



LME Clear Limited Rules and Procedures

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LME CLEAR LIMITED

RULES

RULE 1 – DEFINITIONS AND INTERPRETATION

1.1 DEFINITIONS

1.1.1 In the Rules, the following words and expressions shall, unless the context otherwise requires, bear the meanings set opposite them:

"Acceptance"	has the meaning set out in Rule 6.4.2, and "Accepted" shall be construed accordingly;
"Accounts"	means an account established and maintained by LME Clear in respect of a Member, in accordance with Rule 4 (<i>Accounts</i>), including any: (a) House Accounts; or (b) Client Accounts, which may be either: (i) an Omnibus Segregated Client Account; or (ii) an Individual Segregated Client Account;
"Additional Collateral Management Charge" (or "ACMC")	has the meaning set out in Clearing Procedure D4.3;
"Act of Misconduct"	has the meaning set out in Membership Procedure A;
"Additional Capital"	has the meaning set out in Membership Procedure A;
"Affected Party"	means whichever of LME Clear or the Member as is unable to perform any of its obligations arising out of, in connection with or relating to the Rules as a result of a Force Majeure Event;
"Affiliate"	means, in relation to any person, a Subsidiary of that person or a Holding Company of such person or any other Subsidiary of such Holding Company;
"Aggregate Member Entitlement"	has the meaning set out in Rule 10.13 (<i>LME Clear Default</i>);
"Aggregate Member Obligation"	has the meaning set out in Rule 10.13 (<i>LME Clear Default</i>);
"Annex"	means an annex to the Rules and Procedures and published on the Website, as amended by LME Clear from time to time;
"Appeal Committee"	has the meaning set out in Membership Procedure A;
"Applicable Law"	means (a) all regional, national and international laws, rules, regulations, standards and directions, including those imposed by any competent regulatory authority which apply from time to time to the person or activity, and (b) all other regulations

applying to LME Clear or a Member and any binding rules or non-binding guidance issued by a Clearing House Regulator and / or a Regulator of a Member, including FSMA, EMIR, the Recognition Regulations and the Settlement Finality Regulations;

"Applicable Clearing Regulations"	means all Applicable Law binding on LME Clear in the United Kingdom and the European Union that governs, regulates or specifies in any way the manner in which LME Clear shall be required to make available and / or perform its obligations as the operator of the Clearing System including FSMA, EMIR, the Recognition Regulations and the Settlement Finality Regulations;
"Applicant"	means any person that applies to LME Clear to become a Member;
"Approved Delivery Facility"	means the delivery facilities specified in the Clearing Procedures as being approved by LME Clear to deliver the Underlying Assets under a Contract;
"Approved Settlement Bank"	means a Settlement Bank approved by LME Clear as being eligible to participate in the Secure Payments System; the settlement banks approved by LME Clear from time to time shall be those listed on the Website;
"Approved Transaction Platform"	means: (a) an Organised Market; or (b) a venue or facility for the execution, matching, reporting or confirmation of transactions, that is approved by LME Clear to submit Transactions to the Clearing System and that is specified as such in the Clearing Procedures;
"Asset Cover"	means the assets (whether in the form of cash, securities, gold or otherwise) provided by a Member to LME Clear as Collateral and Default Fund Contributions;
"Associate Broker Clearing Member"	has the meaning set out in the LME Rules;
"Associate Trade Clearing Member"	has the meaning set out in the LME Rules;
"Authorised Representative"	means the management representative appointed by the Member in accordance with Membership Procedure B8;
"Automatic Exercise Option Contract"	means a Contract under which the option is automatically exercised on the Option Exercise Date, in accordance with the Clearing Procedures;
"Automatic Porting"	has the meaning set out in Section 1 of Default Procedure D

Designation Documents"	(<i>Porting Procedure</i>);
"Automatic Porting Process"	means the process for the transfer of Contracts, Positions and Collateral allocated to a Client Account in respect of which LME Clear is in receipt of accurate, complete and up to date Automatic Porting Designation Documents, as specified in Rule 10.7 (<i>Portability of Client Accounts</i>) and Default Procedure D (<i>Default Procedures</i>), and specifically Default Procedure D2.2 (<i>Automatic Porting Process</i>);
"Available Cash"	has the meaning set out in Clearing Procedure D 5.5;
"Available Cash Collateral"	has the meaning set out in Clearing Procedure D 5.18;
"Available Non-cash Collateral"	has the meaning set out in Clearing Procedure D 5.14;
"Base Currency"	means US dollars;
"Binding Membership Terms"	has the meaning set out in Rule 2.1.1;
"Board"	means the board of directors of LME Clear;
"Board Risk Committee"	means the committee established by LME Clear to consider matters relating to LME Clear's risk-management arrangements, and including representatives from selected Members and Clients;
"Brought Forward Position"	means, on any Business Day, the Position arising from the Open Contract that was created pursuant to the previous Business Day's Settlement to Market Process;
"Bullion"	means Gold and/or Silver;
"Bullion Clearer"	means a Member of the LPMCL with which LME Clear or a Member (as applicable) has an "Unallocated Metal Account";
"Business Day"	means any day on which LME Clear is open for business to accept Transactions from one or more Approved Transaction Platforms;
"Business Hours"	means any hours within a day that is a Business Day;
"Buyer"	means whichever party (LME Clear or the Member) under a Contract: (a) has the right to receive the Underlying Asset; and / or (b) has the obligation to make payment of the Settlement Payment; or

	(c) is the Option Holder under an Option Contract;
"Buy-In"	has the meaning set out in Rule 7.8.1;
"Cash Collateral"	means any Collateral in the form of cash;
"Cash Contingent Variation Margin" (or "CCVM")	has the meaning set out in Clearing Procedure C 4.2(c);
"Cash Cover"	means any cash provided by a Member to LME Clear as Collateral, Default Fund Contribution or a similar purpose, whether or not provided in relation to a Client;
"Cash Settlement"	means any cash amount payable by a Member to LME Clear or by LME Clear to a Member, including: (a) Settlement Payments; (b) Option Contract Premiums; (c) Option Exercise Payments; (d) payments of Eligible Cash by way of Collateral or Default Fund Contribution; (e) all cash settlement-types specified in Clearing Procedure E3.4; and (f) any other cash payment calculated by LME Clear and notified by LME Clear to the Member as being payable by the Member or by LME Clear in accordance with the Rules;
"Circular"	means a Notice which is given by LME Clear to all Members by way of publication on the Website;
"Clearing Client"	means a Client that has established arrangements with a Member to clear Transactions with, or in respect of, one or more of its Indirect Clients;
"Clearing House Regulator"	means the Bank of England, ESMA and any other Regulator having authority for regulating LME Clear or any aspect of its business;
"Clearing Procedures"	means the Procedures appended to the Rules under the title "Clearing Procedures";
"Clearing System"	means the formal arrangements, rules and procedures operated by LME Clear and the services provided by it for the clearing and settlement of Contracts, as described in the Rules and the Procedures (each as amended from time to time) as published from time to time by LME Clear;
"Client"	means a person that has an agreement with a Member pursuant

to which:

- (a) the Member enters into Transactions with or for that person; or
- (b) the Member agrees to take responsibility for the clearing via the Clearing System of Transactions entered into by such person;

"Client Account" means an Account in the books and records of LME Clear established in accordance with Rule 4 (*Accounts*), to record Respective Entitlements in respect of Transactions cleared by a Member for one or more of its Clients;

"Client Acknowledgement Form" means a form, executed by a Member and a Client, in the form prescribed in Part A of Annex 6 (*Client Business Terms*);

"Client Business" means the business of a Member of entering into or clearing transactions in relation to Clients, which may, without limitation include:

- (a) the entering into Client Trades by a Member with Clients;
- (b) the entering into Transactions by a Member (whether as principal or otherwise) with another counterparty in order to satisfy an order from, or another Obligation to, a Client; or
- (c) the acceptance of responsibility by a Member for the clearing, via the Clearing System, of a Client Trade on behalf of a Client;

"Client Trade" means a contract between:

- (a) a Member and a Client; or
- (b) a Client and an Indirect Client; or
- (c) a Client and any other party,

representing a trade in an Eligible Product, whether or not it is executed alone or on corresponding terms, to a Transaction between the Member and another counterparty and that is eligible to be cleared via the Clearing System;

"Close of Business" means the time on a Business Day from which LME Clear shall cease to receive new Transactions, which shall be as specified in Opening Hours Circulars, provided that LME Clear may decide to extend the Close of Business on any particular Business Day;

"Closing Price" has the relevant meaning set out in Clearing Procedure A6;

"Close Out Amount"	has the meaning set out in Rule 10.13 (<i>LME Clear Default</i>);
"Close Out Date"	has the meaning set out in Rule 10.13 (<i>LME Clear Default</i>);
"Close Out Netting Notice"	means a Notice issued by a Member to LME Clear pursuant to and in accordance with Rule 10.13 (<i>LME Clear Default</i>);
"Collateral"	means cash, securities, gold, instruments and other types of asset provided (or to be provided) by a Member to LME Clear to satisfy its Margin Requirement;
"Collateral Limits"	means any limitation on the proportion or amount of any type of Collateral that may be provided by a Member to LME Clear in satisfaction of its Margin Requirements, that are set out in Annex 2 (<i>Eligible Currencies, Collateral and Haircuts</i>);
"Collateral Specifications"	means the provisions set out in Annex 2 (<i>Eligible Currencies, Collateral and Haircuts</i>) dealing with Collateral, including Haircuts and certain eligibility criteria;
"Collateral Value"	means at any time, in respect of all Eligible Collateral provided by a Member at that time, an amount (in the Base Currency) equal to the Market Value of that Eligible Collateral at that time minus any applicable Haircut;
"Complainant"	means a Member that makes a Complaint;
"Complaints"	means a complaint brought by a Member in accordance with Part C of the Membership Procedures;
"Concentration Bank"	means a bank appointed as a concentration bank by LME Clear to hold and process cash amounts received or held by LME Clear for any purpose. A list of the Concentration Banks shall be set out on the Website;
"Consultation Process"	has the meaning set out in Rule 2.2.5;
"Contract"	means a binding agreement between LME Clear and a Member that is formed under and in accordance with Rule 6 (<i>Acceptance, Novation and Registration</i>), and which is to be performed or discharged in accordance with the Rules;
"Contract Settled Under LME Rules"	has the meaning set out in Rule 7.2.1;
"Cover Distribution Process"	has the meaning set out in Clearing Procedure D5;
"Credit Check"	has the meaning set out in Clearing Procedure B3.10;
"Custodian"	means a custodian with which LME Clear may deposit Collateral and/or Default Fund Contributions and/or any other assets or

	funds from time to time;
"Dedicated Own Resources"	means the amount of dedicated own resources required to be held by LME Clear from time to time in compliance with Article 35(1) of the EMIR Level 2 Regulation;
"Default Event"	has the meaning set out in Rule 10.2;
"Default Fire Drill"	means a test of LME Clear's Default Procedures, carried out pursuant to Default Procedure C2;
"Default Fund"	means the fund maintained by LME Clear, to which each Member is required to contribute under Rule 9 (<i>Default Fund</i>);
"Default Fund Contribution"	means, as the context may require: (a) the amount to be contributed by a Member to the Default Fund; or (b) the amount contributed at any time by a Member to the Default Fund, in accordance with Rule 9 (<i>Default Fund</i>);
"Default Loss"	means any Loss incurred by LME Clear as a result of a failure by a Member to fulfil its obligations to LME Clear;
"Defaulting Member"	has the meaning set out in Rule 10.3.4;
"Default Management Committee"	has the meaning set out in Default Procedure C5.1;
"Default Notice"	means a notice issued by LME Clear (pursuant to Rule 10.3.2) declaring a Member to be a Defaulting Member;
"Default Period"	has the meaning set out in Rule 10.10.6;
"Default Procedures"	means the Procedures appended to the Rules, under the title "Default Procedures";
"Default Requirements"	means the default requirements for the time being applicable under EMIR, Part VII of the Companies Act 1989 and the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001;
"Default-Specific Cap"	has the meaning set out in Rule 10.10.4(a);
"Default-Specific Replenishment Notice"	has the meaning set out in Rule 10.10.1(e);

"Defence"	has the meaning set out in Membership Procedure A;
"Delivery Adjustment Settlement"	means a payment due to or from a Member in respect of a delivered Underlying Asset, which shall take effect as a post-delivery adjustment to the Settlement Payment; and such Delivery Adjustment Settlement shall, for the avoidance of doubt, represent a Payment Obligation for the party that is due to make such payment;
"Delivery Obligation"	means the obligation under a Contract for the Seller to deliver Underlying Assets to the Buyer;
"Delivery Position"	means a Position in respect of a Contract under which the Seller has a Delivery Obligation;
"Designated Member Transferee"	means a Member that has, pursuant to any Automatic Porting Designation Document, agreed to be treated as a Designated Member Transferee in respect of a Client Account for the purpose of the application of the Automatic Porting Process;
"Direct Individual Segregated Client Account"	means an Individual Segregated Client Account that records the Contracts and their associated Collateral and Positions Registered by a Member in respect of a single Client of the Member;
"Discharged Rights and Obligations"	has the meaning set out in Rule 6.7.2 or Default Procedure D2.10 (as the context requires);
"Disciplinary Committee"	has the meaning set out in Membership Procedure A;
"Discounted Contingent Variation Margin" (or "DCVM")	has the meaning set out in Clearing Procedure C4.2(b);
"Eligible Cash"	means cash in an Eligible Currency and which complies with any criteria specified in the Rules including the Clearing Procedures;
"Eligible Collateral"	means assets in the form of Eligible Cash, Eligible Securities and Eligible Gold, and such other assets with such eligibility criteria as LME Clear may from time to time specify, and which comply with any criteria specified in the Rules including the Clearing Procedures;
"Eligible Currency"	means: (a) in the context of any Cash Settlement to be performed in settlement of any Contract, the currency specified in the Collateral Specifications as being eligible for settlement of such Contract; (b) in the context of Collateral provided or to be provided by a Member, any currency specified in

the Collateral Specifications in which Eligible Collateral may be denominated;

"Eligible Gold"	means Gold which complies with any criteria specified in the Rules including the Clearing Procedures;
"Eligible Product"	means a contract that is eligible to be cleared via the Clearing System, the definitive list of which is set out in Annex 1 (<i>Eligible Products</i>), as amended by LME Clear from time to time;
"Eligible Securities"	means securities denominated in Eligible Currencies, and which comply with any criteria specified in the Rules including the Clearing Procedures;
"EMIR"	means the EMIR Level 1 Regulation and the EMIR Level 2 Regulation;
"EMIR Level 1 Regulation"	means Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories;
"EMIR Level 2 Regulation"	means Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012 supplementing the EMIR Level 1 Regulation with regard to regulatory technical standards on indirect clearing arrangements, the clearing obligation, the public register, access to a trading venue, non-financial counterparties, risk mitigation for OTC derivatives contracts not cleared by a CCP;
"EMIR Level 2 Capital Requirements"	means Commission Delegated Regulation (EU) No 152/2013 of 19 December 2012 supplementing the EMIR Level 1 Regulation with regard to regulatory technical standards on capital requirements for central counterparties;
"End of Day"	means, on any Business Day, the time following the completion by LME Clear of its netting and reconciliation processes in respect of Contracts and Positions that are open on that Business Day;
"End of Day Margin Requirement"	means, in relation to any day, the amount of Collateral to be provided by a Member to LME Clear in accordance with Rule 8.1;
"Enforcement Notice"	has the meaning set out in Membership Procedure A;
"End of Day Position"	has the meaning set out in Clearing Procedure B5.2;
"ESMA"	means the European Securities Markets Authority (or any successor body);
"Excess Collateral"	means, in relation to Collateral held by LME Clear at any time in respect of an Account, the amount, if any, by which its Collateral Value then exceeds the Margin Requirement then applicable to

	the same Account;
"Execution Price"	means the price at which the original Transaction was executed by the Member, as reported to LME Clear by the Approved Transaction Platform;
"Executive Risk Committee"	means the committee established by LME Clear to oversee the day-to-day risk management of LME Clear and to assist LME Clear's chief risk officer to support the work of the Board Risk Committee;
"Exerciser"	has the meaning set out in Clearing Procedure B6.9;
"Excess Loss"	has the meaning set out in Rule 10.9.1(d);
"Excess Release"	has the meaning set out in Clearing Procedure D4.7;
"Expiry Date"	means the date on which a relevant Contract shall expire, as determined in accordance with the Product Specifications;
"Expiry Time"	means the time on an Expiry Date on which a relevant Contract shall expire, as determined in accordance with the Product Specifications;
"Extended Porting Transfer Period"	means a period that: (a) is during a Default Period; (b) commencing at the end of the prior Porting Transfer Period and expiring 24 Business Hours thereafter, unless LME Clear specifies another expiry time on the Website; and (c) is subsequent to, and therefore additional to, any prior Porting Transfer Period, within which LME Clear may effect a Transfer in accordance with Rule 10.7 (<i>Portability of Client Accounts</i>) and Default Procedure D (<i>Porting Procedure</i>);
"Failed Auction"	has the meaning set out in Default Procedure C6.4;
"Failed Settlement Position"	means: (a) a failure by a party to a Contract to fulfil a Payment Obligation or a Delivery Obligation (as the case may be) on the date on which such obligation is due to be fulfilled; or (b) any other failure by a member to make a Cash Settlement due under or in accordance with the Rules;
"Fees"	means any fees or charges payable by a Member to LME Clear under the Rules including any fees or charges including any interest or accommodation charges set out in Annex 3 (<i>Fees</i>

and Charges), as amended by LME Clear from time to time;

"Financially Settling Contract"	means a Contract for an Eligible Product that is settled by the payment of a Settlement Payment and under which no Underlying Asset is to be delivered;
"Final Day"	has the meaning set out in Rule 10.10.2(d);
"Final Delivery Position"	has the meaning set out in Clearing Procedure B7.3;
"Final Exercise Time"	means the final time by which an Option Holder may exercise an option under an Option Contract that requires manual exercise, as specified in the Clearing Procedures;
"Force Majeure Event"	means any circumstance beyond the control and contemplation of LME Clear or a Member, which hinders or prevents the performance in whole or in part of any of its obligations under the Rules (other than, in the case of a Member, any obligation to make a payment to LME Clear) and will be deemed to include war, civil war or other action of military forces or armed conflict; terrorism or terrorist attack; riot, civil commotion, or protest; sabotage or vandalism or malicious damage; nuclear, chemical or biological contamination; sonic boom; act of God; national emergency; fire, explosion, flood, storm, earthquake or epidemic; lack of energy supply; strike, labour dispute, lockout, work to rule or other industrial dispute; interruption or failure of utility service, including but not limited to electric power, gas or water; the closure, suspension or disruption of the operations of, or any default by, any Approved Transaction Platform or by any Settlement Agent, Settlement Bank, Bullion Clearer, Securities System Operator or Custodian; or any failure or insolvency of any Service Provider on which LME Clear relies in order to operate the Clearing System or otherwise perform its obligations under the Rules;
"Former Member"	has the meaning set out in Rule 3.11.7;
"Forward Dated Currency"	means a currency (such as Yen) where the settlement instruction issued on a given Business Day is for the execution of a payment, for value on a following Business Day;
"FSMA"	means the Financial Services and Markets Act 2000, as amended from time to time;
"General Clearing Member" (or "GCM")	has the meaning set out in Rule 3.1.3;
"General Liquidity Requirement"	means any funding or liquidity requirement of LME Clear arising in relation to the operation of the Clearing System (and shall exclude any General Working Capital Requirement and any Member Liquidity Requirement);

"General Working Capital Requirement"	means any general company funding requirement (such as a working capital requirement) of LME Clear, which to avoid doubt excludes any General Liquidity Requirement and any Member Liquidity Requirement;
"Gold"	means Gold held in London complying with the rules of the London Bullion Market Association relating to good delivery and fineness in effect from time to time;
"Gold Collateral"	means Collateral in the form of Eligible Gold;
"Gold Custodian"	means such custodian for Gold as LME Clear may appoint from time to time;
"Gross Position Product"	means an Eligible Product, the Positions on which shall be calculated on a gross basis, as identified in the table in Clearing Procedure B4.6:
"Group"	means in relation to a company, any company that is a Subsidiary of that company, any company that is its Holding Company, and any other company that is a Subsidiary of that Holding Company (including any Subsidiary of any such Subsidiary);
"Haircut"	means, in relation to any Collateral for the purpose of calculating its Collateral Value, the discount applicable to that Collateral as specified in the Collateral Specifications;
"Holding Company"	means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary;
"House Account"	means an Account in the books and records of LME Clear established in accordance with Rule 4.2.1;
"Identified Client"	has the meaning set out in Rule 5.1.5;
"Independent Complaints Commissioner"	has the meaning set out in Membership Procedure A;
"Indirect Client"	means the client of a Clearing Client;
"Indirect Individual Segregated Client Account"	means an Individual Segregated Client Account that records Contracts and their associated Collateral and Positions Registered by a Member in respect of a single Indirect Client, where such Indirect Client is the client of a single Clearing Client of the Member;
"Indirect Omnibus Segregated Client Account"	means an Individual Segregated Client Account that records Contracts and their associated Collateral and Positions Registered by a Member in respect of one or more Indirect Clients, where such Indirect Clients are the clients of a single Clearing Client of the Member;

"Individual Clearing Member" (or "ICM")	has the meaning set out in Rule 3.1.3;
"Individual Segregated Client Account"	means a Client Account established in accordance with Rule 4.2.2(b);
"Initial Margin Requirement"	has the meaning set out in Clearing Procedure C3.1;
"Instrument"	has the meaning set out in Clearing Procedure A5;
"Intangible Fixed Assets"	has the meaning set out in Membership Procedure A;
"Intellectual Property Rights"	means patents, trade marks, rights in logos, get-up, trade names, internet domain names, rights in designs, copyright (including rights in computer software) and moral rights, database rights, semi-conductor topography rights, utility models, trade secrets, inventions, rights in know-how and other intellectual property or proprietary rights, in each case whether registered or unregistered and including applications for registration, and all rights or forms of protection having equivalent or similar effect to the foregoing which may now or in the future subsist in, apply to or are enforceable in, any jurisdiction in the world;
"Intra-Day Margin Requirement"	means, in relation to any day, the amount of additional Collateral to be provided by a Member to LME Clear in accordance with Rule 8.1(b);
"Invoice Back"	has the meaning set out in Rule 7.8.1;
"Investment Securities"	means any securities or other investments in which LME Clear invests or makes using Cash Cover as contemplated by Rule 8.6.2;
"LME"	means the recognised investment exchange and regulated market operated by The London Metal Exchange (FS Register number 207387);
"LME Business Day"	means a "Business Day" as defined in accordance with the LME Rules;
"LME Clear"	means LME Clear Limited (registered in England and Wales under company number 07611628);
"LME Clear Compliance Department"	has the meaning set out in Membership Procedure A;
"LME Clear Data"	means: (a) LME Clear System Data; and

(b) LME Clear Member Data;

"LME Clear Default"	has the meaning set out in Rule 10.13 (<i>LME Clear Default</i>);
"LME Clear Insolvency Default"	has the meaning set out in Rule 10.13 (<i>LME Clear Default</i>);
"LME Clear Member Data"	means all data relating to Accounts, Transactions, Contracts, Positions, Collateral, Margin Requirements, or Fees relating to a Member which are provided to, or generated by, LME Clear under the Rules;
"LME Clear Membership Application Form"	has the meaning set out in Membership Procedure A;
"LME Clear Options Exercise Screen"	means the functionality made available by LME via the Website through which members can give instructions relating to the exercise of options under Options Contracts;
"LME Clear Party"	has the meaning set out in Rule 2.3.1;
"LME Clear Payment Default"	has the meaning set out in Rule 10.13 (<i>LME Clear Default</i>);
"LME Clear System Data"	means all data relating to the operation or design of the Clearing System which is provided to, or generated by, LME Clear;
"LME Contract"	means a Transaction that is made on the LME between two Members (and that is defined as a "Contract" under the LME Rules); ¹
"LME Exchange Traded Products"	means those Eligible Products specified as such in Annex 1 (<i>Eligible Products</i>);
"LME Index Settlement Price" (or "ISP")	means the "Settlement Price for the Index," defined in the LME Rules;
"LME Monthly Average Settlement Price" (or "MASP")	means the "Monthly Average Settlement Price" defined in the LME Rules;
"LME Notional Average Price" (or "NAP")	means the "Notional Average Price" defined in the LME Rules;
"LME Rules"	means the rules and regulations of the LME, as updated by the LME from time to time;

¹ **Explanatory Note:** This definition covers contracts between two Members (that is, LME Clear Members) and would not therefore capture a Client Trade (which is between a Member and a Client or between a Client and any other person)

"LMEsmart"	means the matching platform operated by the LME for matching Transactions in Eligible Products;
"LMEsword"	has the meaning set out in Clearing Procedure F2.6(a);
"LMEsword Operating Procedures"	has the meaning set out in Clearing Procedure F2.6(b);
"LMEsword Regulations"	has the meaning set out in Clearing Procedure F2.6(b);
"LME Warrants"	has the meaning set out in Clearing Procedure F2.6(c);
"Loss"	means all or any losses, liabilities, claims, costs or expenses of any nature, whether direct, indirect, special, consequential or otherwise, including (without limitation) all professional fees and disbursements and applicable taxes, including VAT thereon;
"LPMCL"	means London Precious Metals Clearing Limited (registered in England and Wales under company number 04195299);
"Major Currency"	has the meaning set out in the LME Rules;
"Mandatory CCP Provisions"	means the provisions listed and/or set out in Part B of Annex 6 (<i>Client Business Terms</i>);
"Manual Exercise Option Contract"	means an Option Contract under which the option shall, if it is to be exercised, be exercised at the direction of the Option Holder (and which is not exercised automatically);
"Margin Requirement"	means the sum of the amounts to be provided by a Member to LME Clear, and maintained by such Member, each day pursuant to Rule 8.1;
"Market Value"	means at any time the then current market value of an Instrument, Contract, Underlying Asset or Collateral (as the case may be) as determined by reference to the relevant index or metric specified in the Clearing Procedures;
"Member"	means a person admitted to use the Clearing System in accordance with Rule 3 (<i>Membership</i>) and the Membership Procedure either as a GCM or an ICM (and " Membership " shall be construed accordingly);
"Member Default"	means an instance of a single Member being declared a Defaulting Member by LME Clear pursuant to a Default Notice, due to one or more Default Events relating to that Defaulting Member;
"Member Documentation"	means the agreement, documents and instruments which constitute the contractual relationship between a Member and LME Clear including these Rules, the Membership Agreement and any Security Documents;

"Member Interface"	means the functionality made available to Members via the Website to access Reports and other Member-specific information;
"Member Liquidity Requirement"	means in relation to a Member an obligation or liquidity requirement of LME Clear incurred in relation to the operation of the Clearing System (including financing unsettled amounts in connection with the settlement of Open Contracts and other items processed through the facilities of LME Clear as a clearing house and/or central counterparty under the Rules and refinancing funds made available by a lender or services provider to LME Clear for the purpose of settling such transactions in accordance with the Rules);
"Member Trade"	means a contract between a Member and another Member that is eligible to be cleared via the Clearing System;
"Member Transferee"	has the meaning set out in Rule 10.7.1;
"Member Transferor"	has the meaning set out in Rule 10.7.1;
"Membership Agreement"	means the agreement, and any other documentation, in the form prescribed by LME Clear, pursuant to which a Member agrees to be bound by the Rules;
"Membership Criteria"	means the criteria to be satisfied in order to qualify for, and maintain, Membership of LME Clear, as specified in Membership Procedures B3, B4 and B5;
"Membership Procedure"	means LME Clear's Procedures in relation to membership, as amended from time to time;
"Minimum Cash Requirement"	has the meaning set out in Clearing Procedure D5.20;
"Net Capital"	has the meaning set out in Membership Procedure A;
"Netting Account"	means an Account designated as such in respect of which LME Clear shall net the respective Purchase Positions and Sale Positions;
"Net Liquidating Value" (or "NLV")	has the meaning set out in Clearing Procedure C4.2(d);
"Net Position Product"	means an Eligible Product the Positions in which shall be calculated on a net basis, as identified in the table in Clearing Procedure B4.6;
"New Contract Position"	means, on any Business Day, the Position arising under each new Open Contract that has been Novated or Registered during the Business Day;

"Non-Identified Client"	has the meaning set out in Rule 5.1.6;
"Notice of Investigation" (or "Nol")	has the meaning set out in Membership Procedure A;
"Notice"	means a notice given under Rule 2.8 and "Notify" or "Notification" shall be construed accordingly;
"Novation"	has the meaning set out in Rule 6.7.2;
"Office-Holder"	has the meaning set out in Rule 10.3.4;
"Omnibus Segregated Client Account"	means a Client Account established in accordance with Rule 4.2.3;
"On-Exchange Business"	means the business of any Member of entering into arrangements for the clearing of: (a) LME Contracts; or (b) any other form of Transaction executed or confirmed on an Organised Market, (as opposed to Transactions executed on an over-the-counter basis);
"Open Contract"	means a Contract under which the Respective Entitlements, including the Payment Obligations or Delivery Obligations remain to be fully satisfied;
"Opening Hours Circular"	has the meaning set out in Clearing Procedure B2.7;
"Operations Pending Transactions Queue"	has the meaning set out in Clearing Procedure B3.4;
"Option Contract"	means a Contract that: (a) requires the payment of an Option Contract Premium; and (b) that entitles the party that has paid the Option Contract Premium to exercise an option on the terms specified in the Product Specifications;
"Option Contract Premium"	means the premium payable under an Option Contract for the purchase of the option;
"Option Exercise Date"	means the date on which the option under an Option Contract is exercised by the Option Holder, which shall be: (a) for Automatic Exercise Option Contracts, a date

determined in accordance with the Product Specifications;

- (b) for Manual Exercise Option Contracts, the date on which the option is exercised;

"Option Exercise Payment"	means the amount payable to the Option Holder upon exercise of the option under an Option Contract that results in a cash settlement, which shall be determined by reference to the Option Reference Price in force for the Option Contract on the Option Exercise Date;
"Option Exercise Rules"	has the meaning set out in Clearing Procedure B6;
"Option Granter"	means the party under an Option Contract that is not the Option Holder;
"Option Holder"	means the party under an Option Contract having the right to exercise the option;
"Option Reference Price"	means the reference price for the exercise of an option under an Option Contract which is to be settled by Cash payment, as determined in accordance with the Product Specifications;
"Organised Market"	means: (a) the LME; or (b) any other "regulated market" or "recognised investment exchange" (as each such term is defined under FSMA); or (c) any "multilateral trading facility" (as such term is defined under FSMA); or (d) any other organised stock market, derivatives market or commodities market;
"OTC Bullion Trades"	means Transactions in "OTC loco London Bullion Market Products" (as such are specified in Annex 1 (<i>Eligible Products</i>));
"OTC Business"	means the business of any Member of entering into arrangements for the clearing of OTC Contracts;
"OTC Contract"	means a contract between two Members, on OTC Prescribed Terms, formed otherwise than on or subject to the rules of an Organised Market;
"OTC Loco London Bullion Market Products"	means those Eligible Products specified as such in Annex 1 (<i>Eligible Products</i>);
"OTC Prescribed Terms"	means the terms specified for OTC Contracts in the Clearing Procedures and the Product Specifications;

"Parent Undertaking"	has the same meaning as set out in section 1162 of the Companies Act 2006;
"Participating Member State"	means, at any time, each member state of the European Union whose lawful currency in force at that time is the euro, as adopted in accordance with legislation of the European Union relating to Economic and Monetary Union;
"Payment Obligation"	means any obligation of a party under a Contract: (a) to make a payment to the other party; or (b) to otherwise account to the other party for value in exchange for the performance by such other party of its Delivery Obligation (notwithstanding that such obligation may be discharged by the offset of other obligations as opposed to an actual cash payment), and includes for the avoidance of doubt: (i) the obligation under a Physical Delivery Contract for the Buyer to pay the Settlement Payment to the Seller; (ii) the obligation under a Financially Settling Contract for a party to pay the Settlement Payment to the other party; (iii) the obligation under an Option Contract to pay an Option Contract Premium;
"Per Account VM Profit"	has the meaning set out in Rule 10.10.2(b);
"Per Default Stabilisation Replenishment Cap"	has the meaning set out in Rule 10.10.5(a);
"Permanent Capital"	has the meaning set out in Membership Procedure A;
"Physical Delivery Contract"	means a Contract for a Physically Settling Product;
"Physically Settling Product"	means an Eligible Product that requires the delivery or acceptance by a party of an Underlying Asset; the Physically Settling Products are listed in Clearing Procedure B7.1;
"Porting Election Period"	means the period, commencing on the issue by LME Clear of a Default Notice in respect of a Member and expiring four (4) hours thereafter, within which all consents that are required under the Rules in order for any Transfer to be made in connection with a Client Account have been obtained from:

- (a) the Member Transferee; and
- (b) (where necessary in accordance with any Rule) any Client(s);

and submitted to LME Clear;

"Porting Period" means the period comprising:

- (a) a Porting Election Period; and
- (b) a Porting Transfer Period;

and including any Extended Porting Transfer Period;

"Porting Process" means the relevant process for the transfer of Contracts, Positions and Collateral allocated to a Client Account, as specified in Rule 10.7 (*Portability of Client Accounts*) and including, in respect of those Client Accounts for which LME Clear is in receipt of accurate, complete and up to date Automatic Porting Designation Documents, the Automatic Porting Process;

"Porting Request Notice" means a Notice in the form prescribed by LME Clear issued pursuant to and in accordance with Rule 10.7 (*Portability of Client Accounts*) and Default Procedure D (*Porting Procedure*);

"Porting Transfer Period" means the period commencing on the issue by LME Clear of a Default Notice in respect of a Member and expiring:

- (a) 24 Business Hours thereafter; or
- (b) at such other later time as LME Clear may specify on the Website,

within which LME Clear may effect a Transfer in accordance with Rule 10.7 (*Portability of Client Accounts*) and Default Procedure D (*Porting Procedure*);

"Position" means:

- (a) In relation to an Open Contract, the consolidated rights and liabilities of the parties to that Open Contract at the relevant point in time; and
- (b) In relation to an Account, the consolidated rights and liabilities arising out of Open Contracts recorded on such Account;

"Post-Acceptance Conditions" has the meaning set out in Clearing Procedure B3.9;

"Pre-Acceptance Checks" has the meaning set out in Clearing Procedure B3.3;

"Price Alignment" means interest charged, or paid, by LME Clear on Cash

Interest"	Contingent Variation Margin in order to avoid my potential distortion of the price of Eligible Products, at such rate as LME Clear may determine;
"Price Set"	has the meaning set out in Clearing Procedure A6.7;
"Price Source"	has the meaning set out in Clearing Procedure A6.5;
"Procedures"	means the procedures adopted by LME Clear from time to time and for the time being in force and appended to the Rules, including any and all Annexes, appendices and schedules to them;
"Product Specifications"	means the list of Eligible Products and the features thereof set out in Annex 1 (<i>Eligible Products</i>);
"Prompt Date"	has the meaning set out in the LME Rules and shall be determined, in relation to any Contract by reference to the Product Specification for the Eligible Product to which the Contract relates;
"Purchase Position"	means the position held by the Buyer under an Open Contract, comprising an open position for the (i) purchase of an Underlying Asset or (ii) the right to exercise an option;
"Realised Variation Margin" (or "RVM")	has the meaning set out in Clearing Procedure C4.2(a);
"Receive Entitlement"	means an entitlement under a Contract for a Buyer to receive Underlying Assets from the Seller;
"Recognition Regulations"	means the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001 (as amended);
"Refund"	has the meaning set out in Rule 10.11 (<i>Refunds</i>);
"Registration"	has the meaning set out in Rule 6.8.3;
"Regulator"	means, in relation to any person, any regulatory body that has responsibility for regulating the conduct of that person's securities, clearing and / or banking business;
"Relevant DF Minimum Threshold"	means the minimum size of Default Fund that LME Clear is required to maintain at any time in order to satisfy its obligations under EMIR, being the higher of: (a) the minimum level prescribed in Default Procedure B1.2(c); and

- (b) the level required to satisfy the requirements of Article 43(2) of the EMIR Level 1 Regulation²;

"Relevant Parties"	has the meaning set out in Membership Procedure A;
"Relevant Rate"	means: (a) in respect of Sterling amounts, SONIA; (b) in respect of Euro amounts, EONIA; (c) in respect of US Dollar amounts, the overnight Fed Funds rate; and (d) in respect of Japanese Yen amounts, the Mutan Call Rate;
"Report"	means a report listed in Annex 4 (<i>List of Available Reports</i>);
"Resignation Notice"	has the meaning set out in Rule 3.6.2;
"Resolution Authority"	has the meaning set out in Rule 10.13 (<i>LME Clear Default</i>);
"Respective Entitlements"	has the meaning set out in Rule 4.1.3;
"Retiring Member"	means any Member: (a) that has lodged a Resignation Notice with LME Clear; (b) in respect of which LME Clear has issued Notice that its Membership is to be terminated, and such Member shall remain a Retiring Member until the earlier of (i) the Termination Date; or (i) the withdrawal by the Member or LME Clear of the Resignation Notice or Notice of termination (as applicable);
"Risk Appetite"	means LME Clear's documented tolerances for different categories of risk, as defined by, and as revised from time to time by, LME Clear's Board;
"Risk Pending Transactions Queue"	has the meaning set out in Clearing Procedure B3.11;
"Risk Threshold"	has the meaning set out in Clearing Procedure C6.2(a);
"RTC GUI"	means the real time clearing graphical use interface operated by

² This is the "Cover 2" requirement: The requirement that the default fund and other resources shall at all times enable the CCP to withstand the default of at least the two clearing members to which it has the largest exposures under extreme but plausible market conditions.

LME User that shall enable each member to access information relating to the Clearing System processes applied in respect of that Member and to input instructions (where relevant) to the Clearing System;

"RTC Materials"³	means the software known as "RTC", "RealTime Clearing" or any future name for such software, and any documentation relating to this software, which is made available to the Firm from time to time by LME Clear to enable the Firm to use the Clearing System;
"Rule Change"	has the meaning set out in Rule 2.2.1;
"Rule Change Notice"	has the meaning set out in Rule 2.2.2;
"Rules"	means these rules and the Procedures (including any Annexes), as amended, supplemented or modified from time to time;
"Sale Position"	means the position held by the Seller under an Open Contract comprising an open position for (i) the sale of an Underlying Asset or (ii) the performance of obligations upon the exercise by an Option Holder of its option;
"Secure Payment System" (or "SPS")	means the system established by LME Clear to facilitate the payment of cash amounts between LME Clear and Members using Settlement Accounts at Approved Settlement Banks, as more specifically described in the Clearing Procedures;
"Securities Collateral"	means Collateral provided in the form of securities;
"Securities System Operator"	has the meaning set out in the Settlement Finality Procedure;
"Security Document"	means any document at any time pursuant to which a Member creates a Security Interest or other collateral arrangement in favour of LME Clear (excluding any collateral arrangement in favour of LME Clear on behalf of or on trust for Clients of the Member);
"Security Interest"	means any mortgage, charge, pledge, lien or other encumbrance securing any obligation of any person or any other type of preferential arrangement (including title transfer and retention arrangements) having a similar effect;
"Seller"	means whichever party (LME Clear or the Member) under a Contract has: (a) the obligation to deliver the Underlying Asset; and / or (b) the right to receive payment of the Settlement

³ Term used in the Membership Agreement

Payment; or

(c) is the Option Granter under an Option Contract;

"Service Agent"	has the meaning set out in Rule 2.12.3;
"Service Provider"	means any provider of services to LME Clear or any member of LME Clear's Group;
"Service Withdrawal"	has the meaning set out in Rule 3.9;
"Settlement Account"	means a bank account maintained by a Member or by LME Clear with an Approved Settlement Bank to be used for making and receiving cash payments between LME Clear and a Member via the SPS and in respect of which LME Clear has been granted authority to direct payments;
"Settlement Agent"	means any entity appointed by LME Clear or a Member to act on its behalf or to assist in the discharge of any Delivery Obligation or Payment Obligation;
"Settlement Bank"	means a credit institution through which the settlement of cash payments may be effected;
"Settlement Contract"	means a Contract that requires settlement by the payment of a Settlement Payment on the Settlement Date, as specified in the Product Specifications;
"Settlement Currency"	means the currency in which a Contract for an Eligible Product shall be settled, which is determined by the terms of the original Transaction;
"Settlement Date"	means the date on which a Contract is required to be settled, as determined for each type of Contract in accordance with the relevant timetable set out in the Clearing Procedures;
"Settlement Finality Procedure"	means the Procedure appended to the Rules under the title "Settlement Finality Procedure";
"Settlement Finality Regulations"	means the Financial Market and Insolvency (Settlement Finality) Regulations 1999, as amended from time to time;
"Settlement Instructions"	has the meaning set out in Rule 7.3.1;
"Settlement Payment"	means the amount payable under a Settlement Contract, determined by the Settlement Price for that Contract on the Settlement Date, as adjusted to reflect the current Position under the Contract;
"Settlement Price"	has the meaning set out in Clearing Procedure A6.5;
"Settlement to Market Process"	means the process set out in Clearing Procedure B5;

"Silver"	means Silver complying with the rules of London Bullion Market Association relating to good delivery in effect from time to time;
"SPAN"	means the "Standard Portfolio Analysis of Risk" methodology for calculating risk in relation to financial instruments, as developed by the Chicago Mercantile Exchange; ⁴
"SPS Mandate Forms"	means the direct debit authorities, in the form prescribed by LME Clear that the Member shall put in place with each Approved Settlement Bank, in accordance with Clearing Procedure E2;
"Stabilisation Replenishment Notice"	has the meaning set out in Rule 10.10.5;
"Strike Price Gradation"	has the meaning set out in the LME Rules and notices issued thereunder from time to time;
"Subsidiary"	means a subsidiary within the meaning of section 1159 of the Companies Act 2006;
"Substitution of Cash"	has the meaning set out in Clearing Procedure D4.7;
"Substitution of Non-cash Assets"	has the meaning set out in Clearing Procedure D4.7;
"Tax"	means any tax, levy, impost, duty or other charge or withholding of a similar nature imposed by any competent authority in any jurisdiction, including any interest, penalty, charge and/or expense payable in connection with any failure to pay or any delay in paying any of the same;
"Termination Date"	means the date on which the termination of a Member's Membership becomes effective, in accordance with Rule 3.6 (<i>Withdrawal from Membership</i>), Rule 3.8 (<i>Termination by LME Clear of a Member's Membership</i>), Rule 3.9 (<i>Withdrawal of Services by LME Clear</i>) or Rule 3.11 (<i>Consequences of Suspension or Withdrawal</i>), as applicable;
"Time of Novation"	has the meaning set out in Rule 6.7.1;
"Time of Registration"	has the meaning set out in Rule 6.8.2;
"TOM"	has the meaning set out in notices issued by LME under the LME Rules;
"Total Member VM Profits"	has the meaning set out in Rule 10.10.2(a);

⁴

"Span" is a registered trademark of Chicago Mercantile Exchange Inc., used herein under license. Chicago Mercantile Inc. assumes no liability in connection with the use of SPAN by any person or entity.

"Transaction"	means: (a) a Member Trade; or (b) a Client Trade (c) any other transaction between two counterparties, each of which have arrangements pursuant to which a General Clearing Member has agreed to take responsibility for the clearing of the transaction for such counterparty via the Clearing System; or that, in each case comprises an Eligible Product and that is executed on, matched via, or reported to LME Clear by, an Approved Transaction Platform;
"Transaction Data"	means the information provided by an Approved Transaction Platform to LME Clear in respect of a Transaction, identifying such information as LME Clear may prescribe from time to time;
"Transaction Requirements"	has the meaning set out in Clearing Procedure B3.1;
"Transfer"	has the meaning set out in Rule 10.7.1 (<i>Portability of Client Accounts</i>);
"Transfer Order"	means an instruction given by or on behalf of LME Clear or a Member that is of the kind specified in the Settlement Finality Procedure;
"Transfer Time"	has the meaning set out in Default Procedure D2.7;
"Unaffected Party"	means whichever of LME Clear or a Member is not the Affected Party;
"Unallocated Gold Account"	means an account held with the Gold Custodian in the name of LME Clear recording the amount of Gold which the Gold Custodian has a contractual obligation to transfer to LME Clear (or, in the case of a debit balance, which LME Clear has a contractual obligation to transfer to the Gold Custodian) and shall include any sub-account opened within it;
"Unclosed Metal"	has the meaning set out in Rule 10.10.2(d)(ii);
"Underlying Asset"	means the asset, commodity, currency, metal, property, document, right, interest or financial instrument: (a) that is to be delivered under a Physically Settled Contract; or (b) by reference to which the Settlement Price of a Financially Settled Contract is to be determined in accordance with the Clearing Procedures;

	and may, for the avoidance of doubt, include LME Warrants or metal;
"Underlying Forward"	has the meaning set out in Clearing Procedure B6.6;
"United Kingdom or UK"	means The United Kingdom of Great Britain and Northern Ireland;
"Variation Margin Requirements"	has the meaning set out in Clearing Procedure C4.1;
"VAT"	means, in relation to any jurisdiction within the European Union, the tax imposed by the Council Directive of the European Union (2006/112/EC) and any national legislation implementing that directive or its predecessor directives, including the United Kingdom Value Added Tax Act 1994 together with legislation supplemental thereto and, in relation to any other jurisdiction, the equivalent tax (if any) in that jurisdiction;
"VM Haircut"	has the meaning set out in Rule 10.10.2(b);
"Voluntary Close Out Date"	has the meaning set out in Rule 3.11.4(a);
"Voluntary Close Out Date Notice"	has the meaning set out in Rule 3.11.4(a);
"Warrant Movement"	means the net movement of LME Warrants to be transferred between LME Clear and a Member on any given day, as determined in accordance with Clearing Procedure B7;
"Warrant Transfer Instruction"	means an instruction issued by LME Clear or a Member, via LMEsword, for the delivery of LME Warrants; and
"Website"	means the website of LME Clear.

1.2 INTERPRETATION

1.2.1 Unless a contrary indication appears, any reference in the Rules to:

- (a) **"LME Clear"**, any **"Member"**, or **"Client"** shall be construed so as to include its successors in title, permitted assigns and permitted Member Transferees;
- (b) **"assets"** includes present and future properties, revenues and rights of every description and, in relation to an Account, includes the Collateral held to cover the position on such Account;
- (c) **"continuing"** means, in relation to a Default Event, that such event has not been remedied or waived;
- (d) Any agreement, document or instrument is a reference to that agreement, document or instrument as amended, novated, supplemented, extended, restated

(however fundamentally and whether or not more onerously) or replaced from time to time;

- (e) **"including"** and **"in particular"** (and any other word or phrase with a similar meaning) shall be construed to mean "including, without prejudice to the generality of the foregoing" and "in particular, but without prejudice to the generality of the foregoing" respectively and where any example is given it shall be construed so that the example is "without limitation";
- (f) **"indebtedness"** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
- (g) **"person"** includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium or partnership (whether or not having separate legal personality);
- (h) **"property"** includes any interest (legal or equitable) in personal or real property and any thing in action;
- (i) **"regulation"** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation;
- (j) **"securities"** includes stock, debentures, debenture stock, loan stock, bonds and other investments (as listed in Part II, Schedule 2 of FSMA), whether certificated or uncertificated, including all depository interests representing any of them;
- (k) **"equivalent"** cash or securities shall take the same meaning as "equivalent financial collateral" as defined in the Financial Collateral Arrangements (No 2) Regulations 2003;
- (l) a provision of law is a reference to that provision as amended or re-enacted; and
- (m) a time of day is a reference to London time.

1.2.2 Any reference in the Rules to **"euro"**, **"€"** and **"EUR"** is to the single currency of Participating Member States, **"sterling"**, **"£"** or **"GBP"** is to the lawful currency for the time being of the United Kingdom, **"US\$"**, **"dollars"**, **"US dollars"** and **"USD"** is to the lawful currency for the time being of the United States of America and **"Yen"**, **"¥"** and **"JPY"** is to the lawful currency for the time being of Japan.

1.2.3 No reference in these Rules to Applicable Law or Applicable Clearing Regulations shall be construed as restricting or negating the applicability of any provision of the EMIR Level 1 Regulation or the EMIR Level 2 Regulation or the Financial Services and Markets Act 2000 or any subordinate legislation, rules or guidance thereunder or any obligation of LME Clear, a Member, a Client or an Indirect Client under the EMIR Level 1 Regulation or the EMIR Level 2 Regulation or the Financial Services and Markets Act 2000 or any subordinate legislation, rules or guidance thereunder.

1.2.4 Any reference to the singular shall be construed to include the plural (and vice versa).

1.2.5 Rule headings and sub-headings headings are for ease of reference only.

RULE 2 - GENERAL PROVISIONS

2.1 RULES AS A BINDING AGREEMENT

2.1.1 The following documents constitute a binding contract between each Member and LME Clear (the "**Binding Membership Terms**"):

- (a) the Member Documentation; and
- (b) any other document given contractual force pursuant to the Rules or which is expressed by its terms to form part of the Rules.

2.1.2 The Rules shall create binding contractual rights and obligations between LME Clear and the Member in respect of each Contract and each Member agrees to perform its obligations in respect of each Contract in accordance with the Rules.

2.1.3 Each Member acknowledges and agrees that these Rules shall bind the Member to the same extent as if it had executed a master agreement between LME Clear and the Member applicable to all its transactions processed under these Rules. Each such transaction is accepted by LME Clear in reliance upon the fact that all transactions hereunder constitute a single business and contractual relationship and that each transaction is made in consideration of each other transaction.

2.1.4 Each Member agrees to perform all of its obligations in respect of each transaction hereunder and (except insofar as otherwise expressly stated under these Rules in relation to the segregation of different Account(s)) agrees and accepts (i) that a default in the performance of any such obligation shall constitute a default by it in respect of all transactions hereunder, (ii) that LME Clear shall be entitled to set off claims and apply property held by it in respect of any transaction against obligations owing to it in respect of any other transaction hereunder and (iii) that payments, deliveries and other transfers made by either of them in respect of any transaction shall be deemed to have been made in consideration of payments, deliveries and other transfers in respect of any such other transactions hereunder, and the obligations to make any such payments, deliveries and other transfers may be applied against each other and netted.

2.1.5 The Rules are intended to create contractual relations between only LME Clear and the Members. Except in relation to LME Clear Parties as specified in Rule 2.3.1, none of the provisions of the Rules are intended to, or will, confer a benefit on, or be enforceable by any third party pursuant to the Contracts (Rights of Third Parties) Act 1999 or otherwise. For the avoidance of doubt, this means that Clients and Indirect Clients have no rights to enforce any provision of the Rules (except, in the case of Clients in the limited circumstances set out in Rule 10.7.1 (*Porting*) and Rule 10.5.1(c)).

2.1.6 Failure by a Member to comply with any of the Rules or with any decision of LME Clear made pursuant to the Rules shall constitute a breach of the Rules.

2.1.7 The Board of LME Clear and any Committee of the Board are authorised to interpret the Rules. The interpretation of the Board or Committee shall be binding and final.

2.1.8 LME Clear may publish certain materials relating to matters described in the Rules in Annexes. For the avoidance of doubt, Annexes, when published, form part of the Rules and shall constitute Binding Membership Terms. LME Clear shall not include in any Annex any matter to which (were Rule 2.2.6(m) not to apply) the Consultation Process shall apply in the event of any change to such matter.

2.2 AMENDMENTS TO RULES

2.2.1 LME Clear may at any time amend or cancel any Rule, or adopt new Rules (each being a "**Rule Change**") in accordance with the following provisions.

Rule Change Notice

2.2.2 Subject to Rule 2.2.5 below, any proposed Rule Change shall be notified to Members in a Notice issued by LME Clear (a "**Rule Change Notice**"), specifying:

- (a) the text of the Rule Change;
- (b) an explanation of the reasons for the Rule Change and its intended effect; and
- (c) the date on which the Rule Change shall become effective.

LME Clear shall give Members reasonable notice prior to the Rule change becoming effective. Such notice shall, subject to Rules 2.2.3 and 2.2.4 below, not be less than thirty (30) days prior to the date on which the Rule Change shall become effective, unless the Rule Change falls within Rule 2.2.6(a), (d) or (e) or the Board determines that it is otherwise urgently required to prevent imminent material detriment to the interests of LME Clear and/or its Members, in which case LME Clear shall provide such prior notice of the Rule Change as is reasonable and practicable in the circumstances.

2.2.3 In the event that a Rule Change:

- (a) significantly increases a Members' exposure to LME Clear under any indemnity under the Rules; or
- (b) significantly increases the time it would take a Member to terminate its Membership; or
- (c) materially increases the Fees or introduces new categories of Fees,

the date on which the Rule Change shall become effective, as specified in the Rule Change Notice, shall not be less than in the case of (a) or (b), sixty (60) Business Days, or, in the case of (c), twenty (20) Business Days, after the date of issue of the Rule Change Notice, unless the Rule Change falls within Rule 2.2.6(a), (d) or (e) or the Board determines that it is otherwise urgently required to prevent imminent material detriment to the interests of LME Clear and/or its Members, in which case LME Clear shall provide such prior notice of the Rule Change as is reasonable and practicable in the circumstances.

2.2.4 In the event that any Rule Change will affect any right of a Member to terminate its membership, LME Clear shall not allow such Rule Change to take effect until the Member has been given a reasonable period, following notification by LME Clear that the Rule Change is to be adopted, within which to give Notice to LME Clear to terminate its Membership.

Consultation Process

2.2.5 Subject to Rules 2.2.6 and 2.2.7, LME Clear shall consult with Members on each proposed Rule Change prior to issuing a Rule Change Notice. The consultation shall involve the following (the "**Consultation Process**");

- (a) LME Clear shall allow Members a reasonable period to comment on the Rule Change, having regard to the nature of the Rule Change and its potential impact on Members, which period shall ordinarily be not less than fifteen (15) Business Days, unless LME Clear, acting in good faith, considers there to be reasonable grounds for imposing a shorter period;
- (b) LME Clear shall give due consideration to such comments before adopting the Rule Change; and
- (c) LME Clear shall notify Members of any material change that LME Clear makes to the Rule Change in order to address such comments.

2.2.6 LME Clear shall not be required to apply the Consultation Process, in respect of any Rule Change which:

- (a) in LME Clear's reasonable opinion, is required to enable LME Clear to comply with its obligations under Applicable Law or any requirement or direction imposed on LME Clear by a Clearing House Regulator or is desirable to maintain LME Clear's status as a recognised clearing house under the FSMA or an authorised central counterparty under the EMIR Level 1 Regulation;
- (b) in LME Clear's reasonable opinion, is minor, administrative or technical in nature or will otherwise not materially affect the rights and obligations of Members;
- (c) relates to the Fees;
- (d) in LME Clear's reasonable opinion, is necessary to prevent a material disruption to, or manage a significant risk to, the business of LME Clear, or any member of its Group or any Approved Transaction Platform, or the operation of the Clearing System (including as a result of a Default Event or a Force Majeure Event);
- (e) in LME Clear's reasonable opinion (and as approved by the Board) is urgently required to protect the interests of one or more Members, provided that such Rule Change shall cease to be effective at the end of a period specified in the Rule Change Notice unless (i) LME Clear has, prior to the end of such period, applied the Consultation Process in respect of such Rule Change and notified Members that it shall continue to remain in force or (ii) the Rule Change would otherwise fall within any other category specified in this Rule 2.2.6;
- (f) relates to the description of Eligible Products or the Product Specifications of any Eligible Product;
- (g) relates to the form, intent, nature or frequency of issue of any Reports to be provided by LME Clear;
- (h) sets out the prescribed form or content of any documentation to be executed by any Member or its Clients under the Rules;
- (i) relates solely to changes necessary to enable LME Clear to accommodate a new Eligible Product;
- (j) relates solely to changes necessary to enable LME Clear to accommodate a new Approved Transaction Platform;
- (k) relates to any control frameworks applied by LME Clear in relation to Collateral;

- (l) relates to the limits or Haircuts applied by LME Clear in relation to Collateral; or
- (m) relates to the content of any Annex or any amendment, replacement or addition of any Annex.

Notwithstanding (c) above, LME Clear shall not introduce a Rule Change that would have the effect of introducing a fee or charge or levy in relation to Transfers made under Rule 10.7 (*Portability of Client Accounts*) unless it has first applied the Consultation Process in respect of such Rule Change.

- 2.2.7** LME Clear may consult on a Rule Change with only a limited number of Members in circumstances where LME Clear reasonably believes that the Rule Change will affect only those Members.

Additional Rule Change Requirements

- 2.2.8** No Rule Change shall affect any right or liability of LME Clear or any Member that may have accrued under the Rules prior to the Rule Change coming into effect.
- 2.2.9** LME Clear may not amend the Product Specifications with retroactive effect, unless and to the extent that the change is necessary in order to ensure that the LME Clear Rules and Product Specifications operate in a consistent manner with the LME Rules.
- 2.2.10** LME Clear may amend, substitute or add any Annex to the Rules on the provision of Notice to the Members. Such notice may be given by way of a Circular published on the Website.
- 2.2.11** Any Rule Change that relates to a change in the control frameworks applied by LME Clear in order to determine the limits or Haircuts in relation to Collateral shall be considered by the Board Risk Committee before a Rule Change Notice is issued to Members unless LME Clear, acting in good faith, determines that it would be inappropriate to do so.

2.3 LIABILITY AND INDEMNITY

- 2.3.1** Neither LME Clear nor any member of its Group, nor any person acting as a director, officer, employee, consultant or agent of LME Clear (each an "**LME Clear Party**") shall be liable for any losses, damages, claims, liabilities, costs or expenses (whether in contract, tort, warranty, strict liability, trust, breach of statutory duty or any other legal theory) arising from:
- (a) the exercise by LME Clear or any failure by LME Clear to exercise any right or discretion under the Rules;
 - (b) any negligence on the part of LME Clear or any LME Clear Party;
 - (c) the suspension or closure of LME Clear;
 - (d) the suspension or closure of an Approved Transaction Platform;
 - (e) any failure of any communication system, technology or technical system for the transmission of information between LME Clear and an Approved Transaction Platform;

- (f) any failure of any communication system, technology or technical system for the transmission of information between LME Clear and a Member;
- (g) any failure by LME Clear or an Approved Transaction Platform to transmit any information to one another;
- (h) any error or discrepancy in any information provided by an Approved Transaction Platform to LME Clear or any delay in the transmission of such information to LME Clear;
- (i) a Force Majeure Event;
- (j) any acts or omissions of an Approved Transaction Platform, including any error in the provision of Transaction Data or any error in the establishment of any Settlement Price;
- (k) the performance of any obligation of any Member, Client or any other person;
- (l) any dispute relating to the existence, terms or validity of any Contract; or
- (m) subject to Rule 2.3.2 below, any act or omission or the insolvency of any third party, including any Settlement Agent, Settlement Bank, Approved Delivery Facility, Custodian, Securities System Operator, investment agent or manager, investment or transaction counterparty, or other Service Provider that may be involved in any step or act in the performance, or discharge, by any party of its rights or obligations under a Contract or in the settlement of any Contract.

2.3.2 The exclusion of liability in Rule 2.3.1(m) above:

- (a) shall include any act or omission of a third party that performs any function on behalf of LME Clear where LME Clear is required under Applicable Clearing Regulations to delegate to, or otherwise utilise the services of, a third party in order to perform such function; and
- (b) shall include any act or omission of a third party that provides services to LME Clear, or performs functions ancillary to the performance by LME Clear of its obligations under the Rules, where such third party does not perform any obligation of LME Clear under these Rules on behalf of LME Clear as its delegate; and
- (c) save as specified in (a) above, shall not be construed so as to exclude LME Clear from any liability in respect of any obligation of LME Clear under these Rules that is performed by any such third party on LME Clear's behalf as its delegate.

2.3.3 The LME Clear Parties shall not have any liability to any other person(s) for any indirect, special, incidental, speculative or consequential loss or damage of any kind, loss of goodwill, business, business opportunity, anticipated savings or profits arising pursuant to its operation of the Clearing System, whether arising from negligence, breach of contract, tort or breach of statutory duty and whether or not the relevant LME Clear Party has been made aware of the likelihood of any such loss or damage.

2.3.4 Except to the extent provided under Rule 2.1.5, under no circumstances shall LME Clear or any other LME Clear Party have any liability under the Rules or otherwise to any person who is not a Member.

2.3.5 Each Member shall indemnify and hold harmless each LME Clear Party against any and all losses, damages, claims, liabilities, costs or expenses (whether in contract, tort, warranty, strict liability, trust, breach of statutory duty or any other legal theory) incurred by the LME Clear Party arising directly out of or in connection with such Member's:

- (a) wrongful acts or omissions, negligence, wilful default, fraud, breach of statutory duty; or
- (b) breach of the Rules, the Membership Agreement, any Contract or any Applicable Law,

save to the extent that the losses, damages, claims, liabilities, costs or expenses arise as a result of the fraud, fraudulent misrepresentation, negligence, wilful default or bad faith of the LME Clear Party. The Member shall not be liable to an LME Clear Party under this indemnity for loss of goodwill, loss of business opportunity or loss of anticipated savings or profits.

2.3.6 Each Member shall also indemnify LME Clear on demand against any transaction tax, registration and other similar Tax and all court, notarial and other fees payable in connection with the execution, delivery or performance of any Payment Obligation or Delivery Obligation with such Member or for the purpose of enforcing the Rules, the Procedures and/or any obligation of such Member or obtaining any judgment against it or enforcing any such judgment.

2.3.7 Nothing in the Rules shall limit or exclude the liability of any LME Clear Party for:

- (a) fraud, fraudulent misrepresentation or wilful default on the part of an LME Clear Party; or
- (b) death or personal injury as a result of such LME Clear Party's negligence; or
- (c) any matter for which it would be unlawful under Applicable Law for such LME Clear Party to exclude or limit or to attempt to exclude or limit its liability.

2.3.8 This Rule 2.3 is without prejudice to the provisions of Rule 291 of FSMA (*exclusion of liability for performance of regulatory functions*).

2.4 FORCE MAJEURE

2.4.1 An Affected Party will not be deemed to be in breach of the Rules or otherwise liable to the Unaffected Party in any way (including for any losses arising directly or indirectly) for any failure or delay in performing any of its obligations under the Rules that is caused by any Force Majeure Event, provided that the Affected Party complies with its obligations under Rule 2.4.2.

2.4.2 On the occurrence of a Force Majeure Event:

- (a) the Affected Party will give Notice to the Unaffected Party specifying the nature and extent of the Force Majeure Event promptly on becoming aware of the Force Majeure Event (and, where the Affected Party is LME Clear, this obligation may be discharged by the publication of a Circular by LME Clear);
- (b) the Affected Party shall promptly take reasonable and appropriate steps as are necessary to bring the Force Majeure Event to an end, find a solution by which its

obligations under the Rules may be performed despite the continuance of the Force Majeure Event or to mitigate the severity of the Force Majeure Event;

- (c) without prejudice to the generality of (b) above, the Affected Party shall implement the relevant elements of the business continuity and/or disaster recovery procedures maintained by the Affected Party in accordance with its obligations under Applicable law or otherwise; and
- (d) the Affected Party shall keep the Unaffected Party informed of the circumstances relating to the Force Majeure Event and its progress in resolving the issues affecting its performance of its obligations under the Rules (and, where the Affected Party is LME Clear, this obligation may be discharged by the publication of a Circular by LME Clear).

