations and potential for dispute over load-out schedules.

8.
CC

Broadly positive, with support for creating a level playing field and disincentivising use of incentives – ultimately bringing more transactions on-exchange. Concerns about rate setting methodology, legal risks and LME regulatory over-reach.



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



Measures to prevent accumulation of future queues



Measures to address levels of rent and FOTs



LONDON METAL EXCHANGE

Discussion Paper options

LME decision to advance proposals to consultation

1. LORI	✓	5. FQLC	✗
2. QBRC	✓	6. WB	✗
3. QBWR	✗	7. PILOR	✗
4. MSO	✗	8. CC	Will be implemented if necessary



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



Measures to prevent accumulation of future queues



Measures to address levels of rent and FOTs



LONDON METAL EXCHANGE

1 Load-Out Rate Increase (“LORI”)

Consulting on a proposed near term increase in the load-out rate for 14-Dec-15 implementation

CURRENT RULES

0 – 300,000 tonnes of metal in storage

Authorised space in sq. metres (ex steel)	Min. daily tonnage (ex cobalt, RMC & steel)
2,500	800 tonnes
5,000	1,200 tonnes
7,500	1,500 tonnes

300,000 tonnes and above of metal in storage

Tonnage stored (ex steel)	Min. daily tonnage (ex cobalt, RMC & steel)
300,000 – 599,999 tonnes	2,000 tonnes
600,000 – 899,999 tonnes	2,500 tonnes
900,000 tonnes and over	3,000 tonnes

RULES UNDER LORI

0 – 150,000 tonnes of metal in storage

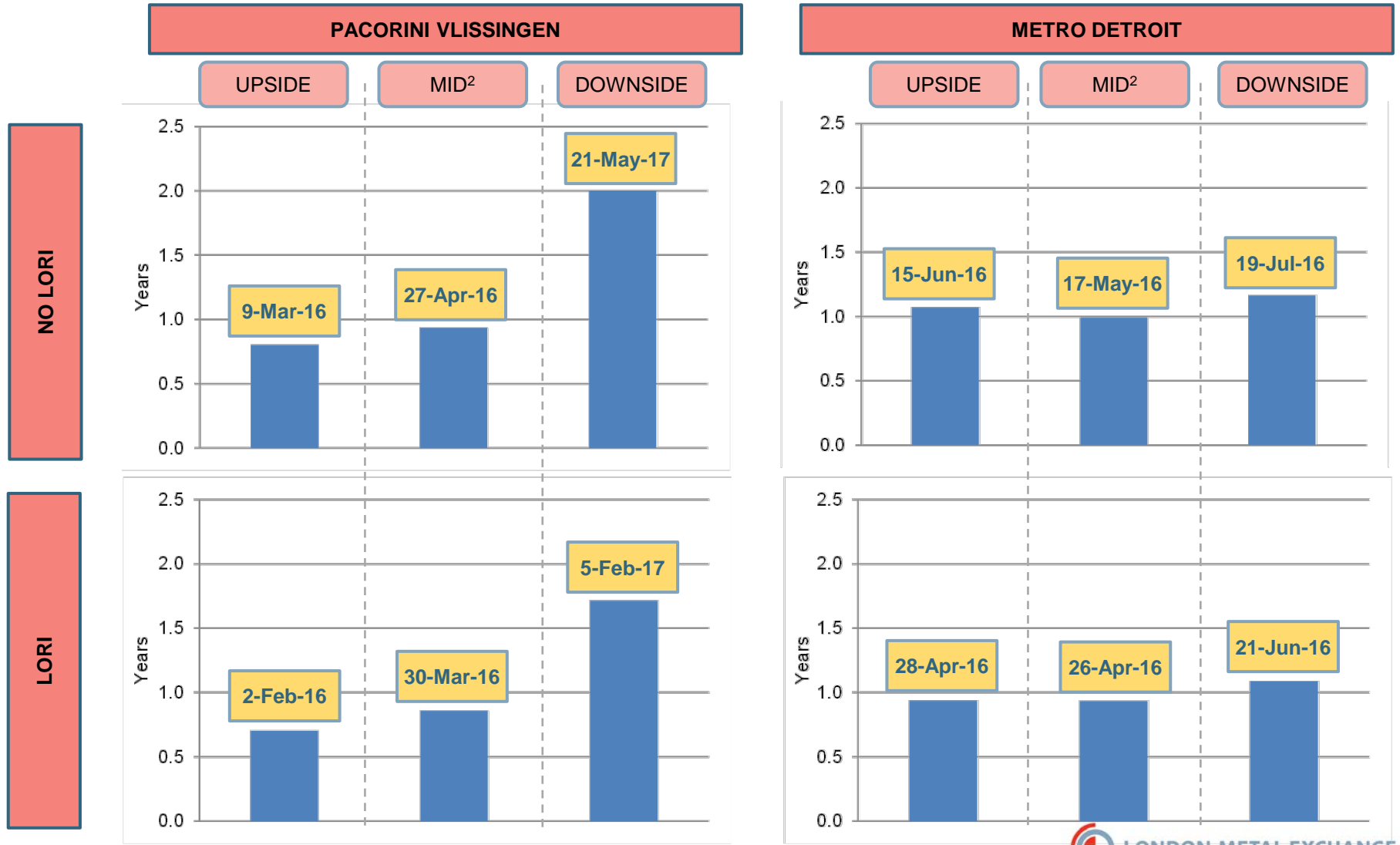
Authorised space in sq. metres (ex steel)	Min. daily tonnage (ex cobalt, RMC & steel)
2,500	800 tonnes
5,000	1,200 tonnes
7,500	1,500 tonnes

