



LMeshield

Secure and effective commodity receipting

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LMEShield is the new central electronic register for the efficient and secure creation and transfer of off-warrant warehouse receipts from the London Metal Exchange (LME). Developed in response to demand from commodities trading and financing industries LMEShield was built in close collaboration with leading market participants and warehouses.

The system is intended to enhance confidence, reduce the risk of fraud as well as reduce operational costs for warehouse companies, commodity traders and banks alike.

LMEShield will facilitate banks in the provision of finance against warehoused commodities as collateral. Commodity owners, in turn, will be better placed to secure financing. Warehouses using LMEShield will gain a valuable operational tool for effective and efficient receipt creation and rent management.

Designed to operate across-borders for multiple warehouse companies and counterparties, the system provides a consolidated overview of receipts with improved functionality to manage holdings – all under the same terms and conditions of usage.



“An initiative that will enhance confidence in the off-warrant market, strengthen global commodity financing risk management and improve overall efficiency for our clients is very welcome indeed. As such we fully support the LMEShield initiative”

Graham Hawkins, Henry Bath & Son Ltd.

Who is LMEShield for?

LMEShield was built with the needs of three main groups in mind:



Warehouses and commodity storage facilities –

- Ensuring security and instilling customers with confidence
- Maintaining high standards globally
- Controlling operational costs and managing rent collection
- Supporting customer needs and facilitating effective transfer of ownership



Physical commodity traders and owners –

- Ability to access finance against a commodity
- Efficient transfer of ownership
- Minimising credit, operational and fraud risks



Banks and financing institutions –

- Reduced risk of fraud and losses on financed material
- Effective global inventory management
- Familiarity and consistency of legal structure
- Transparency of financing status and liens

What are the key benefits for the industry?

1. Improved global off-warrant warehousing standards

2. Increased confidence in off-warrant warehousing

3. Standardised terms and conditions relating to the creation warehouse receipts

4. Reduced risk of fraud

5. Improved access to commodity finance

How can LMEshield help?

LMEshield brings together a powerful combination of measures to address the challenges facing off-warrant market participants

As illustrated in the diagram below, LMEshield reduces the risks associated with potential vulnerabilities at several key points through the lifecycle of the LMEshield receipt.

When the receipt is created in the LMEshield electronic system, associated documentation can be attached to the record to provide supporting information, such as a certificate of analysis or unique identifier for the parcel. Critically, only warehouses approved for the LMEshield service will be permitted to offer LMEshield receipts.

The receipt record can only be transferred electronically between registered and approved users of the system. This reduces a range of risks related to paper receipts in circulation and adds further confidence in creating a permitted network of users.

Operational efficiency benefits can be realised across inventory management, financing and transfer of ownership.

LMEshield provides a range of measures to address potential issues facing off-market participants

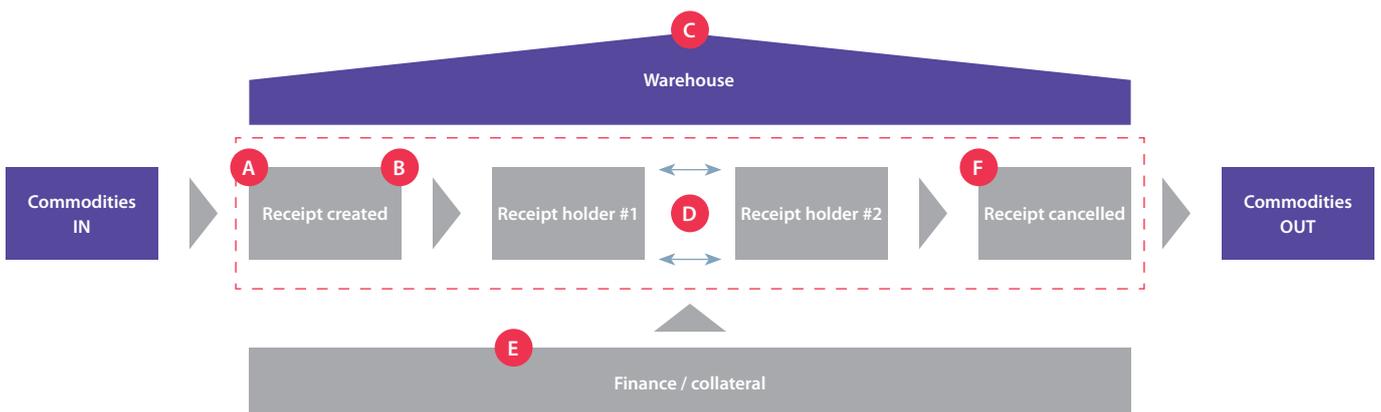


Illustration of how LMEshield can address challenges across the warehouse receipt lifecycle.

- A** Receipt creation by approved warehouses, with attached supporting documents.
- B** Receipts securely printed and immobilised in depository, record held on central register.
- C** All participating warehouse facilities subject to approval and discretionary inspection.
- D** Secure electronic transfer of ownership between approved participants.
- E** Clarity regarding financing agreement status, with clearly identified liability for rent.
- F** Encrypted codes issued to ensure safe release of material from warehouse.