2.4.3 On the occurrence of any Force Majeure Event affecting LME Clear, LME Clear shall be entitled to take such action as it considers to be necessary or desirable to manage the continued operation of the Clearing System or in respect of any obligations of LME Clear or the Members under the Rules. Where a decision regarding such action is not already reserved to the Board, LME Clear shall, where reasonably practicable, consult with the Board prior to taking any such action. Such action may include:

- (a) requiring Members to comply with any instructions issued by LME Clear in respect of Contracts affected by the Force Majeure Event;
- (b) taking such action as may be permitted under Rule 10 (*Default*); or
- (c) delaying the time by which LME Clear or any Member(s) shall perform their obligations in respect of any Contract(s).

2.4.4 In the event that LME Clear determines that circumstances have arisen falling within Rule 15 (*Emergencies*) of Part 3 of the LME Rules, LME Clear may take such action as it considers appropriate to manage such circumstances, which may include the actions contemplated by that provision of the LME Rules. This is without prejudice to LME Clear's other rights under these Rules.

2.5 CONFIDENTIALITY

2.5.1 Subject to Rule 2.5.2, LME Clear shall treat as confidential all information received from a Member that concerns the business and affairs of a Member or an Applicant, or its Clients or Indirect Clients (including any information relating to any Contract).

2.5.2 LME Clear may disclose any information which is subject to the confidentiality obligations in Rule 2.5.1:

- (a) to any Regulator that has responsibility for regulating LME Clear or an Approved Transaction Platform;
- (b) to any Regulator that has responsibility for regulating the Member;
- (c) to an Approved Transaction Platform, to the extent that such information is relevant to the performance by the Approved Transaction Platform of its functions under its own rules or terms of service, or its obligations under Applicable Law, or its contractual obligations to LME Clear;

- (d) to any Settlement Bank, Settlement Agent, Approved Delivery Facility, Custodian, Securities System Operator, Service Provider or Organised Market that reasonably requires access to such information in order to discharge its functions for LME Clear or the Member, subject to appropriate confidentiality requirements;
- (e) to a trade repository authorised by an appropriate Regulator to receive and manage information regarding the Member, any Transaction, or any Contract, to the extent necessary to enable LME Clear to discharge any duty to which it is subject to report such information to a trade repository;
- (f) to the Member or Applicant itself;
- (g) where LME Clear acquires or develops the information independently of any information or document provided by the Member;
- (h) to any member of LME Clear's Group, or to any employees, officers, consultants, professional advisers or agents of any of them, in connection with the operation of the Clearing System, risk management processes or for the purposes of internal Group control or accounting, subject to appropriate confidentiality requirements;
- (i) to any other Member for the purposes of a potential transfer, novation or assignment of a Contract or Collateral to such Member in accordance with the Rules;
- (j) to third parties appointed or engaged by LME Clear or a Member in connection with the operation of LME Clear's complaint-handling or Member-discipline processes, where and to the extent that such third parties reasonably need to receive such information in order to discharge their functions in support of such processes, including professional advisers, the Independent Complaints Commissioner and any member of an Appeal Committee;
- (k) with the consent of the Member;
- (l) to potential acquirers (and their advisers) of LME Clear or an holding company of LME Clear or of the businesses of LME Clear, provided that each such potential acquirer has entered into a confidentiality undertaking with respect thereto;
- (m) in a document in relation to a takeover offer conducted under the rules of The Panel on Takeovers and Mergers or any equivalent body in any other relevant jurisdiction;
- (n) if and to the extent the information has come into the public domain through no fault of LME Clear;
- (o) to LME Clear's insurer(s), provided that any such insurer has entered into a confidentiality undertaking with respect thereto;
- (p) where necessary for the discharge of LME Clear's obligations under Applicable Law; or
- (q) where LME Clear considers it appropriate to disclose such information for the purpose of discharging LME Clear's obligations under the Rules having due regard to the confidential nature of the information, and taking reasonable care to ensure that the recipient of such information is aware of its confidential nature.

2.5.3 Subject to Rule 2.5.4, each Member shall treat as confidential all information concerning the business and affairs of LME Clear.

2.5.4 A Member may disclose any information which is subject to the confidentiality obligations in Rule 2.5.3:

- (a) to any Regulator that has responsibility for regulating the Member where required to do so pursuant to any direction, rule or requirement of the Regulator or by Applicable Law;
- (b) to LME Clear itself;
- (c) where the Member develops the information independently of any information or document provided by LME Clear;
- (d) to the Member's Parent Undertaking(s), or to employees, officers, consultants, professional advisers or agents of the Member or its Parent Undertaking(s) solely to the extent that such persons need to receive such information in order to assist the Member in properly performing its obligations or exercising its rights under these Rules, and subject, in all cases to their agreement to treat such information as strictly confidential;
- (e) with the consent of LME Clear;
- (f) if and to the extent the information has come into the public domain through no fault of the Member;
- (g) where necessary for the discharge of the Member's obligations under Applicable Law; or
- (h) where the Member considers it appropriate to disclose such information for the purpose of discharging the Member's obligations under the Rules having due regard to the confidential nature of the information, and taking reasonable care to ensure that the recipient of such information is aware of its confidential nature.

2.6 INTELLECTUAL PROPERTY RIGHTS

2.6.1 As between the Members and LME Clear, all rights, title, interest and Intellectual Property Rights in:

- (a) LME Clear Data; and
- (b) the Clearing System; and
- (c) any databases held on, or used by, the Clearing System,

shall be the property of LME Clear or its licensors. To the extent a Member acquires any right, title, interest and Intellectual Property Rights in the same:

- (i) it hereby assigns all such right, title, interest and Intellectual Property Rights (including by way of a present assignment of any future copyright or similar rights) to LME Clear for the full duration of such right, title, interest and Intellectual Property Rights; and

- (ii) it shall ensure that it has acquired all the necessary assignments, consents, waivers and permissions required to ensure that LME Clear is free to use the LME Clear Data in accordance with Rule 2.6.2(a).

2.6.2 Each Member acknowledges and agrees that:

- (a) LME Clear Data may be provided by LME Clear to any Member and any third party, including any Organised Market in any jurisdiction, and may be used by LME Clear or such other persons for any commercial or other purpose, subject, in the case of LME Clear Member Data, to the restrictions in Rule 2.5 (*Confidentiality*).
- (b) In certain circumstances LME Clear Data may contain, be derived from or be supplemented by data which is proprietary to a third party and has been licensed to LME Clear ("third party data"). Where the use of such third party data is subject to specific restrictions or additional licence terms imposed by the third party licensor, each Member shall comply with such restrictions and/or licence terms as notified to the Member by LME Clear from time to time.

2.6.3 LME Clear hereby grants to each Member:

- (a) a non-exclusive, worldwide, perpetual, royalty-free licence, with the right to sub-licence, to use, copy, modify, distribute and otherwise exploit the LME Clear Member Data for the purpose of using the Clearing System in connection with its proprietary business or Client Business, subject in each case to the restrictions in Rule 2.5 (*Confidentiality*) or notified under it; and
- (b) a licence to use the Clearing System, to the extent necessary for each Member to comply with, and exercise its rights under, the Binding Membership Terms.

2.6.4 The provisions of this Rule 2.6 are in addition, and without prejudice to, the express terms of any licence granted in the Membership Agreement.

2.6.5 Each Member acknowledges and agrees that it will not use LME Clear Data or any other third party data provided or made available by LME Clear other than as expressly provided under this Rule 2.6 or under the Membership Agreement.

2.7 DATA PROTECTION

2.7.1 In this Rule 2.7:

- (a) the terms "**personal data**", "**process**", "**controller**" and "**data subject**" have the meanings given to such terms in the UK's Data Protection Act 1998; and
- (b) "**LME Clear Personal Data**" means all personal data:
 - (i) provided to LME Clear by the Members, Clients or Indirect Clients and their respective personnel; or
 - (ii) created, generated or processed by LME Clear,in each case in connection with: (1) the operation of the Clearing System, or (2) LME Clear or a Member's compliance with or performance of the Binding Membership Terms.

2.7.2 LME Clear may:

- (a) use and update any information or personal data provided by or on behalf of the Member relating to the Member's use of the Clearing System to maintain records about, and provide services to, any Members for the time being and from time to time; and
- (b) disclose such information and personal data to Service Providers and persons acting as their agents for the same purposes,

provided that all such use and disclosure (including use by any such subcontractor or agent) shall be subject to the restrictions set out in the Rules.

2.7.3 LME Clear and any person to whom personal data is provided in accordance with the Rules may process it outside the European Economic Area or transfer it outside the European Economic Area for processing, provided that:

- (a) LME Clear or the transferor takes reasonable steps to ensure that such personal data is afforded a level of protection equivalent to that applicable to personal data processed within the European Economic Area; and
- (b) such processing or transfer is not otherwise contrary to Applicable Law.

2.7.4 LME Clear shall be the data controller in relation to LME Clear Personal Data. To the extent any LME Clear Personal Data contains personal data in respect of a Member's personnel, such Member shall ensure that:

- (a) it has notified such personnel that such LME Clear Personal Data is being provided to LME Clear for processing in the manner, to the extent permitted and for the purposes set out in Rules 2.7.2 and 2.7.3; and
- (b) where required under Applicable Law, such personnel consents to such LME Clear Personal Data being controlled and processed by LME Clear; and
- (c) any disclosure of such LME Clear Personal Data by such Member to LME Clear is not contrary to Applicable Law.

2.7.5 Each data subject may, on application to the LME Clear's 'Data Protection Officer' and payment of the prescribed fee to LME Clear, receive a copy of the personal data held by LME Clear in respect of it and require LME Clear to correct any errors or inaccuracies.

2.8 NOTICES

2.8.1 Subject to Rule 2.8.4, a notice given under or in connection with the Rules (a "**Notice**"):

- (a) shall be in writing and in English;
- (b) shall be sent:
 - (i) in the case of a Notice sent by LME Clear to a Member, unless otherwise specified in the Rules or the Procedures, to the contact details last designated by the Member; or
 - (ii) in the case of a Notice sent by a Member to LME Clear, unless otherwise specified in the Rules or the Procedures, to the contact details specified by LME Clear from time to time;

- (c) unless otherwise specified in the Rules or the Procedures, shall be sent by a method listed in Rule 2.8.2; and
- (d) unless otherwise specified in the Rules or the Procedures, is deemed received as set out in Rule 2.8.2.

2.8.2 The table below sets out:

- (a) delivery methods for sending a Notice in accordance with the Rules; and
- (b) for each delivery method, the corresponding delivery date and time when delivery of the Notice is deemed to have taken place provided that all other requirements in this Rule 2.8 have been satisfied and subject to the provisions in Rule 2.8.3:

Delivery method	Deemed delivery date and time
Delivery by hand.	On signature of a delivery receipt.
Pre-paid first class recorded delivery post or other next Business Day delivery service.	9.00 am on the second Business Day after posting.
Pre-paid airmail.	9.00 am on the fifth Business Day after posting.
Fax.	At the time of transmission.
Document exchange (DX).	9.00 am on the second Business Day after being put into the DX.
Email.	At the time of transmission.
Circular.	At the time of publication on the Website.

2.8.3 For the purpose of Rule 2.8.2 and calculating deemed receipt:

- (a) all references to time are to local time in the place of deemed receipt; and
- (b) if deemed receipt would occur in the place of deemed receipt on a day which is not a Business Day, deemed receipt is deemed to take place at 9.00 am on the next Business Day.

2.8.4 Notwithstanding Rule 2.8.1 to 2.8.3, the publication of a Circular shall amount to good and sufficient delivery of a Notice by LME Clear to all Members. A Circular shall be deemed to be received on the date and time on which it is published on the Website.

2.8.5 This Rule 2.8 does not apply to the service of any proceedings or other documents in any legal action or, where applicable, any arbitration or other method of dispute resolution.

2.8.6 A Default Notice or a Notice requiring Members to contribute towards an Excess Loss pursuant to Rule 10.10.2 shall be issued by:

- (a) the publication of a Circular on the Website; and/or
- (b) email addressed to all Members.

LME Clear may, subsequent to issuing such Notice, send a written copy of the Notice to Members. Provided that a Notice is issued pursuant to (a) or (b) above, any failure by LME Clear to issue both forms of Notice specified by (a) and (b) shall not invalidate the effect of the Notice.

2.8.7 For the avoidance of doubt:

- (a) a Default Notice; or
- (b) a Notice requiring Members to contribute towards any Excess Loss pursuant to Rule 10.10.2,

shall be effective from the earlier of (i) the time and date on which it is published on the Website and (ii) the time of transmission of the email.

2.9 METHODS OF COMMUNICATION

2.9.1 LME Clear shall be entitled to act and otherwise rely upon any communication (whether or not in writing) which purports, and which LME Clear believes in good faith:

- (a) to be issued by or on behalf of a Member; and
- (b) to have been approved by an individual who is authorised by that Member,

and which (in the case of an electronic communication) satisfies the requirements of any applicable requirements of LME Clear in relation to the security and integrity of information which is transmitted electronically.

2.9.2 Notwithstanding Rule 2.9.1, LME Clear may in its absolute discretion delay taking action in respect of any communication while it seeks to verify that such communication has been duly authorised, and LME Clear shall not be liable in any event for any loss or damage which may be incurred by a Member or other person as a result of any such delay.

2.9.3 Each Member will be allotted a unique identifying mnemonic which must be included as specified by LME Clear in communications issued in connection with the operations of the Clearing System.

2.10 WAIVER

2.10.1 No waiver by LME Clear of any right or remedy provided by the Rules or by Applicable Law against a Member shall be effective unless it is in writing addressed to the Member or to Members generally, and expressed to be a waiver of LME Clear's rights in the relevant matter.

2.10.2 A failure by LME Clear to exercise, or a delay in exercising, a right or remedy provided by the Rules or by Applicable Law shall not constitute a waiver of the right or remedy or a waiver of other rights or remedies.

2.10.3 No single or partial exercise by LME Clear of a right or remedy provided by the Rules or by Applicable Law shall prevent the further exercise of the right or remedy or the exercise of another right or remedy.

2.10.4 A waiver by LME Clear of any breach of the Rules by a Member or any other default in respect of the Rules shall not constitute a waiver of a subsequent or prior breach or any other default in respect of the Rules.

2.11 SEVERABILITY

If a provision of the Rules is found to be wholly or partly illegal, invalid or unenforceable in any respect:

- (a) then to the extent it is illegal, invalid or unenforceable, that provision will be given no effect and will be treated as though it were not included in the Rules, but the validity or enforceability of the remaining provisions of the Rules will not be affected; and
- (b) LME Clear shall notify Members of any alternative provision to be included in the Rules in substitution for such provision.

2.12 GOVERNING LAW AND JURISDICTION

2.12.1 The Rules and any non-contractual obligations of any kind arising out of or in relation to these Rules are governed by and shall be interpreted and construed in accordance with English Law.

2.12.2 The courts of England shall have exclusive jurisdiction to settle any dispute arising out of or in connection with these Rules. Each Member irrevocably submits to that jurisdiction for the exclusive benefit of LME Clear and waives any objection on the grounds of venue or *forum non conveniens* or any similar grounds.

2.12.3 Any Member that is not incorporated or registered in England and Wales shall at all times appoint and maintain an agent for service of process in England and Wales ("**Service Agent**"). Any such Member shall not revoke the authority of a Service Agent unless it has first notified LME Clear of its replacement Service Agent. If a Service Agent ceases to be able to act as such or ceases to have an address within the jurisdiction of the English courts, the Member shall promptly appoint another Service Agent (with an address for service within the jurisdiction of the English courts). Nothing in the Rules, the Procedures, the Membership Agreement or any Contract shall affect the right of LME Clear to serve process in any other manner permitted by law. Any Member that has appointed a Service Agent pursuant to this Rule 2.12.3 shall ensure that LME Clear is at all times in receipt of the full name and address of such Service Agent.

2.13 WAIVER OF SOVEREIGN IMMUNITY

Any Applicant or Member that is a government body or agency, a state-owned or controlled entity or an entity that is otherwise entitled to benefit from any immunity from suit or equivalent protections customarily or legally available to states or their representative bodies under the law of any jurisdiction hereby:

- (a) consents generally in accordance with the State Immunity Act 1978 to the issue of any proceedings or to relief being given against it by way of injunction or order for specific performance or for the recovery of any property whatsoever and to its property being subject to any process for the enforcement of any order or judgment or any process effected in the course of or as a result of any action in rem; and

- (b) irrevocably waives and shall not claim any immunity from suits and proceedings and from all forms of execution or attachment (including attachment prior to judgment and attachment in aid of execution) to which it or its property is now or may hereafter become entitled in accordance with the laws of any jurisdiction and declares that such waiver shall be effective to the fullest extent permitted by such laws.

2.14 DELEGATION BY LME CLEAR

LME Clear may appoint any person to assist it in the performance of any obligation of LME Clear under the Rules, or to take any step or action or complete any process required, permitted or otherwise contemplated under the Rules. Any such appointment shall be without prejudice to any obligation that LME Clear has to any Member under the Rules.

2.15 EXERCISE OF DISCRETION BY LME CLEAR

Unless a contrary indication appears, where in these Rules it states that LME Clear "may" do something or take such step as it considers appropriate or where in these Rules any discretion, power or right is conferred on LME Clear, it shall be interpreted to mean that LME Clear may do that thing, or take that step or exercise that discretion, power or right conclusively and in its sole, absolute and unfettered discretion and without consultation or notice to any other person. LME Clear shall exercise such discretion in a manner designed to promote and maintain integrity, high standards and fair dealing in accordance and consistent with Applicable Laws.

2.16 CURRENCY CONVERSION

- 2.16.1** For the purpose of exercising any rights under these Rules, LME Clear may, in its discretion, convert any monies standing to the debit or credit of a Member's Accounts (including any Client Accounts) into such other currency or currencies as it thinks appropriate, such conversion to be effected at such rate or rates of exchange as LME Clear may reasonably determine.
- 2.16.2** In relation to any debt owed by LME Clear to a Member or any sum to be otherwise paid by LME Clear to a Member, LME Clear may satisfy that debt or pay that sum in another currency or currencies as it thinks appropriate, such conversion to be effected at such rate or rates of exchange as LME Clear may reasonably determine.
- 2.16.3** Any amounts payable by a Member to LME Clear shall be paid in the currency specified in the Rules or the relevant Product Specification. Notwithstanding the foregoing, LME Clear may, upon Notice to a Member, permit the Member to make a payment required under the Rules, or the relevant Product Specification, in a currency other than that specified in the Rules or the relevant Product Specification. In the event that any payment is made by a Member to LME Clear in any currency other than that specified in the Rules or the relevant Product Specification, the Member shall indemnify LME clear against any loss that LME clear incurs as a result of the conversion of the payment into the specified currency.

2.17 SET-OFF

- 2.17.1** LME Clear may at any time and from time to time (and without notice) set off any indebtedness due to it by a Member against any indebtedness owed by it to the Member regardless of the place of payment or currency of either indebtedness. If the

indebtedness of the Member and the indebtedness of LME Clear are in different currencies, LME Clear may convert either indebtedness (at its spot rate of exchange and otherwise in accordance with its usual practice) for the purpose of the set-off.

2.17.2 LME Clear shall not exercise its rights under Rule 2.17.1 in a manner inconsistent with Rule 4.3.

2.17.3 Without any prejudice to any other rights or remedies of LME Clear (including under Rule 2.17.1 and any Security Document), LME Clear may at any time and from time to time (and without notice) take any Collateral provided by a Member and apply it against any indebtedness due to it by that Member.

2.18 DISCLOSURE OF ADVICE

2.18.1 There is no obligation on LME Clear to disclose to a Member any advice or opinions received by LME Clear from its external or internal legal or other advisers. LME Clear may from time to time disclose any such advice or opinions to an individual Member or to all or a group of Members generally, whether in full or extracts. If a Member receives any such disclosed advice or opinion, the Member agrees that the disclosure is for information only and that it is not entitled to, and it agrees not to, rely on the advice or opinion. In disclosing any such advice or opinion to the Member, LME Clear makes no representation about its accuracy or its adequacy or appropriateness for the purposes or needs of the Member, and to the extent that it is necessary or appropriate, the Member agrees to take its own legal advice on the matters contained therein. Each Member acknowledges that in receiving any such full or extracted disclosure it will not have the benefit of any correspondence, discussions and background to the advice or opinion and in particular may not have sight of all qualifications, observations and assumptions that may be relevant to the disclosed advice or opinion. Each Member agrees that neither LME Clear nor any its internal or external legal or other advisers shall in any way be responsible or liable to the Member in relation to any such disclosed advice or opinion, and no duty of care shall arise between the Member and LME Clear or any such adviser.

RULE 3 - MEMBERSHIP

3.1 MEMBERSHIP CATEGORIES AND APPLICATION PROCESS

3.1.1 LME Clear shall permit access to the Clearing System to those persons:

- (a) who qualify for admission as Members under the Rules; and
- (b) who apply to LME Clear for Member status; and
- (c) whose applications are approved by LME Clear in accordance with the Membership Procedure; and
- (d) who have complied with the obligations under the Rules for the provision of Collateral and a Default Fund Contribution.

3.1.2 All applications for Membership shall be made in accordance with Membership Procedure.

3.1.3 Each Member may be categorised either as:

- (a) an "**Individual Clearing Member**" or "**ICM**", which shall be permitted only to clear Transactions or Contracts on its own behalf; or
- (b) a "**General Clearing Member**" or "**GCM**", which may clear Transactions or Contracts on its own behalf and in respect of Client Business.

3.1.4 Any sub-categories of Member shall be as described in the Membership Procedures.

3.1.5 Each Applicant shall satisfy the Membership Criteria in order for LME Clear to consider its application for Membership.

3.1.6 Nothing in the Rules shall create any form of contractual or non-contractual relationship between LME Clear and any Client or any other third party in respect of any Contract. The Member shall contract with LME Clear as principal and not as agent for any Client or any other third party.

3.2 ON-GOING MEMBERSHIP REQUIREMENTS

3.2.1 Each Member shall at all times continue to satisfy the Membership Criteria.

3.2.2 A Member shall at all times:

- (a) observe high standards of integrity and fair dealing, and observe high standards of market conduct as reflected in the Applicable Law from time to time;
- (b) organise and control its internal affairs in a responsible manner, keep proper records, and have adequate arrangements to ensure that its staff and directors are suitable, fit and proper persons, adequately trained, sufficient in numbers, and properly supervised and that it has well-defined procedures as regards compliance with the Rules;
- (c) retain all relevant documentation, and provide LME Clear with copies thereof on request, in relation to all Contracts entered into by them; and

- (d) deal with LME Clear in an open and cooperative manner and keep LME Clear promptly informed of anything concerning the Member which might reasonably be expected to be disclosed to it.

3.2.3 Each Member shall comply with:

- (a) the Net Capital requirements specified in Membership Procedure B5;
- (b) the reporting requirements specified in Membership Procedure B6;
- (c) the notification requirements specified in Membership Procedure B7;
- (d) the requirements for Authorised Representatives specified in Membership Procedure B8;
- (e) any credit standards applied by LME Clear, from time to time, to the Member or to Members generally; and
- (f) any other requirements specified in the Membership Procedures from time to time.

3.2.4 Nothing in this Rule 3.2 shall require a Member to disclose any information if it is unlawful for it to do so, provided that if it is unlawful to provide particular information at a particular time, it shall:

- (a) take appropriate action to obtain any necessary consent(s) to disclose such information to LME Clear; and
- (b) provide the information as soon as it becomes lawful for it to do so.

3.2.5 Each Member shall co-operate with any request by LME Clear for such Member to participate in any test of LME Clear's default management processes. Each Member shall participate in at least one such test per calendar year. LME Clear shall provide reasonable advance Notice of the scheduling of any such test in which the member shall be required to participate.

3.2.6 All information provided by a Member to LME Clear shall be in English unless LME Clear specifically requests otherwise.

3.3 SUPERVISION AND AUDIT RIGHTS OF LME CLEAR

3.3.1 LME Clear shall be entitled at any time to inspect and take copies of the records, trading information, books of account and other documentation, in whatsoever medium retained, of Members (including any documentation maintained by or in the possession of the Member for any other person) for the purpose of ensuring compliance with the Rules. Where documentation of a Member is maintained for it by a third party, the Member shall procure that access is provided to such documentation as if it were in the possession of the Member. LME Clear shall (i) act reasonably in the exercise of its rights under this Rule 3.3.1 and (ii) shall provide reasonable notice of any exercise of such rights.

3.3.2 Representatives of LME Clear shall be entitled at any time to attend at the premises of any Member for the purpose of assessing the Member's compliance with the Rules and the Member shall ensure that all cooperation is afforded. LME Clear shall provide reasonable notice to a member in advance of any such visit.

3.3.3 LME Clear may cooperate with any governmental or international agencies, any investment exchanges, any clearing houses, any rating agencies and self-regulatory and

other regulatory or enforcement organisations in such manner as LME Clear thinks fit, including where LME Clear is required to do so under Applicable Law and shall, in particular, be permitted to divulge to any of the aforesaid persons or bodies any information for the time being in the possession of LME Clear regarding any Member's financial condition or clearing activity, including any information obtained pursuant to the Rules where:

- (a) required or requested by such persons or bodies, provided that such persons or bodies have authority or responsibility for supervising or otherwise regulating the conduct or affairs of the Member; or
- (b) LME Clear is required to do so under Applicable Law; or
- (c) LME Clear is directed or requested to do so by a Clearing House Regulator.

3.3.4 LME Clear may request financial or other information regarding any Member, Client or Indirect Client from any Approved Transaction Platform and the Member shall consent (and shall use reasonable endeavours to procure that any such Client or Indirect Client shall consent) to the provision by the Approved Transaction Platform of the same.

3.4 FEES AND CHARGES

3.4.1 Each Member shall pay such Fees to LME Clear as shall be determined by LME Clear in accordance with Clearing Procedure G and Annex 3 (*Fees and Charges*), as updated by LME Clear from time to time.

3.4.2 LME Clear may amend Annex 3 (*Fees and Charges*) from time to time by the publication of a Circular, which shall, subject to Rule 2.2.6, come into effect from such time as LME Clear may specify in that Circular.

3.4.3 Clearing Procedure G sets as the basis on which LME Clear will invoice Members.

3.5 TERMINATION OR SUSPENSION OF MEMBERSHIP GENERALLY

3.5.1 A Member's Membership may be:

- (a) terminated by the Member in accordance with Rule 3.6 (*Withdrawal from Membership*);
- (b) suspended by LME Clear in accordance with Rule 3.7 (*Suspension of a Member by LME Clear*);
- (c) terminated by LME Clear pursuant to a Default Event in accordance with Rule 3.8 (*Termination by LME Clear of a Member's Membership*); or
- (d) terminated by LME Clear pursuant to a Service Withdrawal applicable to a category of Members to which the Member belongs in accordance with Rule 3.9 (*Withdrawal of Services by LME Clear*).

3.6 WITHDRAWAL FROM MEMBERSHIP

3.6.1 Subject to the following Rules, a Member may at any time give Notice of its intentions to withdraw from Membership.

3.6.2 A Member desiring to withdraw from Membership shall lodge a Notice in writing to that effect (a "**Resignation Notice**") with LME Clear.

3.6.3 A Member that has lodged a Resignation Notice shall provide to LME Clear:

- (a) an explanation of the reasons for the Member's resignation; and
- (b) such further information as LME Clear may reasonably request regarding such circumstances of the Member's resignation.

Any failure to provide such explanation or information shall not prejudice the efficacy of the Resignation Notice.

3.6.4 Following receipt of a Resignation Notice, LME Clear shall issue to the Member a Voluntary Close Out Date Notice in accordance with Rule 3.11.4 below.

3.6.5 Subject to Rule 3.11.6 below, the effective date of termination of a Member's Membership shall be the next Business Day after the Business Day on which the Default Fund is next recalculated following the date on which all Open Contracts to which the Member is a party have been settled, transferred, closed-out, liquidated or otherwise discharged in accordance with the Rules. Such Business Day shall be the Termination Date. LME Clear shall, promptly upon the settlement, transfer, close-out, liquidation or discharge of the Member's final Open Contract, Notify the Member of the date on which the Default Fund shall next be recalculated.

3.6.6 The provision of Notice by LME Clear of a Termination Date pursuant to Rule 3.6.5 shall be effective solely to confirm the Termination Date and shall in no way limit or restrict LME Clear from enforcing any rights, or making any claim, against a Member in respect of any Contract, or in respect of any obligations of the Member under the Rules that have not been fully discharged prior to the Termination Date (including for the avoidance of doubt, any rights of LME Clear, or any obligations of the Member, under Rule 3.11 below).

3.6.7 In the event that a Member lodges a Resignation Notice in accordance with Rule 3.6.2, such Member may not, within the three month period following the date on which such Resignation Notice was delivered, (i) submit any application to LME Clear for Membership or (ii) withdraw such Resignation Notice. LME Clear may waive any such restriction or time limit in its absolute discretion.

3.6.8 In the event that a Member lodges a Resignation Notice during a Default Period, such Resignation Notice will not be treated as received by LME Clear until the Default Period has ended; in which case it shall be treated as having been made in accordance with Rule 10.10.9(d).

3.7 SUSPENSION OF A MEMBER BY LME CLEAR

3.7.1 LME Clear may, at any time, suspend access by a Member to any aspect of the Clearing System, either with regard to a particular Transaction or Contract or to multiple Transactions or Contracts or with regard to all Transactions and Contracts generally, with immediate effect (or with effect from such later time as LME Clear may specify) if any Default Event has occurred in relation to such Member, or any event or circumstance has occurred which would, with the expiry of a grace period, the giving of notice, the making of any determination under the Rules or any combination of the foregoing, constitute an Default Event.

3.7.2 The suspension of a Member pursuant to Rule 3.7.1 shall continue for so long as LME Clear shall determine and shall end on such date and on such conditions as LME Clear shall determine.

3.7.3 LME Clear may, acting reasonably, impose any restrictions or conditions that it deems reasonable and appropriate as a condition for ending such suspension.

3.7.4 Without prejudice to the generality of Rules 3.7.2 or 3.7.3, LME Clear may end a suspension if it determines that the reason for the suspension no longer exists, or that:

- (a) the suspended Member is in full compliance with its obligations under the Rules; and
- (b) the Member's use of the Clearing System will not threaten the orderly operation or integrity of the Clearing System or the interests of other Members.

3.8 TERMINATION BY LME CLEAR OF A MEMBER'S MEMBERSHIP

3.8.1 LME Clear may terminate the Membership of a Member, or terminate the access by such Member to any aspect of the Clearing System with immediate effect (or with effect from such later time as LME Clear may determine) if any Default Event has occurred in relation to such Member, whether or not such Member has first been suspended.

3.8.2 A Member shall, forthwith upon becoming aware of the occurrence of any event or circumstance referred to in Rule 3.8.1, inform LME Clear in writing of such event or circumstance and the Member will not (except with the prior consent of LME Clear) submit any further Transactions for Acceptance.

3.8.3 The effective date of termination specified by LME Clear in a Notice provided pursuant to Rule 3.8.1 above shall be the Termination Date. For the avoidance of doubt, LME Clear may specify in such Notice that such Termination Date shall be the next Business Day after the Business Day on which the Default Fund is next recalculated following the date of the Notice.

3.9 WITHDRAWAL OF SERVICES BY LME CLEAR

In the event that LME Clear determines that it shall cease to offer and provide clearing services, or any part of its clearing services, in respect of any group or category of Member (a "**Service Withdrawal**"):

- (a) LME Clear shall Notify the Members affected by the Service Withdrawal that such Service Withdrawal is to take effect (such Notice being a "**Service Withdrawal Notice**");
- (b) such Service Withdrawal Notice shall specify the date from which the Service Withdrawal shall take effect, provided that no such Service Withdrawal may be less than thirty (30) Business Days' following the date of such Service Withdrawal Notice unless LME Clear is required to apply a shorter period pursuant to Applicable Law or the directions of a Clearing House Regulator; and
- (c) from the date that such Service Withdrawal takes effect, the Members affected by the Service Withdrawal shall no longer be eligible to submit Transactions to LME Clear for clearing in accordance with these Rule;
- (d) the Termination Date of the Member's Membership shall be determined in accordance with Rule 3.11.4 below.

3.10 NOTIFICATION OF SUSPENSION OR TERMINATION

3.10.1 If LME Clear suspends or ceases to act for a Member with respect to a particular Transaction or Contract or to multiple Transactions or Contracts or with regard to all Transactions and Contracts generally, it shall promptly inform such Member and publish a Circular setting out its decision, specifying the date on which such suspension or cessation took effect.

3.10.2 LME Clear may, in accordance with its obligations under Applicable Law, inform:

- (a) the appropriate Regulators; and
 - (b) any Approved Transaction Platform of which the Member is a member,
- of any action it has taken or proposes to take pursuant to Rules 3.7 or 3.8.

3.10.3 Without prejudice to LME Clear's rights under the Rules (and Rule 10 (*Default*) in particular), suspension or termination of a Member shall not affect the continuation in force of Contract arising from any prior Novation or Registration of a Transaction.

3.11 CONSEQUENCES OF SUSPENSION OR TERMINATION

General

3.11.1 Suspension or termination shall not affect any rights or obligations arising prior to or continuing during or after the date of the suspension or the Termination Date, which arise in consequence of the suspension or termination or which relate to the Member's period of Membership and all such rights and obligations shall continue to be subject to the Rules.

3.11.2 LME Clear shall not be liable to the Member for any Loss incurred by the Member arising out of the exercise by LME Clear of its powers of suspension or termination pursuant to the Rules.

3.11.3 LME Clear shall be entitled to take all or any such action set out in Rule 10 (*Default*) (or as may otherwise be permitted under the Rules) as LME Clear may think appropriate, notwithstanding such suspension or termination.

Close-Out and Liquidation of Open Positions

3.11.4 In the event that (i) a Member issues a Resignation Notice or (ii) LME Clear Notifies a Member that its Membership is subject to a Service Withdrawal:

- (a) LME Clear shall issue to the Member a Notice specifying the date by which all Open Contracts to which the Member is a party must have been settled, transferred, closed-out, liquidated or otherwise discharged in accordance with the Rules (such date being the "**Voluntary Close Out Date**" and such Notice being a "**Voluntary Close Out Date Notice**").
- (b) the Voluntary Close Out Date shall be:
 - (i) within a reasonable period following the date on which the Resignation Notice or Service Withdrawal Notice was issued, having regard to:
 - (1) the number and size of the Member's Open Positions, a timescale that is reasonable to enable the Member to settle, transfer, close-

out, liquidate or otherwise discharge its obligations in respect of such Open Positions; and

- (2) where the Member is a General Clearing Member, a timescale that is reasonable to enable the Clients of the Member to establish alternative clearing arrangements with another General Clearing Member; and
- (ii) in any event, not later than ninety (90) days following the date on which (as applicable):
 - (1) the Resignation Notice was lodged with LME Clear; or
 - (2) the Service Withdrawal Notice was issued by LME Clear; and
- (c) the Member shall take such actions as LME Clear may specify in order to satisfy or discharge any of the Member's remaining obligations under the Rules on or prior to the Voluntary Close Out Date; and
- (d) in the event that a Member fails to satisfy or discharge its remaining obligations by the Voluntary Close Out Date, LME Clear shall be entitled to close out and liquidate any or all of the Member's Open Contracts;
- (e) on the next Business Day following the day on which the Member's last remaining Open Contract is settled, transferred, close-out, liquidated or otherwise discharged, LME Clear shall issue Notice to the Member specifying the same and specifying the date on which the Default Fund will be next recalculated;
- (f) the Termination Date shall be the next following Business Day, after the Business Day on which the Default Fund is next recalculated following the date Notified by LME Clear pursuant to (e);
- (g) and for the avoidance of doubt, LME Clear shall be entitled, in accordance with Rule 2.17 (*Set-off*) to set off against any sum payable to the Member pursuant to the close out and liquidation of Contracts pursuant to (d) above, any indebtedness owed by the Member to LME Clear.

Delay of Termination Date

3.11.5 The Termination Date may not be earlier than the date on which all Open Contracts to which the Member is a party have been settled, transferred, closed-out, liquidated or otherwise discharged in accordance with the Rules.

3.11.6 LME Clear may (i) withhold or delay the provision to the Member of notice of the Termination Date pursuant to Rule 3.6.5 or 3.11.4(e) or (ii) postpone any Termination Date notified to the Member pursuant to Rule 3.8 if:

- (a) it considers it necessary in the interests of maintaining the integrity of the Clearing System or the stability of the financial system; or
- (b) it is requested to do so by an Approved Transaction Platform used by the Member and LME Clear considers such request to be reasonable in the circumstances; or
- (c) it is requested or instructed to do so by a Regulator.

Continuing Disciplinary Action

3.11.7 A Member who ceases to be a Member (a "**Former Member**") shall remain subject to:

(a) Rule 3.13 (*Discipline*) and Membership Procedure D (*Discipline*); and

(b) Rule 3.14 (*Appeal*) and Membership Procedure E (*Appeal*),

in respect of acts or omissions while he was a Member and in respect of any investigation or disciplinary proceedings relating thereto as if he were a Member for the longer of:

(c) the period of twelve months from the Termination Date; or

(d) the period during which any disciplinary proceedings continue against him, being proceedings started by LME Clear no later than twelve months after the date on which he ceased to be a Member, subject to any extension of the period under Rule 3.11.9.

3.11.8 Disciplinary proceedings following a Member's resignation may be started by giving notice to the Former Member of an investigation no later than twelve months after the Termination Date.

3.11.9 In the event that LME Clear concludes that there are, or may be matters which should be investigated and in respect of which disciplinary proceedings may be taken, the period referred to in Rule 3.11.7 shall be extended until such time as such additional disciplinary proceedings are completed (including the payment of any fine or application of any other sanction imposed).

Return of Asset Cover

3.11.10 The return of Asset Cover to a Former Member shall be made in accordance with Rule 8.8.

Timing of Recalculation of Default Fund

3.11.11 For the avoidance of doubt, the frequency of the recalculation of the Default Fund is specified in Default Procedure B.

3.12 COMPLAINTS

All Complaints shall be made and resolved in accordance with Membership Procedure C.

3.13 DISCIPLINE

LME Clear may investigate a Member and commence disciplinary proceedings against a Member in the circumstances specified by, and in accordance with the requirements of, Membership Procedure D.

3.14 APPEAL

Any appeal against:

(a) a decision regarding an application for Membership; or

(b) a decision by the Disciplinary Committee,

shall be made in accordance with the requirements of Membership Procedure E.

RULE 4 - ACCOUNTS

4.1 OBLIGATION TO MAINTAIN ACCOUNTS

4.1.1 LME Clear shall permit each Member to establish in the books and records of LME Clear:

- (a) a House Account (or, where permitted by LME Clear, multiple House Accounts); and
- (b) where the Member is a General Clearing Member, one or more Client Accounts.

4.1.2 Each Transaction that is Novated or Registered in accordance with Rule 6 (*Acceptance, Novation and Registration*) and any Contracts resulting from such Novation or Registration shall be allocated by LME Clear to an Account, subject to and in accordance with Rule 6 (*Acceptance, Novation and Registration*).

4.1.3 Each Account shall be used to record the respective rights, liabilities and obligations of LME Clear and the Member arising in respect of Contracts allocated to such Account ("**Respective Entitlements**"), including for the avoidance of doubt, rights, liabilities and obligations in respect of:

- (a) the Contracts resulting from the acceptance of Transactions into the Clearing System and the Novation or Registration of such Transactions in accordance with Rule 6 (*Acceptance, Novation and Registration*);
- (b) all Positions associated with such Contracts;
- (c) all Collateral required or held by LME Clear in relation to such Contracts;
- (d) any other rights or obligations of LME Clear or the Member in relation to such Contracts and the matters described in (a) to (c) above.

4.2 ACCOUNT OPTIONS

4.2.1 Each Member shall establish at least one House Account. A House Account may only be used to record the Respective Entitlements arising in respect of Contracts resulting from Transactions effected on the Member's own behalf.

4.2.2 A General Clearing Member may establish one or more Client Accounts in respect of its Client Business. The General Clearing Member may elect to establish one or more of the following types of Client Account:

- (a) one or more Omnibus Segregated Client Account; and/or
- (b) one or more of the following types of Individual Segregated Client Account:
 - (i) Direct Individual Segregated Client Account; and/or
 - (ii) Indirect Individual Segregated Client Account; and/or
 - (iii) Indirect Omnibus Segregated Client Account.

4.2.3 An Omnibus Segregated Client Account may be used to record the Respective Entitlements arising in respect of Contracts resulting from Transactions effected or cleared by a General Clearing Member on behalf of one or more Clients.

- 4.2.4** Each Direct Individual Segregated Client Account may only be used to record the Respective Entitlements arising in respect of Transactions effected or cleared by a General Clearing Member on behalf of a single Client.
- 4.2.5** Each Indirect Individual Segregated Client Account may only be used to record the Respective Entitlements arising in respect of Transactions effected or cleared by a General Clearing Member on behalf of a single Clearing Client which relate to a single Indirect Client.
- 4.2.6** Each Indirect Omnibus Segregated Client Account may only be used to record the Respective Entitlements arising in respect of Transactions effected or cleared by a General Clearing Member on behalf of a single Clearing Client which relate to one or more Indirect Clients.
- 4.2.7** Client Accounts are subject to certain restrictions on the use of Collateral set out in Rules 8 (*Margin Requirement and Collateral*) and 10 (*Default*).
- 4.2.8** Client Accounts are subject to certain additional provisions set out in Rule 5 (*Client Business and Portability Arrangements*).
- 4.2.9** A Member shall remain liable for all obligations owed to LME Clear in respect of each Account established by that Member.

4.3 ACCOUNT SEGREGATION

- 4.3.1** LME Clear shall treat each Account maintained for a Member separately from each other Account maintained for that Member for the purposes of:
- (a) recording the Respective Entitlements referable to each Account;
 - (b) recording and accounting for any Excess Collateral referable to that Account;
 - (c) where applicable, the netting of positions referable to Transactions or Contracts allocated to that Account;
 - (d) the exercise of any right by LME Clear under the Rules to combine or consolidate balances on Accounts or any set-off rights;
 - (e) the allocation or discharge of Losses, including Default Losses; and
 - (f) the exercise of rights or obligations pursuant to Rule 10.7 (*Portability of Client Accounts*).
- 4.3.2** Each Account established by a Member shall be segregated in the books and records of LME Clear from each other Account, so that: (a) the Respective Entitlements arising in respect of Contracts allocated to any one Account and (b) any Excess Collateral allocated to any one Account, shall be segregated and distinguished from the Respective Entitlements and Excess Collateral allocated to any other Account established by that Member.
- 4.3.3** Where a Member has one or more Accounts, the arrangements under Rule 8 (*Margin Requirements and Collateral*) for the calculation of the Member's Margin Requirement shall be applied separately to each such Account.

4.3.4 Rules 4.3.1, 4.3.2 and 4.3.3 shall be subject to any right of LME Clear to combine any two or more Accounts for the purpose of, and pursuant to, Rule 10 (*Default*).

4.4 NETTING ACCOUNTS

4.4.1 Every Account shall be a Netting Account. Clearing Procedure B4 specifies further provisions applying to the treatment of Netting Accounts.

4.5 LEGALLY COMPLIANT ACCOUNT STRUCTURES

4.5.1 Subject to Rule 4.5.2 below, it is the sole responsibility of each Member to determine and establish the appropriate number and types of Accounts with LME Clear in order to enable the Member to satisfy its legal and regulatory obligations and its obligations under the Rules. This includes:

- (a) any obligation on a Member to record Respective Entitlements to a Client Account, or to establish separate Omnibus Segregated Client Accounts or Individual Segregated Client Accounts, in order to comply with any client money requirements under Applicable Law applying to the Member;
- (b) any obligation of a Member to record Respective Entitlements arising from Transactions or Contracts effected or cleared for a Client or any Indirect Client, to an Individual Segregated Client Account, in order to comply with the provisions of the EMIR Level 1 Regulation and / or the EMIR Level 2 Regulation applying to the Member; or
- (c) any obligation of a Member to ensure that collateral provided by Clients is recorded or segregated in such a manner as enables the Member to be able to identify the person to whom such collateral (or equivalent assets) is returnable upon release from any charge created over it by the Member in favour of LME Clear (pursuant to Rule 8.5).

4.5.2 Each General Clearing Member must offer, at least, a choice of one Client Account providing individual client segregation and one Client Account providing omnibus client segregation (in the manner set out in Articles 39 and 48 of the EMIR Level 1 Regulation) to each Client and potential Client. Where a General Clearing Member is subject to a non-EU insolvency regime which could interfere with the provision of individual client segregation or omnibus client segregation, it may meet this obligation by offering Client Accounts to be established by another General Clearing Member, subject to the establishment of any operational and technical procedures and contractual terms that LME Clear may determine are necessary in order to ensure that such clearing arrangement can be operated in accordance with these Rules.⁵

4.5.3 LME Clear has no obligation, under the Rules or otherwise, to verify, confirm or otherwise ensure that a Member has adopted an appropriate account structure.

⁵

Provision inserted at the request of the Bank of England, in order to reflect ESMA'S EMIR Q&A CCP 8(i) and the European Commission's FAQ Section IV.

RULE 5 - CLIENT BUSINESS AND PORTABILITY ARRANGEMENTS

Background

The provisions set out below describe the basis on which a Member may establish and maintain Client Accounts in respect of its Clients and the arrangements to be established in respect of such Client Accounts in order to support the application of the Porting Process. Further provisions specifying the basis on which LME Clear shall implement the Porting Process are set out in:

- (i) Rule 10.7 (*Portability of Client Accounts*); and
- (ii) Default Procedure D (*Porting Procedure*).

5.1 AVAILABILITY OF PORTING TO CLIENT ACCOUNTS

5.1.1 The Porting Process may be applied in respect of any Client Account where:

- (a) LME Clear is in receipt of all relevant documentation and information to enable LME Clear to determine that all Clients allocated to the account, and their nominated Member Transferee, each agree to the application of the Porting Process including:
 - (i) in relation to a Client Account to which the Automatic Porting Process applies, the Automatic Porting Designation Documents; and
 - (ii) in relation to any other Client Account, a Porting Request Notice issued in accordance with Rule 10.7;
- (b) the conditions and requirements set out in this Rule 5, Rule 10.7 (*Portability of Client Accounts*) and Default Procedure D (*Porting Procedure*) are satisfied; and
- (c) all Clients allocated to such Client Account are either:
 - (i) Identified Clients; or
 - (ii) otherwise identified by LME Clear in accordance with Rule 10.7.7.

5.1.2 Where:

- (a) a Client Account is maintained by a Member in respect of Identified Clients; and
- (b) prior to LME Clear issuing a Default Notice in respect of such Member, all the Clients allocated to that Client Account have lodged with LME Clear Automatic Porting Designation Documents in respect of that Client Account in accordance with the requirements specified in Section 1 of Default Procedure D (*Porting Procedure*),

then LME Clear will apply the Automatic Porting Process in respect of such Client Account.

5.1.3 For the avoidance of doubt LME Clear will permit the Transfer of positions and assets from a Client Account only to a single Member Transferee that consents to receive such assets and positions during the Porting Election Period, in accordance with Rule 10.7 (*Portability of Client Accounts*) and Default Procedure D (*Porting Procedure*).

5.1.4 Notwithstanding that this Rule 5, Rule 10.7 and Default Procedure D (*Porting Procedure*) specify conditions and requirements for the application of the Porting Process, LME Clear

may apply the Porting Process where such conditions and requirements are not fully satisfied, in accordance with and subject to its general discretion pursuant to Rule 10.7.8.

Identified Clients and Non-Identified Clients

5.1.5 A Client allocated to a Client Account shall be an "**Identified Client**" in respect of that Client Account where the Member or the Client has provided to LME Clear such up to date and accurate information regarding:

- (a) the identity of such Client; and
- (b) such other details regarding the authorised representatives of such Client as may be specified by LME Clear from time to time,

such that LME Clear considers, acting reasonably, that it has sufficient information to enable LME Clear to determine the true identity of such Client.

5.1.6 Any Client that is allocated to a Client Account that is not an Identified Client shall be a "**Non-Identified Client**".

5.1.7 In the event that, at the time that LME Clear issues a Default Notice in respect of the Member responsible for a Client Account, one or more Non-Identified Clients are allocated to such Client Account, LME Clear shall, acting reasonably, determine whether it can apply the Porting Process in relation to such Client Account in accordance with the requirements specified in Rule 10.7.7. In the event that LME Clear determines that it has insufficient information regarding all the Clients allocated to the Client Account to enable it to apply the Porting Process in accordance with Rule 10.7.7, LME Clear shall be under no obligation under these Rules to apply the Porting Process in respect of such Client Account or to otherwise act upon any Porting Request Notice received by LME Clear in respect of such Client Account.

5.1.8 Each Member acknowledges that the inclusion within a Client Account of a Non-Identified Client will, subject to Rule 10.7.7, impair the ability of all Clients allocated to such Account to apply the Porting Process in the event that such Member becomes a Defaulting Member. Accordingly,

- (a) where the Clients allocated to a Client Account include Non-Identified Clients, the Member must notify all such Clients that the Porting Process may not be available to such Clients unless they become Identified Clients or LME Clear determines otherwise in the circumstances described in Rule 5.1.7 above; and
- (b) where both Identified Clients and Non-Identified Clients are allocated to a Client Account, the Member must notify the Identified Clients that:
 - (i) the Porting Process may not be available to such Clients, notwithstanding that they may have submitted Automatic Porting Designation Documents to LME Clear, unless and until all Clients in that Client Account become Identified Clients or LME Clear determines otherwise in the circumstances described in Rule 5.1.7 above; and
 - (ii) an alternative means of enabling the Porting Process to apply in respect of each such Identified Client would be to establish an Individually Segregated Client Account in order to record the Positions and Collateral in respect of Client Business cleared for such Client.

5.1.9 Where a Member receives notice from all Clients allocated to an Omnibus Segregated Client Account maintained by that Member that such Clients wish to be Identified Clients, the Member must provide to LME Clear the information specified in Rule 5.1.5 in respect of all Clients allocated to that Account.

5.1.10 Any Client allocated to an Individual Segregated Client Account must be an Identified Client. A Member may not establish an Individual Segregated Client Account in respect of a Non-Identified Client.

5.2 ESTABLISHMENT OF APPROPRIATE CONTRACT TERMS WITH CLIENTS

5.2.1 A Member must not conduct any Client Business in respect of a Client (or an Indirect Client) unless:

- (a) the Member has executed with such Client binding contractual terms recording the basis on which the Member will provide clearing services for that Client or (where applicable) any Indirect Client;
- (b) the Member has executed with such Client or Indirect Client either:
 - (i) a Client Acknowledgement Form in the form specified in Part A of Annex 6 (*Client Business Terms*); or
 - (ii) contractual terms incorporating the Mandatory CCP Provisions as specified in Part B of Annex 6 (*Client Business Terms*) (which may, for the avoidance of doubt, be incorporated by reference);
- (c) the Member has notified the Client, and required the Client to notify any Indirect Client, of the basis on which the Rules applicable to Client Contracts and Client Accounts shall be applied in respect of the Client (and, where applicable, the Indirect Client) and the Positions and Collateral allocated to such Client Accounts; and
- (d) the Member complies with any additional documentary requirements that LME Clear may specify from time to time in relation to General Clearing Members. Any such requirements shall be set out in an Annex.

5.2.2 Without prejudice to Rule 5.2.1, each Member must ensure that:

- (a) each Client allocated to an Omnibus Segregated Client Account; or
- (b) the Client allocated to a Direct Individual Segregated Client Account; or
- (c) the Client and each Indirect Client allocated to an Indirect Individual Segregated Client Account,

is aware and understands that:

- (i) in the event that a Default Event occurs in respect of the Member, LME Clear shall be entitled, upon receipt of a Porting Request Notice from such Client or Clients, to apply the Porting Process in respect of such Account in accordance with Rule 10.7; and
- (ii) where all Clients allocated to the relevant Client Account have lodged with LME Clear Automatic Porting Designation Documents in accordance with

Rule 5.4.1 and Part 1 of Default Procedure D (*Porting Procedure*), LME Clear shall be entitled, without any requirement to seek any further consent from the Client (or, where relevant, any Indirect Client) to implement the Automatic Porting Process on behalf of such Client, in accordance with Rule 10.7.

5.3 MEMBER OBLIGATIONS IN SUPPORT OF CLIENT ACCOUNTS

5.3.1 A Member in respect of whom LME Clear has established a Client Account shall:

- (a) not submit to LME Clear any Transaction in respect of a Client or any Indirect Client(s) (being client(s) of a single Client) allocated to a Client Account unless and until the Member has established contractual terms that comply with the requirements specified in Rule 5.2 and only for so long as such terms remain in force;
- (b) at all times ensure that:
 - (i) any Transactions submitted to LME Clear; and
 - (ii) any Collateral provided to LME Clearin respect of Client Business conducted by the Member for a Client shall be accurately and separately identified and allocated to the relevant Client Account maintained by the Member for such Client;
- (c) provide to, and maintain with, LME Clear at all times an accurate, current and complete list of all Identified Clients in respect of which Transactions are executed that result in Contracts and Positions being recorded on such Client Account;
- (d) use its best endeavours to ensure that LME Clear has at all times up to date details of the representatives of the Identified Clients allocated to a Client Account who are authorised to make binding decisions and instructions on behalf of such Identified Client (including the contact details for such representatives);
- (e) maintain accurate and up-to-date records of the Contracts, Positions and Collateral relating to each Client in respect of which Transactions or their corresponding Contracts are recorded on such Client Account and the Collateral it has provided to LME Clear in respect of such Contracts;
- (f) promptly provide such information as LME Clear may reasonably request in respect of such Client Account and the Clients to which it relates (including the Transactions in respect of which Contracts are recorded and Collateral provided);
- (g) use its best endeavours to ensure that each such Client provides to LME Clear such information about itself and its Transactions as LME Clear may reasonably request. For the avoidance of doubt, it shall be reasonable for LME Clear to request information directly from a Client in the event that LME Clear requires such information in order to discharge any obligation or perform any function under these Rules and the Member is unable or unwilling to provide such information to LME Clear within a timescale acceptable to LME Clear; and
- (h) execute with each such Client:

- (i) a Client Acknowledgement Form in the form specified in Part A of Annex 6 (*Client Business Terms*); or
 - (ii) contractual terms incorporating the Mandatory CCP Provisions as specified in Part B of Annex 6 (*Client Business Terms*) (which may, for the avoidance of doubt, be incorporated by reference); and
- (i) provide to or, where applicable, execute with, each Client allocated to such Client Account any notice or documentation specified by LME Clear in accordance with any Annex, together with any updates to such notices or documentation specified by LME Clear from time to time.

5.3.2 LME Clear shall not be under any obligation to facilitate the application of the Porting Process in respect of a Client Account in the event that LME Clear has any reason to doubt that:

- (a) all Clients allocated to such Client Account are Identified Clients; or
- (b) it has accurate, current and up-to-date records of the Clients, Contracts, Positions and Collateral allocated to a Client Account.

This Rule 5.3.2 shall at all times be subject to the Rule 10.7.7 and the general discretion of LME Clear thereunder.

5.3.3 Without prejudice to the Member's obligations under Rule 5.3.1, each Member that has established a Client Account must provide LME Clear with such updated details regarding:

- (a) its Clients; and
- (b) any other matters specified in Rule 5.3.1,

as may reasonably be requested by LME Clear as part of its annual due diligence processes in respect of the Member and its Accounts.

5.4 AUTOMATIC PORTING PROCESS

Submission of Automatic Porting Designation Documents

5.4.1 In the event that an Identified Client allocated to a Client Account wishes to participate in the Automatic Porting Process, such Client must ensure that it submits to LME Clear Automatic Porting Designation Documents, in accordance with Section 1 of Default Procedure D (*Porting Procedure*), that are completed, executed and submitted to LME Clear by:

- (a) the Client itself; and
- (b) (where the Client Account is an Omnibus Segregated Client Account) each other Client allocated to the Client Account; and
- (c) the Designated Member Transferee for such Client or Clients.

5.4.2 Where requested by the Client or Clients allocated to a Client Account maintained by a Member, the Member shall facilitate the completion and execution of the Automatic Porting Designation Documents by each Client allocated to the Client Account and their

Designated Member Transferee and shall submit to LME Clear the completed Automatic Porting Designation Document on such Client or Clients' behalf.

- 5.4.3** Each Member acknowledges that, in the event that the Client or Clients allocated to a Client Account maintained by that Member submit to LME Clear Automatic Porting Designation Documents in accordance with this Rule and Section 1 of Default Procedure D (*Porting Procedure*), LME Clear shall be entitled to implement the Automatic Porting Process upon such Member becoming a Defaulting Member.

Obligations of Designated Member Transferee

- 5.4.4** Each Member that has agreed to be identified as a Designated Member Transferee for any Client(s) in the Automatic Porting Designation Documents lodged with LME Clear must ensure that it has established, and maintains in place, appropriate contractual arrangements with such Client(s) to enable such Designated Member Transferee to commence the provision of clearing services to such Client(s) immediately upon completion of any Transfer. For the avoidance of doubt, such contractual arrangements must be in compliance with the requirements set out in Rule 5.2 (*Establishment of Appropriate Contract Terms with Clients*).

Termination or Change of Arrangements Supporting Automatic Porting Designation Document

- 5.4.5** A Designated Member Transferee shall notify LME Clear immediately in the event that the Designated Member Transferee or any Client allocated to a Client Account gives notice to terminate the terms on which the Designated Member Transferee is appointed by the Client to act as its Designated Member Transferee for that Client Account.

- 5.4.6** In the event that LME Clear receives written notice from:

- (a) a Client allocated to a Client Account indicating that it no longer wishes to participate in the arrangements specified in the latest Automatic Porting Designation Document received by LME Clear in respect of that Client Account; or
- (b) the Designated Member Transferee identified in the latest Automatic Porting Designation Document received by LME Clear in respect of a Client Account indicating that it no longer wishes to act as Designated Member Transferee for such Client Account or that notice has been given by itself or any Client to terminate the terms on which it is appointed by the Client to act as its Designated Member Transferee for that Client Account,

then such Client Account shall, subject to Rule 5.4.7 below, immediately cease to be treated as eligible for the application of the Automatic Porting Process until such time as LME Clear receives updated Automatic Porting Designation Documents in respect of such Client Account in accordance with Rules 5.4.1 and Section 1 of Default Procedure D (*Porting Procedure*).

- 5.4.7** Subject to Default Procedure D1.3, LME Clear shall be entitled not to treat as valid any notice made under Rule 5.4.5 or 5.4.6 that is received less than one (1) Business Day prior to the Member that has established the relevant Client Account becoming a Defaulting Member.

5.5 CLIENT MONEY

- 5.5.1** Where a Member holds cash in respect of a Client as client money in accordance with the Client Assets chapter of the UK Financial Conduct Authority's Handbook (the "**CASS Rules**"), it shall be the responsibility of the Member to provide to LME Clear such notifications as may be required pursuant to the CASS Rules.
- 5.5.2** It shall be the responsibility of any such Member to ensure that where a Client Account is to be treated as a "client transaction account" under the CASS Rules, the Member must only record to such Client Account, Contracts and Collateral that are required and/or permitted under the CASS Rules to be allocated to such Client Account. Clause 7 of the Membership Agreement shall apply in respect of any such Client Account.

RULE 6 - ACCEPTANCE, NOVATION AND REGISTRATION

6.1 INTRODUCTION

6.1.1 This Rule 6 sets out the basis on which LME Clear will accept Transactions into the Clearing System and create Contracts with Members in respect of such Transactions.

6.1.2 The Clearing Procedures set out further detail on the arrangements for the acceptance of Transactions and the clearing of Contracts.

6.1.3 Without prejudice to the specific provisions set out below and in the Clearing Procedures:

- (a) Transactions submitted to LME Clear shall be subject to certain checks before they are Accepted into the Clearing System;
- (b) Transactions that are Accepted shall, subject to the satisfaction of any Post-Acceptance Conditions either:
 - (i) (if they are Member Trades) be Novated in accordance with, and at the time specified in, Rule 6.7 below in order to form Contracts; or
 - (ii) (if they are Client Trades) be Registered in accordance with, and at the time specified in, Rule 6.8 below in order to form Contracts;
- (c) Contracts shall be subject to the application of the clearing processes specified in this Rule 6 and the Clearing Procedures, including the application of netting to Accounts reflecting Members' Positions in respect of such Contracts and, where applicable, the daily marking-to-market or settlement to market of such Contracts;
- (d) Contracts shall only be transferred, modified, cancelled or otherwise amended where, and to the extent permitted by the Rules or the Clearing Procedures; and
- (e) Contracts shall be subject to settlement or delivery in accordance with the provisions of Rule 7 (*Settlement and Contract Performance*).

6.2 APPROVED TRANSACTION PLATFORMS

LME Clear will only accept Transactions in respect of which Transaction Data is submitted to LME Clear by an Approved Transaction Platform.

6.3 TRANSMISSION AND PROCESSING OF TRANSACTION DATA

6.3.1 Transaction Data shall be submitted to LME Clear by an Approved Transaction Platform in such format and containing such identifying details and additional information as LME Clear may specify from time to time in relation to the type of Transaction. LME Clear shall not be obliged to accept any Transaction Data that does not meet such requirements.

6.3.2 Clearing Procedure B2 specifies the processes that LME Clear shall apply to determine whether to Accept any Transaction Data and how it shall deal with Transaction Data that does not meet its requirements.

6.4 ACCEPTANCE OF CONTRACTS

6.4.1 LME Clear will only accept a Transaction which satisfies the Transaction Requirements applicable to that Transaction and the Pre-Acceptance Checks specified in Clearing Procedure B3.2.

6.4.2 A Transaction that satisfies the Transaction Requirements and that is not rejected in accordance with Rule 6.5.1 or Clearing Procedure B3.2 shall be accepted by LME Clear into the Clearing System ("**Acceptance**").

6.5 GROUNDS FOR REJECTION

6.5.1 LME Clear may reject any Transaction where:

- (a) the requirements of Rule 6.4.1 above are not satisfied;
- (b) the Transaction Data in respect of the Transaction is incomplete, corrupted, erroneous or has been sent to LME Clear in error (whether due to a technology failure, human error or otherwise);
- (c) the Transaction Data in respect of the Transaction conflicts with any other information received by LME Clear in respect of that Transaction from an Approved Transaction Platform or a Member;
- (d) a Default Event has arisen in relation to any Member that is a party to, or responsible for, the Transaction;
- (e) a Member that is a party to, or responsible for, the Transaction is in breach of any Rule applicable to that Transaction;
- (f) a Member that is a party to, or responsible for, the Transaction has not deposited sufficient Collateral with LME Clear to cover the risks represented by its Open Contracts with LME Clear (including the Contracts that would be represented by the Transaction) and LME Clear, acting reasonably, considers that there is a real risk that the Member will not provide additional Collateral to cover the risks represented by the Transaction;
- (g) the acceptance of the Transaction would cause LME Clear to breach any requirement or order of any Regulator, or any Applicable Law; or
- (h) LME Clear, acting reasonably, considers that the acceptance of the Transaction would create an unacceptable risk to LME Clear or its Members or to the stability of the market in any Cleared Product or Underlying Asset.

