

7.3

Réglementation des bourses, des
chambres de compensation, des OAR et
d'autres entités réglementées

7.3. RÉGLEMENTATION DES BOURSES, DES CHAMBRES DE COMPENSATION, DES OAR ET D'AUTRES ENTITÉS RÉGLEMENTÉES

7.3.1 Consultation

LME Clear Limited – Demande de dispense de reconnaissance à titre de chambre de compensation et des obligations du Règlement 24-102

L'Autorité des marchés financiers publie la demande de dispense (i) de reconnaissance à titre de chambre de compensation en vertu de la *Loi sur les instruments dérivés*, RLRQ, c. I-14.01 et (ii) des obligations prévues au *Règlement 24-102 sur les obligations relatives aux chambres de compensation*, RLRQ, c. V-1.1, r. 8.01, déposée par LME Clear Limited.

(Le texte est reproduit ci-après.)

Commentaires

Toute personne désirant soumettre des commentaires est invitée à les faire parvenir par écrit, au plus tard le 26 juin 2023 à :

Me Philippe Lebel
Secrétaire et directeur général des affaires juridiques
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Télécopieur : 514 864-6381
Courrier électronique : consultation-en-cours@lautorite.qc.ca

Information complémentaire

Pour de plus amples renseignements, on peut s'adresser à :

Yasmine Garreau
Analyste experte à la réglementation
Direction de l'encadrement des activités de compensation
Autorité des marchés financiers
Téléphone: 514 395-0337, poste 4697
Numéro sans frais: 1 877 525-0337, poste 4697
Télécopieur : 514 873-7455
Courrier électronique : Yasmine.Garreau@lautorite.qc.ca

25 May 2023

VIA EMAIL

Autorité des marchés financiers
Victoria Square, 800, 4th Floor
C.P. 246, Place Victoria
Montréal, Québec H4Z 1G3

Attention: Dominique Martin

Dear Sirs/Mesdames:

RE: LME Clear Limited - Application for an Exemption from Recognition as a Clearing House

LME Clear Limited ("LMEC") is applying,

1. pursuant to Regulation 24-102 respecting clearing agency requirements, CQLR, c. V-1.1, r. 8.01 ("R24-102"), for an order exempting it from recognition as a clearing house, and
2. pursuant to section 86 of the *Derivatives Act* (Québec) (CQLR, c. I-14.01) (the "QDA") for an order exempting LMEC from recognition as a clearing house under section 12 of the QDA in order to provide its central counterparty ("CCP") service to Québec market participants ("Exemption Decision").

Capitalised terms that appear in this application but are not defined in the body of this application have the meanings ascribed thereto in the LMEC Rulebook which can be found [here](#).

The London Metal Exchange (LME) is also in the process of applying for exemption from the following obligations:

1. the obligation of recognition as an exchange provided for in the first paragraph of section 12 of the QDA to operate in Quebec;
2. the obligations set out in Regulation 21-101 respecting market operation, CQLR, c. V-1.1, r. 5;
3. the obligations set out in Regulation 23-101 respecting trading rules, CQLR, c. V-1.1, r. 6; and
4. the obligations set out in Regulation 23-103 on electronic trading and direct electronic access to markets, CQLR, vs. V-1.1, r. 7 applicable to it.

1. Background

Location

- 1.1 LMEC is a private company incorporated in England and Wales on 21 April 2011, under registered number 07611628. LMEC's registered office and head office is at 10 Finsbury Square, London EC2A 1AJ. All corporate documentation relating to LMEC is filed with Companies House in the United Kingdom (UK).
- 1.2 LMEC is based in London and carries on all of its activities in London. Its Membership base comprises the members of the London Metal Exchange (LME) that are categorised as clearing members of LME. Any prospective Members will have to apply to, and satisfy the Membership Criteria of, LMEC.

History and Strategy

- 1.3 LMEC was established to act as the CCP in relation to all classes of contracts that are traded on the LME as part of LME's global strategy which included expanding its activities to clearing. LME business was previously cleared by LCH.Clearnet Ltd.
- 1.4 The legal basis for LMEC's clearing activities is founded in contract law and primary legislation and regulation. Specifically, LMEC is:
 - A Recognised Clearing House ("RCH") under Part XVIII of the Financial Services and Markets Act 2000 (FSMA), and the sub-category of RCH referred to as a "recognised central counterparty" ("RCCP") under Part XVII of FSMA;
 - Authorised as a CCP under the UK on-shored version of EMIR ("UK EMIR");
 - Recognised as a Tier 1 third country CCP under EMIR by ESMA¹;
 - Classified as a designated system under the Financial Markets and Insolvency (Settlement Finality) Regulations 1999 (the "SFRs")²; and
 - Recognised as a central counterparty for the purposes of Part VII of the Companies Act 1989 ("Part VII").
- 1.5 Primary oversight of LMEC's activities is carried out by the Bank of England (the "Bank"). Whilst, following the UK's withdrawal from the EU LMEC's EMIR College arrangement ceased, in Q1 2021 a new Global College³ was constituted by the Bank in order to facilitate information sharing around LMEC activities and initiatives. The Global College met for the first time in June 2021 and meetings are intended to be held twice per year.

¹ Following the Brexit Transition Period, LMEC became recognised as a third country CCP under EMIR.

² Following the Brexit Transition period, LMEC became approved as a third-country system under French law for the purposes of the Settlement Finality Directive

³ <https://www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/multilateral-arrangement-for-regulatory-supervisory-and-oversight-cooperation-on-lme-clear-ltd.pdf>

- 1.6 LMEC operates primarily under UK EMIR and within the boundaries of FSMA, the CPMI-IOSCO Principles for Financial Market Infrastructure (the "PFMI") and other relevant UK regulation. In addition, LMEC carefully monitors regulatory changes and seeks to a) engage in the policy making process bilaterally with authorities and policy makers, or via industry associations, and b) update its systems and processes in response to any regulatory changes impacting LMEC.
- 1.7 LME Group currently has separate Exchange and CCP regulatory exemptions to operate in Ontario (from the Ontario Securities Commission). The Toronto-Dominion Bank currently operates as a Category 2 member of the LME (from Toronto, Ontario) and General Clearing Member of LMEC.
- 1.8 LMEC is also authorised to provide Automated Trading Services in Hong Kong, is recognised as a Foreign CCP in Switzerland and is the clearing organisation for the LME under its Foreign Board of Trade Licence in the US.
- 1.9 The UK regime provides for comprehensive, prescriptive and detailed regulations tailored specifically to CCPs. It also provides for settlement finality and for protections for CCPs in the context of a member's insolvency. It also contains a framework for the resolution of CCPs. This level of detail reflects the established clearing market in the UK and the EU. In particular:
 - (a) Part VII contains rules/protections applicable to CCPs in the context of the insolvency of members. Part VII operates to safeguard the operation of certain financial markets by provisions concerning: the insolvency or default of a party to market transactions; the effectiveness or enforcement of certain charges given to secure obligations in connection with those transactions; and rights and remedies in relation to property provided as cover for margin for those transactions or as default fund contribution, or subject to such a charge.
 - (b) Another relevant set of laws is the SFRs, which originally implemented with modifications the Settlement Finality Directive No 98/26/EC ("SFD"). The SFRs contain rules relating to settlement finality of contracts and/or transfers on a settlement system made by a participant where that participant is subject to insolvency proceedings and such contracts/transfers are challenged. In addition, the Financial Collateral Arrangements (No 2) Regulations 2003 (the "Financial Collateral Regulations") as amended, which originally implemented with modifications the Financial Collateral Directive No 2002/47/EC (the "Financial Collateral Directive"). This contains rules relating to the taking of collateral that falls within scope of the regime and offers various protections in respect of such collateral in the context of insolvency.
 - (c) The Banking Act 2009, as amended by the Financial Services Act 2012 applies a special resolution regime which the Bank can trigger if a CCP is failing. It is anticipated that this will be amended in due course to reflect the EU's recently agreed Level 1 legislation on CCP Recovery and Resolution.
 - (d) LMEC is fully compliant with all applicable regulatory standards for clearing houses. Its risk management methodologies and practices comply with the Recommendations for Central Counterparties developed by the Committee on Payment and Market Infrastructure ("CPMI") and the Technical Committee of the International Organisation of Securities Commissions ("IOSCO").

Size

- 1.10 LMEC started clearing LME Contracts on 22 September 2014. It currently employs approximately 68 permanent employees, 26 contractors and those functions not directly resourced by LMEC staff are provided on an outsourced basis (such as finance, human resources, company secretariat, marketing etc.) from its sister company, the LME.
- 1.11 Its revenues are generated from the clearing of LME trades (including profits generated from investing collateral balances). The LME is a highly liquid market and in 2021, 145 million lots were traded at the LME equating to \$15.6 trillion and 3.3 billion tonnes notional with a market open interest (MOI) high of 2.1 million lots. Trading on the LME often exceeds world metal production by a factor of 40. The LME is a global market with an international membership, with almost 500 LME-approved brands of metal from 57 countries. There are over 570 LME storage facilities around the world.
- 1.12 LMEC's revenue for 2021 (fiscal year) was USD\$98,787,000 – LMEC's financial statements can be found at [here](#).

Eligible Products

- 1.13 The contracts that are cleared at the time of this submission are those contracts traded on LME that are eligible to be cleared via the Clearing System (Eligible Products). The product specifications for the Eligible Products are set out in Annex 1 of the LMEC Rules and have been categorised as follows:
- (a) **LME Exchange-Traded Forwards**, which are referred to on the LME Execution Venues (being the Ring, LMEselect and the Inter-office Market) as “Metal Futures”, are physically or cash settled futures contracts in thirteen metals. LME Metal Futures contracts provide for the delivery of a prescribed quantity of metal on a specified date (the **Prompt Date**). They are settled by offset or delivery on their Prompt Dates.
 - (b) **LME Exchange-Traded futures** (LMEminis, non-ferrous futures and ferrous futures).
 - (c) **LME Exchange-Traded American Options**. The contracts are traded options contracts (referred to as LME Traded Options on the LME Execution Venues) that give the right to buy or sell the underlying LME Metal Futures for all LME metals. LME Traded Options are American-style options that can be purchased against a long or short futures contract. These are settled by offset or delivery on their Prompt Dates.
 - (d) **LME Exchange-Traded Average Price Options (TAPOs)**. TAPOs give the right to buy or sell any of the LME metals at the average of the LME official prices for a given month. TAPOs are Asian options. TAPOs are intended to be physically settled.
 - (e) **LME Exchange-Traded Monthly Average Futures**, (formerly LMEswaps) are designed specifically for members of the metal community who need to hedge against the monthly average price. They are the first of their type in the world to be traded on-exchange and available for all LME non-ferrous metals.
- 1.14 The Eligible Products and the features thereof are set out in Annex 1 of the LMEC Rules. All above mentioned Eligible Products would be offered to Quebec participants. Additionally, the same products are currently offered to Ontario participants.

LMEC's Rules and Procedures

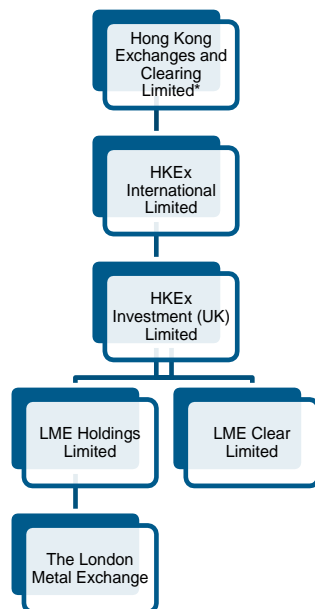
1.15 The LMEC Rules and Procedures (LMEC Rules) act as the master agreement between LMEC and Members in respect of all transactions cleared by LMEC. A copy of the current LMEC Rules can be found [here](#).

2. Ownership, Corporate Structure and Governance Structure

2.1 LMEC is 100% owned by HKEX Investment UK Limited (HKEX UK), a holding company which also owns 100% of the shares in LME, through LME Holdings Limited. LMEC has no subsidiaries.

2.2 HKEX UK's ultimate parent company is Hong Kong Exchanges and Clearing Limited (HKEX). The HKEX Group consists of HKEX and 30 directly or indirectly owned subsidiaries. Eight subsidiaries are incorporated in the People's Republic of China (China). All other HKEX Group companies are incorporated in Hong Kong or the UK and operate their businesses within those jurisdictions. HKEX also maintains a representative office in Beijing, China. SEHK and HKFE each have a branch office in Singapore. HKEX (Shenzhen) Holding Company Limited and BayConnect Technology Company Limited also have branch offices in Shanghai and Chengdu, China respectively. The LME Group also has a representative office in Singapore.

2.3 The following is a diagram of the chain of ownership above LMEC and LME:



*a widely held listed company in Hong Kong

- 2.4 HKEX is incorporated in Hong Kong with company number 681388 with its registered office at 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong. HKEX is listed in Hong Kong on the Main Board of the Stock Exchange of Hong Kong Limited. Under the Securities and Futures Ordinance (SFO), no person shall be entitled to exercise or control the exercise of 5% or more of the voting power in a general meeting of shareholders of HKEX except with the Securities and Futures Commission's (SFC) approval, after consultation with the Financial Secretary of Hong Kong (such approved person being referred to as Minority Controller).
- 2.5 The Board of LMEC (the Board) retains overall responsibility for the management of LMEC. It has delegated the day-to-day management to the Chief Executive Officer, supported by the Executive Committee of LMEC ("ExCom"), which in turn is supported by an extended management team representing the key functional areas of the organisation (Operations and Technology; Risk; Business Development; Legal and Compliance).
- 2.6 The Board is solely responsible for setting the strategy of LMEC. In setting the strategy, the Board considers the views of all stakeholders including the HKEX Group, the Relevant Regulations and seeks to achieve an appropriate balance between commercial and risk mandates in determining what is appropriate for LMEC.
- 2.7 LMEC, as required under the Relevant Regulations, remains responsible and accountable for the good management and performance of LMEC and ensures that it has a competent management team to which the Board has properly and effectively delegated the day-to-day management of LMEC.
- 2.8 The Board has delegated some of its responsibilities to Board committees. The responsibilities of each committee are defined by terms of reference approved by the Board. The Board retains overall control of any matter delegated to a committee and retains responsibility for approving any decisions that could have a significant impact on the risk profile of LMEC.
- 2.9 The Board is comprised of:
- (a) four Executive Directors (the "Executive Directors"); and
 - (b) five Non-Executive Directors (the "Independent Directors"),
- (together the Directors).
- As such, Independent Directors comprise a majority of the Board. Some of the Executive Directors and Independent Directors are also directors elsewhere in the HKEX Group.
- 2.10 At the time of this submission, the following individuals are serving on the Board as Executive Directors:
- (a) Matthew Chamberlain (CEO of LME);
 - (b) LMEC CEO (TBA⁴),
 - (c) Richard Leung (HKEX CTO); and
 - (d) Vacancy (HKEX Executive)
- 2.11 The following individuals are serving on the Board as Independent Directors:

- (a) Marco Strimmer (Chairman)
 - (b) Craig Young
 - (c) Julie Carruthers
 - (d) Anthony Stuart (Senior Independent Director); and
 - (e) Stephen Yiu.
- 2.12 The Independent Directors have been selected on the basis that they are of sufficiently good repute and have adequate expertise in financial services, risk management and clearing services. They have been selected based on the balance of skills they bring to the Board as a group.
- 2.13 The following individuals serve as members of the Board, or on a Committee of the Board, of LMEC as well as on the board of directors of LME or a committee of such board: Matthew Chamberlain, Anthony Stuart and Stephen Yiu. To identify, address and mitigate any actual or perceived conflict of interest resulting from such individual serving in such dual capacity, LME and LMEC have a Group Conflict of Interest Policy. Board Members and Committee Members also sign individual confidentiality undertakings in addition to the conflict of interest obligations which are standard in LME and LMEC contracts of employment.
- 2.14 The Articles of Association of LMEC (found [here](#)) also contain provisions dealing with potential conflicts of interest at Board level and complies with the relevant provisions of the UK Companies Act 2006. Where a Conflict of Interest is identified between a Board Committee Member and any other person, such conflict shall be dealt with in accordance with the terms of the relevant Committee Terms of Reference. For the avoidance of doubt, where a Board Committee Member is also an Employee, the Employee shall also be subject to the terms of the LME Group Conflicts of Interest Policy.

Policy Summary

- 2.15 The following standards are applied in the Group Conflicts of Interest Policy:
- (a) Policies and Procedures – including clear policies and processes to support Conflicts of Interest management.
 - (b) Restrictions on Outside Business Interest and Outside Employment – outlines the circumstances in which Employees are permitted to perform Outside Business interests.
 - (c) Declaration – all employees are obliged to declare any conflicts of interest.
 - (d) Record Keeping – maintain a register of all reported conflicts of interest in line with legal and regulatory requirements.
 - (e) Managing and Mitigating Conflicts of Interest – on identification and reporting of a conflict of interest the authorised person must agree a means of mitigation.
 - (f) Disclosure – in the event that the authorised person determines any mitigation is not sufficient a disclosure of the conflict may be made.

- (g) Awareness and Training – provide all employees with appropriate training in relation to conflicts of interest.
 - (h) Management Information – ensure senior management are actively engaged in the Companies' approach.
- 2.16 The Conflicts of Interest Policy also makes explicit reference to the management of conflicts of interest within ExCom, particularly when executive and employees sit on more than one committee.
- 2.17 Under section 175 of the UK Companies Act 2006, a director has a statutory duty to avoid any situations in which he has, or could have, a direct or indirect interest that conflicts, or could conflict, with the interests of the company. Section 175 (2) emphasises the applicability of the duty to the exploitation of any property, information or opportunity, and confirms that it is irrelevant whether the company itself could have taken advantage of that property, information and opportunity.
- 2.18 UK EMIR and Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012 supplementing UK EMIR with regard to regulatory technical standards on requirements for central counterparties (UK EMIR RTS 153/2013) include the following provisions pertaining to CCP independence:
- (a) Preamble, paragraph 61 of UK EMIR provides, “A CCP should have robust governance arrangements, senior management of good repute and independent members of its board, irrespective of its ownership structure. At least one-third, and no less than two, members of its board should be independent. However, different governance arrangements and ownership structures may influence a CCP’s willingness or ability to clear certain products. It is thus appropriate that the independent members of the board and the risk committee to be established by the CCP address any potential conflict of interests within a CCP. Clearing members and clients need to be adequately represented as decisions taken by the CCP may have an impact on them.”
 - (b) Article 3(4) of Reg. 153/2013 provides, “A CCP that is part of a group shall take into account any implications of the group for its own governance arrangements including whether it has the necessary level of independence to meet its regulatory obligations as a distinct legal person and whether its independence could be compromised by the group structure or by any board member also being a member of the board of other entities of the same group. In particular, such a CCP shall consider specific procedures for preventing and managing conflicts of interest including with respect to outsourcing arrangements.”

Committee Structure

- 2.19 The governance structure of LMEC provides for a number of committees which report to the Board. The following Committees have been appointed by the Board to deal with specific aspects of LMEC’s affairs.

a. Executive Committee

- 2.20 The LMEC ExCom is composed of the following individuals:

- (a) Interim Chief Executive Officer of LMEC, James Cressy

- (b) Chief Executive Officer of LME, Matthew Chamberlain;
- (c) Chief Risk Officer, Chris Jones;
- (d) Interim Co-Chief Operating Officer (Post-Trade), Christopher Smith
- (e) Head of Market Development, Robin Martin;
- (f) General Counsel, Tom Hine;
- (g) LMEC Chief Compliance Officer, Gavin Hill;
- (h) Chief Finance Officer, Tabitha Silverwood
- (i) LMEC Chief Technology Officer, Neil Duggan;
- (j) Head of HR, Sarah Burdett;
- (k) Head of Clearing Risk, Matt Wade;
- (l) Head of Corporate Communications, Miriam Heywood; and
- (m) Chief Sustainability Officer and Chief of Staff, Georgina Hallett.

2.21 The LMEC ExCom is a committee of the Board to which the Board has delegated the overall day-to-day management of LMEC. The ExCom has specific responsibility for matters including:

- (a) implementation of Board approved strategies and policies;
- (b) approval of all changes to the LMEC Rules at the recommendation of the Rulebook Committee (save for those reserved to the Board and the Board Risk Committee);
- (c) proposing the annual budget and making proposals on fees;
- (d) approval of expenditures within budget;
- (e) designing and establishing compliance and internal controls and procedures that promote LMEC's objectives and subjecting such procedures to regular review and testing;
- (f) ensuring that sufficient resources are devoted to risk management and compliance;
- (g) active involvement in the risk control process;
- (h) financial performance of investment activities;
- (i) receiving and considering reports and recommendation from the Executive Risk Committee and ensuring implementation of relevant recommendations;
- (j) ensuring that risks posed to LMEC are duly addressed and that all decisions are taken in line with the Risk Appetite Statement;
- (k) receiving and considering reports and recommendations from the Board Risk

Committee and ensuring implementation of recommendations made by the Board Risk Committee (subject to approval of the Board); and

- (l) ensuring and overseeing the compliance with all statutory duties imposed on it under all Applicable Laws and regulatory requirements.

b. Board Risk Committee

2.22 The Board Risk Committee is a Committee whose construct is determined by UK EMIR. LMEC's Board Risk Committee is composed of at least nine individuals of whom:

- At least 2, and a maximum of 3 shall be Independent Directors (as defined by the articles of association of LMEC);
- At least 2, and a maximum of 3 shall be representatives of Clients of Clearing Members; and
- At least 2, and a maximum of 4 shall be representatives of Clearing Members

2.23 Member and Client representatives are selected by the Nominations Committee in accordance with criteria set out in the terms of reference of the Board Risk Committee.

2.24 The duties of the Committee are to:

- (a) advise the Board on any arrangements that may impact the risk management of LMEC, including a significant change in its risk model, the default procedures, the criteria for accepting clearing members, the clearing of new classes of instruments and the outsourcing of functions;
- (b) advise the Board in relation to developments impacting the risk management of LMEC in emergency situations;
- (c) monitor and assess the adequacy and effectiveness of LMEC's risk management policies, procedures, and risk management systems and methodology; and
- (d) discuss and advise the Board on the initial versions of, and any changes to the rulebook which impact on the risk management of LMEC;
- (e) review and make recommendations to the Board on the initial versions of, and any proposed changes to risk policies and arrangements:

For the avoidance of doubt, the Committee shall act in an advisory capacity to the Board and any recommendations made by the Committee shall not be binding on the Board or on LMEC. In the event that the Board decides not to follow a recommendation of the Committee, LMEC shall promptly inform the Bank. The Board Risk Committee meets four times a year or more frequently as required.

