

To: All members, warehouse companies and their London agents

Ref: 24/250

Classification: Warehousing

Date: 18 September 2024

Subject: **CAPITAL ADEQUACY AND INSURANCE REQUIREMENTS FOR LME-LISTED WAREHOUSE COMPANIES**

Summary

1. The LME is increasing the minimum capital adequacy requirements for LME-listed warehouse companies to £5 million, and increasing the minimum level of insurance indemnity required for warehouse companies to £1 million.

Defined terms

2. Capitalised terms not otherwise defined herein shall have the same meanings as ascribed to them in the terms and conditions applicable to all LME-listed warehouse companies (the “Warehouse Agreement”) and the Rules and Regulations of the LME (the “LME Rulebook”).

Background

3. The LME has received feedback from market participants in support of increasing both the capital adequacy and insurance requirements for warehouse companies. Additionally, in recent years the LME has seen the bankruptcy of a warehouse company in 2016 and an incident in which irregularities were identified in respect of bagged nickel briquettes in 2023 – events which would further support the introduction of increased requirements.
4. Subsequent to these events, the LME has introduced amendments to the Warehouse Agreement to require warehouse companies to provide additional financial information and has increased the checks warehouse companies need to perform in respect of the storage of bagged nickel. However, the LME believes that increased capital adequacy and insurance requirements will further optimise the resilience of its warehouse network more broadly.

Increased capital adequacy requirements

5. The LME has published capital adequacy requirements pursuant to clause 1.2.2 of the Warehouse Agreement which states “*The Exchange shall publish the standards by which it determines capital adequacy for LME listed warehouse companies, and may from time to time publish revisions of those standards*”.
6. The current capital adequacy requirements for warehouse companies require that each warehouse group of companies (as defined in the Warehouse Agreement as “Group”) has minimum capital of £1 million on a consolidated basis, and an additional £500,000 for each additional country in which the Group operates.



7. The increased capital adequacy requirements will result in each Group being required to have a minimum capital of £5 million on a consolidated basis irrespective of the number of locations in which they operate.
8. The revised capital adequacy requirements for listed warehouse companies and definition of capital are further detailed in Appendix 1 (redline) and Appendix 2 (clean).

Increased insurance requirements

9. The LME currently requires warehouse companies to have a minimum level of indemnity insurance of £500,000 for the risks specified in the Warehouse Agreement. As a result of increasing the insurance requirements, the minimum level of indemnity will now be £1 million for the following risks:
 - a) Loss of pieces and/or weight for which an LME warrant has been issued (unexplained losses);
 - b) Loss of metal caused by errors, omissions and negligence of the warehouse or its personnel, servants or agents; and
 - c) Fraud and dishonesty of the warehouse or its personnel, servants or agents.
10. In addition, for any warehouse company that wishes to self-insure, in order to meet the minimum capital requirements, the amount of capital held will increase from £5 million to £10 million.
11. Metal owners are reminded that, as stated on LME warrants, “*Insurance is the responsibility of the warrant holder*”, and owners of metal are reminded of their obligation to ensure adequate insurance protection is in place at all times (the “Owner Insurance Provision”). The Owner Insurance Provision remains, and owners of metal are reminded of their obligation to ensure adequate insurance protection is in place at all times. Metal owners may, of course, take into account the protections available under the warehouse’s insurance in respect of Warehouse Risks (including the limitations of such insurance) when assessing the nature of the Owner Insurance Provision which they wish to arrange. But ultimately, it is for the metal owner to satisfy itself that it benefits from the correct level of protection in respect of the metal which it owns.

Implementation of the increased requirements

Implementation of increased capital adequacy requirements

12. The LME will require that all warehouse Groups satisfy the revised capital requirements by 31 December 2024. As per clause 1.2.1 of the Warehouse Agreement warehouse companies are required to:
“(i) *no later than 210 days after the end of each of its financial years, provide the Exchange with*
 - (a) *its annual audited accounts; or*
 - (b) *the annual audited consolidated accounts of the Group*”.

Therefore, the annual audited accounts or annual audited consolidated accounts of the Group submitted in 2025 must evidence that the Group has met the revised capital adequacy requirements. The LME has visibility of the current financial status of warehouse Groups and will be working with the small number of Groups who currently do not meet the new revised capital adequacy requirements to ascertain how they intend to meet the revised requirements prior to 2025. Any new applicant warehouse company will be required to meet the revised capital adequacy requirements before it can be approved as an LME-listed warehouse.