6.6 POST ACCEPTANCE CONDITIONS

6.6.1 The Clearing Procedures specify certain Post Acceptance Conditions that shall be satisfied following Acceptance of a Transaction before such Transaction can be Novated or Registered, as applicable.

6.6.2 Upon satisfaction of the Post Acceptance Conditions, the Transaction shall be:

- (a) Novated in accordance with Rule 6.7, if it is a Member Trade; or
- (b) Registered in accordance with Rule 6.8, if it is a Client Trade.

6.7 NOVATION OF MEMBER TRADES

6.7.1 A Member Trade that has been Accepted by LME Clear shall be Novated at the time that LME Clear records in the Clearing System that all Post Acceptance Conditions have been satisfied (the "**Time of Novation**").

6.7.2 At the Time of Novation:

- (a) each Member which is a party to a Transaction novated under Rule 6.7.1 shall be released from its obligation to make deliveries or payments (as the case may be) under the original Transaction and its rights against the other Member in respect of the corresponding payment or delivery owed to it shall cease to exist (such released obligations being the "**Discharged Rights and Obligations**");
- (b) LME Clear shall assume the position of the buyer to the seller and seller to the buyer of the original Transaction, and accordingly;
 - (i) the Member which was the seller under the original Transaction shall (acting as principal) acquire rights against, and assume obligations towards, LME Clear exactly equivalent to the Discharged Rights and Obligations but with the substitution of LME Clear (acting as principal) in place of the original buyer; and
 - (ii) the Member which was the buyer under the original Transaction shall (acting as principal) acquire rights against, and assume obligations towards, LME Clear exactly equivalent to the Discharged Rights and Obligations but with the substitution of LME Clear (acting as principal) in place of the original seller

(and this shall constitute "**Novation**").

6.7.3 Any rights and obligations of any party under the original Transaction that are not Novated in accordance with this Rule 6.7 shall continue in force between the original parties to the Transaction.

6.8 REGISTRATION OF CLIENT TRADES⁶

6.8.1 LME Clear operates a facility to enable Members to create Contracts within the Clearing System in respect of Client Trades, notwithstanding that LME Clear shall not accept any responsibility to any party for the obligations of any other party under such Client Trades. For the avoidance of doubt, LME Clear does not act as a central counterparty in respect of Client Trades.

6.8.2 A Client Trade that has been Accepted by LME Clear shall be Registered at the time that LME Clear records in the Clearing System that all Post Acceptance Conditions have been satisfied (the "**Time of Registration**").

⁶ **Explanatory Note:** This process is unique to clearing for LME. It is included to ensure that Members are able to create positions within relevant Client Accounts (as required under EMIR) when clearing trades for their Clients. Consequently, where a member effects a Member Trade in relation to an Eligible Product and also effects a back-to-back Client Trade in relation to that Eligible Product, this will result in the following: (i) a position in the Member's House Account representing the "Novated" Member Trade; (ii) a position in the Member's House Account representing one side of the "Registered" Client Trade; and (iii) a position in the Member's Client Account representing the other side of the "Registered" Client Trade. (i) and (ii) will effectively net off against each other, resulting in a single position in the member's Client Account. This is intended to represent the 'client cross' that is currently performed in relation to 'Segregated Client Contracts'.

6.8.3 At the Time of Registration:

- (a) two Contracts shall be deemed to come into effect between LME Clear and the Member that is party to the Client Trade:
 - (i) a Contract having all the features of the original Client Trade, save that LME Clear shall assume the position of the buyer and the Member shall assume the position of the seller, such that LME Clear shall acquire exactly equivalent rights, and shall assume exactly equivalent obligations, to those of the buyer under the original Client Trade; and
 - (ii) a Contract having all the features of the original Client Trade, save that the LME Clear shall assume the position of the seller and the Member shall assume the position of the buyer, such that LME Clear shall acquire exactly equivalent rights, and shall assume exactly equivalent obligations, to those of the seller under the original Client Trade.
- (and this shall constitute "**Registration**");
- (b) in the event that the Member is recorded in the Matching System as, or acting for:
 - (i) the buyer under the original Client Trade, the Contract in (a)(ii) above shall be allocated to the Member's House Account and the Contract in (a)(i) above shall be allocated to the relevant Client Account selected by the Member and specified in the Transaction Data; or
 - (ii) the seller under the original Client Trade, the Contract in (a)(ii) above shall be allocated to the relevant Client Account selected by the Member and specified in the Transaction Data and the Contract in (a)(i) above shall be allocated to the Member's House Account.

6.8.4 Nothing in this Rule 6.8 shall be treated by any person as:

- (a) having any effect upon the continuation in force of the original Client Trade between the Client and its counterparty or upon any rights or obligations of the parties to such original Client Trade; or
- (b) creating any right or obligation for LME Clear under the original Client Trade.

6.9 LME CLEAR NOT ON RISK UNTIL NOVATION OR REGISTRATION

6.9.1 For the avoidance of doubt, LME Clear shall be under no obligation to treat a Transaction that has been Accepted as having been Novated or Registered (as applicable) in the event that:

- (a) any requirement or process specified in the Clearing Procedures has not been satisfied or performed;
- (b) any Post Acceptance Condition is not satisfied; or
- (c) at any time prior to the Time of Novation or Time of Registration (as applicable), a Default Event arises in relation to any Member that is a party to such Transaction.

- 6.9.2** For the avoidance of doubt, LME Clear shall be under no obligation to any Member or any other party, and shall accept no risk, in respect of any Transaction that has not been Novated or Registered.

6.10 NETTING ACCOUNTS

Netting Accounts shall be subject to the application of such processes as are specified in the Clearing Procedures and the respective rights and obligations of LME Clear and each Member under each Open Contract, and the Positions that reflect such rights and obligations, shall be subject to the processes described in the Clearing Procedures.

6.11 POSITION MAINTENANCE AND DAILY SETTLEMENT TO MARKET

- 6.11.1** LME Clear shall record and maintain all Positions referable to an Account in accordance with Clearing Procedure B4 (*Position Update and Maintenance and Settlement to Market*).

- 6.11.2** The Clearing Procedures specify:

- (a) those Contracts that shall be subject to daily settlement to market; and
- (b) the basis on which LME Clear shall conduct such daily settlement to market.

- 6.11.3** Where specified in the Clearing Procedures, LME Clear shall effect the daily settlement to market of Open Contracts.

6.12 MEMBERS AS PRINCIPALS

- 6.12.1** Each Member shall act as principal (and not as agent) in relation to each Contract entered into with LME Clear.

- 6.12.2** Except to the extent specifically set out in the Rules, LME Clear shall not be obliged to recognise the interest of any person that is not a Member in any Account, Contract or Relevant Entitlement. Any record maintained by LME Clear of the interest of any Client or Indirect Client in any Transaction, Contract or Collateral, allocated to a Client Account shall be for administrative purposes only, and shall not be treated as giving rise to any rights or entitlements by any such Client or Indirect Client that are enforceable against LME Clear.

- 6.12.3** For the avoidance of doubt, except as specifically set out in Rule 2.1.5, LME Clear shall have no obligations of any kind (whether in contract, tort or pursuant to any duty of care) to any Client or Indirect Client and shall be under no obligation to act on the instructions of, or at the request of any such Client or Indirect Client.

6.13 TRANSFER OF CONTRACTS IN THE ABSENCE OF DEFAULT

- 6.13.1** A Member may request that all of its rights and liabilities under an Open Contract recorded on a House Account or a Client Account, including all open Positions and Collateral associated with such Contract, shall be transferred to another Member.

- 6.13.2** Any request pursuant to Rule 6.13.1 above shall be made by the Member that is responsible for the relevant Account. LME Clear will not be under any obligation to consider or act on any request received from any Client or Indirect Client in respect of which the Member has established such Account.

6.13.3 LME Clear shall only effect a transfer requested under Rule 6.13.1 above where the following conditions are met:

- (a) the rules of the Approved Transaction Platform on which the original Transaction was executed or confirmed:
 - (i) do not prohibit the transfer of such Contract; and
 - (ii) permit the transferee Member to become a party to such Contract;
- (b) where the rules of the Approved Transaction Platform on which the original Transaction was executed or confirmed impose procedural requirements or conditions to any such transfer, all such requirements and conditions shall be fully satisfied;
- (c) the Approved Transaction Platform has been notified by LME Clear of the requested transfer and has not notified LME Clear of any objection, on reasonable grounds, to such transfer taking effect;
- (d) where the transfer is allocated to a Client Account:
 - (i) the transfer is reflected in a Client Account of the transferee Member that is allocated to the same Client(s); and
 - (ii) there is no change to the identity of the Client(s) to which the relevant Contracts are allocated;
- (e) the transferee Member consents to such transfer;
- (f) the transferee Member is a non-defaulting Member;
- (g) LME Clear, has the information required to enable it to calculate the amounts to be transferred and is satisfied as to its accuracy;
- (h) LME Clear is satisfied that sufficient additional Collateral will, on the transfer being effected or, if necessary, in advance, be provided to it by the transferee Member.
- (i) the transferee Member and the transferor Member demonstrate to the reasonable satisfaction of LME Clear that any Client Trade that corresponds to the Open Contract that is to be transferred shall also be transferred simultaneously with the transfer of the Open Contract, (whether by novation or otherwise), such that any Client is able to enforce against the transferee Member the terms of the Client Trade that corresponds to such transferred Open Contract. LME Clear may require the transferee Member and the transferor Member to provide written representations to the effect that such Client Trade shall be so transferred; and
- (j) LME Clear agrees to the transfer. For the avoidance of doubt, and without limitation to LME Clear's discretion, LME Clear will not agree to the transfer in the event that it considers that the transfer would:
 - (i) not be reasonably practicable to achieve under the technical or operational arrangements used by LME Clear in relation to the Contracts or Accounts that are subject to the transfer request;
 - (ii) be contrary to the interests of LME Clear;

- (iii) cause LME Clear to breach any requirement or order of any Regulator, or any Applicable Law;
- (iv) result in LME Clear failing to hold sufficient Collateral in respect of the risks represented by the Positions of either Member; or
- (v) would create an unacceptable risk to LME Clear or its Members or to the stability of the market in any Instrument.

In the event that the conditions specified above are satisfied, both the transferor Member and the transferee Member will co-operate with LME Clear to ensure the prompt completion of such transfer.

6.14 NO TRANSFER OF RIGHTS AND OBLIGATIONS

Except as may be permitted pursuant to Rule 6.13 above, and subject to the application of Rule 10.7 (*Portability of Client Accounts*) in respect of a Defaulting Member, no Member may assign, novate or otherwise transfer any of its rights or obligations under the Rules without the prior written consent of LME Clear, which consent LME Clear may withhold.

6.15 CANCELLATION OF CONTRACTS

6.15.1 LME Clear may cancel any Contract in the event that LME Clear reasonably considers that such Contract or the performance by any party of its obligations under such Contract would:

- (a) be unenforceable or voidable by any person in law;
- (b) contravene any Applicable Law including, on the grounds of illegality, fraud, the performance of regulated activities by a person that does not have the necessary regulatory permissions or authorisations, money laundering (or suspicion thereof), insider dealing, market abuse, or breach of any sanctions regime operated by any governmental authority having authority over LME Clear; or
- (c) be contrary to the rules of any Approved Transaction Platform or the cancellation of such Contract is necessary to enable the Approved Transaction Platform to maintain an orderly market in the Eligible Products traded on such Approved Transaction Platform.

6.15.2 In the event that LME Clear proposes to cancel any LME Contract in accordance with Rule 6.15.1 above, LME Clear shall take all reasonable steps to consult with, and co-operate with, the LME with a view to LME Clear and the LME applying a co-ordinated approach to the cancellation of the LME Contract that is consistent with both the LME Rules and the Rules.

6.15.3 In the event that LME Clear cancels any Contract in accordance with Rule 6.15.1 above, LME Clear may take such action as LME Clear considers reasonably necessary to preserve the integrity of the Clearing System or the orderly performance of the market in the Eligible Products including:

- (a) requiring any other Contract that arose from the same Transaction as the cancelled Contract to also be cancelled, and for the original Transaction to be re-instated as between the original counterparties;

- (b) requiring the Member that was party to the cancelled Contract to enter into a replacement Contract for the same or materially equivalent terms; or
- (c) entering into one or more contracts on its own account in order to balance its obligations in respect of any other Contract or Contracts.

6.16 CONTRACTS AS BINDING OBLIGATIONS

6.16.1 Subject to Rule 6.16.2 below, a Contract that has come into effect under the Rules shall remain open and shall bind the parties until such time as:

- (a) it is settled in accordance with the Rules;
- (b) it expires in accordance with its terms;
- (c) it is transferred to another Member in accordance with the Rules;
- (d) it is closed out, liquidated or otherwise discharged in accordance with the Rules;
or
- (e) it is cancelled in accordance with the Rules.

6.16.2 Nothing in this Rule 6.16 shall be construed so as to limit or prevent LME Clear from applying daily settlement to market processes in relation to relevant Contracts in accordance with Clearing Procedure B. For the avoidance of doubt, the settlement to market process shall involve the daily close-out of relevant Open Contracts, and the creation of new Open Contracts reflecting the relevant Position.

6.16.3 Subject to Rule 6.16.2, no variation, amendment, waiver or surrender of any terms, rights or obligations under any Contract shall be effective without the prior written consent of LME Clear.

6.17 REPORTS

6.17.1 LME Clear shall make available to each Member Reports relating to the Member's rights and obligations under or in respect of Contracts formed pursuant to this Rule 6, containing such information and at such frequencies as are specified in Annex 4 (*List of Available Reports*).

6.17.2 The Member shall comply with the requirements set out in the Clearing Procedures in relation to the Member's use and verification of such Reports.

RULE 7 - SETTLEMENT AND CONTRACT PERFORMANCE

7.1 INTRODUCTION

7.1.1 This Rule 7 sets out the basis on which Open Contracts shall be settled or otherwise discharged.

7.1.2 Members' obligations under this Rule 7 shall be read and interpreted in conjunction with Clearing Procedures.

7.1.3 Members shall perform their obligations in respect of each Contract in accordance with the Clearing Procedures.

7.2 TYPES OF SETTLEMENT

Contracts Settled under LME Rules

7.2.1 Contracts arising as a consequence of the Novation of LME Contracts or the Registration of Client Trades shall settle or otherwise be discharged in accordance with:

- (a) the relevant provisions of the LME Rules; and
- (b) any additional requirements specified for such Contracts in the Clearing Procedures,

(such Contracts being "**Contracts Settled Under LME Rules**"). LME Clear and the Member shall comply with the LME Rules and the Clearing Procedures in relation to the settlement and / or discharge of Contracts Settled under LME Rules. In the event of any conflict between the LME Rules and these Rules in respect of any matter that falls within the scope of any Rule or provision of these Rules, these Rules shall prevail.

Contracts that are not Contracts Settled Under LME Rules

7.2.2 In accordance with the Clearing Procedures, Contracts that are not Contracts Settled Under LME Rules shall be settled in the following ways:

- (a) Physical Delivery Contracts shall be settled, on the Settlement Date, by:
 - (i) the Buyer making a Settlement Payment to the Seller, in cash in the relevant Settlement Currency; and
 - (ii) the Seller delivering to the Buyer such quantity of Underlying Assets as are specified by the terms of the Contract,

in accordance with Rule 7.5 below;

- (b) Financially Settling Contracts shall be settled, on the Settlement Date, by:
 - (i) the payment of a Settlement Payment by the party to the Contract that has the Payment Obligation; and
 - (ii) the expiry of the Contract in accordance with its terms;
- (c) Option Contracts shall be discharged upon:
 - (i) expiry; or

- (ii) exercise of the option by the Option Holder, whether such exercise occurs automatically or at the election of the Option Holder, in accordance with Rule 7.6 below and the Clearing Procedures.

7.3 ISSUE OF SETTLEMENT INSTRUCTIONS

- 7.3.1** On each Business Day, LME Clear shall issue to each Member instructions to perform the Cash Settlements and Delivery Obligations due to be performed by that Member ("**Settlement Instructions**"). The requirements, timing and process for the issue of Settlement Instructions shall be as set out in the Clearing Procedures.
- 7.3.2** For the avoidance of doubt, Settlement Instructions may include instructions to a Member to make a payment on the day on which the Settlement Instruction is issued (including an instruction to provide Collateral in respect of an Intra-Day Margin Requirement).

7.4 CASH SETTLEMENT ARRANGEMENTS

- 7.4.1** Each Member shall, on each Business Day, settle all Cash Settlements due to or from the Member to LME Clear in accordance with the Settlement Instructions issued by LME Clear and within the timeframes specified in the Clearing Procedures.
- 7.4.2** Clearing Procedure E sets out the specific requirements applying to Cash Settlements. Members shall at all times comply with the requirements of Clearing Procedure E.

7.5 PHYSICAL DELIVERY

- 7.5.1** A Member shall not be eligible to become a party to a Physical Delivery Contract in relation to any Underlying Asset unless it has in place, at all times, all necessary arrangements with an Approved Delivery Facility that is specified in the Clearing Procedures as being approved for such Underlying Asset.
- 7.5.2** Rule 7.5.3 below applies only in respect of Physical Delivery Contracts that are not Contracts Settled Under LME Rules.
- 7.5.3** Upon the Settlement Date for a Physical Delivery Contract the Member and LME Clear shall settle their respective Delivery Positions in accordance with the following:
 - (a) where the Member is the Seller:
 - (i) the Member shall deliver to LME Clear the Underlying Asset that is required to be delivered under the terms of the Contract and in such quantities and in such form as are required pursuant to the Member's Delivery Obligation;
 - (ii) unless LME Clear directs the Member otherwise, the Member shall ensure that an Approved Delivery Facility shall deliver, from the Member's account with the relevant Approved Delivery Facility to LME Clear's account with a relevant Approved Delivery Facility, the Underlying Asset required to be delivered in accordance with (i) above; and
 - (iii) LME Clear shall make, or direct the relevant Approved Settlement Bank to make, a Settlement Payment to the Member's Settlement Account at the relevant Approved Settlement Bank in such Settlement Currency and of such amount as is required pursuant to LME Clear Payment Obligation and the Member shall accept such Settlement Payment in discharge of

LME Clear's Payment Obligation and shall ensure that its Approved Settlement Bank accepts such Settlement Payment;

- (b) where the Member is the Buyer:
 - (i) the Member shall pay to LME Clear the Settlement Payment in such Settlement Currency and of such amount as is required pursuant to the Members Payment Obligation;
 - (ii) unless LME Clear directs otherwise, the Member shall direct its Approved Settlement Bank to make, a Settlement Payment in accordance with (i) above to LME Clear's Settlement Account. Such payment shall be a Cash Settlement and shall be discharged in accordance with Rule 7.4 above; and
 - (iii) LME Clear shall direct a relevant Approved Delivery Facility to deliver, from LME Clear's account with the Approved Delivery Facility to the Member's account with an Approved Delivery Facility, the Underlying Asset that is required to be delivered under the terms of the Contract and in such quantities and in such form as are required pursuant to LME Clear's Delivery Obligation the Member shall accept such delivery in discharge of LME Clear's Delivery Obligation and shall ensure its Approved Delivery Facility accepts such Underlying Asset.

7.5.4 The settlement obligations specified in Rule 7.5.3 above shall be performed in accordance with the procedures, requirements and timescales specified in the Clearing Procedures.

7.6 OPTION CONTRACTS⁷

7.6.1 This Rule 7.6 applies only in respect of Option Contracts that are not Contracts Settled Under LME Rules. (Clearing Procedure B5 shall apply to Contracts Settled under LME Rules).

7.6.2 Upon the Option Premium Date the Option Holder under an Option Contract shall pay to the other party under the Contract the Option Contract Premium. Such payment shall be discharged as a Cash Settlement in accordance with:

- (a) Rule 7.4 above; and
- (b) any other requirements applicable to such Option Contract specified in the Clearing Procedures.

7.6.3 The option under an Automatic Exercise Option Contract will be deemed to be exercised by the Option Holder on the Option Exercise Date, in accordance with the Clearing Procedures. Any Member that is an Option Holder under an Automatic Exercise Option Contract shall have no right to abandon, disclaim, refuse or otherwise prevent the exercise of such option.

⁷

Explanatory Note: There are currently no Option Contracts that are not Contracts Settled under LME Rules. This section is therefore included to ensure that the Rulebook is easily adaptable to new products that may be included in the future.

- 7.6.4** An option under a Manual Exercise Option Contract may be exercised by the Option Holder, subject to and in accordance with the procedural requirements and time limits specified in the Clearing Procedures.
- 7.6.5** Upon the exercise of an option under an Option Contract that requires the payment of an Option Exercise Payment, such payment shall become due and payable to the Option Holder by the other party under the Contract on the Option Exercise Date. Such payment shall be discharged as a Cash Settlement in accordance with:
- (a) Rules 7.4 above; and
 - (b) any other requirements applicable to such Option Contract specified in the Clearing Procedures.
- 7.6.6** Upon the exercise of an option under an Option Contract that provides for the creation of one or more new Contracts, then upon the Option Exercise Date:
- (a) the Option Contract shall be discharged; and
 - (b) one or more new Contracts shall be deemed to take effect between LME Clear and the Member, in accordance with and on such terms as are specified in the Clearing Procedures.
- 7.6.7** In the event that an option under a Manual Exercise Option Contract is not exercised by the Final Exercise Time, the Contract shall, unless LME Clear determines that the Final Exercise Time shall be postponed, immediately expire and shall cease to have any further binding effect.
- 7.6.8** The settlement obligations specified in this Rule 7.6 shall be performed in accordance with the procedures, requirements and timescales specified in the Clearing Procedures (including, for the avoidance of doubt, Clearing Procedure B6 (*Option Exercise and Assignment*)).

7.7 FAILURE TO SETTLE

- 7.7.1** All payments and deliveries required to be made pursuant to this Rule 7 shall be made:
- (a) on the Settlement Date; or
 - (b) on the Option Exercise Date; and
 - (c) in accordance with such additional procedural requirements,
- that in each case are to be determined in relation to the relevant Contract in accordance with the Clearing Procedures. A Member shall ensure that any Cash Settlements or Delivery Obligations in respect of a Contract are performed in accordance with such specified requirements.
- 7.7.2** A Member that fails to ensure that its Cash Settlements or Delivery Obligations are performed in accordance with this Rule 7 may be subject to action by LME Clear pursuant to Rule 10 (*Default*).
- 7.7.3** Without prejudice to Rule 7.7.2, in the event of a Failed Settlement Position, LME Clear shall be entitled to take any action permitted or contemplated by:

- (a) the LME Rules, where the Failed Settlement Position relates to a Contract Settled Under LME Rules; and/or
- (b) the Default Procedures; and /or
- (c) Rule 7.8 below.

7.8 BUY-IN AND INVOICING BACK

7.8.1 In the event that:

- (a) a Member fails to deliver an Underlying Asset to LME Clear in fulfilment of its Delivery Obligation under a Physically Settling Contract; and
- (b) LME Clear requires an Underlying Asset in order to satisfy any Delivery Obligation that LME Clear has to any Member under a Physically Settling Contract,

LME Clear may:

- (i) in accordance with Rule 7.8.2, effect a buy-in of the relevant Underlying Asset in order to enable LME Clear to discharge such Delivery Obligation (a "**Buy-In**"); or
- (ii) in the event that LME Clear determines that it is not possible or practicable to effect a Buy-In, and in accordance with Rule 7.8.3, make a Cash Settlement to any Member in respect of which LME Clear has such a Delivery Obligation in substitution for the delivery of the Underlying Asset, in order to close out LME Clear's open Positions in respect of Contracts requiring delivery by LME Clear of such Underlying Asset ("**Invoice Back**").

7.8.2 Buy-In

- (a) LME Clear may effect a Buy-In by purchasing or borrowing the relevant Underlying Asset from another Member or pursuant to a transaction with a third party. LME Clear may effect such Buy-In:
 - (i) at such price as is determined in accordance with the LME Rules applying to Buy-Ins or, where no such LME Rules apply in respect of the relevant Contract, at the latest Closing Price for such Underlying Asset or, if such Closing Price is not available, at such price as LME Clear determines is reasonably appropriate in the circumstances in consultation with the Board Risk Committee; and
 - (ii) in such manner as LME Clear considers appropriate in the circumstances.
- (b) In the event that LME Clear effects a Buy-In, the Member that failed to deliver the relevant Underlying Asset shall reimburse LME Clear for all costs incurred by LME Clear in purchasing or borrowing the Underlying Asset, including, without limitation, the amount paid by LME Clear to purchase the Underlying Asset and any costs incurred by LME Clear in executing the transaction to purchase or borrow the Underlying Asset. LME Clear shall notify the Member detailing the amount LME Clear requires the Member to reimburse and such payment shall be settled as a Cash Settlement.

7.8.3 Invoice Back

- (a) LME Clear may effect an Invoice Back:
 - (i) at such price as is determined in accordance with the LME Rules applying to Invoice Back or, where no such LME Rules apply in respect of the relevant Contract, at the latest Closing Price for such Underlying Asset or, if such Closing Price is not available, at such price as LME Clear determines is reasonably appropriate in the circumstances in consultation with the Board Risk Committee; and
 - (ii) in such manner as LME Clear considers appropriate in the circumstances.
- (b) In the event that LME Clear effects an Invoice Back, the Member that failed to deliver the relevant Underlying Asset shall reimburse LME Clear for all costs, liabilities or losses incurred by LME Clear in effecting the Invoice Back. LME Clear shall notify the Member detailing the amount LME Clear requires the Member to reimburse and such payment shall be settled as a Cash Settlement.

7.8.4 This Rule 7.8 explains the meaning of "Invoice Back" for the purpose of the LME Rules. For the avoidance of doubt, an Invoice Back shall be a cash settlement of the relevant Contract.

7.8.5 LME Clear's rights under this Rule 7.8 are without prejudice to its other rights under these Rules, including without limitation Rule 2.4 (*Force Majeure*), Rule 7.7 above, Rule 10 (*Default*) and the Default Procedures.

RULE 8 - MARGIN REQUIREMENT AND COLLATERAL

8.1 COLLATERAL

Each Member shall provide to LME Clear, and maintain on a daily basis for so long as it is a Member, Eligible Collateral with a Collateral Value sufficient to satisfy its Margin Requirement, which shall comprise of:

- (a) the End of Day Margin Requirement;
- (b) the Intra-Day Margin Requirement(s); and
- (c) any other margin requirements (excluding a Default Fund Contribution) required at any time by LME Clear pursuant to the Rules and the Procedures,

as security, cover and/or credit support for the performance by that Member of all of its present and future obligations to LME Clear pursuant to the Rules or the operation of the Clearing System.

8.2 CALCULATION OF MARGIN REQUIREMENT

8.2.1 The Margin Requirement for each Member will be the amount which LME Clear may determine and notify the Member from time to time.

8.2.2 The Margin Requirement for each Member will be calculated by LME Clear in accordance with methodology from time to time available on its Website and at such times as LME Clear may determine (whether at the regular times stated in the Clearing Procedures or otherwise). LME Clear may adopt different methodologies in respect of different Eligible Products and different Underlying Assets.

8.2.3 LME Clear shall notify each Member, at the times determined by LME Clear, of the amounts of Collateral required to be provided to LME Clear to satisfy its Margin Requirement.

8.2.4 Any Cash Collateral to be provided by a Member shall be provided to LME Clear in immediately available funds within the time limits set out in the Clearing Procedures.

8.2.5 Calculations made by LME Clear for the purposes of this Rule 8 may be made in the Base Currency using such notional currency conversion rates determined by LME Clear at the relevant time.

8.3 TYPES OF COLLATERAL

8.3.1 Collateral may be provided by a Member to LME Clear in the form of certain asset types and subject to eligibility criteria as set out in Part D of the Clearing Procedures and the Collateral Specifications, and on such terms as LME Clear may agree, provided that:

- (a) the part of a Member's Collateral comprising Cash Collateral may not at any time fall below the minimum proportion and/or minimum amount set out in the Clearing Procedures; and
- (b) the part of a Member's Collateral in any other form may not at any time exceed the maximum proportion and/or maximum amount for each category of Collateral as referred to in the Clearing Procedures or Annexes to the Clearing Procedures.

8.3.2 All Cash Cover provided by a Member shall be available to LME Clear freely to use and apply for any purpose contemplated by the Rules. Notwithstanding any other provision of any Member Documentation, the Member will have no proprietary interest in such cash which will constitute an unsecured debt (evidenced by the relevant Account(s) of the Member) payable by LME Clear to the Member in the amount(s) at the time(s) set out in the Member Documentation and subject to any deduction, set-off and other rights of LME Clear provided in the Member Documentation.

8.3.3 LME Clear shall pay interest on Cash Collateral provided by a Member at such rate and at such times as LME Clear may from time to time specify (or, if such rate is a negative rate, LME Clear may charge the Member interest). Regardless of which Account in respect of which the relevant cash is recorded (including any Client Account) all interest will be credited or debited to the Member's House Account. LME Clear reserves the right not to pay interest if the amount of Eligible Cash does not exceed such threshold as it may select from time to time and not to pay interest on any amount of Cash Collateral which LME Clear determines is in excess of the amount of Collateral required by it from the Member under this Rule 8. LME Clear may pay interest at different rates upon different types of cash balance.

8.3.4 LME Clear shall levy accommodation charges in respect of non-cash Collateral held by LME Clear at such rates and at such times as LME Clear may from time to time specify.

8.4 TOP-UP COLLATERAL

8.4.1 If at any time the Collateral Value of Eligible Collateral provided by a Member is less than its Margin Requirement, the Member shall immediately on request by LME Clear deliver additional Collateral in order that such shortfall is eliminated.

8.5 SECURITY, MEMBER REPRESENTATIONS AND NEGATIVE PLEDGE

8.5.1 As security for the performance by a Member of all of its present and future obligations to LME Clear pursuant to the Rules and any other Member Documentation, or the operation of the Clearing System, the Member shall execute such Security Documents over all or part of its Collateral (as determined by LME Clear) and in such terms as set out in the Clearing Procedures.

8.5.2 Each Member represents and warrants to LME Clear as at each date on which such Member provides Asset Cover to LME Clear under the Rules that:

- (a) such Member is the sole legal and beneficial owner of the Asset Cover at the time it is provided to LME Clear or, where the property comprising the Asset Cover has been made available to the Member by its own Client or other person, the property has been made available by way of title transfer or with a right of use so as to enable the Member to charge or transfer it as owner to LME Clear to secure the Member's obligations to LME Clear;
- (b) all such Asset Cover is provided to LME Clear free and clear of any Security Interest, trust or third party rights save any subordinated or other Security Interest in favour of any person including a Client of the Member which LME Clear may have required or approved in advance; and
- (c) the provision of such Asset Cover to LME Clear will not constitute or result in a breach of Applicable Law or any of trust, agreement or undertaking binding on the Member or affect any such Asset Cover.

8.5.3 LME Clear shall be entitled to assume that all Asset Cover provided by a Member to LME Clear under this Rule or under the terms of any agreement made with the Member is in conformity with Rule 8.5.2.

8.5.4 A Member shall not, without the prior written consent of LME Clear:

- (a) create, or agree or attempt to create, or permit to subsist, other than in favour of LME Clear, any Security Interest, trust or other interest over any Asset Cover provided to LME Clear under this Rule 8, or purport to do so;
- (b) sell, assign, transfer or otherwise dispose all or any part of, or any interest in, any such Asset Cover, or purport to do so, or part with ownership of any of it; or
- (c) take any step which would otherwise constitute or result in a breach of the representations and warranties contained in Rule 8.5.2.

8.5.5 All Asset Cover provided by a Member shall be incapable of assignment or charge by the Member or any other person (except LME Clear to the extent authorised by the Rules and/or to the extent LME Clear may have required or approved in advance). Any purported assignment or charge by a Member or such other person (whether by way of security or otherwise) of any such Asset Cover in contravention of the foregoing sentence shall be of no effect.

8.5.6 "Asset Cover" when used in Rules 8.5.4 and 8.5.5 includes any obligation owed by LME Clear to the Member or any other person (a) in the case of cash, to pay a sum of money corresponding to such Asset Cover in the form of cash, and (b) in the case of gold, to deliver unallocated gold corresponding to such Asset Cover in the form of gold.

8.6 USE OF ASSET COVER

8.6.1 LME Clear shall ensure that all Asset Cover provided to it by Members is identifiable separately from LME Clear's own assets and those of any third party by whom they may be held.

8.6.2 Cash Cover may be partially or wholly invested by LME Clear in accordance with its investment policy as amended from time to time by LME Clear. To the extent not so invested, such cash funds shall be deposited by LME Clear as it considers appropriate (consistent with Applicable Clearing Regulations).

- (a) Upon any such investment being made, there shall be no change to the entries in the relevant Member's Account.
- (b) Members shall have no proprietary or other interest in any Investment Securities, which shall be owned by LME Clear.
- (c) All income, profits, losses and risks associated with any Investment Securities shall be for the account of LME Clear, save to the extent losses and risks are shared with Members generally pursuant to the non-default loss procedure under Rule 10.14 (*Allocation of Non-Default Losses*).

8.6.3 Without prejudice to:

- (a) any right of LME Clear to make deductions from or set-off against any Securities Collateral; and
- (b) any enforcement or other rights provided by any Security Document,

LME Clear may use any Securities Collateral provided by a Member to meet:

- (i) a Member Liquidity Requirement arising in relation to the Member;
- (ii) a Member Liquidity Requirement arising in relation to another Member; and/or
- (iii) a General Liquidity Requirement,

and no corresponding debit shall be made to the relevant Account of the Member.

To avoid doubt LME Clear may not use any such Securities Collateral to meet a General Working Capital Requirement. LME Clear shall only exercise such a right of use over Securities Collateral in exceptional and non-routine circumstances and shall replace the used Securities Collateral with equivalent securities within ten (10) Business Days thereafter.

8.6.4 The right of use set out in Rule 8.6.3 is a right of LME Clear to take, use and dispose of the relevant Securities Collateral as if it were the owner of it including the right to provide it as security for LME Clear's own obligations (including loans). If such right of use is exercised, LME Clear's obligations to return equivalent assets or account for the value of equivalent assets shall be as set out in the relevant Security Document(s).

8.6.5 If LME Clear uses any Securities Collateral as security for its own obligations (including loans), no Member shall have any right, claim or action against any such secured creditor or lender (or its collateral agent) for so long as any loans made by such lender to LME Clear, or other obligations secured by such assets, are unpaid and outstanding.

8.7 WITHDRAWAL OF EXCESS OR INELIGIBLE COLLATERAL

8.7.1 If at any time the Collateral Value of a Member's Collateral exceeds its then Margin Requirement, LME Clear shall (upon request by the Member) return the Excess Collateral in accordance with the Clearing Procedures provided any withdrawal would not result in a breach of the Rules including in relation to Collateral Limits. This Rule 8.7 shall not apply if Rule 8.8.1 has become applicable, nor shall it apply if a Default Event has occurred and is continuing in relation to the Member, and in any event shall be subject to the terms of any relevant Security Document.

8.7.2 A Member may request that any Collateral which is not or has ceased to be Eligible Collateral be returned to it, save that no such Collateral shall be returned unless the Member is in compliance with Rule 8.4, and nor shall this Rule 8.7.2 apply if a Default Event has occurred and is continuing in relation to the Member, and in any event shall be subject to the terms of any relevant Security Document.

8.8 RETURN OF COLLATERAL ON TERMINATION OF MEMBERSHIP

8.8.1 If a Member gives notice to LME Clear to terminate its Membership, the Member's Collateral shall be returned to it as soon as reasonably practicable (and within five (5) Business Days) after the Termination Date applicable to the Member, provided that in each case all amounts owing to LME Clear by the Member have been fully, finally and unconditionally paid or discharged to LME Clear prior to return, such Member has no remaining Open Contracts and no circumstances exist which might lead to further obligations or liabilities owed by the Member to LME Clear to arise.

8.8.2 Any obligation of a Member to LME Clear which is unpaid or un-discharged at the time it ceases to be a Member shall continue in force notwithstanding such termination and LME

Clear may retain sufficient amounts of Collateral to secure or cover any remaining obligations of the Member (including any contingent or prospective obligations) and any obligation which may arise out of any disciplinary action.

8.9 RETURN OF COLLATERAL TO A DEFAULTING MEMBER

Upon LME Clear determining that, in relation to a Defaulting Member, the Default Procedures and the procedures set out in Rule 10 have been satisfied and that no debt or liability is due or capable of becoming due from the Defaulting Member to LME Clear, the Defaulting Member shall be entitled to the return of the Collateral (if any) which LME Clear at that time holds for the Defaulting Member (including paying the Defaulting Member a sum equal to the Cash Collateral (if any) which at that time is (subject to, and following any debit carried out under, Rule 10.4.1(o)) recorded in an Account of the Defaulting Member), save that LME Clear may at any time after a Default Event has occurred return to the Defaulting Member any Collateral (including paying the Defaulting Member a sum equal to any Cash Collateral) which is recorded in any Client Account of the Defaulting Member. This Rule 8.9 is subject to any Applicable Law or any provision of the Member Documentation (or of any security agreement granted by the Defaulting Member to its Client(s)) which requires any such Collateral to be transferred or paid to any other person including pursuant to the Porting Process or Rule 10.5.1(c).

RULE 9 - DEFAULT FUND

9.1 DEFAULT FUND

- 9.1.1** Each Member shall provide, and maintain on a daily basis for so long as it is a Member, a Default Fund Contribution in the amount specified by LME Clear from time to time. All Default Fund Contributions shall be made and maintained wholly in Eligible Cash in accordance with the Default Procedures and in the Eligible Currency set out in Annex 2 (*Eligible Currencies, Collateral and Haircuts*). It will be paid in immediately available funds within the time limits set out in such Procedure.
- 9.1.2** The initial amount of the Default Fund Contribution to be paid by an Applicant shall be determined by LME Clear subject to and in accordance with Default Procedure B, and shall be paid by the Applicant to LME Clear prior to submitting any Transactions to LME Clear.
- 9.1.3** The amount of the Default Fund Contribution to be provided by each Member shall be recalculated from time to time by LME Clear in accordance with such methodology as LME Clear shall set out in the Default Procedures.
- 9.1.4** LME Clear shall pay interest on the Default Fund Contribution provided by a Member at such rate and at such times as LME Clear may from time to time specify (or, if such rate is a negative rate, LME Clear may charge the Member interest). Such amount may be added to (or, if the rate of interest is negative, deducted from) the Member's Default Fund Contribution.
- 9.1.5** If at any time the amount of Default Fund Contributions provided by a Member exceeds the amount then required of it by LME Clear, the amount of such excess Default Fund Contribution will be repaid at the intervals from time to time specified in Default Procedure Part B, provided that:
- (a) no security over such Default Fund Contributions granted by the Member to LME Clear is, or is likely to become, enforceable, and no Default Event has occurred and is continuing in relation to the Member;
 - (b) LME Clear is satisfied that, after such excess Default Fund Contribution is returned to the Member, there will continue to be sufficient Default Fund Contributions in order to continue to satisfy the Member's obligations under this Rule 9; and
 - (c) LME Clear may, if a Default Loss has arisen, retain such excess Default Fund Contribution to the extent and for as long as it believes that this may be required for use in replenishing the Member's Default Fund Contribution under Rule 10.10.1(e)(i).
- 9.1.6** If a Member gives notice to LME Clear to terminate its membership for whatever reason, the Member's Default Fund Contribution, less any applications or deductions made as contemplated by Rule 9.1.9, shall be repaid on the Termination Date, as determined in accordance with Rule 3.6, 3.8 or 3.11, as applicable.
- 9.1.7** The provisions of Rules 8.5 apply to Default Fund Contributions to the extent stated in the Rules.
- 9.1.8** Without prejudice to LME Clear's rights under Rule 9.1.9, no part of a Default Fund Contribution shall be treated as standing to the credit of any Client Account.

- 9.1.9** LME Clear shall be entitled to apply Default Fund Contributions for the purposes and in the manner and at the times provided for in Rule 10.10 and elsewhere in the Rules and Procedures.
- 9.1.10** Default Fund Contributions shall be "default fund contributions" for the purposes of Part VII of the Companies Act 1989.

RULE 10 - DEFAULT

10.1 APPLICABILITY

- 10.1.1** The provisions of this Rule 10 and the Default Procedures constitute the default rules of LME Clear for the purposes of Part VII of the Companies Act 1989, the Recognition Regulations, the Settlement Finality Regulations and EMIR.
- 10.1.2** LME Clear shall be entitled to take action under this Rule 10 with respect to a Member if LME Clear determines that a Default Event has occurred and is continuing in respect of the Member.
- 10.1.3** LME Clear has a discretion to determine whether any Default Event has occurred and, if so, what action to take under the Default Rules.
- 10.1.4** The exercise by LME Clear of its powers under this Rule 10 shall be subject to any directions given by the Regulator pursuant to Section 166 of the Companies Act 1989 or other Applicable Clearing Regulations.

10.2 DEFAULT EVENTS

A "**Default Event**" means the occurrence, in relation to a Member, of any of the following events:

- (a) the Member fails to perform (or threatens not to perform, or appears to LME Clear unable, or likely to become unable, to perform) any obligation it owes to LME Clear including under any Membership Documentation, Contract or Transfer Order;
- (b) the Member is in material breach of the rules or terms of membership of any exchange, or is suspended or expelled from membership of any exchange, or of any other recognised, designated or overseas investment exchange or clearing house;
- (c) the Member is in material breach of the requirements (whether or not having the force of law) of its regulator or of any other regulatory body or organisation (including, for the avoidance of doubt, the Regulator), or the authorisation of the Member by any such regulatory body or organisation, is suspended or withdrawn;
- (d) any regulatory body takes or threatens to take action against or in respect of the Member under any law or regulation;
- (e) LME Clear determines that the financial condition of the Member is such that, in the reasonable opinion of LME Clear the Member no longer satisfies the Membership Criteria or the continuing use of LME Clear by the Member would result in an increased level of risk or uncertainty for LME Clear and/or its other Members (in respect of the exposures of such other Members to the Clearing System);
- (f) LME Clear has reasonable grounds to believe that the Member is in or is approaching significant financial or operational difficulty or otherwise will be unable to perform its obligations to LME Clear;

- (g) LME Clear has reasonable grounds to believe that the Member has made any material misstatement to LME Clear, or has omitted to disclose to LME Clear any material fact in any statement made to LME Clear, or has been responsible for any fraudulent or dishonest conduct or any breach of fiduciary duty;
- (h) circumstances have arisen which LME Clear has reasonable grounds to believe make it appropriate to suspend or terminate the Member's participation in order to avoid the risk of a failed or rejected delivery, or which could be prejudicial to LME Clear or represent a threat to the orderly operation, security, integrity or reputation of the Clearing System or which could lead to LME Clear becoming involved in legal proceedings with any third party;
- (i) the Member is dissolved pursuant to a consolidation, amalgamation or merger (except on terms previously approved by LME Clear);
- (j) the Member suspends or threatens to suspend, or ceases or threatens to cease, to carry on all or substantially all of its business;
- (k) the Member repudiates or attempts to repudiate any Member Documentation, or contests the validity, perfection or priority of any Member Documentation;
- (l) any regulation, order, judgment or proceeding shall purport to render any provision of any Member Documentation, invalid or unenforceable or shall purport to prevent or materially delay the performance or observance by the Member of its obligations in accordance with its terms;
- (m) any provision of Member Documentation, is or ceases for any reason to be binding on or enforceable against the Member, or the Member shall so assert in writing;
- (n) LME Clear has reasonable grounds to believe that there is a risk that the continuing participation of the Member could result in an obligation being incurred by it to LME Clear which the Member would be unable to settle when due;
- (o) LME Clear has reasonable grounds to believe that the suspension or termination of the Member's membership is necessary either for the protection of LME Clear or for any of the other Members or to ensure the orderly operation, security, integrity and/or reputation of the Clearing System;
- (p) LME Clear has determined that suspension or termination of the Member's membership is appropriate following a review of the suitability of the Member pursuant to Membership Procedure B7.2 or 7.3 (*Changes of Ownership*);
- (q) the Member admits in writing its inability to pay any debt, or it appears to LME Clear that the Member is unable to pay its debts as they fall due or that the value of its assets is less than the amount of its liabilities, taking into account its contingent and prospective liabilities;
- (r) the Member stops, or suspends, or threatens to stop or suspend, payment of all or any part of its indebtedness or commences negotiations with any one or more of its creditors with a view to the general readjustment or rescheduling of all or any part of its indebtedness or the making of a general assignment for the benefit of or composition with its creditors or if a moratorium is agreed, declared

or otherwise obtained in respect of, or affecting, all or any part of its indebtedness;

- (s) any distress, execution or other process is levied or enforced upon or against any property of the Member where the value of the property involved exceeds £500,000;
- (t) an application is made to a court of competent jurisdiction, or an order is made by such court, for the purpose of: (i) declaring the Member to be bankrupt or insolvent; (ii) approving or granting a petition for a moratorium, reorganisation, arrangement (including pursuant to a scheme of arrangement), liquidation, dissolution, adjustment or composition of or in respect of the Member under any Applicable Law; (iii) appointing an administrator, assignee, custodian, examiner, liquidator, provisional liquidator, receiver, sequestrator, supervisor, nominee or trustee or other similar official in respect of the Member or any substantial part of its property, assets or undertaking; (iv) ordering the winding up, liquidation or bankruptcy of the Member; or (v) consenting to the institution by the Member or any person of proceedings for it to be adjudicated, bankrupt or insolvent or for it to be wound up or liquidated; provide that this paragraph (t) shall not apply to any winding up petition which LME Clear reasonably considers to be frivolous or vexatious;
- (u) the Member takes any step or commences any proceedings, or consents to any application, for, or becomes subject to, the appointment of an administrator, assignee, custodian, examiner, liquidator, provisional liquidator, receiver, sequestrator, supervisor, nominee, trustee or other similar official in respect of the Member or any substantial part of its property, assets or undertaking;
- (v) the Member, being a partnership, is dissolved, or being a registered company, is dissolved or suffers its name to be struck off the register of companies;
- (w) anything occurs under the laws of any applicable jurisdiction which is analogous to or has a substantially similar effect to any of the events described in clause paragraphs (s) to (v) inclusive above in relation to the Member; or
- (x) an event listed in paragraphs (s) to (v) inclusive occurs in relation to any Affiliate of the Member, where in the reasonable opinion of LME Clear such occurrence is reasonably likely to result in a Default Event occurring in relation to the Member.

10.3 DEFAULT NOTICE AND OTHER ACTION

- 10.3.1** The Member shall, immediately on becoming aware of the occurrence of any Default Event, give a Notice to LME Clear of such event. The Member will not (except with the prior consent of LME Clear which shall not be unreasonably withheld or delayed) take any steps which could result in any further Transactions being submitted to LME Clear.
- 10.3.2** If LME Clear considers that a Member will not be able to meet its future obligations to LME Clear, LME Clear shall inform the Regulator to that effect before issuing a Default Notice.
- 10.3.3** LME Clear will, as soon as reasonably practicable after it has decided to exercise any of its powers under Rule 10.4.1 below in relation to a Member:

- (a) issue a Default Notice in respect of such Member;
- (b) publish on its Website its decision to issue such Default Notice;
- (c) notify each Approved Transaction Platform (through which the Member trades) of its decision to issue a Default Notice and, in general terms, the action that has been or is expected to be taken by LME Clear under the Rules to settle all outstanding obligations involving the Defaulting Member and LME Clear; and
- (d) notify such Member of any notice received from a Client requesting LME Clear to carry out a transfer pursuant to Rule 10.7.1;

10.3.4 A Member in respect of which a Default Notice has been issued is referred to in the Rules as a "**Defaulting Member**" and the expression "**Office-Holder**" has the meaning given to it by section 189 of the Companies Act 1989. A reference to the Defaulting Member shall include (where the context permits) a reference to any Office-Holder appointed in relation to the Defaulting Member.

10.3.5 Without prejudice to the preceding provisions of this Rule 10, a Member shall notify LME Clear, the Regulator and (if different) the Member's regulator immediately of its passing of a creditors' voluntary winding up resolution, or a trust deed granted by it becoming a protected trust deed.

10.3.6 On LME Clear issuing a Default Notice, each non-defaulting Member shall co-operate with LME Clear and will in particular (to the extent that it is reasonably able to do so):

- (a) if requested by LME Clear, assist in effecting any closing out or transfer of an Open Contract pursuant to Rule 10.4.1; and
- (b) comply with any reasonable directions of LME Clear,

where LME Clear considers that such requests or directions are reasonable or necessary in the interests of maintaining the integrity of the Clearing System or the stability of the financial system.

10.4 POWERS OF LME CLEAR AFTER A DEFAULT NOTICE

10.4.1 LME Clear may take any one or more of the following steps on or at any time or times after it becomes entitled to do so under Rule 10.1.2:

- (a) accept or decline to Register or novate a Transaction;
- (b) cancel or reverse any outstanding instruction for a Settlement Payment or delivery of any Underlying Asset to or for the benefit of the Defaulting Member;
- (c) close out or otherwise discharge all or any rights, obligations and positions of the Defaulting Member then outstanding with respect to Open Contracts and all or any rights, obligations and positions of the Defaulting Member arising out of the exercise by LME Clear of all or any of its other powers under the Rules;
- (d) enforce and/or otherwise exercise all or any rights, powers and discretions conferred on LME Clear by the Security Documents;
- (e) realise all or any of the Member's Collateral whether by private sale or otherwise for the account of the Defaulting Member without being obliged to obtain the

Defaulting Member's consent or any order of a court of law, and to appoint any person to execute any document for such purpose in the name and on behalf of the Defaulting Member;

- (f) subject to, and in accordance with Rule 10.7 (*Portability of Client Accounts*) and Default Procedure D (*Porting Procedure*), transfer an Open Contract of the Defaulting Member to the account of another Member, or terminate and close out such Contract and re-establish a Contract in the same terms with another Member, being in each case a Member entitled and willing to have such position transferred to it;
- (g) subject to, and in accordance with Rule 10.7 (*Portability of Client Accounts*) and Default Procedure D (*Porting Procedure*), transfer to the Member to which an Open Contract is transferred (or with which the replacement Contract is re-established) under Rule 10.4.1(f) above, such Collateral held as security for the Defaulting Member's obligations to LME Clear on that account to cover the risks associated with the Open Contract that has been so transferred;
- (h) transfer an Open Contract of another Member with its agreement to the Defaulting Member for the purposes of closing out an Open Contract in the name of the Defaulting Member or for any other reason which LME Clear considers appropriate in the circumstances, without requiring the consent of any relevant Approved Transaction Platform;
- (i) make or cause to be made one or more original Contracts on behalf of the Defaulting Member, including original Contracts for the purpose of hedging the risks to which the Defaulting Member is exposed (whether such contract is made through an Approved Transaction Platform, off market or otherwise), and to record the same in the Defaulting Member's name under the Rules;
- (j) exercise on behalf of the Defaulting Member (if LME Clear chooses) any option granted by an Open Contract, notwithstanding that such exercise may take place on a day which is not a day prescribed for such exercise by rules of any relevant Approved Transaction Platform;
- (k) to take such steps as may be available to LME Clear in the circumstances known to it to preserve as far as appropriate the position (including preservation of the Positions and Collateral) of any Client or Indirect Client of the Defaulting Member allocated to a Client Account, including the crediting or debiting of accounts, entry into new Contracts, transfer of existing Contracts, reversal of Contracts, or termination, close-out and re-establishment of Contracts (save that LME Clear may not, pursuant to this Rule 10.4.1(k), transfer to any non-defaulting Member any Contracts, or otherwise vary any rights or obligations of a non-defaulting Member without that non-defaulting Member's consent, subject that this shall be without prejudice to LME Clear's powers under Rules 10.4.2, 10.7 and 10.10);
- (l) conduct an auction of Open Contracts to which the Defaulting Member is a party in such auction portfolios and at such time or times as LME Clear may determine and invite non-defaulting Members to submit bids for such portfolios in accordance with the auction principles and process provided for in the Default Procedures;

- (m) designate a currency as a currency of account and, at the Defaulting Member's expense, to convert any sum payable by or to the Defaulting Member in another currency into the currency of account;
- (n) without prejudice to any other right of LME Clear under the Rules and subject to Applicable Clearing Regulations, take such other action with regard to any Open Contract to which the Defaulting Member is a party as LME Clear may deem necessary or expedient to effect an orderly discharge of the Defaulting Member's obligations and/or for the protection of LME Clear or other Members and any such action may be taken in the name and at the expense of the Defaulting Member (save that LME Clear may not, pursuant to this Rule 10.4.1(n), transfer to any non-defaulting Member any Contracts, or otherwise vary any rights or obligations of a non-defaulting Member without that non-defaulting Member's consent, subject that this shall be without prejudice to LME Clear's powers under Rules 10.4.2, 10.7 and 10.10);
- (o) subject to the segregation provisions in Rule 4.3 (*Account Segregation*), debit any Account of the Member (including any such Account in which Cash Collateral is recorded) with any amount owed by the Defaulting Member to LME Clear including, to the extent permitted by Applicable Clearing Regulations, debiting the Defaulting Member's House Account with all amounts owing in respect of Fees and any expenses incurred by LME Clear with regard to or in consequence of the circumstances referred to in Rule 10.2 or the steps which are or may be taken under this Rule or the Default Procedures (as the case may be);
- (p) any other step considered to be necessary or expedient by LME Clear to complete the process set out in Rule 10.7 or the Default Procedures;
- (q) appoint any person as its agent for the purpose of hedging, financing, selling or otherwise disposing of any Collateral of the Defaulting Member at any time after the powers conferred by this Rule 10.4 have become exercisable;
- (r) obtain (at the expense of the Defaulting Member) such advice or assistance, including legal advice, as LME Clear may deem necessary with respect to any matter arising out of the occurrence of any event referred to in Rule 10.2; and/or
- (s) to the extent not otherwise specified in Rule 10.4.1 above, take any other step or apply any other process required or permitted pursuant to the Default Procedures.

The powers exercisable under Rule 10.4.1 shall be applied in respect of the Defaulting Member and shall not be construed so as to enable LME Clear to take action in respect of any non-defaulting Member, unless and except to the extent, specifically stated in the relevant paragraph of that Rule.

10.4.2 Where LME Clear exercises its rights under Rule 10.4.1, and subject to Rule 10.5:

- (a) LME Clear may take such action as it may determine to be necessary or expedient, subject to Applicable Clearing Regulations, to close out or otherwise discharge and/or net the rights, obligations and positions of the Defaulting Member referred to in Rule 10.4.1(c), including by:

- (i) buying in or selling out the Underlying Asset deliverable by or to the Defaulting Member or (if LME Clear considers this impractical or inexpedient) to effect a cash settlement of an Open Contract and/or taking such other action as LME Clear may determine to be necessary or expedient to close out the Delivery Obligations or Payment Obligations and Failed Settlement Positions of the Defaulting Member; and/or
 - (ii) effecting corresponding contracts in relation to Open Contracts to which the Defaulting Member is a party;
- (b) LME Clear may take such action notwithstanding the fact that the Contracts concerned have different scheduled settlement dates;
- (c) LME Clear may bring into account for the purpose of such close out, discharge and/or netting all liabilities incurred by LME Clear in consequence of exercising its powers under the Default Rules (for which the Defaulting Member shall be liable to indemnify LME Clear), including all reasonable expenses of responding to the default and enforcing its rights hereunder;
- (d) LME Clear may collect and retain or bring into account for the purpose of such close out, discharge and/or netting, all dividends, interest and other income receivable under any Collateral provided by the Defaulting Member; and
- (e) amounts payable by or to a Defaulting Member on such close out, discharge, cash settlement and/or netting of its rights, obligations or positions shall be determined by LME Clear (whose determination will be conclusive).

For the purposes of Rule 10.4.2, a "**corresponding contract**" means a contract on the same terms (except as to price or premium) as the Contract to which the Defaulting Member is a party but under which the person who is the Buyer under the Contract agrees to sell and the person who is the Seller under the Contract agrees to buy.

10.4.3 If a Defaulting Member has an open Position for the purchase of an Underlying Asset and the same or another Defaulting Member has an open Position for the sale of the same Underlying Asset, then LME Clear may, if it chooses and subject to any requirements of Applicable Clearing Regulations, close out or hedge such Positions wholly or partly by effecting (i) a sale under which the Defaulting Member acting as Buyer agrees to sell to LME Clear at Market Value all or such part of the relevant Underlying Asset as LME Clear may select and (ii) a simultaneous purchase under which the Defaulting Member acting as Seller agrees to buy from LME Clear at Market Value a corresponding amount of the same Underlying Asset. This power may be exercised in respect of Open Positions on different Accounts where the same Defaulting Member is involved in both transactions.

10.4.4 To the extent that the ability of LME Clear to perform its obligations to deliver Underlying Assets to any Member other than a Defaulting Member is adversely affected by the operation of the procedures set out in Rule 10.4.1 to 10.4.3, LME Clear may take such action as it considers appropriate and reasonable in the circumstances known to it to protect its position.

10.4.5 The procedure applicable under Rules 10.4.2 and 10.4.3 shall be completed by LME Clear as promptly as practicable after LME Clear has served a Default Notice. However, if it appears appropriate to LME Clear in the circumstances known to it, LME

Clear may exercise the procedure in such stages and at such times as LME Clear considers best calculated to minimise any Loss to the Members of LME Clear and to avoid the creation of a disorderly market in any Underlying Asset that could otherwise arise from such close-out procedure.

10.4.6 When taking action under this Rule 10.4, LME Clear will ensure that such action does not adversely affect in any material way any Client's ability to effect a Transfer in respect of any Client Account in accordance with Rule 10.7 (*Portability of Client Accounts*).

10.4.7 LME Clear may not exercise any of its powers under Rule 10.4 to cash settle or Invoice Back any Contract with a non-defaulting Member unless and except to the extent explicitly specified in this Rule 10.4. Prior to exercising any power to cash settle or Invoice Back any Contract with a non-defaulting Member, LME Clear shall first consult with the Board Risk Committee and obtain the approval of the Board. For the avoidance of doubt, but without prejudice to the specific wording in any Rule, in the event that LME Clear exercises any right under this Rule 10 to cash settle or invoice back any Contract with a non-defaulting Member, the price for such cash settlement or invoice back shall be determined at the Closing Price for such Open Contracts as applies on the relevant Business Day or, if such Closing Price is not available, the price shall be such price as the LME Clear Board determines is reasonably appropriate in the circumstances in consultation with the Board Risk Committee.

10.5 TREATMENT OF DIFFERENT TYPES OF ACCOUNT

10.5.1 Where the Defaulting Member has one or more Client Accounts and one or more House Accounts with LME Clear, the process set out in Rule 10.6 will be separately completed in respect of House Accounts and the process set out in Rule 10.7.13 will be separately completed in respect of each such Client Account. Each sum finally payable shall be separately certified under Rule 10.8.1. For this purpose:

- (a) an Account which is a House Account may be combined for the purpose of such process with another House Account of the same Defaulting Member;
- (b) no Omnibus Segregated Client Account or Individual Segregated Client Account may be combined with any other Account of the Defaulting Member with LME Clear except to the extent permitted by Applicable Clearing Regulations;
- (c) LME Clear will as soon as practicable deliver any surplus amount or Collateral owing to the Defaulting Member in respect of an Individual Segregated Client Account or an Omnibus Segregated Client Account (after completion of final net settlement under Rule 10.8 and satisfaction of the Default Rules and Default Procedures) to the Client to which such Individual Segregated Client Account relates or to the Clients entitled to share in such Omnibus Segregated Client Account (as the case may be) or, if such Clients are not known to LME Clear or if it has insufficient information to determine how an amount is to be apportioned between them or to permit it to make a payment, to the Defaulting Member for the account of the relevant Client or Clients save that LME Clear shall only return any surplus amount or Collateral to a Client under this paragraph (c) if it is permissible under Applicable Law and LME Clear is not prevented from effecting such return by any court order or legal restriction applying to LME Clear, the amount or the Collateral, or by any claim or right of the Defaulting Member or

any other person which may take precedence during any insolvency procedure affecting the Defaulting Member;

Proviso: LME Clear shall not return any such surplus amount or Collateral to a Client where any condition or requirement that reflects a condition or requirement to such return under Article 48(7) of the EMIR Level 1 Regulation is not satisfied;

- (d) LME Clear may (to the extent permitted by Applicable Clearing Regulations) allocate any surplus of Collateral provided by the Defaulting Member in respect of a House Account to meet a deficiency on a Client Account of the Defaulting Member (but not vice versa); and
- (e) LME Clear shall allocate the Defaulting Member's Default Fund Contribution in or towards the discharge of Default Loss on Client Account and House Account on such basis as it deems appropriate.

10.6 FINAL NET SETTLEMENT ON HOUSE ACCOUNT

10.6.1 For the purpose of discharging the Defaulting Member's rights and liabilities under or in respect of all Contracts to which it is party and which are recorded on its House Account(s), LME Clear shall:

- (a) bring into account:
 - (i) all sums payable by or to the Defaulting Member in respect of such Contracts; and
 - (ii) (to the extent permitted by the Default Requirements) all other sums payable by or to the Defaulting Member under the Rules (otherwise than on Client Account); and
 - (iii) all costs incurred by LME Clear in implementing its powers pursuant to this Rule 10 in relation to any Account(s) of the Defaulting Member (including any expenses, staff costs and legal fees), such costs being for the account of the Defaulting Member;
- (b) the sums so payable shall be aggregated or set off so as to produce a net sum; and
- (c) if payable by the Defaulting Member to LME Clear, such net sum shall be set off against:
 - (i) any sum due by LME Clear to the Defaulting Member and/or any Collateral (following enforcement and liquidation if necessary pursuant to the terms of the relevant Security Document) provided by or on behalf of the Defaulting Member;
 - (ii) such amount (if any) of the outstanding Default Fund Contribution of the Defaulting Member as LME Clear may determine under Rule 10.5.1(e) (after the application of such Default Fund Contribution for any other purpose permitted under the Rules),

(or, in either case, the proceeds of realisation of such amounts) so as to produce a further net sum; or

- (d) if payable by LME Clear to the Defaulting Member, such net sum on its House Account(s) shall be aggregated with the amounts referred to in paragraph (c)(i) and (ii) (or the proceeds of realisation of such amounts), or shall be set off against any other sum payable by the Defaulting Member to LME Clear (otherwise than on Client Account) as LME Clear may select so as to produce a further net sum.

10.6.2 For the purposes of this Rule, LME Clear may assess the sum payable by or to the Defaulting Member in respect of any breach of the Rules in such reasonable manner as it thinks fit.

10.7 PORTABILITY OF CLIENT ACCOUNTS

10.7.1 Where assets and positions are recorded on an Individual Segregated Client Account or an Omnibus Segregated Client Account of a Defaulting Member, LME Clear shall, during the Porting Period, apply the provisions of this Rule 10.7 and Default Procedure D, with the objective of transferring the assets and positions recorded to such Client Account from the relevant Individual Segregated Client Account or the Omnibus Segregated Client Account with the Defaulting Member (the "**Member Transferor**") to a new Client Account of a non-defaulting Member (the "**Member Transferee**") that:

- (a) (in the case of a Client Account to which the Automatic Porting Process applies) has been identified in the Automatic Porting Designation Documents lodged in respect of the Client or Clients allocated to such Client Account; or
- (b) (in the case of any other Client Account) has agreed to accept such assets and positions and that has been identified in a Porting Request Notice issued to LME Clear by such Client or Clients in accordance with the requirements set out in Default Procedure D,

(each such transfer being a "**Transfer**").

