

APPENDIX I



Financial OTC Booking Fee Policy

INTRODUCTION AND EXECUTIVE SUMMARY

Background

This policy sets out the requirements applying to parties that are involved in the trading of over-the-counter (“**OTC**”) contracts referencing the prices, data or other information that is proprietary to and/or published by The London Metal Exchange (the “**Exchange**” or “**LME**”). Such requirements include obligations for parties that are captured by this policy to:

- report to the Exchange such relevant OTC contracts in the manner set out in this policy; and
- pay to the Exchange a “booking fee” in respect of relevant OTC contracts entered into (the “**FOTC Booking Fee**”). Certain fees may be waived, offset or discounted.

This Financial OTC Booking Policy (“**FOTCBF Policy**”) sets out:

- to whom the FOTCBF Policy applies, and the exemptions that apply to certain types of person (Part 1);
- the process for registering under the FOTCBF Policy (Part 2);
- the trades that are subject to reporting (Relevant OTC Contracts) (Part 3);
- how the FOTC Booking Fee is calculated and the arrangements for payment (Part 4);
- how the Relevant OTC Contracts should be reported to the Exchange, and the arrangements for auditing compliance with this policy (Part 5);
- how the FOTCBF Policy may be changed from time to time (Part 6);
- some example scenarios (Part 7); and
- a glossary of defined terms in this FOTCBF Policy (Part 8).

To the extent that this policy applies to:

- Members and (through Members' obligations to ensure that their Affiliates comply with this policy) Affiliates of Members, it is supplemental to the obligations of Members under the LME's Rulebook (as amended from time to time) available on the Exchange's website at: <https://www.lme.com/regulation/rules/rulebook/> (the “**Rules**”); or
- entities that are licensees under a Data Agreement or entitled to use or receive LME Data pursuant to a Data Usage Licence (in each case “**Licensees**”), that incorporates this policy by reference or otherwise requires compliance with this policy by such entities.

It should be noted that, in this policy, references to “**Members**” are to Category 1, 2, 3 and 4 Members (as defined in the Rules). To the extent that this policy is relevant to any other category of member, such category shall be specifically identified by reference to its designation under the Rules.

Executive Summary

- (A) The effect of this FOTCBF Policy is that entities (Booking Fee Participants) falling within the scope of this FOTCBF Policy will be required to:
- (i) report Relevant OTC Contracts to the Exchange; and
 - (ii) pay, to the Exchange, the FOTC Booking Fee in respect of each such Relevant OTC Contracts. Certain fees may be waived, offset or discounted.
- (B) This FOTCBF Policy will apply the FOTC Booking Fee to:
- (i) entities falling within the definition of Booking Fee Participant; in respect of
 - (ii) Relevant OTC Contracts.
- (C) The table below summarises: (i) the type of entities which will fall within the definition of Booking Fee Participants, (ii) whether exemptions may be available to remove certain entities from the definition of Booking Fee Participants, and (iii) the contractual document that creates the binding obligations to comply with this FOTCBF Policy. For the full definitions of the terms used in the table below, please see Part 8 of this FOTCBF Policy.

Type of Entity	Potential Exemptions	Governing Contract(s)
Member (Category 1, 2, 3 or 4)	<ul style="list-style-type: none"> No Financial Institution within Group (including Member) 	<ul style="list-style-type: none"> Rules
Affiliate of Member (Category 1, 2, 3 or 4)	<ul style="list-style-type: none"> No Financial Institution within Group (including Affiliate) Client Asset Manager Physical Participant 	<ul style="list-style-type: none"> Rules (obligations on Member)
Licensee that is a Financial Intermediary (a Category 5 Member may be such a Licensee)		<ul style="list-style-type: none"> Data Agreement or other relevant contract

- (D) The potential exemptions identified in the table above are set out in this FOTCBF Policy. Any entity to which an exemption specified in the table above applies will not be caught by the definition of Booking Fee Participant and will accordingly not be required to pay the FOTC Booking Fee or to report Relevant OTC Contracts. The scope of application of each such exemption is set out in Part 1 of this FOTCBF Policy.
- (E) Booking Fee Participants who are Affiliates of each other have the option to report as a group. In addition to reporting efficiencies, this structure also means that OTC transactions between those Affiliates will not be classified as Relevant OTC Contracts, and hence are not required to be reported nor subject to a fee. It does not dis-apply the application of the FOTC Booking Fee, or the reporting obligation, for Relevant OTC Contracts with entities outside the relevant reporting group.
- (F) The following table summarises the types of contracts to which the FOTCBF Policy applies (contracts that are Relevant OTC Contracts):

Contracts or products that are not input into LMEsmart or cleared by LME Clear, such as (but not limited to) contracts that are:	Which have any of the following characteristics:	And which are not:
<ul style="list-style-type: none"> • Subject to an ISDA • Documented by long-form confirmation • Documented in any other form; or • Un-documented 	<ul style="list-style-type: none"> • May settle by reference to or refer to LME prices or data • Include LME branding or IP or references to the LME • Are margined on the basis of LME Data • May be settled using LME infrastructure • Uses a list of specifications, delivery brands, locations or warehouses (where physically settling) which utilises a database or other list compiled by the Exchange specifying the metal that may be used to settle Contracts 	<ul style="list-style-type: none"> • Contracts with platinum or palladium as the underlying metal • Contracts with ferrous metals as the underlying metal • Contracts which have as the underlying metal a precious metal which is the same as an LMEprecious Contract • Contracts already subject to the Derived Data Licence • Contracts between Affiliates which are in the same Reporting Group • Contracts that refer to the London Metal Exchange Index (LMEX) as the basis for determining their value • Contracts entered into before this FOTCBF Policy is brought into force by notice (see 3.1(g) below)

Interpretation

Terms which are used in this FOTCBF Policy are defined in Part 8 of this FOTCBF Policy. Terms not otherwise defined in this FOTCBF Policy shall have the meaning ascribed to them in the Rules.

References to “Paragraphs” refer to the paragraphs of this FOTCBF Policy. References to “Regulations” in this FOTCBF Policy are references to the regulations of the Rules unless otherwise stated.

In the event of any conflict between the terms of the FOTCBF Policy and the Rules, the terms of the FOTCBF Policy shall prevail. In the event of any conflict between the terms of the FOTCBF Policy and any Data Agreement, the terms of the FOTCBF Policy shall prevail.