150,000 tonnes and above of metal in storage

Tonnage stored (ex steel)	Min. daily tonnage (ex cobalt, RMC & steel)
150,000 – 299,999 tonnes	2,000 tonnes
300,000 – 599,999 tonnes	2,500 tonnes
600,000 – 899,999 tonnes	3,500 tonnes
900,000 tonnes and over	4,000 tonnes

1 LORI – expected impact of queue decay

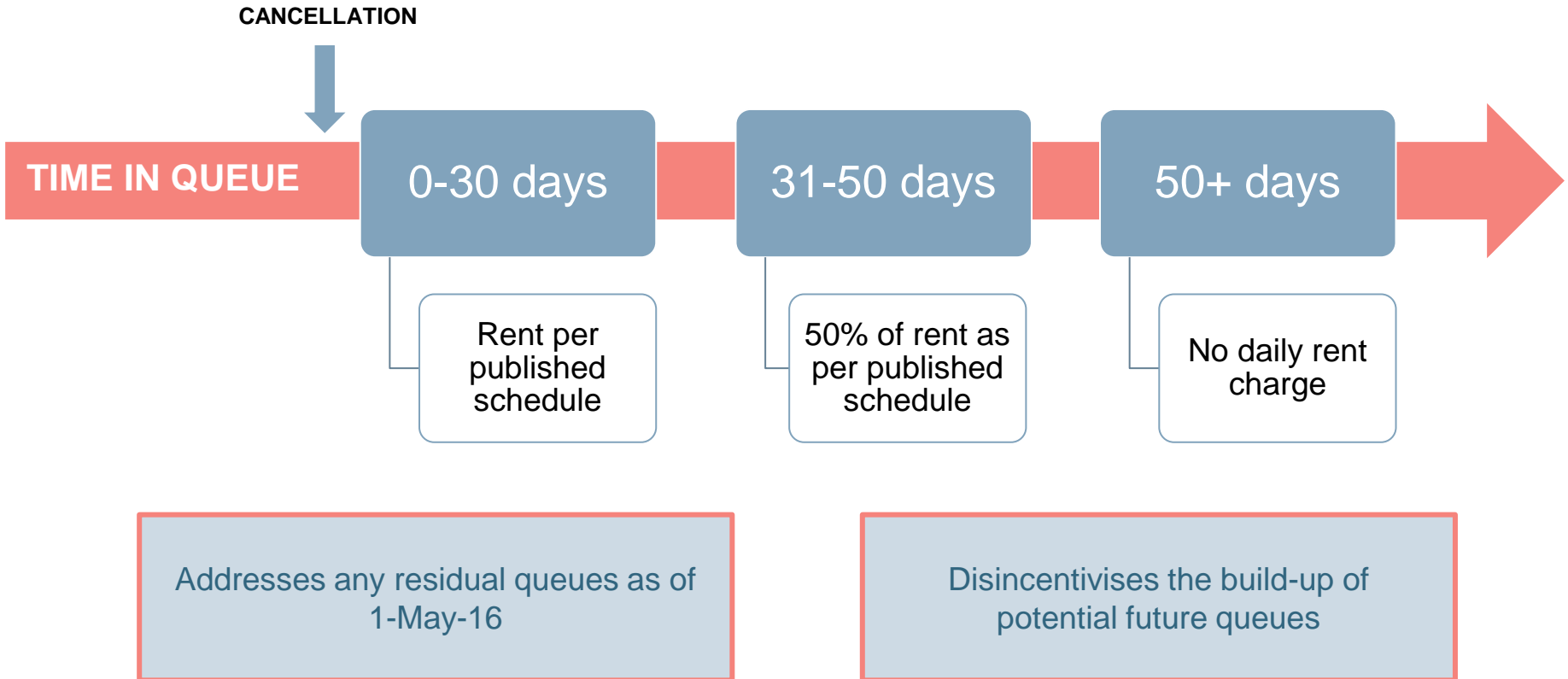
Years required for queues to fall to 50-day threshold as of 22-May-15¹