2.25 The terms of reference of the Board Risk Committee contain a provision dealing with potential conflicts. Committee members must disclose to the chairman any situation which may amount to a conflict and the chairman will assess whether such situation constitute a conflict or not. If it amounts to a conflict, the committee member may be excluded from discussions or not permitted to vote.

c. Nomination Committee

2.26 The Nomination Committee is composed of a maximum of five individuals with a majority of Independent Directors. The roles and responsibilities of the Nomination Committee include, amongst other things:

- (a) regular reviews of the structure, size and composition (including but not limited to the skills, knowledge and experience) of the Board and recommendations to the Board with regard to any changes;
- (b) giving full consideration to succession planning for Independent Directors nominated and appointed by the Board;
- (c) responsible for identifying and recommending, for approval by the Board, candidates to fill vacancies for the position of Independent Directors;
- (d) responsible for selecting the representatives of Members and Clients to sit on the Board Risk Committee and attend Board meetings for matters relevant to Article 38 and 39 of UK EMIR; and
- (e) performance evaluation on Directors' time to fulfil their duties.

d. Audit Committee

2.27 The Audit Committee is composed of at least four individuals with at least three Independent Directors and one individual with relevant and recent financial experience. The Audit Committee plays a key role in the oversight of the compliance function at LMEC. It is responsible for the approval of the key compliance policies. It also plays an important role in the monitoring of the effectiveness of the internal controls and the risk management framework of LMEC. The Audit Committee's responsibilities include, amongst other things:

- (a) Financial Reporting – monitoring of the integrity of the financial statements of LMEC, including its annual and interim reports and any other formal announcement relating to its financial performance;
- (b) Internal Controls – monitoring and keeping under review the effectiveness of the Company's internal controls as well as the adequacy of LMEC's policies and procedures relating to financial, operational, IT, information security, outsourcing, legal and compliance risks;
- (c) Risk Management – monitoring the risk management system and monitoring and reviewing of the key risks faced by, or relating to, LMEC (enterprise risk);
- (d) Business Continuity – reviewing the adequacy of the business continuity and disaster recovery plan and monitor its effectiveness;

- (e) Bribery and Fraud Prevention – reviewing and approving LMEC's assessment of the corruption risks to which it is subject and the framework of controls put in place to mitigate those risks;
- (f) Whistleblowing - reviewing the company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- (g) Internal Audit – monitoring and reviewing the effectiveness of LMEC's internal audit function as well as reviewing and approving the annual internal audit plan and any internal audit findings; and
- (h) External Audit – overseeing the appointment of LMEC's external auditors as well as overseeing the relationship, independence and objectivity of such auditors, approving the annual external audit plan and reviewing the findings of the external audit with the external auditors.

e. Technology and Operational Resilience Committee

2.28 The Technology and Operational Resilience Committee is composed of four individuals, all of whom are Directors within LME Group, as well as an external advisor. The Committee's responsibilities include, amongst other things:

- (a) risk management considerations that relate to technology, change management and operational resilience;
- (b) technology and change management; and
- (c) operational resilience.

f. Default Management Committee

2.29 The Default Management Committee is composed of seven senior LMEC Executives. The Committee's responsibilities include, amongst other things, in the event of a default situation or extreme market stress:

- (a) manage communication with the Board, Board Risk Committee, HKEX and the LME;
- (b) agree all notices and communications with external parties, including members;
- (c) act in accordance with the Default Management Policy as well as the LMEC Rules and Procedures and follow all steps set out in such Policy, Rules and Procedures;
- (d) manage the default process and more generally, take all such other actions as may be necessary to manage the default in an effective manner;
- (e) agree on the collateral and cleared product liquidation strategy;
- (f) consider, agree and manage any partial porting strategy; and

- (g) declare a Porting Period open for Clients of the Defaulting Member and decide to extend any Porting Period or grant new Porting Period.

g. Remuneration Committee

2.30 The Remuneration Committee is a sub-committee of the Board of LMEC. It is composed of four individuals appointed from the Independent Directors (as defined in the Articles of Association of LMEC). All members shall be independent directors (as defined by UK EMIR). In carrying out its functions, the Remuneration Committee liaises with the remuneration committee of HKEX. The Remuneration Committee's role is mainly to:

- (a) design and develop the Remuneration Policy for LMEC (including determining targets for any performance-related pay schemes operated by LMEC), oversee the implementation of that policy by the management and review its operation on a continuous basis. The Remuneration Committee shall ensure that the Remuneration Policy complies with the requirements of Article 8 of the UK EMIR RTS153/2013;
- (b) review the Remuneration Policy on at least an annual basis;
- (c) ensure that the Remuneration Policy is subject to independent audit on an annual basis and review the policy in line with any recommendations made following the audit;
- (d) ensure that contractual terms on termination, and any payments made, are fair to the individual and LMEC, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- (e) within the terms of the agreed policy, determine the remuneration package of the chief executive officer, the chairman of the Board, the members of the Board, the members of any committee of the Board and such other members of management as it is designated by the Board to consider, having specific regard to the requirements of Article 8 of the UK EMIR RTS 153/2013; and
- (f) review and note annually the remuneration trends at LMEC.

h. Executive Risk Committee

2.31 ExCom has also appointed a number of committees including, specifically, 1) Executive Risk Committee ("ERIC") for the LME, and 2) Clearing Executive Risk Committee ("CLERIC") for LMEC. CLERIC is composed of the following individuals:

- (a) Chief Executive Officer, LMEC;
- (b) Chief Risk Officer;
- (c) Chief Operating Officer;
- (d) Chief Compliance Officer, LMEC;
- (e) A representative from Market Development;
- (f) Head of Financial Risk

- (g) Head of Clearing Risk, LMEC;
- (h) Head of Credit Risk;
- (i) Head of Liquidity and Collateral Risk;
- (j) Head of Market Risk;
- (k) Head of Quantitative Risk;
- (l) A Representative from Clearing Operations;
- (m) Head of Legal, LMEC; and
- (n) A senior representative from the HKEX Group Risk Management Team.

This committee is responsible, under delegated powers from the ExCom, for overseeing the day-to-day risk management of LMEC and the implementation of the Risk Appetite Statement. The ERIC also facilitates the work of the Board Risk Committee by assisting the Chief Risk Officer in producing and providing all relevant information to the Board Risk Committee.

2.32 The Committee has specific responsibility for the following matters:

- (a) review and approve risk aspects of new member applications (including credit);
- (b) review of all market, credit and liquidity risk papers for the Board Risk Committee;
- (c) review of all market, credit, investment and liquidity risk policy changes, including the Risk Appetite Statement, its implementation and any associated exceptions;
- (d) review of market, credit and liquidity risk aspects of a new product approval;
- (e) back testing results for market and liquidity risk;
- (f) review of independent party model assessments;
- (g) annual counterparty credit reviews including approval of credit ratings;
- (h) credit risk profile and credit watch list;
- (i) review of initial margin and collateral haircut changes;
- (j) review of additional margin profile;
- (k) monitoring of default fund adequacy;
- (l) review of liquidity profile;
- (m) review of collateral profile;
- (n) review and assessment of stress testing results and review of related parameters;

- (o) review and approval of new collateral;
- (p) review of risks arising from "Access and Participation", "Tiered Participation" and "Custody and Settlement" under CPMI-IOSCO;
- (q) review of model risk validations;
- (r) review and approval of all new LMEC counterparties and LME investment counterparties; and
- (s) at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Executive Committees for approval.

Conflict of Interest

- 2.33 LMEC has adopted a Conflicts of Interest Policy which sets out the arrangements to identify and manage conflicts of interest between (a) itself (including LMEC's managers, employees and persons with indirect control or close links) and its Members or Members' Clients (where known to LMEC); and (b) itself and other members of the HKEX Group; and/or (c) Members and Clients as members of the Board Risk Committee.
- 2.34 The policy first defines the concept of conflicts of interest, identifies potential conflicts of interest situations and sets out the procedures to be put into place to manage such conflicts, including the internal organisation of LMEC and the use of information barriers.
- 2.35 In the event that a conflict relates to a Member, the Conflicts of Interest Policy specifies that disclosure of a conflict should be made to the Member (and where the conflict concerns a Client who is known to LMEC, the Client) in circumstances where arrangements to manage conflicts of interest are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of the Member or the Client will be prevented.
- 2.36 The Conflicts of Interest Policy also sets out how information must be treated in order to ensure that it is not misused or used for business purposes other than those for which the information was intended.
- 2.37 All employees are required to complete a conflicts of interest declaration form at the start of their employment and to update it on an annual basis.

3. Regulatory Status and Regulatory Framework

- 3.1 LMEC is an Authorised CCP under Article 17 of UK EMIR⁵; a RCCP in accordance with section 288 of the Financial Services and Markets Act 2000 (FSMA) in the UK; and a designated system under the Financial Markets and Insolvency (Settlement Finality) Regulations 1999 (Settlement Finality Regulations). LMEC is authorised and primarily supervised by the Bank in the UK.

⁵ In February 2022, the EU Commission announced the extension of the temporary equivalence decision for UK CCPs until June 2025. This enabled ESMA, in March 2022, to extend LMEC's Third-Country CCP recognition (as a Tier 1 CCP) to this date.

- 3.2 The Bank is the responsible body for authorising and supervising CCPs in the UK. Whilst, following the UK's withdrawal from the EU LMEC's EMIR College arrangement ceased, in Q1 2021 a new Global College was constituted by the Bank in order to facilitate information sharing around LMEC activities and initiatives. The Global College met for the first time in June 2021 and meetings are intended to be held twice per year. The day to day supervision role is delegated to the national regulator (being in the UK, the Bank).
- 3.3 The Bank exercises its supervision of CCPs within the framework of the UK legal regime. Part 18 of FSMA is the main UK legislation relating to the regulation of CCPs. The standards that UK CCPs must meet to be recognised are set out in the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations. CCPs must continue to meet these standards to maintain their recognised status. The Bank oversees CCPs' continuing compliance with the recognition requirements.
- 3.4 The Principles for Financial Market Infrastructures (PFMIs), published by the Committee on Payment and Market Infrastructure (CPMI) and the IOSCO, form the keystone for the Bank's supervisory approach. The UK regulatory framework is therefore consistent with the minimum standards set out in the PFMIs.
- 3.5 CCPs have primary responsibility for meeting the minimum standards of the PFMIs. Consistent with that, the Bank expects CCPs to complete their own self-assessment against the Principles and to provide these to the Bank. Further to discussions with the Bank, its requirement is now for CCPs to perform a self-assessment every 2 years (with a "strategic review" performed in the interim years). The strategic review still requires consideration against all PFMIs, with the aim to produce a "top-down" description of what has changed since the last review. Therefore, in line with the Bank's expectations, in 2021 LMEC produced a top-down strategic review, focusing on areas of known change. The strategic review was submitted to the Bank in December 2021. LMEC's 2022 CPMI-IOSCO disclosure statement can be found [here](#).
- 3.6 According to the Bank's statement on FMI Supervision, the self-assessment does not replace the Bank's own judgement but is used as one input to its supervision. The Bank seeks to reach forward-looking judgements on whether a CCP's governance, operational design, policies or actions pose unacceptable risks to financial stability. Where the Bank judges such risks to be unacceptably high, it expects the CCP to take action to reduce them.
- 3.7 The Bank (formerly "the FSA") is also a party to the memorandum of understanding with the AMF concerning consultation, cooperation and the exchange of information related to dually regulated entities', which is available [here](#). To note, FMI supervision transferred to the Bank in 2012 and this MOU remains valid.
- 3.8 The regulatory regime for all financial market infrastructures (FMIs) is framed by the CPMI-IOSCO Principles. This demonstrates the co-operation between the regulators and is consistent with CPMI-IOSCO Principle 5. The Bank is committed to the CPMI-IOSCO Principles and accepts particular responsibility for ensuring effective co-operative oversight between regulators.
- 3.9 The Bank's system for the supervision of CCPs and FMIs more generally is outlined in the most recent annual report of the Bank, which is available [here](#).

The above annual report states that the Bank adopts a risk based approach, reaching forward-looking judgements on whether a CCP's governance, operation design, policies or actions pose unacceptable risks to financial stability and will expect a CCP to reduce them if the risks become too high. The Bank's key supervisory pillars are focusing on these specific areas:

- (a) Delivering robust supervision of FMIs and targeted enhancements to supervisory frameworks
- (b) Enhancing CCP resilience and recovery; and
- (c) Shaping the UK's response to innovations in payments.

The Bank will seek evidence that CCPs, including LMEC, are reaching adequate standards in such areas.

- 3.10 In line with the CPMI-IOSCO principles, the Bank considers that co-operation with other authorities is an essential part of the Bank's supervision of FMIs and works closely with other international authorities in respect of the UK FMIs it supervises.
- 3.11 On 31 January 2020, the UK formally ceased to be a member state of the EU. The UK and EU then entered a transition period until 31 December 2020. The UK committed to transposing all existing EU law into the UK statute book unchanged which has now happened.
- 3.12 On Tuesday 8 March 2022, the LME suspended nickel trading, having concluded a disorderly market had arisen. Nickel trading resumed on the LME on Wednesday 16 March. The suspension occurred amid challenging commodity market conditions following Russia's invasion of Ukraine. Both the FCA and Bank undertook a review assisted by a third party "skilled person" (under Section 166 of the Financial Services and Markets Act). The FCA reviewed the LME's approach to managing the suspension and resumption of the market in nickel to determine what lessons might be learned in relation to the LME's governance and market oversight arrangements. The Bank similarly undertook a review into the operation of LMEC during the period to determine whether any lessons might be learned in relation to its governance and risk management. Both reviews have been completed and the LME and LMEC continue to work closely with both regulators.
- 3.13 On 30 March 2023, the LME Group published an Action Plan which provides a comprehensive overview of changes that will impact the LME and its markets, and LMEC. The Action Plan is designed to strengthen the LME's markets in order for them to thrive long-term and delivers on this commitment in four key ways:
 - Embed the findings of independent, internal, and regulatory-led reviews to manage risk through enhanced controls
 - Enable the market to provide deep and resilient liquidity for LME participants and members;
 - Build confidence in the reliable and transparent operation and governance of the LME Group's markets
 - Evolve market structure, demonstrating the Group's ability to deliver modernisation and change
- 3.14 As part of the programme of work, LME and LMEC will continue to review and enhance their respective governance frameworks including decision-making policies and procedures, with the objective of tracking best practice in the financial services industry.

4. LMEC Clearing Participants: Individual Clearing Members and General Clearing Members

- 4.1 There are two categories of LMEC Membership:
- (a) "Individual Clearing Members" (ICMs) are permitted to clear transactions on their own behalf only;
 - (b) "General Clearing Members" (GCMs) may clear transactions on their own behalf and also in respect of transactions effected (i) by the GCM with its Clients or (ii) by its Clients with other non-Members.

There are no other participant types.

- 4.2 Only Members, in their capacity of ICMs or GCMs, can set up Accounts with LMEC and access the system for clearing services. All Members are subject to the same Membership Criteria applicable to their membership category. The criteria relating to Membership are described under LMEC Rule 3. Once admitted as Members, all Members have access to the same range of Accounts and services as described in the LMEC Rules. There are no clearing privileges available to some Members only.
- 4.3 A person may qualify to become a Member of LMEC if it meets the Membership Criteria set out in the Membership Procedure Part B.3 within the LMEC Rulebook. Except as set out in Membership Procedure Part B, Section 4.7, the criteria are the same for both categories of Membership. As a GCM or ICM, a Member has the ability to access the following services:
- (a) EMIR compliant accounts structure, as further described below;
 - (b) automated real time feed from LME of matched transactions in eligible Products to be cleared and settled in real time by LMEC;
 - (c) manual input or cancellation of transactions;
 - (d) cash and Collateral management in real time;
 - (e) real time assessment of risk exposure;
 - (f) data validation and Position risk checked against collateral/limits;
 - (g) management of contract expiry and option exercise;
 - (h) settlement and delivery management; and
 - (i) monitoring of trades and Positions by either subscribing to reports in the Reporting section of the LMEC clearing system or by querying the screens directly.

- 4.4 Reports available include:

- (a) Position Reports;
- (b) Trade Reports;
- (c) Exercise Reports; and
- (d) Collateral Reports.

- 4.5 LMEC allows Members to set up a client account structure which allows Members to record Positions or Collateral arising as a result of transactions effected or cleared by the Member on

behalf of a Client or an Indirect Client on a segregated basis. In relation to such Positions or Collateral, LMEC's contractual relationship remains with the Member. LMEC does not have any contractual relationship with either a Client or an Indirect Client. However, a Client has the right to request to port the Positions and Collateral in a Client Account in certain circumstances. Accounts of an Indirect Client can also be ported at the request of a Member.

5. Clearing Services

- 5.1 LMEC offers Members the ability to operate the following types of Accounts (see LMEC Rule 4.2):
- (a) House Account: in which Members can only record Positions and Collateral attributable to their proprietary trading activities.
 - (b) Omnibus Segregated Client Accounts (Omnibus Accounts): in which Members record Positions and Collateral attributable to trading activities conducted with or for Clients, where the Client has chosen not to be segregated by reference to individual Clients. Each Omnibus Account would therefore cover multiple Clients.
 - (c) Individual Segregated Client Accounts (ISA): in which Members can record Positions and Collateral attributable to trading activities conducted with or for specific Clients. Only one Client may be allocated to any specific ISA.
- 5.2 The LMEC Rules confirm that it is the responsibility of the Member and not LMEC to ensure that the Member has established an account structure within LMEC that is appropriate to enable the Member to satisfy its obligations under any Applicable Law (see LMEC Rule 4.5).

Account Structures: Rule Requirements

- 5.3 Each Member must establish at least one House Account. House Accounts may only be used to record Positions and Collateral arising as a result of transactions effected by the Member on its own behalf (see LMEC Rule 4.2.1).
- 5.4 A GCM may elect, depending on the requests of its Clients, to establish one or more of the following types of Client Accounts:
- (a) an Omnibus Account; and/or
 - (b) an ISA (LMEC Rule 4.2.2), which can be of the following type:
 - (i) Direct ISA;
 - (ii) Indirect ISA; or
 - (iii) Indirect Omnibus Account.
- 5.5 An Omnibus Account is used to record Positions and Collateral arising as a result of transactions effected or cleared by a GCM on behalf of one or more Clients (LMEC Rule 4.2.3).
- 5.6 A Direct ISA may only be used to record Positions and Collateral arising as a result of transactions effected or cleared by a GCM on behalf of a single Client (LMEC Rule 4.2.4).
- 5.7 An Indirect ISA may only be used to record Positions and Collateral arising as a result of transactions effected or cleared by a GCM on behalf of a single Clearing Client which relate to a single Indirect Client (LMEC Rule 4.2.5).

- 5.8 An Indirect Omnibus Account may only be used to record Positions and Collateral arising as a result of transactions effected or cleared by a GCM on behalf of a single Clearing Client which relate to one or more Indirect Clients (LMEC Rule 4.2.6).
- 5.9 An ICM will have only a House Account, as it will not be clearing transactions entered into with or by Clients.

Segregation

- 5.10 LMEC segregates each Account from each other Account in the books and records of LMEC and treats each Account maintained for a Member separately from other Accounts maintained for that Member, for the purposes of:
- (a) recording the Positions and Collateral 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 that Account;
 - (d) the exercise of any right by LMEC under the LMEC Rules to combine or consolidate balances on Accounts or any set-off rights;
 - (e) the allocation or discharge of losses; and
 - (f) the exercise of porting rights (being the rights of a client of a defaulting clearing member to request, if some specific conditions are met, the transfer of Positions and Collateral relating to such client to a non-defaulting clearing member).

6. Overview on Default Management, the Default Fund and At-Risk Capital

Default Management

- 6.1 LMEC default management procedures govern the processes that apply to Members in the case of a clearing Member default; clearing Members remain responsible for the credit risk of their Clients. These procedures facilitate transparent and practical market action in stress situations.
- 6.2 In broad terms LMEC will look to neutralise risk by hedging the overall house Position of a defaulting Member against the most liquid market dates and roll forward any prompt physical delivery Positions to manage its risk. LMEC will then seek to run a mandatory auction to apportion the defaulting Member's remaining house portfolio to other participants as its preferred method of disposal; however it will also be able to execute the close out of all remaining open house Positions if required.
- 6.3 A Member must successfully complete simulated default tests to demonstrate they have the appropriate expertise and operational processes in place prior to beginning clearing operations. Once live, all Members are required to participate in fire drills regularly to confirm their operational readiness to manage a Member default.

Margin

- 6.4 Each Member provides LMEC with, and maintains 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 comprises of:

- (a) the End of Day Margin Requirement;
- (b) the Intra-Day Margin Requirement(s); and
- (c) any other margin requirements (which excludes a Default Fund Contribution) required at any time by LMEC 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 LMEC pursuant to the Rules or the operation of the Clearing System.

6.5 The Margin Requirement for each Member will be the amount which LMEC may determine and notify the Member from time to time. A Member's Margin Requirement will be calculated, maintained and applied for each of the following Accounts on a net basis. Such net calculations are applied separately in respect of:

- (a) the House Account of the Member;
- (b) each Direct NOSA of the Member;
- (c) each Indirect NOSA of the Member;
- (d) each Direct ISA of the Member; and
- (e) each Indirect ISA of the Member,

6.6 A Member's Margin Requirement will be calculated, maintained and applied for each of the following Accounts on a gross basis. Such gross calculations are applied separately in respect of:

- (a) each Direct Gross Omnibus Segregated Client Account of the Member; and
- (b) each Indirect Gross Omnibus Segregated Client Account of the Member,

such that any Collateral provided by the Member in respect of the Client or Clients allocated to the Account are in respect of a gross Margin Requirement calculation.

Additional Margin

6.7 LMEC has a margin methodology that includes 4 types of additional margin which are concentration additional margin, default fund additional margin, credit additional margin and discretionary additional margin:

- (a) Concentration additional margin: will be used to cover the risk of large positions that in a default would potentially take longer to close out than the two day assumed liquidation period. It is automatically calculated by the clearing system. To determine the additional concentration margin for each clearing member LMEC calculates the average traded volume for each commodity. LMEC will utilise this, in conjunction with assumptions of the market depth it could trade, to calculate the tradable volume in the event of a default. This is then compared to the position that it would need to liquidate in the event of the Member defaulting. If the position is determined to be larger than could be traded in a two day period, i.e. a concentrated position, then an additional charge is calculated.

- (b) Default fund additional margin: if, at the end of each day, a Clearing Member has a total stress testing losses (TSTL) of greater than 40% of the total level of the Default Fund then LMEC will call for additional collateral to reduce the clearing Members TSTL to 40%. Total stress testing losses include loss of IM on the cleared product positions and loss over haircut for collateral. This is called default additional margin. This is an automatic calculation within the clearing system.
 - (c) Credit additional margin: Members will be required to provide collateral to cover some or all of their total stress testing losses, if their credit rating based on the LMEC internal credit risk assessment framework is below a minimum threshold. Once implemented this is also an automatic calculation within the clearing system.
- 6.8 As these additional margin calculations are automatically performed within the clearing system, this ensures the methodology is implemented as efficiently as possible. Automated reporting allows for transparency to clearing members.
- 6.9 Discretionary additional margin: LMEC has the ability to charge Members further additional margin that falls outside of the system calculated credit, concentration and default additional margin. For example this might be for exposures highlighted in the limitations of the SPAN algorithm for the LME products. This will be calculated outside of the system and manually input. Members impacted will be told in advance and the calculation fully explained.

Default Fund

- 6.10 LMEC maintains a Default Fund which Members are required to contribute to. Currently the Default Fund is sized according to UK EMIR requirements and is recalculated monthly based on the previous six months' data. Member contributions are based on relative initial margins subject to a minimum contribution. Members' Default Fund contributions are covered in cash and this is invested by LMEC in accordance with UK EMIR requirements.

LMEC's At-Risk Capital

- 6.11 In order to be authorised under UK EMIR, a CCP must demonstrate, amongst other things that it meets the requirements set out below.
- 6.12 A CCP is obliged to hold capital which is, at all times, sufficient to ensure an orderly wind-down or restructuring of the CCP's activities over an appropriate time span and adequately protects the CCP against credit, counterparty, market, operational, legal and business risks that are not already covered by specific financial resources (such as the Default Fund). This is subject to a minimum requirement that it has permanent and available initial capital of at least €7.5m. In addition, a CCP will be required to report, on an ongoing basis, to its competent authority should its capital fall below 110% of its capital requirement (meaning that, in practice, a CCP will aim to apply a 10% buffer at all times).
- 6.13 A CCP is required to maintain an additional amount of dedicated own resources which is equal to 25% of the amount of its capital requirement (not including the 10% buffer referred to above). Such amount is to be used as part of its default waterfall as "skin in the game" in case of a Member's default where the defaulting Member's margins contributions and default fund contributions are not sufficient.

- 6.14 LMEC operates a continual process of identifying risks and maintaining an appropriate risk management framework, in order to manage or mitigate those risks. An extension of this process is the annual regulatory capital exercise that determines the minimum capital requirement for LMEC. This process is an assessment of the amount of capital that LMEC considers adequate to cover the level and nature of the risks that LMEC is exposed to. This is specifically in regards to credit, counterparty, market, operational, legal and business risk.
- 6.15 The risk-based approach comprises the costs related to an orderly closure (as per the LMEC Wind-Down Plan) and the operational risk scenarios. This total is compared against the minimum UK EMIR capital requirement. Should the risk-based approach amount exceed the UK EMIR requirement, the difference between the two will form a risk buffer that will be held as an additional component of LMEC's capital requirement. In short: LMEC will hold as its regulatory capital the higher of the two numbers.
- 6.16 In addition, LMEC has enhanced its Capital Risk Appetite Statement to track the annual capital cycle and its monthly capital calculation in accordance with the required regulations. The amount of capital held should at all times be sufficient to meet current and future liquidity requirements based on a stressed environment. Should the cash balances requirement for capital indicate an amber threshold has been met, this would be reportable at <125% of the minimum capital requirement. Out of this proportion of capital, 25% represents LMEC's own Default Fund contribution and therefore equates to one "skin-in-the-game."

7. Participation in LMEC by Entities in Quebec

- 7.1 LMEC anticipates that banks based in Quebec may be interested in participating in LMEC. LMEC would provide its services to Quebec Participants without establishing an office or having a physical presence in Quebec. LMEC intends to offer its clearing services to Quebec Bank Participants who become Members.

8. Criteria for Exemption from Recognition as a Foreign Clearing House

- 8.1 Section 2.1 of R24-102 requires a foreign clearing house to provide the following information in its application for exemption from recognition as a clearing house:
- (a) its most recently completed PFMI Disclosure Document together with disclosure about any material change to the information in the PFMI or concerning any information in the PFMI having become materially inaccurate for any reason;
 - (b) sufficient information to demonstrate that it is in compliance with the regulatory regime of the jurisdiction in which its head office or principal place of business is located; and
 - (c) any additional relevant information sufficient to demonstrate that it is in the public interest for the securities regulatory authority to exempt the applicant. According to section 2.1 of the Companion Policy to R24-102, this additional information is a detailed description of the regulatory regime of the clearing house's home jurisdiction and the requirements imposed on the clearing house, including how such requirements are similar to the requirements in Parts 3 and 4 of R24-102.

LMEC's most recent PFMI disclosure statement, prepared in 2020, is available [here](#). This was reviewed and validated by the Bank.

- 8.2 The Bank requires CCPs to now perform a self-assessment every 2 years (with a “strategic review” performed in the interim years). The strategic review still requires consideration against all PFMI, with the aim to produce a “top-down” description of what has changed since the last review. Therefore, in line with the Bank’s expectations, in 2021 LMEC produced a top-down strategic review, focusing on areas of known change. The strategic review was submitted to the Bank in December 2021. LMEC 2022 disclosure statement can be found [here](#).