In this FOTCBF Policy, unless the context requires otherwise:

- (a) references to the words “includes” or “including” will be construed without limitation to the generality of preceding words;

- (b) references to the word “aggregate” will be construed as meaning gross total of positives and negatives, rather than netting;
- (c) headings are for convenience only and do not affect the interpretation of this Agreement;
- (d) words or phrases importing the singular include the plural and vice versa; and
- (e) any reference in this FOTCBF Policy to any part of any legislation, statute or regulation includes the equivalent provision under any related or replacement legislation, statute or regulation from time to time.

References in this agreement to “tonnes” means “metric tonnes” (as set out in the Rules).

Draft

1. **PART 1 – Who does this policy apply to?**

1.1 **Principle of Application**

As more specifically described below, the FOTCBF Policy is intended to apply to financial participants entering into OTC transactions for LME metals, either with other financial participants, or with their clients.

1.2 **Booking Fee Participants**

This FOTCBF Policy shall apply to Booking Fee Participants and all Booking Fee Participants must comply with this FOTCBF Policy.

A “**Booking Fee Participant**” shall include any person who falls within the following categories of person:

- (a) all Members, other than such a Member to which the Non-Financial Group Exemption applies;
- (b) any Affiliate of a Member that is party to a Relevant OTC Contract, other than:
 - (i) an Affiliate of a Member to which the Non-Financial Group Exemption applies;
 - (ii) an Affiliate that is a Client Asset Manager; or
 - (iii) an Affiliate to which the Physical Participant Exemption applies;
- (c) any Licensee that is a Financial Intermediary and party to a Relevant OTC Contract.

A person falling into category (a) or (b) shall not also be classified under category (c). By way of example, this means that an Affiliate of a Member that is also a Licensee shall be treated as a Booking Fee Participant falling under (b) above and not under (c).

1.3 **Non-Financial Group Exemption**

A Member may declare itself and its Affiliates as exempt from the application of this FOTCBF Policy, on the basis that such Member is not, and does not have within its Group any Affiliate that is, a Financial Institution. Such exemption shall be the “**Non-Financial Group Exemption**”.

In order to be effective, such declaration must be notified to the Exchange in writing by the Member, and must be validly made in accordance with the terms of the Non-Financial Group Exemption specified in the Paragraph above. Such notification shall be made using Form 1 (see Annex 1), in accordance with the process set out in Paragraph 2.6 below.

The effect of a valid declaration by a Member for the application of the Non-Financial Group Exemption shall be that such Member and its Affiliates shall not be Booking Fee Participants, and therefore this FOTCBF Policy shall not apply to such Member or to its Affiliates.

1.4 **Physical Participant Exemption**

An Affiliate of a Member shall be exempt from the application of this FOTCBF Policy where such Affiliate is a Physical Participant, unless the Member notifies the Exchange

that such Affiliate should be treated as a Booking Fee Participant. Such exemption shall be the “**Physical Participant Exemption**”. The LME reserves the right in its sole discretion to re-categorise an entity seeking the Physical Participant Exemption as a Booking Fee Participant under Paragraph 1.2 above, where that entity has been erroneously or incorrectly categorised as a Physical Participant.

In order to dis-apply the Physical Participant Exemption in respect of an Affiliate which is a Physical Participant, the Member must notify the Exchange in writing, specifying the identity of the Affiliate and indicating that such Affiliate should be treated as a Booking Fee Participant. Such notification shall be made using Form 1, in accordance with the process set out in Paragraph 2.6 below.

Where the Physical Participant Exemption applies to an Affiliate, such Affiliate shall not be a Booking Fee Participant, and therefore this FOTCBF Policy shall not apply to such Affiliate.

Draft

2. **PART 2 – How to report under this FOTCBF Policy?**

Reporting Groups

- 2.1 Any set of Booking Fee Participants who are Affiliates of each other may choose to report as a group (a “**Reporting Group**”), or a set of Reporting Groups. It is not a requirement that group reporting is undertaken, and Affiliates may choose to construct one or more Reporting Groups as they wish. Each Booking Fee Participant may only be a member of one Reporting Group.
- 2.2 With each Reporting Group, one Booking Fee Participant (the “**Group Reporting Participant**”) must head the Reporting Group and take responsibility for reporting and payment. Once a Reporting Group has been formed and advised to the Exchange, and until the Reporting Group ceases to operate:
- (a) OTC trades between Booking Fee Participants in the Reporting Group shall not be classified as Relevant OTC Contracts, as specified in Paragraph 3.1(e);
 - (b) the Group Reporting Participant must ensure that it reports the aggregate Relevant OTC Contracts for all Booking Fee Participants in the Reporting Group, and all reporting requirements in this FOTCBF Policy shall be read as applying to the aggregate Relevant OTC Contracts for all Booking Fee Participants in the Reporting Group;
 - (c) the Group Reporting Participant shall be responsible for paying the FOTC Booking Fee in respect of all Relevant OTC Contracts under (b); and
 - (d) all other Booking Fee Participants in the Reporting Group shall not have an obligation under this FOTCBF Policy to: (i) separately register as Booking Fee Participants; (ii) submit reports on Relevant OTC Contracts to the Exchange, or (iii) pay to the Exchange the FOTC Booking Fee. However, all other elements of this FOTCBF Policy shall apply to such other Booking Fee Participants, and in particular audit rights, such that the Exchange can assess that the Group Reporting Participant has correctly reported the activity of such other Booking Fee Participants.
- If a Reporting Group contains a Member, then the Group Reporting Participant must be that Member. A Reporting Group may not contain more than one Member. Booking Fee Participants may only be a member of one Reporting Group.
- 2.3 Reporting Groups must be advised to the Exchange in accordance with the process laid out in Paragraphs 2.5 - 2.8 below.
- 2.4 In the event that the Group Reporting Participant fails to discharge its obligations under this FOTCBF Policy, then the Exchange may dissolve the Reporting Group. In such event:
- (a) each individual Booking Fee Participant shall be required to report its Relevant OTC Contracts and pay the FOTC Booking Fee on an on-going basis; and
 - (b) the Exchange may require reporting and payment from each individual Booking Fee Participant for the period during which the Group Reporting Participant has failed to discharge its obligations.