Implementation of increased insurance requirements

13. Clause 7.1.1 of the Warehouse Agreement states that “*The Warehouse must maintain insurance in respect of all the types of risks marked with an asterisk in paragraph 9 of Schedule A at least at the levels from time to time prescribed by the Exchange*”. Warehouse companies will have until 31 December 2024



to ensure that they meet the required increased level of indemnity insurance for 2025, with the revised requirement applying to each calendar year thereafter. As such, warehouse companies will therefore be required to evidence that they have satisfied the increased level of indemnity insurance to £1 million when they submit their annual confirmation of insurance in early 2025 pursuant to clause 7.1 of the Warehouse Agreement. Any new applicant warehouse company will be required to satisfy the increased level of indemnity with immediate effect.

14. It should be noted that both of these revised requirements have been discussed with the Warehousing Committee. In the event of a loss of metal, metal owners are reminded that they should – in the first instance – contact their insurance company, and that in the normal course, the expectation would be that next steps and any agreements are negotiated between the respective insurance companies providing cover for the metal owner and warehouse company.

Robert Hall
Head of Sustainability and Physical Market Operations

cc: Board directors
All committees

Appendix 1: Revised capital adequacy requirements for listed warehouse companies – redline
Appendix 2: Revised capital adequacy requirements for listed warehouse companies – clean



Appendix 1: Revised capital adequacy requirements for listed warehouse companies – redline

Any applicant wishing to become a Warehouse shall be required to meet the Capital Adequacy Requirements. In addition, whilst it is a Warehouse, the Warehouse shall continue to meet the Capital Adequacy Requirements on an ongoing basis.

For the purposes of this notice, the following terms shall have the following meanings:

“Affiliate” means, in relation to a party, any other entity which directly or indirectly Controls, is Controlled by, or is under direct or indirect common Control with, that party from time to time;

“Capital Adequacy Requirements” means the Warehouse or an Affiliate of the Warehouse having minimum capital of at least ~~£1,000,000~~£5,000,000 on a consolidated basis as determined in accordance with the factors set out under “Determination of Capital Adequacy Requirements” below. ~~In addition, in the event that the Warehouse or an Affiliate of the Warehouse operates warehousing activities in more than one country, the Capital Adequacy Requirement shall increase by £500,000 for each additional country in which the warehouse activities are operated.~~ The minimum capital needs to be kept in liquid, cash-equivalent assets.

“Warehouse” shall mean a warehouse company which has been approved by the LME and which has agreed to be bound by the terms and conditions applicable to all LME approved warehouses, as amended by the LME from time to time.

“Control” means that a person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other person, whether through the ownership of voting shares, by contract or otherwise, and Controls and Controlled shall be interpreted accordingly.

Determination of Capital Adequacy Requirements

The minimum Capital Adequacy Requirement for Warehouses shall be determined on the basis of permanent capital, plus additional capital less disallowables. In particular:

- Permanent capital shall be issued and fully paid ordinary shares, issued and fully paid preference shares, share premium and other reserves not available for distribution. A deficit in reserves available for distribution will be deducted when calculating permanent capital.
- Additional capital shall be other equity reserves (distributable or otherwise) and profit and loss reserves.
- Disallowable items are intangible fixed assets such as goodwill, development costs etc, investments in subsidiaries and/or other group companies. Additionally the LME will disallow accrued income for charges on LME warranted metal to be delivered out that has not, as at the balance sheet date, been delivered out.

Submission deadlines

By 31 May, Warehouses are required to submit their most recent audited accounts in English. In addition, Warehouses will be required to submit an up to date corporate structure chart.

The above assumes the fiscal year being the calendar year. For different fiscal years, the dates shift accordingly (i.e. the audited annual financial report / statements no later than 5 months after fiscal year end).

~~The LME~~We reserves the right to request audited financials for the parent company of the warehouse company or for any other related company.



Appendix 2: Revised capital adequacy requirements for listed warehouse companies – clean

Any applicant wishing to become a Warehouse shall be required to meet the Capital Adequacy Requirements. In addition, whilst it is a Warehouse, the Warehouse shall continue to meet the Capital Adequacy Requirements on an ongoing basis.

For the purposes of this notice, the following terms shall have the following meanings:

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“Capital Adequacy Requirements” means the Warehouse or an Affiliate of the Warehouse having minimum capital of at least £5,000,000 on a consolidated basis as determined in accordance with the factors set out under “Determination of Capital Adequacy Requirements” below. The minimum capital needs to be kept in liquid, cash-equivalent assets.

“Warehouse” shall mean a warehouse company which has been approved by the LME and which has agreed to be bound by the terms and conditions applicable to all LME approved warehouses, as amended by the LME from time to time.

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