PART II - Requirements set out in Part 4 of R24-102

Each requirement in Part 4 of R24-102 is set out below in italics, followed by a description of how the requirement is met by UK EMIR and UK EMIR RTS 153/2013, as applicable, and LMEC compliance with UK EMIR and UK EMIR RTS 153/2013, as applicable.

1. *Division 1 – Governance*

Board of directors (section 4.1 of R24-102)

- (1) A recognised clearing agency must have a board of directors.***
- (2) The board of directors must include appropriate representation by individuals who are***
 - (a) independent of the clearing agency, and***
 - (b) not employees or executive officers of a participant or their immediate family members.***
- (3) For the purposes of paragraph (2) (a), an individual is independent of a clearing agency if he or she has no direct or indirect material relationship with the clearing agency.***
- (4) For the purposes of subsection (3), a “material relationship” is a relationship that could, in the view of the clearing agency’s board of directors, be reasonably expected to interfere with the exercise of a member’s independent judgment.***

Satisfaction by UK EMIR

- 1.1 Article 27(1) of UK EMIR provides that “the senior management of a CCP shall be of sufficiently good repute and shall have sufficient experience so as to ensure the sound and prudent management of the CCP.”
- 1.2 Article 27(2) of UK EMIR requires that “at least one third, but no less than two, of the members of that board shall be independent [and] the compensation of the independent and other non-executive members of the board shall not be linked to the business performance of the CCP.”
- 1.3 Article 27(3) provides that “a CCP shall clearly determine the roles and responsibilities of the board and shall make the minutes of the board meetings available to the competent authority and auditors.”
- 1.4 Article 2(27) of UK EMIR defines “board” as an “administrative or supervisory board, or both.” Article 3(5) of UK EMIR RTS 153/2013 further elaborates that the responsibilities of the “board” are allocated to the supervisory board and the executive board, as appropriate.
- 1.5 Article 2(28) of UK EMIR provides that “independent member of the board means a member of the board who has no business, family or other relationship that raises a conflict of interests regarding the CCP concerned or its controlling shareholders, its management or its clearing members, and who has had no such relationship during the five years preceding his membership of the board.”

- 1.6 Article 7(5) of UK EMIR RTS 153/2013 further requires that the governance arrangements, by which the board and senior management of a CCP operate must include processes to identify, address and manage potential conflicts of interest of members of the board and senior management. Article 5(4) of UK EMIR RTS 153/2013 states: "a CCP shall identify and analyse potential conflicts of law issues and develop rules and procedures to mitigate legal risk resulting from such issues. If necessary, independent legal opinions shall be sought by the CCP for the purpose of this analysis."

Compliance by LMEC

- 1.7 The Board is solely responsible for setting the strategy of LMEC. In setting the strategy, the Board considers the views of all stakeholders including the HKEX Group, the Relevant Regulations and seeks to achieve an appropriate balance between commercial and risk mandates in determining what is appropriate for LMEC.
- 1.8 LMEC, as required under the Relevant Regulations, remains responsible and accountable for the good management and performance of LMEC and ensures that it has a competent management team to which the Board has properly and effectively delegated the day-to-day management of LMEC.
- 1.9 The Board has delegated some of its responsibilities to Board committees and the CEO. The responsibilities of each committee are defined by terms of reference approved by the Board. The Board retains overall control of any matter delegated to a committee and retains responsibility for approving any decisions that could have a significant impact on the risk profile of LMEC.
- 1.10 The Board is comprised of four Executive Directors and five Independent Directors. As such, Independent Directors comprise a majority of the Board. Some of the Executive Directors and Independent Directors are also directors elsewhere in the HKEX Group.
- 1.11 The Independent Directors have been selected on the basis that they are of sufficiently good repute and have adequate expertise in financial services, risk management and clearing services. They have been selected based on the balance of skills they bring to the Board as a group. In addition, the Bank performs due diligence on new Board appointees and reserves the right to interview and provide a non-objection to their appointment if they do not meet the relevant standards.
- 1.12 The requirements around Independent Board directors under UK EMIR are similar to those in R24-102. Under UK EMIR Article 27(2) the requirement is that "A CCP shall have a board. At least one third, but no less than 2, of the members of that Board shall be independent".

Under the UK EMIR definitions (28) "*independent member of the board means a member of the Board who has no business, family or other relationship that raises a conflict of interest regarding the CCP concerned or its controlling shareholders, its management or its clearing members...*"

The recitals to the UK EMIR Regulatory Technical Standards notes that "*CCPs should adequately assess and monitor the extent to which board members that sit on the boards of different entities have conflicts of interest, whether within or outside the group of the CCP. Board members should not be prevented from sitting on different Boards unless this gives rise to conflicts of interest*".

Additionally, the ESMA Q&A relating to UK EMIR notes that “An independent director of the parent company of a CCP might be considered to satisfy the criteria for appointment as an independent director of a CCP; however this is not automatic and should be analysed properly. In particular, it would need to be carefully considered as to whether the individual’s relationship with the parent company of the CCP raised a conflict of interest regarding the CCP.”

1.13 As such, “independence” is largely focused around whether any conflicts of interest exist by virtue of other roles within the Group. A conflicts of interest assessment is undertaken to ensure what, where any potential conflicts are identified (for example, by virtue of sitting on other Group boards), there are appropriate mitigating controls in place to ensure they don’t materialise. The various conflicts of interest materials are summarised below.

- The LMEC Articles of Association set out in detail expectations of Directors relating to their other interests generally, and conflicts of interest specifically. This acts as an ongoing reminder to Directors of their obligations.
- In addition, the Directors handbook sets out the statutory duties and key regulatory requirements/expectations on Directors including conflicts of interest. This includes the regulatory background relating to conflicts of interest, how conflicts are identified, how conflicts are managed between the interests of HKEX Group subsidiaries and between LMEC and its users. Disclosure expectations are highlighted, procedures for managing conflicts of interest if they arise explained, and sanctions implemented if conflicts requirements are breached. This includes reference to the UK EMIR standards and also the ESMA guidelines.
- All Directors are expected to disclose outside interests and self-assess whether any of those give rise to conflicts of interest. These Directors interests are submitted to, and maintained by, the Company Secretary and Head of Governance.
- LMEC also operates a Board conflicts register which sets out how the regulatory duties of the Board might be impacted by LMEC being part of a wider international group. This is tabled at the opening of each Board meeting and Directors invited to note its contents and disclose any conflicts.

On that basis LMEC is comfortable that directors which sit on other group Boards can continue to be treated as independent given they suitably disclose any potential conflicts, and we have mechanisms in place to ensure those do not materialise.

1.14 The following individuals serve as a member of the Board, or on a Committee of the Board, of LMEC as well as on the board of directors of LME or a committee of such board: Matthew Chamberlain, Anthony Stuart and Stephen Yiu. Please see paragraphs 2.29-2.34 for details of how LMEC manages the potential conflicts of interest that may arise.

1.15 The Articles of Association of LMEC also contain provisions dealing with potential conflicts of interest at Board level.

2. Documented procedures regarding risk spill-overs (section 4.2 of R24-102)

- (1) ***The board of directors and management of a recognised clearing agency must have documented procedures to manage possible risk spill over where the clearing agency provides services with a different risk profile than its depository, clearing and settlement services.***

2.1 This provision is not applicable because LMEC only provides clearing services and does not provide services with a different risk profile than its clearing services.

3 Chief Risk Officer and Chief Compliance Officer (section 4.3 of R24-102)

- (1) *A recognised clearing agency must designate a chief risk officer and a chief compliance officer, who must report directly to the board of directors of the clearing agency.*
- (2) *The chief risk officer must*
 - (a) *have full responsibility and authority to maintain, implement and enforce the risk management framework established by the clearing agency,*
 - (b) *make recommendations to the clearing agency's board of directors regarding the clearing agency's risk management framework,*
 - (c) *monitor the effectiveness of the clearing agency's risk management framework, and*
 - (d) *report to the clearing agency's board of directors on a timely basis upon becoming aware of any significant deficiency with the risk management framework.*
- (3) *The chief compliance officer must*
 - (a) *establish, implement, maintain and enforce written policies and procedures to identify and resolve conflicts of interest and ensure that the clearing agency complies with securities legislation,*
 - (b) *monitor compliance with the policies and procedures described in paragraph (a),*
 - (c) *report to the board of directors of the clearing agency as soon as practicable upon becoming aware of any circumstance indicating that the clearing agency, or any individual acting on its behalf, is not in compliance with securities legislation and one or more of the following apply:*
 - (i) *the non-compliance creates a risk of harm to a participant,*
 - (ii) *the non-compliance creates a risk of harm to the broader financial system,*
 - (iii) *the non-compliance is part of a pattern of non-compliance, or*
 - (iv) *the non-compliance may have an impact on the ability of the clearing agency to carry on business in compliance with securities legislation,*
 - (d) *prepare and certify an annual report assessing compliance by the clearing agency, and individuals acting on its behalf, with securities legislation and submit the report to the board of directors,*
 - (e) *report to the clearing agency's board of directors as soon as practicable upon becoming aware of a conflict of interest that creates a risk of harm to a participant or to the capital markets, and*

- (f) concurrently with submitting a report under paragraphs (c), (d) or (e), file a copy of such report with the securities regulatory authority.**

Satisfaction by UK EMIR

- 3.1 Article 26(4) of UK EMIR provides that “a CCP shall maintain a clear separation between the reporting lines for risk management and those for the other operations of the CCP.”
- 3.2 Article 33 of UK EMIR provides that “a CCP shall maintain and operate effective written organisational and administrative arrangements to identify and manage any potential conflicts of interest between itself, including its managers, employees, or any person with direct or indirect control or close links, and its clearing members or their clients known to the CCP. It shall maintain and implement adequate procedures aiming at resolving possible conflicts of interest.”
- 3.3 Article 3(3) of UK EMIR RTS 153/2013 requires a CCP to ensure that the functions of the chief risk officer and CCO are carried out by different individuals, who must be employees of the CCP entrusted with the exclusive responsibility of performing these functions.
- 3.4 Pursuant to Article 4(6) of UK EMIR RTS 153/2013, the chief risk officer is required to implement the risk management framework including the policies and procedures established by the board. Article 7(6) of UK EMIR RTS 153/2013 requires the chief risk officer to report to the board either directly or through the chair of the risk committee.
- 3.5 Pursuant to Article 6(2) of UK EMIR RTS 153/2013, the responsibilities of a CCP's CCO include the following:
- (a) monitoring and, on a regular basis, assessing the adequacy and effectiveness of the measures put in place to identify and analyse potential conflicts of law issues and to develop rules and procedures to mitigate legal risk resulting from such issues, as well as the actions taken to address any deficiencies in the CCP's compliance with its obligations;
 - (b) administering the compliance policies and procedures established by senior management and the board;
 - (c) advising and assisting the persons responsible for carrying out the CCP services and activities to comply with the CCP's obligations under UK EMIR and UK EMIR RTS 153/2013;
 - (d) reporting regularly to the board on compliance by the CCP and its employees with UK EMIR and UK EMIR RTS 153/2013;
 - (e) establishing procedures for the effective remediation of instances of non-compliance; and
 - (f) ensuring that the relevant persons involved in the compliance function are not involved in the performance of the services or activities they monitor and that any conflicts of interest of such persons are properly identified and eliminated.

Article 7(6) of UK EMIR RTS 153/2013 requires the CCO to report directly to the board.

Compliance by LMEC

- 3.6 The Risk Management department - specifically the ERM and Operational Risk department, the Financial Risk department, the Programme Management Office and the Regulation and Compliance department form the second line of defence within LMEC. These teams are responsible for robust challenge and monitoring of the first line's adherence to the risk appetite statements, identification of risks and ensuring adherence to our regulatory requirements. The second line is also responsible for education and ensuring a risk based culture of openness and transparency across the business.
- 3.7 The Risk Management department is headed by the Chief Risk Officer ("CRO"). The CRO reports directly to the Chief Executive Officer and separately to the Board. The CRO is responsible for the strategic direction of the risk management approach and in conjunction with the Executive Risk Committee and the Board develops, monitors and reviews the Risk Appetite Statement. The CRO provides monthly updates to the Board directors and members of the Board Risk Committee in respect of the market risk landscape and any potential threats that may have manifested. The ERM and Operational Risk Function consists of a team of 4, reporting to the CRO. A further Financial Risk second line team has been established to challenge the first line CCP risk function.
- **Operational and Enterprise Risk** – The function consists of four staff and reports to the Chief Risk Officer. This function is responsible for ensuring implementation of the Operational Risk Framework and Policy and adherence throughout the business. In addition, the function monitors and reports all the major enterprise risks across the business.
 - **Financial Risk** – the function consists of two staff and reports to the Chief Risk Officer. This function provides second line challenge to the Clearing Risk department.
- 3.8 The LMEC Chief Compliance Officer ("CCO") is responsible for regulatory compliance of LMEC. The CCO is supported by a team of three individuals focussing on regulatory relations. In addition, a team of five Regulatory Compliance individuals manage the compliance monitoring programme and other internal compliance matters such as development and maintenance of policies across both the LME and LMEC. There are also three individuals responsible for regulatory policy and advocacy, strategy and change across LME and LMEC. This includes responsibility for:
- (a) the development, maintenance and implementation of compliance policies and procedures designed to ensure that LMEC meets its regulatory obligations under the Relevant Regulations;
 - (b) monitoring, and, on an ongoing basis, assessing the adequacy and effectiveness of policies and procedures established by senior management and the Board;
 - (c) coordinating the relationship with regulators and assist the chief executive officer with his ongoing relationship with the regulators;
 - (d) advising and assisting persons responsible for carrying out LMEC's services and activities to comply with the regulatory obligations relevant to LMEC;
 - (e) reporting to the senior management, Board and regulators on compliance by LMEC and its employees with all relevant regulatory standards; and

- (f) establishing procedures for remediation of breaches;
- 3.9 The risk tolerance for legal and compliance risks is set out in the Risk Appetite Statement. The Ethical Conduct, Legal and Compliance Risk Policy defines how LMEC intends to minimise the risk of loss (financial and non-financial) arising from a failure to adapt to legislative and regulatory changes or comply with laws and regulations, failure to act with integrity, fairness and honesty and a failure to put in place adequate contractual protections with third party suppliers and Members.
- 3.10 The CCO reports functionally to the Chief Regulatory and Compliance Officer for the LME Group and has a reporting line into the Chief Executive Officer and separately to the Board. The CCO liaises closely with the LME Group General Counsel and also with the senior management of the Regulation and Compliance department in HKEX to provide regular updates on legal and regulatory matters impacting LMEC. This is to ensure that a global view of all legal and compliance risks is maintained at group level, to minimise risks of conflicts of interest and to ensure that LMEC's contractual arrangements with Members and suppliers protect the interests of the Group. The LMEC CCO independently reports directly into the Board, attending all Board meetings and relevant committees, reporting all compliance matters to them, and retaining separate bilateral relationships with relevant Board directors (including the Chairman of the Board and the Senior Independent Director). In addition, as a Designated Position under EMIR RTS Art3(3) the Bank has approved the structure and individual within this role and has frequent and detailed engagement with the CCO.
- 3.11 The Regulation and Compliance function is organisationally separate from any other function of LMEC.
- 3.12 The CCO is responsible for the development, maintenance and implementation of policies and procedures designed to ensure that LMEC meets its regulatory requirements. The CCO is responsible for all compliance policies which cover matters such as:
- (a) conflicts of interest;
 - (b) whistleblowing;
 - (c) records and retention;
 - (d) ethical conduct, legal and compliance risk;
 - (e) financial crime; and
 - (f) fraud management and bribery management.
- 3.13 The CCO is also responsible for reviewing policies developed by other functions within LMEC to ensure they meet all regulatory requirements. Policies are reviewed on an annual basis and relevant changes are made by the relevant team. These are then reviewed by relevant key reviewers as well as the ExCom for sign off. Once signed off, these are presented for approval by the Board or the Audit Committee (as appropriate).
- 3.14 LMEC also has a separate Legal function which is headed by the LME Group General Counsel who is responsible for all legal matters. This includes responsibility for:
- (a) advising and assisting persons responsible for carrying out LMEC's services and activities on the application of the LMEC Rules;
 - (b) the maintenance of the LMEC Rules, ensuring that the LMEC Rules comply with all

applicable regulatory and supervisory requirements and obtaining independent legal opinions in relation to the soundness of the LMEC Rules, Membership agreements and conflict of law issues (in coordination with the CCO);

- (c) investigating any breaches of the LMEC Rules by Members in accordance with the disciplinary procedure set out in the LMEC Rules;
- (d) investigating any complaints brought by Members in accordance with the complaints procedure set out in the LMEC Rules; and
- (e) reviewing and advising on agreements to be signed with service providers to ensure compliance with the Risk Appetite Statement and the Ethical Conduct, Legal and Compliance Risk Policy.

3.15 In addition to the General Counsel, a team of dedicated CCP lawyers assist on all legal matters such as legal and regulatory monitoring, contract drafting and negotiating, procurement, legal advice to business, default management and foreign legal opinions as well as issues relating to enforceability and conflicts of law. The LME Group Legal Function is comprised of 12 lawyers in total.

4 Board or advisory committees (section 4.4 of R24-102)

- (1) ***The board of directors of a recognised clearing agency must, at a minimum, establish and maintain committees on risk management, finance and audit.***
- (2) ***If a committee is a board committee, it must be chaired by a sufficiently knowledgeable individual who is independent of the clearing agency.***
- (3) ***Subject to subsection (4), a committee must have an appropriate representation by individuals who are independent of the clearing agency.***
- (4) ***An audit or risk committee must have an appropriate representation by individuals who are:***
 - (a) ***independent of the clearing agency, and***
 - (b) ***not employees or executive officers of a participant or their immediate family members.***
- (5) ***For the purpose of this section, an individual is independent of a clearing agency if the individual has no relationship with the clearing agency that could, in the reasonable opinion of the clearing agency's board of directors, be expected to interfere with the exercise of the individual's independent judgment.***

Satisfaction by UK EMIR

- 4.1 Article 28(1) of UK EMIR states: "A CCP shall establish a risk committee, which shall be composed of representatives of its clearing members, independent members of the board and representatives of its clients. The risk committee may invite employees of the CCP and external independent experts to attend risk-committee meetings in a non-voting capacity. Competent authorities may request to attend risk-committee meetings in a non-voting capacity and to be duly informed of the activities and decisions of the risk committee.
- 4.2 The advice of the risk committee shall be independent of any direct influence by the management of the CCP. None of the groups of representatives shall have a majority in the

risk committee.”

- 4.3 Article 7(1) of UK EMIR RTS 153/2013 requires the board of a CCP to establish an audit committee.

Compliance by LMEC

- 4.4 The Audit Committee plays a key role in the oversight of the compliance function at LMEC. The Audit Committee is composed of at least four individuals with at least three Independent Directors and one individual with relevant and recent financial experience. It is responsible for the approval of the key compliance policies. It also plays an important role in the monitoring of the effectiveness of the internal controls and the risk management framework of LMEC. The LMEC Audit Committee is Chaired by Stephen Yiu. He was appointed in 2017. He was formally the Chairman and CEO of KPMG China and Hong Kong and served as a Partner between 1994 and 2015. Mr Yiu is also an independent Board Director of HKEX and the LME and is considered suitably independent. In addition, as a Board Director and Chair of the Audit Committee, he was considered and non-objection received to perform this role from the Bank. The Audit Committee’s responsibilities include, amongst other things:
- (a) Financial Reporting – monitoring of the integrity of the financial statements of LMEC, including its annual and interim reports and any other formal announcement relating to its financial performance;
 - (b) Internal Controls – monitoring and keeping under review the effectiveness of the Company LMEC’s internal controls as well as the adequacy of LMEC’s policies and procedures relating to financial, operational, IT, information security, outsourcing, legal and compliance risks;
 - (c) Risk Management – monitoring the risk management system and monitoring and reviewing of the key risks faced by, or relating to, LMEC (enterprise risk);
 - (d) Business Continuity – reviewing the adequacy of the business continuity and disaster recovery plan and monitoring its effectiveness;
 - (e) Bribery and Fraud Prevention – reviewing and approving LMEC’s assessment of the corruption risks to which it is subject and the framework of controls put in place to mitigate those risks;
 - (f) Whistleblowing - reviewing LMEC’s arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
 - (g) Internal Audit – monitoring and reviewing the effectiveness of LMEC’s internal audit function as well as reviewing and approving the annual internal audit plan and any internal audit findings;
 - (h) External Audit – overseeing the appointment of LMEC’s external auditors as well as overseeing the relationship, independence and objectivity of such auditors, approving the annual external audit plan and reviewing the findings of the external audit with the external auditor; and

LMEC has also established the Board Risk Committee – as mandated under UK EMIR – as an advisory Committee to the Board relating to CCP risk. The details of this Committee are set out at paragraphs 2.22 of Part I – Default management.

5 Use of own capital (section 4.5 of R24-102)

A recognised clearing agency that operates as a central counterparty must dedicate and use a reasonable portion of its own capital to cover losses resulting from one or more participant defaults.

Satisfaction by UK EMIR

- 5.1 Article 43(1) of UK EMIR provides that a CCP must maintain sufficient pre-funded available financial resources to cover potential losses that exceed the losses to be covered by margin requirements and the default fund. Such pre-funded financial resources must include dedicated resources of the CCP, must be freely available to the CCP, and may not be used to meet the capital required under Article 16 of UK EMIR.
- 5.2 Article 45(4) of UK EMIR provides that a CCP must use dedicated own resources before using the default fund contributions of non-defaulting clearing members. A CCP must not use the margins posted by non-defaulting clearing members to cover the losses resulting from the default of another clearing member.
- 5.3 Article 35 (2) of UK EMIR RTS 153/2013 defines the minimum amount a CCP must contribute to its default fund (Dedicated Own Resources). A CCP is required to calculate its minimum contribution to the default fund by multiplying the minimum capital, including retained earnings and reserves, held in accordance with Article 16 of UK EMIR by 25%.

Compliance by LMEC

- 5.4 Where there is a Default Loss remaining following the exercise of LMEC's default procedures, the Default Loss will be satisfied in the following order of priority:
 - (a) first, LMEC will apply all Collateral provided by the defaulting Member 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, LMEC 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, LMEC 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 LMEC are not sufficient to discharge the outstanding balance of the Default Loss, LMEC 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; and
 - (e) fifthly, the loss allocation rules will apply.

LMEC's default waterfall is set out in LMEC Rule 10.10.

Division 3 – Operational risk

6 Systems requirements (section 4.6 of R24-102)

For each system operated by or on behalf of a recognised clearing agency that supports the clearing agency's clearing, settlement and depository functions, the clearing agency must:

- (a) develop and maintain*
 - (i) an adequate system of internal controls over that system, and*
 - (ii) adequate information technology general controls, including, without limitation, controls relating to information systems operations, information security, change management, problem management, network support and system software support,*
- (b) in accordance with prudent business practice, on a reasonably frequent basis and, in any event, at least annually*
 - (i) make reasonable current and future capacity estimates, and*
 - (ii) conduct capacity stress tests to determine the ability of that system to process transactions in an accurate, timely and efficient manner, and*
- (c) promptly notify the regulator or, in Québec, the securities regulatory authority of any systems failure, malfunction, delay or security breach that is material, and provide timely updates to the regulator or, in Québec, the securities regulatory authority regarding the following:*
 - (i) any change in the status of the failure, malfunction, delay or security incident;*
 - (ii) the resumption of service, if applicable;*
 - (iii) the results of any internal review, by the clearing agency, of the failure, malfunction, delay or security incident; and*
- (d) keep a record of any systems failure, malfunction, delay or security incident and whether or not it is material.*

Satisfaction by UK EMIR

6.1 Article 26(1) of UK EMIR provides that “a CCP shall have robust governance arrangements, which include a clear organisational structure with well-defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, and adequate internal control mechanisms, including sound administrative and accounting procedures.”

6.2 Article 26(3) of UK EMIR provides in part that a CCP “shall employ appropriate and proportionate systems, resources and procedures.”

- 6.3 Article 26(6) of UK EMIR provides that “a CCP shall maintain information technology systems adequate to deal with the complexity, variety and type of services and activities performed so as to ensure high standards of security and the integrity and confidentiality of the information maintained.”
- 6.4 Article 26(8) of UK EMIR provides that “the CCP shall be subject to frequent and independent audits. The results of those audits shall be communicated to the board and shall be made available to the competent authority.”
- 6.5 Article 9(1) of UK EMIR RTS 153/2013 requires a CCP to design and ensure its information technology systems are reliable and secure as well as capable of processing the information necessary for the CCP to perform its activities and operations in a safe and efficient manner. It further requires systems to be designed to deal with the CCP’s operational needs and the risks the CCP faces, be resilient, including in stressed market conditions, and be scalable, if necessary, to process additional information. A CCP must provide for procedures and capacity planning as well as for sufficient redundant capacity to allow the system to process all remaining transactions before the end of the day in circumstances where a major disruption occurs.
- 6.6 Article 9(3) of UK EMIR RTS 153/2013 requires a CCP to maintain a robust information security framework that appropriately manages its information security risk. This framework is required to include appropriate mechanisms, policies and procedures to protect information from unauthorised disclosure, to ensure data accuracy and integrity and to guarantee the availability of the CCP’s services. Article 9(4) of UK EMIR RTS 153/2013 sets out features required to be included in the information security network. Pursuant to Article 9(5) of UK EMIR RTS 153/2013, the information technology systems and the information security framework must be reviewed at least on an annual basis and be subject to independent audit assessments, the results of which are to be reported to the board and made available to the CCP’s regulator.
- 6.7 Article 4(7) of UK EMIR RTS 153/2013 requires a CCP to have adequate internal control mechanisms to assist the board in monitoring and assessing the adequacy and effectiveness of its risk management policies, procedures and systems. These mechanisms must include sound administrative and accounting procedures, a robust compliance function and an independent internal audit and validation or review function.
- 6.8 Article 11(5) of UK EMIR RTS 153/2013 requires a CCP’s internal control mechanisms to be subject to audit, and to be performed at least on an annual basis.