Registration of Booking Fee Participants and Reporting Groups with the LME

- 2.5 Each Booking Fee Participant must register with the Exchange in accordance with the procedure set out in Paragraph 2.6, 2.7 or 2.8, as applicable (unless that Booking Fee Participant is a member of a Reporting Group, and not the Group Reporting Participant for that Reporting Group). Such registration must be made on the earlier of: (i) the entity in question becoming a Booking Fee Participant; or (ii) the date advised by Notice following the entry into force of this FOTCBF Policy¹.

2.6 Members

Each Member must, using Form 1:

- (a) notify the Exchange whether the Non-Financial Group Exemption applies;
- (b) where (a) does not apply, such that the Member is a Booking Fee Participant:
 - (i) provide to the Exchange a list of all of its Affiliates that constitute Booking Fee Participants pursuant to Paragraph 1.2(b);
 - (ii) specify which of such Affiliates should be included within the Member's Reporting Group (in which case, the Member will act as the Group Reporting Participant in respect of the Reporting Group).

The Member must promptly notify the Exchange in writing in the event that any of the details previously notified to the Exchange pursuant to (a) and/or (b) above become incorrect (including, without limitation, where any other Affiliate becomes a Booking Fee Participant for any reason) as well as the date on which (a) and/or (b) above became incorrect.

2.7 Affiliates of Members not in a Member's Reporting Group

Where any Affiliate of a Member is a Booking Fee Participant and is not included in a Reporting Group headed by the Member or another Affiliate, such Affiliate must notify the Exchange using Form 2 (see Annex 2), specifying the basis on which it wishes to report its Relevant OTC Contracts to the Exchange. The permissible bases for reporting are:

- (a) acting as the Group Reporting Participant for a Reporting Group (together with other Affiliates of the Member, who must be named on Form 2) that is not the Member's Reporting Group; or
- (b) on a standalone basis.

An Affiliate must promptly notify the Exchange in writing in the event that any of the details previously notified to the Exchange pursuant to the above become incorrect, or if the Affiliate is no longer part of a Reporting Group.

In the event of any inconsistency or overlap between the Reporting Group notified by the Member pursuant to Paragraph 2.6(b) and any Reporting Group notified by an Affiliate pursuant to this Paragraph 2.4, the Exchange may notify such Member and the Member shall be responsible for resolving such inconsistency or overlap.

¹ The date is currently anticipated to be 12 March 2018, but is subject to change.

2.8 Licensees

Each Licensee that is a Booking Fee Participant and is not included in a Reporting Group headed by an Affiliate must, using Form 2, notify the Exchange of this fact, and specify the basis on which it wishes to report its Relevant OTC Contracts to the Exchange. The permissible bases for reporting are:

- (a) acting as the Group Reporting Participant for a Reporting Group (together with Affiliates of the Licensee, who must be named on Form 2); or
- (b) on a standalone basis.

A Licensee must promptly notify the Exchange in writing in the event that any of the details previously notified to the Exchange pursuant to the above become incorrect, or if the Licensee is no longer part of a Reporting Group.

Verification by LME

2.9 The Exchange may undertake such enquiries of any Member, Affiliate of a Member or Licensee as the Exchange considers appropriate to determine whether such Member, Affiliate and/or Licensee has correctly determined whether any person should or should not be treated as a Booking Fee Participant. Such enquiries may include, without limitation, an assessment of whether:

- (a) a person has been correctly identified as either being or not being an Affiliate of another person; and/or
- (b) a person has been correctly identified as a Client Asset Manager, or as a Physical Participant; and/or
- (c) the Member and/or any Affiliate satisfies the criteria for the application of the Non-Financial Group Exemption.

2.10 A Member, any Affiliate of a Member or any Licensee must co-operate with any such enquiries undertaken by the Exchange pursuant to Paragraph 2.9 and must provide to the Exchange such information as the Exchange may request in connection with such enquiries, including any information that the Exchange considers necessary to assess whether a person has been correctly identified as either being or not being a Booking Fee Participant.

2.11 In the event that the Exchange determines that a person has been incorrectly identified as not being a Booking Fee Participant (whether due to the incorrect application of an Exemption or otherwise), such person shall be deemed to be a Booking Fee Participant and shall:

- (a) be liable to pay the FOTC Booking Fee in respect of all future Relevant OTC Contracts entered into by such Booking Fee Participant following the date of such determination by the Exchange; and
- (b) report to the Exchange all Relevant OTC Contracts entered into by such Booking Fee Participant in the period prior to such determination, during which the Booking Fee Participant had sought to rely upon the incorrect identification; and
- (c) be liable to pay to the Exchange such FOTC Booking Fees and any applicable interest and/or charges accrued pursuant to Paragraph 4.19 in respect of the

Relevant OTC Contracts identified pursuant to 2.11(b) above as the Exchange shall calculate and notify to the Booking Fee Participant.

Draft

3. **PART 3 – Which trades are subject to the OTC Booking Fee?**

Trades Subject to the FOTC Booking Fees (Relevant OTC Contracts)

3.1 **“Relevant OTC Contract”** means any contract or product, howsoever executed:

- (a) that is not input into LMEsmart or cleared by LME Clear, and which may include, but shall not be limited to, trades referenced (between two or more parties) whether:
 - (i) formally documented under an International Swaps and Derivatives Association (ISDA) standard agreement;
 - (ii) documented by a long-form confirmation;
 - (iii) any other documentation; or
 - (iv) undocumented; and
- (b) which has any of the following characteristics:
 - (i) it is, or may be, settled on the basis of, or with direct or indirect reference to, the LME's Official Prices, Closing Prices, or other Exchange reference prices, or prices calculated on the basis of LME Data, or which refer to or use such prices in any other way;
 - (ii) its terms, branding, name or description reference in any way the Exchange by its name, or use any of the trade marks or intellectual property of the Exchange;
 - (iii) it is margined or valued on the basis of LME Data;
 - (iv) it is, or may be, physically settled using the infrastructure, systems or facilities maintained or operated by Exchange, including but not limited to LMEsword; or
 - (v) it is or may be physically settled by underlying metal according to a list of specifications, brands, locations and/or warehouse operators, and such list utilises all or part of any database or other list compiled by the Exchange for specifying metal which may be used to settle any Contract, as set out in the Rules or as otherwise published by the Exchange; and
- (c) which is not a contract or product for which the underlying metal is: a precious metal of the same type as is the underlying metal for an LMEprecious Contract; a ferrous metal; platinum; or palladium; and
- (d) which is not covered by the terms of an LME Derived Data Licence;
- (e) which is not a transaction between Booking Fee Participants who are part of the same Reporting Group;
- (f) which is not a contract that refers to the London Metal Exchange Index (LMEX) as the basis for determining its value; and