10.7.2 Where the Automatic Porting Process applies to a Client Account, the Automatic Porting Designation Documents lodged by a Member in respect of a Client (or any Indirect Client) shall constitute a request by such Clients (for themselves and in respect of any Indirect Clients) to LME Clear to execute a Transfer to any Member Transferee specified in the Automatic Porting Designation Documents in the event that the Member becomes a Defaulting Member.

10.7.3 Where the Automatic Porting Process does not apply to a Client Account, LME Clear must be in receipt of a validly executed Porting Request Notice from each Client allocated to that Client Account in order for LME Clear to apply the Porting Process.

10.7.4 If the relevant Client Account of a Defaulting Member records the assets and/or positions of two or more Clients, any Transfer shall be:

- (a) requested and exercised jointly in respect of all such Clients; and
- (b) to the same Member Transferee,

unless LME Clear agrees otherwise.

10.7.5 LME Clear will seek to transfer the assets and positions (which shall include the Contracts and Collateral) allocated to a Client Account of a Defaulting Member only if:

- (a) in the case of a Client Account to which the Automatic Porting Process applies:
 - (i) the Automatic Porting Designation Documents held by LME Clear in respect of such Client Account identify a potential Member Transferee that has been designated by all Clients allocated to such Client Account as a Designated Member Transferee;
 - (ii) such Member Transferee is a non-defaulting Member which has agreed in writing to accept such Transfer within the Porting Election Period; and
 - (iii) the requirements set out in Default Procedure D2.2 are satisfied;
- (b) in the case of a Client Account to which the Automatic Porting Process does not apply:
 - (i) a LME Clear must have received, within the Porting Election Period, in respect of each Client allocated to the Client Account, a Porting Request Notice that has been:
 - (1) validly made under Rule 10.7.1 and Rule 10.7.3;
 - (2) duly completed and signed by the Member Transferee and each such Client allocated to the Client Account;(subject that separate Porting Request Notices may be submitted by each Client, provided that each Porting Request Notice is countersigned by the same Member Transferee); and
 - (ii) the requirements set out in Default Procedure D2.3 are satisfied;
- (c) LME Clear has the information required to enable it to calculate the amounts to be transferred and is satisfied as to its accuracy, whether provided by the Defaulting Member or the relevant Client or otherwise; and
- (d) LME Clear is satisfied that sufficient additional Collateral (if any) will, on the transfer being effected or, if necessary, in advance, be provided to it by the Member Transferee in accordance with the Rules;
- (e) LME Clear is satisfied that all Clients allocated to the Client Account are Identified Clients; and
- (f) such transfer is permissible under Applicable Law and LME Clear is not prevented from effecting such transfer by any court order or legal restriction applying to LME Clear, the Collateral or the Open Contracts, or by any claim or right of the Member Transferor or any other person which may take precedence during any insolvency procedure affecting the Member Transferor.

10.7.6 If any of the conditions set out in Rule 10.7.5 are not satisfied in relation to any Individual Segregated Client Account or Omnibus Segregated Client Account, or if LME Clear has reason to believe that the taking of any action under this Rule 10.7 in relation to any Individual Segregated Client Account or Omnibus Segregated Client Account would be contrary to Applicable Clearing Regulations, or impair its own ability

to perform its obligations as they fall due, then LME Clear may decline to transfer such Individual Segregated Client Account or Omnibus Segregated Client Account.

10.7.7 Notwithstanding Rule 5.1.7, 5.1.8 and 10.7.5(e), LME Clear shall effect a Transfer pursuant to a Porting Request Notice issued in respect of a Client Account to which Non-Identified Clients are allocated where all such Non-Identified Clients have provided to LME Clear such information as LME Clear reasonably considers to be appropriate and sufficient regarding their identities, the details of their representatives that are authorised to provide instructions on their behalf and the Transactions that have been registered on their behalf. Any such Client shall be treated as an Identified Client from the time that LME Clear considers that it has appropriate and sufficient information in accordance with this Rule 10.7.7.

10.7.8 Notwithstanding any other provision set out in Rule 5 (*Client Business and Portability Arrangements*), this Rule 10.7 and Default Procedure D (*Porting Procedure*), but subject to the proviso below, LME Clear may permit a Transfer pursuant to a Porting Request Notice issued in respect of a Client Account where any condition or requirement specified in such Rules or Procedures is not satisfied (including, for the avoidance of doubt, where the Porting Election Period has expired) where LME Clear considers that it is appropriate, in the interests of (i) the Clients; (ii) the Clearing System; (iii) the stability of the markets in which the Member's or Clients participate; or (iv) the stability of the wider financial system in the United Kingdom, that such Transfer shall take place.

Proviso: Where and to the extent that a Transfer falls within the meaning of, and is subject to, Article 48(5) or (6) of the EMIR Level 1 Regulation, LME Clear shall not permit such Transfer to take effect where any condition or requirement that reflects a condition or requirement to a Transfer under Article 48(5) or (6) of the EMIR Level 1 Regulation is not satisfied, including for the avoidance of doubt, any requirement for the Client(s) and the Member Transferee to have consented to the Transfer.

10.7.9 LME Clear may, pursuant to any Transfer, transfer only the positions (and associated Contracts) allocated to an Account and not the related Collateral allocated to that Account where and to the extent that:

- (a) the Member Transferee ensures that the Margin Requirement applicable to such Client Account is satisfied by the provision of Collateral provided by such Member Transferee to LME Clear prior to the Transfer Time; or
- (b) the Automatic Porting Designation Documents or the Porting Request Notice specifies that any Collateral shall not be subject to the Transfer, in which case the Transfer shall be conditional upon the satisfaction of the requirement specified in Rule 10.7.5(d) above; or
- (c) for reasons outside the control of LME Clear it is not operationally practicable for such Collateral to be subject to the Transfer, in which case the Transfer shall be conditional upon the satisfaction of the requirement specified in Rule 10.7.5(d) above.

10.7.10 LME Clear may, when taking the action under this Rule 10.7, rely (without further investigation) on the information provided by the Defaulting Member or its relevant Clients to LME Clear pursuant to the Rules.

10.7.11 Such a Transfer shall be effected in accordance with the provisions set out in the Default Procedures.

10.7.12 LME Clear shall incur no liability to the Defaulting Member, any Client or other person for any action taken or omitted to be taken under this Rule 10.7, except in the case of its own wilful default.

10.7.13 LME Clear has published a disclosure document summarising the legal implications of its powers to effect Transfers. This document explains the implications of Transfers made in accordance with LME Clear's obligations under Articles 48(5) and 48(6) of the EMIR Level 1 Regulation, together with the implications of the exercise by LME Clear of its discretion pursuant to Rule 10.7.8 to permit a Transfer notwithstanding that any condition in the Rules or Procedures may not have been satisfied. The exercise of such a waiver may result in Transfers in circumstances where it is not necessary for the purposes of complying with the minimum requirements of Articles 48(5) and 48(6) of the EMIR Level 1 Regulation. The disclosure document can be found at:

[http://www.lme.com/~media/Files/LME%20Clear/LME%20Clear%20-%20Disclosure%20under%20EMIR%2039\(7\).pdf](http://www.lme.com/~media/Files/LME%20Clear/LME%20Clear%20-%20Disclosure%20under%20EMIR%2039(7).pdf)

10.7.14 Final Net Settlement of Unported Client Accounts

10.7.15 For the purpose of discharging the Defaulting Member's rights and liabilities under or in respect of all Contracts to which it is party and which are recorded on a Client Account (which has not been ported under Rule 10.7), LME Clear shall:

- (a) bring into account:
 - (i) all sums payable by or to the Defaulting Member in respect of such Contracts recorded on such Client Account; and
 - (ii) (to the extent permitted by the Default Requirements) all other sums payable by or to the Defaulting Member under the Rules on such Client Account;
 - (iii) LME Clear's costs in liquidating any Positions allocated to a Client Account that have not been transferred pursuant to the Porting Process, such costs being for the account of the Defaulting Member,
- (b) the sums so payable shall be aggregated or set off so as to produce a net sum; and
- (c) if payable by the Defaulting Member to LME Clear, such net sum shall in each case be set off against:
 - (i) any sum due by LME Clear to the Defaulting Member and/or any Collateral (following enforcement and liquidation if necessary pursuant to the terms of the relevant Security Document) provided by or on behalf of the Defaulting Member in each case in respect of the relevant Client Account; and
 - (ii) such amount (if any) of the outstanding Default Fund Contribution of the Defaulting Member as LME Clear may determine under Rule 10.5.1(e)

(after the application of such Default Fund Contribution for any other purpose permitted under the Rules);

(or, in either case, the proceeds of realisation of such amounts) so as to produce a further net sum, or shall be aggregated with any debit balance on such Client Account; or

- (d) if payable by LME Clear to the Defaulting Member, the net sum on such Client Account shall be aggregated with the amounts referred to in paragraph (c)(i) and (ii) (or the proceeds of realisation of such amounts).

10.8 CERTIFICATION, DELEGATION, CO-OPERATION, REPORTING

- 10.8.1** On completion of the process set out in Rule 10.6 or 10.7.13 (whichever is applicable), LME Clear shall promptly certify each sum finally payable by the Defaulting Member to LME Clear (or vice versa) on the relevant Account or, as the case may be, the fact that no sum is payable. The certificate of LME Clear under this Rule 10.9 shall be conclusive as to the discharge of the Defaulting Member's rights and liabilities in respect of the Contracts to which it relates and the net sum finally payable in respect of them (or the fact that no sum is payable). LME Clear shall incur no liability whatsoever for any act or omission in determining any sum payable under this Rule 10 except to the extent arising from LME Clear's wilful default.
- 10.8.2** LME Clear shall, as soon as practicable after issuing a Default Notice in respect of a Member, appoint a day on which any net sums certified under this Rule 10 will become due to the Defaulting Member and will be paid by LME Clear. The day so appointed shall not fall on a day before completion of the process specified in this Rule.
- 10.8.3** LME Clear shall make such report to the Regulator of its proceedings under this Rule, and shall supply copies and make available such report, in the manner required by Section 162 of the Companies Act 1989.
- 10.8.4** The provisions of this Rule 10 are without prejudice to the right of LME Clear to prove in the insolvency of the Defaulting Member both in respect of any net sum or sums payable by the Defaulting Member pursuant to Rule 10.5 and 10.8 and in respect of any other obligations of the Defaulting Member to the extent they are not brought into account in the net settlement procedure set out in the Rules 10.5 and 10.8, including any other expenses incurred by LME Clear in consequence or in respect of the event or circumstance which entitled LME Clear to act under Rule 10.1.2 or the steps which are taken under this Rule 10, and of any other losses, costs or expenses incurred or suffered by LME Clear and for which the Defaulting Member is liable under the Rules and/or to exercise any other rights and remedies which it may have against the Defaulting Member.
- 10.8.5** LME Clear may appoint any person to take or assist it in taking any step under the Rules or to complete or assist it in completing the process set out in Rule 10.4 to 10.8. Any costs incurred by LME Clear, acting reasonably, to any such person shall be for the account of the Defaulting Member.
- 10.8.6** LME Clear may at any time co-operate, by the sharing of information and otherwise, with the Regulator or any other regulator, any Approved Transaction Platform, or any relevant Office-Holder acting in relation to the Defaulting Member or his estate and any other authority or body having responsibility for any Defaulting Member, or having an

interest in any matter arising out of or connected with the circumstances mentioned in Rule 10.1.

- 10.8.7** In addition to any report supplied under section 162(3) of the Companies Act 1989, LME Clear shall report to the Defaulting Member, on the steps taken by LME Clear in relation to the Defaulting Member under Rule 10.4.
- 10.8.8** LME Clear may, by notice in writing to a non-defaulting Member, require such non-defaulting Member to provide reasonable assistance to LME Clear (including market execution services and information) in connection with the close out of a Defaulting Member's open contracts. Such assistance may include, but shall not be limited to, the participation by such non defaulting Member in auctions of a Defaulting Member's positions under any open contracts.
- 10.8.9** LME Clear may, if required pursuant to any law or regulation binding on LME Clear or at the direction of any Regulator that has the power to give directions to LME Clear, disclose to the public any breach by a Member of the Membership Criteria. Any such disclosure shall not constitute a breach by LME Clear of its obligations under Rule 2.5.1 (*Confidentiality*).
- 10.8.10** LME Clear may retain so much of the net sum referred to in Rule 10.8.2 as it considers necessary to cover any further costs (including expenses, staff costs and legal fees incurred by LME Clear in managing the default of the Defaulting Member) recoverable by LME Clear from the Defaulting Member under the Rules. LME Clear shall, upon the settlement of such further costs, pay any remaining amount of the net sum to the Defaulting Member or, where Rule 10.5.1(c) applies, to the relevant Client(s).
- 10.8.11** LME Clear shall not be liable to any Member, Client or any other person for any statement made by an Approved Transaction Platform or any other person regarding the amount of profit or loss that may be due to such Member, Client or other person in the event of any Default Event or any similar circumstances arising in relation to any Member.

10.9 DEFAULT WATERFALL AND ALLOCATION OF ANY EXCESS LOSS

During the Default Period

- 10.9.1** A Default Loss shall be satisfied in the following order of priority:
- (a) first, LME Clear will apply all Collateral provided by the Defaulting Member in respect of each relevant Account on which a Default Loss has arisen, in accordance with Rule 10.5 and 10.6 or 10.8 (as applicable) in or towards the discharge of the Default Loss in accordance with the Rules;
 - (b) secondly, if the Collateral provided by the Defaulting Member is not sufficient to discharge the Default Loss, LME Clear will apply the Default Fund Contribution of the Defaulting Member in or towards the discharge of the outstanding balance of the Default Loss;
 - (c) thirdly, if the Default Fund Contribution of the Defaulting Member is not sufficient to discharge the balance of the Default Loss, LME Clear will apply its Dedicated Own Resources in or towards the discharge of the outstanding balance of the Default Loss;

- (d) fourthly, if the Dedicated Own Resources of LME Clear are not sufficient to discharge the outstanding balance of the Default Loss, LME Clear will apply the Default Fund Contributions of non-defaulting Members on a pro rata basis in or towards the discharge of the remaining balance of the Default Loss (the "**Excess Loss**");
- (e) fifthly, if all the above resources are not sufficient to discharge the balance of the Default Loss, or where permitted under Rule 10.10.4 below, then LME Clear may issue one or more Notices to the non-defaulting Members requiring such Members to contribute additional resources towards the discharge of the remaining balance of the Default Loss in the form of Default Fund Contributions (a "**Default-Specific Replenishment Notice**"). Upon the publication of a Default-Specific Replenishment Notice:
 - (i) each non-defaulting Member will immediately pay to LME Clear the amount of Default Fund Contribution specified in the Default-Specific Replenishment Notice, subject to and up to the limits specified in Rule 10.10.4 below;
 - (ii) LME Clear will immediately replenish such an amount of its Dedicated Own Resources that is in the same proportion as the total amounts payable under (i) bear to the aggregate sum of the Default-Specific Replenishment Caps applicable to all non-defaulting Members, subject that LME Clear shall not be required to replenish an amount that would result in the level of Dedicated Own Resources being in excess of the level immediately prior to the commencement of the Default Period.

All amounts so replenished by non-defaulting Members and LME Clear will be applied on a pro-rata basis in or towards the discharge the outstanding balance of the Default Loss.

For the purposes of Rule 10.9.1(d), the expression "*pro rata*" means in the proportion which the amount of the Default Fund Contributions provided to LME Clear by each individual non-defaulting Member bears to the aggregate amount of the Default Fund Contributions provided by all non-defaulting Members, immediately prior to the commencement of the Default Period.

For the purposes of Rule 10.10.1(e), the expression "*pro rata*" means in the proportion which the amount of the Default Fund Contributions provided to LME Clear by each individual non-defaulting Member or the amount of the Dedicated Own Resources provided by LME Clear bears to the aggregate amount of the Default Fund Contributions provided by all non-defaulting Members and the amount of the Dedicated Own Resources provided by LME Clear (taken as a whole), immediately following the replenishment.

When determining the amount of any Excess Loss, LME Clear may include within the amount of such Excess Loss a provision for the reasonable costs that LME Clear, acting reasonably, estimates will be incurred by LME Clear in implementing its powers pursuant to this Rule 10 in relation to any Account(s) of the Defaulting Member (including any expenses, staff costs and legal fees).

10.9.2 If the amounts replenished and applied in accordance with Rule 10.10.1(e) are not sufficient to discharge the Excess Loss, LME Clear may notify the non-defaulting

Members, by Notice, that they shall be required to contribute towards the discharge of the Excess Loss on the following basis:

- (a) LME Clear shall determine the total amounts of payments due to Members on the next following Business Day pursuant to the calculation of Members' Variation Margin Requirements ("**Total Member VM Profits**");
- (b) LME Clear shall apportion the Excess Loss against each Account of each Member that has, in respect of such Account, an entitlement to receive payment balances pursuant to the calculation of that Member's Variation Margin Requirement (each Member's entitlement in respect of each such Account being its "**Per Account Member VM Profit**"), on the basis that:
 - (i) if the amount of remaining Excess Loss is less than the Total Member VM Profits, the non-defaulting Members that have Per Account Member VM Profits shall have their Per Account Member VM Profits applied towards the discharge of the Excess Loss on a pro rata basis (where the expression "*pro rata*" means in the proportion which the amount of the Per Account Member VM Profit of each individual non-defaulting Member bears to the Total Member VM Profits of all Accounts of all non-defaulting Members);
 - (ii) if the amount of remaining Excess Loss is equal to or greater than the Total Member VM Profits, each non-defaulting Member's Per Account Member VM Profit shall be applied in full towards the discharge of the Excess Loss;

and where LME Clear has applied all or any part of a non-defaulting Member's Per Account Member VM Profit towards the discharge of the remaining Excess Loss, LME Clear's Payment Obligations to such Member for that Business Day shall be reduced accordingly (the process set out in this paragraph (b) being a "**VM Haircut**"); and

- (c) in the event that, following the application of the VM Haircut, there remains an Excess Loss, LME Clear may repeat the VM Haircut process on the next following Business Days until the earlier of:
 - (i) the Excess Loss has been fully discharged; or
 - (ii) the LME Clear Board determines, following consultation with the Board Risk Committee, that the application of further VM Haircuts would be inappropriate or ineffective in discharging the Excess Loss and that cash settlement in accordance with paragraph (d) below should be applied; and
- (d) in the event that LME Clear makes a determination in accordance with paragraph (c)(ii) above, then on the day on which the final VM Haircut is calculated (the "**Final Day**"), LME Clear may effect a cash settlement of certain Open Contracts between LME Clear and the non-defaulting Members, together with a write-down of LME Clear's cash settlement obligations to such non-defaulting Members on the following basis:
 - (i) LME Clear shall determine which Open Contracts of the Defaulting Member have not yet been closed out;

- (ii) LME Clear shall identify the metal or metals comprising the Underlying Assets for such Open Contracts (such metals being the "**Unclosed Metals**");
- (iii) LME Clear shall effect a cash settlement of every Open Contract between LME Clear and any non-defaulting Member for which an Unclosed Metal comprises the Underlying Asset, and the price for such cash settlement shall be determined at the Closing Price for such Open Contracts as applies on the Final Day or, if such Closing Price is not available, the price shall be such price as the LME Clear Board determines is reasonably appropriate in the circumstances in consultation with the Board Risk Committee (on the basis that, where possible, such price shall be the same as that applied in respect of the variation margin calculation applied in respect of each such Open Contract on the Final Day); and
- (iv) any amount payable by LME Clear to each non-defaulting Member as a consequence of the cash settlements applicable to each Account of such Member shall be set off against any amounts payable to LME Clear by such Member pursuant to the calculation of the Variation Margin Requirement applicable to such Account as determined following Close of Business on that Final Day, and the settlement of such payments and set-off amounts shall be made on the next Business Day following the Final Day in accordance with the Cover Distribution Process.

10.9.3 The amount of the Default Fund will not be recalculated and reset during the Default Period. Each Member shall be required to provide additional Default Fund Contributions during the Default Period:

- (a) pursuant to a Default-Specific Replenishment Notice (in accordance with Rule 10.10.1(e)(i) and subject to and in accordance with Rule 10.10.4 below); and/or
- (b) pursuant to a Stabilisation Replenishment Notice (in accordance with and subject to Rule 10.10.5 below).

10.9.4 LME Clear may issue one or more Default-Specific Replenishment Notices to each non-defaulting Member during the Default Period, in accordance with Rule 10.10.1(e), in accordance with and subject to the following provisions:

- (a) the total amount payable by a non-defaulting Member pursuant to one or more Default-Specific Replenishment Notices issued in respect of a single Member Default shall not exceed the level of Default Fund Contributions of that non-defaulting Member immediately prior to the Default Period (the "**Default-Specific Cap**");
- (b) in respect of each Member Default, LME Clear may issue one or more Default-Specific Replenishment Notices to each non-defaulting Member for such amounts and at such times as LME Clear determines is appropriate, subject to the application of the Default-Specific Cap;
- (c) LME Clear may issue a Default-Specific Replenishment Notice pursuant to Rule 10.10.1(e) notwithstanding that:

- (i) the Default Fund Contributions of non-defaulting Members may not have been exhausted pursuant to Rule 10.10.1(d);
 - (ii) the effect of such Default-Specific Replenishment Notice, taken together with any other replenishments and the existing balance of the Default Fund, would result in each non-defaulting Member's total Default Fund Contributions being in excess of the level applicable immediately prior to the commencement of the Default Period; and
- (d) in the event that there is more than one Member Default during a Default Period:
 - (i) a separate Default-Specific Cap shall be applied in respect of each Member Default;
 - (ii) each Default-Specific Replenishment Notice must specify to which Member Default it relates;
 - (iii) any amounts contributed by a non-defaulting Member pursuant to a Default-Specific Replenishment Notice may be applied by LME Clear only in respect of the Member Default to which it relates.

10.9.5 Each Member shall be required to provide additional Default Fund Contributions during the Default Period immediately upon receipt of Notice from LME Clear requiring it to replenish its Default Fund Contribution, where LME Clear requires such replenishment in order to ensure that the Default Fund does not fall below the Relevant DF Minimum Threshold (a "**Stabilisation Replenishment Notice**"). The amounts payable by a non-defaulting Member pursuant to one or more Stabilisation Replenishment Notices shall be as determined by LME Clear, subject that:

- (a) the total amount payable by a non-defaulting Member pursuant to one or more Stabilisation Replenishment Notices issued in respect of a single Member Default shall be limited to an amount equal to the total value of the Default Fund Contribution of that non-defaulting Member immediately prior to the Default Period (the "**Per Default Stabilisation Replenishment Cap**") and, accordingly, in the event that there is more than one Member Default during a Default Period:
 - (i) a separate Per Default Stabilisation Replenishment Cap shall be applied in respect of each Member Default; and
 - (ii) each Stabilisation Replenishment Notice must specify to which Member Default it relates; and
- (b) LME Clear may not apply any amounts contributed by a non-defaulting Member pursuant to a Stabilisation Replenishment Notice towards any Default Losses that relate to the Member Default pursuant to which the Stabilisation Replenishment Notice was issued; such amounts may only be applied by LME Clear, in accordance with Rule 10.10.1(d) or (e), towards the discharge of Default Losses that arise in respect of other Member Defaults that may arise during or after the Default Period.

10.9.6 For the purpose of this Rule 10.9, the expression "**Default Period**" means the period commencing on the issue of a Default Notice in respect of a Defaulting Member and ending on:

- (a) the date on which LME Clear issues a Circular to notify Members that the default management process in respect of that Defaulting Member has been substantially carried out; or
- (b) if a Default Notice is issued by LME Clear in respect of one or more other Members before such process has been substantially carried out in respect of the first Defaulting Member, the final date on which the default management process for all such Defaulting Members has been substantially carried out.

LME Clear will not be obliged to give such notification until satisfied that all risk to LME Clear arising from such Defaulting Member's membership of the Clearing System has ceased to exist.

After the Default Period

10.9.7 If, after the end of the Default Period, the amount of LME Clear's Dedicated Own Resources falls short of the amount required pursuant to Article 16 of the EMIR Level 1 Regulation, LME Clear will notify the Clearing House Regulator of that fact and shall:

- (a) make good the shortfall within 30 days of the date on which it arose; or
- (b) in the event that the Excess Loss was finally satisfied pursuant to Rule 10.10.2, LME Clear shall carry out an urgent business viability review (having regard to the principles set out in the Default Procedure C8) to determine whether to continue to operate the Clearing System as a central counterparty or to discontinue operation and will publish its decision by Circular, together with a Notice issued directly to each Member.

10.9.8 Upon receipt of Notice from LME Clear that the Default Period has ended, each Member shall immediately replenish in full its Default Fund Contribution to restore it to the level applicable immediately prior to the commencement of the Default Period.

10.9.9 After the end of the Default Period:

- (a) LME Clear shall, between the second (2nd) and sixth (6th) Business Day following the end of the Default Period, recalculate the size of the Default Fund and notify each Member to inform them of their revised Default Fund Contribution;
- (b) each Member may choose either (i) to continue its Membership or (ii) terminate its Membership in accordance with Rule 3.5 but shall be deemed to continue its Membership unless it gives written notice of termination to LME Clear in accordance with the Rules prior to the provision by LME Clear of notice pursuant to (a) above;
- (c) a Member that does not give written notice to LME Clear to terminate its Membership under Rule 10.10.9(b) shall, if the level of required Default Fund Contribution determined by LME Clear on the basis of its latest Default Fund calculation is higher than the level of Default Fund Contribution currently maintained by the Member with LME Clear, immediately pay to LME Clear such additional amount as is sufficient to meet its recalculated level of required Default Fund Contribution.

- (d) each Member that gives notice to terminate its Membership before the cut-off time applicable under Rule 10.10.9(b) shall immediately pay to LME Clear such amount of Collateral as LME Clear may require by way of additional margin on each Account of such Member in an amount equal to the difference between the then current Margin Requirement for such Account and the amount calculated by LME Clear to represent the worst case loss capable of being incurred on such Account by such Member as a result of it continuing to use the Clearing System during the period until the Termination Date, and will maintain such additional margin during such resignation period.

Retiring Members

10.9.10 If a Member gives written notice to LME Clear to terminate its membership of the Clearing System before the cut-off time applicable under Rule 10.10.9, then such Member:

- (a) will be entitled, after the giving of such notice, to submit further Transactions to LME Clear for Registration or Novation only for the purpose of closing its open Positions;
- (b) will maintain the additional Collateral required under Rule 10.10.9(d) in respect of its Account, which Collateral may be applied by LME Clear only in or towards the discharge of such Member's own liabilities to LME Clear (if it defaults in performing those liabilities);
- (c) will not be required to pay any additional amount towards its Default Fund Contribution under Rule 10.10.9(c); and
- (d) will be liable to contribute towards any further Loss incurred by LME Clear as a result of the failure by another Member to fulfil its obligations to LME Clear or as a result of the continued operation of the Clearing System by LME Clear which occurs in either case before the Termination Date applicable to such Member.

10.9.11 Collateral provided by way of additional margin by a Member under Rule 10.10.9(d) which has given a termination notice under Rule 10.10.8(b) will be returnable to it only after LME Clear is satisfied that all positions on the Accounts of such Member have been discharged in full and that all risk to LME Clear arising from such Member's Membership of the Clearing System has ceased to exist.

10.9.12 A Member that has given a termination notice under Rule 10.10.9(b) may not subsequently re-apply for Membership within a period of ninety (90) days following the Termination Date, unless LME Clear agrees otherwise. If a Member that has given a termination notice under Rule 10.10.9(b) subsequently applies to renew its Membership, LME Clear may impose such minimum conditions and standards as it deems appropriate.

Closure of Clearing System

10.9.13 If LME Clear elects under Rule 10.10.7(b) to discontinue the operation of the Clearing System, then

- (a) LME Clear will:

- (i) permit Open Contracts with LME Clear to be withdrawn for bilateral settlement between two Members;
- (ii) run a final settlement cycle at a time chosen by it;
- (iii) terminate all Open Contracts on a settlement date determined by LME Clear (using the methodology set out in the Default Procedures) and the price for the cash settlement of such Open Contracts shall be determined at the latest Closing Price for the Underlying Assets for such Open Contracts or, if such Closing Price is not available, the price shall be such price as the LME Clear Board determines is reasonably appropriate in the circumstances in consultation with the Board Risk Committee; and
- (iv) notify each non-defaulting Member of any amounts payable as determined by the final settlement cycle (which will be immediately paid by each such Member to LME Clear in accordance with Rule 8 (*Margin Requirement and Collateral*)),

in each case on such terms and conditions as LME Clear may determine as appropriate in the circumstances then prevailing; and

- (b) manage the discontinuance of the operation of the Clearing System, and the withdrawal of its authorisation as an authorised central counterparty under EMIR, in accordance with the wind down plan that it is required to maintain under EMIR, and in consultation with the Clearing House Regulator(s).

Each Member acknowledges and agrees that LME Clear may be required by a Clearing House Regulator to take, or refrain from taking action(s) in connection with the operation of the Clearing System during the period in which LME Clear is implementing its wind down plan and that LME Clear shall not be liable to any Member or any other person for any act taken or omitted to be taken by LME Clear on the instructions of a Clearing House Regulator.

- 10.9.14** Any steps taken by LME Clear pursuant to Rule 10.10.13 (a) above shall be without prejudice to the application of Rule 10.13 (LME Clear Default) in respect of any Member (and its Contracts) that has exercised its rights thereunder prior to LME Clear making an election under Rule 10.10.7(b).

Failure to Co-operate with LME Clear

- 10.9.15** If a Member shall fail to perform its obligations under this Rule 10.9, then without prejudice to LME Clear's rights to declare a Default Event in respect of that Member, LME Clear may take disciplinary action against the Member pursuant to Rule 3.11 (*Membership*). Any disciplinary action which LME Clear takes pursuant to Rule 3.11, or the voluntary or involuntary cessation of participation by Member, shall not affect the obligations of the Member to LME Clear or any remedy to which LME Clear may be entitled under the Rules and Applicable Law.

10.10 REFUNDS

- 10.10.1** If the amount of an Excess Loss indemnified by non-defaulting Members under Rule 10.10.1(e) or 10.10.2 is subsequently recovered by LME Clear in whole or in part, LME Clear shall notify such non-defaulting Members that contributed towards the discharge of such Excess Loss (at their last known address, if they have since ceased to be

Members) of the amount of the recovery and the amount refundable to them (a **"Refund"**) out of the amount so recovered (which shall be shared between them in the same proportions in which the Excess Loss was borne by them), provided that no Member shall be entitled to recover a greater amount than that Member contributed towards the discharge of the Excess Loss. LME Clear shall be entitled to retain any surplus amount recovered, following the reimbursement of Members.

10.10.2 Any unclaimed Refund may be invested or otherwise used by LME Clear until claimed. No Refund shall bear interest as against LME Clear.

10.10.3 Any Refund which has remained unclaimed for a period of 12 months from the date of notification under Rule 10.10.1 shall, if LME Clear so determines, be applied:

- (a) first, in making a further Refund under Rule 10.10.1 to those non-defaulting Members which have claimed their Refunds until they have received the full amount indemnified by them in respect of the Default Loss to which the Refund relates; and
- (b) secondly, the balance shall cease to be refundable by LME Clear and shall thereafter belong to LME Clear absolutely and be available for use by LME Clear in its operation of the Clearing System.

10.11 INDIRECT CLIENT PORTING

Definitions

10.11.1 In this Rule 10.12:

- (a) **"Client Porting Request"** means a request by a Member for LME Clear to take the steps set out in Rule 10.12.5 or Rule 10.12.7;
- (b) **"Client Termination Event"** has the meaning set out in Rule 10.12.2(b);
- (c) **"Defaulting Clearing Client"** means the Clearing Client in respect of which a Client Termination Event has occurred;
- (d) **"Direct Client Transfer"** means a transfer of Transferring Indirect Clients to a direct Client-relationship with the Member, and the allocation of such Transferring Indirect Clients to a Replacement Direct Client Account, in accordance with Rule 10.12.7;
- (e) **"Original Indirect Client Account"** means the Indirect Individual Segregated Client Account or Indirect Omnibus Segregated Client Account (as applicable) maintained by the Member for the Defaulting Clearing Client in respect of the Transferring Indirect Clients;
- (f) **"Replacement Clearing Client"** means a Clearing Client that agrees to accept responsibility to the Member for the Client Trades of the Transferring Indirect Clients;
- (g) **"Replacement Clearing Client Transfer"** means a transfer of Transferring Indirect Clients to a Replacement Clearing Client, and the allocation of such Transferring Indirect Clients to a Replacement Indirect Client Account, in accordance with Rule 10.12.5;

- (h) **"Replacement Direct Client Account"** means an Indirect Individual Segregated Client Account or Indirect Omnibus Segregated Client Account (as applicable) established by a Member in order to record the assets and positions relating to Transferring Indirect Clients, where such Account is established on the basis that such Transferring Indirect Clients shall be treated as direct Clients of the Member;
- (i) **"Replacement Indirect Client Account"** means an Indirect Individual Segregated Client Account or Indirect Omnibus Segregated Client Account (as applicable) established by a Member in respect of a Replacement Clearing Client in order to record the assets and positions relating to Transferring Indirect Clients;
- (j) **"Transferring Indirect Clients"** means the Indirect Clients that are the subject of a Client Porting Request.

Client Termination Events and Client Porting Requests

10.11.2 In the event that:

- (a) a Member has established an Indirect Individual Segregated Client Account or an Indirect Omnibus Segregated Client Account for a Clearing Client in respect of one or more Indirect Clients;
- (b) any event occurs in relation to the Clearing Client that gives rise to a right for the Member or the Clearing Client to terminate, or results in the automatic termination, all of the Client Trades between the Member and the Clearing Client (including, for the avoidance of doubt, where the Clearing Client becomes insolvent or any Office-Holder is appointed in respect of the Clearing Client) and such Client Trades are, accordingly, terminated or either party provides notice to the other to terminate such Client Trades (the circumstances described in this paragraph (b) being a **"Client Termination Event"**); and
- (c) such Client Trades have been Registered in the Indirect Individual Segregated Client Account or Indirect Omnibus Segregated Client Account (as applicable) maintained by the Member in respect of such Clearing Client, such that there are Open Contracts between LME Clear and the Member allocated to such Account,

then the Member may issue a Client Porting Request to LME Clear.

10.11.3 The Member shall specify in the Client Porting Request:

- (a) whether the transfer of the Transferring Indirect Clients shall be to:
 - (i) a Replacement Indirect Client Account; or
 - (ii) a Replacement Direct Client Account; and
- (b) whether the Collateral allocated to the relevant Original Indirect Client Account shall be transferred to the Replacement Indirect Client Account or the Replacement Direct Client Account (as applicable).

10.11.4 Within twelve (12) Business Hours of receipt of a Client Porting Request, LME Clear shall determine whether a Replacement Clearing Client Transfer or a Direct Client Transfer (as applicable) is possible and shall notify the Member:

- (a) whether such a transfer may be made; and
- (b) of any conditions that LME Clear considers, acting reasonably, must be satisfied in order to enable LME Clear to effect such transfer; and
- (c) the time period within which all such conditions must be satisfied.

LME Clear may not refuse a transfer pursuant to a Client Porting Request where the conditions in Rule 10.12.5 or 10.12.7 (as applicable) and Rule 10.12.9 are satisfied.

Transfer to Replacement Clearing Client

10.11.5 In the event that the Member notifies LME Clear that all the Indirect Clients are to be transferred to a single Replacement Clearing Client then, subject to Rule 10.12.4, LME Clear will transfer to the Replacement Indirect Client Account all Open Contracts and the associated Positions and, where applicable, Collateral recorded to the Original Indirect Client Account, provided that:

- (a) the Replacement Clearing Client is a Client of the Member; and
- (b) the Member has, in respect of such Replacement Clearing Client established Replacement Indirect Client Account that is of an equivalent type to the Original Indirect Client Account;
- (c) the Member has satisfied all requirements applying to the establishment of such Replacement Indirect Client Account as a Client Account under these Rules;
- (d) LME Clear receives written notification from the Replacement Clearing Client, in such form as LME Clear determines acceptable and within such period as LME Clear specifies following its receipt of the Client Porting Request, that it agrees to act as the Replacement Clearing Client in respect of all the Indirect Clients allocated to the Original Indirect Client Account; and
- (e) the general conditions in Rule 10.12.9 are satisfied.

10.11.6 In the event that LME Clear determines, for whatever reason, that it is not possible to effect a Replacement Clearing Client Transfer pursuant to Rule 10.12.5, LME Clear may decline to act on the Client Porting Request.

Transfer to Direct Clearing Arrangement

10.11.7 In the event that the Member notifies LME Clear that it wishes to establish a Replacement Direct Client Account in respect of the Transferring Indirect Clients then, subject to Rule 10.12.4, LME Clear will transfer to the Replacement Direct Client Account all Open Contracts and the associated Positions and, where applicable, Collateral recorded to the Original Indirect Client Account (provided that the general conditions in Rule 10.12.9 are satisfied). LME Clear will permit such transfers only to a type of Replacement Direct Client Account that provides an equivalent level of segregation for the Transferring Indirect Client(s) as was provided under the Original Indirect Client Account.

Responsibilities of Member

- 10.11.8** LME Clear shall be entitled to treat any Client Porting Request as having been made by the Member with the full consent of all the Indirect Clients allocated to the relevant Account and shall not be under any obligation to the Member, any Client, any Indirect Client or any other person to make further enquiries regarding the wishes of the Indirect Clients. Accordingly, it shall be the responsibility of the Member to ensure that:
- (a) the Transferring Indirect Clients allocated to the Account that is the subject of the Client Porting Request:
 - (i) are notified of:
 - (1) the fact that the Client Porting Request has been made by the Member in respect of the Account(s) allocated to the Clearing Client;
 - (2) the nature of the transfer requested by the Member;
 - (3) the conditions LME Clear requires to be satisfied in order to enable LME Clear to effect such transfer; and
 - (4) the time period within which the conditions to the transfer must be satisfied; and
 - (ii) do not object to the Client Porting Request;
 - (b) the Member has made, prior to LME Clear giving effect to any Client Porting Request, such arrangements with the Transferring Indirect Clients and any Replacement Clearing Client as are necessary and appropriate to enable the Member and any Replacement Clearing Client to facilitate:
 - (i) the clearing of Client Trades in respect of such Indirect Clients (including the transferring Client Trades) via the Clearing System; and
 - (ii) either:
 - (1) the transfer of Collateral from the relevant Account of the Member allocated to the Defaulting Clearing Client to the Replacement Indirect Client Account or the Replacement Direct Client Account; or
 - (2) the deposit of sufficient Collateral to the Replacement Indirect Client Account or the Replacement Direct Client Account to cover the risks associated with the Client Trades to be transferred to such Account.

General Conditions to Transfer

- 10.11.9** LME Clear shall not be required to effect a Replacement Clearing Client Transfer or a Direct Client Transfer unless:
- (a) the Member has established the appropriate type of Account to receive the assets and positions in respect of the Transferring Indirect Clients;

- (b) the Member provides to LME Clear evidence or written representations, satisfactory to LME Clear (acting reasonably), that a Client Termination Event has occurred in relation to the relevant Client Trades, pursuant to a Notice which is copied to the Indirect Clients allocated to the Original Indirect Client Account;
- (c) the Member provides to LME Clear a copy of the notice given by the Member to the Clearing Client in accordance with Rule 10.12.8(a), copied to the Indirect Clients allocated to the Original Indirect Client Account, notifying the Clearing Client of its intention to effect a Replacement Clearing Client Transfer or a Direct Client Transfer (as applicable) and specifying that, in the event that such transfer does not occur for any reason, LME Clear may decline to act on the Client Porting Request;
- (d) where requested by LME Clear, the Member provides to LME Clear an indemnity, in such form as LME Clear determines acceptable; and
- (e) any conditions notified by LME Clear pursuant to Rule 10.12.4 above have been satisfied.

General Discretion for LME Clear

10.11.10 LME Clear shall, upon becoming aware of any Client Termination Event, have a general discretion to effect a transfer of the Open Contracts and the associated Positions and Collateral recorded to the Original Indirect Client Account to:

- (a) a Replacement Indirect Client Account, pursuant to a Replacement Clearing Client Transfer; or
- (b) a Replacement Direct Client Account, pursuant to a Direct Client Transfer;

in each case notwithstanding that any requirement or condition specified in this Rule 10.12 may not have been satisfied, **provided that:**

- (i) LME Clear considers, acting reasonably, that such transfer or re-designation is desirable in the interests of (i) protecting the integrity or stability of the Clearing System or any Approved Transaction Platform or (ii) protecting the interests of the Indirect Clients allocated to the Original Indirect Client Account; and
- (ii) the Member consents to such transfer or re-designation; and
- (iii) in the case of a Replacement Clearing Client Transfer, LME Clear has written confirmation from the Member or from the Replacement Clearing Client that the Replacement Clearing Client consents to the transfer.

10.12 LME CLEAR DEFAULT

10.12.1 For the purpose of this Rule 10.13:

- (a) an "**LME Clear Payment Default**" shall arise in the event that LME Clear fails to make a payment or delivery to a Member when it is due and payable or

deliverable under the Rules and such failure is not remedied within thirty (30) days of LME Clear's receipt of notice of such failure from the affected Member, but shall not arise where:

- (i) the Member has, prior to the date on which such payment or delivery became due, become a Defaulting Member;
 - (ii) LME Clear has satisfied or otherwise discharged its obligation to make payment or delivery pursuant to alternative means permitted by the Rules;
 - (iii) LME Clear's obligation to make the payment or delivery is not a payment or delivery obligation of LME Clear to the Member that is governed by the Rules;
 - (iv) LME Clear's failure to make the payment or delivery is the result of a Force Majeure Event;
 - (v) the obligation of LME Clear to make payment or delivery is the subject of action taken by LME Clear under Rule 2.4 (*Force Majeure*) in the event of a Force Majeure Event or circumstances falling within Rule 15 (*Emergencies*) of Part 3 of the LME Rules; or
 - (vi) a Default Period has arisen in relation to any Member, to the extent that the thirty (30) day period during which LME Clear's failure falls within such Default Period;
- (b) an "**LME Clear Insolvency Default**" shall arise in the event that LME Clear:
- (i) makes an application to a court of competent jurisdiction, or an order is made by such court, for the purpose of: (i) declaring LME Clear to be bankrupt or insolvent; (ii) approving or granting a petition for a moratorium, reorganisation, arrangement (including pursuant to a scheme of arrangement), liquidation, dissolution, adjustment or composition of or in respect of LME Clear under any Applicable Law; (iii) appointing an administrator, assignee, custodian, examiner, liquidator, provisional liquidator, receiver, sequestrator, supervisor, nominee or trustee or other similar official in respect of LME Clear or any substantial part of its property, assets or undertaking; (iv) ordering the winding up, liquidation or bankruptcy of LME Clear; or (v) consenting to the institution by LME Clear or any person of proceedings for it to be adjudicated, bankrupt or insolvent or for it to be wound up or liquidated; provide that this paragraph (b)(i) shall not apply to any winding up petition which LME Clear reasonably considers to be frivolous or vexatious; or
 - (ii) LME Clear commences any proceedings, or consents to any application, for, or becomes subject to, the appointment of an administrator, assignee, custodian, examiner, liquidator, provisional liquidator, receiver, sequestrator, supervisor, nominee, trustee or other similar official in respect of the Member or any substantial part of its property, assets or undertaking;

but shall not arise:

- (iii) where and to the extent that such circumstances arise solely as a consequence of any corporate restructuring of LME Clear or its Group (including any merger, consolidation or amalgamation of LME Clear or its business with that of any other party); or
- (iv) where any member of LME Clear's Group, other than LME Clear, is the subject of the circumstances described in (i) or (ii) above,

and an LME Clear Payment Default and an LME Clear Insolvency Default shall, subject to Rule 10.13.2 below, each constitute an "**LME Clear Default**"; and

- (c) "**Resolution Authority**" shall mean the Bank of England, acting in its capacities as the Regulator of LME Clear and as the authority with power to exercise powers with respect to LME Clear pursuant to, and for the purposes of, Part 1 (*Special Resolution Regime*) of the Banking Act 2009, as modified and supplemented by sections 89B to 89G of that Act.

10.12.2 The exercise of stabilisation powers under the Banking Act 2009 by the Resolution Authority in respect of LME Clear or any entity in the same Group as LME Clear and the occurrence of any event directly linked to the exercise of such powers shall not constitute the basis for an LME Clear Default (whether as an LME Clear Payment Default or an LME Clear Insolvency Default) provided that the substantive obligations of LME Clear under the Rules, including payment and delivery obligations and the provision of collateral, continue to be performed.

10.12.3 In the event that an LME Clear Payment Default occurs and provided that the circumstances giving rise to the LME Clear Payment Default are continuing, the Member to which the relevant payment is due may issue a Close Out Netting Notice to LME Clear.

10.12.4 In the event that an LME Clear Insolvency Default occurs and provided that the circumstances giving rise to the LME Clear Insolvency Default are continuing, any Member other than a Defaulting Member may issue a Close Out Netting Notice to LME Clear.

10.12.5 In the event that a Member issues to LME Clear a valid Close Out Netting Notice in respect of an LME Clear Default, then:

- (a) the Close Out Netting Notice shall be deemed to have been received by LME Clear no earlier than the time determined in accordance with Rule 2.8 (*Notices*) for the method by which the Notice was sent;
- (b) within five (5) Business Days of receipt of a Close Out Netting Notice LME Clear shall specify the date from which all Contracts between LME Clear and the Member that issued the Close Out Netting Notice shall be liquidated and terminated (the "**Close Out Date**"). The Close Out Date shall not be less than thirty (30) Business Days following LME Clear's receipt of the Close Out Netting Notice;
- (c) on the Close Out Date, all Open Contracts between the Member and LME Clear shall automatically terminate, such that neither LME Clear nor the Member shall be obliged to perform any further Payment Obligations or Delivery Obligations in

respect of such Open Contracts, save for the settlement of the Close Out Amounts calculated in accordance with this Rule 10.13;

- (d) LME Clear shall, on or as soon as reasonably practicable following the Close Out Date (and in any event within ten (10) Business Days of the Close Out Date), calculate the respective rights and liabilities of LME Clear and the Member in relation to the Contracts allocated to each Account of the Member that would (save for (c) above) be Open Contracts, in order to determine, in respect of each Account, a net amount due to the Member or LME Clear (the **"Close Out Amount"**).

10.12.6 In order to determine the Close Out Amount for an Account:

- (a) LME Clear shall calculate, in respect of that Account:
 - (i) the aggregate rights of the Member to receive payments from LME Clear, whether current, contingent or future (an **"Aggregate Member Entitlement"**); and
 - (ii) the aggregate obligations of the Member to make payments to LME Clear, whether current contingent or future (an **"Aggregate Member Obligation"**),

in each case on the basis that:

- (1) all costs necessarily or reasonably incurred by LME Clear in liquidating and terminating any Open Contracts, or in calculating any amounts payable, in accordance with this Rule 10.13 shall be for the account of the Member and shall be added to the Aggregate Member Obligation;
 - (2) all payments that would be made in settlement or performance of any Contract shall be determined on the basis that such Contracts shall be assumed to have been required to be settled or performed on the Close Out Date in accordance with the Closing Prices for the Eligible Products under such Contracts published on the Business Day immediately preceding the Close Out Date; and
 - (3) the Aggregate Member Entitlements shall be expressed as a single sum in the Base Currency, as a positive figure;
 - (4) the Aggregate Member Obligations shall be expressed as a single sum in the Base Currency, as a negative figure;
 - (5) in the event that, in order to make such calculation, LME Clear needs to convert any amounts denominated in any other currency into the Base Currency in order to calculate the Aggregate Member Entitlements and Aggregate Member Obligations, such conversion shall be effected at such rate prevailing on the date of calculation as LME Clear may reasonably determine, in accordance with Rule 2.15 (*Currency Conversion*);
- (b) the Aggregate Member Obligation on each Account shall be set off against the Aggregate Member Entitlement on that Account in order to produce a single net

sum for that Account, such net sum being the Close Out Amount in respect of that Account.

10.12.7 LME Clear shall notify the Member of the Close Out Amounts calculated in respect of each Account, and by which party each Close Out Amount is payable, promptly after LME Clear has calculated the Close Out Amounts for all of the Member's Accounts with a written statement containing a detailed explanation of the calculations applied by LME Clear to determine the Close Out Amounts.

10.12.8 In the event that the Close Out Amount in respect of an Account is:

- (a) a positive amount, LME Clear shall pay such Close Out Amount to the Member;
 - (b) a negative amount, the Member shall pay such Close Out Amount to LME Clear,
- in each case as soon as reasonably practicable, and in any event no later than five (5) Business Days following the Business Day on which LME Clear notified the Member of such Close Out Amount in accordance with Rule 10.13.6 above.

10.12.9 Any Close Out Amount that is not paid when due in accordance with Rule 10.13.7 above shall accrue interest, at the Relevant Rate for each day that such Close Out Amount remains un-paid.

10.12.10 For the avoidance of doubt, the Member's rights under this Rule 10.13 are additional to, and shall not be construed to limit or exclude any other rights that the Member may have under these Rules or Applicable Law.

10.13 ALLOCATION OF NON-DEFAULT LOSSES

10.13.1 In this Rule 10.14:

- (a) **"Maximum Potential Non-Default Losses"** means, at any time, the total exposure of LME Clear to Non-Default Losses being the value at that time of LME Clear's investment portfolio (being all investments excluding Securities Collateral provided by Members) and all credit balances of cash accounts held by LME Clear;
- (b) **"NDL Payment"** means, in relation to a Non-Default Loss, a payment made or (as the case may be) to be made by a Member to LME Clear equal to:
 - (i) the Non-Default Loss, less the amount of LME Clear's own funds applied by LME Clear pursuant to Rule 10.14.2,
 - (ii) multiplied by the Member's NDL Percentage;
- (c) **"NDL Payment Period"** means, in relation to a demand by LME Clear for NDL Payments from the Members, the period of 30 days ending on the third day before the date of the demand;
- (d) **"NDL Percentage"** means, in relation to a Member, the proportion (expressed as a percentage) that (1) the daily average of the Member's initial margin over the NDL Payment Period bears to (2) the daily average of all Members' initial margin over the NDL Payment Period;

- (e) **"Net Recoveries"** means, in relation to a Non-Default Loss, any recovery or receipt of any kind (including by way of set-off) made by LME Clear relating to or arising from the circumstances giving rise to the Non-Default Loss;
- (f) **"Non-Default Loss"** means a Loss incurred by LME Clear, including any loss of any asset or cash, pursuant to a default by:
 - (i) any counterparty to any transaction undertaken by LME Clear in connection with LME Clear's treasury and/or investment management activities;
 - (ii) any issuer of any securities (including Investment Securities) that is the subject of LME Clear's treasury and/or investment management activities;
 - (iii) any issuer of any securities (including Investment Securities) held by LME Clear as Asset Cover or as an asset of LME Clear;
 - (iv) any bank, financial institution or other person appointed by LME Clear to hold cash, including Cash Cover; and/or
 - (v) any Settlement Bank, Custodian, Securities System Operator, investment agent or other person holding any Asset Cover or any assets belonging to LME Clear.

10.13.2 If a Non-Default Loss occurs, LME Clear shall meet that loss in the following order:

- (a) first, from LME Clear's own funds (subject to Rule 10.14.3); and
- (b) then, by making demand on every Member for an NDL Payment (subject to Rule 10.14.4).

10.13.3 The total amount that LME Clear is obliged under Rule 10.14.2(a) to deduct from its own funds shall not exceed the amount of regulatory capital maintained by LME Clear from time to time for the purpose of meeting its obligations pursuant to Article 4 (*CCP capital requirements for credit, counterparty and market risks*) of the EMIR Level 2 Capital Requirements.

10.13.4 Upon receiving a demand for an NDL Payment from LME Clear pursuant to Rule 10.14.2(b), each Member shall immediately pay to LME Clear such sum in full in the currency demanded without set-off, withholding, counterclaim or deduction of any kind and, without prejudice to Rule 2.17 (Set-Off), LME Clear may, without further notice to or consent from each such Member, immediately debit all or part of any such demanded NDL Payment from the Collateral maintained on the House Account of the Member.

10.13.5 In the event that, subsequent to the exercise of its powers under this Rule 10.14, LME Clear makes any Net Recoveries relating to the underlying circumstances which gave rise to any Non-Default Loss, LME Clear shall distribute such Net Recoveries on the following basis:

- (a) first, to all Members in proportion to the NDL Payments made by each such Member in relation to such Non-Default Loss, and limited to the amount of NDL Payments made by each such Member; and

(b) then, to LME Clear for its own account.

- 10.13.6** Any determination made by LME Clear pursuant to this Rule 10.14 shall be final and binding on each Member and shall not be capable of challenge or subject to dispute.
- 10.13.7** The procedure set out in this Rule 10.14 shall apply each time there is a Non-Default Loss.
- 10.13.8** Following a Non-Default Loss, LME Clear shall use reasonable efforts to make Net Recoveries.
- 10.13.9** LME Clear will provide a monthly report to each Member setting out the maximum liability at that time of the Member for Non-Default Losses being the sum resulting from multiplying the Member's NDL Percentage with the Maximum Potential Non-Default Losses.

RULE 11 - SETTLEMENT FINALITY

11.1 IRREVOCABILITY OF TRANSFER ORDERS

11.1.1 For the purposes of the Settlement Finality Regulations, LME Clear shall specify the time at which Transfer Orders:

- (a) take effect and are entered into the Clearing System; and
- (b) become irrevocable.

11.1.2 A Transfer Order shall not be revoked at any time after it becomes irrevocable as in accordance with Rule 11.1.1(b).

11.1.3 The specification of the matters described in Rule 11.1.1 shall be as set out in the Settlement Finality Procedure.

LME CLEAR LIMITED

PROCEDURES

MEMBERSHIP PROCEDURE

PART A – INTRODUCTION AND GENERAL MATTERS

1. INTRODUCTION

1.1 These Membership Procedures form part of, and shall be read in conjunction with, the Rules and are legally binding on Members. Terms defined in the Rulebook have the same meaning in these Membership Procedures. In the event of any conflict or inconsistency between the Rules and these Membership Procedures, the Rules shall prevail.

1.2 These Membership Procedures are arranged in to the following Parts:

- (a) Part A: definitions;
- (b) Part B: applications for Membership and on-going administration of Membership;
- (c) Part C: procedures for the handling of complaints;
- (d) Part D: disciplinary procedures; and
- (e) Part E: appeals procedures.

2. DEFINITIONS

2.1 In these procedures, the following words and expressions shall bear the means set opposite them:

"Act of Misconduct" means:

- (a) any breach of the Rules;
- (b) a failure to pay any fine or order for costs imposed by a Disciplinary Committee that has not been overturned by an Appeal Committee;
- (c) providing information (including information for the purpose of obtaining Membership) which is false, misleading or inaccurate in a material particular; and
- (d) ceasing to meet the Membership Criteria without notifying LME Clear;

"Additional Capital" means: (a) equity reserves which do not constitute Permanent Capital (distributable or otherwise); (b) profit and loss reserves; (c) redeemable shares; and (d) subordinated loans (subject to the conditions in Membership Procedure B5.6 to 5.8;

"Appeal Committee" means a committee appointed pursuant to Membership Procedure E1.1;

"Application Documentation" means the standard form application documentation, including the application questionnaire, required by LME Clear to be submitted by each Applicant for Membership, in such revised or updated form that LME Clear may maintain from time to time;

"Defence" has the meaning given in Membership Procedure D3.1 of these Procedures;

"Disciplinary Committee" means a committee appointed pursuant to Membership Procedure D4.1;

"Enforcement Notice" has the meaning given in Membership Procedure D2.2;

"LME Clear Membership Application Form" means the application form that LME Clear provides to potential applicants seeking to obtain Membership of LME Clear;

"Independent Complaints Commissioner" means the independent person appointed in accordance with Membership Procedure C4.2;

"Intangible Fixed Assets" means non-financial fixed assets that do not have physical substance but are identifiable and controlled by the entity through custody or legal rights (e.g. goodwill; intellectual property);

"LME Clear Compliance Department" means the department within LME Clear that is responsible for ensuring that LME Clear adheres to all relevant laws and regulatory requirements;

"Net Capital" means Permanent Capital plus Additional Capital, less Intangible Fixed Assets;

"NoI" has the meaning given in Membership Procedure D1.3 of these Procedures;

"Permanent Capital" means: (a) issued and fully-paid ordinary share capital; (b) issued and fully-paid preference share capital; and (c) funds in a share premium account and reserves not available for distribution (for the avoidance of doubt, if the relevant reserves are in deficit, the negative amount will be deducted from items (a) and (b) to calculate Permanent Capital); and

"Relevant Parties" means:

- (e) the person or Member found to have committed the Act of Misconduct;
- (f) all Members; and
- (g) in all cases, the appropriate regulatory or other authorities, as LME Clear deems appropriate.

2.2 Any capitalised terms which are not defined in Membership Procedure A2.1 shall have the meaning given to them in Rule 1 (*Definitions and Interpretation*).

PART B – MEMBERSHIP

1. MEMBERSHIP CATEGORIES

1.1 The categories of Membership are as set out in Rule 3.1.

2. APPLICATIONS FOR MEMBERSHIP

2.1 Applications for Membership of LME Clear shall be made by providing LME Clear with:

- (a) two original copies of the signed and undated Membership Agreement with evidence of authorised signatories;
- (b) two original, signed and undated, copies of each Security Document specified by LME Clear, with evidence of authorised signatories;
- (c) the information and documents specified in the Application Documentation; and
- (d) the application fee specified by LME Clear in the Application Documentation or on the Website.

2.2 The Applicant shall specify in its application which category of Membership it is seeking to obtain.

2.3 The Applicant shall specify in its application for Membership which types of business and Eligible Products it is seeking to clear through the Clearing System.

2.4 In relation to any application for Membership, LME Clear may:

- (a) make all such enquiries about the Applicant and the Applicant's connected persons as LME Clear considers appropriate;
- (b) request that the Applicant provides such information as LME Clear considers relevant;
- (c) take all necessary steps to verify any information provided by the Applicant;
- (d) carry out a due diligence visit to the Applicant's premises in order to establish whether the Membership Criteria are satisfied.

2.5 The Applicant shall provide LME Clear with such additional information and respond to such enquiries as LME Clear may require under Membership Procedure B2.4.

2.6 The information provided by an Applicant to LME Clear shall be subject to the confidentiality provisions and rights of disclosure set out in Rule 2.5 (Confidentiality).

2.7 LME Clear is under no obligation to process or make a decision in relation to an application within a specific time frame. However, LME Clear will ordinarily aim to make a decision on an application with eight (8) weeks of receipt from the Applicant of an application that LME Clear considers to be complete in all respects.

2.8 An application for Membership shall be dependent on the Applicant demonstrating that it meets the eligibility criteria set out in Membership Procedures B3 and 4.

2.9 LME Clear may approve an application for Membership on a conditional basis, subject to the Applicant fulfilling certain conditions within a specified time frame. LME Clear may specify any of the Membership Criteria as a condition that can be satisfied between the

time of conditional approval and the activation of the Member's ability to commence the submission of Transactions to LME Clear. For the avoidance of doubt, LME Clear will not permit a Member to commence the submission of Transactions to LME Clear until the Member has deposited the required Default Fund Contribution to LME Clear.

- 2.10 If the Applicant does not fulfil the relevant conditions within the specified time frame, LME Clear may elect to deem the relevant application for Membership to have been withdrawn. Where LME Clear makes such an election, the Applicant shall be required to re-apply for Membership if it still wishes to become a Member.
- 2.11 When an Applicant is granted Membership, it will receive:
- (a) notification that its Membership application has been accepted;
 - (b) a copy of the Membership Agreement that is signed and dated by LME Clear; and
 - (c) details of any specific conditions (beyond those contained in the Membership Agreement) relating to the Applicant's Membership.
- 2.12 LME Clear may place restrictions on an Applicant's Membership, so that the Applicant would only be permitted to clear certain types of Transactions through LME Clear.
- 2.13 In the event that LME Clear determines that it will reject an Applicant's application for Membership:
- (a) LME Clear shall notify the Applicant in writing and shall specify the reasons for such rejection; and
 - (b) the Applicant shall have a right to appeal the decision by submitting a written request to LME Clear for a hearing by the Appeal Committee to determine whether the application should have been rejected in accordance with Part 5 of these Procedures.
- 2.14 In the event that LME Clear determines that it is necessary to apply different, or additional, criteria to any category of Applicant, in order to enable LME Clear to control the risks to the Clearing System posed by such Applicants, such criteria shall be set out in the Membership Procedures and shall be applied on a consistent basis to all Applicants to which such criteria relate.

3. MEMBERSHIP CRITERIA

- 3.1 An application for Membership shall be subject to the Applicant:
- (a) meeting the conditions (if any) in the Membership Agreement;
 - (b) satisfying the criteria set out in the Application Documentation;
 - (c) satisfying the relevant criteria for the type of business the Applicant wishes to clear, as set out in Membership Procedure B4;
 - (d) satisfying the minimum Net Capital requirements, as set out in Membership Procedure B5 or such greater capital requirements as may be set by LME Clear;
 - (e) maintaining appropriate banking arrangements satisfying any specific requirements published by LME Clear from time to time or specifically notified to the Applicant;

- (f) maintaining appropriate arrangements with the Approved Delivery Facilities specified in the Clearing Procedures for those Eligible Products that the Applicant wishes to clear;
- (g) having executed all relevant documentation required by the Approved Transaction Platforms for the Eligible Products that the Applicant wishes to clear and maintaining such arrangements in place at all times;
- (h) complying with all Applicable Law (including maintaining all required regulatory authorisations in all jurisdictions in which it is required to maintain such authorisations);
- (i) maintaining an administrative support function that:
 - (i) is appropriately separated from the Applicant's trading desks;
 - (ii) has robust systems and records; and
 - (iii) includes staff, adequate in number and experience, who understand the business of LME Clear and the Member;
- (j) meeting the technical equipment requirements as specified by LME Clear from time to time;
- (k) having adequate personnel, facilities, systems and procedures to enable the Applicant to satisfactorily handle transactions and communications with LME Clear, fulfil anticipated commitments to, and meet the operational requirements of, LME Clear with necessary promptness and accuracy;
- (l) successfully completing a default management 'fire-drill' in accordance with such requirements as LME Clear may have notified to the Applicant;
- (m) completing any other testing and training requirements as specified by LME Clear from time to time; and
- (n) being approved as a Member by the Executive Risk Committee.

3.2 It shall be a condition of Membership that each Member must at all times comply with the Membership Criteria.

4. REQUIREMENTS FOR SPECIFIC TYPES OF BUSINESS

4.1 For the purpose of this Procedure, On-Exchange Business and OTC Business shall each be a **"type of business"**.

On-Exchange Business

4.2 Where the Applicant intends to clear On-Exchange Business, the Applicant shall be (or have applied to become):

- (a) a Ring Dealing member or an Associate Broker Clearing Member of LME where the application is to become a General Clearing Member; or
- (b) an Associate Trade Clearing Member of LME where the application is to become an Individual Clearing Member.