Compliance by LMEC

- 6.9 LMEC has implemented the Cinnober TRADExpress Real-Time Clearing System (LMEmercury) which has been modified and adapted to cater for LMEC’s specific needs. LMEmercury is a real time clearing and settlement, risk management and collateral management system. LMEC has also implemented an internally developed data warehouse (CDW) to provide additional risk reporting and analytical capabilities.
- 6.10 The platform supports the following key business functions:

(a) **Clearing and Settlement**

- (i) matched trade acceptance: real time FIX feed of matched trades (from LMEsmart operated by the LME), data validated and position risk checked against collateral/limit;
- (ii) position management: real time management using account structure supporting multiple House Accounts, OSAs and ISAs, support for position transfer and porting;
- (iii) contract expiry: management of contract expiry process;
- (iv) option exercise and assignment: management of automated expiry and random assignment process;
- (v) settlement and delivery management: interface with physical settlement and delivery system (LMEsword operated by the LME) and management of cleared delivery process; and

(b) Risk Management

- (i) margin and default fund calculation and collection, real time calculation of margin and margin cover processing;
- (ii) stress testing and reverse stress testing of Member and Client portfolios;
- (iii) risk analytics, including calculation of greeks and sensitivity analysis on portfolios and collateral;
- (iv) credit risk metrics for credit scoring and near real time updates of credit market data for Members and other counterparties;
- (v) default management, ability to manage position transfer and record default processes;
- (vi) real time risk monitoring and ability to consolidate risk exposure across market exposure, treasury investment exposure; and
- (vii) pricing and market data management using multiple pricing sources and calculate multiple settlement prices;

(c) Cash and Collateral Management

- (i) payments handling: link to Society for Worldwide Interbank Financial Telecommunication (SWIFT) network via SWIFT bureau service to manage payment across settlement and concentration banks; and
- (ii) cash and securities collateral management: SWIFT processing of cash and securities to manage assets across custodians and cash investment agent.

6.11 The other key system used by LMEC alongside LMEmercury and the data warehouse is Algorithmica. Algorithmica is used for detailed analysis of risk factors to support SPAN parameter setting.

- 6.12 The LME & LMEC have existing and mature problem and change management processes in place which follows ITIL best practice and works in conjunction with the HKEX "Major" incident process. The process conforms to ISO22301 Business Continuity Standard and adheres to ISO27002. Incident Management: A Serious Incident Review ("SIR") will take place for every P1 and P2 incident that occurs, or a P3 whereby it is deemed that lessons could be learned, or there was a severe enough business impact. Actions and incidents are tracked via the service management toolset Cherwell.
- 6.13 Compliance and Internal Audit departments carry-out annual reviews. LMEC is subject to frequent internal audit reviews according to Internal Audit Plan approved by the combined LME & LMEC Audit Committee. Audit plan includes reviews of the application and system security controls, to ensure that security controls of LME mercury are adequate and effective with reference to the Information Technology Systems requirements as prescribed under UK EMIR article 9 and related technical standards.
- 6.14 At least three times a year LMEC, in co-ordination with LME, switches the Primary and Secondary data centres for LMEmercury the core clearing system of LMEC, which evidences that all LMEC Members and SPS participants can operate in practice with LMEC using its secondary data centre.
- 6.15 LMEmercury undergoes rigorous scheduled security assurance and testing process with corrective actions being managed and addressed according to the criticality of the findings.
- 6.16 We have the disclosure openly on the website, found [here](#). It outlines the approach to the methodology and the largest stress shocks that we have. We have over 400 scenarios, and their details can be shared with clearing members on request. LMEC meets the obligations prescribed under section 4.6 (b) of R 24-102.

6(a) Auxiliary systems (section 4.6.1 of R24-102)

- 1) ***In this section, "auxiliary system" means a system, other than a system referred to in section 4.6, operated by or on behalf of a recognized clearing agency that, if breached, poses a security threat to another system operated by or on behalf of the recognized clearing agency that supports the recognized clearing agency's clearing, settlement or depository functions.***
- 2) ***For each auxiliary system, a recognized clearing agency must***
 - (a) ***develop and maintain adequate information security controls that address the security threats posed by the auxiliary system to the system that supports the clearing, settlement or depository functions,***
 - (b) ***promptly notify the regulator or, in Québec, the securities regulatory authority of any security incident that is material and provide timely updates to the regulator or, in Québec, the securities regulatory authority on***
 - (i) ***any change in the status of the incident,***
 - (ii) ***the resumption of service, if applicable, and***
 - (iii) ***the results of any internal review, by the clearing agency, of the security incident, and***
 - (c) ***keep a record of any security incident and whether or not it is material.***

Satisfaction by UK EMIR

- 6.17 Similar controls outlined in "Satisfaction by UK EMIR" section 4.6 above. LMEC complies with these requirements.

Compliance by LMEC

- 6.18 LME Group has a mature Information Security Management Framework aligned to NIST. In order to maintain a strong security posture, LME Group undertakes an external Maturity Assessment; the next Maturity Assessment will be conducted in 2023 and the results of these assessments feed into the LME Group's Security Roadmap and Investment Programmes.
- 6.19 LME Group's applications and infrastructure are subject to stringent security controls that comply with LME Group Policies, Standards and Regulatory Requirements; these controls span across several security domains and include, but are not limited to the following:
- Authentication
 - Privileged Account Management
 - System criticality driven authentication controls
 - Access Management & Physical Controls
 - Least privilege / Need to know principles applied
 - Centralised Identity Management/ Identity Governance
 - All staff are screened before system/ site access is granted
 - Physical Ingress/ Egress points are monitored
 - Change Management Controls
 - Formalised Deployment process
 - Vulnerability Management
 - Extensive Patching Policy / Framework
 - Security Assurance testing (Code scanning/ Penetration testing)
 - Network Segmentation
 - Segregated Production and Non production Environments
 - Data Protection (encryption)
 - Encryption of Data at rest and in Transit
 - Logging and Monitoring
 - 24/7 Global SOC monitoring of Network traffic and application usage
 - Security Incident response process
 - Risk Management
 - Risk oversight provided by 1st and 2nd Lines of Defence

To counter the evolving threat landscape LME Group Information Security function have a dedicated Threat Detection and Response unit constantly monitoring Cyber threats and gathering Threat intelligence.

7. Systems reviews (section 4.7 of R24-102)

- (1) *A recognised clearing agency must annually engage a qualified party to conduct an Independent systems review and vulnerability assessment and prepare a report in accordance with established audit standards and best industry practices to ensure that the clearing agency is in compliance with paragraph 4.6(a) and section 4.9.*
- (2) *The clearing agency must provide the report resulting from the review conducted under subsection (1) to*
 - (a) *its board of directors, or audit committee, promptly upon the report's completion, and*
 - (b) *the regulator or, in Québec, the securities regulatory authority, by the earlier of the 30th day after providing the report to its board of directors or the audit committee or the 60th day after the calendar year end.*

Satisfaction by UK EMIR

- 7.1 Article 26(8) of UK EMIR requires a CCP to be subject to frequent and independent audits. The results of those audits must be communicated to the board and shall be made available to its regulator.

Compliance by LMEC

- 7.2 LMEC applies industry best practice for development, implementation, operations, monitoring, management and maintenance of IT systems, using industry standard hardware and processes for which experienced resources are readily available. LMEC ensures that this is tested as part of the SOC2 assessment review – which is performed by an external company every 3 years (as agreed with the Bank). The most recent SOC2 review was completed for the calendar year 2020 and PWC issued a clean, unqualified report. The Chief Technology Officer is responsible for ensuring IT standards are applied. At the highest level, the IT standards adopted are:

- (a) New system development and project management: system development lifecycle model supported by formal project management methodology when developing large business components; and
- (b) IT Support Services: ITIL.

LME Group also undertakes an Annual Red team exercise carried out by an independent 3rd party, the results of which are shared with the stakeholders outlined above.

Below are a list of items that are reviewed on an annual cadence.

External Audits:

- PWC Annual It Audit & Financial Audit
- EY Annual Benchmarking Audit

Internal Audit programme - every year Internal Audit undertake numerous Internal Audits.

Policies and Standards are reviewed on an annual basis

8. Clearing agency technology requirements and testing facilities (section 4.8 of R24-102)
- (1) *A recognised clearing agency must make available to participants, in their final form, all technology requirements regarding interfacing with or accessing the clearing agency*
 - (a) *if operations have not begun, sufficiently in advance of operations to allow a reasonable period for testing and system modification by participants, and*
 - (b) *if operations have begun, sufficiently in advance of implementing a material change to technology requirements to allow a reasonable period for testing and system modification by participants.*
 - (2) *After complying with subsection (1), the clearing agency must make available testing facilities for interfacing with or accessing the clearing agency*
 - (a) *if operations have not begun, sufficiently in advance of operations to allow a reasonable period for testing and system modification by participants, and*
 - (b) *if operations have begun, sufficiently in advance of implementing a material change to technology requirements to allow a reasonable period for testing and system modification by participants.*
 - (3) *The clearing agency must not begin operations before*
 - (a) *it has complied with paragraphs (1)(a) and (2)(a), and*
 - (b) *the chief information officer of the clearing agency, or an individual performing a similar function, has certified in writing to the regulator or, in Québec, the securities regulatory authority, that all information technology systems used by the clearing agency have been tested according to prudent business practices and are operating as designed.*
 - (4) *The clearing agency must not implement a material change to the systems referred to in section 4.6 before*
 - (a) *it has complied with paragraphs (1)(b) and (2)(b), and*
 - (b) *the chief information officer of the clearing agency, or an individual performing a similar function, has certified in writing to the regulator or, in Québec, the securities regulatory authority, that the change has been tested according to prudent business practices and is operating as designed.*
 - (5) *Subsection (4) does not apply to the clearing agency if the change must be made immediately to address a failure, malfunction or material delay of its systems or equipment and if*
 - (a) *the clearing agency immediately notifies the regulator or, in Québec, the securities regulatory authority, of its intention to make the change, and*

(b) *the clearing agency discloses to its participants the changed technology requirements as soon as practicable.*

Satisfaction by UK EMIR

- 8.1 Article 26(3) provides in part that a CPP “shall employ appropriate and proportionate systems, resources and procedures.”
- 8.2 Article 26(6) provides that “a CCP shall maintain information technology systems adequate to deal with the complexity, variety and type of services and activities performed so as to ensure high standards of security and the integrity and confidentiality of the information maintained.”
- 8.3 Article 26(8) provides that “the CCP shall be subject to frequent and independent audits. The results of those audits shall be communicated to the board and shall be made available to the competent authority.”
- 8.4 Article 9(1) of UK EMIR RTS 153/2013 requires a CCP to provide for procedures for the introduction of new technology including clear reversion plans.
- 8.5 Article 9(2) of UK EMIR RTS 153/2013 requires a CCP to subject its systems to stringent testing, simulating stressed conditions, before initial use, after making significant changes and after a major disruption has occurred. Clearing members and clients, interoperable CCPs and other interested parties must be involved as appropriate in the design and conduct of these tests.

Compliance by LMEC

- 8.0 LMEC has two key categories for changes that occur on its systems. These categories are Business As Usual (BAU) change and Major releases.
- 8.1 BAU change encompasses minor patches and small works to the system. These changes can be in response to small works requested by the LMEC business or patches required for incident and defect resolution. BAU changes are predominately internally facing with no or limited visibility to outside parties.
- 8.2 Major releases result in significant change to the system which may include impact to third parties.
- 8.3 Due to the differences in impact and visibility, the two change routes typically have differing degrees of testing and coordination applied to them in line with their different risk profiles and LMEC’s own risk appetite statements.
- 8.4 LMEC aims to undertake two major releases per year dependent upon business requirements and priorities. These changes are generally considered large scale in their nature with significant member and external impact. Due to the size of these releases extensive testing is applied to each release. Testing of a release is undertaken by LMEC test and business teams as well as relevant subcontractors where appropriate. This ensures that LMEC fully reviews

all releases to ensure that they are of sufficient quality and stability for deployment into production.

- 8.5 Testing of a major release includes Unit Testing, Functional Testing, User Acceptance Testing, Non-functional Testing, Regression Testing, Parallel Runs, Member Tests and Security and Penetration Testing.
- 8.6 Unit testing is undertaken on all new code developed on the system. This is the first test applied and is undertaken by the developers of the code. This ensures that the code is good quality and addresses the core requirements it is intended for. If the code passes this test then it is promoted to the release for delivery to the LMEC test team.
- 8.7 Functional Testing is applied to all new releases and patches. This testing ensures that the new release or patch functionally works as expected. The functional testing is done against detailed requirements and test plans that are created prior to the code delivery. This allows the testers to execute a wide number of tests and compare against expected outcomes. If a defect is identified then it is raised with the developers for correction either via a patch or a subsequent release. All defects are tracked and reported on as part of the release project governance.
- 8.8 User Acceptance Testing is undertaken by the LMEC business teams on each element of the release. This test ensures that the LMEC business confirms that they are able to undertake their required actions and activities on the system. If a defect is identified then it is raised with the developer for correction.
- 8.9 Regression testing is undertaken on all major releases. This test runs through a detailed risk-based regression test pack. The pack covers key elements of the LMEC activities to ensure all elements, regardless of whether they are being changed or not still function as expected. This test ensures that there are no unintended consequences of changes made to the system.
- 8.10 Member Testing is carried out with LMEC's external members. This is done with the use of two dedicated member test systems which are available to all LMEC members. The member test environments are setup to provide members with the ability to test against current state and future state. During a major release members are required to self-certify that they have tested against the new release.
- 8.11 Non-Functional Testing is applied to all major releases. This test is focused on performance of the system with the new release. The test ensures that the system continues to perform with required trade volumes. These trade volumes include peak LME trade volume and 3x peak volume as required by UK EMIR. Non-functional tests also include failover and resilience testing which ensures that the system continues to meet the UK EMIR regulatory requirement of a 2 hour recovery period.
- 8.12 Parallel run tests are undertaken on all major releases. This test involves the pre-production system being run behind the production system with all trades and price updates experienced in production played into the test system. This test is carried out by the LMEC business team

and ensures that the system continues to provide the same results as production and that functionality is as expected by the business teams.

- 8.13 Security and Penetration testing are undertaken on each new release. This is undertaken by a third party on LMEC's behalf to ensure that there are no security flaws within the new release. If a severe security flaw is detected then this is corrected before go live of the release.
- 8.14 BAU changes are smaller in scope to the major releases and are delivered as patches to the system. This means that the changes are discrete in nature and can easily be removed if required. As a result of this, BAU changes typically undergo a minimum of Unit Testing, Functional Testing and Pre-Prod deployment testing before deployment into production, although depending on the nature of the change, other test phases may also be included.
- 8.15 LMEC's COO and CTO meet regularly with the Bank and inform it of major releases planned and the expected go-live dates of these. BAU changes are made with no regulatory consultation.

9. Testing of business continuity plans (section 4.9 of R24-102)

A recognised clearing agency must

- (a) develop and maintain reasonable business continuity plans, including disaster recovery plans, and*
- (b) test its business continuity plans, including its disaster recovery plans, according to prudent business practices and on a reasonably frequent basis and, in any event, at least annually.*

Satisfaction by UK EMIR

- 9.1 Article 34(1) of UK EMIR states: "A CCP shall establish, implement and maintain an adequate business continuity policy and disaster recovery plan aiming at ensuring the preservation of its functions, the timely recovery of operations and the fulfilment of the CCP's obligations. Such a plan shall at least allow for the recovery of all transactions at the time of disruption to allow the CCP to continue to operate with certainty and to complete settlement on the scheduled date."
- 9.2 Article 17 of UK EMIR RTS 153/2013 provides the following requirements for a CCP's business continuity plan:
- "1. A CCP shall have a business continuity policy and a disaster recovery plan which are approved by the board. The business continuity policy and the disaster recovery plan shall be subject to independent reviews which are reported to the board.
 2. The business continuity policy shall identify all critical business functions and related systems, and include the CCP's strategy, policy, and objectives to ensure the continuity of these functions and systems.
 3. The business continuity policy shall take into account external links and interdependencies within the financial infrastructure including trading venues cleared by the CCP, securities settlement and payment systems and credit institutions used by the CCP or a linked CCP. It shall also take into account critical functions or services which have been outsourced to third-party providers.
 4. The business continuity policy and disaster recovery plan shall contain clearly defined and documented arrangements for use in the event of a business continuity emergency, disaster or crisis which are designed to ensure a minimum service level of critical functions.
 5. The disaster recovery plan shall identify and include recovery point objectives and recovery time objectives for critical functions and determine the most suitable recovery strategy for each of these functions. Such arrangements shall be designed to ensure that in extreme scenarios critical functions are completed on time and that agreed service levels are met.

6. A CCP's business continuity policy shall identify the maximum acceptable time for which critical functions and systems may be unusable. The maximum recovery time for the CCP's critical functions to be included in the business continuity policy shall not be higher than two hours. End of day procedures and payments shall be completed on the required time and day in all circumstances.
 7. A CCP shall take into account the potential overall impact on market efficiency in determining the recovery times for each function."
- 9.3 Article 18 of UK EMIR RTS 153/2013 requires a CCP to conduct a business impact analysis that is designed to identify the business functions critical to ensuring the services of the CCP (including the criticality of these functions to other institutions and functions in the financial infrastructure) and to use scenario based risk analysis designed to identify how various scenarios affect the risks to its critical business functions. The business impact analysis and scenario analysis are required to be kept up to date, reviewed at least on an annual basis and following an incident or significant organisational changes, and taking into account all relevant developments, including market and technology developments.
 - 9.4 Article 19 of UK EMIR RTS 153/2013 requires a CCP to have in place arrangements to ensure continuity of its critical functions based on disaster scenarios.
 - 9.5 Article 20 of UK EMIR RTS 153/2013 provides for the following requirements regarding the testing and monitoring of a CCP's business continuity and disaster recovery plan:
 - (a) A CCP shall test and monitor its business continuity policy and disaster recovery plan at regular intervals and after significant modifications or changes to the systems or related functions to ensure the business continuity policy achieves the stated objectives including the two hour maximum recovery time objective. Tests shall be planned and documented.
 - (b) Testing of the business continuity policy and disaster recovery plan shall fulfil the following conditions:
 - (i) involve scenarios of large scale disasters and switchovers between primary and secondary sites;
 - (ii) include involvement of clearing members, external providers and relevant institutions in the financial infrastructure with which interdependencies have been identified in the business continuity policy.

Compliance by LMEC

- 9.6 LME Group has put in place a Business Continuity Management System (BCMS), incorporating a Business Continuity Policy (BC Policy), a Business Continuity Plan (BC Plan), annual Business Impact Assessments (BIA), exercising and testing of strategies, and a governance structure that reports up to the Executive. The Policy and the Plan are approved annually at Board level. This level of focus gives LMEC the confidence that the BC and Disaster Recover (DR) strategy and objectives are appropriate and achievable. Reviews following tests, software changes, updates to the BIA and major incidents are reviewed by the BC Governance Committee. The BCMS is certified to the International Standard for Business Continuity ISO22301, amongst others.

- 9.7 This BCMS ensures LME Group has the capability to plan for and respond to operational disruptions, including events that could cause a wide scale or major disruption, and continue business at a pre-defined and acceptable level.
- 9.8 On 31 March 2022, the Bank's and FCA's Operational Resilience policy took effect. LME Group self-assesses against the policy expectations on an annual basis. For the RIE, the requirements are incorporated in the SYSC part of the FCA handbook. For the CCP, the requirements are articulated within the BoE Supervisory Statement on operational resilience for CCPs.

Business Continuity Policy

- 9.9 Senior management define Business Continuity Objectives within the BC Policy. This provides a framework for the creation of the BCMS. The BC Policy is annually reviewed and approved at Board level. Accountability for the success and completeness of the BCMS is with the Chief Operating Officer. Responsibility for maintenance of the BCMS is assigned to appropriately qualified and suitably experienced management personnel.
- 9.10 In LME governance committee hierarchy, the BC Governance Committee reports into the Operational Resilience Governance Committee, which in turn reports into ExCom and the Technology and Operational Resilience Committee (TORC). LME and LMEC Group Members have a shared BC Governance Committee. BC Governance meetings take place a minimum of 4 times per annum to review results of BC and DR testing and to discuss any BC issues. This is a formal committee with a terms of reference which are reviewed and signed off annually.
- 9.11 BC Policy Objectives:
- (a) Ensure safety and welfare of staff, contractors and visitors throughout a business continuity incident.
 - (b) Meet statutory and regulatory requirements.
 - (c) Determine recovery time objectives for functions that are essential to the business (as documented within business and service impact assessments), and develop appropriate responses.
 - (d) Maintain robust business continuity strategies and plans that are thoroughly exercised on at least an annual basis.
 - (e) Maintain communication with regulators and compliance with regulatory requirements.
 - (f) Ensure staff are fully cognisant of the importance of business continuity and understand what is expected of them should a business continuity invocation take place.
 - (g) Adhere to industry best practices and standards and continually monitor and improve operational resilience and business continuity preparedness.
 - (h) Resilience initiatives should look holistically at threats and aim to safeguard important business services against a wide range of technical, physical, logical or financial disruptions.

- (i) Consider the impact of our actions and recovery activities on the broader metals market ecosystem and how we can preserve the broader integrity of the markets that we serve.
- (j) Anticipate threats that could disrupt LME Group operations and prevent their occurrence from causing greater than:
 - (i) Two (2) hours disruption to LME Group critical functions.
 - (ii) A disruption beyond the same business day for regulatory services.
 - (iii) A disruption beyond 24 hours for all other services that have a disaster recovery strategy.

Business Continuity Plan

- 9.12 The BC Plan guides Senior Management in the recovery and continuation of LME Group services. It covers the procedures for how to manage a major incident which has resulted in disruption to LME and/or LMEC services beyond a predefined acceptable level. The BC Plan is annually reviewed and approved at Board level.
- 9.13 The BC plan sets out the strategy/arrangements/procedures to be followed for specific disruptive incidents (scenarios) e.g. loss of buildings, cyber-attack, terror threats, loss of personnel, IT failures, and data failures.
- 9.14 Following any disruptive event, a review is to assess the event, what could have been done to prevent it, and to consider whether any changes should be made to the existing BC procedures.
- 9.15 In scope for the BC Plan are:
 - (i) All LME trading activities provided to the market
 - (ii) All LMEC settlement and clearing activities
 - (iii) The workplace based at LME Group Head Office
 - (iv) All personnel based in LME Group Head Office

Business Continuity Strategy

- 9.16 Determination and selection of BC Strategy is based on the output from BIA and risk assessments (RA). BIA and RA are performed and reviewed annually to ensure the strategy remains relevant. BC Strategy is annually reviewed.
- 9.17 BIA and RA reviews the impact over time of a disruption to LME Group and its Members. This analysis identifies the resources required to support the essential functions concluded within the BIA and helps define the acceptable recovery objectives for functions, processes and resources for continuance of service.
- 9.18 The BIA documents the impact of loss or disruption over time to both LME Group and the market; identifies LME Group processes that support its functions and process dependencies; and identifies the resources required for recovery.
- 9.19 The RA identifies and manages risks in order to minimise the need to invoke business continuity; and assesses risk by considering the likelihood of occurrence over time, and the potential impact if an event did materialise.

Testing & Exercising

- 9.20 LME Group implements an annual testing and exercising programme that covers all plans and strategies and demonstrates compliance with its Business Continuity preparedness. The programme covers a range of scenarios, including large scale disasters involving the need to switchover from the Finsbury Square office to the Disaster Recovery Site(s). Tests take place at regular intervals and after significant modifications or changes to the systems and related functions in order to ensure the BC Plan can achieve the defined objectives.
- 9.21 LME Group personnel, LME Members and critical service providers are included in the testing and exercising programme. A post-test report is produced to record the results of the tests against the test objectives and to determine required actions if objectives were not satisfactorily achieved.