- (g) entered into on or after the date advised by Notice following the entry into force of this FOTCBF Policy².
- 3.2 LME options volatilities may not be used as reference prices in any derivative contract or other financial instrument.
- 3.3 The Exchange acknowledges that Relevant OTC Contracts could be entered into using a Non-LME Multi Dealer Trading System (as defined in the Rules). However, this FOTCBF Policy expressly prohibits any Member, Affiliate and Licensee from entering into Relevant OTC Contracts on a Non-LME Multi Dealer Trading System that has not been approved by the Exchange, pursuant to the Rules. Such approval will be publicised under the Rules where, as determined by the LME in its sole discretion and acting reasonably, any Non-LME Multi Dealer Trading System is lawfully making use of the Intellectual Property Rights of the Exchange, including, without limitation, where such Non-LME Multi Dealer Trading System has: (i) entered into a licence agreement for the use of Intellectual Property Rights belonging to the Exchange; or (ii) been granted open access rights pursuant to prevailing applicable legislation.

² The date is currently anticipated to be 3 April 2018, but is subject to change.

4. **PART 4 – Calculation and Payment of the FOTC Booking Fee**

Core principle of applicable fee

- 4.1 The core principle for calculating the applicable FOTC Booking Fee for any trade is that if it is assumed that every Prompt Date is immediately tradable via Contracts on the Exchange, and that any tonnage is tradable as Contracts on the Exchange, the total tonnage of Contracts which would need to be traded to offset the market risk created by the Relevant OTC Contract would be the **“Exchange Equivalent Tonnage”**.
- 4.2 Part 7 of this FOTCBF Policy sets out how the FOTC Booking Fee would be calculated in a range of different scenarios.

Calculation of applicable fee

- 4.3 The LME FOTC Booking Fee shall be a price per Exchange Equivalent Lot (as defined in (a) below), and shall be as specified in the fee schedule set out on the Exchange’s website (as amended from time to time)³. In order to assist with the determination of such calculation:
- (a) The **“Exchange Equivalent Lots”** are calculated as the gross Exchange Equivalent Tonnage in a Reporting Period, divided by the relevant contract size for each metal, as such contract size is specified in the Rules (as amended from time to time).
 - (b) The **“gross Exchange Equivalent Tonnage”** in a Reporting Period is the sum of the Exchange Equivalent Tonnage of all trades within that Reporting Period, all modifications within the Reporting Period, and all early terminations within the Reporting Period.
 - (c) The Exchange Equivalent Tonnage for any trade is the sum of the metric tonne notional of the trade (or notional converted to metric tonnes), per leg, per settlement period.

Calendar spread transactions

- 4.4 A calendar spread transaction gives rise to two chargeable legs. The aggregate tonnage of both legs must be reported in the party’s Report.

Option transactions

- 4.5 For vanilla options trades that expire into either a physically settled forward, or a financially settled swap, the Exchange Equivalent Tonnage is calculated per the position that would be created, should the option be exercised at expiry. This should be reported in the month that the option is traded, irrespective of whether it is exercised or not.
- 4.6 For options which are cash settled upon expiry, the Exchange Equivalent Tonnage is calculated as the equivalent hedge that would need to be traded on expiry to offset the change in delta, if the option is in the money (i.e. the Exchange Equivalent Tonnage should the option be a 100% delta).

³ As of the date of this FOTCBF Policy, it is proposed that such fee be one US dollar per Exchange Equivalent Lot.

Structured transactions

4.7 For structured transactions, which are Bespoke Transactions, and which have features including (but not limited to):

- (a) having multiple commodity reference price (or other) inputs for settlement pricing; or
- (b) having non-vanilla optionality,

the Exchange Equivalent Tonnage of each metal should be calculated as:

- (i) the sum of the total notional value (adjusted for any leverage) of the delta of each metal in the structure at inception (using a fair and reasonable pricing method),

divided by

- (ii) the per tonne price of the relevant metal at inception of the trade.

Modifications and cancellations

4.8 Where a Relevant OTC Contract is subject to the FOTC Booking Fee, and during its lifecycle such Relevant OTC Contract is modified, cancelled, or terminated early (a "**Modification**"), such Relevant OTC Contract must be reported, and shall incur an additional fee due to the Modification, as if it was a new Relevant OTC Contract to offset the original transaction.

4.9 Where a Relevant OTC Contract is financially or physically settled on the day that it was originally scheduled to settle, as per the original contract, without modification (a "**Close-Out**"), this does not create a new Relevant OTC Contract. As such, no reporting requirements apply, and no FOTC Booking Fee shall be applied to the Close-Out.

Waivers of OTC Booking Fees

4.10 Relevant OTC Contracts that are Spot Physical Trades shall not incur any FOTC Booking Fee ("**Physical Spot Waiver**"). For the avoidance of doubt, such Relevant OTC Contracts must still be reported by the Booking Fee Participant.

Offsets of OTC Booking Fees

4.11 Where a Booking Fee Participant is not a Member and, within a Reporting Period:

- (a) enters into Relevant OTC Contracts; and
- (b) is issued, as a Client, Client Contracts by any Member,

then, when calculating the applicable OTC Booking Fee for such Booking Fee Participant, the Exchange shall offset such Relevant OTC Contracts against such Client Contracts (where such Client Contracts are reported in a Report) on the basis that the offset shall apply between the number of Lots under the Client Contracts and the Exchange Equivalent Lots under the Relevant OTC Contracts ("**Client Contract Offset**"). The offset need not be implemented on a trade-by-trade basis. It should be implemented on an aggregate basis across all Client Contracts issued, per metal, for the Booking Fee Participant, offsetting the aggregate FOTC Booking Fee in that metal, during each Reporting Period.