- 4.3 The minimum Net Capital requirements applicable to any given Member to clear On-Exchange Business may vary depending on the Member's membership category. (The requirements may be satisfied in foreign currency equivalents). As of the date of this current issue of the Rules Members shall hold a minimum Net Capital of £5 million.

OTC Business

- 4.4 Where the Applicant intends to clear OTC Business in respect of Bullion, the Applicant shall have executed all relevant membership documentation issued by LME in order to access the services of LME Smart.
- 4.5 The minimum Net Capital requirements applicable to any given Member to clear OTC Business may vary depending on the Member's Membership category. (The requirements may be satisfied in foreign currency equivalents). As of the date of this current issue of the Rules, all Members shall hold a minimum Net Capital of £5 million.

Regulatory Status for General Clearing Members

- 4.6 Any Applicant that intends to become a General Clearing Member:
- (a) shall, unless LME Clear agrees otherwise, be:
 - (i) an authorised person or exempt person within the meaning of Part III of FSMA that is permitted under Applicable Law to arrange, or otherwise clear transactions with or for third parties; or
 - (ii) a credit institution as defined in Article 4.1.1 of Regulation (EU) No 575/2013 of the European Parliament and of the Council; or
 - (iii) an investment firm as defined in Article 4.1.1 of Directive 2004/39/EC of the European Parliament and of the Council other than a person to whom Article 2 applies; or
 - (iv) any undertaking whose head office is outside the European Community and whose functions correspond to those of a credit institution or investment firm as defined in (ii) and (iii) above; and
 - (b) shall be regulated in the conduct of its business under the securities and/or banking legislation of an EEA State or of any other country or countries acceptable to LME Clear, and shall not be prohibited by such legislation or its Regulator from becoming a General Clearing Member or from performing the obligations of a Member under the Rules.

5. NET CAPITAL REQUIREMENTS AND CALCULATION

Minimum Net Capital Requirements

- 5.1 Members shall at all times hold sufficient capital to meet their minimum Net Capital requirements.

- 5.2 Where a Member clears for multiple types of business, the minimum Net Capital requirement shall be the higher of the minimum Net Capital requirements applicable to the Member for each of those types of business.⁸

Additional Net Capital Requirements

- 5.3 LME Clear may require a Member to hold additional Net Capital where, in the opinion of LME Clear, the Member's minimum Net Capital is insufficient having regard to the amount and type of business that the Member carries out.

Permanent Capital and Additional Capital

- 5.4 LME Clear may vary the definition of Permanent Capital or Additional Capital as it thinks appropriate.
- 5.5 Members should contact LME Clear if they are uncertain as to whether certain instruments fall within the definition of Permanent Capital or Additional Capital.

Acceptability of Subordinated Loans

- 5.6 A Member may include subordinated loans as part of its Additional Capital provided that:
- (a) the debt under such loan constitutes no more than 50% of its minimum Net Capital requirement, unless LME Clear has provided its prior written consent to such debt constituting a greater percentage; and
 - (b) the Member undertakes that the loan will not be repaid without the prior consent of LME Clear.
- 5.7 In the event that a Member intends:
- (a) for the debt under a subordinated loan to constitute more than 50% of its minimum Net Capital requirement; or
 - (b) to repay a subordinated loan that is included as part of its Additional Capital,
- the Member shall provide LME Clear with not less than 10 Business Days' prior notice of its intention to do so, specifying the date on which it intends such arrangement to take effect, and requesting LME Clear's consent to implement such arrangement. LME Clear may, acting reasonably, specify such conditions as LME Clear considers appropriate to the granting of any such consent.
- 5.8 For the avoidance of doubt, a Member may include subordinated loans from a parent company as part of its Additional Capital.

Acceptability of other long-term loans

- 5.9 LME Clear may recognise long-term loans other than subordinated loans in the calculation of Additional Capital.

⁸ **Explanatory Note:** The current position is that the NCR shall be the higher of the various types. However, in future, this procedure may be amended to reflect categories of business for which a stand-alone capital requirement may apply.

Loan terms

- 5.10 Where loans (whether subordinated or otherwise) are included in a Member's Net Capital, LME Clear may require the relevant Member to provide LME Clear with details of the terms governing the relevant loans.

6. ON-GOING REPORTING REQUIREMENTS

General requirements

- 6.1 Each Member shall provide the following information to LME Clear when reasonably requested by LME Clear:
- (a) such information in relation to the Member, its Clients or its Transactions as LME Clear may request (which may, for the avoidance of doubt, include information on commercial, regulatory or compliance matters and any information requested pursuant to Rule 5.3.1 or 5.3.3 (*Client Business and Portability Arrangements*));
 - (b) such information as LME Clear may specify regarding the Member's ability to continue to comply with the Membership Criteria;
 - (c) up-to-date information relating to the documentation or information provided by the Member as part of its application for Membership (including without limitation the categories of information specified in Membership Procedure B3);
 - (d) such information as LME Clear may request regarding the owners and controllers of the Member;
 - (e) such information as LME Clear may request regarding the directors and senior managers of the Member and any personnel who are responsible for the day-to-day management or operation of any function related to (i) the Transactions and Contracts that are subject to clearing by LME Clear or (ii) the Member's interaction with any aspect of the Clearing System; and
 - (f) any other information that LME Clear is permitted to request from the Member in accordance with any provision of the Rules.

For the avoidance of doubt, it shall always be reasonable for LME Clear to request information from a Member in the event that LME Clear considers that such information is necessary in order to enable LME Clear to assess the risk posed by a Member to the Clearing System or the Member's compliance with the Rules.

Financial accounts

- 6.2 Members shall provide LME Clear with a copy (in the English language) of each version of their annual financial accounts, together with a statement that their auditors have reviewed and approved the relevant financial accounts, within four (4) months of the Member's financial year-end.
- 6.3 LME Clear may also require any Member to provide the financial accounts of the Member's ultimate or immediate Parent Undertaking.

Regulatory returns

- 6.4 Unless LME Clear agrees otherwise, where a Member is regulated by the Prudential Regulation Authority or the Financial Conduct Authority, Members shall provide LME

Clear with copies of all their regulatory returns (e.g. regulatory returns made to the Prudential Regulation Authority or the Financial Conduct Authority).

- 6.5 Members shall provide LME Clear with copies of any reports or notifications to a Regulator by the Member in relation to the Member's financial status, exposure to risk and compliance with any regulatory capital requirement or other financial requirement imposed on the Member by the Regulator where such reports or notifications or the information contained therein would be materially relevant to LME Clear's assessment of the Member's financial condition, credit worthiness, or fitness to remain a Member.

7. NOTIFICATION REQUIREMENTS

General requirements

- 7.1 A Member shall promptly notify LME Clear, both orally and in writing:

- (a) if the Member at any time ceases to satisfy, or reasonably considers that it may imminently cease to satisfy, any of the Membership Criteria;
- (b) if the Member becomes the subject of any investigation, inquiry or disciplinary process by its Regulator or by any other governmental or regulatory body;
- (c) if any development occurs which would materially change the information provided to LME Clear by the Member in its application for Membership;
- (d) if any event occurs that would entitle LME Clear to exercise its rights under Rule 10 (*Default*);
- (e) if any matter arises that could affect the Member's ability to perform its obligations under the Rules;
- (f) if there is a change in the Authorised Representatives designated by the Member pursuant to Membership Procedure B8;
- (g) if there is a change in any Service Agent designated by the Member pursuant to Rule 2.12.3; and
- (h) if any circumstances arise that could result in the Member being unable to perform its obligations in respect of any Contract,

and for the avoidance of doubt, a Member shall provide to LME Clear such information as the Member may be required to provide to LME Clear in accordance with the terms of any other provision of the Rules.

Changes of Ownership

- 7.2 A Member which is a body corporate shall notify LME Clear in writing of the name of any person for the time being holding, or having a beneficial interest in, 10% or more of any class of the equity share capital of the Member or of any Parent Undertaking of the Member, and of any change in such a holding or interest, within seven days of the holding or interest, or a change therein, coming to the Member's notice.
- 7.3 The members of a partnership or an unincorporated association who are joint Members shall notify LME Clear in writing of the name of any person who becomes or ceases to be a partner of that partnership or member of that unincorporated association (as the case may be) within seven days of that event coming to that joint Member's notice.

7.4 Upon receipt by LME Clear of any notice from a Member under Membership Procedure B7.2 or 7.3, LME Clear may review the suitability of the Member for Membership of LME Clear. LME Clear may require the Member to furnish such additional information as LME Clear may from time to time consider material in the course of such review. If upon completion of the review LME Clear is not satisfied that the Member continues to satisfy the criteria for Membership of the relevant types of business to be cleared by the Member LME Clear shall consider whether to suspend the rights of the Member or to terminate its Membership.

7.5 Fall in Net Capital or shareholder funds

7.6 A Member shall immediately notify LME Clear if its Net Capital or shareholder funds fall to below 100% of:

- (a) the amount detailed in its last financial accounts; or
- (b) the Member's Net Capital requirement.

8. AUTHORISED REPRESENTATIVES

8.1 Each Member shall at all times have appointed at least one individual to act as its Authorised Representative. The Authorised Representatives appointed by a Member shall be the primary points of contact and liaison between LME Clear and the Member in relation to matters arising in connection with the operation of the Clearing System and the discharge of the parties' obligations under the Rules and Procedures.

8.2 The Member shall ensure that its Authorised Representatives are:

- (a) appropriately knowledgeable and trained in relation to those aspects of the Clearing System for which they are appointed to liaise with LME Clear;
- (b) appropriately empowered by the Member to take decisions on behalf of, and represent the interests of, the Member in relation to those aspects of the Clearing System for which they are appointed to liaise with LME Clear; and
- (c) in their interactions with LME Clear, act in an open and co-operative manner, and be honest and truthful and not mislead or conceal any material matter.

8.3 The Member shall ensure that LME Clear is at all times in receipt of up-to-date contact details (including direct telephone number, office address and email address) of each Authorised Representative currently appointed by the Member.

8.4 In the event that LME Clear notifies the Member of any concerns regarding, or objection to, any Authorised Representative appointed by the Member, the Member shall take all reasonable steps to address LME Clear's concerns. In the event that the Member is unable to adequately address LME Clear's reasonable concerns, the Member shall replace the Authorised Representative.

9. OTHER CONDITIONS

9.1 It shall be a condition of Membership for a General Clearing Member that it complies at all times with any and all reporting and information requirements applicable to the maintenance of Client Accounts, as such requirements may be specified in Rules 4 (*Accounts*) and 5 (*Client Business*), as amended from time to time.

- 9.2 LME Clear may, at any time, add to, vary or reduce the conditions that a Member shall continue to satisfy in order to retain its Membership of LME Clear where LME Clear has reasonable grounds to consider that such revised conditions are necessary in order to control the risks posed by the Member to the Clearing System. For the avoidance of doubt, LME Clear may modify the Membership Criteria applicable to a Member in order to impose additional disclosure and reporting obligations in relation to the financial affairs of the Member or its Affiliates where LME Clear has reasonable grounds for concern regarding the Member's solvency or its continuing ability to satisfy the Membership Criteria.

PART C – COMPLAINTS

1. SCOPE OF COMPLAINTS

- 1.1 LME Clear shall investigate Complaints made against LME Clear or its personnel.
- 1.2 Complaints may relate to:
 - (a) breaches of Applicable Clearing Regulations by LME Clear;
 - (b) breaches of the Rules by LME Clear; or
 - (c) acts or omissions affecting:
 - (i) the proper operation of LME Clear; or
 - (ii) the functions of LME Clear.
- 1.3 For the avoidance of doubt, any complaint by a Member about another Member shall be made to LME Clear and shall be dealt with by LME Clear in accordance with the disciplinary proceedings set out in Membership Procedure D.

2. REGISTERING A COMPLAINT

- 2.1 Complaints shall be made in writing and signed by an Authorised Representative.
- 2.2 A Complaint should:
 - (a) include sufficient information to allow LME Clear to:
 - (i) properly identify the matter that is subject to the Complaint; and
 - (ii) establish the basis for any alleged loss by the Complainant; and
 - (b) include a representation by the Complainant as to the date on which it became aware of the event that has given rise to the Complaint; and
 - (c) set out the remedy sought by the Complainant.
- 2.3 If insufficient information is provided, LME Clear may request further information.
- 2.4 Any information regarding the Complaint or obtained from the Complainant in the course of a subsequent investigation may be disclosed to third parties (for example, the Regulator) as LME Clear considers appropriate, subject to any other provision of the Rules.
- 2.5 Any Complaints shall be sent to the address set out below in an envelope marked "Complaint":

The Chief Legal and Compliance Officer
LME Clear Limited
56 Leadenhall Street
London, EC3A 2DX
United Kingdom
- 2.6 Complaints shall be made within six (6) months of the date on which the Complainant became aware of the event to which the Complaint relates, provided that no Complaint

may be made at any time after the third (3rd) anniversary of the date of the event to which the Complaint relates. Any Complaint made after this deadline shall not be investigated by LME Clear.

2.7 There is no fee to make a Complaint.

3. PROCESSING A COMPLAINT

3.1 Complaints will be investigated by the LME Clear Compliance Department who may involve other staff at LME Clear or outside professional assistance as appropriate.

3.2 The inquiry will be conducted independently of any LME Clear personnel who may be involved in the subject matter of the Complaint.

3.3 LME Clear will aim to complete its investigation within three months, or within such further period as the scope of the Complaint reasonably demands.

3.4 LME Clear will, insofar as it is consistent with its duties in operating LME Clear and its duties of confidentiality to Members, advise the Complainant and any other relevant parties of the outcome of the investigation, and in particular whether it considers that there are good grounds for Complaint against LME Clear or its personnel. LME Clear will also advise the Complainant of recommended action arising from the investigation of the Complaint.

4. REFERRING COMPLAINTS TO LME CLEAR'S INDEPENDENT COMPLAINTS COMMISSIONER

4.1 If the Complainant is dissatisfied with the investigation of the Complaint or with the reported outcome of the investigation, he may request that the Complaint is referred to an Independent Complaints Commissioner. Such request shall be made within 15 Business Days of the Complainant being notified of the outcome of the investigation.

4.2 The Independent Complaints Commissioner shall be appointed for the purposes of a Complaint by the Centre for Effective Dispute Resolution (CEDR). The individual appointed as the Independent Complaints Commissioner shall be:

- (a) independent of LME Clear and the Complainant (meaning that the individual is not, and has not been, an officer, director or employee of LME Clear, the Complainant or their Affiliates);
- (b) has appropriate knowledge and experience of how clearing is carried out by LME Clear, including the Rules and any Applicable Law relevant to the Complaint; and
- (c) has appropriate experience of the market to which the Complaint relates.

4.3 LME Clear shall be responsible for co-ordinating the appointment of the Independent Complaints Commissioner. Unless there are reasons for a delay which are beyond the reasonable control of LME Clear, the Independent Complaints Commissioner shall be appointed within 15 Business Days of the request under Membership Procedure C4.1 being received by LME Clear.

4.4 The Independent Complaints Commissioner may:

- (a) call on all appropriate documentation from all relevant parties to enable him to form a view on the Complaint;

- (b) permit and/or request the Complainant and LME Clear to provide written submissions in relation to any specific matter;
 - (c) interview representatives of the Complainant and LME Clear;
 - (d) take whatever appropriate action he considers might assist in considering the Complaint; and
 - (e) conduct the consideration of the issues as he sees fit.
- 4.5 The Independent Complaints Commissioner shall produce a written report on its findings in relation to the Complaint. The written report may make a recommendation, if appropriate, that LME Clear make a compensatory payment to the Complainant and/or remedies the matter complained of.
- 4.6 The written report shall be provided to LME Clear and the Complainant. In addition, the Independent Complaints Commissioner may publish the report (or any part of it) if the Independent Complaints Commissioner considers that it ought to be brought to the attention of the public.
- 4.7 The Independent Complaints Commissioner may:
- (a) require LME Clear to inform the Independent Complaints Commissioner and the Complainant of the steps which it proposes to take in response to the report; and
 - (b) require LME Clear to publish the whole or a specified part of its response to the Independent Complaints Commissioner.
- 4.8 LME Clear shall be liable for any costs relating to the appointment of the Independent Complaints Commissioner.
- 4.9 The decision of the Independent Complaints Commissioner shall be final and binding and there shall be no further appeal.

PART D – DISCIPLINE

1. INVESTIGATIONS

- 1.1 LME Clear may investigate any alleged Acts of Misconduct by a Member.
- 1.2 In the course of conducting an investigation, LME Clear may appoint professional, legal or accounting advisers to assist, or enlist the assistance of any other external adviser as it thinks fit. Any external adviser appointed by LME Clear shall be required to treat all information obtained in the course of the investigation as confidential and to disclose it only to LME Clear.
- 1.3 LME Clear shall issue a Notice of Investigation ("**Nol**") notifying the Member concerned that an investigation has been commenced. The Nol shall be in writing to the Member's Compliance Officer, and shall contain a brief description of the matter under investigation.
- 1.4 Members shall co-operate fully with all investigations (whether or not they are the Member under investigation). In particular, Members shall:
 - (a) make available for interview such of their officers, employees or agents as may be reasonably requested in order that they may answer questions and explain any matter that LME Clear considers relevant to the investigation;
 - (b) comply fully with their obligation to provide information in accordance with Rule 3 of the Rules; and
 - (c) permit an authorised representative of LME Clear to visit their offices at any time, for the purpose of the investigation.

2. INITIATING PROCEEDINGS

- 2.1 LME Clear may bring disciplinary proceedings against any Member where LME Clear considers the Member (or an employee or other person for whom LME Clear deems the Member to be responsible) to have committed an Act of Misconduct.
- 2.2 Where LME Clear decides to bring disciplinary proceedings, it shall serve a notice setting out the alleged Act of Misconduct together with a summary of the facts relied upon (the "**Enforcement Notice**") on the Member concerned.
- 2.3 The disciplinary proceedings under Part D of these Membership Procedures are without prejudice to LME Clear's rights under Rule 10 (*Default*).

3. DEFENCE

- 3.1 The Member has sixty (60) days from service of a Enforcement Notice to serve a statement of defence (a "**Defence**") that:
 - (a) responds to all or any of the allegations;
 - (b) states whether or not the Member admits all or any of the allegations; and
 - (c) states what admissions of fact, if any, the Member makes.
- 3.2 After reviewing the Defence, LME Clear may, if it deems it appropriate, choose to discontinue disciplinary proceedings.

3.3 After reviewing the Defence, LME Clear may, if it deems it appropriate, amend its Enforcement Notice. In these circumstances, the Member has 10 Business Days from service of the amended Enforcement Notice to serve an amended Defence. If the Member fails to serve an amended Defence, the member will be deemed to be relying on his original Defence.

3.4 Where no Defence has been served pursuant to Membership Procedure D3.1, and no settlement has been reached within 20 Business Days from service of an Enforcement Notice, the Member will be deemed to have accepted the facts and matters alleged in the Enforcement Notice and will therefore be deemed to have committed an Act of Misconduct. For the avoidance of doubt, a disciplinary hearing will not be held and the Disciplinary Committee shall make a determination in accordance with Membership Procedure D6.

4. COMPOSITION OF DISCIPLINARY COMMITTEE

4.1 The Disciplinary Committee shall consist of three directors of LME Clear.

4.2 Details of the precise composition of the Disciplinary Committee shall be provided to the Member prior to the disciplinary hearing.

5. THE DISCIPLINARY HEARING

5.1 The disciplinary hearing shall take place:

- (a) where LME Clear does not amend its Enforcement Notice under Membership Procedure D3.3, no later than 20 Business Days after service of the Defence;
- (b) where LME Clear amends its Enforcement Notice under Membership Procedure D3.3 of the Procedures, no later than 20 Business Days after the last date on which an amended Defence could have been filed; or
- (c) on such other date as the Disciplinary Committee shall require.

5.2 The Disciplinary Committee shall determine the procedure to be followed at the disciplinary hearing. Without limitation, the Disciplinary Committee may:

- (a) hold a pre-hearing review to hear procedural applications by LME Clear or the Member;
- (b) direct LME Clear and a Member to disclose copies of any document;
- (c) direct LME Clear and a Member to provide further submissions or information as may be necessary to clarify the relevant facts and issues;
- (d) allow LME Clear and a Member to call witnesses to give evidence and be questioned (and this may include relevant experts and advisers); and/or
- (e) allow LME Clear and a Member to be represented by any person.

5.3 Disciplinary hearings will normally be held in private, unless both LME Clear and the Member agree that the hearing should be in public.

5.4 The Disciplinary Committee may appoint its own legal advisers.

- 5.5 If either party fails to attend a disciplinary hearing, the hearing may proceed in that party's absence.
- 5.6 A record shall be made of a disciplinary hearing, electronically or otherwise. The Member shall be entitled to a transcription or copy of the record on payment of any applicable costs.
- 5.7 The Disciplinary Committee may admit any evidence whether oral or written, and whether or not the same would be admissible in a court of law.
- 5.8 The burden of proof shall be on LME Clear. The Disciplinary Committee shall not find an allegation proved unless it is satisfied on the balance of probability.

6. THE DETERMINATION

- 6.1 The Disciplinary Committee shall announce its findings to the parties as soon as practicable.
- 6.2 Where the Disciplinary Committee is satisfied that the Member has committed an Act of Misconduct it shall provide the parties with an opportunity to make representations before determining the penalty to be imposed.
- 6.3 The Disciplinary Committee shall announce the penalty to be imposed as soon as possible.
- 6.4 Within 20 Business Days of announcing its findings, the Disciplinary Committee shall serve on the parties a written decision comprising:
 - (a) its findings of fact;
 - (b) its findings as to whether any charges not admitted are proved;
 - (c) the reasons for its decision; and
 - (d) any penalties to be imposed on the Member, together with an indication as to:
 - (i) whether any part of the penalty is compensatory for the benefit of the Members generally or for specified individuals; and
 - (ii) what part of the penalty is punitive.
- 6.5 Subject to appeal, and unless the Disciplinary Committee determines otherwise, any penalty imposed shall take effect 10 Business Days after service of the written decision.

7. PENALTIES

- 7.1 The Disciplinary Committee may impose one or more of the following penalties:
 - (a) a public or private reprimand;
 - (b) a fine of any amount;
 - (c) an order that the Member make restitution to any person where the Member has profited from its misconduct at that person's expense;

- (d) an order that the Member pay to LME Clear any gains resulting from a proven breach of the Rules;
- (e) a requirement to comply with such conditions as the Disciplinary Committee deems appropriate;
- (f) suspension or termination from Membership subject to ratification by the Board of LME Clear or its nominated delegate(s). Any suspension or termination shall be in accordance with Rules 3.6 to 3.9 or Rule 10 (*Default*) (for the avoidance of doubt, a determination that a Member has committed an Act of Misconduct shall constitute a Default Event under Rule 10 (*Default*)).

7.2 The sanction imposed by the Disciplinary Committee shall be proportionate and commensurate with the seriousness of the Act of Misconduct, taking into account factors including the consequences of the act and whether the act was deliberate or negligent.

7.3 In the event that a Member fails to comply with a penalty imposed, or direction made under this Membership Procedure 7, such failure shall constitute a breach of the Rules.

8. COSTS

The Disciplinary Committee may make costs orders at its discretion. It may order any party to pay such costs as it reasonably considers to be appropriate in the circumstances, including, but not limited to, administration costs and costs incurred in the investigation, preparation and presentation of the case.

9. SETTLEMENTS

9.1 LME Clear and the Member may agree to settle disciplinary proceedings at any time up to the commencement of the disciplinary hearing.

9.2 Settlement negotiations shall be undertaken on a without prejudice basis.

10. CONVICTIONS AND FINDINGS BY OTHER AUTHORITIES

10.1 The findings of fact of any court in the United Kingdom or the Upper Tribunal (Tax and Chancery Chamber), which have not been set aside on appeal or otherwise, shall be conclusive evidence of the facts so found.

10.2 A criminal conviction by any court in the United Kingdom which has not been set aside on appeal or otherwise shall be conclusive evidence of the commission of that offence.

10.3 The findings of fact of the following bodies, which have not been set aside on appeal or otherwise, shall be *prima facie* evidence of the facts so found:

- (a) any court of competent jurisdiction outside the United Kingdom;
- (b) any committee or tribunal of the Financial Services Authority, the Bank of England, the Prudential Regulatory Authority, the Financial Conduct Authority, ESMA, a self-regulating organisation, a recognised professional body, a recognised investment exchange, a recognised clearinghouse or any "overseas regulator" under section 195(3)-(4) of the Financial Services and Markets Act 2000 or any financial services legislation replacing the Financial Services and Markets Act, exercising regulatory or disciplinary functions;

- (c) the Competition Commission; and
- (d) any other body exercising a regulatory or disciplinary jurisdiction over any persons engaged in financial services business whether in the United Kingdom or elsewhere.

PART E – APPEAL

1. INITIATING AN APPEAL

1.1 Within 10 Business Days of:

- (a) notice that LME Clear has determined to reject an Applicant's application for membership; or
- (b) service of a decision by the Disciplinary Committee under Membership Procedure D6.4 of these Procedures,

the Applicant or Member may appeal to the Appeal Committee by serving a notice of appeal to LME Clear.

1.2 A notice of appeal shall set out the grounds of the appeal and contain a brief statement of all matters relied upon by the person making the appeal.

1.3 The grounds of the appeal may be any one or more of the following:

- (a) LME Clear or the Disciplinary Committee (as appropriate) misdirected itself;
- (b) LME Clear or the Disciplinary Committee's (as appropriate) decision was:
 - (i) one that could not have reasonably been reached;
 - (ii) unsupported by the evidence or was against the weight of the evidence; or
 - (iii) based on an error of law or misinterpretation of the Rules;
- (c) in the case of an Act of Misconduct, the penalty imposed by the Disciplinary Committee was either excessive or insufficient; or
- (d) in the case of an Act of Misconduct, new evidence is available, which, if it had been brought forward before the Disciplinary Committee's findings were made, the Disciplinary Committee could reasonably have come to a different decision (this ground will not apply if the evidence could, by the exercise of reasonable diligence, have been brought forward before the Disciplinary Committee's findings were made).

2. COMPOSITION OF THE APPEAL COMMITTEE

2.1 The Appeal Committee shall comprise of two persons who shall be nominated by the Centre for Effective Dispute Resolution (CEDR). The individuals appointed shall be:

- (a) independent of LME Clear and the Applicant or Member (meaning that the individual is not, and has not been, an officer, director or employee of LME Clear, the Applicant or Member or their Affiliates);
- (b) has appropriate knowledge and experience of how clearing is carried out by LME Clear, including the Rules and any Applicable Law relevant to the appeal; and
- (c) has appropriate experience of the market to which the appeal relates.

2.2 Details of the precise composition of the Appeal Committee shall be provided to the Applicant or Member prior to the appeal hearing.

3. THE APPEAL HEARING

3.1 The Appeal Committee shall determine the procedure at the appeal having regard to the following:

- (a) the person making the appeal is to open the appeal;
- (b) any witnesses called may be:
 - (i) examined, cross-examined and re-examined by the parties; and
 - (ii) questioned by the Appeal Committee;
- (c) the other party may make submissions in response to those made by the person making the appeal; and
- (d) the person making the appeal may make closing submissions.

3.2 The Appeal Committee may appoint its own legal advisers. In the case of an Act of Misconduct, the legal advisers appointed may not be the same legal advisers appointed by the Disciplinary Committee.

3.3 If any party fails to attend an appeal hearing, the hearing may proceed in its absence.

3.4 A record shall be made of an appeal hearing, electronically or otherwise. The Applicant or Member shall be entitled to a transcription or copy of the record on payment of the applicable costs.

3.5 The burden of proof shall be on LME Clear. The Appeal Committee shall not find an allegation proved unless it is satisfied on the balance of probability.

3.6 The Appeal Committee may admit any evidence whether oral or written, whether direct or hearsay and whether or not the same would be admissible in a court of law.

4. THE DETERMINATION

4.1 The Appeal Committee shall announce its decision to the parties as soon as practicable.

4.2 The Appeal Committee may dismiss or allow the appeal and may change the penalty imposed as it considers appropriate.

4.3 Within 20 Business Days of the conclusion of the appeal hearing, the Appeal Committee shall serve on the parties a written decision setting out its reasons.

4.4 The decision of the Appeals Committee shall be final and binding and there shall be no further appeal.

5. COSTS

The Appeal Committee may make costs orders at its discretion. It may order any party to pay such costs as it reasonably considers to be appropriate in the circumstances, including, but not limited to, administration costs and costs incurred in the investigation, preparation and presentation of the case.

CLEARING PROCEDURES

PART A – INTRODUCTION AND GENERAL MATTERS

1. INTERPRETATION AND INTRODUCTION

1.1 These Clearing Procedures form part of, and shall be read in conjunction with, the Rules and are legally binding on Members. Terms defined in the Rulebook have the same meaning in these Clearing Procedures. In the event of any conflict or inconsistency between the Rules and these Clearing Procedures, the Rules shall prevail.

1.2 These Clearing Procedures are arranged into the following Parts:

- (a) Part A: Introduction and General Matters;
- (b) Part B: Transaction and Position Management;
- (c) Part C: Valuation, Margining and Risk Management;
- (d) Part D: Treasury and Collateral Management;
- (e) Part E: the Secure Payments System and Cash Settlements;
- (f) Part F: Physical Deliveries; and
- (g) Part G: Interest, Fees and Charges.

1.3 The Clearing Procedures should be read in conjunction with the following Annexes, which support and supplement the Clearing Procedures:

- (a) Annex 1 (*Eligible Products*);
- (b) Annex 2 (*Eligible Currencies, Collateral and Haircuts*);
- (c) Annex 3 (*Fees and Charges*);
- (d) Annex 4 (*List of Available Reports*);
- (e) Annex 5 (*Margin Parameters*); and
- (f) Annex 7 (*Delivery Timetables*).

2. INTRODUCTION TO PART A OF THE CLEARING PROCEDURES

2.1 This Part A of the Clearing Procedures specifies the Clearing Procedures applicable to:

- (a) the time zone applicable to these Clearing Procedures (**Clearing Procedure A3**);
- (b) the specification of the products that are eligible to be cleared via the Clearing System (**Clearing Procedure A4**), which shall be read in conjunction with Annex 1 (*Eligible Products*);
- (c) the definition of an Instrument (**Clearing Procedure A5**);
- (d) the basis on which LME Clear will determine prices applicable to the processes set out in these Clearing Procedures (**Clearing Procedure A6**);

- (e) the basis on which LME Clear will issue various Reports to Members (**Clearing Procedure A7**), which shall be read in conjunction with Annex 4 (*List of Available Reports*);
- (f) certain interpretative provisions regarding payment-related terminology (**Clearing Procedure A8**).

3. LONDON TIME

All times specified in these Procedures shall be construed as local London time unless explicitly stated otherwise.

4. ELIGIBLE PRODUCTS

- 4.1 Annex 1 (*Eligible Products*) specifies the list of financial instruments that constitute Eligible Products and the Product Specifications in respect of each such Eligible Product. The only contracts that are eligible at any given time to be submitted to be cleared via the Clearing System are those meeting the requirements specified in Annex 1 (*Eligible Products*).
- 4.2 Annex 1 (*Eligible Products*) describes the attributes of each Eligible Product and, where relevant, provides a cross reference to the relevant Clearing Procedure that describes the processes of the Clearing System that relate to that attribute.
- 4.3 Annex 1 (*Eligible Products*) may be updated from time to time by LME Clear in accordance with Rule 2 (*General Provisions*).

Where any individual Eligible Product is referred to in these Clearing Procedures, it shall be defined in accordance with Annex 1. Such individual Eligible Products shall not be specifically defined in Rule 1 (*Definitions and Interpretation*).

5. INSTRUMENTS

- 5.1 For the purposes of the Rules, an "**Instrument**" shall be defined, by reference to one or more Open Contracts in respect of the same Eligible Product and having the same Product Specifications, as the maximum number of common parameters for which it is possible to identify a market price, and which shall in each case exclude the following parameters:
 - (a) the Execution Price;
 - (b) the volume of Underlying Assets to be delivered; and
 - (c) the direction (that is, buy or sell) held by LME Clear.

For the avoidance of doubt, the Open Contracts relating to any single Instrument may each contain characteristics that are not reflected in the Instrument. However such characteristics will be those that are not capable of assisting the identification of a market price.

- 5.2 LME Clear identifies Instruments in order to identify a market price for the Open Contracts relating to each such Instrument. The market price will always be determined as the mid-market price for the Open Contracts relating to that Instrument. This is intended to facilitate the application of netting and settlement to market processes in respect of those Eligible Products that settle on a daily basis.

5.3 The following are set out as examples of Instruments:

- (a) In respect of an LME Exchange Traded Forward, the Instrument will comprise the following characteristics of the Open Contracts for such Eligible Product where such characteristics are identical:
 - (i) type of Eligible Product (i.e. LME Exchange Traded Forward);
 - (ii) Underlying Asset (e.g. copper);
 - (iii) Settlement Currency (e.g. USD); and
 - (iv) Prompt Date.
- (b) In respect of an LME Exchange Traded American Option, the Instrument will comprise the following characteristics of the Open Contracts for such Eligible Product where such characteristics are identical:
 - (i) type of Eligible Product (i.e. LME Exchange Traded American Option);
 - (ii) Underlying Asset (e.g. copper);
 - (iii) nature of option (e.g. either a call or a put);
 - (iv) the Strike Price Currency (e.g. USD);
 - (v) the Strike Price;
 - (vi) the Premium Currency (e.g. USD); and
 - (vii) the Final Expiry Date.

For the avoidance of doubt, the capitalised terms specified in the examples above refer to components of the Product Specifications of the relevant Eligible Products, and are to be interpreted in accordance with Annex 1 (*Eligible Products*).

6. CLOSING PRICES, SETTLEMENT PRICES, MARKET DATA AND PRICE SETS

Price-related terms defined

6.1 This Clearing Procedures A6 defines:

- (a) the LME Closing Prices and the LBMA Closing Prices (each a sub-category of Closing Price);
- (b) the LME Settlement Prices, the Gold Settlement Price and the Silver Settlement Price (each a sub-category of Settlement Price);
- (c) the Price Sources for such prices; and
- (d) the Price Sets.

LME Clear Prices

6.2 LME Clear will use such pricing data provided by third parties in order to:

- (a) create intra-day Price Sets;

- (b) create End of Day Price Sets (or Closing Prices); and
- (c) create Settlement Prices.

6.3 LME Clear will, wherever reasonably practicable, use published prices for such purposes, typically at the End of Day on each Business Day (with the exception of the creation of intra-day Price Sets).

Closing Prices

6.4 The following shall constitute "**Closing Prices**":

(a) **Closing Prices for LME Exchange Traded Products**

The Closing Prices for LME Exchange Traded Products ("**LME Closing Prices**") shall be the "Closing Prices" in the "Major Currency", as each such term is defined under the LME Rules.

(b) **Closing Prices for OTC Loco London Bullion Market Products**

[left intentionally blank].

Settlement Prices

6.5 The following shall constitute "**Settlement Prices**":

(a) **Settlement Prices for LME Exchange Traded Products**

The Settlement Prices for LME Exchange Traded Products ("**LME Settlement Prices**") shall be the "Settlement Prices", as defined under the LME Rules.

(b) **Settlement Prices for OTC Loco London Bullion Market Products**

The Settlement Prices for OTC Loco London Bullion Market Products shall be as follows:

- (i) *[Left intentionally blank]* (the "**Gold Settlement Price**"); and
- (ii) *[Left intentionally blank]* (the "**Silver Settlement Price**").

Price Sources

The LME, *[left intentionally blank]* shall therefore be "**Price Sources**" for the purpose of these Procedures.

6.6 In the event that any Price Source fails to publish any Closing Price or Settlement Price that LME Clear needs to use in order to perform any process, LME Clear will determine the relevant price to be used for such process. Such determination will be at LME Clear's discretion and shall be conclusive. This Clearing Procedure A6.6 is subject to, and without prejudice to, any Rule that provides for an alternative means of determining a Closing Price or Settlement Price in the specific circumstances contemplated by such Rule.

Price Sets

6.7 In these Clearing Procedures a "**Price Set**" means a complete array of Market Prices and Volatility Metrics that includes:

- (a) a Market Price for every Instrument; and
- (b) all foreign exchange rates, interest rates and Collateral Valuation rates that shall be used by LME Clear in order to perform its calculations of the risks relating to any Member, Position, Account or Instrument.

LME Clear shall, on a continuous basis, during each Business Day, determine the Price Sets that it shall use for the purposes of its operation of the Clearing System.

6.8 For the avoidance of doubt, LME Clear shall use:

- (a) an **"End of Day Price Set"** for the purpose of its End of Day risk management and Margin Requirement calculations and processes. This Price Set shall include the LME's "Closing Prices" (as defined in the LME Rules unless the LME fails to determine such Closing Prices, in which case LME Clear shall use such prices as it considers to be appropriate); and
- (b) the Price Set most recently defined and adopted by LME Clear shall be used for the purpose of LME Clear's Intra-Day Margin Requirement calculations.

6.9 LME Clear reserves the right to amend any prices that it considers do not accurately reflect the current market price.

6.10 LME Clear shall make available to the Members the Price Set that it uses for End of Day calculations of Margin Requirements.

7. **REPORTING**

7.1 LME Clear will make available to Members the Reports specified in Annex 4 (*List of Available Reports*) in such formats and at such frequencies as are specified in Annex 4 (*List of Available Reports*).

7.2 The Reports will be made available to Members through the Member-specific section of the Website.

7.3 In addition to the Reports, LME Clear will make available to Members via the Website certain data relating to the Member's use of the Clearing System, including information regarding:

- (a) the Transactions submitted to LME Clear by Approved Transaction Platforms; and
- (b) the Member's current Positions in respect of Open Contracts.

7.4 Members will also be able to access margin calculation files and market data files from the Website.

7.5 All Reports, transmissions and other documents (other than Notices issued by LME Clear pursuant to Rule 2.8) in electronic format shall be deemed delivered to and received by each Member when made available for retrieval by LME Clear. Each Member shall be obligated to retrieve and review all Reports, transmissions and documents, and to notify LME Clear promptly of any error or discrepancies contained therein. To the extent necessary or appropriate, LME Clear may cause an adjustment to be made to the data within such time as LME Clear determines to be necessary.

- 7.6 The contents of all Reports, transmissions and other documents delivered or deemed to be delivered to a Participant shall be conclusive and binding on the Member if the Member does not notify LME Clear of any error or discrepancy with 30 days of such delivery or deemed delivery.
- 7.7 It is the responsibility of each Member to access and preserve a copy of any Reports or data that such Member may require for any purpose or reason (whether operational, audit-related, legal, regulatory or otherwise).
8. **INTERPRETATION OF "POSTING" AND "FOR VALUE" (CASH SETTLEMENT TERMS)**
- 8.1 In these Clearing Procedures, reference to any cash payment being "posted" or "for value" on any particular Business Day shall be interpreted as follows:
- (a) **"posted"** shall mean notified to the relevant Approved Settlement Bank and recorded on the Accounts maintained by LME Clear in the Clearing System, in relation to a Member, as a payment due from, or to, the Member; and
 - (b) reference to a payment being **"for value"** on a particular Business Day shall mean that the relevant payment shall be received into the receiving person's Settlement Account at the relevant Approved Settlement Bank on that particular Business Day.

PART B – TRANSACTION AND POSITION MANAGEMENT

1. INTRODUCTION

This Part B of the Clearing Procedures specifies the Clearing Procedures applicable to:

- (a) the arrangements by which Transactions shall be submitted to LME Clear (**Clearing Procedure B2**);
- (b) the arrangements that LME Clear will apply to determine whether Transactions will be Accepted and subsequently Novated or Registered (**Clearing Procedure B3**);
- (c) the basis on which LME Clear will establish and monitor Positions in Open Contracts, including a specification of the Eligible Products that will be subject to netting of Positions and those that will be subject to a maintenance of Positions on a gross basis (**Clearing Procedure B4**);
- (d) the arrangements for the exercise and assignment of options under Option Contracts of different types (**Clearing Procedure B5**); and
- (e) the specification of which Eligible Products are Physically Settling Products and the identification of the provisions relevant to the determination of the Delivery Positions under Contracts for such Physically Settling Products (**Clearing Procedure B6 and B7**).

2. SUBMISSION OF TRANSACTIONS TO LME CLEAR

2.1 Transaction Capture and Matching

2.2 Transactions may only be submitted to LME Clear by or through an Approved Transaction Platform.

2.3 The Approved Transaction Platform shall be responsible for all trade capture and matching functions and will submit to LME Clear matched trade pairs as a single Transaction for clearing via the Clearing System.

2.4 Each Member shall ensure that it has executed all relevant documentation and contracts specified by the Approved Transaction Platforms that it will use to submit Transactions to LME Clear and comply with all eligibility requirements, rules and operating procedures of such Approved Transaction Platforms.

2.5 The platforms are currently approved as Approved Transaction Platforms by LME Clear for Transactions in specific Eligible Products are specified in the Product Specification set out in Annex 1 (*Eligible Products*).

2.6 Transaction Submission Deadlines

2.7 The operating times during which the Clearing System is open to receive Transaction Data shall be as specified in Circulars issued by LME Clear from time to time (each being an "**Opening Hours Circular**").

2.8 Any Transaction Data received following the relevant deadline specified for the Transaction by LME Clear in the relevant Opening Hours Circular will, unless LME Clear determines otherwise, be rejected by LME Clear.

3. TRANSACTION ACCEPTANCE, REGISTRATION AND NOVATION

3.1 Transaction Requirements

All Transactions submitted to LME Clear shall satisfy the following "**Transaction Requirements**".

- (a) the Transaction shall:
 - (i) relate to a Transaction in an Eligible Product;
 - (ii) be submitted to LME Clear by an Approved Transaction Platform that is approved by LME Clear for such Eligible Product;
 - (iii) be between two persons, each of which is either:
 - (1) a Member; or
 - (2) a Client or Indirect Client authorised by a General Clearing Member to enter into a Transaction that will be subject to clearing by LME Clear in accordance with the Rules;
- (b) the Transaction Data submitted to LME Clear in respect of such Transaction shall:
 - (i) satisfy the static data, risk and credit checks applied by LME Clear to the Transaction;
 - (ii) identify:
 - (1) both Members to the Transaction, where the Transaction is not a Client Trade; or
 - (2) the General Clearing Member responsible for the Transaction, where the Transaction is a Client Trade;
 - (iii) specify all relevant details required by LME Clear in order to identify the rights and obligations of each party under the Transaction; and
 - (iv) specify, in respect of each Member that is to accept responsibility for the Transaction, the Account designated by the Member to which the Contracts, Positions, Collateral and other the rights and obligations relating to such Transaction should be allocated; and
- (c) each Member that is to accept responsibility for the Transaction shall:
 - (i) have a Settlement Account at an Approved Settlement Bank in the relevant Eligible Currency for the Transaction; and
 - (ii) (where the Transaction will give rise to a Physically Settled Contract) have in place appropriate arrangements with an Approved Delivery Facility in accordance with Clearing Procedure F (*Physical Delivery*).

3.2 Pre-Acceptance Checks

- 3.3 Following submission by the Approved Transaction Platform to LME Clear a Transaction undergoes the following checks (the "**Pre-Acceptance Checks**");

- (a) a check that the Transaction Data is complete and readable (the "**syntax validation**"); and
 - (b) a check that the Transaction Data content is valid, including whether the relevant Transaction Requirements are satisfied (the "**static data validation**").
- 3.4 In the event that the Transaction does not satisfy either the syntax validation or the static data validation, LME Clear may either:
 - (a) allocate the Transaction to the "**Operations Pending Transactions Queue**"; or
 - (b) reject the Transaction.
- 3.5 In the event that LME Clear allocates the Transaction to the Operations Pending Transactions Queue, LME Clear may attempt to repair or correct the Transaction Data on the basis of the information available to LME Clear. LME Clear shall conduct such repairs or corrections in accordance with any operational procedures or protocols agreed with the relevant Approved Transaction Platform. In the event that:
 - (a) LME Clear is unable to repair or complete the Transaction Data or, if such Transaction Data has not been repaired or completed by the Close of Business on the day of its receipt, LME Clear will reject the Transaction Data; or
 - (b) LME Clear is able to repair or complete the Transaction Data prior to Close of Business on the day of its receipt and LME Clear determines that any deficiency in such Transaction Data has been remedied, LME Clear shall from the time of such determination treat such Transaction Data as valid and complete Transaction Data.
- 3.6 In the event that LME Clear rejects the Transaction Data:
 - (a) LME Clear will notify the relevant Member(s) and (if relevant) the Approved Transaction Platform that it has rejected the Transaction Data, unless LME Clear reasonably considers that it is prevented from doing so by Applicable Law, or that to do so may otherwise result in a breach by LME Clear or any of its officers of any requirement of Applicable Law; and
 - (b) LME Clear will treat such Transaction Data as if it had never been submitted to LME Clear (save that LME Clear shall be entitled to retain such records of the Transaction Data as it considers to be appropriate).
- 3.7 In the event that a Transaction submitted to LME Clear on any Business Day is neither Accepted nor rejected at the Close of Business on that Business Day, then it shall be deemed to have been rejected unless LME Clear determines otherwise. It shall be the responsibility of the Members to re-submit the Transaction, via the Approved Transaction Platform, on the next following Business Day if they wish the Transaction to be cleared via the Clearing System.
- 3.8 **Post Acceptance Conditions**
- 3.9 The "**Post-Acceptance Conditions**" that shall be satisfied by each Transaction that has been Accepted are:
 - (a) the satisfaction of the Credit Check; and

- (b) an assessment of whether LME Clear would have any other grounds to reject the Transaction under Rule 6.5.
- 3.10 LME Clear will conduct a risk review in respect of every Transaction that has been Accepted (the "**Credit Check**") in order to determine whether:
 - (a) the Novation or Registration of the Transaction would cause the Member's Risk Threshold to be reached or exceeded; or
 - (b) the Member has deposited with LME Clear insufficient Collateral to enable LME Clear to accept the risk of the new Transaction.
- 3.11 In the event that LME Clear determines that the Credit Check has not been satisfied, LME Clear shall allocate the Transaction to the "**Risk Pending Transactions Queue**". In such circumstances:
 - (a) LME Clear may request that the Member shall provide additional Collateral in order that any pending Transaction(s) can satisfy the Credit Check;
 - (b) in the event that the Member fails to provide such additional Collateral, in accordance with LME Clear's request, LME Clear may reject any Transaction(s) on the Risk Pending Transactions Queue;
 - (c) whilst a Transaction is held within the Risk Pending Transactions Queue, LME Clear shall continue to calculate the risk of all subsequent Transactions submitted to the Clearing System, so that if a Member subsequently enters into one or more off-setting Transactions that result in the reduction in the risk to LME Clear of the Transactions held in the Risk Pending Transactions Queue, then such pending Transactions may be capable of passing the Credit Check prior to additional Collateral being received; and
 - (d) in the event that a specific Transaction causes, or may cause, one or more other Transactions in respect of a Member to be allocated to the Risk Pending Transactions Queue, then LME Clear may temporarily remove the specific Transaction from LME Clear's risk calculation in order to allow the other Transactions to be capable of satisfying the Post Acceptance Conditions.
- 3.12 In the event that LME Clear rejects a Transaction:
 - (a) LME Clear will notify the relevant Member(s) and (if relevant) the Approved Transaction Platform that it has rejected the Transaction, unless LME Clear reasonably considers that it is prevented from doing so by Applicable Law, or that to do so may otherwise result in a breach by LME Clear or any of its officers of any requirement of Applicable Law;
 - (b) LME Clear will treat such Transaction as if it had never been submitted to LME Clear (save that LME Clear shall be entitled to retain such records of the Transaction Data as it considers to be appropriate); and
 - (c) for the avoidance of doubt, any such rejection shall apply to the rights and obligations of each counterparty to such Transaction.
- 3.13 In the event that a Transaction has not satisfied the Post Acceptance Conditions by the Close of Business on the Business Day on which it was Accepted, then it shall be deemed to have been rejected unless LME Clear determines otherwise. It shall be the

responsibility of the Members to re-submit the Transaction, via the Approved Transaction Platform, on the next following Business Day if they wish the Transaction to be cleared via the Clearing System.

3.14 Novation or Registration

3.15 A Transaction that has satisfied all Post Acceptance Conditions within the Business Day on which it has been Accepted shall be:

- (a) Novated in accordance with Rule 6.7, if it is a Member Trade; or
- (b) Registered in accordance with Rule 6.8, if it is a Client Trade.

3.16 Notification

3.17 On each Business Day, LME Clear shall notify the Member of all Transactions in respect of such Member that have been Novated, Registered or rejected by LME Clear on that Business Day, by the issue of a Report in accordance with Annex 4 (*List of Available Reports*).

3.18 During each Business Day, Members may access information regarding:

- (a) the status of Transactions submitted to the Clearing System; and
- (b) the status of Open Contracts via the RTC GUI or the Member Interface.

4. POSITION UPDATE AND MAINTENANCE AND SETTLEMENT TO MARKET

4.1 Upon Novation or Registration (as applicable), of a Transaction LME Clear shall determine the Member's Positions in the Eligible Products to which the Transaction relates. Such Positions shall be reflected in the relevant Account to which the Contracts relating to such Transaction have been designated (the "**Designated Account**"). (Rule 4 (*Accounts*) specifies the Rules applicable to the establishment and operation of Accounts opened by the Member)

4.2 Positions in Designated Accounts shall be created and updated following Novation or Registration in accordance with the following criteria:

- (a) where the Designated Account does not currently record any other Open Contract for that Instrument a new Position shall be created within the Designated Account to reflect the Member's rights and obligations in respect of the Open Contract; and
- (b) where the Designated Account contains existing Positions in respect of multiple Open Contracts for that Instrument, then each additional Open Contract in such Instrument shall be added to the volume of such existing Positions in that Designated Account.

4.3 Positions in an Account therefore represent the consolidated rights and obligations arising from all Open Contracts within the same Instrument that have been allocated to that Account.

4.4 All new Open Contracts in each Business Day are maintained on a gross basis intra-day, such that LME Clear records to each Account the total Open Contracts with Purchase Positions and total Open Contracts with Sale Positions allocated to that Account on that Business Day.

4.5 Following the completion of LME Clear's netting and reconciliation processes at End of Day:

- (a) Positions in Gross Position Products allocated to a Netting Account shall be maintained on a gross basis; and
- (b) Positions in Net Position Products allocated to a Netting Account shall be maintained on a net basis, such that the Purchase Positions and the Sale Positions in respect of each Open Contract for the same Instrument are netted to the smallest number of obligations.

4.6 The following table identifies those Eligible Products that are Gross Position Products and Net Position Products respectively.

Gross Position Products	Net Position Products
Exchange Traded Forwards	Exchange Traded Futures (Minis & LME Index)
Exchange Traded Average Price Futures	Exchange Traded American Options
OTC Loco London Bullion Market Forwards	Exchange Traded Average Price Options (TAPOS)

5. SETTLEMENT TO MARKET PROCESS

5.1 Calculations

5.2 LME Clear shall, at the End of Day, determine:

- (a) in respect of each Instrument in a Net Position Product for each Net Account: the net Position for all Open Contracts as at the End of Day, comprising the Brought Forward Position, as adjusted by any New Contract Positions (the "**End of Day Position**"); and
- (b) in respect of each Instrument in a Net Position Product to which Realised Variation Margin applies pursuant to the Product Specifications (a "**relevant Net Position Product**"), for each Netting Account: the Realised Variation Margin in respect of the Instrument for that Business Day.

5.3 LME Clear's calculations of the respective Positions and Realised Variation Margin for the purpose of this Settlement to Market Process shall be definitive.

5.4 Establishment of End of Day Positions per Instrument and Account

5.5 The End of Day Position shall represent a single net Position in respect of the Instrument at the relevant Closing Price for that Business Day, identifying:

- (a) a single Purchase Position for the Buyer under the Instrument; and
- (b) a single Sale Position for the Seller under the Instrument.

5.6 Upon the establishment by LME Clear of the End of Day Position, all Open Contracts represented by:

- (a) the Brought Forward Position; and
- (b) each New Contract Position,

shall be treated as being discharged and replaced by a single Open Contract at that Business Day's Closing Price. Such Open Contract shall be deemed to come into effect pursuant to the Rules.

5.7 Calculation of Realised Variation Margin

5.8 LME Clear shall determine, in respect of each Instrument in a relevant Net Position Product for which an End of Day Position has been calculated, the Realised Variation Margin resulting as a consequence of such calculation. In order to do so, LME Clear shall calculate:

- (a) the difference between:
 - (i) the value of the Brought Forward Position at the previous Business Day's Closing Price; and
 - (ii) the value of the Brought Forward Position at that Business Day's Closing Price;
- (b) in respect of each New Contract Position, the difference between:
 - (i) the value of such New Contract Position at the Execution Price of the Contract; and
 - (ii) the value of the Contract at that Business Day's Closing Price,

(and for the avoidance of doubt, this calculation in (b) shall be performed in respect of each New Contract Position arising in that Business Day); and
- (c) the sum of the calculations in (a) and (b), which shall represent the Realised Variation Margin.

For the avoidance of doubt, the Realised Variation Margin may be a positive or a negative figure, representing a profit or a loss to either LME Clear or the Member.

5.9 The Realised Variation Margin shall represent a Payment Obligation to be made by the party that is at loss (whether this is LME Clear or the Member) to the party that is in profit. Such Payment Obligation shall be discharged as a Cash Settlement in accordance with Clearing Procedure E.

6. OPTION EXERCISE AND ASSIGNMENT

6.1 The rules applying to the exercise and assignment of rights under Option Contracts (the "**Option Exercise Rules**") are specific to each Eligible Product. The types of exercise and the basis on which such exercise is settled, for each type of Eligible Product that comprises an Option Contract, is summarised in the table below.

Option Contracts	Exercise Type
Exchange Traded Average Price Options (TAPOS)	Automatic Exercise

Exchange Traded American Options	Manual Exercise
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6.2 The Option Exercise Rules comprise the "Option Regulations" set out in the LME Exchange Rules from time to time, together with the provisions of this Clearing Procedure B5. The Option Regulations determine:

- (a) the processes to be applied in relation to the automatic exercise of rights under Automatic Exercise Option Contracts; and
- (b) the timings applying to any manual exercise by an Option Holder of its rights under Manual Exercise Option Contracts.

6.3 LME Clear and each Member will therefore comply with the Option Regulations and this Clearing Procedure B6 in the exercise and discharge of their respective rights and obligations under Option Contracts.

6.4 The remaining provisions of this Clearing Procedure B6 define, for each type of Eligible Product that may result in a cleared Option Contract:

- (a) the last time on a Business Day on which a Transaction in such Eligible Product may be effected on the Exchange (the "**Last Traded Time**");
- (b) the time on the Expiry Date on which the option on an Automatic Exercise Option Contract will be exercised (the "**Expiry Time**");
- (c) the times on Business Days on which instructions may be submitted by Members to LME Clear in order to exercise options under a Manual Exercise Option Contract (the "**Exercise Time**");
- (d) the final time on the Expiry Date by which the option under a Manual Exercise Option Contract may be exercised (the "**Final Exercise Time**");
- (e) the basis on which option-exercise instructions under a Manual Exercise Option Contract may be cancelled ("**Exercise Instruction Cancellation**");
- (f) the basis on which the option under the Option Contract shall be exercised (the "**Exercise Type**", that is, either automatically or manually);
- (g) the "**Option Exercise Reference Price**" or "**Preliminary Reference Price**" (as applicable), which shall be interpreted in accordance with the relevant Official Price determined under the LME Rules specified in the table;
- (h) how the exercise of the option shall take effect (the "**Exercise Result**"); and
- (i) the manner in which the Option Holder will be notified by LME Clear of the exercise of the option.

6.5 Exchange Traded Average Price Options (TAPOS)

The table below summarises the Option Exercise Rules for Option Contracts in Exchange Traded Average Price Options (TAPOs):

Product	Exchange Traded Average Price Options (TAPOs)
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Last Traded Time	18:00hrs on the Business Day prior to the Expiry Date.
Expiry Time	15:00hrs on the Expiry Date.
Exercise Type	Automatic. All positions that are USD0.01 or greater in the money when compared to the Option Exercise Reference Price will be exercised automatically by LME Clear at the Expiry Time.
Option Exercise Reference Price	Monthly Average Settlement Price, (" MASP "), as specified by the Exchange on the date and time of exercise.
Exercise Result	Exercise creates between the Member and LME Clear two Contracts representing open LME Exchange Traded Forwards for Prompt Date the second Business Day of the month following the month of the Expiry Date. These LME Exchange Traded Forwards are equal and opposite in all respects except that: • one is created at the MASP; and • the other is created at the Strike Price of the original Transaction.
Notification via	RTC GUI.

6.6 Exchange Traded American Options

The table below summarises the Option Exercise Rules for Option Contracts in Exchange Traded American Options:

Product	Exchange Traded American Options
Last Traded Time	18:00hrs on the Business Day prior to the Expiry Date.
Exercise Type	Manual, via the LME Clear Options Exercise Screen.
Exercise Times	Exercise instructions can be input between 07:30hrs and 11:15hrs on any LME Business Day up to, and including, the Expiry Date.
Exercise Instruction Cancellation	Exercise instructions can be cancelled via the LME Clear Options Exercise Screen before 11:15 hours on the day the exercise instruction is input to the Clearing System.
Final Exercise Time	11:15hrs on the Expiry Date.
Preliminary Reference Price	Closing Price for the Underlying Forward (as defined below), as determined by the LME in accordance with the LME Rules, for the third Wednesday of the month in which the Prompt Date falls, as calculated on the Business Day prior to the Expiry Date.

Exercise Result	Exercise creates between the Member and LME Clear an Open Contract representing an LME Exchange Traded Forward at the Strike Price for Prompt Date on the third Wednesday of the month of the Expiry Date of the original Option Contract. The direction of LME Exchange Traded Forward (the "Underlying Forward") shall be determined as follows: • Buyer of exercised call – Buys Underlying Forward • Seller of exercised call – Sells Underlying Forward • Buyer of exercised put – Sells Underlying Forward • Seller of exercised put – Buys Underlying Forward.
Notification via	RTC GUI.

6.7 Expiry Date Process for Exchange Traded American Options

The following provisions apply to the manual exercise of Exchange Traded American Options:

- (a) In accordance with the Option Regulations under the LME Rules, prior to the opening of the Clearing System on the Expiry Date, LME Clear shall flag for exercise all Exchange Traded American Options that, by reference to the previous day's Closing Price for the third Wednesday prompt date, it calculates are in the money by more than two Strike Price Gradations.
- (b) Members who are Option Holders may, in accordance with the LME Rules, reverse LME Clear's exercise flag. Members that wish to enter such flag reversals shall have done so by the 11:15 hours Final Exercise Time.
- (c) Members who are Option Holders may, in accordance with the LME Rules, manually exercise additional options that have not been flagged for exercise by LME Clear. Members that wish to exercise additional options shall have done so by the 11:15 hours Final Exercise Time.
- (d) Only those options:
 - (i) flagged for exercise by LME Clear under (a) and which have not been reversed by the Member in accordance with (b); or
 - (ii) flagged for exercise by the Member under (c) above and which have not subsequently been reversed by the Member by the Final Exercise Time,

shall be treated as being exercised at the Final Exercise Time.

6.8 Exchange Traded American Options – Assignment to Option Granters by LME Clear

6.9 Where LME Clear has Positions in Exchange Traded American Options in respect of which:

- (a) under certain Open Contracts, LME Clear is the Option Holder; and
- (b) under other Open Contracts, one or more Members are the Option Holders,

and a Member that is an Option Holder (an "**Exerciser**") exercises an option against LME Clear, then LME Clear shall exercise such options under the Open Contracts for which it is the Option Holder in order to ensure that it is able to satisfy its obligations to the Exerciser.

6.10 LME Clear shall exercise its options in the circumstances described in 5.10 above by selecting one or more Members who are Option Granters under Open Contracts against whom to exercise its options. LME Clear shall make such selection:

- (a) based on the open Positions in such Open Contracts at Close of Business on the Business Day prior to the Business Day on which the Exerciser exercised its option; and
- (b) on the basis of a random scatter allocation, under which LME Clear shall randomly determine each lot to be assigned to an Option Granter in such a way that its selection is independent of either the preceding lot or the subsequent lot allocated via the selection process.

7. DELIVERY POSITIONS

7.1 The following table specifies:

- (a) those Eligible Products that are Physically Settling Products; and
- (b) the Underlying Asset that is to be delivered on settlement of Contracts for each such Physically Settling Product.

Physically Settling Product	Delivery Commodity – the Underlying Asset
LME Exchange Traded Forwards	LME Warrants
OTC Loco London Bullion Market Forwards	Unallocated loco London Bullion

7.2 Contracts for Physically Settling Products are defined as Physical Delivery Contracts pursuant to Rule 1 (*Definitions and Interpretations*).

7.3 LME Clear shall determine, in respect of each Account maintained by the Member, a net Delivery Position in respect of all Positions under Instruments comprised of Physical Delivery Contracts remaining open at the time of their expiry. Such net Delivery Position shall be determined by reference to the Settlement Price for the Underlying Asset on the Prompt Date, and shall comprise, in respect of all such Contracts:

- (a) a single Payment Obligation in respect of each Settlement Currency under which the Instruments are to be settled; and
- (b) a single Delivery Obligation,

and such Payment Obligations and Delivery Obligations shall represent a "**Final Delivery Position**" at the Account level.

7.4 For the discharge of Delivery Obligations in respect of Contracts which the Underlying Asset is LME Warrants, LME Clear shall determine in respect of each Member, the Warrant Movements required to settle the Final Delivery Positions between LME Clear and the Member, on the following basis:

- (a) in respect of the Member's House Account(s), the Final Delivery Positions of each account shall be netted together to produce a single net Warrant Movement;
- (b) in respect of the Member's Client Accounts:
 - (i) the Final Delivery Positions for all Client Accounts where the member is the Buyer under the relevant Contracts will be summed to produce a single total "buying" Warrant Movement;
 - (ii) the Final Delivery Positions for all Client Accounts where the Member is the Seller under the relevant Contracts will be summed to produce a single total "selling" Warrant Movement.

Consequently, a Member may have a maximum of three (3) Warrant Movements with LME Clear in a single Underlying Asset on a single Business Day.

7.5 Delivery Positions (including Warrant Movements) are settled through:

- (a) physical delivery of Underlying Assets by the Seller in discharge of the Delivery Obligation;
- (b) against payment of cash by the Buyer in discharge of the Payment Obligation.

7.6 The Settlement Price for Underlying Assets applicable to each relevant Eligible Product is set out in the Product Specifications for the Eligible Product in Annex 1 (*Eligible Products*).

7.7 The delivery process for Underlying Assets under Contracts in respect of:

- (a) LME Exchange Traded Forwards is defined by the LME Rules (including the Rules and procedures applicable to the operation of LMEsword) and is summarised in Clearing Procedure F2 (*LME Warrant Delivery Procedures*); and
- (b) OTC London Bullion Market Forwards is set out in Clearing Procedure F3 (*OTC Loco London Bullion Delivery Procedures*).