10. Outsourcing (section 4.10 of R24-102)

(1) If a recognised clearing agency outsources a critical service or system to a service provider, including to an affiliated entity of the clearing agency, the clearing agency must do all of the following:

(2) (a) establish, implement, maintain and enforce written policies and procedures to conduct suitable due diligence for selecting service providers to which a critical service and system may be outsourced and for the evaluation and approval of those outsourcing arrangements;

(b) identify any conflicts of interest between the clearing agency and the service provider to which a critical service and system is outsourced, and establish, implement, maintain and enforce written policies and procedures to mitigate and manage those conflicts of interest;

(c) enter into a written contract with the service provider to which a critical service or system is outsourced that

(i) is appropriate for the materiality and nature of the outsourced activities,

(ii) includes service level provisions, and

(iii) provides for adequate termination procedures;

(d) maintain access to the books and records of the service provider relating to the outsourced activities;

(e) ensure that the securities regulatory authority has the same access to all data, information and systems maintained by the service provider on behalf of the clearing agency that it would have absent the outsourcing arrangements;

(f) ensure that all persons conducting audits or independent reviews of the clearing agency under this Instrument have appropriate access to all data, information and systems maintained by the service provider on behalf of the clearing agency that such persons would have absent the outsourcing arrangements;

(g) take appropriate measures to determine that the service provider to which a critical service or system is outsourced establishes, maintains and periodically tests an appropriate business continuity plan, including a disaster recovery plan;

(h) take appropriate measures to ensure that the service provider protects the clearing agency's proprietary information and participants' confidential information, including taking measures to protect information from loss, thefts, vulnerabilities, threats, unauthorised access, copying, use and modification, and discloses it only in circumstances where legislation or an order of a court or tribunal of competent jurisdiction requires the disclosure of such information;

(i) establish, implement, maintain and enforce written policies and procedures to monitor the ongoing performance of the service provider's contractual obligations under the outsourcing arrangements.

Satisfaction by UK EMIR

- 10.1 Article 35(1) of UK EMIR provides that, when outsourcing operational functions, services or activities, a CCP must at all times ensure that, among the following:
- (a) outsourcing does not prevent the exercise of supervisory and oversight functions, including on-site access to acquire any relevant information needed to fulfil those mandates;
 - (b) outsourcing does not result in depriving the CCP from the necessary systems and controls to manage the risks it faces;
 - (c) the service provider implements equivalent business continuity requirements to those that the CCP must fulfil;
 - (d) the CCP retains the necessary expertise and resources to evaluate the quality of the services provided and the organisational and capital adequacy of the service provider, and to supervise the outsourced functions effectively and manage the risks associated with the outsourcing and supervises those functions and manages those risks on an ongoing basis;
 - (e) the CCP has direct access to the relevant information of the outsourced functions;
 - (f) the service provider cooperates with the competent authority in connection with the outsourced activities; and
 - (g) the service provider protects any confidential information relating to the CCP and its clearing members and clients.

A CCP may not outsource major activities linked to risk management unless approved by its regulator.

- 10.2 Pursuant to Article 35(2) of UK EMIR, a CCP's regulator must require the CCP, in entering into an outsourcing arrangement, to allocate and set out its rights and obligations, and those of the service provider, clearly in a written agreement. Pursuant to Article 35(3), a CCP must make all information necessary to enable the regulator to assess the compliance of the performance of the outsourced activities available upon request.

Compliance by LMEC

- 10.3 LMEC has entered into written agreements with all its outsourced providers which meet the UK EMIR requirements set out above, as well as the requirements under section 4.10 of NI R24-102. When services are provided to LMEC on an outsourced basis, LMEC also ensures the outsourced service providers are bound to requirements that comply with UK EMIR Article 35. This is expressly mandated in the Outsourcing Policy. Such provisions include:
- (a) ensuring cooperation of the providers with regulators;
 - (b) sharing of information for regulatory purposes;
 - (c) on-site access to regulators of the provider's premises;
 - (d) compliance with data protection requirements where applicable and confidentiality undertakings in respect of LMEC's data;

- (e) adequate systems and controls and security management processes; and
- (f) binding business continuity requirements.

The performance of outsourced providers is regularly reviewed and the adequacy of these internal controls and polices is reviewed by the Audit Committee. Also, in addition to external outsourcing arrangements, there is a provision for intragroup outsourcing via the intragroup service agreement ("IGSA").

Further, under UK EMIR, outsourcing arrangements must be approved by the Bank which has therefore reviewed the key outsourcing agreements and key service providers agreements which include:

- (i) the provision of collateral, investment and custody services by Citi and Bank of New York Mellon;
- (ii) accounts for holding of gold with JPM;
- (iii) settlement bank agreement and concentration bank agreement with Citi and Bank of New York Mellon;
- (iv) the provision of IT systems and services by Nasdaq (formerly Cinnober);
- (v) the provision of IT support and other operational support services by the LME; and
- (vi) the provision of transaction reporting services by DTCC.

The agreements have been designed and negotiated in the context of UK EMIR to ensure that they are compliant with all relevant regulations, especially in respect of outsourcing.

LMEC has implemented a matrix approach to the management of these suppliers and outsourcing agreements.

- Each partner has an assigned service / relationship manager who is responsible for the development and oversight of the service relationship and delivery.
- Horizontal coordination is provided across the set of relationships and services in accordance with the LMEC organisational model and accountabilities. This ensures a consistent and joined-up approach across the suite of partners, and between the partners and LMEC.
- Both the service relationships and the horizontal dimensions have escalation routes to executive level (primarily through the COO) and then to the Executive Committee (and ultimately the Board) of LMEC.

Some services are provided on an outsourced basis (IT support and other operational support from the LME, investment services from Citi and BNYM and account operator services from Citi). LMEC has ensured that such services comply with the relevant regulatory requirements on outsourcing and that relevant provisions of UK EMIR are reflected in the agreements with such providers. This ensures that the service reliability meets the same standards as it was provided internally.

Division 4 – Participation requirements

11. Access requirements and due process (section 4.11 of R24-102)

- (1) *A recognised clearing agency must not*
 - (a) *unreasonably prohibit, condition or limit access by a person or company to the services offered by the clearing agency,*
 - (b) *unreasonably discriminate among its participants or indirect participants,*
 - (c) *impose any burden on competition that is not reasonably necessary and appropriate,*
 - (d) *unreasonably require the use or purchase of another service for a person or company to utilise the clearing agency's services offered by it, and*
 - (e) *impose fees or other material costs on its participants that are unfairly or inequitably allocated among the participants.*
- (2) *For any decision made by the clearing agency that terminates, suspends or restricts a participant's membership in the clearing agency or that declines entry to membership to an applicant that applies to become a participant, the clearing agency must ensure that*
 - (a) *the participant or applicant is given an opportunity to be heard or make representations, and*
 - (b) *it keeps records of, gives reasons for, and provides for reviews of its decisions, including, for each applicant, the reasons for granting access or for denying or limiting access to the applicant, as the case may be.*
- (3) *Nothing in subsection (2) limits or prevents the clearing agency from taking timely action in accordance with its rules and procedures to manage the default of one or more participants or in connection with the clearing agency's recovery or orderly wind-down, whether or not such action adversely affects a participant.*

Satisfaction by UK EMIR

- 11.1 Pursuant to Article 37(1) of UK EMIR, a CCP's criteria for admitting clearing members must be "non-discriminatory, transparent and objective so as to ensure fair and open access to the CCP" and "ensure that clearing members have sufficient financial resources and operational capacity to meet the obligations arising from participation in a CCP". Criteria that restrict access to be admitted as clearing members are permitted only to the extent that their objective is to control the risk for the CCP.
- 11.2 Article 37(4) of UK EMIR requires a CCP to have objective and transparent procedures for the suspension and orderly exit of clearing members that no longer meet the CCP's admission criteria.
- 11.3 Article 37(5) of UK EMIR provides that a CCP may only deny access to clearing members meeting its admission criteria where duly justified in writing and based on a comprehensive risk analysis.

- 11.4 Article 37(6) of UK EMIR allows a CCP to impose specific additional obligations on clearing members, such as the participation in auctions of a defaulting clearing member's position.
- 11.5 These additional obligations must be proportional to the risk brought by the clearing member and may not restrict participation to certain categories of clearing member.

Compliance by LMEC

- 11.6 LMEC provides services to persons who are admitted to Membership on the terms of its Rules (Rule 3.1.1). The Rules are binding on Members (Rule 2.1.1) by virtue of the Clearing Membership Agreement, which must be executed by each applicant. The applicant will become a member on the date of its acceptance by LMEC, which is set out in the Clearing Membership Agreement. This decision is taken by the Board Risk Committee. A member is accepted once LMEC is satisfied that the applicant complies with all Membership Criteria. LMEC's Membership Criteria have been designed to operate on an objective basis to all applicants. LMEC applies its Membership Criteria to all applicants on a non-discriminatory basis, with the aim of ensuring fair and open access to its clearing system.
- 11.7 The Application Process is set out in the Membership Procedures in the LMEC Rules, which also contain the complaints, disciplinary and appeals procedures. Additional membership requirements for overseas members, include Access Facilitation Fee. Charged to Category 1, 2 and 3 members incorporated or domiciled in any jurisdiction which is not a Tier 1 jurisdiction as defined in the LME Member Jurisdiction Policy – i.e. any jurisdiction outside the UK or the EEA.

12. Additional Information to Demonstrate that it is in the Public Interest for the AMF to Exempt the Applicant

The LME is the world's most liquid venue for the trading and clearing of base metals, setting benchmark prices used to ensure effective hedging for the physical market globally. The exemption will enable Quebec based market participants to trade and hedge their physical metals exposure directly in a regulated environment.

LMEC is committed to operating a clearing house in accordance with relevant public interest considerations. The LMEC Board has overall responsibility for the management of LMEC and is governed by a trio of documents, these are: (i) LMEC Board Terms of Reference, (ii) LMEC Division of Responsibilities, and (iii) LME Matters Reserved.

LMEC ensures compliance with all applicable laws and regulatory requirements and recognises the importance of maintaining the highest standards of corporate governance. The Board seeks to promote and maintain the highest standards in relation to the operations of LMEC, and, in this, is fully supported by HKEX, the Group parent company.

13. Certification Regarding Books and Records as well as Onsite Inspection and Examination

Pursuant to paragraph 2.1(2)(a) of R24-102, LMEC will provide certification that it will assist the AMF in accessing LMEC's books and records and in undertaking an onsite inspection at LMEC's premises.

14. Legal Entity Identifier (LEI)

Pursuant to Part 5, paragraph 5.2 of R24-102, the LEI of LMEC is 213800L8AQD59D3JRW81.

15. Form 24-102F1 Submission to Jurisdiction and Appointment of Agent for Service

Pursuant to subsection 2.1(3) of R24-102, LMEC will submit a draft Form 24-102F1 Submission to Jurisdiction and Appointment of Agent for Service. A fully executed Form 24-102F1 will be filed with the AMF once the order requested by this application is issued.

16. Notice Regarding Material Change to Information Provided in Application

Pursuant to subsection 2.1(4) of R24-102, LMEC agrees to inform the AMF in writing of any material change to the information provided in this application, or if any of the information becomes materially inaccurate for any reason, as soon as the change occurs or LMEC becomes aware of any material inaccuracy.

17. Filing of Audited Financial Statements

Pursuant to subsection 2.4(1) of R24-102, LMEC will provide audited financials for the most recently completed financial year. Such audited financial statements and the accompanying auditor's report will meet the standards prescribed in subsections 2.4(2) and (3) of R24-102, respectively.

We have attached LMEC's most recent CPMI-IOSCO Disclosure Statement against the PFMI within the supporting documentation pack, and a certificate of verification signed by LMEC at Appendix 2.

Should you have any questions on this application, please contact the LMEC Regulation and Legal teams.

Yours faithfully,

LMEC

APPENDIX 1

Anything not defined in the document is as defined in the LMEC Rules.

"Accounts"	<p>means an account established and maintained by LMEC in respect of a Member, in accordance with LMEC Rule 4 (Accounts), including any:</p> <ul style="list-style-type: none"> • House Accounts; or • Client Accounts, which may be either: <ul style="list-style-type: none"> (i) an Omnibus Account; or (ii) an ISA;
"Applicable Law"	<p>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 LMEC 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, UK EMIR, the Recognition Regulations and the Settlement Finality Regulations; and/or (c) any such laws, rules, regulations or guidance referred to in (a) or (b) above to the extent such is relevant for a Posting Affiliate or Posting Client in the Rules;</p>
"Clearing System"	<p>means the formal arrangements, rules and procedures operated by LMEC 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 LMEC;</p>
"Client"	<p>means a person that has an agreement with a Member pursuant to which:</p> <ul style="list-style-type: none"> (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; (and which person may include a Non-Clearing Firm);
"Client Account"	<p>means an Account in the books and records of LMEC established in accordance with LMEC Rule 4 (Accounts), to record respective entitlements in respect of transactions cleared by a Member for one or more of its Clients;</p>
"Collateral"	<p>(a) in the case of a Member, cash, securities, LME Warrant Collateral or instruments; (b) in the case of a Posting Affiliate or a Posting Client, LME Warrant Collateral; and (c) in any event, any other types of asset, right or interest, provided (or to be provided) to LMEC to satisfy a Member's Margin Requirement;</p>
"Default Fund"	<p>means the fund maintained by LMEC, to which each Member is required to contribute under LMEC Rule 9 (Default Fund);</p>
"ExCom"	<p>means the LMEC Executive Committee;</p>

"Executive Director"	means a director employed by LMEC or another HKEX Group company;
"House Account"	means an Account in the books and records of LMEC established in accordance with LMEC Rule 4.2.1;
"Independent Director"	means a member of the LMEC Board without executive responsibilities within LMEC;
"Indirect Client"	means the client of a Clearing Client;
"Index Future"	means a cash-settled Exchange-traded futures contract pursuant to which the buyer and seller agree to pay or receive in cash the difference between the level of the Index on the Prompt Date and the level agreed in the Contract, multiplied by the Contract size, settled on the Settlement Business Day next following the Prompt Date and subject to daily marking to market in accordance with the Clearing House Rules and conforming to the other specifications prescribed by the Exchange;
"LME Exchange-Traded Forwards"	means the products listed at paragraph 2.2 of Annex 1 to the LMEC Rules;
"LME Exchange Traded Futures"	means the products listed at paragraph 2.3 of Annex 1 of the LMEC Rules;
"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) ⁶ ;
"Member"	means a person admitted to use the Clearing System in accordance with Rule 3 (Membership) and the Membership Procedure either as a GCM or an ICM and, in the context of the Affiliate Posting Structure and the Client Direct Posting Structure, means the Member to whose Account the Contracts being collateralised are credited;
"Membership Criteria"	means the criteria to be satisfied in order to qualify for, and maintain, Membership of LMEC, as specified in Membership Procedures B3, B4 and B5 which are set out in the LMEC Rules;
"Porting Period"	means the period comprising: (a) a Porting Election Period; and (b) a Porting Transfer Period, and including any Extended Porting Transfer Period (i.e. the period within which LMEC may effect a transfer of client positions from a defaulting member to an alternative clearing member);

⁶ **Explanatory Note:** This definition covers contracts between two LMEC 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).

"Position"	means: <ul style="list-style-type: none">(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;(c) in relation to an Allocation ID allocated to a Gross Omnibus Segregated Client Account, the consolidated rights and liabilities arising out of Open Contracts recorded to the Allocation ID in such Account;
"Relevant Regulations"	means all Applicable Law binding on LMEC in the UK and the European Union that governs, regulates or specifies in any way the manner in which LMEC shall be required to make available and / or perform its obligations as the operator of the Clearing System including FSMA, UK EMIR, the Recognition Regulations and the Settlement Finality Regulations;
"Risk Appetite Statement"	means LME's documented tolerances for different categories of risk, as defined by, and as revised from time to time by, LMEC's Board;

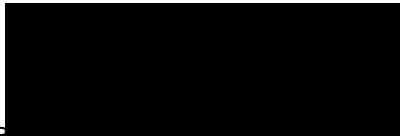
APPENDIX 2

Certificate of Verification

To: Autorité des marchés financiers

The undersigned hereby authorises the making and filing of the attached application and confirms the truth of the facts contained therein.

Dated: 25 May 2023



By:

Name: Gavin Hill

Title: Chief Compliance Officer, LMEC

7.3.1 Consultation

The London Metal Exchange – Demande de dispense de reconnaissance à titre de bourse et des obligations prévues aux Règlements 21-101, 23-101 et 23-103

L'Autorité des marchés financiers (l'« Autorité ») publie la demande de dispense (i) de reconnaissance à titre de bourse en vertu de la *Loi sur les instruments dérivés*, RLRQ, c. I-14.01, et (ii) des obligations prévues au *Règlement 21-101 sur le fonctionnement du marché*, RLRQ, c. V-1.1, r. 5, au *Règlement 23-101 sur les règles de négociation*, RLRQ, c. V-1.1, r. 6 et au *Règlement 23-103 sur la négociation électronique et l'accès électronique direct aux marchés*, RLRQ, c. V-1.1, r. 7.1, déposée par the London Metal Exchange.

(Le texte est reproduit ci-après.)

Commentaires

Toute personne désirant soumettre des commentaires est invitée à les faire parvenir par écrit, au plus tard le 26 juin 2023 à :

Me Philippe Lebel
Secrétaire et directeur général des affaires juridiques
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Télécopieur : 514 864-6381
Courrier électronique : consultation-en-cours@lautorite.qc.ca

Information complémentaire

Pour de plus amples renseignements, on peut s'adresser à :

Pascal Bancheri
Analyste expert aux OAR
Direction de l'encadrement des activités de négociation
Autorité des marchés financiers
Téléphone : 514 395-0337, poste 4354
Numéro sans frais : 1 877 525-0337, poste 4354
Télécopieur : 514 873-7455
Courrier électronique : pascal.bancheri@lautorite.qc.ca

Serge Boisvert
Analyste expert à la réglementation
Direction l'encadrement des activités de négociation
Autorité des marchés financiers
Téléphone : 514 395-0337, poste 4358
Numéro sans frais : 1 877 525-0337, poste 4358
Télécopieur : 514 873-7455
Courrier électronique : serge.boisvert@lautorite.qc.ca



25 May 2023

Autorité des marchés financiers
2640 Bd Laurier, Québec,
QC G1V 5C1, Canada

Attention: Dominique Martin

Dear Sirs/Mesdames:

RE: The London Metal Exchange Application for Exemption from Recognition as an Exchange

The London Metal Exchange (“LME” or “the “Exchange”) is filing this application with the Autorité des marchés financiers (“AMF”) for the following decisions (collectively, the “Requested Relief”):

1. a decision under Section 86 of the Derivatives Act (Québec) (the “QDA”) exempting the Exchange from the requirement to be recognised by the AMF as an exchange under Section 12 of the QDA to operate in Québec;
2. a decision exempting the Exchange from the obligations set out in *Regulation 21-101 respecting Marketplace Operation* (“Regulation 21-101”) CQLR, c. V-1.1, r. 5;
3. a decision exempting the Exchange from the obligations set out in *Regulation 23-101 respecting Trading Rules* (“Regulation 23-101”), CQLR, c. V-1.1, r. 6; and
4. a decision exempting the Exchange from the obligations set out in *Regulation 23-103 on Electronic Trading and Direct Electronic Access to Marketplaces* (“Regulation 23-103”), CQLR, c. V-1.1, r. 7.1 applicable to it.

Reference will be made in this application to the LME Rules and Regulations and Appendices thereto (the LME Rules) which can be found [here](#).

Capitalised terms in this application shall have the meanings ascribed to them in the LME Rules, unless otherwise specified.

THE LONDON METAL EXCHANGE

10 Finsbury Square, London EC2A 1AJ | Tel +44 (0)20 7113 8888
Registered in England no 2128666. Registered office as above.

LME.COM

EXEMPTION FROM SECTION 12 OF THE QDA AND FROM REGULATIONS 21-101, 23-101 and 23-103**EXEMPTION FROM SECTION 12 OF THE QDA**

As described in greater detail within this application, the LME is subject to a comprehensive regulatory regime in the UK and is a Recognised Investment Exchange (RIE) regulated by the Financial Conduct Authority ("FCA"). The LME confirms that it has the power to co-operate fully with the AMF and self-regulatory organisations in the Province of Québec, and to provide information and documents with respect to its operations that could be reasonably requested by the AMF.

Based on the foregoing, the LME seeks an exemption from the requirement of section 12 of the QDA allowing it to carry on derivatives activities in the Province of Québec without being recognised by the AMF as an exchange or otherwise. We believe this exemption would not be detrimental to the protection of investors in the Province of Québec.

EXEMPTION FROM REGULATION 21-101, REGULATION 23-101 AND REGULATION 23-103

As noted above, the LME is subject to a comprehensive regulatory regime in the UK and is a RIE regulated by the FCA. The LME submits to the AMF that the application of Regulation 21-101, 23-101 and 23-103 regarding marketplace operation, trading rules and electronic trading and direct electronic access ("DEA") to markets would result in duplication of the UK regulatory framework and hereby seeks an exemption from Regulations 21-101, 23-101 and 23-103.



For convenience, this Application is divided into the following Parts:

Part I Background

Part II Application of Approval Criteria to the Exchange

You will find below, the following information about the Applicant's business and policies under the following headings, which comply with Part 5 of the AMF's "Policy Statement Respecting the Authorization of Foreign-Based Exchanges":

Article 1 – Regulation of the Applicant in its Home Jurisdiction

- A. Regulation of the Exchange
- B. Authority of the Foreign Regulator in the Home Jurisdiction
- C. Listing Criteria For Products
- D. IOSCO Principles

Article 2 – Recognition or Authorization Process of the Foreign Regulator in the Home Jurisdiction

- E. Governance
- F. Fees
- G. Financial Viability
- H. Fair and Equitable Access
- I. Regulation of Participants
- J. Rulemaking
- K. Record Keeping
- L. Outsourcing
- M. Enforcement Rules
- N. Systems and Technology
- O. Clearing and Settlement

Article 3 – Power of the Applicant Regarding Cooperation

Article 4 – Power of the Foreign Regulator in the Home Jurisdiction Regarding Cooperation

Article 5 – Conditions of Compliance

- Part III Submissions**
- Part IV Other Matters**



PART I BACKGROUND

Description of the LME and its business

1. The LME is a private company registered in England and Wales (registered number 2128666) whose registered office is at 10 Finsbury Square, London, EC2A 1AJ, United Kingdom (UK).
2. The LME is the world centre for industrial metals trading and price-risk management. The majority of all global non-ferrous trading business is conducted on the LME and the prices discovered on the Exchange's three Execution Venues (LMEselect (electronic), the Ring (open outcry) and inter-office (the 24-hour telephone market)), are used as global reference prices. In 2021, 145 million lots were traded at the LME equating to \$15.6 trillion and 3.3 billion tonnes notional with a market open interest (MOI) high of 2.1 million lots. Trading on the LME often exceeds world metal production by a factor of 40.
3. The primary functions of the Exchange are to:
 - (a) provide a market where participants have the opportunity to hedge against risk arising from price fluctuations in metals;
 - (b) determine reference prices for the worldwide pricing of trades relating to non-ferrous base metals and steel; and
 - (c) regulate appropriately located storage facilities to enable market participants to make or take physical delivery of approved metal brands, which are traded on the Exchange.
4. The LME operates and regulates a trusted financial market where there is always a buyer and a seller, where there is always a price and where there is always the opportunity to transfer or assume exposure to a risk. The LME does not conduct any trading on its own account.
5. Designed to reflect the nature and timing of bilaterally negotiated metal trades, market participants can use the LME's contracts to transfer or take on risk against metal prices daily out to 3 months, weekly out to 6 months and monthly out to anything up to 123 months – which is over ten years in the future. Participants can trade 14 underlying metals using futures, options, traded average price options ("TAPOs"), Monthly Average Futures, LMEminis and HKEX London Minis. Further details on LME's contracts can be found [here](#).
6. The LME may in practical terms, in relation to its flagship contracts, be described as an on-exchange forward market. The LME's flagship contracts are physically deliverable by the transfer of ownership of metal stored in listed warehouses; this is designed to ensure price convergence as the far futures settlement dates tend to converge on the cash settlement date (i.e. two days forward). The ability to make or take delivery of metal against an LME futures contract on the settlement date is designed to prevent any divergence between the LME settlement price and the physical metal price.
7. Trading on the LME can take place on any one of the following three Execution Venues:
 - (a) **Open Outcry:** The LME trading floor (known as the Ring) is located in London. Ring trading is conducted by open outcry, during specified morning and afternoon sessions.
 - (b) **Inter-Office Market:** Inter-office trading is the bilateral trading of LME contracts, usually by telephone or electronic means. Unlike ring trading, it can take place 24 hours a day (although the trade registration system is offline for specified periods). While only Cleared Contracts are Executed in the Ring, both Cleared Contracts and Client Contracts are Executed inter-office. Like Ring trading, inter-office trading takes place on a 'quote driven' basis, with dealers providing bids and offers over the phone.



It is possible for Inter-office business to be arranged / agreed via electronic means, as a pre-cursor to execution where Clients can use an electronic platform of a Member to enter the prices at which they wish to do business, but execution only occurs on the LME's platforms (as the business would then be crossed up and hedged by the Member on the LME. When an Agreed Trade is formed in the inter-office market, Regulation 2.10 of part 3 of the LME Rules provides further information. In most circumstances, the parties are bound to a Contingent Agreement to Trade, and execution of the trade occurs when the particulars of the Agreed Trade are submitted in the Matching System, LME smart, within the timescales set out in Regulation 3.5 of Part 3 of the LME Rules.

Given LME Smart and LME Sword themselves are not trading systems, but rather systems that allow trades to be input in the matching system, and warrants to be held digitally, we do not think these systems fall within the Québec licensing regime and therefore do not require an exemption.