- 4.12 Where, within a Reporting Period, a Booking Fee Participant that is a Member brings a Relevant OTC Contract to which it is party onto the Exchange, under the OTC Bring-On category pursuant to the Rules, the Exchange shall, when calculating the applicable OTC Booking Fee, offset such brought-on Relevant OTC Contracts (where such OTC Bring-On trades are reported in a Report) against the total number of Exchange Equivalent Lots for Relevant OTC Contracts of the same metal entered into by the Booking Fee Participant during the same Reporting Period ("**OTC Bring-On Offset**"). The offset need not be implemented on a trade-by-trade basis, but on an aggregate basis across all contracts brought-on to the Exchange, per metal, for the Booking Fee Participant, offsetting the aggregate FOTC Booking Fee in that metal, during each Reporting Period.
- 4.13 Entities that hold a Data Usage Licence issued by the Exchange may offset the fee paid for such licence (as set out in the Data Agreement) against any fees payable under the FOTCBF Policy annually, in respect of any metal ("**Usage Licence Offset**"). This can span across multiple Reporting Periods and invoice periods (within the relevant calendar year) until the licence fee is fully offset. In order to utilise a Usage Licence Offset, the entity must notify the Exchange of its intent to do so, pursuant to the relevant Report(s).
- 4.14 In the case of Reporting Groups, the offsets set out in Paragraphs 4.11 to 4.13 apply across the aggregate activity of the Booking Fee Participants within the Reporting Group. For example:
- (a) if a Booking Fee Participant within the Reporting Group receives a given number of Client Contracts, these can be offset against Relevant OTC Contracts entered into by any other Booking Fee Participant within the same Reporting Group. For the avoidance of doubt, the Client Contracts may be issued by a Member within the Reporting Group;
 - (b) if a Member within the Reporting Group brings a given number of Relevant OTC Contracts onto the Exchange, these can be offset against Relevant OTC Contracts entered into by any other Booking Fee Participant within the same Reporting Group; and
 - (c) for each Booking Fee Participant within the Reporting Group which pays fees for a Usage Licence, such fees can be offset against FOTC Booking Fees payable by any Booking Fee Participant within the same Reporting Group.

Discounts to OTC Booking Fees

- 4.15 Where a Relevant OTC Contract is: (i) a calendar spread trade (including two fixed-float swaps traded as a calendar spread, a float-float swap, or a float-delivery); and (ii) all pricing and settlement dates are within 60 calendar days of the first pricing date, Booking Fee Participants shall benefit from a 50% reduction to the FOTC Booking Fee in respect of such Relevant OTC Contract, subject to Paragraph 4.16 below ("**Short-Dated Spread Discount**").
- 4.16 To benefit from the Short-Dated Spread Discount:
- (a) the aggregate tonnage of both legs of the trades must be reported within the party's Report, under the relevant "spread" trade types section; and
 - (b) the Physical Spot Waiver does not apply on any leg of the spread trade to which the discount applies.

Paying applicable fees

- 4.17 In consideration of allowing the Booking Fee Participant (and, where applicable, other Booking Fee Participants within the Reporting Group) to use LME Data by entering into a Relevant OTC Contract, the Booking Fee Participant shall pay to the Exchange the FOTC Booking Fees determined in accordance with this Part 4.
- 4.18 All payments made by a Booking Fee Participant pursuant to this FOTCBF Policy shall be made in full, without any deduction, withholding, set-off or counterclaim (other than any deduction or withholding of tax as required by law). All Booking Fees shall be exclusive of any applicable taxes including VAT or local taxes for which the Booking Fee Participant shall remain liable. Each Booking Fee Participant agrees to pay all bank charges relating to any payment, due to the Exchange.
- 4.19 Where any amount due to the Exchange remains unpaid or where there is an adjustment to the amount due as a result of any incorrect reporting pursuant to Paragraph 2.11 or Part 5 of this FOTCBF Policy, without prejudice to any other right or remedy, the Exchange may charge interest at an annual rate of 4% above the base rate of Lloyds Bank PLC in the United Kingdom calculated on a daily basis in respect of any amount which is overdue and remains unpaid, and where applicable may charge Booking Fee Participant for the Exchange's reasonable expenses of collection (including but not limited to, lawyers' and experts' charges, as well as court costs and the administrative costs of the Exchange).
- 4.20 The Exchange may add to or change the OTC Booking Fees payable from time to time upon the provision of at least thirty (30) days' written notice, with changes to be effective on the date specified in such written notice.
- 4.21 The Exchange may at any time set-off any OTC Booking Fees owed by a Booking Fee Participant to the Exchange against any amounts owed by the Exchange to the Booking Fee Participant, whether such amount is a present debt or will arise in the future, and whether or not such amount arises under this FOTCBF Policy. Any exercise by the Exchange of its rights under this Paragraph 4.21 shall not limit or affect any other rights or remedies available to it under the FOTCBF Policy or otherwise.
- 4.22 The Exchange will invoice fees payable under the FOTCBF Policy on a quarterly basis in arrears on or around the 1st May (for the periods January-March), 1st August (for the periods April-June), 1st November (for the periods July-September) and 1st February (for the proceeding October-December periods).

Disapplication by the LME

- 4.23 The LME may, at its sole discretion acting reasonably, dis-apply any exemption, discount or offset conferred under this Policy, where it believes that any trade or combination of trades are being used primarily to avoid payment of the FOTC Booking Fee.

5. **PART 5 – Reporting and Audit**

Reporting Relevant OTC Trades

- 5.1 The reporting period (“**Reporting Period**”) for the FOTC Booking Fee is one calendar month, starting on the first day of each month.
- 5.2 All reports under the FOTCBF Policy (“**Reports**”) should be approved and submitted by the appropriate senior compliance officer(s) responsible for metals trading of the Booking Fee Participant (the “**Reporting Officer(s)**”). The Exchange shall be entitled to rely on any report submitted by the Reporting Officer(s) as being fully accurate in respect of Relevant OTC Contracts transacted by the Reporting Group, on the basis that it has been reviewed and approved by the relevant Reporting Officer(s).
- 5.3 When a Group Reporting Participant is reporting on behalf of a Reporting Group, a compliance officer at the Group Reporting Participant may rely on reports from compliance officers from other Booking Fee Participants in the Reporting Group. For the avoidance of doubt, the Exchange maintains a right of audit over the other Booking Fee Participants.
- 5.4 All Booking Fee Participants (unless part of a Reporting Group and not the Group Reporting Participant) must report their transactions in Relevant OTC Contracts to the Exchange in every Reporting Period. In the event that no applicable transactions have been done in that period, a nil return must be reported (such that a report is submitted with a zero value in the relevant reporting field(s)).
- 5.5 Reports must be submitted to the Exchange on or before the 14th calendar day of the month following each Reporting Period.
- 5.6 Reports shall be made on a summary, aggregate basis, for each combination of the below categories, in gross total metric tonnes:
- (a) **metal:**
- Aluminium
 - Aluminium alloy
 - Cobalt
 - Copper
 - Lead
 - Molybdenum
 - NASAAC
 - Nickel
 - Tin
 - Zinc
- (b) **Trade type:**

