Discussion Paper on LME Warehouse Reform

Overview presentation March 2019



SETTING THE GLOBAL STANDARD



Rationale for LME warehousing evolving...

LME view is that warehouses attract metal via three routes

Logistics

On-warrant LME storage seen as "gold standard"

Model challenged by "shadow LME" storage, where warehouses provide advantages of LME storage but at lower cost.
Advertised as "stored in LME registered sheds", but not actually on LME warrant

Aided by **lower** charges and more regulation

Market fundamentals

Metal warranted to be delivered against short trading positions, particularly to facilitate sale of market oversupply, or during backwardations

Warehousing understood to be counter-cyclical; in a strong economy, metal goes to consumption and warehouses have lower stocks. In recession, warehouses absorb stock as the market of last resort

Incentives

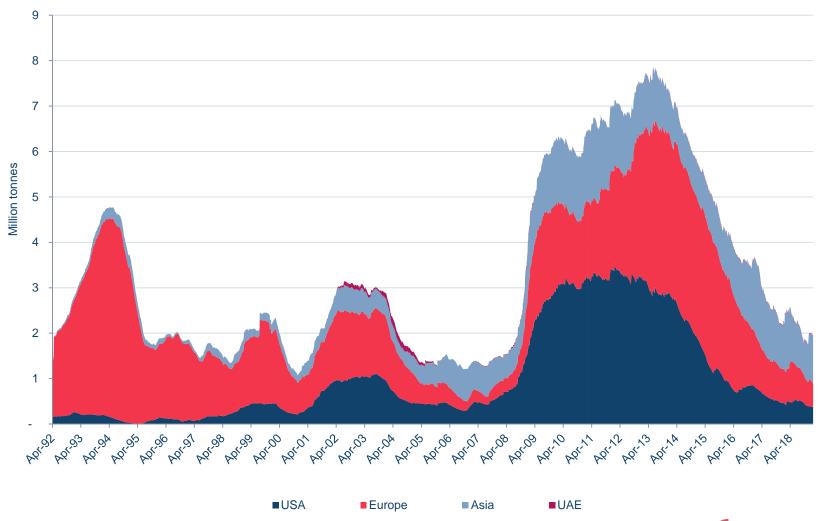
Warehouses offer incentives to metal owners to warrant metal

Quantum reduced under LME
QBRC Rule which puts a *de facto*"cap" on total metal warranted
before risk of financial penalty to
warehouse if all metal cancelled
simultaneously. Lower stock
levels limit incentives offered

Aided by **higher** charges and less regulation



...leading to pattern of lower stocks...





...providing the context for potential reform

1.

While the LME remains happy that its warehousing rules provide proper protection for market users, warehouses remain core stakeholders and the LME is keen to ensure their businesses remain financially viable

2.

Reform work emerged initially from the Warehousing Committee's consideration of feedback received to the LME's 2017 Strategic Pathway. In response to this feedback Warehouse Committee "sub-forum" (plus independent observers) formulated proposals that (i) achieved broad support from Committee members, and (ii) were consistent with existing safeguards provided

3.

Warehousing Committee agreed with LME's view that it would be appropriate to seek feedback on the proposals that were developed by the "sub-forum", and largely accepted by the Committee, from the broader market through a discussion paper, which the LME agreed to draft

4.

Discussion Paper proposals are those of the Committee, aside from Section 5 of the paper which comprises additional proposals put forward by the LME. LME now invites feedback on all the proposals and have made no prior decisions on the final outcome



Strategic proposals



Load-out rules



Evergreen rent deals



Rent reductions



Operational proposals



Electronic certificates of analysis ("CoA")



Clarification to the definition of "load-out"



Free on Truck ("FoT") charges currency denomination



LME proposals



Eligible stock reporting



Changes to cancelled metal reporting in the daily stock report



Eligible copper – requirement for producer batch reference

Next steps

21-Mar-19 Warehousing Committee agreed final proposal and reviewed draft paper

29-Mar-19 Discussion Paper released to market 31-May-19 Discussion Paper closes Q3-19
LME to publish
Discussion Paper
results and
consultation if
appropriate



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