- (c) **LMeselect:** Category 1 to Category 4 Members (see paragraph 14 for a description of the membership categories) who have specific permission from the LME may Execute Cleared Contracts via LME's electronic trading system (LMeselect). It is expected that certain LME Members will wish to trade via LMeselect through persons who are physically located in Québec¹ (including via "direct electronic access" arrangements – see further below) and that certain Québec incorporated entities may wish to become Members of the LME. This would include Category 1-4 Members and RIBs. DEA would be provided by the Members, but is subject to DEA (order routing) rules and operational onboarding requirements (including Members wanting to offer DEA having to go through an onboarding process with Trading Operations) related to Clients.

The LME's physically delivered contracts can be traded on the Ring, LMeselect and Inter-Office market. The LME's cash settled contracts can solely be traded on LMeselect and the Inter-Office market.

8. Settlement of LME contracts is determined first by offsetting the positions of Members and then by delivery of LME warrants to balance the trading activities of the Members. This takes place on the settlement date such that ownership of the underlying metal changes hands on the day; there is no settlement window. The offset mechanism allows the Members who trade on the LME to reduce the number of LME warrants that are transferred in order to settle their obligations on a settlement day. For example a producer who hedges its risk to a drop in metal prices will sell for delivery on a future date on the LME. It will close out its hedge by buying back an equal amount of metal for delivery on the same date on the LME. The metal delivery obligations will offset exactly and result in no LME warrants changing hands but the price differences will produce a net cash payment on that date.
9. LME warrants represent an entitlement to a specific lot of LME-approved metal. Warrants can only be issued if the underlying metal conforms to the quality requirements details specified by the LME, so as well as an ownership document, a warrant also acts guarantees the quality of the metal a buyer will receive.
10. Following feedback from and engagement with industry stakeholders, the LME has streamlined the warrant lodgement and withdrawal process by introducing a new dematerialised (electronic) warranting process. Since 1 March 2021, instead of physical paper warrants, all LME Warrants are digital². The LME acts as the depository, holding rights in the Warrant and, where relevant, immobilised warrant (as well as rights in the underlying metal) on behalf of the Account holder in LMESword.
11. These changes bring significant operational efficiencies for users – including, for example, the removal of volume limits for warrant processing, the reduction in risk of physically transporting paper warrants to and from the depository vault and the associated costs involved in these manual processes.



12. The LME proposes to offer access to its trading services (and, through its affiliate Clearing House, LME Clear Limited (“LME Clear”) to clearing arrangements) to prospective participants in Québec . Trading Members (Categories 1-4) are able to access LME Select once they have executed an EMA, and that Members can provide DEA to Clients (either via Direct Market Access or Sponsored Access) and such Members must comply with the LME’s Rules (including Regulations 12.9-12.12 of Part 3). . We propose to permit entities located in Québec to become Category 1, 2, 3 or 4 Members, as well as to permit them to become Registered Intermediating Brokers (“RIBs”). The activities that each of these categories of Member is permitted under the LME Rules to undertake is described in more detail below. We also propose to permit persons located in Québec to access the LME via Members (whether Québec -based or otherwise), including via direct electronic access arrangements (described in more detail below).

¹ Such persons may be employed by the Member itself or may be employed by an affiliate, but all trading is carried out in the name of the Member.

² Apart from warrants relating to metal located in South Korea – these will be printed, but immobilised, in the LME Depository.



13. Those Members who are also Members of LME Clear (Category 1 to 3 Members) must also execute a Clearing Membership Agreement with LME Clear. As noted above, LME Clear is also seeking an exemption order from the AMF, which is the subject of a separate application. Prospective Members and other participants in Québec who are currently or will in the future be admitted by the LME (“Québec Participants”) may access the LME via LMEselect and the Inter-Office Market from Québec, and may also apply to become ring-dealing Members if they wish (although currently, all Category 1 Members are UK incorporated). The LME Rules provide clear and transparent access criteria and requirements for all LME market participants, as well as minimum financial requirements for Members. The LME applies these criteria to all LME Members – as stipulated in the LME Rules – in an impartial manner.

Descriptions of categories of LME membership

14. The LME has eight base metal Membership Categories and each Member Category has different associated capabilities. All Members’ activities are governed by the Rules, which set out the obligations and responsibilities that they are subject to when doing business on the LME. Only Categories 1 to 4 can trade on the LME’s Execution Venues directly (as detailed below) and are eligible to have direct access to LMEselect. In addition, Category 1 to 4 Members and Tier 1 RIBs are required to hold a specified number of B shares in the LME’s parent, LME Holdings Limited. This requirement is also set out in Part 2 of the LME Rules. A summary of the Membership Categories is set out below:
- (a) Category 1: These Members are Clearing Members. Unlike other Categories of Member, they can trade by open outcry in the Ring. Like other Members, they can also do business in the inter-office market and on LMEselect. They are also entitled to issue Client Contracts to their Clients. As Clearing Members, they are permitted to clear trades on their own behalf and on behalf of their Clients and, as a result, must also be Members of LME Clear. They are referred to “General Clearing Members” under the LME Clear Rules. Category 1 Members must be regulated by the UK FCA or benefit from an exemption or exclusion under the Financial Services and Markets Act 2000 (Regulated Activities) Order (“RAO”) from the need to be authorised in the UK.
 - (b) Category 2: These Members are Clearing Members and are permitted to trade in the inter-office market and on LMEselect and can also issue Client Contracts. As Clearing Members, they are permitted to clear trades on their behalf and on behalf of their Clients and, as a result, must also be Members of LME Clear. They are referred to as “General Clearing Members” under the LME Clear Rules. As in (a) above, Category 2 members must be regulated by the FCA or benefit from an exemption or exclusion under the RAO.
 - (c) Category 3: These Members are Clearing Members and are permitted to trade in the inter-office market and on LMEselect. They are not permitted to issue Client Contracts, being proprietary traders. As Clearing Members, they are permitted to clear trades on their own behalf only and, as a result, must also be members of LME Clear. They are referred to as “Individual Clearing Members” under the LME Clear Rules. As in (a) and (b) above, Category 3 Members must be regulated by the FCA or benefit from an exemption or exclusion under the RAO.
 - (d) Category 4: These Members are not Clearing Members and must appoint one or more designated Clearing Members to clear trades on their behalf. These Members are permitted to trade in the inter-office market and on LMEselect on their own behalf and on behalf of their Clients, and are permitted to issue Client Contracts. Category 4 members must be regulated by the FCA or benefit from an exemption or exclusion under the RAO.



- (e) Category 5: These Members are typically Clients of Category 1, 2 or 4 Members in that they receive Client Contracts but are not permitted to issue them. They are not permitted to trade directly on the LME (other than via another Member). Category 5 members are not required to be regulated in order to become Members of the LME.
- (f) Category 6: Individual members are persons who wish to maintain links with the Exchange for business purposes, such as consultants and arbitrators. These Members have no trading rights on the LME.
- (g) Category 7: Honorary membership is conferred on individuals who have given conspicuous service to the LME at the discretion of the Exchange, e.g. former chief executives and chairmen of the LME. These members have no trading rights on the LME.
- (h) Registered Intermediating Brokers: RIBs are introducing brokers who are permitted to arrange LME trades between their clients in the inter-office market only, who can themselves be LME Members or non-Member Clients. There are two “tiers” of RIB, where the relevant tier denotes the LME Contracts in which the RIB is permitted to arrange trades. RIBs are not permitted to trade as principal and enter into, as a counterparty, the Contracts that they arrange for their Clients.
- (i) LME HKFE reciprocal membership: The LME and Hong Kong Futures Exchange (“HKFE”) offer a reciprocal membership arrangement (“RMA”) for applicants who already hold a membership or participation at either one of the Exchanges. Entities that are HKFE and who wish to become Members of the LME would be subject to the LME (and, if applicable, LME Clear) eligibility criteria.

Québec Participants and Requested Relief

- 15. The LME currently expects that Québec Participants will be comprised of banks, or in the future, may include physical market participants, such as industrial hedgers. All Québec Participants will be appropriately registered as applicable under the QDA or not subject to or exempt from the recognition requirement under section 7 of the QDA.
- 16. The LME intends to provide Québec Participants with direct access to the LME. The LME is requesting the Section 12 Relief in order for Québec Participants (who are appropriately registered, or not subject to or exempt from the QDA) to be able to access trading on the LME directly.

Location

- 17. The LME is based in London, UK. It also has a representative office in Singapore which opened in 2010, this office became a branch office on October 15, 2012. The LME’s market engagement and sales activities in Singapore is led by the Singapore office. This office has a multi-skilled, multi-lingual team with a strong background in business development of commodity, physical and financial markets.

Size

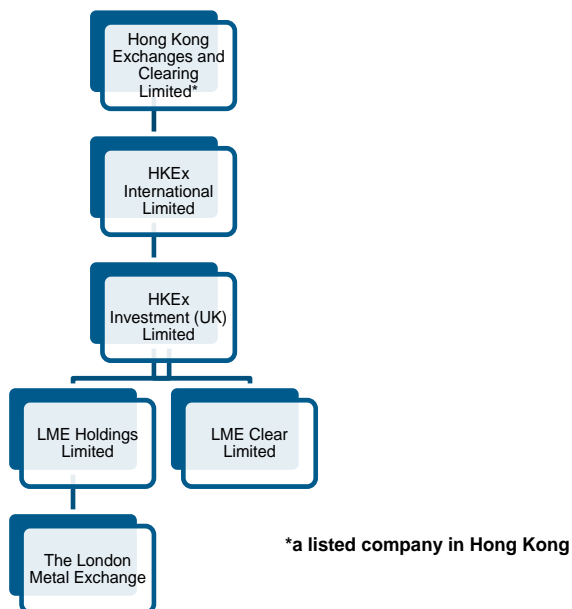
- 18. As outlined in paragraph 2 above, the LME is a highly liquid, global market with an international membership, and almost 500 LME-approved brands of metal from 57 countries. There are over 570 LME storage facilities around the world.

Ownership and corporate structure

- 19. The LME is a wholly-owned subsidiary of LME Holdings Limited, a private limited company registered in England and Wales (registered number 4081218). LME Holdings Limited has no trading subsidiaries other than the LME. The LME has no subsidiaries.



20. LME Holdings Limited (the sole shareholder of LME) in turn is a wholly owned subsidiary of HKEx Investment (UK) Limited, which is a wholly owned subsidiary of HKEx International Limited (a private limited company) registered in Hong Kong. HKEx International Limited is wholly owned by Hong Kong Exchanges and Clearing Limited (HKEX Group), a publicly listed company registered in Hong Kong and listed on the Hong Kong stock exchange. The LME is managed by a board comprising independent directors, additional directors and LME's Chief Executive Officer. Please see the organisational chart included within the supplemental documentation pack.
21. The following is a diagram of the chain of ownership of the LME and its affiliated clearing house, LME Clear Limited (LME Clear):



LME Clear

22. LME Clear was established to act as the central counterparty ("CCP") in relation to all classes of contracts that are traded on the LME. LME Clear is an approved CCP under the European Market Infrastructure Regulation as onshored into UK law post-Brexit ("UK EMIR") and is supervised by the Bank of England (the "Bank") in the UK. LME Clear is also applying to the AMF for an exemption at this time.

Products available for trading on the Exchange

23. Futures contracts are contracts for delivery of a particular metal on a specified date ("Prompt Date") of a prescribed quantity of metal, the specification for which is in accordance with the LME's Special Contract Rules (covering quality of material, its shape and weight, the size of each lot and the currency in which the price is quoted) set out in the LME Rules. The lot sizes for the featured contract specifications can be found [here](#). Futures contracts for metals are deliverable for each London Business Day out to 3 months (i.e. daily settlement). Other Prompt Dates at less frequent intervals are available out to 27 months and beyond this for certain metals up to a maximum of 10 years. The LME offers trading in futures contracts in 12 metals – details of which can be found [here](#). In addition, LME offers:



- (a) traded options contracts which give the right to buy or sell the underlying futures contracts for primary aluminium, copper, zinc, lead, nickel, tin, NASAAC and aluminium alloy until a specified date in the future;
 - (b) contracts known as TAPOs which provide a hedging tool for participants in the metals industry that price contracts on the basis of a monthly average price;
 - (c) mini-contracts in primary aluminium, copper and zinc; and
 - (d) contracts known as Monthly Average Futures which are monthly average price futures contracts and are available for primary aluminium, aluminium alloy, copper, zinc, lead, nickel, NASAAC and tin; and
 - (e) HKEX London Metal Minis – these HKEX contracts are small-lot, cash-settled monthly futures traded on HKEX, traded and priced in renminbi and US dollars.
24. Traded options contracts are more flexible than futures. LME options provide the metal and financial communities with alternative opportunities to reduce price risk (through hedging trades), or take on price risk (on expected price moves).
25. TAPOs provide a hedging tool for participants in the metals industry that price contracts on the basis of a monthly average price. TAPOs are 'Asian' style options (options exercised at the average underlying price over a period) giving the right to buy or the right to sell metal at the average LME price for a given month.
26. LMEminis are five tonne cash-settled monthly future contracts that settle against the LME 'parent' contract Official LME Settlement price.
27. Monthly Average Futures are monthly futures contracts settled in cash against the monthly average of the daily cash settlement price of the relevant metal during the relevant month. The amount payable on maturity is the difference between the 'fixed' price agreed at the time of the contract and the average price for the relevant month.

LME Contracts³

28. All LME Contracts are entered into on a principal-to-principal basis. Regulation 1.7 of Part 3 of the LME Rules specifies that LME Contracts may only be written (i.e. entered into) by a Category 1 Member, Category 2 Member, Category 3 Member or Category 4 Member (each of which are brokers/entities regulated by the FCA, or relying on an appropriate exclusion under the RAO, as noted above), the effect of which being that all LME Contracts will have at least one party that is a Member of the LME. Members who enter into LME Contracts therefore deal off their own book, entering into an equivalent Contract with their direct Clients for whom they are acting. The respective rights and responsibilities of the Member and their Client will typically be set out in Member terms of business, which often take an industry standard form.
29. LME Contracts take one of two forms, and are interlinked: Cleared Contracts and Client Contracts. Participants located in Québec will be able to trade through LMEselect and access the Inter-Office market and trade on the Ring⁴ (provided that the relevant Membership requirements are met).

³ The LME has recently withdrawn its LMEprecious Service (as set out in [Notice 22/150](#)). As noted in paragraph 16, references in the LME Rules to LMEprecious will no longer be effective, save to the effect that any relevant Rules or provisions are expected to survive a Service Withdrawal.

⁴ Given that Ring trading takes place physically in London on the LME trading floor, the only way that a Québec participant could take part in Ring trading would be if a Québec -incorporated entity established a London presence and became a Category 1 Member.



30. The LME operates an open offer execution model under which LME Clear, as central counterparty, makes an “open offer” to Clearing Members to enter into Cleared Contracts, subject to all applicable Pre-Execution Checks and Acceptance Criteria being satisfied. Where these are satisfied, Execution of the relevant Agreed Trade will occur, resulting in Cleared Contracts at the CCP. These terms are defined in the LME Rules. Cleared Contracts arise between LME Clear, as the CCP, and the buying and selling Clearing Member, as the case may be. There will be no initial contract between the trading parties (as occurs in a standard novation model). Instead LME Clear makes an offer to each party to the trade: it will offer to act as the buyer to the party who wishes to be the seller, and it will offer to act as the seller to the party who wishes to be the buyer.
31. Client Contracts are contracts that arise between a Member (that is entitled to issue Client Contracts) and its direct Clients. These Contracts arise under the terms of business between the relevant Member and its Client, on the formation of a related Cleared Contract. Members are required to enter details into the LME’s matching system (LMEsmart) so that the Cleared Contract can be allocated to the appropriate position-keeping account at the CCP (House or Client), and Contracts arise between either the Clearing Member and the CCP or the Member and the Client. However Clearing Members are not obliged to enter a trade with another Clearing Member to “back off” the Client Contract. Systemic failure to enter trades into the Matching System accurately and/or in a timely manner could result in disciplinary action by the LME – for more detail on LME’s disciplinary procedures please see section M below.
32. The LME Rules provide that any dispute as to the existence, completion or validity of any LME contract, as well as any dispute arising out of such a contract, will be referred to arbitration proceedings administered by the LME. Parties entering LME contracts are deemed to waive any immunity from suit or arbitration or the execution of any judgment or award on the ground of sovereignty, nationality, domicile, residence or otherwise, in accordance with Regulation 11.6 of Part 4 of the LME Rules.



PART II APPLICATION OF APPROVAL CRITERIA TO THE EXCHANGE

ARTICLE 1 – REGULATION OF THE APPLICANT IN ITS HOME JURISDICTION

A. REGULATION OF THE APPLICANT

1. The LME is subject to a comprehensive regulatory regime in the UK and is a RIE regulated by the FCA. Among other matters, the regulatory structure includes: financial and other fitness criteria for Members of LME; reporting and record-keeping requirements; procedures governing the treatment of customer funds and property; conduct of business standards; provisions designed to protect the integrity of the markets; and statutory prohibitions on fraud, abuse and market manipulation.
2. Responsibility for financial services legislation and broad policy in the UK lies with the UK Treasury, which is answerable to the UK Parliament. Responsibility for regulating the conduct of investment business, providing investor protection and preventing market manipulation in the UK rests with the FCA (the successor to the Financial Services Authority (“FSA”)) which became responsible for the supervision of UK RIEs on April 1, 2013 as part of the UK’s program of regulatory reform. Additional authority rests with the UK’s Department for Business, Energy and Industrial Strategy which is responsible for modernising company law and reforming corporate governance and investigates the conduct of companies and the Serious Fraud Office, which investigates and prosecutes serious and complex fraud, bribery and corruption and so maintains confidence in the probity of business and financial services in the UK. The Prudential Regulation Authority, created as a part of the Bank by the Financial Services Act (2012), is responsible for the prudential regulation and supervision of around 1,700 banks, building societies, credit unions, insurers and major investment firms. It does not have authority in relation to RIEs.
3. The principal legal provisions for investor protection in the UK’s financial services sector are contained in, or derived from, the UK Financial Services and Markets Act 2000 (FSMA) and the FCA fulfils its regulatory responsibilities within the framework established by FSMA and related legislation.
4. The FCA is an independent non-governmental body, given statutory powers by FSMA. It is a company limited by guarantee (registered in England and Wales with number 1920623) whose registered office is at 12 Endeavour Square, London, England, E20 1JN.
5. As a non-governmental body, the FCA is operationally independent of government. It is accountable to the ministers within Her Majesty’s Treasury and through the Ministers in this department, to UK’s Parliament. It is also subject to the scrutiny of the National Audit Office, Treasury Select Committee and Parliamentary Accounts Committee.
6. The board of the FCA sets its overall policy. Board members are appointed by the Treasury. The majority of the board members are non-executive. The non-executive directors check that the FCA operates efficiently and economically. They oversee the FCA’s mechanisms of financial control and set the pay of the executive members of the board.
7. General strategic and policy matter decisions are taken by the FCA board and/or its Executive Committee. Other major regulatory decisions (including appeals in respect of disciplinary matters and warning) are taken, on behalf of the FCA board, by the Regulatory Decisions Committee which comprises current and recently retired practitioners and non-practitioners, all of whom represent the public interest.
8. The FCA has an objective to promote effective competition in consumers’ interests in regulated financial services. In addition to this, the organisation also has a competition duty. In April 2015, the FCA were given concurrent powers to enforce against breaches of competition law, alongside the Competition and Markets Authority for the provision of financial services generally.
9. The FCA is an independent body which does not receive any funding from the UK Government. To finance its work, the FCA charges fees to the entities that it regulates, including the LME



10. The general powers of the FCA to raise these fees are set out in Schedule 1, Part III, paragraph 17 of FSMA. FSMA also gives the FCA the power to maintain sufficient reserves. In the latest annual report of the FCA, anticipated funding for 2022/2023 is £640.1m as set out in the FCA's Business Plan a copy of which can be found [here](#).
11. Details of the FCA's staff costs can be found [here](#).

B. AUTHORITY OF THE FOREIGN REGULATOR IN THE HOME JURISDICTION

Scope of authority

12. The FCA has three specific, and equal, operational objectives set by UK's Parliament. These are to: secure an appropriate degree of protection for consumers; protect and enhance the integrity of the UK financial system; and promote effective competition in the interests of consumers. In practice, this means that the FCA wants to make markets work effectively to deliver benefits to firms and consumers.
13. The FCA is the conduct regulator for around 51,000 firms, they prudentially supervise around 48,000 firms, and set specific standards for around 18,000 firms. The firms range from global investment banks to very small businesses. It operates a risk-based approach concentrating on the significant risks and accepting that some failure neither can, nor should, be avoided. Potential risks are prioritised, using an impact and probability analysis, and the FCA will then decide on an appropriate regulatory response – in other words, what approach it should take and what resources it will allocate to mitigating risk.
14. The FCA's risk-based regulatory approach to the supervision of exchanges includes regular risk assessments designed to identify the main risks to its statutory objectives as they arise and to help it plan how to address these risks. This process involves drawing on a wide range of sources. The FCA uses this information to assess the level of risk posed to its statutory objectives and to decide on what approach is needed (if any) to mitigate risk.

Authorising statutes

15. The FCA was created by the Financial Services Act 2012 which amended FSMA, the primary piece of legislation from which it derives its powers and functions. Rules and guidance made in the [FCA Handbook for Recognised Investment Exchanges](#) (REC) are made pursuant to powers granted under FSMA.
16. The UK Treasury has the power to enact secondary legislation under FSMA, which affects the way the FCA operates. The most important piece of secondary legislation is the RAO. The RAO sets out the specific activities for which firms must receive FCA permission (known as a "Part IV permission") to carry on investment business, or where they can avail themselves of an exemption or exclusion, as the case may be.
17. Other areas of FCA regulation include personal pension schemes and activities relating to regulated mortgage contracts. It has authorisation, enforcement, supervision and rule-making functions for firms (some prudential supervision is now undertaken by a subsidiary of the Bank, the Prudential Regulation Authority (PRA)). It also has registration functions under the various legislation applicable to mutual societies and related functions under other legislation applicable to financial services and listing. FSMA also provides the FCA with powers over unregulated firms and persons regarding market abuse, breaches of money laundering regulations and short selling. The FCA also has the power to prosecute unauthorised firms or persons carrying on regulated activities.

Source of its authority to supervise the foreign exchange



18. The LME is an RIE in accordance with section 285 of FSMA. As an RIE, LME is an “exempt person” under Part XVIII FSMA 2000. This exempts the LME from the need to be authorised in relation to its RIE activities (without contravening s19 FSMA “general prohibition”, which requires firms to be authorised or exempt before carrying on a regulated activity). By virtue of being a RIE operator, the LME is also a trading venue operator. Trading venue status does not require separate exemption or authorisation under UK law. The status stems from UK MiFIR (i.e. as onshored post-Brexit). Through a combination of FSMA 2000 and the Financial Services and Markets Act 2000 (FSMA Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001 (SI 2001/995) as amended *inter alia* by the Financial Services and Markets Act 2000 (FSMA Recognition Requirements for Investment Exchanges and Clearing Houses) (Amendment) (Regulations) 2006 (the “FSMA Recognition Requirements”), on the one hand and UK MiFIR on the other, the LME is also subject to:

- MiFIR delegated regulations, as onshored into UK law post Brexit;
- associated regulatory and implementing technical standards (RTSs and ITSs) as onshored into UK law post Brexit; and
- level 3 guidance (where adopted pre-Brexit and still applicable) e.g. ESMA Q&A and ESMA Guidelines

Note – The LME is not an equivalent third country trading venue under EU MiFID, although LME has procured licences/exemptions in relevant EU Member States in order to enable its members based in those jurisdictions to continue to directly access the market.

19. To acquire and maintain recognition status as an RIE, the LME must satisfy a number of statutorily-prescribed recognition requirements set out in the FSMA Recognition Requirements. The FSMA Recognition Requirements for RIEs are replicated in REC, and can be found [here](#).