Trade Type	Applicability of Discount, Offset or Waiver
Financially-settled Relevant OTC Contracts	Specify those eligible for Short-Dated Spread Discount
Physically-settled Relevant OTC Contracts	Specify those eligible for Short-Dated Spread Discount
Physical Spot Trades	Eligible for waiver of fee per the Physical Spot Waiver
Client Contracts received	Offset will be provided per the Client Contract Offset
OTC bring-on transactions	Offset will be provided per the OTC Bring-On Offset

(c) **Other data:**

Data	Relevant Information
Usage Licence fees paid	Offset will be provided per the Usage Licence Offset, subject to notification being made to the Exchange that the Booking Fee Participant wishes to utilise the Usage Licence Offset

- 5.7 For the avoidance of doubt, the notional tonnage on options transactions should also be aggregated into the figures provided.
- 5.8 Any leverage within transactions should be applied to the specified notional in the transaction, in order to calculate the Exchange Equivalent Tonnage of the trade.
- 5.9 The Exchange provides a reporting spreadsheet on its website and at Annex 3 of this FOTCBF Policy (the “**Reporting Template**”). The Reporting Template must be used for the purpose of submitting Reports.
- 5.10 Reports may be submitted to the Exchange via the secure Universal Data Gateway. A new login will be provided for the nominated Reporting Officer(s) for each Booking Fee Participant to be able to submit Reports. Alternatively, a Booking Fee Participant may submit a Report by email if, acting prudently, it considers such method of delivering its Report to the Exchange to be appropriately secure.

Right to Audit and Record Keeping

- 5.11 Each Booking Fee Participant shall keep complete, accurate and up-to-date records relating to the Relevant OTC Contracts it enters into for a minimum of five years from the date of creation of such Relevant OTC Contracts. Such records must be sufficient to identify all OTC Booking Fees payable to the Exchange under this FOTCBF Policy.

- 5.12 The Exchange may request at any time, and the Booking Fee Participant will ensure, that the Reporting Officer of the Booking Fee Participant confirms, in writing, the Booking Fee Participant's compliance with the terms of this FOTCBF Policy.
- 5.13 Upon the provision of at least thirty (30) days' written notice (but without notice in the case of a breach or suspected breach of this FOTCBF Policy or where required by any competent regulatory body), the Booking Fee Participant shall permit the Exchange and/or its advisors and/or its regulators and/or any independent professional auditors acting on behalf of the Exchange:
- (a) to gain access (both physical and remote) during normal business hours to the systems, controls, books and records of the Booking Fee Participant and (where appropriate) its Affiliates, and any other information ("**Records**") held at the Booking Fee Participant's or its Affiliates' premises or on the Booking Fee Participant's or its Affiliates' information technology or other systems owned or operated by the Booking Fee Participant or its Affiliates; and
 - (b) to inspect and take copies of all such Records,

in each case as the Exchange may reasonably require for the purposes of auditing the Booking Fee Participant's compliance with this FOTCBF Policy, including the reporting of Relevant OTC Contracts and the payment of any OTC Booking Fees. The Exchange shall and shall ensure that its advisors and its auditors treat all information obtained in the audit as Confidential Information in accordance with the Rules or Data Agreement (as applicable).

6. PART 6 – Changes to the FOTCBF Policy

Changes to FOTCBF Policy

- 6.1 The Exchange reserves the right to modify or update the terms of this FOTCBF Policy at any time, for any reason, without seeking the prior consent of any Member, Licensee or other Booking Fee Participant.
- 6.2 Subject to Paragraphs 6.3 and 6.4 below, the Exchange shall use reasonable endeavours to enter into dialogue with Booking Fee Participants in respect of any material change to the FOTCBF Policy that is likely to have a substantial impact on the operational burden imposed on Booking Fee Participants generally.
- 6.3 Any such dialogue shall offer Booking Fee Participants a reasonable period, as determined by the Exchange, to review and comment on the proposed change. The Exchange shall take any comments received from Booking Fee Participants into account, but it shall be under no obligation to amend its proposed changes or to act in any way on the basis of the comments received from Booking Fee Participants. Any changes implemented, or not implemented, by the Exchange shall be at the absolute discretion of the Exchange.
- 6.4 The Exchange shall not be required to enter into dialogue with Booking Fee Participants, or otherwise consult, on any change to the FOTCBF Policy that:
- (a) does not fall within Paragraph 6.3 above;
 - (b) is required to comply with any direction given to the Exchange by any competent regulator of the Exchange;
 - (c) is required to comply with any change in applicable law or regulation in circumstances where there is, in the opinion of the Exchange, not sufficient time to conduct a consultation;
 - (d) is a non-material administrative change; and/or
 - (e) is a change to the level of the OTC Booking Fee.
- and any such changes shall be notified to Booking Fee Participants by a Notice issued by the Exchange.
- 6.5 Any change to the FOTCBF Policy shall come into effect upon the expiry of 30 days following the issue by the Exchange of notice of the proposed change or thereafter on such date prescribed by the Exchange in its absolute discretion. The Exchange may specify a shorter notice period than required pursuant to this Paragraph 6.5, where the Exchange considers that it is appropriate to do so, having regard to the interests of the Exchange and the Booking Fee Participants and to the obligations of the Exchange to ensure continued compliance with applicable law and regulation.

7. PART 7 – Example Scenarios

The scenarios below are given as examples of the applicable FOTC Booking Fee in various situations, though are not exhaustive.

In each example, it is assumed that all trades have been booked OTC, unless otherwise mentioned, and that the FOTC Booking Fee is set at one US dollar per Exchange Equivalent Lot.