PART C – VALUATION, MARGINING AND RISK MANAGEMENT

1. INTRODUCTION

This Part C specifies the Clearing Procedures applicable to:

- (a) The composition of Margin Requirements (**Clearing Procedure C2**);
- (b) the calculation of Initial Margin requirement (**Clearing Procedure C3**);
- (c) the calculation of Variation Margin (**Clearing Procedure C4**);
- (d) the calculation of additional margin (**Clearing Procedure C5**); and
- (e) the calculation of Margin Requirements (**Clearing Procedure C6**).

2. COMPOSITION OF MARGIN REQUIREMENTS

- 2.1 When determining its End of Day Margin Requirement and its Intra-Day Margin Requirement(s) for a Member under Rule 8 (*Margin Requirements and Collateral*), LME Clear may have taken into account the Initial Margin Requirement and/or the Variation Margin Requirement then applicable to such Member (as calculated in accordance with this Part C).
- 2.2 Members shall maintain sufficient Collateral with LME Clear at all times to cover their Margin Requirement as calculated by LME Clear.

3. INITIAL MARGIN REQUIREMENT

- 3.1 “**Initial Margin Requirement**” is the amount of Collateral required by LME Clear in order to protect itself against potential fluctuations in the market value of a Defaulting Member's open Positions until those Positions are discharged or are closed out, fully hedged, or transferred by LME Clear under Rule 10 (*Default*) following the occurrence of a Default Event.
- 3.2 The calculation of the Initial Margin Requirements will be based on assumed close out periods, confidence levels and historical look back periods in line with the LME Clear margin policy from time to time in force.
- 3.3 The calculation of the Initial Margin Requirement will be made by reference to the most up-to-date novated Positions and LME Clear Price Sets.
- 3.4 The Initial Margin Requirement will be calculated for each Member in respect of the net Positions on each Account both intra-day and at the end of every Business Day.
- 3.5 Margin limits will be set by LME Clear for all Members on all Accounts and payment of margin will be called from a Member in respect of its net Positions on its Accounts on an intra-day basis in the event that margin limits or any applicable Risk Thresholds have been exceeded. For the avoidance of doubt, a reduction in value of the Collateral provided by the Member to LME Clear may cause such limits or Risk Thresholds to be exceeded, resulting in a requirement to for payment of additional margin.
- 3.6 The Initial Margin Requirement will be calculated using the SPAN methodology. Details of the SPAN methodology are available on the Website.

3.7 The SPAN parameters are set by LME Clear in accordance with LME Clear's "Risk Policy", as amended by LME Clear from time to time. The level of the parameters is actively monitored and subject to regular review by LME Clear. Members will be informed of any changes to SPAN parameters by a Member circular published by LME Clear on its Website and through an email to each Member's designated email address.

4. **VARIATION MARGIN REQUIREMENT**

4.1 "**Variation Margin Requirement**" is the amount of Collateral required by LME Clear in order to protect itself against losses that have accumulated on any open Positions of a Member prior to a Default Notice being issued by LME Clear in relation to such Member.

4.2 The Variation Margin Requirement will be calculated by reference to each type of Contract as follows:

(a) futures and future style options will be margined as realised profits and losses using the "**Realised Variation Margin**" ("**RVM**") approach, which is calculated as the difference between:

- (i) the contract value of today's trades and the value of any carried forward Positions; and
- (ii) the Position value as at the time of calculation of the Variation Margin Requirement,

in accordance with the more detailed Settlement to Market Process set out in Clearing Procedure B4.

(b) forwards are margined as liabilities or contingent credits using the "**Discounted Contingent Variation Margin**" ("**DCVM**") approach, which is calculated as the difference between:

- (i) the contract value of the original transaction; and
- (ii) the contract value as at the time of calculation of the Variation Margin Requirement.

(c) OTC derivatives are margined as a cash amount using the "**Cash Contingent Variation Margin**" ("**CCVM**") approach, which is calculated as the daily change in the difference between:

- (i) the contract value of the original transaction; and
- (ii) the contract value as at the time of calculation of the Variation Margin Requirement,

inclusive of an adjustment for Price Alignment Interest⁹.

(d) options are margined as liabilities or contingent credits using the "**Net Liquidating Value**" ("**NLV**") approach, which is calculated as the current value of the option Position.

⁹ Price Alignment Interest will be calculated using the following rates: overnight Fed Funds rate; EONIA; SONIA and the 'Mutan Call Rate' (TONAR)

- 4.3 The calculation of the Variation Margin Requirement will be based on the most up-to-date novated Positions and LME Clear Price Sets.
- 4.4 Variation Margin Requirements will be calculated and payment shall be called at least once every Business Day as:
- (a) part of the End of Day Margin Requirement (in respect of the DCVM and NLV); or
 - (b) a Payment Obligation (in respect of the RVM or CCVM),
- the Cash Settlements in respect of which shall be determined in accordance with the Cover Distribution Process set out in Clearing Procedure D5.
- 4.5 LME Clear reserves the right to call for payment of an Intra-Day Margin Requirement at any point during the Business Day.
- 4.6 All contingent variation margin credits may be used to offset all Margin Requirements and other contingent variation margin debits, but contingent credits may not be realised as cash.
- 4.7 All payment balances due to or from a Member pursuant to the calculation of the Member's Variation Margin Requirement shall be discharged by Cash Settlements that are determined pursuant to the Cover Distribution Process set out in Clearing Procedure D5.

5. ADDITIONAL MARGIN

LME Clear may, in accordance with Rule 8 (*Margin Requirements and Collateral*), require a Member to provide additional Collateral if it determines that further amounts of Collateral are necessary to satisfy the Member's Margin Requirement. For example (but without limitation), LME Clear may request additional Collateral where it believes that the risk of a Position is not sufficiently covered by the existing Collateral provided by the Member in respect of the Initial Margin Requirement and the Variation Margin Requirement (as included in the then current Margin Requirement for the Member). Risks that may be covered by additional Collateral include (but are not limited to):

- (a) delivery risk (that is, the risk that the Member will not fulfil a Delivery Obligation in respect of one or more Contracts);
- (b) concentration risk (the risk that the Member's Account(s) cannot be liquidated within the close out period assumed by the Initial Margin Requirement);
- (c) wrong-way risk (the risk that the Member or the Member's Positions has excessive negatively correlated exposure to collateral assets provided as Collateral);
- (d) credit risk (the increased risk of a Member defaulting in the performance of its obligations to LME Clear as determined by the LME Clear internal credit ratings).

6. CALCULATION OF MARGIN REQUIREMENTS

6.1 End of Day Margin Requirement

End of Day Margin Requirements are calculated net of cash settlements. Calculated risk is compared with any remaining Cash Collateral balance and non-cash Collateral, after the appropriate Haircut and any other applicable parameters or limits set by the Rules

(including the applicable Collateral Limits), have been applied, and any shortfall requested in cash.

6.2 Intra-Day Margin Requirement

- (a) Intra-day risk is continuously compared with the post-Haircut valuation applicable to Collateral and the applicable Collateral Limits to ensure that sufficient Collateral is available to LME Clear. LME Clear will set risk thresholds ("**Risk Thresholds**") to determine when:
 - (i) additional Collateral will be required; and/or
 - (ii) Transactions will be allocated by LME Clear to the Risk Pending Transaction Queue in the Clearing System until additional Collateral is provided.
- (b) Additional Collateral will be requested from a Member whenever its Risk Threshold has been exceeded or where LME Clear believes that the value of available Collateral has been significantly eroded. Members shall provide additional Collateral which is requested intra-day in the form of Eligible Cash unless LME Clear instructs otherwise.

6.3 Regular Intra-day Margin Call

Without prejudice to LME Clear's right under Rule 8 (*Margin Requirements and Collateral*) to require Members to satisfy Margin Requirements at any time during a Business Day, LME Clear may specify a regular margin call to meet an Intra-Day Margin Requirement at 2.00pm (or at such other time as it may specify) on each Business Day.

PART D – TREASURY AND COLLATERAL MANAGEMENT

1. INTRODUCTION

This Part D of the Clearing Procedures specifies the Clearing Procedures applicable to:

- (a) the treasury management arrangements to be applied by LME Clear (**Clearing Procedure D2**);
- (b) approved forms of Collateral to be provided to LME Clear (**Clearing Procedure D3**);
- (c) LME Clear's arrangements for the management of Collateral (**Clearing Procedure D4**); and
- (d) LME Clear's process for cover distribution (**Clearing Procedure D5**).

2. LME CLEAR TREASURY ARRANGEMENTS

- 2.1 At any time, relevant details of LME Clear's investment policy in force at that time will be published on its Website.
- 2.2 LME Clear's Treasury function will on a daily basis re-invest Cash Cover, in accordance with its investment policy. Investment decisions will be taken within the context of LME Clear's Risk Appetite and any proceeds of such investment activity will be solely for the account of LME Clear.
- 2.3 LME Clear may, pay interest on (or, if the rate of interest is negative, deduct interest) Cash Cover deposited by Members with LME Clear, pursuant to Rule 8.3.3 and 9.1.4. The amount of interest paid is at the discretion of LME Clear and is not required to be linked to, or dependent upon, the earnings made by LME Clear from the investments.

3. ACCEPTABLE FORMS OF COLLATERAL

3.1 Approved types of Collateral

- 3.2 The following assets and instruments may be provided by a Member to satisfy its Margin Requirement:

- (a) Eligible Cash;
- (b) Eligible Securities;
- (c) Eligible Gold; and
- (d) such other assets and instruments with such eligibility criteria as LME Clear may from time to time specify,

provided that in each case it is made available in such manner and on such terms as LME Clear considers necessary to comply with the applicable requirements of EMIR.

- 3.3 To manage its concentration risk, LME Clear requires that each Member maintains a minimum proportion and/or minimum amount of its Collateral in Eligible Cash. This minimum proportion and/or minimum amount is set out in the Collateral Specifications. LME Clear may alter this minimum proportion and/or minimum amount at any time.

- 3.4 Any Collateral or Default Fund Contributions which is not, or ceases to be, immediately accessible or otherwise available to LME Clear to use or liquidate (whether pursuant to a right of use, enforcement, set-off or otherwise) shall not be eligible including the following: (a) Collateral or Default Fund Contribution which ceases to be immediately accessible by LME Clear due to the insolvency or default of any Custodian, Securities Systems Operator, central securities depository, bank (including any Approved Settlement Bank) or other person holding or processing Collateral or Default Fund Contributions shall not be eligible for the duration of the period during which it is not immediately accessible by LME Clear; and (b) the currency in which any Cash Cover is held is not, or ceases to be, fully liquid, exchangeable and transferable or is otherwise the subject to currency controls, as a result of which LME Clear determines that Cash Cover in such currency is not appropriate. In the event that any Collateral or Default Fund Contributions provided by a Member ceases to be eligible, the Member shall immediately provide such additional Collateral or Default Fund Contributions as may be required to ensure that the Member is in compliance with the Rules (including in the case of Collateral Rule 8.1).
- 3.5 Any Collateral that does not conform to the requirements of this Part D will be ineligible at LME Clear. If any is received, it will be subject to a 100% Haircut and returned as soon as is practicable but subject to the provisos in Rule 8.7.2.
- 3.6 Collateral may be denominated in any Eligible Currency in accordance with the criteria specified in the Rules, including the Procedures and Annexes. Haircuts will be applied to Eligible Collateral on the basis determined by LME Clear from time to time (and as set out in Annex 2). In the event that Collateral is denominated in an Eligible Currency other than that of the liability which it secures a further Haircut will be applied in order to address the additional foreign exchange exposure.
- 3.7 **Cash Collateral**
- 3.8 The part of a Member's Cash Collateral held in a particular Eligible Currency may not at any time exceed the Collateral Limits, if any, set out in Annex 2 (*Eligible Currencies, Collateral and Haircuts*).
- 3.9 Cash Collateral will be collected through the Secure Payment System (SPS).
- 3.10 Members will be requested to satisfy all margin calls in cash in the currency required by LME Clear. Only an Eligible Currency set out in the Collateral Specifications may be used as Collateral for this purpose.
- 3.11 LME Clear reserves the right to add or remove a currency as an Eligible Currency at any time and otherwise to amend or replace the Collateral Specifications at any time.
- 3.12 The exchange of Cash Collateral from one Eligible Currency to another Eligible Currency or from cash to non-cash Collateral (or vice versa) may be carried out only in accordance with the substitution procedure set out in Clearing Procedure E4.5 to 4.14 below.
- 3.13 **Securities Collateral**
- 3.14 All a Member's right, title and interest in and to any Securities Collateral (together with any accrued interest) provided by that Member shall be charged to LME Clear under the Security Documents.
- 3.15 Securities Collateral will be delivered by the Member either to LME Clear or to a depository institution approved by LME Clear (as listed in Annex 2 (*Eligible Currencies,*

Collateral and Haircuts)) which will hold such Securities Collateral to the order of LME Clear. If such Securities Collateral consist of securities, the title to which is evidenced by entries in a register or account maintained by or on behalf of an intermediary, the Member will cause those securities to be credited to a securities account in the name of LME Clear (or the Custodian, Securities System Operator or nominee acting for LME Clear) at such intermediary and on such terms as LME Clear may require (consistent with the procedures applicable to securities accounts held with the relevant intermediary).

- 3.16 Securities Collateral will be valued, for collateral valuation purposes, on such basis and subject to such Haircuts or other adjustments, as may be determined by LME Clear from time to time. Securities Collateral may be denominated in an Eligible Currency other than that of the liability which it secures (in which case an appropriate Haircut will be applied).
- 3.17 Any dividend, interest or other income earned or paid on Securities Collateral which is received by LME Clear will be added to the Member's Collateral once received (and, where the Member maintains multiple accounts with LME Clear, will be allocated by LME Clear amongst the Account or Accounts in respect of which the relevant securities were delivered), unless the Member has defaulted in payment of any of its obligations to LME Clear, in which case LME Clear may first liquidate such securities and apply all or part of them, including any interest earned on them, as provided for in Rule 10 (*Default*).
- 3.18 **Gold Collateral**
- 3.19 All a Member's right, title and interest in and to any Gold Collateral provided by that Member shall be charged to LME Clear under the Security Documents.
- 3.20 Gold Collateral may be provided only by means of credit to an Unallocated Gold Account in the name of LME Clear (or as it may direct) with the Gold Custodian in accordance with Annex 2 (*Eligible Currencies, Collateral and Haircuts*). LME Clear may convert all or part of the credit balance on such account into allocated Gold to be held on such terms and for such period as it may direct. Only allocated Gold shall be Eligible Collateral and so unless and until LME Clear has converted such unallocated Gold into allocated Gold, and only for so long as LME Clear holds allocated Gold, shall such Gold count against the Member's Margin Requirement. When Gold Collateral becomes returnable in whole or part to the Member, the relevant amount will be credited to the Member's unallocated gold account with such member of LPMCL as the Member shall direct. The crediting of the relevant amount to such account will be a good discharge of LME Clear's obligations for the return of such amount.
- 3.21 **Security Documents**
- 3.22 In order to secure all its obligations, liabilities and debt of any kind (present or future, actual or contingent) to LME Clear under the Rules or in relation to the operation of the Clearing System, each Applicant will, prior to its admission as a Member and where required by LME Clear, deliver to LME Clear (or as it may otherwise direct) one or more duly executed Security Documents in such terms as LME Clear may require. The Security Document(s) will include a perfected, first-ranking, fixed security interest (or the equivalent under the law of any jurisdiction outside England and Wales) over all Asset Cover (other than cash) provided by it to LME Clear (or its agents, Custodians or Securities System Operator) pursuant to the Rules.
- 3.23 The Security Documents (where required by LME Clear) will secure all obligations, liabilities and debt of the Member to LME Clear whether (in LME Clear's books of

account) such transactions are recorded in a Client Account or House Account of the Member or otherwise.

- 3.24 Money received or realised by LME Clear on any enforcement of the Security Documents will, where LME Clear maintains in its books of account one or more Client Accounts and House Accounts for the relevant Member, be applied in the proportions and subject to the restrictions on the use of Client Collateral applicable under the Rules.
- 3.25 LME Clear may require a Member to grant a subordinated or other Security Interest (pursuant to documentation in a form specified by LME Clear) to its Clients over any rights of the Member in, and/or any rights of the Member to the return of, any Collateral provided by the Member which is recorded on a Client Account to facilitate LME Clear's observance of (i) Article 48(5) or (6) of the EMIR Level 1 Regulation and Rule 10.7 and (ii) Article 48(7) of the EMIR Level 1 Regulation and Rule 10.5.1(c).

4. COLLATERAL MANAGEMENT

4.1 General Information

Without prejudice to LME Clear's rights under Clearing Procedure C (*Valuation, Margining and Risk Management*):

- (a) LME Clear may determine what will be acceptable to it as Eligible Collateral and will also determine when any form of collateral will cease to be acceptable as Eligible Collateral;
- (b) LME Clear may determine the Haircuts to be applied to the valuations of Eligible Collateral and will also determine when such Haircuts will be subject to change (the list of Eligible Collateral and Haircuts is set out in Annex 2 (*Eligible Currencies, Collateral and Haircuts*));
- (c) LME Clear will only accept delivery of non-cash Collateral in accordance with these Clearing Procedures; and
- (d) LME Clear reserves the right to change the information required on instructions received via the RTC GUI whenever LME Clear considers that it would be appropriate to do so.

4.2 Collateral Settlement

- (a) All non-cash Collateral deposited with LME Clear will be subject to the application of fees and charges levied at the discretion of LME Clear.
- (b) It will only be possible for a Member to deposit with LME Clear non-cash Collateral after its acceptability has been agreed or verified through the RTC GUI.
- (c) Non-cash Collateral transfers initiated through the RTC GUI generate the appropriate STP messages for the relevant LME Clear collateral agents. Members will need to instruct their own agents directly to avoid unmatched transactions; alternatively, Members may provide LME Clear with a Power of Attorney to address this requirement.
- (d) All transactions to lodge or withdraw securities from LME Clear will be executed as "free of payment".

4.3 Additional Collateral Management Charge

- (a) Where a Member has deposited Eligible Collateral with LME Clear that exceeds the required Margin Requirement, or Excess Collateral has otherwise arisen as a consequence of changes to the Market Value of the deposited Eligible Collateral, LME Clear may request a Member to withdraw the Excess Collateral. (By way of example, but without limitation, this may occur where LME Clear may incur financial exposure or charges as a consequence of holding such Excess Collateral). If the Member is unable to comply with the request to remove the Excess Collateral, LME Clear may either:
 - (i) in the case of cash, return an appropriate amount to the Member; or
 - (ii) where it is able to do so, return the securities to the Member; or
 - (iii) levy an "Additional Collateral Management Charge" (or "**ACMC**") on the Member.
- (b) An ACMC will be charged from the date the Member was requested to remove the Excess Collateral until the date of its removal, and will be collected monthly in arrears by deduction from the Member's House Account.

4.4 Insurance

It is the responsibility of a Member to maintain adequate insurance against such risks as it deems appropriate (or as may be required by LME Clear) in respect of all non-cash assets lodged as Collateral with LME Clear.

4.5 Collateral Substitutions and Transfers

4.6 A substitution or transfer of Collateral is permitted only:

- (a) in the case of Collateral in the form of Eligible Cash, in accordance with Clearing Procedure D4.7(a);
- (b) in the case of Collateral in the form of Eligible Securities or Eligible Gold in accordance with Clearing Procedure D4.7(b); and
- (c) in any other case, with the prior written consent of LME Clear in each specific instance,

provided that in each case the Member has given prior notice via the RTC GUI (such notice being for the minimum period specified in Annex 2 (*Eligible Currencies, Collateral and Haircuts*)) to LME Clear of its request for such substitution or transfer and LME Clear is able to carry out such substitution or transfer. If a Member requests a substitution or transfer without giving such minimum prior notice, LME Clear may decline to effect such substitution or transfer until the end of the required notice period. LME Clear may impose such limits (either generally or in respect of a particular Member) as it may choose on the minimum and maximum amounts of any substitutions and transfers which may be carried out by a Member and on their frequency and may alter such limits from time to time.

4.7 A Member may from time to time request LME Clear to release Collateral provided by it:

- (a) after payment to LME Clear of Eligible Cash in substitution for the Collateral to be released (a "**Substitution of Cash**"); or

- (b) after transfer to LME Clear of Eligible Collateral (other than cash) in substitution for the Collateral to be released (a "**Substitution of Non-cash Assets**"); or
- (c) where the Collateral Value of such Collateral at the relevant time represents an excess in the Margin Requirement then applicable to the Member (an "**Excess Release**"),

provided that in each case the amount to be substituted or withdrawn exceeds the *de minimis* levels specified in Annex 2 (*Eligible Currencies, Collateral and Haircuts*) for such purpose.

4.8 Each request for a Substitution of Cash, Substitution of Non-cash Assets or Excess Release will be acted upon only upon LME Clear being satisfied that:

- (a) the Collateral Value of the Eligible Collateral provided by the Member (both immediately prior to, and immediately after, giving effect to that release and applying the appropriate Haircut to the new Eligible Collateral) would be more than the Margin Requirement then applicable to the Member and such Eligible Collateral is not of a type which would breach any Collateral Limits (such as concentration limits) or any requirement for a minimum proportion and/or a minimum amount from time to time specified by LME Clear;
- (b) no Default Event has occurred and is continuing in relation to the Member; and
- (c) no circumstance referred to in Rule 2.4.1 or 2.4.4 has occurred and is continuing which may adversely affect the execution or pricing of such substitution.

4.9 If a Default Event has occurred and is continuing in relation to the Member, LME Clear will not release such Collateral unless and until otherwise expressly agreed by it.

4.10 In the case of a request to release Collateral in return for a Substitution of Cash, then where:

- (a) the Collateral transferred to LME Clear on that substitution is Eligible Cash;
- (b) the amount of Eligible Cash so transferred to LME Clear is such that its Market Value (less the appropriate Haircut) is not less than the Market Value (less the appropriate Haircut) of the Eligible Collateral being released on that substitution;
- (c) the requirements set out in Clearing Procedure D4.8 above are fulfilled;
- (d) LME Clear has consented to the Substitution of Cash (which may be conditional on the above requirements being fulfilled); and
- (e) the Substitution of Cash would not result in the breach of any applicable Collateral Limits,

LME Clear will promptly arrange for the release of that Eligible Collateral in accordance with its usual practice as specified in Clearing Procedure D4.16 below.

4.11 In the case of a request to release Collateral in return for a Substitution of Non-cash Assets, then where:

- (a) the Collateral transferred to LME Clear on that substitution is Eligible Collateral;

- (b) the amount of Eligible Collateral so transferred to LME Clear is such that its Market Value (less the appropriate Haircut) is not less than the Market Value (less the appropriate Haircut) of the Eligible Collateral being released on that substitution;
- (c) the requirements set out in Clearing Procedure D4.8 above are fulfilled; and
- (d) LME Clear has consented to the Substitution of Non-cash Assets (which may be conditional on the above requirements being fulfilled); and
- (e) the Substitution of Non-cash Assets would not result in the breach of any applicable Collateral Limits,

LME Clear will promptly arrange for the release of that Eligible Collateral in accordance with its usual practice as specified in Clearing Procedure D4.16 below.

4.12 In the case of a request to release Collateral as part of an Excess Release, then where:

- (a) the requirements set out in Clearing Procedure D4.8 above have been fulfilled;
- (b) LME Clear has consented to the release (which may be conditional on the above requirements being fulfilled); and
- (c) the release of Collateral would not result in the breach of any applicable Collateral Limits,

LME Clear shall promptly arrange for the release of that Eligible Collateral in accordance with its usual practice as specified in Clearing Procedure D4.16 below.

4.13 Notwithstanding the foregoing provisions of this Clearing Procedure D, LME Clear shall have discretion whether to give or refuse its consent under Clearing Procedure D4.10 to 4.12 and, for this purpose, will run such series of limit and availability checks as it deems appropriate before deciding whether or not to release any Collateral.

4.14 **Collateral Timetable**

4.15 The following Table specifies the timescales within which Members shall ensure that Collateral called by LME Clear is deposited with LME Clear. All times are London times.

Placement		
	Lodged by	Member given value on
Cash – o/n Call	9:00 am	Day of receipt
Cash – intra-day Call	Within one (1) hour of call	Day of receipt
Cash – substitution, post 9:00	The cut-off time for the relevant Central Securities Depository for the Financial Instrument that is to be substituted, as set	Day of receipt

	out below	
Financial Instruments	Central Securities Depository cut-off time: - Euroclear Bank: 14:00 - Euroclear UK & Ireland: 12:00 - Federal Reserve: 17:00	Settlement
Gold	14:00	Upon allocation

- 4.16 The following Table specifies the timescales within which LME Clear will endeavour to release to a Member Collateral that the Member has requested (where LME Clear has agreed to release such Collateral in accordance with these Clearing Procedures). These timescales are indicative only and are not contractually binding on LME Clear. The withdrawal timelines also assume that sufficient Collateral is in place with LME Clear to meet the Member's Margin Requirement prior to release of the requested Collateral, and will remain sufficient following the release of the requested Collateral:

Withdrawal		
	Notice by	Assets released to member on
Cash – o/n	9:00 am	Day of receipt
Cash – substitution, post 9:00	20:00	Next Business Day
Financial Instruments	Central Securities Depository cut-off time: - Euroclear Bank: 14:00 - Euroclear UK & Ireland: 12:00 - Federal Reserve: 17:00	Upon settlement
Gold	14:00	Upon settlement

4.17 Expiry

- (a) Members will be required to withdraw non-cash Collateral prior to its expiry date.

- (b) The Haircut applied to non-cash Collateral will be amended to 100% within such period prior to its expiry as is specified in Annex 2 (*Eligible Currencies, Collateral and Haircuts*).

4.18 Interpretation of "take" and "return" of Collateral

- 4.19 Where in the Rules LME Clear is stated to "take" any Collateral it shall mean the following:

- (a) in the case of any Cash Collateral, exercising a right of set-off against or deduction from that cash;
- (b) in the case of any Gold Collateral, disposing or otherwise liquidating that gold; and
- (c) in the case of any Securities Collateral, disposing or otherwise liquidating those securities,

and depending on the context, "take" shall also mean enforcing any security interest in the relevant Collateral or exercising any right or remedy provided for in any Security Document in relation to the relevant Collateral.

- 4.20 Where in the Rules LME Clear is stated to "return" any Collateral to the relevant Member it shall be taken to mean the following:

- (a) in the case of any Cash Collateral, paying a sum to that Member equal to that cash;
- (b) in the case of any Gold Collateral, transferring it into the name of that Member or otherwise returning it to that Member as contemplated by Clearing Procedure D 3.20; and
- (c) in the case of any Securities Collateral, delivering to that Member securities equivalent to those securities.

5. COVER DISTRIBUTION

- 5.1 "**Cover Distribution Process**" is the name given to the process operated by LME Clear at End of Day on each Business Day in order to calculate the amount of any net Cash Settlements between LME Clear and Members to be processed on the following Business Day. This includes both the Payment Obligations in respect of settled Contracts and the payment of Collateral in satisfaction of Margin Requirements.

- 5.2 The Cover Distribution Process involves the following steps, which shall be taken separately in relation to each Account:

- (a) Step 1: determine Payment Obligations and calculate Available Cash;
- (b) Step 2: calculate End of Day Margin Requirement;
- (c) Step 3: calculate Available Non-cash Collateral;
- (d) Step 4: calculate Available Cash Collateral;
- (e) Step 5: calculate Minimum Cash Requirement;

- (f) Step 6: determine Cash Settlement payable to or from Member (the Cover Distribution Process calculation).

5.3 These steps are explained in the following paragraphs below.

5.4 **Step 1: Determine Payment Obligations and calculate Available Cash**

5.5 LME Clear shall calculate:

- (a) the amount of cash it holds at End of Day; and
- (b) the Payment Obligations, in each currency, and other Cash Settlements that are known to LME Clear to be due to be made on the following Business Day; and
- (c) (for payments in a Forward Dated Currency) the Payment Obligations and other Cash Settlements that are known to LME Clear to be due to be made on the Business Day following the next Business Day,

in order to determine the balance of cash remaining, in each relevant currency, net of such Payment Obligations and other known Cash Settlements (such net balance being the "**Available Cash**").

5.6 For the avoidance of doubt, Payment Obligations include any Fees and other charges payable by the Member, together with those Payment Obligations specified in the table of Cash Settlements set out in Clearing Procedure E. For the avoidance of doubt, cash held as Default Fund Contributions and any Cash Settlements relating to Default Fund Contributions shall not be included in the calculation in 5.5 above and shall be dealt with as separate Cash Settlements.

5.7 **Separate Process: Delivery Position Settlements for Sellers**

5.8 In order to manage physical delivery risk, LME Clear will only pay Sellers for their physical delivery of any Underlying Assets after the relevant Underlying Asset has been received by LME Clear. Consequently, LME Clear shall effect a Cash Settlement in satisfaction of LME Clear's Payment Obligation separately from any other Cash Settlements calculated and settled under the Cover Distribution Process described under this Clearing Procedure D5.

5.9 **Step 2: Calculation of End of Day Margin Requirement**

5.10 LME Clear shall calculate, in respect of each Account, the following values:

- (a) the Initial Margin Requirement (IM) (*which shall always be a negative value*);
- (b) the Discounted Contingent Variation Margin (DCVM) (*which may be a positive or a negative value*);
- (c) the Net Liquidation Value (NLV) (*which may be a positive or a negative value*); and
- (d) any additional margin determined in accordance with Clearing Procedure C5 (AM) (*which shall always be a negative value*).

- 5.11 The sum of IM + DCVM + NLV + AM shall be the total End of Day Margin Requirement for the Account. Such End of Day Margin Requirement shall be determined in the Base Currency (USD), unless otherwise specified by LME Clear.
- 5.12 In the event that the End of Day Margin Requirement is a positive number, there shall be no liability to be offset and, due to the contingent nature of DCVM and NLV, the End of Day Margin Requirement to be included in the Cover Distribution Process shall be zero.
- 5.13 **Step 3: Calculation of Available Non-cash Collateral**
- 5.14 The "**Available Non-cash Collateral**" shall be calculated in respect of each Account on the basis that:
- (a) non-cash Collateral held in respect of the Account shall be valued using the End of Day Price Set in order to identify a current value (after any applicable Haircut) for each asset comprised within such Collateral; and
 - (b) any non-cash Collateral that is still held by LME Clear but which has been flagged by the Member for withdrawal or substitution on the following Business Day or on the Business Day thereafter (in accordance with Clearing Procedure D4) and any expired non-cash Collateral shall not be considered to be Available Non-cash Collateral and shall be excluded from the Cover Distribution Process; and
 - (c) LME Clear shall treat as available only the non-cash Collateral that is within any applicable Collateral Limits.
- 5.15 **Step 4: Calculation of Available Cash Collateral**
- 5.16 LME Clear shall then determine what proportion and/or amount of the Available Cash can be treated as Cash Collateral.
- 5.17 When making such determination, LME Clear shall have regard to the fact that:
- (a) a Member may have specified, in respect of any Account, that Cash Collateral will only be provided in US Dollars in which case, LME Clear will exclude any other currency credit balances from the Cash Collateral calculation; and
 - (b) any Cash Settlement in respect of such 'excluded' currencies shall be settled through the Secure Payments System independently of the Cover Distribution Process. For the avoidance of doubt, Members will be called for, and must settle, all Payment Obligations in the relevant currency and are not permitted to have any debit balances with LME Clear; and
 - (c) LME Clear shall treat as available only the Cash Collateral that is within any applicable Collateral Limits.
- (In the event of a currency holiday for the currency in which the debit balance occurs or which settlement in that currency on the following Business Day is not possible, LME Clear may request cover in an alternative currency).
- 5.18 The Available Cash in each currency (as calculated under Step 1 and after any applicable Haircut) shall then be validated against the account criteria set by the Member to determine what should be included within the Cover Distribution Process calculation.

Available Cash that is included in the Cover Distribution Process calculation is considered to be "**Available Cash Collateral**".

5.19 **Step 5: Calculate Minimum Cash Requirement**

5.20 For liquidity management purposes LME Clear imposes a "**Minimum Cash Requirement**" that is applicable to each Account maintained by the Member with LME Clear. This requires that for every Account a minimum proportion and/or minimum amount of the End of Day Margin Requirement shall be covered by cash.

5.21 The Minimum Cash Requirement is expressed as a percentage and/or an amount which is defined in Annex 2 (*Eligible Currencies, Collateral and Haircuts*).

5.22 **Step 6: Cover Distribution Calculation**

5.23 Available Cash Collateral and Available Non-cash Collateral are then applied against the End of Day Margin Requirement according to the following rules:

- (a) Available Non-cash Collateral shall be used before Available Cash Collateral, regardless of Haircut or currency.
- (b) Within Available Non-cash Collateral, apply assets with the lowest combined Haircut in priority to those with higher Haircuts.
- (c) Where any Gold Collateral and any instruments comprising Securities Collateral have the same Haircut, LME Clear shall use the Gold Collateral in priority to the Securities Collateral.
- (d) Where different instruments comprising Securities Collateral have the same Haircut:
 - (i) use same-currency assets before cross-currency assets;
 - (ii) use assets with the shortest tenor first (for example, a 5 year bond before a 10 year bond).
- (e) Within Available Cash Collateral, where the option to use other currencies in addition to USD for cover purposes has been taken, apply assets with the lowest combined Haircut in priority to those with higher Haircuts, then apply USD cash.
- (f) The cash balance for each currency on the Account shall not be permitted to be in debit. The Cover Distribution Process therefore calculates three amounts in respect of each Account:
 - (i) the cash amount for each currency required to bring the cash balance on the Account back into credit or to a zero balance;
 - (ii) the cash amount required to ensure that sufficient Collateral is available and within applicable Collateral Limits (including bringing the cash balance on the Account back into credit or to a zero balance); and
 - (iii) the cash amount required to ensure that the Minimum Cash Requirement is available and within applicable Collateral Limits.

- (g) If the Cover Distribution Process calculates that a cash amount shall be payable by the Member under (f) above, for each currency, the cash call made for the Account through the Secure Payments System shall be determined as the largest of these three numbers and shall be discharged as a Cash Settlement.
- (h) If the Cover Distribution Process calculates that the Margin Requirements are covered and the cash balance on the Account is in credit and is greater than the Minimum Cash Requirement and within applicable Collateral Limits, the Member may:
 - (i) leave the excess cash with LME Clear, or
 - (ii) make an individual request for the return of any excess cash, or
 - (iii) have such excess cash, to the extent that it is in excess of any applicable balance agreed between the Member and LME Clear from time to time, auto-repaid by LME Clear (where such option has been selected by the Member as part of the set-up profile for that Account),

subject in each case to LME Clear's rights under the Rules, including in particular but without limitation any rights to limit or delay repayment of any Excess Collateral under Rule 8 (*Margin Requirements and Collateral*) or Clearing Procedure D4, and provided that any withdrawal would not result in a breach of the Rules including in relation to Collateral Limits.

5.24 **Excess Cash Auto-repay**

A Member may nominate, in respect of an Account, that any cash balance calculated as being held by LME Clear in excess of its Cash Settlement obligations and Margin Requirements, after application of the Cover Distribution Process and above a level that can be specified by the Member, should be automatically returned to the Member's Settlement Account at the relevant Approved Settlement Bank on the next Business Day or (where the cash balance on the relevant Account is in a Forward Dated Currency) on the Business Day following the next Business Day. Notwithstanding that such option may have been selected by the Member in respect of any Account, LME Clear shall still be entitled to exercise its rights under Clearing Procedure D4 to refuse, delay or impose conditions on any such Excess Release.

5.25 **De minimis Limit for Cash Movements**

LME Clear may apply a *de minimis* limit to cash movements and will not call for or make Cash Settlements for amounts that are below this limit. This limit is defined in Annex 2 (*Eligible Currencies, Collateral and Haircuts*).

5.26 **Currency Centre Opening and Bank Holidays**

- (a) Cash Settlement in any currency shall be made on those Business Days that are days on which cash payments may be facilitated in the country of issue of that currency, unless LME Clear determines that such payments can be made by alternative means on any day on which such country of issue is not capable of facilitating such payments.
- (b) In the event that a Member is due to make a Cash Settlement in a currency on a Business Day which is a bank holiday or a public holiday in the country of issue of

that currency, LME Clear may require that the Cash Settlement be made in an alternative currency (in accordance with Rule 2.15 (*Currency Conversion*)) and shall apply the Cover Distribution Process on the basis that the relevant Cash Settlement is to be made in that alternative currency.

5.27 **Intra-Day Cover Distribution Process**

An intra-day cover distribution run will also take place each Business Day at 2pm which, where relevant, will follow the processes as described in Steps 1 to 6 above, with the exception that any excess cash balances will not be available for repayment. Non-cash Collateral that is held in excess of the Member's Margin Requirement subsequent to this process will be available for same day withdrawal, provided that the cut off times set out at Clearing Procedure D 4.16 shall continue to be observed.

PART E – SECURE PAYMENTS SYSTEM AND CASH SETTLEMENTS

1. INTRODUCTION

This Part E of the Clearing Procedures specifies the Clearing Procedures applicable to:

- (a) the operation of the Secure Payments System (**Clearing Procedure E2**); and
- (b) Cash Settlements (**Clearing Procedure E3**).

2. SECURE PAYMENTS SYSTEM

2.1 LME Clear operates a direct debit system for the transfer of cash to and from the Settlement Accounts of Members held at Approved Settlement Banks. This system is called the Secure Payment System (or SPS).

2.2 Each Member shall establish and maintain with one or more Approved Settlement Banks one or more Settlement Accounts capable of holding and making to LME Clear Cash Settlements in:

- (a) the Eligible Currencies for any Asset Cover payable by the Member to LME Clear;
- (b) the Settlement Currencies for any Eligible Product for which the Member effects or clears Transactions; and
- (c) any other Currency in which the Member may be required to make (or receive) Cash Payments to (or from) LME Clear.

Different Approved Settlement Banks may be used for different currencies. A Member may not maintain more than one Approved Settlement Bank in respect of payments to be made in respect of any single Account in a single currency.

2.3 Members shall maintain their Settlement Accounts with institutions that are able to meet the payment deadlines determined by LME Clear from time to time. Failure of an Approved Settlement Bank to confirm a payment within the relevant payment deadlines specified by LME Clear may result in the Member being declared in Default.

2.4 LME Clear may issue Settlement Instructions in respect of Cash Settlements or in respect of a Member to the Member's Approved Settlement Bank in accordance with the operation of the Secure Payments System. Each Member shall ensure that its Approved Settlement Bank shall act on:

- (a) Settlement Instructions calling for payment to LME Clear by debiting from the Member's Settlement Account the required cash amount and irrevocably crediting such cash amount to LME Clear's Settlement Account at the Approved Settlement Bank; or
- (b) Settlement Instructions calling for receipt of payment from LME Clear by irrevocably crediting the Member's Settlement Account with the required cash amount.

2.5 A Member's obligation to make any Cash Settlement shall not be treated as discharged until the full amount of the cash payment, in the correct currency, is received and credited to LME Clear's concentration bank account at the Concentration Bank nominated by LME

Clear to receive the payment. LME Clear's obligation to make any Cash Settlement shall be treated as discharged when the full amount of the cash payment, in the correct currency, is debited from LME Clear's concentration bank account at the relevant Concentration Bank.

- 2.6 LME Clear shall be responsible for issuing instructions to each Approved Settlement Bank to transfer cash amounts in the discharge of Cash Settlements from LME Clear's Settlement Account at the Approved Settlement Bank. Notwithstanding the foregoing, LME Clear shall have no liability to any member for any failure by an Approved Settlement Bank to act on LME Clear's instructions.
- 2.7 In the event that one or more Members do not receive a payment due to it as a consequence of the insolvency of its Approved Settlement Bank, LME Clear shall, if LME Clear makes a recovery from the estate of the Approved Settlement Bank, credit such recovery, net of LME Clear's costs, to the Members affected by such insolvency, in proportion to the respective amounts of the payments that such Members did not receive.
- 2.8 It is the responsibility of the Member to have sufficient funds or other arrangements in place with their Approved Settlement Bank(s) to ensure that calls by LME Clear for funds are met promptly.
- 2.9 Members shall complete and maintain in effect at all times SPS Mandate Forms for each Approved Settlement Bank at which they wish to operate a Settlement Account. These forms shall either be in the form available on the Website or (where no such form is available) in the form provided by each Approved Settlement Bank. Each Member shall ensure that copies of the completed SPS Mandate Forms, put in place with each Approved Settlement Bank, shall also be provided to LME Clear prior to the Member's commencing settlement operations using that Approved Settlement Bank. The Member shall notify LME Clear immediately if any SPS Mandate Form ceases to apply in respect of any Settlement Account maintained by the Member with an Approved Settlement Bank.
- 2.10 **SPS Payment Deadlines**
- 2.11 Members shall, and shall ensure that their Approved Settlement Banks, comply with the deadlines set out below. All times are London times.

Deadline	Required Action
<i>End of Day Margin Requirement – margin call</i>	
09:00hrs	Final confirmation required from Member's Approved Settlement Bank that any cash Collateral in respect of the End of Day Margin Requirement has been paid.
<i>Intra-Day Margin Requirement – margin call</i>	
Between: 07:30hrs & 21:00hrs	Member's Approved Settlement Bank is required to confirm within 60 minutes of LME Clear issuing an instruction to pay cash Collateral in respect of an Intra-Day Margin Requirement that such cash has been paid for value on the same Business Day.

2.12 Annex 4 (*List of Available Reports*) sets out the times by which Cash Settlement in different currencies shall be completed.

2.13 Non-UK Bank Holidays

The Member's payments to or from its Approved Settlement Bank shall be received within the deadlines set out in the SPS Payment Deadlines set out in Clearing Procedure E2.11. The Member's payments to or from its Approved Settlement Bank shall be issued:

- (a) for a valid value date for the corresponding currency only; and
- (b) for execution on said value date only.

LME Clear shall require payments to be made, for value, on Business Days that are also days on which the relevant institutions in the country of issue of the relevant currency are able to facilitate such payment. Where a calls for a currency is issued for a value date that is or subsequently becomes a bank holiday or public holiday in the country of issue of that currency and such payment cannot consequently be made on that value date (for example, in the event of the declaration of a bank holiday at short notice), LME Clear reserves the right to require such payment to be made in an alternative currency (in accordance with Rule 2.15 (*Currency Conversion*) and Clearing Procedure D).

2.14 Contingency Payment Arrangements

Each Member shall maintain appropriate contingency arrangements for the payment to LME Clear of Cash Settlements in the event that the Approved Settlement Bank appointed by the Member is unable for any reason to facilitate Cash Settlements in accordance with LME Clear's Settlement Instructions. Each Member shall notify LME Clear in writing of the contingency arrangements it maintains in accordance with this provision and shall ensure that LME Clear is notified of any change to such arrangements. The Member is responsible for ensuring that all Cash Settlements are discharged by or on its behalf by the times specified in the Clearing Procedures.

3. CASH SETTLEMENTS

3.1 All Cash Settlements in respect of Payment Obligations shall be calculated and settled in the currency of the relevant Contract, with the exception of LME Warrant Delivery Adjustments for Rent and Weight. LME Warrant Delivery Adjustments for Rent and Weight shall be settled in USD.

3.2 There shall be no cross-currency netting of Cash Settlements.

3.3 Cash Settlement Summary

3.4 Each Cash Settlement specified in the table below shall be recorded against the relevant Account of the Member maintained in the books and records of LME Clear in accordance with Rule 4 (*Accounts*).

Cash Settlement Type	Description
Cash Contingent Variation Margin – Settlement to Market (inclusive Price Alignment Interest)	Debited from or credited to the relevant Account in the Settlement Currency on a daily basis.
Realised Variation Margin – Settlement to	Debited from or credited to the relevant

Market	Account in the Settlement Currency on a daily basis.
Option Premium	Either: (a) debited from the relevant Account (where the Member is the Buyer); or (b) credited to the relevant Account (where the Member is the Seller), in each case on the due date (as defined for the Eligible Product).
Position Expiry – Exchange Traded Futures (Minis & LME Index)	On expiry of the Instrument a final Settlement to Market net cash posting is calculated for each Account as the difference between the Settlement Price and the Closing Price for the open Position.
Position Expiry – Exchange Traded Average Price Futures	On expiry of the Instrument a net profit or loss Cash Settlement for the Prompt Date is calculated for each Account as the difference between the Monthly Average Settlement Price (MASP), and the traded price of the Open Contract.
Position Expiry – Exchange Traded Forwards & OTC London Bullion Market Forwards	On expiry of the Instrument a net profit or loss Cash Settlement for the Prompt Date is calculated for each Account as the difference between the Settlement Price and the traded price of the Open Contracts.
Cash Settlement for Final Delivery Position - Exchange Traded Forwards & OTC London Bullion Market Forwards	The procedures for Cash Settlements arising from Delivery Positions are documented in either: (a) The LME Warrant Delivery Procedure for LME Exchange Traded Forwards (See Clearing Procedure F2); or (b) The OTC Loco London Bullion Delivery Procedure for OTC London Bullion Market Forwards. (See Clearing Procedure F3).
Delivery Adjustments for Rent and Weight Cash - Exchange Traded Forwards	The procedures for Cash Settlements arising from Delivery Adjustments for Rent and Weight Differences are documented in: The LME Warrant Delivery Procedure for LME Exchange Traded Forwards. (See Clearing

	Procedure F2).
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- 3.5 Each Business Day, the net Cash Settlements calculated as falling due on the next Business Day in respect of each Account, pursuant to the table above shall be calculated by LME Clear.
- 3.6 The total net Cash Settlement amounts for each currency due to LME Clear from the Member are debited in the relevant currency to each Member's Settlement Account via the Secure Payment System on the due date subject to, and in accordance with, the daily Cover Distribution Process.
- 3.7 The total net Cash Settlement amounts for each currency arising as due to the Member from LME Clear are credited in the relevant currency to each Member's Settlement Account via the Secure Payment System on the due date subject to, and in accordance with, of the daily Cover Distribution Process.

PART F – PHYSICAL DELIVERY

1. INTRODUCTION

This Part F of the Clearing Procedures specifies the Clearing Procedures applicable to:

- (a) the procedures for the discharge of Delivery Obligations in respect of Contracts for LME Warrants (**Clearing Procedure F2**); and
- (b) the procedures for the discharge of Delivery Obligations in respect of Contracts for OTC Loco London Bullion Market Products (**Clearing Procedure F3**).

2. LME WARRANT DELIVERY PROCEDURES

2.1 Interaction with LME Rules for LMEsword

2.2 LMEsword is the Approved Delivery Facility for Contracts in LME Warrants.

2.3 A Member may not submit to LME Clear any Transaction in respect of LME Warrants unless it has first set-up the appropriate number and type of "Member Accounts" in LMEsword (referred to in this Clearing Procedure F2 as the "**Member LMEsword Clearing Account**"). This shall include establishing such number of Member LMEsword Clearing Accounts designated as "house" or "client" as shall be necessary to ensure that the LME Warrants can be delivered appropriately. As a minimum, each Member must establish a Member House LMEsword Clearing Account. Each Member that is a General Clearing Member must establish a Member Client LMEsword Clearing Account.

2.4 LME Clear maintains one or more accounts for the collection and delivery of LME Warrants at LMEsword (referred to in this Clearing Procedure F2 as the "**LME Clear LMEsword Clearing Account**").

2.5 LME Warrant deliveries are effected through LMEsword in accordance with the LME Rules. The LME Rules contain specific procedures applicable to the operation of LMEsword.

2.6 For the purpose of these Clearing Procedures:

- (a) "**LMEsword**" means the system defined under the LME Rules as the "LMEsword System";
- (b) "**LMEsword Regulations**" and "**LMEsword Operating Procedures**" shall have the definitions set out in the LME Rules; and
- (c) "**LME Warrants**" are "Warrants" within the meaning of the LME Rules.

2.7 Consequently, this Clearing Procedure F2 shall be read in conjunction with the LME Rules and the LMEsword Regulations and Operating Procedures. LME Clear and the Member shall therefore comply with the LME Rules and the LMEsword Regulations and Operating Procedures in relation to the performance of their respective Delivery Obligations under Contracts in LME Warrants.

2.8 In the event of any conflict between this Clearing Procedure F2 and the LME Rules, the LME Rules shall take precedence.

2.9 Instructions for Settlement of Delivery Positions

2.10 The Delivery Positions established in respect of each Account maintained by the Member with LME Clear shall be settled on the Prompt Date. This means that, on the Prompt Date:

- (a) the Payment Obligation and the Delivery Obligation comprising the Delivery Position in respect of Contracts to be settled on that date, shall be fulfilled by LME Clear and the Member respectively;
- (b) Members who are Sellers under Contracts for LME Warrants (and who therefore have the Delivery Obligation) shall issue a Warrant Transfer Instruction to LME Clear via LMEsword on which the Delivery Position for LME Warrants indicates that the Member is to perform the Delivery Obligation; and
- (c) Members who are Buyers under Contracts for LME Warrants (and who therefore have the Payment Obligation) shall receive from LME Clear a Warrant Transfer Instruction via LMEsword on which the Delivery Position for LME Warrants indicates that LME Clear is to perform the Delivery Obligation.

2.11 Final Delivery Position and Warrant Movements

Where:

- (a) Delivery Positions for the same Prompt Date exist on an Account in respect of the same Underlying Asset, but for different Settlement Currencies;

then
- (b) a Final Delivery Position in respect of that Underlying Asset on the Account shall be calculated by LME Clear by applying the calculation set out in Clearing Procedure B7.3 in order to determine the net of the Purchase Positions and Sale Positions for the Underlying Asset across currencies on that Account.

then
- (c) the Warrant Movements for the Member in respect of that Underlying Asset shall be calculated by LME Clear by applying the calculation set out in Clearing Procedure B7.4 in order to determine the Warrant Movements required to settle the Final Delivery Positions through LMEsword between LME Clear and the Member.

The Warrant Movements shall be the number of LME Warrants deliverable through LMEsword by whichever of LME Clear or the Member has the Delivery Obligation.

2.12 LME Clear LMEsword Clearing Account

2.13 LME Warrants transferred:

- (a) from a Member (as Seller) to LME Clear; and
- (b) from LME Clear to a Member (as Buyer),

will be made to or from (as applicable) the LME Clear LMEsword Clearing Account. The allocation of LME Warrants to Members (as Buyers) will be performed whilst the LME Warrants are held in this account.

2.14 Member LMEsword Clearing Account

2.15 LME Warrants allocated to a Member (as Buyers) in fulfilment of Delivery Obligations of LME Clear will be transferred:

- (a) from the LME Clear LMEsword Clearing Account; and
- (b) to the Member LMEsword Clearing Account to which the Warrant Movement relates. For the avoidance of doubt:
 - (i) the LME Warrants that discharge a net Purchase Position on the Member's House Accounts will be transferred to the Member House LMEsword Clearing Account; and
 - (ii) the LME Warrants that discharge a gross Purchase Position on the Member Client Accounts will be transferred to the Member Client LMEsword Clearing Account.

2.16 LMEsword - Notification of Delivery Commitments and Entitlements

2.17 Members with Delivery Positions will be notified of the Warrant Movements required to settle their Delivery Obligations, via LMEsword, for the relevant Prompt Date.

2.18 LME Warrant Collection

2.19 LME Clear will, via LMEsword, automatically initiate a LME Warrant collection process at the delivery deadline (11:00 hours). All LME Warrants nominated in a Warrant Transfer Instruction issued by the Member (as Seller) will be transferred from the relevant Member LMEsword Clearing Account to the LME Clear LMEsword Clearing Account.

2.20 The Member (as Seller) will receive a separate notification, via LMEsword, in respect of each Underlying Asset, informing them that the LME Warrant collection process has been executed.

2.21 LME Warrant Allocation and Delivery

2.22 LME Clear will initiate the LME Warrant allocation and delivery process.

2.23 The LME Warrants held in the LME Clear LMEsword Clearing Account will be sorted and allocated in accordance with the "LMEsword Warrant Allocation Method" (as documented in the LMEsword Operating Procedures).

2.24 The LME Warrants allocated to a Member (as Buyer) will be transferred from the LME Clear LMEsword Clearing Account to the relevant Member LMEsword Clearing Account as described in Clearing Procedure F2.15(b).

2.25 The Member (as Buyer) will receive a separate notification, via LMEsword, in respect of each Underlying Asset, informing them that the transfer of LME Warrants has been executed.

2.26 Clearing System Reports

2.27 LME Clear shall make available certain Reports relating to deliveries of LME Warrants via the Website.

2.28 Details regarding the nature and content of these Reports are set out in Annex 4 (*List of Available Reports*).

2.29 LMEsword Reports

The following reports can be accessed by Members via LMEsword:

(a) Warrant Collection Adjustment Invoice

This report lists the LME Warrants collected by LME Clear from the Member (as Seller) and displays to the Member the rent and weight adjustment due on those LME Warrants. A separate report is produced for each Warrant Movement.

(b) Warrants Allocation Adjustment Invoice

This report lists the LME Warrants allocated by LME Clear to the Member (as Buyer) and displays to the Member the rent and weight adjustment due on those LME Warrants. A separate report is produced for each Warrant Movement.

2.30 Invoice and Account Sales Calculation

LME Clear calculates the amounts due to the Member (as Seller) or payable by the Member (as Buyer) against the net Open Contracts in the relevant Eligible Product and Settlement Currency. The calculation is as follows:

$$\text{Amount} = \text{Contract weight} \times \text{Settlement Price} \times \text{lots.}$$

where:

- (i) the Settlement Price is in the Settlement Currency of the open Position (JPY, EUR, USD, GBP) and is set in accordance with LME Rules (specifically the "Trading Regulations");
- (ii) the Contract weight is determined in accordance with the LME Rules (specifically the "Special Contract Rules for Metals").

Invoice and Account Sales Calculation – Example:

Using the above formula where:

Contract weight	=	25 Tonnes
Settlement Price	=	USD 1,500.00
Delivery Position in Lots	=	10
Total Invoice/Account Sale	=	25 x 1,500 x 10
Value	=	USD 375,000.00

The total invoicing amount is shown on relevant Reports made available by LME Clear each of which may be accessed via the Website.

2.31 Payment of Invoice and Account Sales

2.32 The Payments Obligations of each Member (as Buyer) on each Business Day are posted to the debit of the relevant Account of the Member as part of the previous Business Day's End of Day Cover Distribution process (in accordance with Clearing Procedure D5).

Notwithstanding the foregoing, Payment Obligations that are to be discharged by payments in Japanese Yen shall be posted to the debit of the relevant Account in accordance with the End of Day Cover Distribution process applicable to Japanese Yen.

- 2.33 Following the receipt of LME Warrants from Members (as Sellers), LME Clear makes the Settlement Payment to the Member's Settlement Account at an Approved Settlement Bank, via the Secure Payment System (or by any other method specified by LME Clear).

(a) Japanese Yen

- (i) Payments are made to, or called from, LME Clear's Settlement Account at the Approved Settlement Bank.
- (ii) Where the Member has the Payment Obligation, the invoice value is a debit posted to the Member's Settlement Account at the Approved Settlement Bank and called by 09:00 hours on the morning of the Business Day prior to the day on which delivery is due, but for value on the delivery day.
- (iii) Where LME Clear has the Payment Obligation, the Settlement Payment value is a credit posted to the LME Clear's Settlement Account at the Approved Settlement Bank prior to the delivery day. Payment will be made against the delivery of LME Warrants, on the delivery day, for same day value to the Members' Settlement Account via the Secure Payment System (by approximately 12:30 hours).
- (iv) Members can access the "Member Japanese Yen Settlement Advice Listing Report" via the Website.

(b) US Dollar/Sterling and Euro

- (i) Payments are made to or called from LME Clear's Settlement Account at the Approved Settlement Bank.
- (ii) All Payment Obligations of the Member and all Settlement Payments due from LME Clear are debited and credited on the delivery day for same day value.
- (iii) Where the Member has the Payment Obligation, the invoice value is a debit posted to the Member's Settlement Account at the Approved Settlement Bank and paid by 09:00 hours.
- (iv) Where LME Clear has the Payment Obligation, the Settlement Payment value is a credit posted to the Members' Settlement Account via the Secure Payment System after the delivery of LME Warrants (by approximately 12:30 hours).
- (v) On the Settlement Date, sold lots, for the same Underlying Asset, in USD, GBP or EUR are netted against bought lots in other Settlement Currencies. The Settlement Payment for the netted lots shall be credited or debited to the appropriate LME Clear Settlement Account for the Settlement Currency. Remaining sold lots are delivered under normal procedures.

Example:

				Invoice Value	Account Sale	Confirmation
Currency	Metal	Bought	Sold	DR	Value CR	Time
USD	AHD		25		USD 1,250,000.00	12:30hrs
EUR	AHE	20		EUR1,300,000.00		09:00hrs

In the above example, the "Account Sale" value of USD 1,250,000 (that is, the Settlement Payment value due from LME Clear) in respect of the remaining sold 5 lots will be credited to the Member's Settlement Account at its Approved Settlement Bank at approximately 12:30 hours following delivery by the Member of the appropriate LME Warrants.

Note: for the purpose of this example approximate Invoice and Account Sale values are used.

2.34 Settlement Adjustment – Rent and Weight Differences

- 2.35 The Payment Obligations under each Contract for LME Warrants shall be subject to adjustments to reflect the accrued rent and any difference between LME Warrant weight and Contract tonnage weight ("**Rent and Weight Adjustments**").
- 2.36 Rent and Weight Adjustments due to or from a Member are detailed on the Warrant Collection Adjustment Invoice and Warrant Allocation Adjustment Invoice produced by LMEsword.
- 2.37 The rent and weight values in respect of each Warrant Movement settling on any Business Day, calculated in US Dollars, are netted against each other to create an overall debit or credit amount in respect of all Delivery Positions settling with the Member on that Business Day. This overall debit or credit amount shall be the "**Rent and Weight Debit or Credit**".
- 2.38 This Rent and Weight Debit or Credit is posted to the Member's USD Settlement Account at the Approved Settlement Bank on the Business Day on which delivery of the LME Warrant takes place, for value and settlement on the next Business Day.
- 2.39 The rent and weight accounting entries are posted separately to the Member's primary House Account in respect of each type of Underlying Asset (metal) and can be reconciled against either the Warrant Collection Adjustment Invoice or the Warrant Allocation Adjustment Invoice.
- 2.40 In the event that a Member allocates any LME Warrant delivered by LME Clear to a Client, it is the sole responsibility of the Member to ensure that any right or obligation of the Member in respect of Rent and Weight Adjustments associated with that LME Warrant are recorded in an appropriate Account, in order to enable the Member to satisfy any obligations it has under Applicable Law to segregate client monies from monies due to or from the Member for its own account. In the event that the Member requires any Rent and Weight Debit or Credit to be allocated to a Client Account, it must promptly notify LME

Clear and in any event must make such notification prior to the Close of Business on the day on which the relevant LME Warrant was delivered by LME Clear to the Member.

2.41 **Delivery Timetable**

LME Warrants shall be delivered in accordance with the delivery timetable set out in Annex 7 (*Delivery Timetables*), as amended by LME Clear from time to time. LME Clear may temporarily extend any timescales or deadlines set out below where LME Clear considers it necessary or appropriate to do so. In the event that LME Clear extends any deadline or timetable, LME Clear will notify the affected Members.

2.42 **Delivery Procedures**

(a) **Cessation of Trading**

(i) **Japanese Yen**

Transactions shall be entered into by 17:00 hours and input to the LMEsmart Matching System by 20:00 hours, two Business Days prior to the delivery day (i.e. "cash" Prompt Date).

(ii) **US Dollar, Sterling and Euro**

Contracts shall be entered into by 12:30 hours and input to the LMEsmart Matching System by 13:30 hours on the Business Day prior to the delivery day (i.e. "TOM" Prompt Date).

(b) **On the Day Prior to Delivery Date**

(i) **By 09:00 Hours**

For JPY (only)

LME Clear will:

(1) debit Members (as Buyers) their Payment Obligation as specified on the invoice; and

(2) credit Members (as Sellers) the Settlement Payment,

for value on the Prompt Date.

(ii) **By 16:00 Hours**

The netted Final Delivery Position, for each Account of the Member is calculated by netting the uncovered lots across Settlement Currencies for each Underlying Asset (metal). The Warrant Movements are then calculated for the Member as described in Clearing Procedure B7.4.

The *Invoice and Account Sales* report is made available via an enquiry screen in the Clearing System.

The Warrant Movements and relevant Settlement Prices are notified by the Clearing system to the LMEsword system.

(iii) **By 16:30 Hours**

Each Member (as Seller) with a Delivery Obligation receives, in respect of its Member LMEsword Clearing Account an *"Unauthorised" Warrant Transfer Instruction* from LMEsword for each Underlying Asset (metal).

This instruction may be discarded by the Member (as Seller) and a new instruction created.

Members (as Sellers) shall deliver to LME Clear the number of LME Warrants equal to their selling Warrant Movements.

The Member (as Seller) may nominate LME Warrants as soon as the *"Unauthorised" Warrant Transfer Instruction* is received by making an *"Authorised" Warrant Transfer Instruction* to LME Clear. The nomination can take place at any time up to 11:00 hours on the Prompt Date.

(c) **Delivery Date**

(i) **By 07:30 Hours**

LME Clear will make the following Reports available in the Clearing System, via the Website:

- (1) Invoice and Account Sales; and
- (2) Prompt Date Settlement Report.

(ii) **By 09:00 Hours**

LME Clear will debit Members (as Buyers) their Payment Obligations in respect of their Receive Entitlements for the amount specified in the *Invoice and Account Sales* Report.

(iii) **By 10:30 Hours**

Members (as Sellers) who anticipate that their Delivery Obligation will be made after the 11:00 hours delivery deadline or who are unable to fulfil their Delivery Obligation shall inform LME Clear.

Any delivery failure of LME Warrants, absent the declaration of a Default Event, will be resolved in accordance with the LME Rules. For the avoidance of doubt, in the event that LME Clear determines that the delivery failure shall comprise a Default Event, it shall be entitled to take any action or exercise any right permitted under the Rules. This paragraph is without prejudice to any other rights that LME Clear may have under the Rules in relation to any breach by a Member of its obligations under the Rules, including any right to effect a Buy-In and/or to Invoice Back.

(iv) **By 11:00 Hours**

The Member (as Seller) shall nominate LME Warrants in fulfilment of their advised selling Warrant Movements by issuing to LME Clear an *"Authorised" Warrant Transfer Instruction*.

(v) **At 11:00 Hours - Delivery Deadline**

The LMEsword system will initiate the LME Warrant collection process. All LME Warrants specified in a Member's (as Seller) *Authorised Cleared Transfer Instruction* will be transferred to the LME Clear LME Sword Clearing Account.

(vi) **Approximately 11:30 Hours**

The Member (as Seller) will receive notification, via LMEsword, that the LME Warrants specified in their "*Authorised*" *Warrant Transfer Instruction* have been collected.

LME Clear will initiate the *Warrant Allocation and Delivery* process. All LME Warrants collected will be ordered in accordance with the LMEsword warrant allocation method.

LME Clear will transfer the allocated LME Warrants to the Member's (as Buyer) relevant Member LMEsword Clearing Account. The Member (as Buyer) will receive notification via the LMEsword system of the LME Warrants transferred from LME Clear.