The LME must fulfil these obligations on an ongoing basis in order to maintain its recognition status. Among other things, the LME is required to:

- (a) have systems and controls in place to monitor transactions on the LME;
- (b) retain sufficient financial resources for the performance of its functions as an RIE;
- (c) operate its markets with due heed to the protection of investors;
- (d) ensure that trading is conducted in an orderly and fair manner;
- (e) maintain suitable arrangements for trade reporting;
- (f) maintain suitable arrangements for the clearing and settlement of contracts;
- (g) monitor compliance with the LME Rules;
- (h) enforce the LME Rules;
- (i) investigate complaints with respect to its business;
- (j) maintain rules to deal with the default of its Members;
- (k) co-operate with other regulatory bodies through the sharing of information or otherwise;
- (l) maintain high standards of integrity and fair dealing; and



- (m) prevent its facilities from being used to further market abuse and financial crime.
20. On 25 April 1988, the FCA's predecessor organisation, the Securities and Investments Board, declared the LME (under its former name, The London Metal Exchange Limited) to be an RIE. The recognition status of RIEs that were recognised by predecessor organisations was grandfathered when the FCA was established in 2013. The LME remains compliant with the FSMA Recognition Requirements as demonstrated by its continued status as an RIE. As an RIE, the LME is also a regulated market (previously under MiFID II) and post-Brexit, has retained this status under UK MiFIR. The FCA is responsible for maintaining the register of UK RIEs, which is contained [here](#).
 21. This also lists the LME as a regulated market. A market may ask to be added to the list of regulated markets if it satisfies the requirements set out in UK MiFIR and the FSMA Recognition Requirements.
 22. The FCA has provided guidance on the FSMA Recognition Requirements in its Handbook that sets out the FCA's interpretation of how those obligations might be met in practical terms.
 23. The FCA is the authority charged with ensuring that RIEs (such as the LME) continue to comply with the recognition criteria. The FCA has the power to direct any RIE that is failing, or had failed, to comply with the FSMA Recognition Requirements to take action to remedy such non-compliance. It also has the power to censure and /or to revoke the recognition of any RIE that fails to meet the FSMA Recognition Requirements. Accordingly, the LME is subject to the oversight of the FCA.
 24. The FCA exercises its supervisory responsibility by conducting an ongoing assessment of whether the LME's rules, procedures and practices are adequate for the protection of investors and for the maintenance of an orderly market in accordance with the FSMA Recognition Requirements. For this purpose, the FCA requires LME to report to it, among other things, financial information and changes in its constitution (see [REC 3 of the FCA Handbook](#)). Further, the LME is required to notify the FCA of all rule changes and keeps the FCA notified of significant changes to its rules or procedures before such changes become effective.
 25. The formal interaction structure between the LME and the FCA includes:
 - (a) semi-annual meetings between the FCA and the Chairman of the LME;
 - (b) quarterly meetings between the FCA and the LME CEO;
 - (c) ad-hoc meetings between the FCA and the HKEX Group CEO (as available in the UK);
 - (d) quarterly meetings between the FCA and the LME Chief Operating Officer;
 - (e) semi-annual meetings between the FCA and the LME Chief Technology Officer;
 - (f) semi-annual meetings between the FCA and the LME Chief Regulatory and Compliance Officer;
 - (g) semi-annual meetings between the FCA and the LME Head of Information Security;
 - (h) semi-annual meetings between the FCA and the LME Head of Enterprise Risk Management and Operational Risk;
 - (i) semi-annual meetings between the FCA and the LME Head of Internal Audit;
 - (j) annual meetings between the FCA and the LME Chief Finance Officer; and



- (k) annual meetings between the FCA and the independent board directors. Informally there are frequent ad hoc contacts between the FCA and the LME. In addition to the LME's formal obligations to notify the FCA, the LME consults with the FCA on all material matters.
26. In addition to being an "exempt person" under FSMA 2000, the LME is also concurrently an "authorised person" under Part 4A FSMA. The LME's authorisation extends only to the administration of benchmarks (being indices that are used for specified purposes), and the LME has been so authorised since December 2018. This brings the LME within scope of the following:
- The Benchmarks Regulation as onshored into English law ("UK BMR"). This piece of legislation was onshored at the end of the Brexit transition period, and still largely mirrors the requirements of the original EU BMR, Although the precise obligations depend on the characterisation of the benchmark, the UK BMR in general terms seeks to implement a harmonised framework for the determination and oversight of benchmarks by imposing prescriptive requirements relating to oversight, input date, methodology, consultation on changes and cessation and conflicts of interest..
 - Additional FCA Handbook requirements – e.g. certain Principles for Businesses
 - Senior Managers' Regime (SMR) – as a benchmark administrator the LME is subject to the Senior Managers' Regime, a core component of the individual accountability-driven Senior Managers and Certification Regime. The LME is a "core" SMR firm, which requires it to register named individuals in specified senior management functions and to conduct training for a wide population of staff, among other things.

Rules and policy statements

27. The FCA Handbook is the primary source of rules and policy statements issued by the FCA with respect to the authorisation and continuing oversight of markets and their trading systems. A copy of the full FCA Handbook is available [here](#). The key rules and policy statements relevant to LME (for the purposes of this application) are set out in the FCA's REC Handbook.

Financial protections afforded to customer funds

28. The FCA (and other home state regulators in jurisdictions where LME has access) are responsible for regulating the financial soundness and conduct of Members' business.
29. The Client Asset (CASS) section of the FCA Handbook sets out the requirements on UK authorised firms that hold or control client assets and monies. (Cass does not apply to the LME as an RIE, nor does it hold or control any client assets or monies.) These include requirements such as segregation of customer funds from a firm's own funds and the rules around the distribution of client money in the event that an authorised firm (or third party who holds money on behalf of an authorised firm) fails.

Authorisation, licensure or recognition of the foreign exchange

30. LME has a statutory obligation to ensure that business conducted by means of its facilities is conducted in an orderly manner and so as to afford proper protection to investors. Failure to comply with this obligation may result in the FCA taking action to withdraw an RIE's exemption order under FSMA 2000, which would result in an RIE being unable to operate an exchange under FSMA. The regulator also has a range of other potential tools to sanction RIEs, including for example public censure and fines.



31. On Tuesday 8 March 2022, the LME suspended nickel trading, having concluded a disorderly market had arisen. Nickel trading resumed on the LME on Wednesday 16 March. The suspension occurred amid challenging commodity market conditions following Russia's invasion of Ukraine. Both the FCA and Bank undertook a review assisted by a third party "skilled person" (under Section 166 of the Financial Services and Markets Act). The FCA reviewed the LME's approach to managing the suspension and resumption of the market in nickel to determine what lessons might be learned in relation to the LME's governance and market oversight arrangements. The Bank similarly undertook a review into the operation of LMEC during the period to determine whether any lessons might be learned in relation to its governance and risk management. Both reviews have been completed and the LME and LMEC continue to work closely with both regulators.

On 30 March 2023, the LME Group published an Action Plan which provides a comprehensive overview of changes that will impact the LME and its markets, and LMEC. The Action Plan is designed to strengthen the LME's markets in order for them to thrive long-term and delivers on this commitment in four key ways:

- Embed the findings of independent, internal, and regulatory-led reviews to manage risk through enhanced controls
- Enable the market to provide deep and resilient liquidity for LME participants and members;
- Build confidence in the reliable and transparent operation and governance of the LME Group's markets
- Evolve market structure, demonstrating the Group's ability to deliver modernisation

As part of the programme of work, LME and LMEC will continue to review and enhance their respective governance frameworks including decision-making policies and procedures, with the objective of tracking best practice in the financial services industry.

32. The LME has overseas licenses and dispensations with a number of other regulators, the main ones of which are described in the [Jurisdictions List](#).

The foreign regulator's approach to the detection and deterrence of abusive trading practices, market manipulation, and other unfair trading practices or disruptions of the market

33. In the UK, the primary term used to describe abusive trading practices, market manipulation and other unfair trading practices or disruptions of the market is "market abuse". In December 2001 the provisions of FSMA relating to market abuse came into force. FSMA prohibited market abuse and gave the FCA the power to issue unlimited fines to penalise market abuse, subject to a right of appeal to the Upper Tribunal.
34. FSMA, as originally enacted, set out three types of market abuse: misuse of non-public material information, the creation of false or misleading market impressions and market distortion. FSMA required the FCA to publish a code describing behaviour which, in its opinion, amounts to market abuse and behaviour which does not (Code of Market Conduct). The Code of Market Conduct was implemented on December 1, 2001.
35. The LME is also subject to the UK Market Abuse Regulation (UK MAR), which aims to strengthen the previous UK market abuse framework by extending its scope to new markets, new platforms and new behaviours. It contains prohibitions of insider dealing, unlawful disclosure of inside information and market manipulation, and provisions to prevent and detect these.
36. A key aspect of UK MAR requires trading venues, such as the LME, to report suspicious transactions and orders (STORs). A suspicious transaction or order is one where there are 'reasonable grounds' to suspect it might constitute market abuse.



37. For commodity derivatives, as traded on the LME, the major threat of market abuse is market manipulation. The FCA can independently enforce the prohibition on market abuse set out in FSMA and the Market Abuse Directive.
38. In addition to a particular behaviour amounting to abusive behaviour under UK MAR, such behaviours may also amount to a breach of other LME Rules (see prohibited practices set out in Regulation 14 of Part 3 of the Rules. The LME is expected to monitor for breaches of its Rules by Members and other market participants, and to action where appropriate and in line with its formal investigation and enforcement arrangements.

Laws, rules, regulations and policies that govern the authorisation and ongoing supervision and oversight of market intermediaries in the UK

39. The UK has a comprehensive financial services supervision regime. The laws, rules, regulations and policies that govern the authorisation and ongoing supervision and oversight of market intermediaries are primarily set out in FSMA and the FCA Handbook.
40. Of the Members that have trading rights, and could therefore deal with customers located in Québec, the vast majority are companies incorporated in England and Wales. Irrespective of the jurisdiction of incorporation, no Member may undertake any regulated activity in relation to the LME unless it is authorised by the FCA to carry on such regulated activity or relying on an appropriate exclusion or exemption (see LME Rules such as Regulation 7 of Part 2).
41. The FCA supervises firms according to the risks they present to its statutory objectives. It assesses risks in terms of their impact (the scale of the effect these risks will have on consumers and the market if they were to happen) and probability (the likelihood of the particular issue occurring). The nature and extent of its supervisory relationship with an individual firm depends on how much of a risk it considers that firm could pose to its statutory objectives.
42. Work is co-ordinated through a supervisor with a fixed portfolio of one or more firms that are deemed to carry some risk to the FCA's statutory objectives, who carry out a regular risk assessment (on a cycle of one to four years) and determines a risk mitigation program proportionate to the risks identified. The precise volume and type of work undertaken will depend on the size and riskiness of the firm concerned. Baseline monitoring activities are undertaken for each firm. This involves analysing a firm's financial and other returns, and checking compliance with notification requirements. Breaches and other indicators of risk may be followed up by the supervisory team. For high impact firms, a closer monitoring regime is used (called "close and continuous" work). This is essentially a planned schedule of visits to the firm throughout the regulatory period. This allows the supervisory team to meet the firm's senior management and control functions regularly, and understand and mitigate risk on a real time basis.
43. The FCA (formally the FSA) and AMF are party to a [Memorandum of Understanding](#) Concerning Consultation, Cooperation And The Exchange Of Information Related To Dually Regulated Entities (AMF-FCA MOU).

The protection of customer funds by market intermediaries who may deal with members and other participants located in Canada

44. The UK has a comprehensive regime for the protection of client monies held by investment firms. The FCA's client money rules can be found in CASS Chapter 7 of the FCA Handbook. These rules implemented the requirements of MiFID II and Article 51 of European Union Directive 2006/73/EC, and were retained as part of the Brexit on-shoring process.

Procedures for dealing with the failure of a market intermediary in order to minimise damage and loss to investors and to contain systemic risk for market intermediaries who may deal with members and other participants located in Canada



45. Cleared Contracts and Client Contracts are “market contracts” under the Companies Act 1989. As such, LME Clear and the LME deal with them under their respective default rules in the event of the default of a Member. Very broadly speaking, LME Clear’s Rules apply to Cleared Contracts and the LME Rules apply to Client Contracts.

If the default of a Client occurs, this is likely to have a limited impact on the LME, including a limited financial impact. This is because the LME does not become a counterparty to any contracts itself. Rather, the LME’s clearing house, LME Clear, becomes the seller to each buying member and the buyer to each selling member, in its capacity as CCP. LME Clear has default “protections” in place as more fully detailed in the LME Clear application. The relevant members are then counterparty to the Client Contract, as principal. (Clients also contract as principal.) Although the LME has powers to intervene in relation to a Client default where the Client is a Category 4 Member, the LME would typically work with the relevant Clearing Member in relation to such a default. Similarly, where the LME becomes aware that a significant Client of a Category 1 or 2 Member has defaulted, the LME will seek to work with the relevant Cat 1 or 2 Member to ensure that the Client default is managed in an orderly manner. It is possible that the default of a significant Client of a Clearing Member could affect the Clearing Member’s integrity but in these circumstances, LME Clear has arrangements in place, more fully dealt with in the LME Clear application.

46. By virtue of section 159 of the Companies Act 1989, LME’s default rules, together with those of other recognised investment exchanges and recognised clearing houses (such as LME Clear), take precedence over normal UK insolvency procedures following a default by a Member under an LME contract. This provision is designed to safeguard the operation of the United Kingdom’s financial markets.
47. The default rules of LME are contained in Part 9 of the LME Rules and set out, among other things, the circumstances under which the LME may declare a Member to be in default, the actions that LME may take in the event of a default, the type of resources that may be used to satisfy the defaulting Member’s obligations and the sequence in which such resources may be used.
48. Under Rule 10 of the LME Clear Rules and the LME Clear Default Procedures, LME Clear has a range of options to manage a default situation. LME Clear may allow contracts between the defaulting Member and LME Clear to settle or LME Clear can transfer them to another Clearing Member with the consent of the Client and the Member transferee. LME Clear may also conduct an auction of the Defaulting Member’s positions and may ultimately close out the positions themselves.
49. Following the administration of Lehman Brothers, the UK enacted legislation designed to improve UK insolvency law in relation to investment banks, and subsequently extended it to certain investment firms. This legislation is known as the Investment Bank Special Administration Regulations 2011 (SAR) and came into force in the UK on 8 February 2011. The SAR applies to investment banks which are defined in the Banking Act 2009 as institutions which: (a) have permission under Part IV of FSMA to carry on at least one of the following regulated activities: (i) safeguarding and administering investments; (ii) dealing in investments as principal; or (iii) dealing in investments as agent; (b) hold client assets (whether or not on trust); and (c) are incorporated or formed in the UK. SAR sets out specific measures designed to improve the timeliness of the return of client assets. It also requires the special administrator to work with market infrastructure operators (such as the LME and LME Clear).

C. LISTING CRITERIA FOR PRODUCTS

Review and Approval of Products – The products traded on the Exchange and any changes thereto are reviewed by the Foreign Regulator, and are either approved by the Foreign Regulator or are subject to requirements established by the Foreign Regulator that must be met before implementation of a product or changes to a product

Product Specifications – The terms and conditions of trading the products are in conformity with the usual commercial customs and practices for the trading of such products



50. The FSMA Recognition Requirements and other retained MIFID II implementing legislation establish a range of requirements that must be met before implementation of a product or changes to a product, and on an ongoing basis. In particular, any product admitted to trading on the LME must be capable of being traded in a fair, orderly and efficient manner and must be designed so as to allow for its orderly pricing as well as for the existence of effective settlement conditions. The FCA has adopted guidance in the FCA Handbook which elaborates on the FSMA Recognition Requirements and retained MIFID II implementing requirements. This guidance sets out principles which the FCA will take into account to determine if the relevant requirements have been satisfied. This guidance are set out at [REC 2.12 of the FCA Handbook](#).
51. The close and continuous nature of the supervisory interaction with RIEs means that, in practice, the FCA is aware of all proposed new contracts well before they are admitted to trading, and if there is a regulatory concern, then this will be built into the formulation of the contract specifications at that time. LME must confirm in writing to the FCA that any new contract complies with the relevant requirements and provides a regulatory analysis to evidence how such compliance will be achieved. The FCA will then perform an internal review and, subject to any questions or concerns it may wish to discuss with the LME, it provide its non-objection ahead of launch.

Risks Associated with Trading Products – The Exchange maintains adequate provisions to measure, manage and mitigate the risks associated with trading products on the exchange, including, but not limited to, margin requirements, intra-day margin calls, daily trading limits, price limits, position limits, and internal controls

50. Trades on the LME are cleared through LME Clear. Each Member is required to provide LME Clear with, and maintains 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 comprises:
- (a) the End of Day Margin Requirement;
 - (b) the Intra-Day Margin Requirement(s); and
 - (c) any other margin requirements (which excludes 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.
51. For further details on LME's daily trading limits, price limits, and internal controls please refer to paragraph 154 below.

D. IOSCO PRINCIPLES

IOSCO Principles – To the extent it is consistent with the laws of the foreign jurisdiction, the exchange adheres to the standards of the International Organisation of Securities Commissions (IOSCO) including those set out in the “Principles for the Regulation and Supervision of Commodity Derivatives Markets” (2011)

52. The LME adheres to the IOSCO principles by virtue of the fact that it must comply with the FCA rules and regulations, which reflect the IOSCO standards. The UK was on the working group that developed these Principles and the predecessor organisation to the FCA (the FSA) endorsed them.
53. The LME adheres to the IOSCO principles set out in the “Objectives and Principles of Securities Regulation” (2003) applicable to exchanges and trading systems. The LME maintains operations to achieve the following and works closely with LME Clear to:
- a. ensure the integrity of trading through fair and equitable rules that strike an appropriate balance between the demands of different market participants;



- b. promote transparency of trading;
- c. detect and deter manipulation and other unfair trading practices;
- d. ensure proper management of large exposures, default risk and market disruption; and
- e. ensure that clearing and settlement of transactions are fair, effective and efficient, and that they reduce systemic risk.



ARTICLE 2 – RECOGNITION OR AUTHORIZATION PROCESS OF THE FOREIGN REGULATOR IN THE HOME JURISDICTION

E. GOVERNANCE

Governance – The governance structure and governance arrangements of the exchange ensure:

Effective oversight of LME

54. The ultimate governance body is the LME Board. The governance structure of the LME provides for a number of Exchange sub-committees, the majority of which report to the Board either directly or through the Executive Committee (ExCom). ExCom is itself a sub-committee of the Board.
55. ExCom: The ExCom is a sub-committee that reports to the Board of Directors. The board of the LME has delegated the running of the day to day operations of the LME to the CEO with the support of the ExCom. ExCom members are responsible individually for the management of their business area together with responsibility for deciding and prescribing matters relating to Membership of the LME and responsibility for risk identification and management. ExCom reports to the Board of the Exchange through the Chief Executive Officer, and supports the Chief Executive Officer in the discharge of his responsibilities.
56. Advisory Committees: The function of each of the advisory committees (the metals committees, the User Committee, the Physical Market Committee, the Ring Dealers Committee, the Traded Options Committee and the Warehousing Committee) is to make recommendations in accordance with their terms of reference. The LME User Committee has been established to represent the interests and views of the Exchange's stakeholders. The LME User Committee reports directly to the Board. In addition, the Physical Market Committee was established to represent the interests and views of the LME of the physical metals trade and industry and reports to the LME User Committee. The Board has delegated to ExCom the initial consideration of those recommendations and the power to give effect to a number of those recommendations.
57. Governance Committees: The Audit & Risk Committee, Technology and Operational Resilience Committee, Charity Committee, Nomination Committee, and the Nickel Board Steering Committee report directly to the LME Board.
58. Regulation and Enforcement Committees: The Arbitration Panel Committee, the Special Committee, the Enforcement Committee and the Quotations Committee are established under the LME Rules. The LME Rules and the terms of reference for these committees set out the functions of these committees and identify those powers that the committees exercise on behalf of the LME Board.

Full details of LME committees and their terms of reference are contained [here](#).

The LME's business and regulatory decisions are in keeping with its public interest mandate.

59. The Exchange provides the trading environment and regulates the market for the trading of its contracts. Approved as an RIE and a regulated market and conforming with UK and other international regulatory requirements, the LME offers, through price and volume transparency and audit trails, a legally safe forum for metals trading. As an RIE, the Exchange comes under the direct jurisdiction of the FCA.
60. The LME has an overarching statutory obligation to ensure that business on its markets is conducted in an orderly manner, providing proper protection to investors. Regulation of the market is largely carried out by the LME, while the majority of members' business is regulated by the FCA (or, where they are relying on a regulatory exemption in the UK, by a regulator in their "home" state). Although certain entities are not required to be authorised in the UK, aspects of their LME business activities are still subject to UK regulatory requirements.



61. Beyond this, both the LME and its members are subject to regulatory controls and input from various UK bodies and government offices. In international trading, rules applied by overseas regulatory bodies such as the International Organization of Securities Commissions ("IOSCO") and the Financial Stability Board ("FSB"), also have to be taken into account.

Fair, meaningful and diverse representation on the board of directors and any committees of the board of directors, including:

(i) appropriate representation of independent directors, and

62. Best practice in the UK is set by the UK Corporate Governance Code, which requires large UK companies should have at least 50% independent representation on the LME Board. Though the LME is not considered to be a large company the LME complies with best practice and follows this principle. Currently, five of the nine members of the LME Board are independent directors, including the Chairman. There are also extensive requirements relating to the management body of an RIE in the FSMA Recognition Requirements, which the LME must demonstrate to the FCA that it meets: see [here](#).
63. Similarly the LME's Audit and Risk Committee and Nomination Committee are comprised of predominantly Independent Directors to ensure sufficient independent judgement on these Committees.

(ii) a proper balance among the interests of the different persons or companies using the services and facilities of the exchange

64. The LME maintains close links with the market through its Committee structure. Advisory Committees have been formed to represent the views of the various sectors that participate in the LME. The advisory committees advise and make recommendations to the ExCom and the Board on a variety of matters relevant to the structure and operation of the Exchange. In addition, the User Committee is a sub-committee of the Board and is charged with representing the users of the LME's direct or indirect services and advising the Board on strategic issues. Further information on the LME's Committee structure can be found on our website [here](#).

The LME has policies and procedures to appropriately identify and manage conflicts of interest.

65. Under section 175 of the UK Companies Act 2006, a director has a statutory duty to avoid any situation in which he has, or could have, a direct or indirect interest that conflicts, or could conflict, with the interests of the company. Section 175 (2) emphasises the applicability of the duty to the exploitation of any property, information or opportunity and confirms that it is irrelevant whether the company itself could have taken advantage of that property, information and opportunity. There are also provisions regarding the identification and management of conflicts of interest in the [Recognition Requirements](#).
66. The LME takes potential conflicts of interest and the associated consequences extremely seriously. It has in place appropriate procedures to mitigate the risk of such occurrences. These procedures supplement the statutory duties on directors set out in the UK Companies Act 2006.
67. The articles of association for the LME set out explicit procedures to deal with such scenarios as do the terms of reference for each committee. These procedures are followed as a matter of course.
68. The terms of reference for ExCom explicitly address the risk of a conflict of interest arising. In addition, the contracts of employment for each of the members of ExCom address this.
69. LME Group has also implemented an LME Group Conflicts of Interest Policy which provides employees with an overview of LME's key obligations and the controls implemented in order to identify, manage and disclose actual conflicts of interest.



There are appropriate qualifications, remuneration, limitation of liability and indemnity provisions for directors, officers and employees of the exchange.

70. The Chief Executive Officer of the LME is appointed as a Director. In line with the Articles of Association, up to four individuals, who are selected by the Nomination Committee, and approved by the Board, are appointed as independent directors. A further seven directors are appointed by the holder of the majority of shares in the LME and may be executive or (independent) non-executive. Each director is appointed on merit based on skills, qualification and experience. Remuneration is set at Group level and is based on a specific fee structure. Directors' remuneration is solely based on the Boards and Committees they belong to. To avoid a conflict of interest Independent Directors' remuneration is set as a base payment only and does not include performance-related elements. Every Director is entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties to the Company or in relation thereto, to the fullest extent permitted by applicable law⁵. The Directors' and Officers' Liability Insurance in place provides the Directors with such protection.
71. Background checks are undertaken against new Directors to ensure that they are fit and proper and eligible to act as a Director. All Directors are also subject to SIF interviews with the FCA, with the regulator providing non-objection to the appointment. The Board is subject to periodic evaluations to ensure that the members, and the Board as a whole, remains fit for purpose and any recommended changes are considered and implemented where appropriate.
72. The LME Exchange Membership Agreement and the Rules both include liability exclusions. The Rulebook provisions are set out in Regulation 19 of Part 3 of the Rules and, in broad terms, operate to ensure that neither the LME nor any of its directors or other officers, or any employees of any member of any committee, shall (except in the case of fraud or wilful default) be liable in contract, tort or any other theory of law to any Member or any other person in relation to the matters detailed in Regulation 19. These matters are broadly set. Additionally, RIEs benefit from s291 FSMA statutory immunity, which provides that an RIE and its officers and staff will not be liable in damages for anything done or omitted in the discharge of the RIE's regulatory functions unless the act or omission was in bad faith.

Fitness – The exchange has policies and procedures under which it will take reasonable steps, and has taken such reasonable steps, to ensure that each director and officer is a fit and proper person.

73. Executive Directors are selected from key senior personnel within the HKEX Group and therefore their qualification is through their position. Up to four individuals, who are selected by the Nomination Committee and approved by the Board, are appointed as independent directors. Up to seven directors are appointed by the holder of the majority of shares in the LME with one individual appointed as the Chief Executive. Each director is appointed on merit based on skills, qualifications and experience. Remuneration is determined by the Board. Director's remuneration is solely based on the boards and Committees they belong to. To avoid a conflict of interest Independent Directors' remuneration is set as a base payment only and does not include performance-related elements. Every Director is entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties to the Company or in relation thereto. The Directors' and Officers' Liability Insurance in place provides the Directors with such protection.
74. Background checks are undertaken against new Directors to ensure that they are fit and proper and eligible to act as a Director. All Directors are also subject to SIF interviews with the FCA, with the regulator providing non-objection to the appointment. The Board is subject to periodic evaluations to ensure that the members, and the Board as a whole, remains fit for purpose and any recommended changes are considered and implemented where appropriate.

F. FEES



All fees imposed by the exchange are reasonable and equitably allocated and do not have the effect of creating unreasonable condition or limit on access by participants to the services offered by the exchange.