How does it work?

At its core, LMEshield is an electronic system that enables the creation and transfer of off-warrant warehouse commodity receipts.

The platform supports effective inventory management, financing of commodities in warehouses and efficient electronic transfer of ownership. Good delivery is facilitated by the issuance of a paper record printed in the LME depository and retained by the depository throughout the life of the electronic receipt record.

LMEshield combines a highly secure electronic platform with physical warehousing standards, as well as a tightly permissioned user-base network.

The existing network of c.30 LME-approved warehouse companies is already permitted to provide the service, with scope to grow through applications from warehouses outside the existing LME network. This enables us to create a global platform with consistent warehouse receipt processes and standards.

The LME Warrant process - applied to receipts

We propose a secure system designed to reduce the vulnerabilities and improve the efficiency of metal trading and financing, through immobilised physical receipts, held in a depository

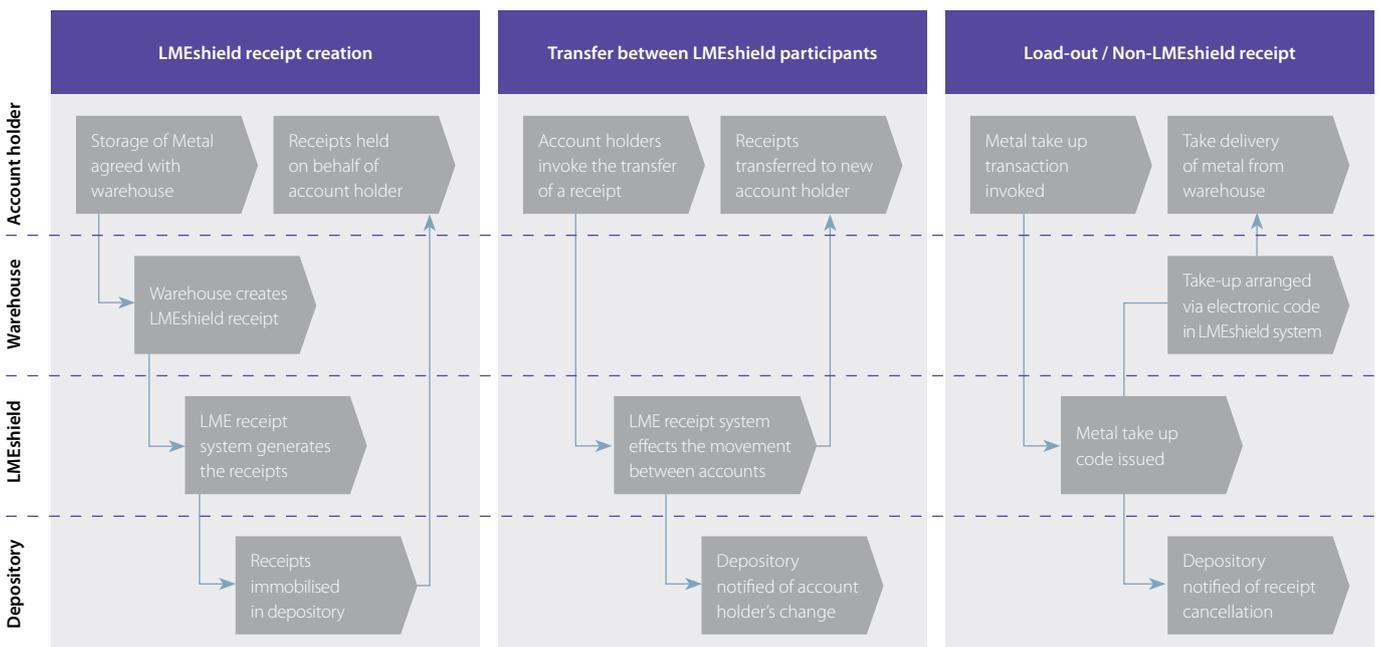


Illustration of LMEshield main processes.

Why the LME?

The London Metal Exchange is uniquely positioned to be able to offer a receipts system to the off-warrant commodities warehousing, trading and financing market.

More than three quarters of global non-ferrous on-exchange business is conducted on our markets equating to annual trading volumes in excess of £12 trillion notional, 4 billion tonnes and 170 million lots.

Last year over five million tonnes of metal was physically delivered in and out of more than 600 LME-approved warehouses and storage facilities across 35 locations in 14 countries globally. Delivery of LME warrants has been facilitated by our bespoke system, LMEsword, for over 15 years and we have been able to leverage this experience in building LMEshield in partnership with Kynetix, the global leader for financial technology solutions for the physical commodities market.

LMEshield now enables us to build on our existing network and experience to support the off-warrant market across a wider range of jurisdictions, brands, shapes and materials. We hope to provide the foundations for a safer, more efficient global commodities industry.

To find out more or to apply to join the LMEshield community please contact our LMEshield team: lmeshield@lme.com.

"We're especially proud of our track record in the commodity space, and partnering with the LME has created an opportunity for real innovation."

Matt Dolton, Director and Co-Founder, Kynetix

kynetix