(vii) **Approximately 12:30 Hours**

Following receipt of all LME Warrant Delivery Obligations from the Member (as Seller) LME Clear will credit the Settlement Payment amount to the Member's Settlement Accounts at its Approved Settlement Banks via the Secure Payment System, for value on the Prompt Date.

(viii) **By 13:00 Hours**

Following the completion of the *Warrant Collection* and *Warrant Allocation Delivery* process the LME will make the following reports available via LMEsword:

- (1) Warrant Collection Adjustment Invoice; and
- (2) Warrant Allocation Adjustment Invoice.

The Rent and Weight Credit and Debit amounts are posted to Members' USD Settlement Accounts for value and settlement on the next Business Day after the Prompt Date.

Members are advised to print these reports and retain them as a record of their LME Warrant deliveries.

(ix) **At 15:00 Hours - End of LMEsword cleared transfer day**

3. **OTC LOCO LONDON BULLION DELIVERY PROCEDURE**

[Note that OTC Loco London Bullion Market Products are not Eligible Products at the moment. This section is therefore included to ensure that the Rulebook is easily adaptable to new products that may be included in the future.]

3.1 Introduction

- (a) Physical metal settlement of Contracts in respect of OTC Loco London Bullion Market Products ("**OTC Bullion Contracts**") is discharged by the transfer of unallocated metal between metal accounts held with members of London Precious Metal Clearing Ltd. (LPMCL).
- (b) Therefore, prior to clearing OTC Bullion Contracts, Members shall open and maintain appropriate "Unallocated Metal Accounts" with a member of LPMCL (a Bullion Clearer). Members shall advise LME Clear of their Unallocated Metal Accounts as part of their application to LME Clear to commence clearing of OTC Bullion Contracts.
- (c) Each Bullion Clearer shall be an Approved Delivery Facility for OTC Bullion Contracts.
- (d) Members shall at all times comply with any applicable rules and operating procedures of LPMCL.
- (e) Delivery Positions are settled separately in respect of each Account of the Member on the Prompt Date.
- (f) All unallocated precious metal shall be delivered free and clear of all encumbrances.

3.2 Standing Settlement Instructions for LME Clear

All unallocated metal deliveries to LME Clear should be made to LME Clear's nominated Bullion Clearer, in accordance with the Settlement Instructions issued by LME Clear.

3.3 Notification of Delivery Commitments and Entitlements

Members with Delivery Positions will be notified of their Delivery Obligations and Receive Entitlements for the relevant Prompt Date.

3.4 Clearing System Reports

3.5 LME Clear shall make available certain Reports relating to deliveries of LME Warrants via the Website.

3.6 Details regarding the nature and content of these Reports are set out in Annex 4 (*List of Available Reports*).

3.7 Payment of Invoice and Account Sales

- (a) Payments are made to or called from LME Clear's Settlement Account at the Approved Settlement Bank.
- (b) The Payments Obligations of each Member (as Buyer) on each Business Day are:
 - (i) posted to the debit of the relevant Account of the Member as part of the previous Business Day's Cover Distribution Process; and
 - (ii) called by 9:00 hours.
- (c) Following the receipt of unallocated metal from a Member (as Seller), the Settlement Payment value is posted to the credit of the Members' Settlement

Account at its Approved Settlement Bank via the Secure Payment System (or by any other method specified by LME Clear). As this posting is dependent on performance by the Member of its Delivery Obligation, it may take place between approximately 12:30 hours and the LPMCL daily delivery deadline of 16:00 hours.

3.8 **Delivery Timetable**

OTC Bullion Contracts shall be settled in accordance with the timetable for deliveries set out in Annex 7 (*Delivery Timetables*), as amended by LME Clear from time to time.

3.9 **Delivery Procedures**

(a) **Cessation of Trading**

Transactions shall be executed by 14:30 and input into the LMEsmart matching system by 14:45 hours on the Business Day prior to the delivery day (i.e. "TOM" Prompt Date).

(b) **On the Day Prior to Delivery Date**

(i) **By 16:00 Hours**

The Delivery Position, in respect of each Account of the Member is calculated for each type of Underlying Asset (metal).

The "*Invoice and Account Sales*" Report is made available via an enquiry screen in the Clearing System.

(c) **Delivery Date**

(i) **By 07:30 Hours**

LME Clear will make the certain Reports available in the Clearing System, as specified in Annex 4 (*List of Available Reports*).

(ii) **By 09:00 Hours**

LME Clear will debit Members (as Buyers) their Payment Obligations in respect of their Receive Entitlements for the amount specified in the "*Invoice and Account Sales*" Report.

(iii) **By 11:00 Hours**

Members (as Sellers) shall instruct their Bullion Clearer to transfer unallocated metal to LME Clear in order to fulfil their delivery commitment.

(iv) **From approximately 11:30 Hours**

The seller will receive notification from their Bullion Clearer that their unallocated metal transfer instruction has been executed.

(v) **From approximately 12:30 Hours**

Following receipt of all Delivery Obligations from the Member (as Seller) LME Clear will credit the Settlement Payment amount to the Member's Settlement Accounts at its Approved Settlement Banks via the Secure Payment System, for value on the Prompt Date.

(vi) **At 16:00 Hours - End of LPMCL Bullion Transfer Day**

PART G – INTEREST, FEES AND CHARGES

1. INTRODUCTION

This Part G of the Clearing Procedures specifies the Clearing Procedures applicable to:

- (a) the Fees that LME Clear will levy on Members who use the Clearing System (**Clearing Procedure G2**);
- (b) the basis on which LME Clear will pay or charge interest to Members on cash balances maintained with LME Clear (**Clearing Procedure G3**); and
- (c) the process by which LME Clear will issue invoices to Members (**Clearing Procedure G4**).

2. FEES

2.1 Members shall pay such Fees to LME Clear as shall be specified by LME Clear from time to time.

2.2 Annex 3 (*Fees and Charges*) sets out the current tariff that LME Clear will use to determine Fees payable by each Member.

2.3 In addition to the Fees set out in the tariff, LME Clear may levy the following additional charges on each Member:

- (a) LME Clear shall be entitled to charge Members, on a pass-through basis, for any costs, charges, Taxes, levies or fees incurred by LME Clear in the clearing of any Contract with a Member.
- (b) A Member shall be responsible for all costs which it may incur in using or accessing the Clearing System, including:
 - (i) any fees or expenses charged to the Member by any Settlement Bank, Settlement Agent or Approved Delivery Facility, with which the Member has an account, for the use of such account;
 - (ii) any fees or expenses charged to the Member by any Settlement Bank, Settlement Agent or Approved Delivery Facility for the processing of any payment or transaction for or on behalf of the Member; and
 - (iii) any Tax or government levy imposed on any transfer of any cash, securities or other instrument made in connection with the Member's use of the Clearing System.
- (c) LME Clear shall be entitled to charge Members for any unusual expenses incurred by LME Clear that are caused directly or indirectly by the Member, including the cost of producing records pursuant to a court order or other legal process in or in relation to any legal proceeding in which such records relating to such Member are so required to be produced, whether such production is required at the instance of the Member, or of any other party other than LME Clear.
- (d) LME Clear may charge Members for costs or charges payable by the Member to the LME, which may be charged to the Member by LME Clear on behalf of the LME.

3. INTEREST ON BALANCES

3.1 Interest on Default Fund Contributions and Cash Balances

3.2 The rates that LME Clear will apply to determine the interest payable to or from a Member from time to time shall be specified on the Member-specific, secure log-in, section of the Website. LME Clear reserves the right to alter the basis of calculating interest rates from time to time. Any such alteration will be notified to Members by Notice and shall be effective on the date of notification.

3.3 LME Clear will pay or charge interest to each Member in respect of the Default Fund Contributions maintained by the Member at LME Clear on the basis of LME Clear's "Daily Deposit Rate" (as published on the Website and as amended by LME Clear from time to time).

3.4 LME Clear will pay to, or charge interest to, each Member in respect of that Member's Cash Collateral balances held with LME Clear on the basis of LME Clear's "Daily Deposit Rate" (which may provide for different rates of interest on different amounts and in different currencies).

3.5 Accommodation Charges

3.6 LME Clear shall levy interest and accommodation charges in respect of non-cash Collateral held with LME Clear.

3.7 Such accommodation charges shall be calculated on a daily basis in accordance with Annex 3 (*Fees and Charges*).

3.8 VAT

3.9 All amounts payable to LME Clear are stated exclusive of VAT which, if chargeable, shall be paid by the relevant Member to LME Clear at the rate for the time being in force, against delivery by LME Clear of an appropriate tax invoice for VAT purposes.

3.10 Where a Member is required under the Rules, the Procedures and/or the Participant Obligations to reimburse LME Clear for any costs or expenses, it shall also at the same time pay and indemnify LME Clear against all VAT incurred by LME Clear in respect of such costs or expenses, provided such VAT is not otherwise recoverable by LME Clear or the representative member of any VAT group of which LME Clear forms part, subject to LME Clear or the representative member, as the case may be, using reasonable endeavours to recover such amount of VAT as may be practicable.

3.11 On foreign currency amounts, VAT is charged in Sterling on the converted value of any relevant charges.

4. INVOICING

4.1 LME Clear shall invoice each Member on a monthly basis in respect of:

- (a) Fees incurred in the previous calendar month; and
- (b) Interest and accommodation charges incurred in the previous calendar month; and

- (c) any other amounts payable by the Member (other than the Member's Payment Obligations in respect of Contracts).
- 4.2 Invoices shall be issued on a monthly basis on the first Business Day of each calendar month. Separate invoices shall be issued for each Settlement Currency in which payments are incurred.
- 4.3 LME Clear shall be entitled to deduct the Fees owed by the Member in accordance with the invoice submitted under 4.1 from the Member's House Account(s).
- 4.4 Subject to 4.3 above, Members shall settle all amounts specified in such invoices, as a Cash Settlement in accordance with Rule 7.4. on the second Business Day of each calendar month.
- 4.5 If a Member fails to pay any amount payable to LME Clear under the Rules or the Procedures on its due date, interest shall accrue on the overdue amount from the due date up to the date of actual payment the rate specified in Annex 3 (*Fees and Charges*).

DEFAULT PROCEDURES

PART A – INTRODUCTION

1. INTERPRETATION AND INTRODUCTION

- 1.1 These Default Procedures form part of, and shall be read in conjunction with, the Rules and are legally binding on each Member. Terms defined in the Rules have the same meaning in these Default Procedures. In the event of any conflict or inconsistency between the Rules and these Default Procedures, the Rules shall prevail.
- 1.2 These Default Procedures are arranged into the following Parts:
 - (a) Part A: introduction
 - (b) Part B: calculation and maintenance of the Default Fund;
 - (c) Part C: the manner in which LME Clear will manage a Default; and
 - (d) Part D: the porting of Client Accounts.
- 1.3 These Default Procedures also includes Annex 6 (*Client Business Terms*), which supports and supplements Part D.

PART B – DEFAULT FUND

1. CALCULATION OF DEFAULT FUND CONTRIBUTIONS

1.1 General

- (a) Rule 9 (*Default Fund*) sets out the basis on which LME Clear will establish and maintain the Default Fund.
- (b) Without prejudice to LME Clear's rights under Rule 9 (*Default Fund*), the following provisions summarise how LME Clear will calculate Default Fund Contributions of each Member and collect them from Members.

1.2 Principles for calculating Default Fund Contributions

- (a) LME Clear shall calculate potential stress losses (to the extent not covered by existing Collateral provided to satisfy the End of Day Margin Requirement) in respect of each Account of each Member, using such historical and theoretical scenarios as LME Clear may choose in accordance with LME Clear's default fund policy. LME Clear will calculate the potential stress losses arising across all Accounts of each Member (including House Accounts and Client Accounts).
- (b) The amount of the Default Fund shall then be determined as:
 - (i) the sum of the two largest Member losses determined pursuant to (a) above, where such losses are assessed over a historic period comprising the previous six months, as further described in the default fund policy published by LME Clear on the Website;
 - plus
 - (ii) the amount resulting from the application by LME Clear of an additional ten per cent (10%) multiplier to provide for future increases in stress testing losses in between Default Fund calculations.
- (c) Notwithstanding the calculation specified in (b) above, the Default Fund shall not be permitted to fall below US\$300 million. This minimum level will be subject to periodic review by LME Clear. Any amendment to this minimum level will be notified to Members by Circular.
- (d) Each Member's Default Fund Contribution will be calculated as a pro rata allocation based on that Member's average Initial Margin Requirement (including their End of Day Margin Requirement and their Intra-Day Margin Requirement calculations) over a preceding one month period, as a percentage of the total average Initial Margin Requirement of all Members over the preceding one month period, as further described in the default fund policy published by LME Clear on the Website.
- (e) The minimum amount of a Default Fund Contribution for a Member will be US\$1,000,000, or such other amount as LME Clear may determine on assessment of the stress test results in accordance with LME Clear's default fund policy.

2. FREQUENCY AND REPORTING

2.1 Daily Review

- (a) At the end of each Business Day and at such other times during each Business Day as LME Clear may determine, LME Clear shall review the size of the Default Fund relative to each Member's potential stress positions (in excess of the existing Collateral provided by the Member to satisfy the End of Day Margin Requirement).
- (b) In the event that any Member's stress positions (in excess of the existing Collateral provided by the Member to satisfy the End of Day Margin Requirement) are at any time in excess of 45% of the size of the Default Fund, LME Clear may require that Member immediately to provide additional Collateral in order to reduce its stress positions to a level below 45% of the size of the Default Fund.

2.2 Monthly Review

- (a) The Default Fund will be recalculated and reset on a monthly basis or at or following the ending of a Default Period (provided that LME Clear shall exercise its discretion as to the timing of such recalculation where LME Clear considers it necessary to protect the integrity of the Clearing System or the orderliness of the markets supported by LME Clear).
- (b) LME Clear will not increase the size of the Default Fund within the period between each monthly recalculation.
- (c) In order to ensure that LME Clear will always have sufficient financial resources to cover a default by its two largest Members, no Member will be permitted to have at any time stress positions (in excess of the existing Collateral provided by the Member to satisfy the End of Day Margin Requirement) in excess of 45% of the size of the Default Fund.
- (d) In the event that any Member's stress positions (in excess of the existing Collateral provided by the Member to satisfy the End of Day Margin Requirement) are at any time in excess of 45% of the size of the Default Fund, LME Clear may require that Member immediately to provide additional Collateral in order to reduce its stress positions to a level below 45% of the size of the Default Fund.
- (e) The monthly review and recalculation of the Default Fund will include a review of the relevant markets over the previous three months in order to identify and consider possible new stress scenarios.

3. COLLECTION OF DEFAULT FUND CONTRIBUTION

- 3.1 All Default Fund Contributions shall be paid in US Dollars to LME Clear via the Secure Payment System not later than 9.00 hours on the Business Day following the date of request or the date of the report identifying the need to provide such Default Fund Contribution. Payment of a Default Fund Contribution will be made separately to any payment of Collateral.

3.2 Monthly Process

A report specific to each Member (a "**Default Fund Report**") will be issued after the last Business Day of each calendar month and will be made available to the relevant Member

on the Website. The Default Fund Report will show the Default Fund Contribution required from the relevant Member.

3.3 Interim Payments

In the event that the daily or monthly review of the Default Fund shows that an individual Member's Default Fund Contribution is insufficient, then LME Clear will request the Member to provide an additional Default Fund Contribution, in accordance with Default Procedure B2.1(b) or B2.2(d), as applicable.

4. INTEREST PAYMENTS

Interest may be payable by reference to a Default Fund Contribution on the basis set out in Rule 9.1.4. LME Clear reserves the right to use for this purpose different interest rates to those applied under Rule 8.3.3.

PART C – DEFAULT MANAGEMENT

1. DEFAULT MANAGEMENT GENERALLY

- 1.1 Rule 10 (*Default*) sets out the LME Clear's rights and powers in relation to a Defaulting Member.
- 1.2 Without prejudice to LME Clear's rights under Rule 10 (*Default*), LME Clear may require Members to co-operate with LME Clear in the testing and operation of its default management process.

2. DEFAULT FIRE DRILL

- 2.1 All Members shall participate in "**Default Fire Drills**", during which LME Clear, Members and other interested parties will conduct simulations of various Default Event scenarios chosen by LME Clear. These will be held at least annually and will simulate the activities resulting from the occurrence of a Default Event.
- 2.2 Each new Member shall be required to participate in "Default Fire Drill" before it will be permitted to submit Transactions to LME Clear for clearing.

3. DEFAULT NOTICE

- 3.1 If LME Clear decides to issue a Default Notice, it will:
 - (a) first notify the relevant Clearing House Regulator of its intention to do so; and
 - (b) then inform its Members of its decision in accordance with Rule 10.3.
- 3.2 The decision to issue a Default Notice will be:
 - (a) notified to the authorised representatives of each Member; and
 - (b) published on the Website.

LME Clear may also notify its decision to issue a Default Notice to such other persons as permitted pursuant to Rule 10 (*Default*).
- 3.3 The Default Notice will include:
 - (a) the name of the Member and (where relevant) its category of Membership; and
 - (b) the time that the Default Notice comes into effect.

As soon as practicable after issuing the Default Notice (unless the Default Event has already been discharged), LME Clear will provide to the appropriate Regulator(s) a summary of the Member's open Positions, Margin Requirements, cash and Collateral balances in respect of that Member's Accounts (including, for the avoidance of doubt, Client Accounts).

4. ACTIVATION OF DEFAULT MANAGEMENT PROCESS

- 4.1 Following the occurrence of a Default Event, there will be many activities that need to be conducted. These include activities that are procedural, operational, communications and systems-based. The majority of the activities outlined below will be conducted in parallel.

4.2 **Initiation of Communication tree**

4.3 During a Default Period, LME Clear will communicate with internal stakeholders (in order to initiate its internal default management procedures) and relevant external stakeholders to inform them that LME Clear's default management process is being invoked.

4.4 **Prevention of Defaulting Member Clearing Activity**

4.5 LME Clear may exercise such of its powers under the Rules that arise on the occurrence of a Default Event as it thinks fit. This may include taking action to deactivate the Defaulting Member within the Clearing System, which will involve (without limitation):

- (a) curtailing the Defaulting Member's ability to submit Transactions, whether on House Account or Client Account, to the Clearing System;
- (b) instructing the LME (and any other Approved Transaction Platform) to deactivate the Defaulting Member's trading accounts;
- (c) preventing any payments from being made via SPS from LME Clear's accounts at any Approved Settlement Banks for payment to the Defaulting Member;
- (d) preventing any Asset Cover being paid or returned to the Defaulting Member (except if and to the extent expressly permitted by Rule 10 (*Default*) or these Default Procedures); and
- (e) suspending the performance of any delivery or payment obligations otherwise owing by LME Clear to the Defaulting Member.

4.6 The Defaulting Member (and Clients of the Defaulting Member) may not effect any further Transactions through the Defaulting Member or submit to the Clearing System any further Transactions for which the Defaulting Member would otherwise be responsible.

5. **DEFAULT MANAGEMENT GOVERNANCE**

5.1 The LME Clear Board will delegate to a committee (the "**Default Management Committee**" or "**DMC**") responsibility for the oversight of the implementation of the default management process and all related strategic decision-making involved in the risk reduction/neutralisation strategy and the subsequent auction(s) employed by LME Clear. The DMC will consist of the following members of LME Clear's management team:

- (a) the Chief Executive Officer (CEO);
- (b) the Chief Risk Officer (CRO);
- (c) the Head of Risk;
- (d) the Chief Operating Officer (COO); and
- (e) the Chief Legal and Compliance Officer (CLCO);

5.2 LME Clear may also seek to involve in the DMC representative(s) from the Approved Transaction Platform(s) in an advisory capacity.

5.3 LME Clear will consult with the Board Risk Committee and / or obtain the approval of the Board, in relation to actions that it proposes to take in relation to the management of a

default, where required pursuant to any Rule or otherwise where LME Clear considers such consultation or approval to be necessary or appropriate.

6. RISK REDUCTION OF DEFAULTING MEMBER'S POSITIONS

6.1 Following the issue of a Default Notice, the Accounts of the Defaulting Member will be risk managed on the following basis:

- (a) all House Accounts of the Defaulting Member will be managed in the manner stated below; and
- (b) Omnibus Segregated Client Accounts and Individual Segregated Client accounts will be managed in the manner stated below if they cannot be ported in accordance with Part D of these Default Procedures, save that LME Clear may take the steps contemplated in Default Procedure C6.2(e) below notwithstanding that the relevant Porting Period has not expired.

6.2 Hedging and Liquidity Management

- (a) LME Clear will assess the portfolio of the Defaulting Member and any Positions and Collateral maintained in Client Accounts in respect of Clients or Indirect Clients that are not to be transferred to another non-defaulting Member and shall take such steps as LME Clear considers are necessary or appropriate to reduce the exposure of the portfolio to minimise the risk that LME Clear may need to utilise any Member's Default Funds or LME Clear's Dedicated Own Resources.
- (b) LME Clear will utilise default brokers and collateral execution agents in order to facilitate:
 - (i) the execution of any hedge trades with non-defaulting Members or other third party counterparties; and
 - (ii) the liquidation of Collateral, if required.
- (c) LME Clear will reduce the risk associated with the Defaulting Member's Positions as far as reasonably practicable by hedging LME Clear's exposure under the Contracts to which the Defaulting Member is a party. Such hedging will be undertaken by LME Clear with non-defaulting Members and other counterparties on the basis of separate agreements between LME Clear and each such Member or other counterparty. LME Clear will consider all Accounts together for hedging purposes. Any proceeds resulting from the hedging process will be allocated to the relevant Defaulting Member's Account (depending on the Positions being hedged) at the discretion of LME Clear.
- (d) LME Clear may also seek to reduce the risk associated with the Defaulting Member's Positions by hedging LME Clear's exposure under the Contracts to which the Defaulting Member is a party against the Contracts of any other Member that is also, at the relevant time, a Defaulting Member.
- (e) As part of the default management process, LME Clear may, wherever reasonably practicable, aim to prevent Positions of a Defaulting Member on any Account going to physical delivery during the Default Period. The effect of such action would be to limit any immediate liquidity demands for delivery of LME Warrants. In the event that LME Clear takes steps to prevent such Positions going to physical delivery, LME Clear shall notify the Members via the publication of a Circular on

the Website. For the avoidance of doubt, any Transfer made pursuant to Rule 10.7 (*Portability of Client Accounts*) that takes effect in relation to a Client Account containing Positions to which the powers in this Default Procedure C6.2(e) have been applied shall apply to the Positions as created or adjusted pursuant to the exercise of such powers.

6.3 Auction

- (a) After completion of the hedging and liquidity management process, LME Clear will carry out an auction process of the remaining open Positions (which may include Collateral, if appropriate) amongst non-defaulting Members and prescribe such procedures for the conduct of the auction as it considers reasonably appropriate in the circumstances.
- (b) Any auction will occur at a time judged by the DMC to be optimal to minimise the risk to the Clearing System, to achieve the best possible price, and to ensure maximum competitive participation by non-defaulting Members.
- (c) Non-defaulting Members will be given such opportunity as LME Clear will specify to evaluate the auction portfolios to be auctioned. All bids shall be made within such period as LME Clear will specify following the end of the evaluation period.
- (d) LME Clear will specify the timing and process by which non-defaulting Members may provide bids.
- (e) LME Clear will determine the composition of each portfolio of Open Contracts of the Defaulting Member and any connected hedging agreement made by LME Clear under Default Procedure C6.2 (an "**auction portfolio**") and may divide an auction portfolio into two or more individual auction portfolios for the purpose of facilitating the efficiency of the auction process, grouping together open Contracts relating to the same type of Underlying Asset, or reducing the risk associated with the auction process. The auction of different auction portfolios may be conducted with the aim of ensuring an orderly process which protects the resources of LME Clear.
- (f) LME Clear will have discretion whether or not to accept a particular bid and, in so deciding, may take into account such factors as it considers appropriate.
- (g) LME Clear may accept the best price for the Positions subject to the auction that it believes accurately reflects the risk of the portfolio. LME Clear will have in place an appropriate process for determining an "acceptable auction price" which will consider the risks of the portfolio including: the current mark to market; the size of the auction relative to the market and the likely risk premia required by an auction participant.
- (h) In addition, LME Clear reserves the right to reject an auction bid from a Member if it deems the overall risk presented by the Member, following the transfer of any portfolio, to be in excess of LME Clear's risk tolerance for the Member.
- (i) If two or more Members submit a bid of the same value, LME Clear may, subject to its discretion to reject any bid, accept the bid which LME Clear considers represents the most favourable risk management solution. The decision of LME Clear to accept or reject a particular bid will be conclusive and binding on all Members.

- (j) Payments resulting from the auction process will be made via the Secure Payment System. LME Clear will transfer the purchased Positions (and, where relevant, Collateral) at the appropriate price to the successful bidder and such successful bidder shall pay the amount due to LME Clear in advance of, or simultaneously with, the transfer. Where any amount is payable by LME Clear to the successful bidder, LME Clear will not be obliged to make such payment until after the Positions (and, where relevant, Collateral) have been transferred to the successful bidder and any such payment shall be made by the end of the Business Day following such transfer.
- (k) The costs arising out the auction process will be allocated amongst the Defaulting Member's Accounts at the discretion of LME Clear.

6.4 **Failed Auction and Close Out**

- (a) Where LME Clear determines that either there is insufficient participation in the auction or where the bid(s) received are not deemed by LME Clear to be reflective of the risks in the auction portfolio, LME Clear will deem an auction to be a **"Failed Auction"**.
- (b) In the event of a Failed Auction, LME Clear may undertake one or more further auctions. LME Clear may adjust the parameters of the new auction in order to increase the likelihood of achieving successful bids (for example, by adjusting the risk profile of the auction portfolios (by hedging), or their size (by splitting the portfolios by contract/maturity);
- (c) LME Clear may conduct such further auctions with or without undertaking any of the actions specified in (b). There is no limit to the number of auctions that LME Clear may conduct.
- (d) In the event that LME Clear does not consider that a further auction would be successful, it may seek to close-out the remaining Open Contracts of the Defaulting Member, on a per-metal basis (the Unclosed Metals, as defined in Rule 10.10.2(d)(ii)), through mandatory cash settlement with non-defaulting Members and realise any potential profit or loss. In the event that LME Clear applies cash settlement, LME Clear shall obtain the approval of the Board and:
 - (i) consult with the Board Risk Committee on its proposals to do so, which shall include providing an explanation of the steps LME Clear proposes to take in relation to such cash settlement and its rationale for taking such steps; and
 - (ii) effect such cash settlement at the then prevailing market price for the Underlying Assets or, if such market price is not available, at such price as LME Clear determines is reasonably appropriate in the circumstances in consultation with the Board Risk Committee.

6.5 **Liquidating Collateral**

LME Clear may liquidate (sell) or otherwise generate cash liquidity or other financing from non-cash Collateral provided by the Defaulting Member if and when it thinks fit. The choice of Collateral to use for this purpose will be decided by LME Clear and LME Clear may take into account market conditions at the time.

7. LOSSES IN EXCESS OF DEFAULT FUND

- 7.1 In the event that, following the application of the amounts provided pursuant to the replenishments required under Rule 10.10.1(e), there remains an Excess Loss, LME Clear will seek to discharge such Excess Loss through an equitable allocation of such Excess Losses to non-defaulting Members, in accordance with Rule 10.10.2.
- 7.2 This allocation of Excess Losses will be carried out through a pre-defined mechanism that has been previously notified to the Members. The methodologies available to LME Clear are as follows:
- (a) the application of a variation margin haircut mechanism, as specified in Rule 10.10.2 (b) and (c);
 - (b) in the event that the process in (a) does not result in the discharge in full of the Excess Loss, LME Clear may effect a cash settlement of all Open Contracts, as specified in Rule 10.10.2(d).

8. BUSINESS VIABILITY REVIEW

In the event that LME Clear has utilised any unfunded Default Fund Contributions in the management of a default, a business viability review will be conducted immediately following the conclusion of the related default management process. The LME Clear Board will, in conjunction with LME Clear's Parent Undertakings, seek to determine the most appropriate way forward for the business taking into consideration of the views of non-defaulting Members.

PART D – PORTING PROCEDURE

This Porting Procedure contains:

1. (in Section 1) the documentary requirements for the establishment of arrangements in support of the Automatic Porting Process; and
2. (in Section 2) the Porting Process that applies in respect of:
 - (a) Client Accounts to which the Automatic Porting Process applies; or
 - (b) any other Client Account.

Section 1: Maintenance Documentation In support of Automatic Porting Process

1. AUTOMATIC PORTING DESIGNATION DOCUMENTS

1.1 In order for any Client Account to be eligible under the Rules for the application of the Automatic Porting Process LME Clear must, at the time of issue of a Default Notice in respect of the Member responsible for such Account, be in receipt of such documents and forms as LME Clear shall prescribe from time to time ("**Automatic Porting Designation Documents**") that:

- (a) identify the Client Account(s) to which the Automatic Porting Process is to apply;
- (b) record the agreement of the Clients allocated to such Client Account(s) to participate in the Automatic Porting Process;
- (c) identify:
 - (i) the potential Member Transferee to which all Clients allocated to an Omnibus Segregated Client Account shall agree (subject to the agreement of that Member) to have their assets and positions transferred pursuant to the Porting Process; and
 - (ii) the potential Member Transferee to which a Client allocated to an Individual Segregated Client Account shall agree (subject to the agreement of that Member) to have its assets and positions transferred pursuant to the Porting Process;

(in each case, the "**Designated Member Transferee**"); and
- (d) record the agreement of such Member(s) identified as Designated Member Transferee(s) to be treated as such.

1.2 LME Clear shall only treat any Automatic Porting Designation Document, or any amendment to it, as representing the accurate wishes of the signatories to it, from the time that it is formally accepted by LME Clear. LME Clear may refuse to accept any Automatic Porting Designation Document or any amendment to any Automatic Porting Designation Document provided by any Client, or by a Member on behalf of its Client(s), where:

- (a) the Automatic Porting Designation Document is not complete in all respects;
- (b) the Automatic Porting Designation Document has not been properly executed, to LME Clear's satisfaction, by all relevant parties;
- (c) less than one Business Day has elapsed since such Automatic Porting Designation Document, or amendment to it, was received by LME Clear; or
- (d) any Member specified in the Automatic Porting Designation Document has become subject to a Default Event prior to the expiry of the period set out in (c) above.

Notwithstanding the foregoing, LME Clear may agree to accept an Automatic Porting Designation Document notwithstanding that some or all of the circumstances described in (a), (b) or (d) has arisen, or otherwise prior to the expiry of the period set out in (c) above.

- 1.3 For the avoidance of doubt, in the event that LME Clear receives an Automatic Porting Designation Document that less than one Business Day prior to the Member becoming a Defaulting Member, LME Clear may treat such Automatic Porting Designation Document as constituting a valid request by the Client(s) specified in the Automatic Porting Designation Document to effect a Transfer to the Designated Member Transferee in accordance with Rule 10.7.
- 1.4 For the avoidance of doubt:
- (a) the latest Automatic Porting Designation Document received by LME Clear in respect of any Client Account shall represent an instruction by the Client or Clients allocated to that Client Account to implement the Automatic Porting Process in the event that the Member responsible for that Client Account becomes a Defaulting Member;
 - (b) it shall be the responsibility of the Client or Clients allocated to a Client Account to ensure that LME Clear is at all times in receipt of accurate, complete and up-to-date Automatic Porting Designation Documents reflecting the wishes and instructions of all the Clients that are allocated to that Account; and
 - (c) LME Clear shall have no liability whatsoever to any Member or to any Client or Indirect Client in the event that LME Clear implements the Automatic Porting Process in respect of a Client Account, in reliance upon the information contained in the latest Automatic Porting Designation Documents received by LME Clear in respect of such Client Account.

Section 2: Porting Process

2. TRANSFER OF A CLIENT ACCOUNT PURSUANT TO RULE 10.7

2.1 Where a Client has:

- (a) pursuant to its agreement to the lodgement of Automatic Porting Designation Documents, given advance consent to LME Clear under Rule 10.7 to transfer assets and positions from its Client Account with a Member Transferor to a Client Account with a Member Transferee; or
- (b) pursuant to its issue of a Porting Request Notice, requested that LME Clear transfer assets and positions from its Client Account with a Member Transferor to a Client Account with a Member Transferee,

then LME Clear may choose as it considers most appropriate in its sole opinion, either:

- (c) to exercise its powers under Rule 10.4.1(f), to close out and terminate the Open Contracts on such Client Account of the Member Transferor and re-establish them on a Client Account with the Member Transferee; or
- (d) to transfer the assets and positions on the Client Account of the Member Transferor by way of novation to a Client Account of the Member Transferee in accordance with the procedure set out in D2.2 to D2.10 below.

Automatic Porting Process

2.2 LME Clear will effect such a transfer of assets and positions on a Client Account in respect of which Automatic Porting Designation Documents have been filed in accordance with Rule 5 where:

- (a) the Automatic Porting Designation Documents, completed and signed by the Client(s) allocated to the Client Account and the Designated Member Transferee have been delivered to LME Clear in accordance with Section 1 of this Default Procedure D at least one (1) clear Business Day before the date on which a Default Notice is issued in respect of the Defaulting Member;
- (b) a Designated Member Transferee has provided LME Clear with its written consent to its acceptance of all the assets and positions recorded to the Client Account within the Porting Election Period;
- (c) the conditions set out in Rule 10.7.5 are fulfilled;
- (d) the Transfer is capable of being effected without any breach of Applicable Clearing Regulations on the part of LME Clear or is otherwise not prevented or restricted by the application of any Applicable Law;
- (e) the Transfer requested relates to the whole of the Client Account and not to some only of the Open Contracts or Collateral recorded on the Client Account; and
- (f) the Designated Member Transferee provides to LME Clear written representations that it has established appropriate contractual arrangements with such Clients (in compliance with Rule 5.2) to enable the Member Transferee to perform clearing services for such Clients from the time of the Transfer and, where requested by

LME Clear, provides to LME Clear evidence satisfactory to LME Clear that it has established such contractual arrangements.

Notwithstanding the foregoing, LME Clear may, if it chooses, agree to vary or waive one or more of the above requirements if it thinks fit.

Standard Porting Process

2.3 LME Clear will effect such a transfer of assets and positions on a Client Account to which the Automatic Porting Process does not apply where:

- (a) a Porting Request Notice completed and signed by each Client allocated to the Client Account and the Member Transferee has been delivered to LME Clear in accordance with Rule 10.7.5(b), pursuant to which the Member Transferee has provided LME Clear with its written consent to its acceptance of all the assets and positions recorded to the Client Account within the Porting Election Period;
- (b) subject to (c) below, the conditions set out in Rule 10.7.5 are fulfilled;
- (c) any Non-Identified Clients have been identified in accordance with Rule 10.7.7;
- (d) the Transfer is capable of being effected without any breach of Applicable Clearing Regulations on the part of LME Clear or is otherwise not prevented or restricted by the application of any Applicable Law;
- (e) the Transfer requested relates to the whole of the Client Account and not to some only of the Open Contracts or Collateral recorded on the Client Account; and
- (f) the Member Transferee provides to LME Clear written representations that it has established appropriate contractual arrangements with such Clients (in compliance with Rule 5.2) to enable the Member Transferee to perform clearing services for such Clients from the time of the Transfer and, where requested by LME Clear, provides to LME Clear evidence satisfactory to LME Clear that it has established such contractual arrangements.

Notwithstanding the foregoing, LME Clear may, if it chooses, agree to vary or waive one or more of the above requirements if it thinks fit.

General

- 2.4 LME Clear may, when taking action under this Procedure, rely (without further investigation) on the information provided by the Member Transferor (or any Relevant Office-Holder) or its relevant Clients to LME Clear pursuant to the Rules.
- 2.5 Each Member irrevocably and unconditionally agrees that, if it is or becomes a Member Transferor, a Transfer made under these provisions shall take effect (pursuant to this Procedure) and be binding on it without the necessity for any further consent from the Member Transferor.
- 2.6 LME Clear may disclose to the Member Transferee such information relating to the Member Transferor and its Client Accounts as may be relevant for the purpose of the Transfer.

- 2.7 The Transfer referred to in paragraph 1.1 above will take effect at such time as LME Clear shall specify following LME Clear's receipt of consent from a Member Transferee to accept all the assets and positions recorded on the Client Account (the "**Transfer Time**").
- 2.8 The Transfer Time must be within:
- (a) the Porting Transfer Period; or
 - (b) any Extended Porting Transfer Period specified by LME Clear in accordance with paragraph 2.9 below.
- 2.9 In the event that a Member Transferee has agreed to accept a Transfer, in accordance with paragraph 2.1(b) or 2.3(a) above, and LME Clear has not, for any reason, effected such Transfer within the relevant Porting Transfer Period, LME Clear may specify, via a circular posted on the Website, that an Extended Porting Transfer Period shall apply, within which LME Clear may effect such Transfer.
- 2.10 At the Transfer Time:
- (a) the Member Transferor and LME Clear (each acting as principal) shall be released from further obligations towards one another under the Contracts recorded in the Client Account and their respective rights against one another under the transactions recorded in such Client Account shall be cancelled (being the "**Discharged Rights and Obligations**");
 - (b) the Member Transferee and LME Clear (each acting as principal) shall assume obligations towards one another and/or acquire rights against one another which differ from the Discharged Rights and Obligations only insofar as the Member Transferee and LME Clear have assumed and/or acquired the same in place of the Member Transferor and LME Clear; and
 - (c) all rights, title and interest of the Member Transferor in or to Collateral provided by it to LME Clear in respect of such Client Account shall be transferred outright to the Member Transferee and, upon such transfer, the Member Transferor shall cease to have any interest (legal, equitable or otherwise) in such Collateral (which shall be released from the charge or pledge held by LME Clear from the Member Transferor under its Security Documents) and such Collateral shall form part of the property and rights charged or pledged to LME Clear by the Member Transferee under its Security Documents to secure the obligations and liabilities of the Member Transferee to LME Clear.
- 2.11 This Procedure is without prejudice to the right of LME Clear to exercise at any time (whether during the Porting Period or otherwise) all or any of its other powers in relation to a Member Transferor under the Default Rules.
- 2.12 The Member Transferee shall, on the date upon which the Transfer takes effect, pay to LME Clear (for its own account) any applicable fee in the amount prescribed by LME Clear from time to time. For the avoidance of doubt:
- (a) no fee shall be payable to LME Clear in respect of any Transfer unless and to the extent specified in Annex 3 (*Fees and Charges*); and
 - (b) in accordance with Rule 2.2.4, LME Clear shall consult with Members prior to the introduction of any such fee into Annex 3.

SETTLEMENT FINALITY PROCEDURE

1. APPLICATION

- 1.1 This Settlement Finality Procedure forms part of, and shall be read in conjunction with, the Rules and are legally binding on Members. Terms defined in the Rulebook have the same meaning in this Settlement Finality Procedure. In the event of any conflict or inconsistency between the Rules and this Settlement Finality Procedure, the Rules shall prevail.
- 1.2 LME Clear is a designated system for the purpose of The Financial Markets and Insolvency (Settlement Finality) Regulations 1999 (the "**Settlement Finality Regulations**"). The Settlement Finality Regulations reduce the risk that contracts and transfers made by a clearing house and its participants may be challenged in the event of the participant's insolvency. The Settlement Finality Regulations therefore minimise the disruption that can be caused to the Clearing System as a consequence of such an insolvency. In order to benefit from the protection of the Settlement Finality Regulations, LME Clear must meet the requirements of the Settlement Finality Regulations and must be designated by the Bank of England. This Settlement Finality Procedure explains how LME Clear meets such requirements.
- 1.3 As a recognised clearing house, regulated by the Bank of England under FSMA, LME Clear's is also subject to Part VII of the Companies Act 1989 ("**Part VII**"), which provides insolvency protection to Contracts formed under LME Clear's Rules, LME Clear's and Default Rules and certain other matters relating to the Clearing System operated by LME Clear.
- 1.4 In the table in section 3 below:
 - (a) Column 1 below sets out the types of instruction given by or on behalf of LME Clear or a Member which are Transfer Orders for the purpose of the Rules;
 - (b) Column 2 specifies whether the Transfer Order is a "**Payment Transfer Order**" or a "**Securities Transfer Order**" for the purpose of the Settlement Finality Regulations;
 - (c) Column 3 below specifies, for each category of instruction, the time at which it takes effect and is entered into the Designated System;
 - (d) Column 4 below specifies, for each category of instruction, the time after which it may not be revoked by a Participant or any other party;
 - (e) Column 5 specifies, for each category of instruction, guidance notes to assist in the interpretation of the table.

2. DEFINITIONS AND INTERPRETATION

In this Settlement Finality Procedure, the following words and expressions shall bear the meanings set opposite them:

"Approved Settlement Bank"	has the meaning set out in Rule 1 (<i>Definitions and Interpretation</i>);
"Cash Investment Agent"	means a bank, investment firm or other financial institution, which LME Clear has appointed to act as its agent to invest Collateral and / or Default Fund

Contributions;

"Concentration Bank"	has the meaning set out in Rule 1 (<i>Definitions and Interpretation</i>);
"Concentration Bank Agreement"	means an agreement between LME Clear and a Concentration Bank pursuant to which the Concentration Bank agrees to provide concentration bank account services to LME Clear;
"Custodian"	has the meaning set out in Rule 1 (<i>Definitions and Interpretation</i>);
"Custody Agreement"	means an agreement between a Custodian and LME Clear pursuant to which the Custodian holds cash, securities and other assets on behalf of LME Clear;
"Default Rules"	means Rule 10 (<i>Default</i>) and the Default Procedures;
"Designated System"	means the standardised formal arrangements, common rules and procedures, as set out in the Rules (including the Settlement Finality Procedures and the other Procedures) and service descriptions published by LME Clear and other functionality (in each case as amended from time to time) which: (a) enable LME Clear in operating its Secure Payments System (or otherwise) to give instructions to transfer to Members amounts of money on the accounts of certain Approved Settlement Banks; (b) enable LME Clear in operating the Secure Payments System (or otherwise) to give instructions on behalf of Members and to transfer to LME Clear amounts of money on the accounts of certain Approved Settlement Banks; (c) enable LME Clear to give instructions to its Concentration Banks to transfer amounts of money on the accounts of such Concentration Banks to Approved Settlement Banks; (d) enable LME Clear to give instructions to Custodians or Securities Systems Operators or Securities Account Operators to transfer, or arrange the transfer, of title to, or interest in, securities and cash; (e) enable LME Clear to become central counterparty to Members in respect of Transactions;

- (f) enable LME Clear to centrally clear Client Trades;
- (g) enable LME Clear and Members to fulfil obligations they incur in respect of Contracts;
- (h) enable transfers, assignments and novations of Contracts between Members (and the corresponding transfer of Collateral and Positions between the Accounts of such Members) in accordance with the Rules, including following a Default Event and, without limitation, pursuant to the exercise by one or more Clients of Porting Rights;
- (i) facilitate supplementary and incidental matters relating to the performance or discharge of obligations in respect of Contracts and the collection and payment of amounts due under the Rules;

"Payment Transfer Order"

has the meaning set out in the Settlement Finality Regulations;

"Participant"

means any of the following:

- (a) LME Clear;
- (b) each Member;
- (c) each Approved Settlement Bank;
- (d) each Concentration Bank,

that are "participants" (as defined in the Settlement Finality Regulations) in the Designated System (and this Settlement Finality Procedure shall apply equally to any insolvency practitioner appointed for, or having powers in respect of, a Participant);

"Porting Rights"

means a right to have a Transfer effected pursuant to Rule 10.7 (*Portability of Client Accounts*);

"Securities Account Operator"

means a bank or other financial institution which provides account operator services to LME Clear in respect of accounts maintained by LME Clear with a Securities System Operator;

"Securities Account Operator Agreement"

means an agreement between LME Clear and a Securities Account Operator pursuant to which the Securities Account Operator agrees to perform account operator services for LME Clear in respect of one or more accounts maintained by LME Clear with

a Securities System Operator;

"Settlement Bank Agreement"	means an agreement between LME Clear and an Approved Settlement Bank pursuant to which the Approved Settlement Bank is authorised to participate in the Secure Payments System;
"Settlement Finality Directive"	means Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems (as subsequently amended and as may be further amended from time to time);
"Securities System Operator"	means: (a) the operator of a relevant system within the meaning of the Uncertificated Securities Regulations 2001; (b) the operator of a securities depository or securities settlement system in the UK or any other jurisdiction; and includes, without limitation, Euroclear UK & Ireland and Euroclear Bank;
"Securities System Terms"	means the terms of business or agreement pursuant to which LME Clear is permitted to use the securities depository or securities settlement systems of a Securities Systems Operator;
"Securities Transfer Order"	has the meaning set out in the Settlement Finality Regulations; and
"Transfer Order"	means a Securities Transfer Order or a Payment Transfer Order.

3. SPECIFICATION OF TRANSFER ORDERS FOR THE PURPOSE OF THE SETTLEMENT FINALITY REGULATIONS

	1. TRANSFER ORDER	2. TYPE OF TRANSFER ORDER	3. TIME "ENTERED INTO THE DESIGNATED SYSTEM"	4. TIME FROM WHICH IRREVOCABLE	5. NOTES
3.1	Acceptance of Transaction	Payment Transfer Order	Upon Acceptance	The earlier of: • The occurrence of a Default Event in respect of the Member; and • the Time of Novation or the Time of Registration (as applicable)	1. A Transaction that is Novated or Registered under Rule 6 gives rise: (a) to one or more Payment Obligations pursuant to Rule 7 and the Clearing Procedure, (b) to Contracts formed between the Member and LME Clear in accordance with Rule 6. 2. Acceptance is deemed to occur at the time that the Clearing System records that the Pre-Acceptance Checks in respect of a Transaction have been satisfied, in accordance with Clearing Procedure B 3.2 and 3.3. 3. A Transfer Order in respect of a Transaction that is a Member Trade shall become irrevocable at the Time of Novation. 4. A Transfer Order in respect of a Transaction that is a Client Trade shall become irrevocable at the Time of Registration.
3.2	Instruction by LME Clear to an Approved Settlement Bank to pay to LME Clear a Cash Settlement on behalf of a Member	Payment Transfer Order	The time of submission by LME Clear of the instruction into the SWIFT Messaging Gateway, or any other communication mechanism permitted by the Rules, used by LME Clear to transmit	The time at which the Approved Settlement Bank sends to LME Clear a SWIFT credit confirmation message (by SWIFT message type MT910) or otherwise confirms to LME Clear that such payment will	1. The instruction shall be to transfer to LME Clear an amount of money to be debited from an account of the Member with the Approved Settlement Bank and credited to an account of LME Clear with the Approved Settlement Bank. 2. The transfer of money shall be to discharge an obligation of the Member to make a Cash Settlement to LME Clear under the Rules.

Settlement Finality Procedure

	1. TRANSFER ORDER	2. TYPE OF TRANSFER ORDER	3. TIME "ENTERED INTO THE DESIGNATED SYSTEM"	4. TIME FROM WHICH IRREVOCABLE	5. NOTES
			the instruction to the Participant.	be, or has been, made.	3. The instruction may be given by SWIFT message or by any other means specified in, or permitted by, the Settlement Bank Agreement between LME Clear and the Approved Settlement Bank.
3.3	Instruction by LME Clear to an Approved Settlement Bank to pay to a Member a Cash Settlement on behalf of LME Clear	Payment Transfer Order	The time of submission by LME Clear of the instruction into the SWIFT Messaging Gateway, or any other communication mechanism permitted by the Rules, used by LME Clear to transmit the instruction to the Participant.	The time at which the Approved Settlement Bank sends to LME Clear a SWIFT debit confirmation message (by SWIFT message type MT900) or otherwise confirms to LME Clear that such payment will be, or has been, made.	1. The instruction shall be to transfer to a Member an amount of money to be debited from an account of LME Clear with the Approved Settlement Bank and credited to an account of the Member with the Approved Settlement Bank. 2. The transfer of money shall be to discharge an obligation of LME Clear to make a Cash Settlement to the Member under the Rules. 3. The instruction may be given by SWIFT message or by any other means specified in, or permitted by, the Settlement Bank Agreement between LME Clear and the Approved Settlement Bank.
3.4	The transfer of Cash Collateral by LME Clear from a Defaulting Member to another Member pursuant to LME Clear's exercise of its powers under the Default Rules.	Payment Transfer Order	The time of the transfer in accordance with the Rules.	The time at which LME Clear's books and records are updated as a result of a successful transfer of the Collateral.	1. The transfer may occur as a consequence of Rule 10.7 (<i>Portability of Client Accounts</i>) or otherwise pursuant to Rule 10 (<i>Default</i>) or the Default Procedures.
3.5	Instruction by LME Clear to an Approved Settlement Bank to transfer to a Defaulting Member or its insolvency practitioner an amount of money to be paid to the Defaulting Member or	Payment Transfer Order	The time of submission by LME Clear of the instruction into the SWIFT Messaging Gateway, or any other communication	The time at which the Approved Settlement Bank sends to LME Clear a SWIFT debit confirmation message (by SWIFT message type MT900) or otherwise	1. The instruction shall be to transfer to a Member an amount of money to be debited from an account of LME Clear with the Approved Settlement Bank and credited to: (a) an account of the Member with the Approved Settlement Bank; or (b) such alternative bank account as is

Settlement Finality Procedure

	1. TRANSFER ORDER	2. TYPE OF TRANSFER ORDER	3. TIME "ENTERED INTO THE DESIGNATED SYSTEM"	4. TIME FROM WHICH IRREVOCABLE	5. NOTES
	its insolvency practitioner pursuant to the Default Rules.		mechanism permitted by the Rules, used by LME Clear to transmit the instruction to the Participant.	confirms to LME Clear that such payment will be, or has been, made.	specified by the insolvency practitioner appointed in respect of the Defaulting Member for the receipt of such sums. 2. The transfer of money shall be to discharge an obligation of LME Clear under the Rules to pay to a Defaulting Member any cash sum following the calculation of the final net settlement in respect of that Defaulting Member. 3. The instruction may be given by SWIFT message or by any other means specified in, or permitted by, the Settlement Bank Agreement between LME Clear and the Approved Settlement Bank.
3.6	Instruction by LME Clear to a Concentration Bank to transfer an amount of money to an account of LME Clear with an Approved Settlement Bank.	Payment Transfer Order	The time of submission by LME Clear of the instruction into the SWIFT Messaging Gateway, or any other communication mechanism permitted by the Concentration Bank Agreement, used by LME Clear to transmit the instruction to the Participant.	The time at which the Concentration Bank sends to LME Clear a SWIFT debit confirmation message or otherwise confirms to LME Clear that such payment will be, or has been, made.	1. The instruction shall be to transfer to LME Clear or the Cash Investment Agent an amount of money to be debited from an account of LME Clear with the Concentration Bank and credited to an account of LME Clear with an Approved Settlement Bank. 2. The instruction may be given by SWIFT message or by any other means specified in, or permitted by, the Concentration Bank Agreement between LME Clear and the Concentration Bank.
3.7	Instruction by LME Clear to an Approved Settlement Bank to transfer an amount of money to an account of LME Clear at a	Payment Transfer Order	The time of submission by LME Clear of the instruction into the SWIFT Messaging	The time at which the Approved Settlement Bank sends to LME Clear a SWIFT debit confirmation message	1. The instruction shall be to transfer to LME Clear an amount of money to be debited from an account of LME Clear with the Approved Settlement Bank and credited to an account of LME Clear with a Concentration Bank.

Settlement Finality Procedure

	1. TRANSFER ORDER	2. TYPE OF TRANSFER ORDER	3. TIME "ENTERED INTO THE DESIGNATED SYSTEM"	4. TIME FROM WHICH IRREVOCABLE	5. NOTES
	Concentration Bank nominated by LME Clear.		Gateway, or any other communication mechanism permitted by the Settlement Bank Agreement, used by LME Clear to transmit the instruction to the Participant.	(by SWIFT message type MT900) or otherwise confirms to LME Clear that such payment will be, or has been, made.	2. The instruction may be given by SWIFT message or by any other means specified in, or permitted by, the Settlement Bank Agreement between LME Clear and the Approved Settlement Bank.
3.8	Instruction by LME Clear to a Custodian to transfer to LME Clear or a Member an amount of money to be debited from an account of LME Clear with the Custodian.	Payment Transfer Order	The time of submission by LME Clear of the instruction into the SWIFT Messaging Gateway, or any other communication mechanism permitted by the Custody Agreement, used by LME Clear to transmit the instruction to the Participant.	The time at which the Custodian sends to LME Clear a SWIFT debit confirmation message or otherwise confirms to LME Clear that such payment will be, or has been, made.	1. The instruction shall be to transfer to LME Clear or a Member an amount of money to be debited from an account of LME Clear with the Custodian and credited to: (a) an account of LME Clear with a Concentration Bank or an Approved Settlement Bank; or (b) an account of a Member with an Approved Settlement Bank. 2. The instruction may be given by SWIFT message or by any other means specified in, or permitted by, the Custody Agreement between LME Clear and the Custodian.
3.9	Instruction by LME Clear to a Securities System Operator, directly or via a Securities Account Operator acting on LME Clear's behalf, to transfer an amount of money to an account of LME Clear at an Approved Settlement Bank or a Concentration	Payment Transfer Order	The time of submission by LME Clear of the instruction into the SWIFT Messaging Gateway, or any other communication mechanism permitted by the Securities Account Operator	The time at which the Securities System Operator or Securities Account Operator (as applicable) sends to LME Clear a SWIFT debit confirmation message or otherwise confirms to LME Clear that such payment will be, or has	1. The instruction shall be to transfer to LME Clear an amount of money to be debited from a cash account of LME Clear with the Securities System Operator and credited to an account of LME Clear with a Concentration Bank or an Approved Settlement Bank. 2. The instruction may be given by SWIFT message or by any other means specified in, or permitted by (as applicable):

Settlement Finality Procedure

	1. TRANSFER ORDER	2. TYPE OF TRANSFER ORDER	3. TIME "ENTERED INTO THE DESIGNATED SYSTEM"	4. TIME FROM WHICH IRREVOCABLE	5. NOTES
	Bank.		Agreement or Securities System Terms (as applicable), used by LME Clear to transmit the instruction to the Participant.	been, made.	(a) the Securities Account Operator Agreement between LME Clear and the Securities Account Operator; or (b) Securities System Terms between LME Clear and the Securities Account Operator.
3.10	Instruction by LME Clear to: (a) a Custodian or Securities System Operator to receive title to, or interest in, Eligible Securities from an account of a Member; or (b) a Securities Account Operator, acting on behalf of LME Clear, to facilitate that the Securities System Operator shall receive title to, or interest in, Eligible Securities from an account of a Member.	Securities Transfer Order	The time of submission by LME Clear of the instruction into the SWIFT Messaging Gateway, or any other communication mechanism permitted by the Custody Agreement, Securities Account Operator Agreement or Securities System Terms (as applicable), used by LME Clear to transmit the instruction to the Participant.	The time at which the Eligible Securities are transferred to an account in respect of which LME Clear is legally or beneficially entitled or the time at which the Custodian, Securities System Operator or Securities Account Operator confirms to LME Clear by SWIFT message or other form of confirmation permitted by the Custody Agreement, Securities Account Operator Agreement or Securities System Terms (as applicable) that such transfer will be made or that such transfer has been made (whichever is the earlier).	1. The transfer of Eligible Securities shall be from an account of the Member with a custodian or a Securities System Operator to an account of LME Clear with a Custodian or a Securities System Operator and shall be recorded by book transfer by the Custodian or securities settlement by the Securities System Operator. 2. Such transfers of Eligible Securities will arise pursuant to the provision by a Member of Securities Collateral pursuant to and in accordance with the Rules, whether by substitution for Cash Collateral or otherwise. 3. The instruction may be given by SWIFT message or by any other means specified in, or permitted by (as applicable): (a) the Custody Agreement between LME Clear and the Custodian; or (b) the Securities Account Operator Agreement between LME Clear and the Securities Account Operator; or (c) Securities System Terms between LME Clear and the Securities Account Operator.

Settlement Finality Procedure

	1. TRANSFER ORDER	2. TYPE OF TRANSFER ORDER	3. TIME "ENTERED INTO THE DESIGNATED SYSTEM"	4. TIME FROM WHICH IRREVOCABLE	5. NOTES
3.11	Instruction by LME Clear to: (a) a Custodian or Securities System Operator to transfer the title to, or interest in, Eligible Securities from an account of LME Clear to an account of a Member; or (b) a Securities Account Operator, acting on behalf of LME Clear, to facilitate that the Securities System Operator shall transfer the title to, or interest in, Eligible Securities from an account of LME Clear to an account of a Member.	Securities Transfer Order	The time of submission by LME Clear of the instruction into the SWIFT Messaging Gateway, or any other communication mechanism permitted by the Custody Agreement, Securities Account Operator Agreement or Securities System Terms (as applicable), used by LME Clear to transmit the instruction to the Participant.	The time at which the Eligible Securities are transferred from an account in respect of which LME Clear is legally or beneficially entitled or, if it is later, the time at which the Custodian, Securities System Operator or Securities Account Operator confirms to LME Clear by SWIFT message or other form of confirmation permitted by the Custody Agreement, Securities Account Operator Agreement or Securities System Terms (as applicable) that such transfer has been made.	1. The transfer of Eligible Securities shall be from an account of LME Clear with a Custodian or a Securities System Operator to an account of the Member with a custodian or a Securities System Operator and shall be recorded by book transfer by the Custodian or securities settlement by the Securities System Operator. 2. Such transfers of Eligible Securities will arise pursuant to the return by LME Clear to a Member of Securities Collateral pursuant to and in accordance with the Rules. 3. The instruction may be given by SWIFT message or by any other means specified in, or permitted by (as applicable): (a) the Custody Agreement between LME Clear and the Custodian; or (b) the Securities Account Operator Agreement between LME Clear and the Securities Account Operator; or (c) Securities System Terms between LME Clear and the Securities Account Operator.
3.12	The transfer of Securities Collateral by LME Clear from a Defaulting Member to another Member pursuant to LME Clear's exercise of its powers under the Default Rules.	Securities Transfer Order	The time of the transfer in accordance with the Rules.	The time at which LME Clear's books and records are updated as a result of a successful transfer of the Collateral.	1. The transfer may occur as a consequence of Rule 10.7 (<i>Portability of Client Accounts</i>) or otherwise pursuant to Rule 10 (<i>Default</i>) or the Default Procedures.
3.13	Instruction by LME Clear to:	Securities Transfer	The time of submission by LME	The time at which the Eligible Securities are	1. The transfer of Eligible Securities shall be from an account of LME Clear with a Custodian or a Securities

	1. TRANSFER ORDER	2. TYPE OF TRANSFER ORDER	3. TIME "ENTERED INTO THE DESIGNATED SYSTEM"	4. TIME FROM WHICH IRREVOCABLE	5. NOTES
	(a) a Custodian or Securities System Operator to transfer the title to, or interest in, Eligible Securities from an account of LME Clear to an account of a Defaulting Member or its insolvency practitioner pursuant to the Default Rules; or (b) a Securities Account Operator, acting on behalf of LME Clear, to facilitate that the Securities System Operator shall transfer the title to, or interest in, Eligible Securities from an account of LME Clear to an account of a Defaulting Member or its insolvency practitioner pursuant to the Default Rules	Order	Clear of the instruction into the SWIFT Messaging Gateway, or any other communication mechanism permitted by the Custody Agreement, Securities Account Operator Agreement or Securities System Terms (as applicable), used by LME Clear to transmit the instruction to the Participant.	transferred from an account in respect of which LME Clear is legally or beneficially entitled or, if it is later, the time at which the Custodian, Securities System Operator or Securities Account Operator confirms to LME Clear by SWIFT message or other form of confirmation permitted by the Custody Agreement, Securities Account Operator Agreement or Securities System Terms (as applicable) that such transfer has been made.	System Operator to an account of the Defaulting Member or its insolvency practitioner with a custodian or a Securities System Operator and shall be recorded by book transfer by the Custodian or securities settlement by the Securities System Operator. 2. The transfer of Eligible Securities shall be to discharge an obligation of LME Clear under the Rules to return to a Defaulting Member any Securities Collateral following the calculation of the final net settlement in respect of that Defaulting Member. 3. The instruction may be given by SWIFT message or by any other means specified in, or permitted by (as applicable): (a) the Custody Agreement between LME Clear and the Custodian; or (b) the Securities Account Operator Agreement between LME Clear and the Securities Account Operator; or (c) Securities System Terms between LME Clear and the Securities Account Operator.

4. PROHIBITION ON REVOCATION OF TRANSFER ORDERS

No Participant (or any insolvency practitioner appointed in relation to the Participant) may revoke or purport to revoke any Transfer Order, which shall be binding on all such persons, after the time specified in section 3 above as being the time when such Transfer Order becomes irrevocable.

5. GENERAL OBLIGATIONS OF MEMBERS AS PARTICIPANTS

5.1 Members of LME Clear are Participants in the Designated System under the Settlement Finality Regulations.

5.2 Members must:

- (a) comply with the Settlement Finality Regulations and Part VII;
- (b) facilitate compliance by LME Clear with the requirements of the Settlement Finality Regulations and Part VII; and
- (c) comply with any action taken by LME Clear pursuant to the Settlement Finality Regulations and Part VII.

6. PROVISION OF INFORMATION

6.1 A Participant must, within 14 days of being requested to do so by any person, and upon payment of a reasonable charge, provide to any person who requests it:

- (a) details of the systems which are designated for the purposes of the Settlement Finality Directive in which the Participant participates; and
- (b) information about the main rules of governing the functioning of those systems.

6.2 A Participant shall not be required to provide information to a person pursuant to Section 6.1 above where the request is frivolous or vexatious.

6.3 Each Participant shall promptly provide to LME Clear such information as LME Clear may reasonably require from time to time in order to meet its obligations as operator of the Designated System under the Settlement Finality Regulations.

7. NOTIFICATION OF INSOLVENCY EVENTS

7.1 A Participant shall forthwith notify LME Clear and the Bank of England in the event that:

- (a) a creditors' voluntary resolution is passed in respect of the Participant; or
- (b) a trust deed granted by the Participant becomes a protected trust deed; or
- (c) any analogous event occurs in respect of the Participant under the laws of a jurisdiction other than England and Wales.

7.2 Any notice given to LME Clear under this provision shall be given in writing addressed to The Chief Legal and Compliance Officer, and shall be sent by first class pre-paid recorded delivery post or hand delivered to the following address:

LME Clear Limited
56 Leadenhall Street
London EC3A 2DX

- 7.3 Any notice given to the Bank of England under this provision shall be sent by first class pre-paid recorded delivery post or hand delivered to the following address:

Manager of the Payment Systems Oversight Financial Resilience Division
Bank of England
Threadneedle Street
London EC2R 8AH

LME CLEAR LIMITED

ANNEXES

ANNEX 1 – ELIGIBLE PRODUCTS

1. INTRODUCTION

1.1 This Annex 1 sets out the list of Eligible Products that are eligible to be cleared via the Clearing System and the Product Specifications in respect of each such Eligible Product.