¹For important information as to modelling approach and assumptions, please see Notices 15/071 : A070 : W024 and 15/191 : A187 : W063
²Mid case may be marginally better than upside case due to "overcompensation" effect of LIFO given 3-month measurement periods

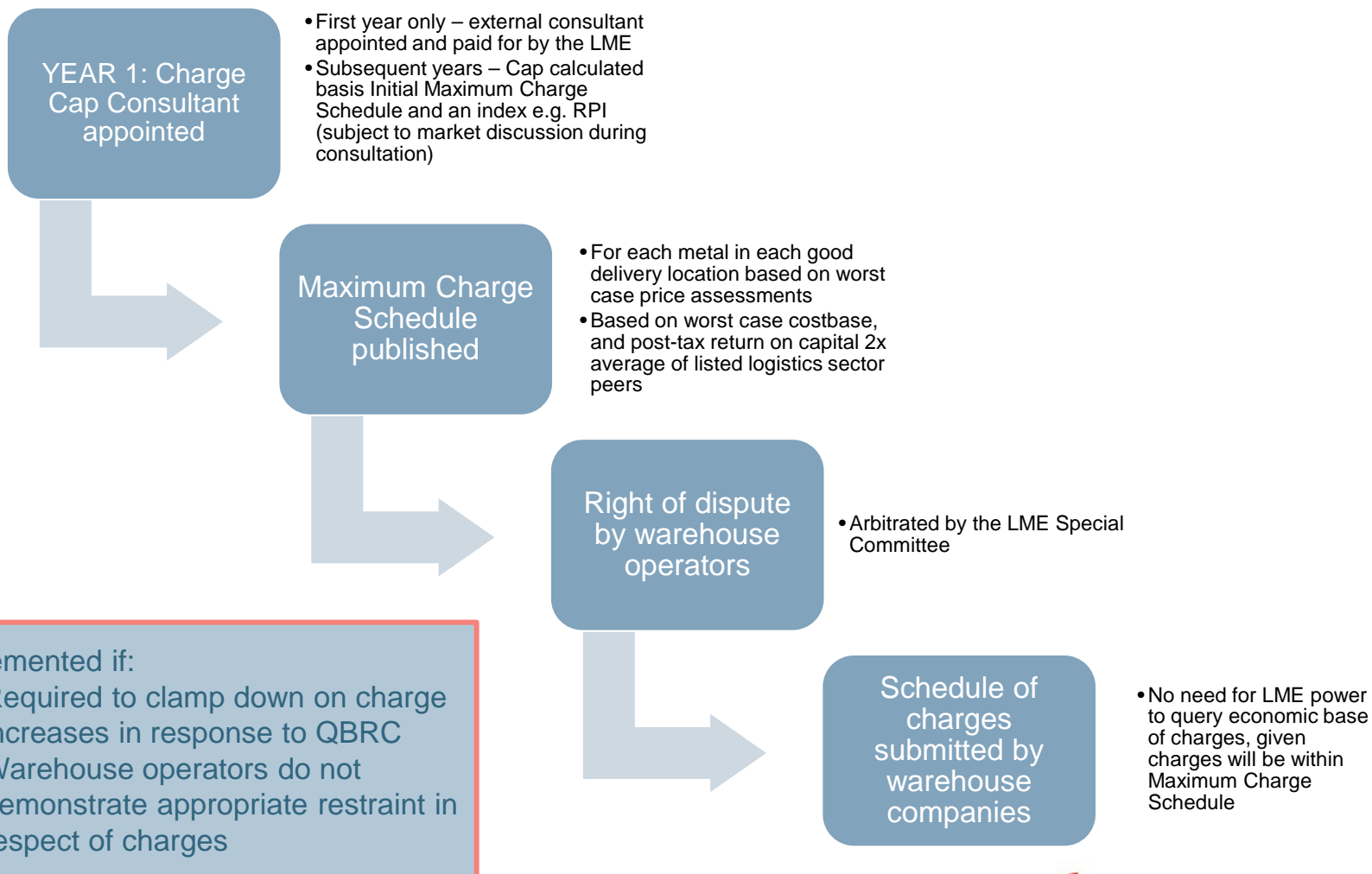
2 Queue-Based Rent Capping (“QBRC”)