Trade type examples:

7.1 Example 1 – Cash settled fixed-float trade:

Initial trade:	<p>On 17th May 2018: Client A (a hedge fund) buys 1,000 metric tonnes (“mt”) of June 2018 copper from Member A, financially settled against the average LME Official Cash Settlement prices during June 2018, at \$6,000/mt</p> <ul style="list-style-type: none"> 1,000mt of LME equivalent copper tonnage is accumulated for this trade and reported by Member A in their May 2018 report (\$40 accumulated respectively)
Modification:	<p>On 31st May 2018: Client A sells 500mt of this trade back to Member A at \$6,100 /mt (partial early termination)</p> <ul style="list-style-type: none"> 500mt of LME equivalent copper tonnage is accumulated for this trade and reported by Member A in their May 2018 report (\$20 accumulated respectively)
Final pricing period:	<p>During June 2018, the remaining 500mt prices out at \$6,200/mt</p> <ul style="list-style-type: none"> No additional accumulation of FOTC Booking Fee, given that contract closed-out per its original terms
Result:	<p>In this example, an aggregate total of \$60 is payable in respect of the FOTC Booking Fee.</p>

7.2 Example 2 – Physical forward trade:

Initial trade:	<p>On 7th May 2018: Client B (a consumer) buys 5,000mt aluminium, from Member B, for delivery 2nd July 2018, at \$2,000/mt</p> <ul style="list-style-type: none"> 5,000mt of LME equivalent aluminium tonnage is accumulated for this trade and reported by Member B in their May 2018 report (\$200 accumulated respectively)
OTC Bring on:	<p>On 28th June 2018: Client B instructs Member B to bring the trade on to the LME, and transfer to Member C</p> <ul style="list-style-type: none"> Accumulation of 5,000mt of aluminium OTC bring-on offset, reported by Member B in their June 2018 report (which will offset \$200 of FOTCBF accumulated elsewhere in the May 2018 report)
Result:	<p>In this example, an aggregate total of \$200 is payable in respect of the May report and value equating to 5,000mt of aluminium offset is available in the June report.</p>

7.3 Example 3 – Float-deliver trade:

Initial trade:	<p>On 17th May 2018: Client C (a producer) agrees to sell 500mt nickel, to Member C, at average of July 2018, prompt 2nd August at +\$15/mt (contango)</p> <ul style="list-style-type: none"> 1000mt of LME equivalent nickel tonnage is accumulated for this trade (a float-deliver trade is a spread and so both legs are reported) and reported by Member C in their May 2018 report (reported as an eligible spread as pricing and settlement dates are within 60 days of each other) (\$83.33 accumulated respectively)
Close out:	<p>On 31st July 2018: Client C buys 500mt nickel, from Member C, for Cash (2nd Aug) at second ring close, to close out their exposure from the initial trade</p> <ul style="list-style-type: none"> Spot physical exemption applies, and no fee is accumulated, though 500mt of spot physical nickel trades must be reported by Member C in their July 2018 report
Result:	In this example, an aggregate total of \$83.33 is payable in respect of the FOTC Booking Fee.

7.4 Example 4 – Float-float trade:

Initial trade:	<p>On 8th August 2018: Client D (a merchant) buys 750mt aluminium average of October 2018, vs. sells average of November 2018, for financial settlement on 4th December 2018 at + \$10/mt (contango), with Member D</p> <ul style="list-style-type: none"> 1,500mt of LME equivalent aluminium tonnage is accumulated for this trade (a float-float trade is a spread and so both legs are reported) and reported by Member D in their August 2018 report (not able to be reported as eligible spreads as pricing and settlement dates are not within 60 days of each other) (\$60 accumulated respectively) No additional accumulation of FOTC Booking Fee, given that contract closed-out per its original terms
Result:	In this example, an aggregate total of \$60 is payable in respect of the FOTC Booking Fee.

7.5 Example 5 – Calendar strip trade:

Initial trade:	<p>On 21st September 2018: Client E (a producer) sells, to Member E, 250mt per month of Cal19 lead at \$2,500/mt, financially settled monthly vs. the average Cash Official Settlement Price on the 2nd business day of the following month.</p> <ul style="list-style-type: none"> 3,000mt of LME equivalent lead tonnage is accumulated for this trade, and reported by Member E in their September 2018 report
-----------------------	--

	(\$120 accumulated respectively) <ul style="list-style-type: none"> No additional accumulation of FOTC Booking Fee, given that contract closed-out per its original terms
Result:	In this example, an aggregate total of \$120 is payable in respect of the FOTC Booking Fee.

User type examples:

7.6 Example 1 – physical trader:

Scenario	On 7th August 2018: Client A (a non-member physical trader), trades 500mt of 3-month copper with Member A on an OTC basis.
Reports	<ul style="list-style-type: none"> Member A reports 500mt of LME equivalent copper tonnage accumulated in August 2018 report (\$20 accumulated respectively) Client A makes no report to the LME as it is not a Booking Fee Participant

7.7 Example 2 – Financial intermediary:

Scenario	On 18th April 2018: Bank B (a non-member Financial Intermediary), trades 1,000mt of June 2018 aluminium with Client B on an OTC basis, and hedges 1,000mt of 3-month aluminium with Member B as an LME Client Contract.
Reports	<ul style="list-style-type: none"> Bank B reports 1,000mt of LME equivalent aluminium tonnage accumulated in April 2018 report (\$40 accumulated fee) Bank B reports 1,000mt of aluminium Client Contract received in April 2018 report (\$40 accumulated offset) Bank B has no accumulated fee from these transactions due to offset Member B has only issued LME Client Contracts, and does not report these Client B makes no report to the LME as it is not a Booking Fee Participant

7.8 Example 3 – OTC financial intermediary:

Scenario	On 18th April 2018: Bank C (a non-member financial institution), trades 1,000mt of June 2018 aluminium with Client C on an OTC basis, and hedges 1,000mt of 3-month aluminium with Member C on an OTC basis.
Reports	<ul style="list-style-type: none"> Bank C reports 2,000mt of LME equivalent aluminium tonnage accumulated in April 2018 report (1,000mt per trade, \$80

	<p>accumulated fee)</p> <ul style="list-style-type: none"> Member C reports 1,000mt of LME equivalent aluminium tonnage accumulated in April 2018 report (\$40 accumulated fee) Client C makes no report to the LME as it is not a Booking Fee Participant
--	--

7.9 **Example 4 – OTC affiliate intermediary:**

Scenario	On 25th May 2018: Entity D (an Affiliate of LME Member D, with both entities sitting within the same Reporting Group) trades 100mt of August 2018 tin with Client D on an OTC basis, and hedges 100mt of 3-month tin with Member D on an OTC basis.
Reports	<ul style="list-style-type: none"> Member D reports 100mt of LME equivalent tin tonnage accumulated in May 2018 report (100mt client trade, \$20 accumulated fee) Neither Entity D nor Member D report the trade between them, as they are within the same Reporting Group Client D makes no report to the LME as it is not a Booking Fee Participant