1.2 The Eligible Products are:

(a) The following LME Exchange Traded Products:

	Eligible Product	Paragraph containing Contract Specifications
(i)	LME Exchange Traded Forwards	Paragraph 2.2
(ii)	LME Exchange Traded Futures (Minis & LMEX)	Paragraph 2.3
(iii)	LME Exchange Traded American Options	Paragraph 2.4
(iv)	LME Exchange Traded Average Price Options (TAPOs)	Paragraph 2.5
(v)	LME Exchange Traded Average Price Futures	Paragraph 2.6

(b) The following OTC loco London Bullion Market Forwards

	Eligible Product	Paragraph containing Contract Specifications
(vi)	OTC loco London Gold Forwards	Paragraph 3.2
(vii)	OTC loco London Silver Forwards	Paragraph 3.3

2. LME EXCHANGE TRADED PRODUCTS

2.1 General

- (a) The Approved Transaction Platform for all LME Exchange Traded Products is LMEsmart.
- (b) USD is the nominated Base Currency for all LME Exchange Traded Products.
- (c) The full Product Specifications of the LME Exchange Traded Products are determined by the LME Rules and the notices issued by LME under the LME Rules. For ease of reference a representation of these Product Specifications is provided in this paragraph 2.

2.2 LME Exchange Traded Forwards

(a) Non-Ferrous Metals

Individual Metal parameters for Non-Ferrous Metals

Metal	Product ID (Code)	Lot Size
Aluminium Alloy	AA	20 metric tonnes
High Grade Primary Aluminium	AH	25 metric tonnes
North American Special Aluminium Alloy (NASAAC)	NA	20 metric tonnes
Copper Grade A	CA	25 metric tonnes
Primary Nickel	NI	6 metric tonnes
Standard Lead	PB	25 metric tonnes
Tin	SN	5 metric tonnes
Special High Grade Zinc	ZS	25 metric tonnes

Prompt Date Structure

Metal	Daily	Weekly (Wednesdays)	Monthly (3 rd Wednesday)
AH, CA	TOM to 3 months	4 months to 6 months	7 months to 123 months
NI, PB, ZS	TOM to 3 months	4 months to 6 months	7 months to 63 months
AA, NA	TOM to 3 months	4 months to 6 months	7 months to 27 months
SN	TOM to 3 months	4 months to 6 months	7 months to 15 months

Common parameters for Non-Ferrous Metals

Parameter	Definition
Settlement Currency	EUR, GBP, JPY or USD
Price Quotation	USD per metric tonne.
Minimum Price Movement	For trades in EUR, GBP or USD = 0.01 For trades in JPY = 1.
Last Submission Date	The Last Submission Date is one Good LME Business Day ¹⁰ prior to the Prompt Date.
Trade Submission	For trades in EUR, GBP or USD, any Good LME Business Day up to 13:30 hours on the Last Submission Date. For trades in JPY, any Good LME Business Day up to 20:00 hours on the day preceding the Last Submission Date.
Prompt Date	The Settlement Business Day ¹¹ on which the Contract is to be settled.
Closing Valuations	LME Closing Price.
Margin Model	Initial Margin, using a SPAN algorithm, and Discounted Contingent Variation Margin.
Settlement Type	Physical - as LME Warrants
Settlement Price	LME Settlement Price.
Metal Settlement	LME Warrants through LMEsword as per LME Rules
Currency Settlement	Through Secure Payment Systems

(b) Minor Metals

Individual Metal parameters for Minor Metals

Metal	Product ID (Code)	Lot Size
Cobalt	CO	1 metric tonne
Molybdenum	MO	6 metric tonnes

Prompt Date Structure

Metal	Daily	Weekly (Wednesdays)	Monthly (3rd Wednesday)
CO, MO	TOM to 3 months	4 months to 6 months	7 months to 15 months

Common parameters for Minor Metals

Parameter	Definition
Settlement Currency	EUR, GBP, JPY or USD
Price Quotation	USD per metric tonne.
Minimum Price Movement	For trades in EUR, GBP or USD = 0.01 For trades in JPY = 1.
Last Submission Date	The Last Submission Date is one Good LME Business Day prior to the Prompt Date.
Trade Submission	For trades in EUR, GBP or USD, any Good LME Business Day up to 13:30 hours on the Last Submission Date. For trades in JPY, any Good LME Business Day up to 20:00 hours on the day preceding the Last Submission Date.
Prompt Date	The Settlement Business Day on which the Contract is to be settled.
Closing Valuations	LME Closing Price.
Margin Model	Initial Margin, using a SPAN algorithm, and Discounted Contingent Variation Margin.
Settlement Type	Physical - as LME Warrants.
Settlement Price	LME Settlement Price.
Metal Settlement	LME Warrants through LMEsword as per LME Rules
Currency Settlement	Through Secure Payment System

(c) Steel**Parameters for Steel**

Metal	Product ID (Code)	Lot Size
Steel Billet	FM	65 metric tonnes

Prompt Date Structure

Metal	Daily	Weekly (Wednesdays)	Monthly (3 rd Wednesday)
FM	TOM to 3 months	4 months to 6 months	7 months to 15 months

Parameter	Definition
Settlement Currency	USD
Price Quotation	USD per metric tonne.
Minimum Price Movement	USD = 0.01
Last Submission Date	The Last Submission Date is one Good LME Business Day prior to the Prompt Date.
Trade Submission	Any Good LME Business Day up to 13:30 hours on the Last Submission Date.
Prompt Date	The Settlement Business Day on which the Contract is to be settled.
Closing Valuations	LME Closing Price.
Margin Model	Initial Margin, using a SPAN algorithm, and Discounted Contingent Variation Margin.
Settlement Type	Physical - as LME Warrants.
Settlement Price	LME Settlement Price.
Metal Settlement	LME Warrants through LMEsword as per LME Rules.
Currency Settlement	Through Secure Payment Systems

2.3 LME Exchange Traded Futures

(a) Non-Ferrous Metals – (LME Minis)

Individual Metal parameters for Non-Ferrous Metals – LME Minis

Metal	Product ID (Code)	Lot Size
High Grade Primary Aluminium	MA	5 metric tonnes
Copper Grade A	MC	5 metric tonnes
Special High Grade Zinc	MZ	5 metric tonnes

Prompt Date Structure

Metal	Monthly
MA, MC, MZ	Monthly to 12 months

Common parameters for Non-Ferrous Metals (LME Minis)

Parameter	Definition
Settlement Currency	USD
Price Quotation	USD per metric tonne.
Minimum Price Movement	USD = 0.01
Last Submission Date	The Last Submission Date is two Good LME Business Days prior to the Prompt Date.
Trade Submission	Any Good LME Business Day up to 13:30 hours on the Last Submission Date.
Prompt Date	The Settlement Business Day on which the Contract is to be settled. (Prompt Date is the 3 rd Wednesday of the relevant month.)
Closing Valuations	LME Closing Price. (Exclusive of the discount factor.)
Margin Model	Initial Margin, using a SPAN algorithm, and Realised Variation Margin.
Settlement Type	Financial – as a difference to the Settlement Price on the Expiry Date
Settlement Price	LME Settlement Price.
Currency Settlement	Through Secure Payment Systems.

(b) LME Index

The LME Rules (and in particular the "Special Contract Rules for the Construction of the Index" and the notices issued by the LME under the LME Rules) provide the weightings for the various constituent metals of the Index and provide the methodology for the calculation of the Index value.

Prompt Date Structure

Product ID (Code)	Monthly
MX	Monthly to 12 months

Parameter	Definition
Lot Size	USD10.00 per Index point

Settlement Currency	USD
Price Quotation	Index Points.
Minimum Price Movement	0.01 Index point
Last Submission Date	The Last Submission Date is the Prompt Date.
Trade Submission	Any Good LME Business Day up to 17:15 hours on the Last Submission Date.
Prompt Date	The second Wednesday of the Prompt Month.
Closing Valuations	LME Closing Price.
Margin Model	Initial Margin, using a SPAN algorithm, and Realised Variation Margin.
Settlement Type	Financial – as a difference to the Index Settlement Price on the Prompt Date
Settlement Price	LME Index Settlement Price, (ISP). (Note: ISP is based on Closing Price valuations and not morning Ring Closes.)
Currency Settlement	Through Secure Payment System on the next good LME Settlement Business Day after the Prompt Date

2.4 LME Exchange Traded American Options

Individual Metal parameters

Metal	Product ID (Code)	Lot Size
Aluminium Alloy	AA	20 metric tonnes
High Grade Primary Aluminium	AH	25 metric tonnes
North American Special Aluminium Alloy (NASAAC)	NA	20 metric tonnes
Copper Grade A	CA	25 metric tonnes
Primary Nickel	NI	6 metric tonnes
Standard Lead	PB	25 metric tonnes
Tin	SN	5 metric tonnes
Special High Grade Zinc	ZS	25 metric tonnes

Prompt Date Structure

Metal	Monthly
AH, CA	Monthly to 63 months
AA, NA, NI, ZS	Monthly to 27 months
PB, SN	Monthly to 15 months

Parameters

Parameter	Definition
Option Type	American, Physically Settling, Premium Up-front
Settlement Currency	EUR, GBP, JPY or USD
Price Quotation	USD per metric tonne.
Minimum EUR & USD Strike Price Movements for all metals	EUR/USD 25 for strikes from EUR/USD 25 to EUR/USD 9,975 EUR/USD 50 for strikes from EUR/USD 10,000 to EUR/USD 19,950 EUR/USD 100 for all strikes over EUR/USD 20,000
Minimum GBP Strike Price Movements	GBP 25 for strikes for AH, AA, NA & CA GBP 20 for strikes for PB & ZS GBP 50 for strikes for NI & SN
Minimum JPY Strike Price Movements	JPY 10,000 for strikes from JPY 10,000 to JPY 390,000 JPY 20,000 for all strikes over JPY 400,000 For AH, AA, NA, CA & ZS JPY 5,000 for strikes from JPY 5,000 to JPY 245,000 JPY 10,000 for all strikes over JPY 250,000 For PB JPY 20,000 for all strikes over JPY 20,000 For NI & SN
Minimum Premium Price Movement	For trades in EUR, GBP or USD = 0.01 For trades in JPY = 10.
Last Submission Date	The Last Submission Date is one Good LME Business Day prior to the Expiry Date.
Trade Submission	Any Good LME Business Day up to 18:15 hours on the Last Submission Date.
Premium Settlement Date	For trades in EUR, GBP or USD, first good Business Day after the Trade Date For trades in JPY, second good Business Day after the Trade Date
Premium Settlement	Through Secure Payment System.
Closing Valuations	LME Closing Price.
Margin Model	Initial Margin, using a SPAN algorithm, and Net Liquidation Value Variation Margin.
Exercise Type	Manual – between 07:30hrs and 11:15hrs on any good business day up to, and including, the Expiry Date.

Expiry Date & Time	11:15hrs on the 1 st Wednesday of the Prompt Month.
Underlying Instrument	The LME Exchange Traded Forward for Prompt Date the 3 rd Wednesday of the Prompt Month.

2.5 LME Exchange Traded Average Price Options (TAPOs)

Individual Metal parameters

Metal	Product ID (Code)	Lot Size
Aluminium Alloy	AA	20 metric tonnes
High Grade Primary Aluminium	AH	25 metric tonnes
North American Special Aluminium Alloy (NASAAC)	NA	20 metric tonnes
Copper Grade A	CA	25 metric tonnes
Primary Nickel	NI	6 metric tonnes
Standard Lead	PB	25 metric tonnes
Tin	SN	5 metric tonnes
Special High Grade Zinc	ZS	25 metric tonnes

Prompt Date Structure

Metal	Monthly
AH, CA	Monthly to 63 months
AA, NA, NI, ZS	Monthly to 27 months
PB, SN	Monthly to 15 months

Parameters

Parameter	Definition
Option Type	European, Physically Settling, Premium Up-front

Settlement Currency	USD
Price Quotation	USD per metric tonne.
Minimum Strike Price Movements	USD 1.00
Minimum Premium Price Movement	USD 0.01
Last Submission Date	The Last Submission Date is one Good LME Business Day prior to the Expiry Date.
Trade Submission	Any Good LME Business Day up to 18:15 hours on the Last Submission Date.
Premium Settlement Date	First good Business Day after the Trade Date.
Premium Settlement	Through Secure Payment System.
Closing Valuations	LME Closing Price.
Margin Model	Initial Margin, using a SPAN algorithm, and Net Liquidation Value Variation Margin. (Please Refer Rule 6 of the Procedures).
Exercise Type	Automatic – All positions that are USD0.01 or greater in the money when compared to the Exercise Reference Price will be exercised automatically by LME Clear at the Expiry Time.
Exercise Reference Price	Monthly Average Settlement Price, (MASP).
Expiry Date & Time	15:00hrs on the Last Good LME Business Day of the Prompt Month.
Underlying Instruments	Pair of LME Exchange Traded Forwards for Prompt Date the 2nd good Business day of the month following the month of the Expiry Date. These Forwards are equal and opposite in all respects except one is created at the MASP and one is created at the Strike Price of the original Option position. In the case of an exercised Call Option the Taker will buy the position from the Granter at the Strike Price and sell the position to the Granter at the MASP. In the case of an exercised Put Option the Taker will sell the position to the Granter at the Strike Price and buy the position from the Granter at the MASP.

2.6 LME Exchange Traded Average Price Futures

Individual Metal parameters

Metal	Product ID (Code)	Lot Size
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Aluminium Alloy	OL	20 metric tonnes
High Grade Primary Aluminium	OA	25 metric tonnes
North American Special Aluminium Alloy (NASAAC)	OM	20 metric tonnes
Copper Grade A	OC	25 metric tonnes
Primary Nickel	ON	6 metric tonnes
Standard Lead	OP	25 metric tonnes
Tin	OS	5 metric tonnes
Special High Grade Zinc	OZ	25 metric tonnes

Prompt Date Structure

Metal	Monthly
AH, CA	Monthly to 63 months
AA, NA, NI, ZS	Monthly to 27 months
PB, SN	Monthly to 15 months

Common Parameters

Parameter	Definition
Settlement Currency	USD
Price Quotation	USD per metric tonne.
Minimum Price Movement	USD = 0.01
Last Submission Date	The Last Submission Date is the last Good LME Business Day of the Prompt Month.
Trade Submission	Any Good LME Business Day up to 13:30 hours on the Last Submission Date.
Prompt Date	The 2 nd good Business day of the month following the Prompt Month.
Closing Valuations	LME Notional Average Price, (NAP).
Margin Model	Initial Margin, using a SPAN algorithm, and Discounted Contingent Variation Margin.
Settlement Type	Financial – as a difference to the Monthly Average Settlement Price, (MASP), of the Prompt Month.
Settlement Price	LME Monthly Average Settlement Price, (MASP).

Currency Settlement	Through Secure Payment System.
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3. OTC LOCO LONDON BULLION MARKET FORWARDS

PLEASE NOTE THAT LONDON LOCO LONDON BULLION MARKET FORWARDS ARE CURRENTLY NOT ELIGIBLE PRODUCTS. THIS SECTION IS ONLY INCLUDED TO ENSURE THAT THE RULEBOOK IS EASILY ADAPTABLE TO NEW PRODUCTS THAT MAY BE INCLUDED IN THE FUTURE

3.1 General

- (a) The Approved Transaction Platform for all Transactions in OTC loco London Bullion Market Products is *[left intentionally blank]*.
- (b) USD is the nominated Base Currency for OTC loco London Bullion Market Forwards.

3.2 OTC loco London Gold Forwards

OTC Loco London Gold Forward	
Product ID (Code)	OG
Metal Grade and Quality	Loco London Fine Gold as defined by the LBMA Good Delivery Rules for Gold as amended from time to time.
Trade Execution Venue	Over The Counter Trade Capture and Matching through <i>[left intentionally blank]</i> .
Trade Submission	<i>[left intentionally blank]</i>
Last Submission Date	One good London business day prior to the Settlement Date.
Trade Size (Lot Size)	100 troy ounces fine gold - and multiples thereof.
Currency	US Dollars, USD
Price Quotation	In USD to three decimal places
Settlement Date	Value Date of OTC executed Contract. (Any good business day in both London and New York from next Good Settlement Date to 120 months forward).
Closing Valuations	<i>[left intentionally blank]</i>
Margin Model	<i>[left intentionally blank]</i>
Settlement Type	Physical - as loco London Unallocated Fine Gold.
Settlement Price	<i>[left intentionally blank]</i>

Metal Settlement	Through unallocated loco London gold accounts held at LPMCL Members.
Currency Settlement	Through Secure Payment System.

3.3 OTC loco London Silver Forwards

OTC Loco London Silver Forward	
Product ID (Code)	AG
Metal Grade and Quality	Loco London Silver 999 as defined by the LBMA Good Delivery Rules for Silver as amended from time to time.
Trade Execution Venue	Over The Counter Trade Capture and Matching through <i>[left intentionally blank]</i>
Trade Submission	<i>[left intentionally blank]</i>
Last Submission Date	One good London business day prior to the Settlement Date.
Trade Size (Lot Size)	5,000 troy ounces silver 999 - and multiples thereof.
Currency	US Dollars, USD.
Price Quotation	In USD to five decimal places.
Settlement Date	Value Date of OTC executed Contract. (Any good business day in both London and New York from next Good Settlement Date to 36 months forward).
Closing Valuations	<i>[left intentionally blank]</i>
Margin Model	<i>[left intentionally blank]</i>
Settlement Type	Physical - as loco London Unallocated Silver 999.
Settlement Price	<i>[left intentionally blank]</i>
Metal Settlement	Through unallocated loco London silver accounts held at LPMCL Members.
Currency Settlement	Through Secure Payment System.

ANNEX 2 – ELIGIBLE CURRENCIES, COLLATERAL AND HAIRCUTS

Details of the eligible currencies, collateral and haircuts are available at the following link:

<http://www.lme.com/lme-clear/collateral-management/>

ANNEX 3 – FEES AND CHARGES

LME Clear's fees and charges are available at the following link:

<http://www.lme.com/lme-clear/fees/>

ANNEX 4 – LIST OF AVAILABLE REPORTS

Report Name	Type	Code	Frequency	Content	Format
Accounts	Data File	YYYYMMDD_HHMMSS_XXX_ACC.csv YYYYMMDD_HHMMSS_XXX_ACC.xml	Daily	A list of all position accounts associated with the Member.	CSV, XML
Auto Exercised Options	Data File	YYYYMMDD_HHMMSS_XXX_AEO.csv YYYYMMDD_HHMMSS_XXX_AEO.xml	Daily when applicable	The Auto Exercised Options report will show positions that are to be flagged for automatic exercise on the Member's behalf.	CSV, XML
Base Metals Settlements and Mean Prices	Data File	YYYYMMDD_HHMMSS_SMP.csv YYYYMMDD_HHMMSS_SMP.xml	Daily	The Base Metals Settlement and Mean Prices report will produce a report with settlement and mean prices for each underlying symbol and currency.	CSV, XML
Closing Prices	Data File	YYYYMMDD_HHMMSS_CLO.csv YYYYMMDD_HHMMSS_CLO.xml	Daily	The Closing Price Data File will show closing price for each tradable instrument.	CSV, XML
Collateral Daily Activity	Data File	YYYYMMDD_HHMMSS_XXX_CDA.csv YYYYMMDD_HHMMSS_XXX_CDA.xml	Daily	The Collateral Daily Activity report will show all collateral movements for a member.	CSV, XML
Collateral Fees (Daily)	Data File	YYYYMMDD_HHMMSS_XXX_CFE.csv YYYYMMDD_HHMMSS_XXX_CFE.xml	Daily	Accommodation and Interest fees per trade and member	CSV, XML
Collateral Fees (Monthly)	Data File	YYYYMMDD_HHMMSS_XXX_MCF.csv YYYYMMDD_HHMMSS_XXX_MCF.xml	Monthly	Accommodation and Interest fees per trade and member	CSV, XML
Contract Types	Data File	YYYYMMDD_HHMMSS_CNT.csv YYYYMMDD_HHMMSS_CNT.xml	Daily	The Contract Types report will produce a list of valid contract types in the system	CSV, XML
Contracts	Data File	YYYYMMDD_HHMMSS_CON.csv YYYYMMDD_HHMMSS_CON.xml	Daily	The Contracts report will produce a list of valid contracts in the system	CSV, XML
Cover Distribution	Data File	YYYYMMDD_HHMMSS_XXX_COD.csv YYYYMMDD_HHMMSS_XXX_COD.xml	Daily	The purpose of this data file is to provide members with the sum of the monetary values in Cover Distribution, on a daily basis.	CSV, XML
Currencies	Data File	YYYYMMDD_HHMMSS_CUR.csv YYYYMMDD_HHMMSS_CUR.xml	Daily	The Currencies report will produce a list of valid currencies in the system	CSV, XML
Delivery Commitments	Data File	YYYYMMDD_HHMMSS_DCM.csv YYYYMMDD_HHMMSS_DCM.xml	Daily when applicable	The Delivery Commitments report will show the numbers of lots that have gone to delivery for a member.	CSV, XML
Exchange Rates	Data File	YYYYMMDD_HHMMSS_EXR.csv YYYYMMDD_HHMMSS_EXR.xml	Daily	The Exchange Rates report will produce a report with exchange rates for each forward date and currency pair.	CSV, XML
Fee Rules	Data File	YYYYMMDD_HHMMSS_FRP.xml	Daily	All the fee rules listed in the system	XML
Financial Daily Activity	Data File	YYYYMMDD_HHMMSS_XXX_FDA.csv YYYYMMDD_HHMMSS_XXX_FDA.xml	Daily	The Financial Daily Activity report will show the financial activity for each member and account.	CSV, XML
Financial Pending Daily Activity	Data File	YYYYMMDD_HHMMSS_XXX_FPA.csv YYYYMMDD_HHMMSS_XXX_FPA.xml	Daily	The Financial Daily Activity report will show the financial pending activity for each member and account.	CSV, XML

Report Name	Type	Code	Frequency	Content	Format
Financial Summary	Data File	YYYYMMDD_HHMMSS_XXX_FSM.csv YYYYMMDD_HHMMSS_XXX_FSM.xml	Daily	Provides a summary of all financial activity for the value date in question.	CSV, XML
Future Closing Prices	Data File	YYYYMMDD_HHMMSS_FCP.csv YYYYMMDD_HHMMSS_FCP.xml	Daily	The Futures Closing Prices report will produce a report with closing prices for each forward symbol and currency.	CSV, XML
Initial Margins	Data File	YYYYMMDD_HHMMSS_XXX_IMG.csv YYYYMMDD_HHMMSS_XXX_IMG.xml	Daily	The Margins report will show margins summarised at contract level for a member	CSV, XML
Instruments	Data File	YYYYMMDD_HHMMSS_INS.csv YYYYMMDD_HHMMSS_INS.xml	Daily	The Instruments report will produce a list of tradable instruments in the system	CSV, XML
Interest Rates	Data File	YYYYMMDD_HHMMSS_INR.csv YYYYMMDD_HHMMSS_INR.xml	Daily	The Interest Rates report will produce a report with interest rates for each forward date	CSV, XML
Invoice and Account Sales	Data File	YYYYMMDD_HHMMSS_IAS.csv YYYYMMDD_HHMMSS_IAS.xml	Daily	The Invoice & Account Sales report will contain the details of trades that have been cash settled and warrant delivery values by member position account.	CSV, XML
Japanese Yen Advice Listing	Data File	YYYYMMDD_HHMMSS_XXX_YAL.csv YYYYMMDD_HHMMSS_XXX_YAL.xml	Daily when applicable	The Japanese Yen Advise Listing report will show JPY deliveries and P&L values for a member.	CSV, XML
LME Clear Auto Exercise ATM Strike Prices and Boundaries Report	Report	YYYYMMDD_HHMMSS_XXX_LMECAEX BR.csv YYYYMMDD_HHMMSS_XXX_LMECAEX BR.xlsx YYYYMMDD_HHMMSS_XXX_LMECAEX BR.pdf YYYYMMDD_HHMMSS_XXX_LMECAEX BR.xml	Monthly - 1st Wed -1	Shows the ATM strike as well as the strikes that will define what is OTM and ITM.	CSV, Excel, PDF, XML
LME Clear Auto Prepared Traded Option Report for Automatic Exercise	Report	YYYYMMDD_HHMMSS_XXX_LMECAPO ER.csv YYYYMMDD_HHMMSS_XXX_LMECAPO ER.xlsx YYYYMMDD_HHMMSS_XXX_LMECAPO ER.pdf YYYYMMDD_HHMMSS_XXX_LMECAPO ER.xml	Monthly - 1st Wed -1	Shows the Traded Option positions that are deemed ITM and therefore automatically flagged for exercise.	CSV, Excel, PDF, XML
LME Clear Cover Distribution Report	Report	YYYYMMDD_HHMMSS_XXX_LMECCOD SR.csv YYYYMMDD_HHMMSS_XXX_LMECCOD SR.xlsx YYYYMMDD_HHMMSS_XXX_LMECCOD SR.pdf YYYYMMDD_HHMMSS_XXX_LMECCOD SR.xml	Daily	Details all collateral movements that have taken place in that day's cover distribution process.	CSV, Excel, PDF, XML
LME Clear Financial Activity Report	Report	YYYYMMDD_HHMMSS_XXX_LMECFINAR.csv YYYYMMDD_HHMMSS_XXX_LMECFINAR.xlsx YYYYMMDD_HHMMSS_XXX_LMECFINAR.pdf YYYYMMDD_HHMMSS_XXX_LMECFINAR.xml	Daily	Shows all monetary movements for the Member for the day in question	CSV, Excel, PDF, XML

Report Name	Type	Code	Frequency	Content	Format
LME Clear Financial Daily Pending Activity Report	Report	YYYYMMDD_HHMMSS_XXX_LMECFIPAR.csv YYYYMMDD_HHMMSS_XXX_LMECFIPAR.xlsx YYYYMMDD_HHMMSS_XXX_LMECFIPAR.pdf YYYYMMDD_HHMMSS_XXX_LMECFIPAR.xml	Daily	Provides a summary of all financial activity for value dates other than the day in question.	CSV, Excel, PDF, XML
LME Clear Financial Summary Report	Report	YYYYMMDD_HHMMSS_XXX_LMECFINSR.csv YYYYMMDD_HHMMSS_XXX_LMECFINSR.xlsx YYYYMMDD_HHMMSS_XXX_LMECFINSR.pdf YYYYMMDD_HHMMSS_XXX_LMECFINSR.xml	Daily	Provides a summary of all financial activity for the value date in question.	Excel, PDF, XML
LME Clear Forward Delivery for Prompt Report	Report	YYYYMMDD_HHMMSS_XXX_LMECFDFPR.csv YYYYMMDD_HHMMSS_XXX_LMECFDFPR.xlsx YYYYMMDD_HHMMSS_XXX_LMECFDFPR.pdf YYYYMMDD_HHMMSS_XXX_LMECFDFPR.xml	Daily when applicable	Shows the number of lots that have gone to delivery for each metal for the nearest prompt.	CSV, Excel, PDF, XML
LME Clear Forwards Matched Trade Report	Report	YYYYMMDD_HHMMSS_XXX_LMECFOMTR.csv YYYYMMDD_HHMMSS_XXX_LMECFOMTR.xlsx YYYYMMDD_HHMMSS_XXX_LMECFOMTR.pdf YYYYMMDD_HHMMSS_XXX_LMECFOMTR.xml	Daily	All Forwards that have been accepted for clearing or cancelled on the day in question.	CSV, Excel, PDF, XML
LME Clear Forwards Position Report	Report	YYYYMMDD_HHMMSS_XXX_LMECFORPR.csv YYYYMMDD_HHMMSS_XXX_LMECFORPR.xlsx YYYYMMDD_HHMMSS_XXX_LMECFORPR.pdf YYYYMMDD_HHMMSS_XXX_LMECFORPR.xml	Daily	All Forward positions held by the Member at that point in time. Report in development, finished product will detail the trade makeup of each position as opposed to showing SOD position.	CSV, Excel, PDF, XML
LME Clear Futures Expiry Report	Report	YYYYMMDD_HHMMSS_XXX_LMECFUTER.csv YYYYMMDD_HHMMSS_XXX_LMECFUTER.xlsx YYYYMMDD_HHMMSS_XXX_LMECFUTER.pdf YYYYMMDD_HHMMSS_XXX_LMECFUTER.xml	2nd Wed	Shows the LME Index Futures Expiries and the P+L derived from this event.	CSV, Excel, PDF, XML

Report Name	Type	Code	Frequency	Content	Format
LME Clear Futures Matched Trade Report	Report	YYYYMMDD_HHMMSS_XXX_LMECFUM TR.csv YYYYMMDD_HHMMSS_XXX_LMECFUM TR.xlsx YYYYMMDD_HHMMSS_XXX_LMECFUM TR.pdf YYYYMMDD_HHMMSS_XXX_LMECFUM TR.xml	Daily	All Futures that have been accepted for clearing or cancelled on the day in question.	CSV, Excel, PDF, XML
LME Clear Futures Position Report	Report	YYYYMMDD_HHMMSS_XXX_LMECFUT PR.csv YYYYMMDD_HHMMSS_XXX_LMECFUT PR.xlsx YYYYMMDD_HHMMSS_XXX_LMECFUT PR.pdf YYYYMMDD_HHMMSS_XXX_LMECFUT PR.xml	Daily	All Futures positions held by the Member at that point in time.	CSV, Excel, PDF, XML
LME Clear Invoice and Account Sales Report	Report	YYYYMMDD_HHMMSS_XXX_LMECIAAS R.csv YYYYMMDD_HHMMSS_XXX_LMECIAAS R.xlsx YYYYMMDD_HHMMSS_XXX_LMECIAAS R.pdf YYYYMMDD_HHMMSS_XXX_LMECIAAS R.xml	Daily	Contains details of cash and physical delivery obligations for Forward contracts at that point in time.	CSV, Excel, PDF, XML
LME Clear Japanese Yen Advice Listing	Report	YYYYMMDD_HHMMSS_XXX_LMECJYAL R.csv YYYYMMDD_HHMMSS_XXX_LMECJYAL R.xlsx YYYYMMDD_HHMMSS_XXX_LMECJYAL R.pdf YYYYMMDD_HHMMSS_XXX_LMECJYAL R.xml	Daily when applicable	Shows details of the JPY deliveries and P+L values 2 days prior to the JPY prompt in question.	CSV, Excel, PDF, XML
LME Clear Margin Summary Report	Report	YYYYMMDD_HHMMSS_XXX_LMECMSU MR.csv YYYYMMDD_HHMMSS_XXX_LMECMSU MR.xlsx YYYYMMDD_HHMMSS_XXX_LMECMSU MR.pdf YYYYMMDD_HHMMSS_XXX_LMECMSU MR.xml	Daily	Show the Members margins summarized and total per Position account in USD	CSV, Excel, PDF, XML
LME Clear Member Default Fund Report	Report	YYYYMMDD_HHMMSS_XXX_LMECMED FR.csv YYYYMMDD_HHMMSS_XXX_LMECMED FR.xlsx YYYYMMDD_HHMMSS_XXX_LMECMED FR.pdf YYYYMMDD_HHMMSS_XXX_LMECMED FR.xml	LDOM	Shows details of the Member Default fund contribution.	CSV, Excel, PDF, XML

Report Name	Type	Code	Frequency	Content	Format
LME Clear NLV and Variation Margin Report	Report	YYYYMMDD_HHMMSS_XXX_LMECINV MR.csv YYYYMMDD_HHMMSS_XXX_LMECINV MR.xlsx YYYYMMDD_HHMMSS_XXX_LMECINV MR.pdf YYYYMMDD_HHMMSS_XXX_LMECINV MR.xml	Daily	Shows Members' margin obligations summarised and total at a contract level on the day in question.	CSV, Excel, PDF, XML
LME Clear Non Cash Collateral Balance Report	Report	YYYYMMDD_HHMMSS_XXX_LMECNCC BR.csv YYYYMMDD_HHMMSS_XXX_LMECNCC BR.xlsx YYYYMMDD_HHMMSS_XXX_LMECNCC BR.pdf YYYYMMDD_HHMMSS_XXX_LMECNCC BR.xml	Daily	Shows the balance of a Member's non cash collateral at the time of generation.	CSV, Excel, PDF, XML
LME Clear Non Cash Collateral Daily Activity Report	Report	YYYYMMDD_HHMMSS_XXX_LMECCOD AR.csv YYYYMMDD_HHMMSS_XXX_LMECCOD AR.xlsx YYYYMMDD_HHMMSS_XXX_LMECCOD AR.pdf YYYYMMDD_HHMMSS_XXX_LMECCOD AR.xml	Daily	Shows all collateral movements as initiated by the Member or LME Clear on the day in question.	CSV, Excel, PDF, XML
LME Clear Options Matched Trade Report	Report	YYYYMMDD_HHMMSS_XXX_LMECOP MTR.csv YYYYMMDD_HHMMSS_XXX_LMECOP MTR.xlsx YYYYMMDD_HHMMSS_XXX_LMECOP MTR.pdf YYYYMMDD_HHMMSS_XXX_LMECOP MTR.xml	Daily	All Options that have been accepted for clearing or cancelled on the day in question.	CSV, Excel, PDF, XML
LME Clear Options Position Report	Report	YYYYMMDD_HHMMSS_XXX_LMECOPT PR.csv YYYYMMDD_HHMMSS_XXX_LMECOPT PR.xlsx YYYYMMDD_HHMMSS_XXX_LMECOPT PR.pdf YYYYMMDD_HHMMSS_XXX_LMECOPT PR.xml	Daily	All Options positions held by the Member at that point in time.	CSV, Excel, PDF, XML
LME Clear SWAP Expiry Report	Report	YYYYMMDD_HHMMSS_XXX_LMECSWA ER.csv YYYYMMDD_HHMMSS_XXX_LMECSWA ER.xlsx YYYYMMDD_HHMMSS_XXX_LMECSWA ER.pdf YYYYMMDD_HHMMSS_XXX_LMECSWA ER.xml	Monthly - LDOM	Shows the results of the SWAPs expiry process on the day in question	CSV, Excel, PDF, XML

Report Name	Type	Code	Frequency	Content	Format
LME Clear TAPO Expiry Report	Report	YYYYMMDD_HHMMSS_XXX_LMECTAP ER.csv YYYYMMDD_HHMMSS_XXX_LMECTAP ER.xlsx YYYYMMDD_HHMMSS_XXX_LMECTAP ER.pdf YYYYMMDD_HHMMSS_XXX_LMECTAP ER.xml	Monthly - LDM	Shows the TAPOs that have been assigned or abandoned following expiry.	CSV, Excel, PDF, XML
LME Clear Traded Option Assignment Report	Report	YYYYMMDD_HHMMSS_XXX_LMECTOP AR.csv YYYYMMDD_HHMMSS_XXX_LMECTOP AR.xlsx YYYYMMDD_HHMMSS_XXX_LMECTOP AR.pdf YYYYMMDD_HHMMSS_XXX_LMECTOP AR.xml	Daily when applicable	Shows the assignment of the Traded Option positions.	CSV, Excel, PDF, XML
LME Clear Traded Option Exercise Report	Report	YYYYMMDD_HHMMSS_XXX_LMECTOP ER.csv YYYYMMDD_HHMMSS_XXX_LMECTOP ER.xlsx YYYYMMDD_HHMMSS_XXX_LMECTOP ER.pdf YYYYMMDD_HHMMSS_XXX_LMECTOP ER.xml	Daily when applicable	Shows any Traded Options that have been exercised on the day in question.	CSV, Excel, PDF, XML
LME Clear Traded Option Expiry Summary Report	Report	YYYYMMDD_HHMMSS_XXX_LMECTOE SR.csv YYYYMMDD_HHMMSS_XXX_LMECTOE SR.xlsx YYYYMMDD_HHMMSS_XXX_LMECTOE SR.pdf YYYYMMDD_HHMMSS_XXX_LMECTOE SR.xml	Daily when applicable	Shows a summary of all Options activity including abandonments.	CSV, Excel, PDF, XML
LMEmini Expiry Report	Report	YYYYMMDD_HHMMSS_XXX_LMECMIN ER.csv YYYYMMDD_HHMMSS_XXX_LMECMIN ER.xlsx YYYYMMDD_HHMMSS_XXX_LMECMIN ER.pdf YYYYMMDD_HHMMSS_XXX_LMECMIN ER.xml	3rd Wed - 2	Shows the LMEmini Futures Expiries and the P+L derived from this event.	CSV, Excel, PDF, XML
Market Dataset Mappings	Data File	YYYYMMDD_HHMMSS_MDT.csv YYYYMMDD_HHMMSS_MDT.xml	Daily	The Market Datasets report will produce a list of the market data files produced by the system	CSV, XML
Member Default Fund	Data File	YYYYMMDD_HHMMSS_XXX_MDF.csv YYYYMMDD_HHMMSS_XXX_MDF.xml	LDM	The Member Default Fund report will show default fund contributions for a member.	CSV, XML
Member List	Data File	YYYYMMDD_HHMMSS_MEM.csv YYYYMMDD_HHMMSS_MEM.xml	Daily	The Member List report will produce a list of clearing house members	CSV, XML
Monthly Fee Invoice (EUR)	Report	YYYYMMDD_HHMMSS_XXX_MMFIR_E UR.pdf	Monthly	EUR invoice containing trading, collateral transaction and collateral accommodation fees, and collateral interest.	PDF
Monthly Fee Invoice (GBP)	Report	YYYYMMDD_HHMMSS_XXX_MMFIR_G BP.pdf	Monthly	GBP invoice containing trading, collateral transaction and collateral accommodation fees,	PDF

Report Name	Type	Code	Frequency	Content	Format
				and collateral interest.	
Monthly Fee Invoice (JPY)	Report	YYYYMMDD_HHMMSS_XXX_MM FIR_JPY.pdf	Monthly	JPY invoice containing trading, collateral transaction and collateral accommodation fees, and collateral interest.	PDF
Monthly Fee Invoice (USD)	Report	YYYYMMDD_HHMMSS_XXX_MM FIR_USD.pdf	Monthly	USD invoice containing trading, collateral transaction and collateral accommodation fees, and collateral interest.	PDF
Monthly Interest Statement (EUR)	Report	YYYYMMDD_HHMMSS_XXX_MM ISR_EUR.pdf	Monthly	Interest statement in EUR and contains collateral interest.	PDF
Monthly Interest Statement (GBP)	Report	YYYYMMDD_HHMMSS_XXX_MM ISR_GBP.pdf	Monthly	Interest statement in GBP and contains collateral interest.	PDF
Monthly Interest Statement (JPY)	Report	YYYYMMDD_HHMMSS_XXX_MM ISR_JPY.pdf	Monthly	Interest statement in JPY and contains collateral interest.	PDF
Monthly Interest Statement (USD)	Report	YYYYMMDD_HHMMSS_XXX_MM ISR_USD.pdf	Monthly	Interest statement in USD and contains collateral interest.	PDF
Non Cash Collateral Balances	Data File	YYYYMMDD_HHMMSS_XXX_CLB.csv YYYYMMDD_HHMMSS_XXX_CLB.xml	Daily	The Non Cash Collateral Balances report will show the lodged non-cash collateral for each member and position account.	CSV, XML
Notional Average Prices	Data File	YYYYMMDD_HHMMSS_NAP.csv YYYYMMDD_HHMMSS_NAP.xml	Daily	The Notional Average Prices report will produce a report with average prices for each forward symbol and currency.	CSV, XML
Open Interest	Data File	YYYYMMDD_HHMMSS_OPI.csv YYYYMMDD_HHMMSS_OPI.xml	Daily	The Open Interest report will produce a report with Open Interest for all contracts.	CSV, XML
Open Positions	Data File	YYYYMMDD_HHMMSS_XXX_OPP.csv YYYYMMDD_HHMMSS_XXX_OPP.xml	Daily	The Open Positions report will produce a list of open positions in the system for each member	CSV, XML
Option Expiries	Data File	YYYYMMDD_HHMMSS_XXX_EXP.csv YYYYMMDD_HHMMSS_XXX_EXP.xml	Daily when applicable	The Expiries report will show expiries for all relevant Option contracts for a member.	CSV, XML
Schedules	Data File	YYYYMMDD_HHMMSS_SCH.csv YYYYMMDD_HHMMSS_SCH.xml	Daily	The Schedule report will produce a list of scheduled business events in the system	CSV, XML
Settlement Prices	Data File	YYYYMMDD_HHMMSS_SMP.xml	Daily	The Settlement Price Data File will show settlement price for each tradable instrument.	CSV, XML
Span Parameter Report	Data File	YYYYMMDD_HHMMSS_LMECSPR.csv YYYYMMDD_HHMMSS_LMECSPR.xml	Daily	List of SPAN volatilities and spread charges	XML
Sub Contract Types	Data File	YYYYMMDD_HHMMSS_SCT.csv YYYYMMDD_HHMMSS_SCT.xml	Daily	The Sub Contract Types report will produce a list of valid sub contract types in the system	CSV, XML
Trade Fees (Daily)	Data File	YYYYMMDD_HHMMSS_XXX_FEE.csv YYYYMMDD_HHMMSS_XXX_FEE.xml	Daily	Fees per trade and member	CSV, XML
Trade Fees (Monthly)	Data File	YYYYMMDD_HHMMSS_XXX_MFE.csv YYYYMMDD_HHMMSS_XXX_MFE.xml	Monthly	Fees per trade and member	CSV, XML
Traded Average Price Option Prices	Data File	YYYYMMDD_HHMMSS_ACP.csv YYYYMMDD_HHMMSS_ACP.xml	Daily	The Traded Average Price Option Prices report will produce a report with prices for each TAPO and currency.	CSV, XML
Traded Option Auto Exercise Gradations	Data File	YYYYMMDD_HHMMSS_AEG.csv YYYYMMDD_HHMMSS_AEG.xml	Daily	The Traded Option Auto Exercise Gradations report will, on a monthly basis, produce a report that will show the auto exercise	CSV, XML

Report Name	Type	Code	Frequency	Content	Format
				gradations for all contracts expiring that month.	
Traded Option Prices	Data File	YYYYMMDD_HHMMSS_TCP.csv YYYYMMDD_HHMMSS_TCP.xml	Daily	The Traded Option Prices report will produce a report with prices for each Traded Option and currency.	CSV, XML
Trades	Data File	YYYYMMDD_HHMMSS_XXX_TRD.csv YYYYMMDD_HHMMSS_XXX_TRD.xml	Daily	The Trades report will produce a list of trades in the system for each member	CSV, XML
Underlyings	Data File	YYYYMMDD_HHMMSS_UND.csv YYYYMMDD_HHMMSS_UND.xml	Daily	The Underlyings report will produce a list of underlying products in the system	CSV, XML
Variation Margins	Data File	YYYYMMDD_HHMMSS_XXX_VMG.csv YYYYMMDD_HHMMSS_XXX_VMG.xml	Daily	Variation Margin Report will show the Members margins summarized and total per Position account.	CSV, XML

ANNEX 5 – MARGIN PARAMETERS

The content of this Annex shall be as set out on the Website.

ANNEX 6 – CLIENT BUSINESS TERMS

Part A

Client Acknowledgement Form

This Client Acknowledgement Form is entered into as an agreement between:

(A): _____ (entity name)

(the "**Client**")

and

(B): _____ (entity name)

(the "**Member**")

for the benefit of the Member and LME Clear Limited, a company incorporated in England and Wales (registered number 07611628), whose registered office is at 56 Leadenhall Street, London, United Kingdom, EC3A 2DX ("**LME Clear**").

Date: _____

1. BACKGROUND

- 1.1 The Member has agreed to clear trades with the Client that are effected on The London Metal Exchange or entered into a matching system operated by The London Metal Exchange. Such trades are subject to clearing by the appointed clearing house for The London Metal Exchange, LME Clear.
- 1.2 Terms defined in the Rulebook of LME Clear (the "**Rules**") shall have the same meaning in this document.

2. ACKNOWLEDGEMENT

- 2.1 In agreeing to the use by the Member of LME Clear for the clearing of trades between the Client and the Member, the Client acknowledges and agrees with the Member (on behalf of itself and any Indirect Client in respect of which any Client Account is to be established by the Member for such Client) that:
- (a) in the event that LME Clear issues a Default Notice in respect of the Member, in accordance with Rule 10, LME Clear shall be entitled to act in accordance with its powers in Rule 10 and that:
- (i) where the Client has submitted an Automatic Porting Designation Document in accordance with Rule 5 or a Porting Request Notice in accordance with Rule 10, LME Clear may seek to transfer any Open Contract relating to the Client (and any Indirect Client) and any associated Collateral to the Member Transferee nominated by the Client;

- (ii) where permitted by Applicable Law and where LME Clear is not prevented from doing so by a court order or legal restriction applying to LME Clear, LME Clear may seek to deliver any surplus amount or Collateral on the Client Account to which the Client has been allocated to the Client subject to and in accordance with Rule 10.5.1(c);
- (iii) LME Clear shall be entitled to rely on the information provided by the Member in relation to the Client and the Positions and Collateral relating to such Client;
- (iv) LME Clear shall not be obliged to implement, or to act on any request to implement, the provisions of Rule 10.7 in respect of any Client Account the event that:
 - (1) LME Clear is not in receipt of complete and validly executed Automatic Porting Designation Documents or Porting Request Notices in respect of every Client allocated to the Client Account;
 - (2) a Member Transferee does not consent to the Transfer within the Porting Election Period in accordance with Rule 10.7;
 - (3) the Client (or any other Client allocated to that Client Account) is not an Identified Client, unless such Client becomes an Identified Client prior to the end of the Porting Election Period and all other conditions set out in Rule 10.7 and Default Procedure D are satisfied; or
 - (4) any condition to the Transfer, as set out in Rule 10.7 or Default Procedure D is not satisfied;
- (b) the Client has read and understands the provisions applicable to Client Accounts set out in the Rulebook and Client Accounts set out in the Rulebook, including in particular Rules 2.1, 2.3, 5, 10.5, 10.7 and 10.8 and Default Procedure D, and acknowledges and agrees that:
 - (i) the Rules form a contract between the Member and LME Clear;
 - (ii) the services provided by LME Clear in respect of any Client Account are governed by and subject to the Rules;
 - (iii) neither the Client nor any Indirect Client have any contractual relationship with LME Clear under the Rules;
 - (iv) LME Clear has no obligation to act on any instruction or request made by the Client or any Indirect Client and the Client and any Indirect Client have no rights against LME Clear to enforce any provision of the Rules, save in the case of the Client to the extent specified in Rule 2.1.5;
 - (v) any Collateral held by LME Clear shall be held in accordance with Rule 8 and the Client and any Indirect Client shall have no right to, or interest in, any such Collateral or any right to direct LME Clear to take or refrain from taking any action in relation to such Collateral, save in the case of the Client in the limited circumstances specified in Rule 10.7;
 - (vi) the provisions and protections of the CASS Rules shall not apply in respect of any monies held in, or recorded to, any Client Account;

- (vii) to the extent that LME Clear has any liability to the Client pursuant to the third party rights granted pursuant to Rule 2.1.5, the limitations on LME Clear's liability as set out in Rule 2.3 and Rule 10.7.12 shall apply to limit any such liability as if all references in such Rules to "the Member" were replaced with "the Client or Indirect Client";
 - (viii) the Client and any Indirect Client will not, by any act or omission, cause the Member or any other person to breach any Rule;
 - (c) it is the responsibility of the Client and the Member, and any Indirect Client, to agree the form of Client Account to be established in respect of the Client at LME Clear and LME Clear shall have no responsibility, or liability, to the Client, any Indirect Client, the Member or any third party for the Account structure maintained by the Member with LME Clear;
 - (d) save to the extent specified in Rules 2.1.5 and 2.3.4, LME Clear shall not be liable for any losses, damages, claims, liabilities, costs or expenses (whether in contract, tort, warranty, strict liability, trust, breach of statutory duty or any other legal theory) arising from or in connection with any actions which LME Clear may take in accordance with its rights and obligations in relation any Client Account in Rule 10; and
 - (e) it has considered whether or not to require the Member to execute a security agreement governed by English law in favour of LME Clear as its security trustee to facilitate in certain circumstances the procedures described in paragraphs 2.1(a)(i) and (ii) above and, where the Member has agreed (at its request) to execute such a security agreement, it has received a copy of it and agrees with the Member and LME Clear to be bound by its terms.
- 2.2 Where the Member establishes an Indirect Individual Segregated Client Account or an Indirect Omnibus Segregated Client Account for the Client in respect of any Indirect Client(s), the Client agrees that it shall, prior to the commencement of any clearing activity through the Clearing System in respect of that indirect Client:
- (a) provide a copy of this Client Acknowledgement Form to such Indirect Client(s); and
 - (b) notify such Indirect Client(s) that by entering into any Client Trade that is to be subject to clearing through the Clearing System, such Indirect Client(s) shall irrevocably agree to the terms set out in this Client Acknowledgement Form.
- 2.3 The Member and the Client agree that, in the event that LME Clear requests a copy of this document from either the Member or the Client, such party shall promptly provide such copy to LME Clear.
- 2.4 The Member and the Client agree that the acknowledgements and agreements set out in paragraphs 2.1, 2.2 and 2.3 are intended to confer benefits on, and be enforceable by, LME Clear and, accordingly, LME Clear may rely upon and enforce such acknowledgements and agreements in accordance with the Contracts (Rights of Third Parties) Act 1999.
- 2.5 Notwithstanding paragraph 2.4 above and for the avoidance of doubt, these Mandatory CCP Provisions are not intended to create any obligations by, or rights against, LME Clear for the benefit of any person (including any Member, Client or Indirect Client), whether in contract, tort or pursuant to any other legal theory.

2.6 This form of acknowledgement and any obligations (whether contractual or non-contractual) connected with it are governed by English law.

This form of acknowledgment has been entered into on the date stated at the beginning of this document.

Signed for the Client:

Signed for the Member:

(Client Name)

(Member Name)

By: _____

By: _____

(Authorised Signature)

(Authorised Signature)

(Print Name and Title)

(Print Name and Title)

PART B

MANDATORY CCP PROVISIONS

This Part B of Annex 6 of the Rules specifies those provisions that are mandatory for inclusion in the terms of transactions between a Member and their respective Clients. These terms will take precedence over any other provisions in any contractual clearing arrangement between a Member and its Client. A Member that executes a Client Acknowledgement Form In the form prescribed in Part A of this Annex 6 shall not be required to comply with this Part B of this Annex 6.

These Mandatory CCP Provisions will be set out on the Website. A Member may incorporate the Mandatory CCP Provisions into its contractual terms with its Clients either directly or by reference.

1. Mandatory CCP Provisions

1.1 In agreeing to the use by the Member of LME Clear for the clearing of trades between the Client and the Member, the Client acknowledges and agrees with the Member (on behalf of itself and any Indirect Client in respect of which any Client Account is to be established by the Member for such Client) that:

- (a) in the event that LME Clear issues a Default Notice in respect of the Member, in accordance with Rule 10, LME Clear shall be entitled to act in accordance with its powers in Rule 10 and that:
 - (i) where the Client has submitted an Automatic Porting Designation Document in accordance with Rule 5 or a Porting Request Notice in accordance with Rule 10, LME Clear may seek to transfer any Open Contract relating to the Client (and any Indirect Client) and any associated Collateral to the Member Transferee nominated by the Client;
 - (ii) where permitted by Applicable Law and where LME Clear is not prevented from doing so by a court order or legal restriction applying to LME Clear, LME Clear may seek to deliver any surplus amount or Collateral on the Client Account to which the Client has been allocated to the Client subject to and in accordance with Rule 10.5.1(c);
 - (iii) LME Clear shall be entitled to rely on the information provided by the Member in relation to the Client and the Positions and Collateral relating to such Client;
 - (iv) LME Clear shall not be obliged to implement, or to act on any request to implement, the provisions of Rule 10.7 in respect of any Client Account in the event that:
 - (1) LME Clear is not in receipt of complete and validly executed Automatic Porting Designation Documents or Porting Request Notices in respect of every Client allocated to the Client Account;
 - (2) a Member Transferee does not consent to the Transfer within the Porting Election Period in accordance with Rule 10.7;
 - (3) the Client (or any other Client allocated to that Client Account) is not an Identified Client, unless such Client becomes an Identified Client prior to the end of the Porting Election Period and all other

conditions set out in Rule 10.7 and Default Procedure D are satisfied; or

- (4) any condition to the Transfer, as set out in Rule 10.7 or Default Procedure D is not satisfied;
- (b) the Client has read and understands the provisions applicable to Client Accounts set out in the Rulebook and Client Accounts set out in the Rulebook, including in particular Rules 2.1, 2.3, 5, 10.5, 10.7 and 10.8 and Default Procedure D, and acknowledges and agrees that:
 - (i) the Rules form a contract between the Member and LME Clear;
 - (ii) the services provided by LME Clear in respect of any Client Account are governed by and subject to the Rules;
 - (iii) neither the Client nor any Indirect Client have any contractual relationship with LME Clear under the Rules;
 - (iv) LME Clear has no obligation to act on any instruction or request made by the Client or any Indirect Client and the Client and any Indirect Client have no rights against LME Clear to enforce any provision of the Rules, save in the case of the Client to the extent specified in Rule 2.1.5;
 - (v) any Collateral held by LME Clear shall be held in accordance with Rule 8 and the Client and any Indirect Client shall have no right to, or interest in, any such Collateral or any right to direct LME Clear to take or refrain from taking any action in relation to such Collateral, save in the case of the Client in the limited circumstances specified in Rule 10.7;
 - (vi) the provisions and protections of the CASS Rules shall not apply in respect of any monies held in, or recorded to, any Client Account;
 - (vii) to the extent that LME Clear has any liability to the Client pursuant to the third party rights granted pursuant to Rule 2.1.5, the limitations on LME Clear's liability as set out in Rule 2.3 and Rule 10.7.12 shall apply to limit any such liability as if all references in such Rules to "the Member" were replaced with "the Client or Indirect Client";
 - (viii) the Client and any Indirect Client will not, by any act or omission, cause the Member or any other person to breach any Rule;
- (c) it is the responsibility of the Client and the Member, and any Indirect Client, to agree the form of Client Account to be established in respect of the Client at LME Clear and LME Clear shall have no responsibility, or liability, to the Client, any Indirect Client, the Member or any third party for the Account structure maintained by the Member with LME Clear;
- (d) save to the extent specified in Rules 2.1.5 and 2.3.4, LME Clear shall not be liable for any losses, damages, claims, liabilities, costs or expenses (whether in contract, tort, warranty, strict liability, trust, breach of statutory duty or any other legal theory) arising from or in connection with any actions which LME Clear may take in accordance with its rights and obligations in relation to any Client Account in Rule 10; and

- (e) it has considered whether or not to require the Member to execute a security agreement governed by English law in favour of LME Clear as its security trustee to facilitate in certain circumstances the procedures described in paragraphs 2.1(a)(i) and (ii) above and, where the Member has agreed (at its request) to execute such a security agreement, it has received a copy of it and agrees with the Member and LME Clear to be bound by its terms.
- 1.2 Where the Member establishes an Indirect Individual Segregated Client Account or an Indirect Omnibus Segregated Client Account for the Client in respect of any Indirect Client(s), the Client agrees that it shall, prior to the commencement of any clearing activity through the Clearing System in respect of that indirect Client:
- (a) provide a copy of either these Mandatory CCP Provisions or the Client Acknowledgement Form (as applicable) to such Indirect Client(s); and
- (b) notify such Indirect Client(s) that by entering into any Client Trade that is to be subject to clearing through the Clearing System, such Indirect Client(s) shall irrevocably agree to the terms set out in these Mandatory CCP Provisions or the Client Acknowledgement Form (as applicable).
- 1.3 The Member and the Client agree that, in the event that LME Clear requests from either the Member or the Client or evidence, satisfactory to LME Clear that the Member and the Client have agreed to be bound by these Mandatory CCP Provisions, such party shall promptly provide such evidence to LME Clear.
- 1.4 The Member and the Client agree that the acknowledgements and agreements set out in paragraphs 2.1, 2.2 and 2.3 are intended to confer benefits on, and be enforceable by, LME Clear and, accordingly, LME Clear may rely upon and enforce such acknowledgements and agreements in accordance with the Contracts (Rights of Third Parties) Act 1999.
- 1.5 Notwithstanding paragraph 1.4 above and for the avoidance of doubt, these Mandatory CCP Provisions are not intended to create any obligations by, or rights against, LME Clear for the benefit of any person (including any Member, Client or Indirect Client), whether in contract, tort or pursuant to any other legal theory.
- 1.6 These Mandatory CCP Provisions and any obligations (whether contractual or non-contractual) connected with it are governed by English law.
2. **EXPLANATION OF RULES REFERENCED IN PARAGRAPH 1.1(c)**

Set out below is a brief summary of the general content of the Rules listed in paragraph 1.1(c) above as being particularly relevant to Clients. Each Member, Client and Indirect Client should read the actual text of these Rules in order to understand the basis on which they are intended to operate.

Rule	Description
2.1 (<i>Rules as a Binding Agreement</i>)	Sets out the basis on which the Rules create rights and obligations between LME Clear and the Member. Sets out the limited basis on which the Client may benefit from rights under the Rules.
2.3 (<i>Liability and</i>	Sets out the limitations of LME Clear's liability to its Members in respect of

<i>Indemnity)</i>	any matter governed by the Rules, including in relation to the clearing of business for Clients of Members.
<i>5 (Client Business and Portability Arrangements)</i>	Sets out the basis on which Members may establish and maintain Client Accounts in respect of its Clients and the arrangements to be established in respect of such Client Accounts in order to support the Porting Process.
<i>10.5 (Treatment of Different Types of Account)</i>	Sets out the basis on which different types of Account will be treated in the event of a Member becoming a Defaulting Member, including the basis on which LME Clear may return any surplus amount or Collateral standing to the credit of a Client Account directly to the Client(s) allocated to that Account.
<i>10.7 (Portability of Client Accounts)</i>	Sets out the basis on which LME Clear will exercise its powers to transfer the Positions and Collateral allocated to a Client Account to a Member Transferee in the event that the original Member becomes a Defaulting Member.
<i>10.8 (Final Settlement of Unported Client Accounts)</i>	Sets out the basis on which LME Clear will determine a final net sum in respect of a Client Account following the application of the default management process to that Client Account.
<i>Default Procedure D (Porting Procedure)</i>	Sets out the documentary requirements for the establishment of arrangements in support of the Automatic Porting Process, together with the basis on which LME Clear will apply the Porting Process to Client Accounts.

ANNEX 7 – DELIVERY TIMETABLES

1. DELIVERY TIMETABLE FOR LME WARRANTS

Note: for the purpose of this example approximate invoice and account sale values are used.

Day	Time	Action	
		Sellers	Buyers
Two Days prior to Prompt Date	20:00	Trading and transaction input cease for metal/JPY 'currency pair' for the Prompt Date.	Trading and transaction input cease for metal/JPY 'currency pair' for the Prompt Date
Business Day prior to Prompt Date	09:00	LME Clear credits Sellers, Account Sales value, for JPY for value the Prompt Date.	LME Clear debits Buyers, Invoice value, for JPY for value Prompt Date.
	12:30	Trading ceases for all metal. Currency 'pairs' for the Prompt Date.	Trading ceases for all metal/currency 'pairs' for the Prompt Date.
	13:30	Transaction input ceases for all metal. Currency 'pairs' for the Prompt Date.	Transaction input ceases for all metal. Currency 'pairs' for the Prompt Date
	By 16:00 Approx	LME Clear calculates Delivery Positions for Sellers. Delivery Positions are sent to LMEsword.	LME Clear calculates Delivery Positions for Buyers. Delivery Positions are sent to LMEsword.
	By 16:30 Approx	The LME Clear informs Sellers of delivery commitments via LMEsword. LMEsword produces "Unauthorised" Warrant Transfer Instructions for each Seller Account. Invoice and Account Sales report available via screen enquiry in the RTC GUI.	Invoice and Account Sales Report available via screen enquiry in the RTC GUI.
	From 16:30 Approx	Sellers may nominate LME Warrants to add to the "Unauthorised" Warrant Transfer Instruction. "Unauthorised" Warrant Transfer Instruction may be "Authorised" ready for submission on the Prompt Date.	
Prompt Date	By 07:30	Invoice and Account Sales Report and Prompt Date Settlement Statement available on the RTC GUI.	
	By 09:00		LME Clear debits Buyers for Invoice value for Delivery Position settlements.
	By 10:30	Seller shall inform LME Clear	

		Operations if their LME Warrant delivery will be late or if they cannot deliver.	
	By 11:00	Sellers shall nominate all necessary warrants in an "Authorised" Warrant Transfer Instruction in order to fulfill their delivery commitment.	
	At 11:00	LME Warranty Delivery Deadline. LME Clear collects all "Authorised" Warrant Transfer Instructions from Sellers.	
	By 11:30 Approx	LME Clear informs Sellers of LME Warrants transferred.	
		LME Clear initiates LME Warrant Allocation and Delivery Process.	Buyers receive LME Warrants in fulfilment of their delivery entitlements.
	12:30 Approx	*LME Clear credits Sellers Settlement Accounts at their Approved Settlement Banks via the Secure Payment System for Account Sales value for delivery commitments value Prompt Date.	
	13:00 Approx	Warrant Collection Adjustment Invoice available. Rent and Weight Adjustments posted to cover accounts for settlement on next Business Day after Prompt Date.	Warrant Collection Adjustment Invoice available. Rent and Weight Adjustments posted to cover accounts for settlement on next Business Date after Prompt Date.
	At 15:00	Automatic end of day deadline for LMEsword Warrant Transfer Instructions.	Automatic end of day deadline for LMEsword Warrant Transfer Instructions.

***Credit is made ONLY to Account of those Members (as Seller) that have fulfilled their Delivery Obligations.**

2. DELIVERY TIMETABLE FOR OTC BULLION CONTRACTS

	Time	Action	
		Sellers	Buyers
Business Day prior to Prompt Date	15:00	Transaction input ceases for the Prompt Date.	Transaction input ceases for the Prompt Date.
	By 16:00 Approx	LME Clear calculates Delivery Positions for Sellers.	LME Clear calculates Delivery Positions for Buyers.
	By 16:30 Approx	Invoice and Accounts Sales report available via screen enquiry in the Clearing System.	Invoice and Accounts Sales report available via screen enquiry in the Clearing System.
Prompt Date	By 7:30	Invoice and Account Sales Report and Prompt Date Settlement Statement available on the RTC GUI.	
	By 09:00		LME Clear debits Buyers for Invoice value for Delivery Position settlements.
	Before	Seller shall instruct their Bullion	Buyers shall advise their

	11:00	Clearer transfer unallocated metal to LME Clear in order to fulfil their delivery commitment.	Bullion Clearer to receive unallocated metal from LME Clear in fulfilment of their delivery commitment.
	At 11:00	LME Clear receives unallocated metal from Sellers.	
	From 11:30 Approx		LME Clear instructs its Bullion Clearer to release unallocated metal to Buyers.
			Buyers receive unallocated metal in fulfilment of their delivery entitlements.
	From 12:30 Approx	*LME Clear credits Sellers Settlement Accounts at their Approved Settlement Banks via the Secure Payment System for Account Sales value for delivery commitments value Prompt Date.	
	At 16:00	Automatic end of day deadline for LPMCL Unallocated Metal Transfers.	Automatic end of day deadline for LMPCL Unallocated Metal Transfers.

***Credit is made ONLY to Account of those Members (as Seller) that have fulfilled their Delivery Obligations.**

Version	Summary	Version date
1.0	First published Version	7 August 2014
1.1	Minor changes to remove square brackets, delete references to OTC LOCO London Bullion Market Products prices and matching venue and clarify not an Eligible Product	19 September 2014