Consultation on a proposed cap on rent in queues for 1-May-16 implementation



8 Charge-Capping (“CC”)

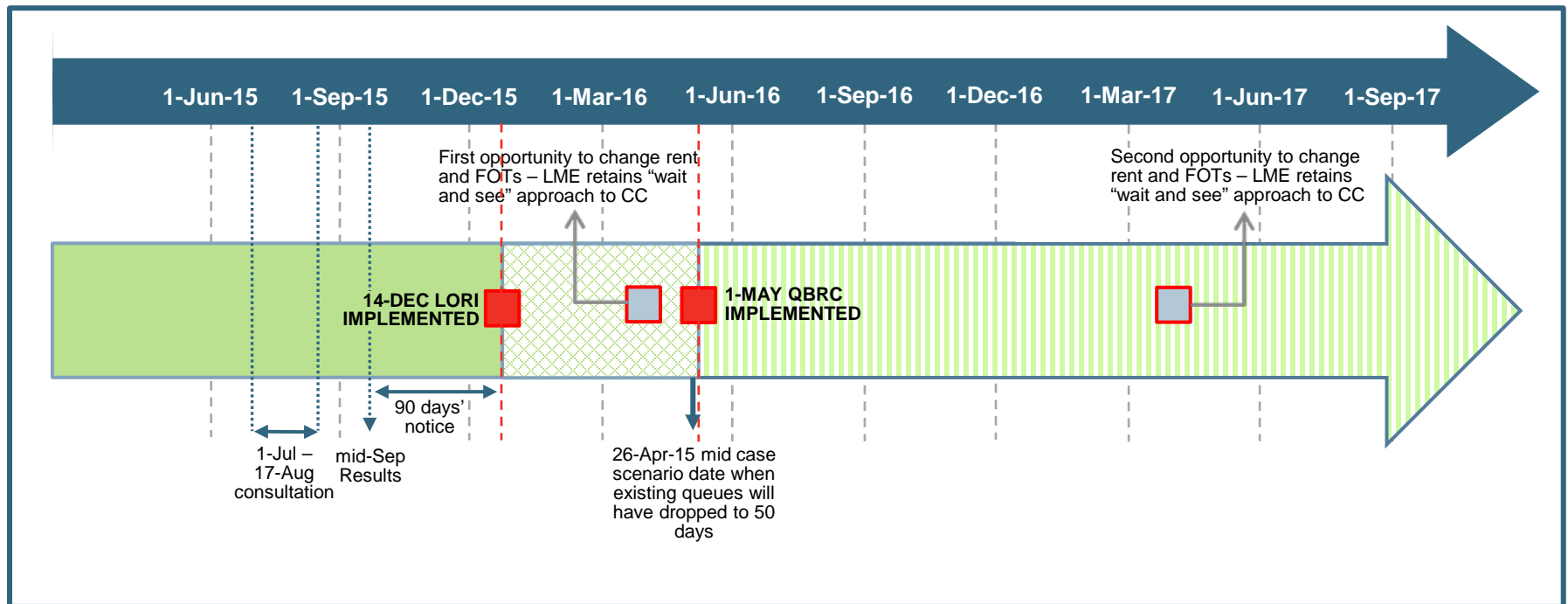
Will be implemented if necessary



Next steps

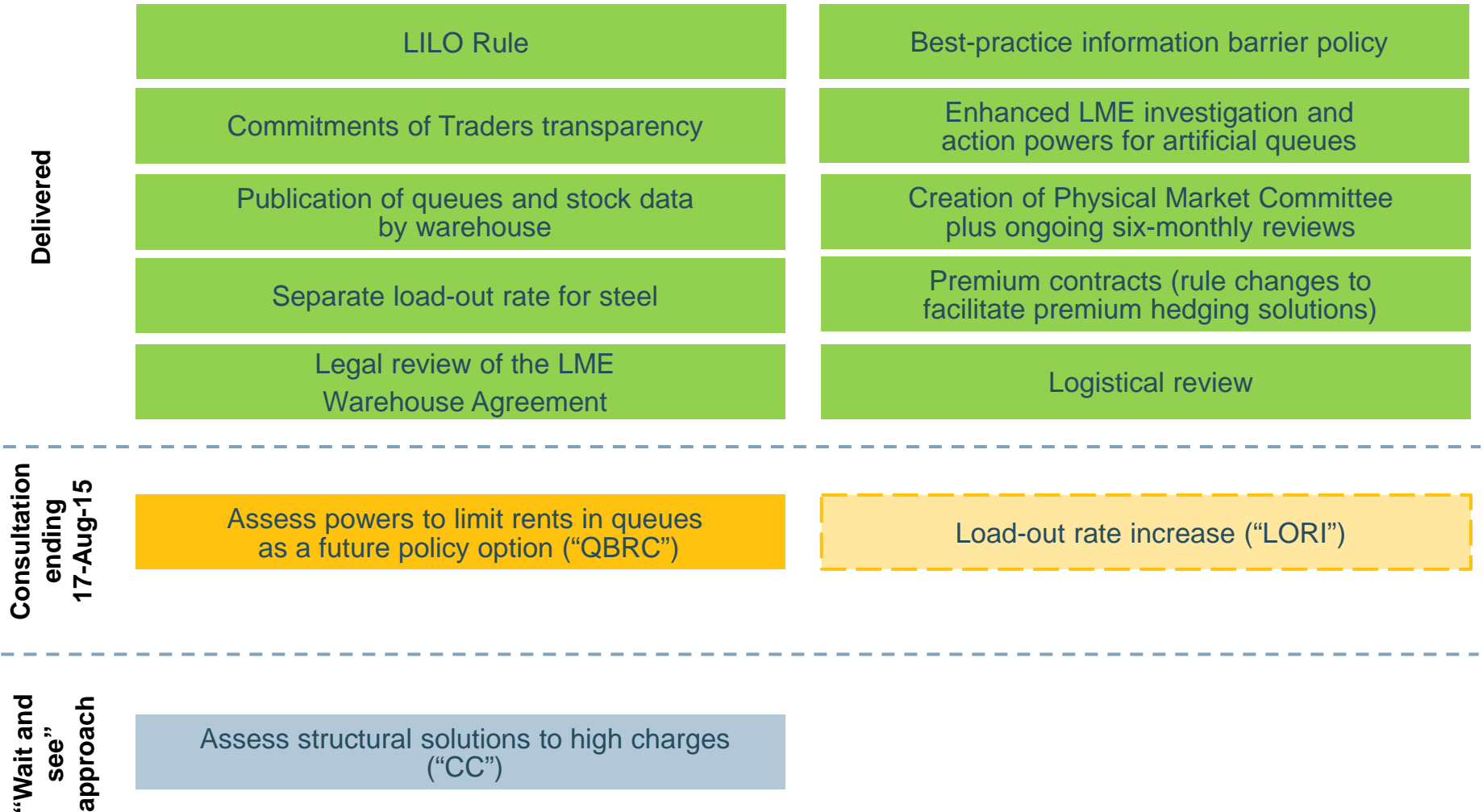
Consultation on potential implementation

LORI and QBRC: proposed timeline for implementation



A comprehensive package of warehouse reform

12 item reform package announced in 2013



Disclaimer

© The London Metal Exchange (the “LME”), 2015. The London Metal Exchange logo is a registered trademark of The London Metal Exchange.

All rights reserved. All information contained within this document (the “Information”) is provided for reference purposes only. While the LME endeavours to ensure the accuracy, reliability and completeness of the 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, reliability or suitability of the Information for any particular purpose. The LME accepts no liability whatsoever to any person for any loss or damage arising from any inaccuracy or omission in the Information or from any consequence, decision, action or non-action based on or in reliance upon the Information. All proposed products described in this document are subject to contract, which may or may not be entered into, and regulatory approval, which may or may not be given. Some proposals may also be subject to consultation and therefore may or may not be implemented or may be implemented in a modified form. Following the conclusion of a consultation, regulatory approval may or may not be given to any proposal put forward. The terms of these proposed products, should they be launched, may differ from the terms described in this document.

Distribution, redistribution, reproduction, modification or transmission of the Information in whole or in part, in any form or by any means are strictly prohibited without the prior written permission of the LME.

The Information does not, and is not intended to, constitute investment advice, commentary or a recommendation to make any investment decision. The LME is not acting for any person to whom it has provided the Information. Persons receiving the Information are not clients of the LME and accordingly the LME is not responsible for providing any such persons with regulatory or other protections. All persons in receipt of the Information should obtain independent investment, legal, tax and other relevant advice before making any decisions based on the Information.

LME contracts may only be offered or sold to United States foreign futures and options customers by firms registered with the Commodity Futures Trading Commission (CFTC), or firms who are permitted to solicit and accept money from US futures and options customers for trading on the LME pursuant to CFTC rule 30.10.