8. PART 8 – Definitions

In this FOTCBF Policy, the following words and expressions shall, unless the context otherwise requires, have the meanings set out opposite them:

Term	Definition
“Affiliate”	has the meaning set out in the Rules;
“Bank”	means: <ul style="list-style-type: none"> (a) an authorised credit institution within the meaning of Article 4.1(1) of the Capital Requirements Regulation (Regulation (EU) No 575/2013), whether authorised in the United Kingdom or by the competent authority of an EEA State other than the United Kingdom; or (b) an entity which is the same or a similar type of business as those entities covered by a (above), and/or which undertakes the same or similar types of activities, which is authorised, supervised or regulated by the competent regulatory authority of any non-EU jurisdiction;
“Bespoke Transaction”	means a transaction that does not have standardised terms, and which is not agreed on the basis that regular trading in the type of transaction may occur;
“Booking Participant” Fee	has the meaning given to it in Paragraph 1.2;
“Broker Dealer”	means an Investment Firm that executes transactions in financial instruments on behalf of its clients, whether: <ul style="list-style-type: none"> (a) as agent on behalf of such clients; or (b) as principal (whether against its own proprietary capital or otherwise);
“Client Manager” Asset	means an entity that has as its primary business is the performance of services comprising the discretionary management of a portfolio of money or other assets where the majority of such money or assets are attributable to another person that is not an Affiliate of the person performing such services;
“Client Offset” Contract	has the meaning given to it in Paragraph 4.11;
“Clients”	has the meaning set out in the Rules;
“Close-Out”	has the meaning set out in Paragraph 4.9;
“Data Agreement”	means any licence or other agreement pursuant to which a person is permitted to access or use any LME Data, prices or other Intellectual Property Rights, including any Data Usage Licence;

“Data Licence”	Usage	means any licence governing the use of LME Data, prices or other Intellectual Property Rights, in a form prescribed by the Exchange;
“Exchange Equivalent Lot”		has the meaning set out in Paragraph 4.3;
“Exchange Equivalent Tonnage”		has the meaning set out in Paragraphs 4.1 and 4.3(a);
“Financial Institution”		means a person that is: <ul style="list-style-type: none"> (a) an Investment Firm (including a branch established in the United Kingdom of such a firm); or (b) a Bank (including a branch established in the United Kingdom of such an institution); or (c) any other authorised person or exempt person within the meaning of Part III of the Financial Services and Markets Act 2000; or (d) an entity which is the same or a similar type of business as those entities covered by c (above), and/or which undertakes the same or similar types of activities, which is authorised, supervised or regulated by the competent regulatory authority of any non-UK jurisdiction;
“Financial Intermediary”		means a Financial Institution that is: <ul style="list-style-type: none"> (a) a Bank; or (b) a Broker Dealer;
“FOTC Fee”	Booking	means the fees applied to Relevant OTC Contracts, as determined in accordance with this FOTCBF Policy;
“Group”		has the meaning set out in the Rules;
“Group Reporting Participant”		has the meaning set out in Paragraph 2.2;
“Investment Firm”		means: <ul style="list-style-type: none"> (a) an authorised investment firm within the meaning of Article 4 of MiFID II (Directive 2014/65/EU), whether authorised in the United Kingdom or by the competent authority of an EEA State other than the United Kingdom; or (b) an entity which is the same or a similar type of business as those entities covered by a (above), and/or which undertakes the same or similar types of activities, which is authorised, supervised or regulated by the competent regulatory authority of any non-EU jurisdiction;
“Licensee”		has the meaning set out on page 2 (<i>Introductions and Executive Summary</i>) of this FOTCBF Policy;

“LME Data”	has the meaning set out in the Rules;
“LME Derived Data Licence”	means a licence agreement, in a form prescribed or agreed by the Exchange, pursuant to which a licensee may use LME Data for the purpose of the development of structured financial products;
“Member”	has the meaning set out on page 2 (<i>Introductions and Executive Summary</i>) of this FOTCBF Policy;
“Modification”	has the meaning set out in Paragraph 4.8;
“Non-Financial Group Exemption”	has the meaning set out in Paragraph 1.3;
“Non-LME Multi Dealer Trading System”	has the meaning set out in the Rules;
“OTC”	has the meaning set out on page 2 (<i>Introductions and Executive Summary</i>) of this FOTCBF Policy;
“OTC Bring-on Offset”	has the meaning set out in Paragraph 4.12;
“Physical Participant”	means an entity that has as its primary business: (i) the mining, refining or processing of base metals; or (ii) the production of consumer goods, finished or part-finished components, buildings or other physical structures, using a base metal as a component material for such products;
“Physical Participant Exemption”	has the meaning set out in Paragraph 1.4;
“Physical Spot Waiver”	has the meaning set out in Paragraph 4.10;
“Records”	has the meaning set out in Paragraph 5.13;
“Relevant OTC Contracts”	has the meaning set out in Paragraph 3.1;
“Report”	has the meaning set out in Paragraph 5.2;
“Reporting Group”	means the manner in which affiliate entities are grouped in under this FOTCBF Policy for the purposes of fulfilling their reporting obligations under this FOTCBF Policy, as further defined in Paragraph 2.1;
“Reporting Officer”	has the meaning set out in Paragraph 5.2;
“Reporting Period”	has the meaning set out in Paragraph 5.1;
“Reporting Template”	has the meaning set out in Paragraph 5.9;

“Rules”		has the meaning set out on page 2 (<i>Introductions and Executive Summary</i>) of this FOTCBF Policy;
“Short-Dated Spread Discount”		has the meaning set out in Paragraph 4.15;
“Spot Trade”	Physical	means a trade which physically settles two Business Days after the trade date; and
“Usage Offset”	Licence	has the meaning set out in Paragraph 4.13.

ANNEX 1

FORM 1

Link: [Financial OTC Booking Fee Policy – Form 1](#)

Draft

ANNEX 2

FORM 2

Link: [Financial OTC Booking Fee Policy – Form 2](#)

Draft

ANNEX 3
REPORTING TEMPLATE

Link: [Financial OTC Booking Fee Policy – Reporting Template](#)

Draft