The process for setting fees is fair and appropriate, and the fee model is transparent

75. The LME's fees are set out on the website [here](#). The LME's fees have been designed to be fair, transparent and non-discriminatory, as required by applicable legislation, including the FSMA Recognition Requirements and retained MiFID II implementing requirements.
76. There are two types of contracts formed on the LME – Cleared Contracts and Client Contracts, as described above, and under the open offer model operated by the LME. The LME operates three Execution Venues, the Ring, the inter-office market and LMEselect. All Member-to-Member trades and Client trades executed on any of the three venues are submitted to the LME matching system, LMEsmart, for matching and registration. All trades entered into LMEsmart are then automatically transmitted to the clearing system, LMEmercury.
77. EDW houses the LME fee calculator. The LME Fee calculator assigns each trade a transaction fee according to certain criteria, i.e. whether it is a Member-to-Member or Client trade, an outright, long-dated, medium dated or short-dated carry, a Ring, Basis Ring, Inter-Office or Select trade, or a Give-Up trade. All fees imposed by the exchange are reasonable and equitably allocated and do not have the effect of creating unreasonable conditions or limiting access by participants to the services offered by the exchange.
78. The LME's fees are set by the Board. In setting fees, the LME takes into account the fees charged by competitors for equivalent transactions to ensure that fees are fair and non-discriminatory.

G. FINANCIAL VIABILITY

Financial Viability – The exchange has sufficient financial resources for the proper performance of its functions and to meet its responsibilities.

79. The FSMA Recognition Requirements specify that the LME must have financial resources sufficient for the proper performance of its functions as an RIE. In considering whether this requirement is satisfied, the FCA must take into account all the circumstances, including the LME's connection with any person, and any activity carried on by LME, whether or not it is an exempt activity.
80. The FCA has adopted guidance in the FCA Handbook at REC 2.3 which elaborates on the FSMA Recognition Requirements. This guidance sets out principles which the FCA will take into account to determine if the above requirement has been satisfied. This guidance states that a UK RIE which at any time holds:
 - (a) eligible financial resources not less than the greater of:
 - (i) an amount calculated under the standard approach (equal to six months of operating costs); and
 - (ii) an amount calculated under a risk-based approach (which involves the undertaking of an annual financial risk assessment); and
 - (a) net capital not less than the amount eligible financial resources determined under (a);

will, at the time, be considered to have sufficient financial resources in respect of operational and other risks unless there are special circumstances indicating otherwise.



81. LME maintains the current minimum capital amounts needed, and will maintain any future minimum capital amounts needed to meet FCA requirements.

H. FAIR AND EQUITABLE ACCESS

The exchange has established appropriate written standards for access to its services including requirements to ensure:

- (i) Participants are appropriately registered as applicable under the Act or not subject to or exempted from these requirements,
- (ii) The competence, integrity and authority of systems users, and
- (iii) Systems users are adequately supervised.

The access standards and the process for obtaining, limiting and denying access are fair, transparent and applied reasonably.

The exchange shall not unreasonably prohibit, condition or limit access by a person or company to services offered by it.

The exchange does not:

- (i) permit unreasonable discrimination among participants, or
- (ii) impose any burden on competition that is not reasonably necessary and appropriate.

Access requirements

82. As a UK RIE, the LME is subject to UK regulatory requirements that are closely aligned with those outlined above. The LME is obligated under the Recognition Regulations the FCA rules applicable to RIEs (set out in REC, to ensure that access to its facilities is fair and non-discriminatory. In particular, the LME is required to “make transparent and non-discriminatory rules, based on objective criteria, governing access to, or membership of, its facilities” ([REC 2.7.1A](#)). Any new LME initiative is assessed in detail against the Recognition Regulations and such assessment provided to the FCA so the FCA can provide non-objection.
83. LME’s admittance criteria are publicly available and are applied equally to all applicants (see [here](#)). Access requirements for prospective LME participants are set out in Part 2 of the LME Rules. Part 2 specifies the requirements that are applicable to each category of Member, including for instance the prospective Member’s legal structure, regulatory status, capital holdings, anti-money laundering and financial crime procedures. This is supplemented by a jurisdictions document published on the LME website which specifies additional requirements or constraints that are applicable to Members located in specific jurisdictions in order to ensure compliance with applicable law (see paragraph 90 below for further detail in relation to this document). It should be noted that the LME Rules permit the LME to waive or modify Rulebook requirements where certain conditions are met. Where such waivers or modifications are granted, the LME is cognisant of setting precedents, and is careful to ensure that decisions are made on a consistent basis.
84. The LME has in place a process for appealing decisions to deny or limit access to its services (see Regulations 5.7 to 5.9 of Part 2 of the LME Rules). Necessary electronic and physical records in relation to any such appeals are held in confidence and for the appropriate period of time in accordance with our record retention policy, in accordance with our legal, compliance and regulatory requirements.



85. No Member may undertake any regulated activity in relation to the LME unless it is authorised (including by exemption – e.g. in relation to Members based outside of the UK, in other countries, states and provinces and territories, who have been authorised by their home regulator) by the FCA to carry on such regulated activity (see Regulation 4.2 of Part 2 of the LME Rules). As a result, all Trading (Category 1, 2, 3 and 4) Members and RIBs must comply with the FCA rules. Members must inform the LME immediately of any variation, cancellation or permission to carry on a regulated activity (Regulation 4.3 of Part 2 of the LME Rules).
86. The ability to handle Client business through the issue of Client Contracts means that Category 1, 2 and 4 Members must at all times be regulated for this specific purpose by the FCA or an equivalent regulator, or be properly exempt from the need to be so authorised. When an applicant applies for membership of LME, the applicant must confirm its regulatory status and FCA registration number (where applicable), and this is validated by the LME – details of which can be found [here](#). A similar process will be implemented for Members based in Québec .
87. No person may apply or continue to be a Category 1, 2, 3 or 4, or RIB, Member unless such person is:
- (a) an authorised person or exempt person within the meaning of Part III of the FSMA; or
 - (b) a person whose activities in relation to the Exchange as a Member would not constitute regulated activities (as defined in FSMA) on the basis of an appropriate exclusion under the RAO.
- For details on B shares please refer to paragraph 14 above.
88. In accordance with Regulation 7.2 of Part 2 of the LME Rules, no Member may undertake any regulated activity (as defined in the FSMA) in relation to the Exchange unless the Member is:
- (c) authorised, including through exemption, by the FCA to carry on such a regulated activity; or
 - (d) a person whose activities in relation to the Exchange as a Member would not constitute regulated activities (as defined in FSMA) on the basis of an appropriate exclusion under the RAO.
89. The LME Rules do not allow a person to enter into a Client Contract unless he or the other party to the Contract is a Category 1, 2 or 4 Member that can validly enter into Client Contracts in accordance with the law of the UK and any other applicable law or regulation.
90. In relation to ensuring that participants are appropriately registered as applicable under the QDA or exempted from these requirements: the LME is regulated by a number of overseas regulators in a manner similar to that sought in Québec (including in Ontario by the OSC, the US by the CFTC, in Australia by ASIC, in Singapore by MAS, and in Hong Kong by the SFC, amongst others). It is therefore familiar with local regulators imposing particular requirements as a result of local law and regulation. The LME ensures that its participants comply with these requirements through its jurisdictions document, which is can be found on the website [here](#). Members are obliged to comply with the jurisdictions document by virtue of Regulation 12.6(h) of Part 2 of the LME Rules, which states that “A Member shall observe the requirements relating to participants from jurisdictions other than the UK, as set out in the document headed "Jurisdictions" which shall be available on the website of the Exchange, as such document is updated from time to time”.
91. Once it obtains exemption in Québec , the LME will incorporate the specific requirements relating to Québec into the jurisdictions document, in particular those relating to participants on its market which are set out in the proposed terms and conditions to the draft exemption order.

Due diligence and on-going supervision



92. The LME conducts a robust due diligence procedure to ensure that its Members are fit and proper, in order to protect the integrity of the LME and the orderliness of its market. In relation to systems access, pre-admittance requirements are in place in relation to systems training, conformance, testing and accreditation. Once a Member has been admitted, controls are also applied to any additional system users. System users are also subject to supervision on an on-going basis, in particular in the form of oversight by the Trading Operations and Post-Trading Operations and Market Surveillance (including Member Audit) teams).
93. Annual due diligence is performed as a mechanism for monitoring qualifying members' continued suitability. This takes the form of a risk-based approach using a Member risk assessment model. This is updated annually and targeted assessments are performed according to the determined risk ratings. A real-time due diligence screening tool is also used to ensure continued suitability. Member audits are also conducted to ensure that all Members have appropriate systems and controls to ensure ongoing compliance with the LME Rules and Notices issued under the Rules. Such reviews may be either desk based or on-site visits.

Transparency – The Exchange has adequate arrangements to record and publish accurate and timely trade and order information. This information is provided to all participants on an equitable basis.

94. The LME complies with the relevant MiFID II Regulatory Technical Specifications as onshored into UK law on pre- and post-trade transparency requirements. The LME Rules describe sound trading practices and the accuracy of market information provided by participants to ensure the transparency of market behaviour of all market participants.
95. The LME's Real Time Market Data feed (LMEselectMD) provides detailed, real-time, historic and summary reports of trading activity within LME for external data vendors and market participants. The system is supported on a 24x5 basis and is fundamental to the operation of the LME and the market. The data feed is monitored by IT to detect any potential disruption to the provision of the data, which would be investigated and resolved.
96. The commercial terms for market data apply in a non-discriminatory way and are published on the LME website and via notice. Information on the fee schedule more widely is also publically available. The Market Data model has been built to reflect UK MiFIR requirements on publication of pre- and post-trade data.

Pre-trade Publication

97. Bids and offers made via open outcry in the Ring are captured by LME's Trading Operations team and published to the market via LMEselectMD. All orders submitted to LMEselect (the LME's electronic order book), are published on a near real-time basis via LMEselectMD, the LME's market data feed. Every half trade instruction that is submitted to the LME's matching system (LMEsmart) on the inter-office market is published on a near real-time basis via LMEselectMD. Certain trade halves relating to inter-office activity are also subject to pre-trade transparency requirements. This is achieved through a systematic fixed price auction ("SFPA") process. Broadly speaking, the trade halves that are required to be made pre-trade transparent ("PTT") via the SFPA are those that are not subject to a waiver or an exemption from the PTT requirements. Further information is set out in the [LME's PTT FAQs](#).

Post-trade Publication



98. Where orders match in LMEselect so the resulting trades are published to the market on a near real-time basis via LMEselectMD. Trades executed via open outcry in the Ring are captured by LME's Trading Operations team and published to the market via LMEselectMD. Trades and other indicative price information (bids/offers) are captured via an internal system LMEmoic (Market Operations Input Console). This system has customised bespoke functionality allowing us to disseminate price information to the market as close to real time as possible. Market Data Vendors who subscribe including the likes of Bloomberg and Reuters will pick up the price information via the LMEselectMD feed. Half-trade instructions matched on the inter-office market are then published on near real-time on LMEselectMD.

I. REGULATION OF PARTICIPANTS

Regulation – The Exchange has the authority, resources, capabilities, systems and processes to allow it to perform its regulation functions, whether directly or indirectly through a regulation services provider, including setting requirements governing the conduct of its participants, monitoring their conduct, and appropriately disciplining them for violations of exchange requirements.

Members and other participants are required to demonstrate their compliance with these requirements.

99. The LME Rules state that Contracts may be written only by Category 1, 2, 3 and 4 Members (Regulation 1.7 of the LME Rules) and accordingly at least one party to every Contract must be such a Member; non-Members of the LME cannot have direct access to LMEselect. Whatever the form of the electronic connection, orders placed by non-Members will always be routed through a Member and the counterparty risk to non-Members will always be carried by an LME Category 1, 2 or 4 Member.
100. All Members, including RIBs, are required by LME to satisfy the Membership criteria on an ongoing basis. Members are required to notify the LME of anything the LME might reasonably expect to be disclosed to it (see Regulation 12.6(k) of Part 2 of the LME Rules). This would include all legal, financial and regulatory matters that are material to their standing as Members.
101. Under the LME Rules, trades on LMEselect will always be routed through an LME Category 1, 2 or 4 Member. As such, other than Members, there are no other participants to which separate requirements for participation on LMEselect may apply.
102. Regulation of the market is carried out by the LME, while the FCA is responsible for regulating the financial soundness and conduct of Members' business, including RIBs, (unless the Member is not FCA authorised, such as an unauthorised overseas person (UOP). The FCA (or other regulatory bodies if the Member benefits from the UOP exemption) and LME monitor Members on an ongoing basis to confirm that Members are in full satisfaction of their respective regulatory obligations. UOPs are required under Regulation 7.5(b) or Part 2 of the LME Rules to provide a legal opinion that the LME is comfortable with, confirming that they will benefit from the exemption and this opinion will be refreshed periodically, including in response to a material change in the LME Rules.
103. The FCA rules require relevant personnel of FCA authorised firms to have applicable demonstrable experience in relation to the regulated activities which the firm is permitted to perform. The FCA monitors these authorised firms and the quality of the personnel in key operations and compliance functions.
104. The financial resource requirements, standards, guides or thresholds required of Members, including RIBs, are set out at Part 2 of the LME Rules. Regulation 12.1.1 of Part 2 of the LME Rules requires each Member to submit annual audited accounts within four months of the end of the financial year as well as for those of its ultimate parent undertaking. This information is used to verify that Members have complied with the financial resource requirements set out in the LME Rules.



105. LME Clear (which has counterparty risk exposure to Category 1, 2 and 3 Members through the clearing of Cleared Contracts) constantly monitors the collateral requirements for Members. The FCA (whose rules each Category 1, 2, 3 and 4 Members must comply with, unless the Member is a UOP) monitors the financial soundness of Members on an ongoing basis. The FCA is responsible for regulating the financial soundness and conduct of Members' business, unless the Member is a UOP. The admission process for becoming an FCA regulated firm includes a fit and proper person test.

Québec participants that would be admitted to the LME would range from Cat1-4 or RIB Members. As noted, each Category 1, 2, 3 and 4 Member must comply with the UK's authorisation requirements, unless the entity is exempt from authorisation, for example because it is relying on an exemption or exclusion, such as the overseas person exclusion, under the RAO. Depending on the nature of a firm's business and its structure and relative significance, it may be subject to supervision by the FCA (which is the UK's conduct regulator) and/or the Prudential Regulation Authority ("PRA"), which is typically the primary regulatory for more systemically important firms such as big banks and insurers, but firms undertaking client business would be dual-regulated by both regulators, so ensuring that they are subject to appropriate prudential and conduct supervision.

Even in circumstances where an entity is relying on an exemption or exclusion from the need to obtain authorisation in the UK, it may still be required to comply with certain regulatory obligations, including for example certain reporting obligations under the UK version of the European Market Infrastructure Regulation (known as EMIR), or MiFID-related notification requirements if the entity is a high frequency trading firm.

Additionally, we note that both the LME and LME Clear apply membership criteria (to all of their Members, irrespective of a Member is relying on an exclusion or exemption under the RAO from the need to be authorised. Members must satisfy these criteria (which are specific to their category of membership) on an ongoing basis. The criteria include, among other things, minimum capital requirements. In relation to Clearing Members (Category 1-3 Members), LME Clear also undertakes periodic credit assessments on these Members.

Client Advisory and Member Services

106. The LME Market Access Department ("Market Access") is responsible for the on-boarding of new entities. The Market Access function is, in addition, responsible for confirming the on-going suitability of members. Applicants for LME membership are required to meet the relevant eligibility criteria as set out in Part 2 of the LME Rulebook (Membership, Enforcement and Discipline).
107. Members must provide the information necessary to confirm their continued compliance with the eligibility criteria set out in the LME Rulebook. Market Access conduct a risk based approach in respect of reviews demonstrating that the LME discharges its obligations with respect to the UK Money Laundering Regulations and the LME's Financial Crime Policy.
108. The LME Base Service refers to the availability of the facilities of the LME for the trading of base metal contracts.

Enforcement of LME Rules on Members

109. The LME Market Surveillance function consists of approximately fourteen staff. LME Market Surveillance consists of two sub-units, which are Trade Surveillance and Member Oversight. The LME Group General Counsel also acts as the Head of Enforcement. Dedicated members of the Legal function work closely with the Market Surveillance team in relation to all formal investigation and enforcement activity.

Trade Surveillance



110. The primary role of the LME Market Surveillance team is to protect the integrity of the LME's markets by monitoring activity across all LME execution venues for behaviour which could be indicative of possible market abuse under UK MAR. UK MAR contains prohibitions on insider dealing, unlawful disclosure of inside information and market manipulation. LME Market Surveillance utilises the Nasdaq SMARTS surveillance system (referred to as SMARTS) which has a suite of algorithmic alerts that are configured to LME requirements to monitor for behaviour that may be abusive, manipulative (including benchmark manipulation) or undermine the integrity of the Exchange. This monitoring covers market orders and trades through all LME execution venues (LMEselect, the Ring and the inter-office market) on a T+1 (trade date plus one business day) basis. SMARTS has a variety of modules including a case management tool that provides a full audit trail of all analysis and communications and a market replay tool that allows the team to play back historical order book activity to review market conditions at a given point in time.
111. The LME Market Surveillance team is also responsible for enforcing the LME Lending Rules. Category 1, 2, 3 and 4 Members are required by the LME's Commodity Position Reporting ('CPR') rules to report their LME Exchange Traded derivative (ETD) positions on a daily basis for both house and client accounts. The data received resides in the LME's Position and Regulatory Information System ('PARIS') enabling the LME to examine data relating to Members' and their clients' futures, options and warrant positions, as electronically reported by Members each day. The Lending Rules require that Members holding positions above a certain level be prepared to lend to the market, thereby providing liquidity. This prevents dominant holders from squeezing the market, taking advantage of price movements caused by that dominant position and damaging market integrity.
112. Members are also required to report OTC positions on a weekly basis. It should be noted that OTC data is not used for the calculation of lending obligations, but is utilised to identify the building of potentially large positions that could have a detrimental impact on the integrity of LME markets. The information is analysed in conjunction with data on underlying trends in supply and demand and on traded prices in order to detect any potential tightness, squeezes or anomalies in the market.
113. The LME Market Surveillance team works closely with the LMEsmart and LMEselect teams. The 'LMEselect team' in this context refers to Trading Operations. Trading Operations establish the LME's reference prices and have responsibility for monitoring the market in real-time on LMEselect. This includes, for instance, enforcement of the LME's policies in relation to error trades and erroneous submissions. Trading Operations may identify activity or behaviour which may warrant further investigation and this is escalated to the Market Surveillance team as appropriate. Trading Operations monitor LMEselect and have supporting internal tools and controls to highlight activity that may be sent to Market Surveillance. For example this could be an error trade, a price move, significant volume traded or trading patterns and behaviours observed. Trading Operations will send this activity as either an FYI, observation or referral. Outside of price moves which is generally BAU, the most common escalation is observations where Market Surveillance will investigate and decide the best course of action which can include escalating further to a referral. The 'LMEsmart team' in this context refers to Post Trade Operations, who are the Business Owners of the LME's matching service (LMEsmart). LMEsmart provides a post-trade registration and matching service for all LME execution venues. The Post Trade Operations team also own the LME's matching rules and has additional governance over further LME systems such as LMEsword (the LME's secure electronic transfer system for LME warrants) and LMEshield (which is the LME's central electronic register providing global off-warrant commodity receipting). Post Trade Operations will also escalate concerns that have been observed when interacting with the membership that might require further investigation by Market Surveillance. LME Market Surveillance also monitors stock movements and trade matching performance.



114. Following analysis by LME Market Surveillance, suspicions of possible market abuse are escalated to the LME Referrals Committee for discussion to determine whether the activity should be submitted to the UK FCA as a Suspicious Transaction and Order Report (STOR). If considered appropriate, LME Market Surveillance can also instigate a formal investigation into the activity of a Member which may result in possible enforcement action and sanction. Each STOR is also submitted to LME Compliance who will determine whether a SAR (Suspicious Activity Report) should also be submitted to the National Crime Agency as it is recognised that market abuse is a predicate offence to money laundering.

Member Oversight

115. Member Oversight is responsible for managing and conducting the annual Member Audit Programme (“MAP”) and conducting formal investigations into potential misconduct that may lead to disciplinary action.

Member Oversight – Member Audit Programme

116. The team also assesses Member compliance with the LME Rules and associated Notices. The MAP is an annual programme of thematic risk-based reviews to ensure that Members have appropriate systems and controls to ensure ongoing compliance with the LME Rules and Notices. An annual Member audit plan is agreed with senior management to ensure that there is appropriate coverage of the LME Member base and appropriate coverage of LME rules. In determining the subjects to include in each annual plan and the member population of each audit, the MAP takes into account recent changes in rules and regulations, market events and issues raised by other areas of LME. At the commencement of an audit, Members are required to provide information or data so that a desk-based review can be conducted. Member Oversight also has the power to conduct a site visit if required. The LME can apply audit ratings of Satisfactory, Remedial Action Required and Failure to Comply. In the event that a Member fails to take and evidence appropriate remedial action or where a Failure to Comply rating is applied, they may be subject to formal investigation and disciplinary action. The MAP therefore contributes to ensuring that Members uphold the expected standards and that the integrity of the market is maintained.
117. The LME Member Audit programme also covers systems access which ensures that Members only grant LMEselect access to relevant personnel and maintain the necessary records in accordance with LME requirements. Breaches of LME Rules may result in formal investigation and possible enforcement action.

Member Oversight – Formal Investigations

118. Possible breaches of LME Rules may be subject to formal investigation by the Member Oversight unit of LME Market Surveillance in conjunction with LME Legal. Referrals of activity that may warrant investigation can be referred to Member Oversight from any area of the LME as well as referrals from external parties, such as directly from Members. At the commencement of an investigation, the Member is served with a Notice of Investigation and is then required to provide information and evidence of relevant systems and controls through a formal Request for Information. Member Oversight can also conduct interviews with relevant personnel at the Member and also conduct site visits. Member Oversight can also obtain advice from external Legal Counsel and independent expert witnesses. At the conclusion of the investigation a formal report is prepared for the LME Head of Enforcement to present to the LME Enforcement Committee. The LME Enforcement Committee will consider the case presented and in the event that it determines that enforcement action is appropriate, determine what sanction should be imposed on the Member. The LME has brought a number of successful disciplinary actions, a recent example of which can be found by accessing the following [link](#).
119. The LME compliance and surveillance functions are divided as a matter of policy by means of information barriers from the rest of the LME so as to preserve the confidentiality of sensitive Member and client commercial information that is required for regulatory purposes.



120. The LME Rules contain certain provisions enabling the LME to deal with market emergencies. While a number of these powers are exercisable by the LME (e.g. the LME may suspend trading in one or more Contracts or Execution Venues, or across all Execution Venues), certain of them are exercisable by the Special Committee. Specifically, in the event of a suspected undesirable or improper trading practice such as an attempt to squeeze the market, the LME's Special Committee may take any steps necessary to resolve the situation. These steps include ordering a Member to trade out of positions. The Special Committee is comprised of independent non-conflicted persons appointed by the LME Board. This ensures that no directors who may have a conflict of interest are involved in decisions made about any market aberrations. The powers of the Special Committee to intervene in the market in emergencies are set out in Regulation 17 of Part 3 of the LME Rules.

LME's capacity to detect, investigate, and sanction persons who violate LME Rules

121. Regulations 12 to 14 of Part 2 of the LME Rules set out the capacity of LME to investigate and sanction persons who violate LME Rules. This function, along with the detection of such violations, is performed by LME Market Surveillance functions as set out above.
122. Regulations 12.6 and 12.7 of Part 2 of the LME Rules prohibit fraud and abuse (including, but not limited to, wash sales and trading ahead) as well as other trading practices and market abuses. UK and European legislation (as onshored post-Brexit) supplement these prohibitions.
123. LME Market Surveillance has sufficient personnel, and sufficient software tools, to monitor the Execution Venues operated by the LME. The Trading Operations team also monitors the real time market, including the enforcement of orderly trading in the Ring (open outcry). The LMEselect Trading Operations team also monitors for orderly trading on LMEselect and enforces the LME's unexecuted order to trade ratio and throttling limits. Analysis of trading in the Ring, on LMEselect and in the inter-office market for potential market abuse is conducted by LME Market Surveillance. Trading Operations establish the LME's reference prices and monitor the market in real-time. Part of this monitoring (on LMEselect) includes enforcement of the LME's policies in respect of error trades and erroneous submissions, and its dynamic price banding (the primary purpose of which is to minimise fat-finger errors) and daily price limits for base metals (currently set up at 15% above and below a central reference price)⁶. As a result of daily monitoring of the real-time market, Trading Operations may identify activity or behaviour which warrants further investigation or analysis (examples include but are not limited to: unusual price movements in the real-time market, or order behaviour which may be detrimental to the integrity of the market). Such activities or behaviours are escalated to Market Surveillance as appropriate. Market Surveillance receives referrals of such activity from Trading Operations for further analysis and information gathering (including requesting further information directly from the Member). Such referrals and the results of analysis are also escalated to the weekly LME Referrals Committee (which consists of senior staff from Market Operations and Legal) to determine whether the behaviour should be the subject of a formal investigation and / or referred to the appropriate regulatory body. The resourcing of the LME Legal, Regulation and Compliance, and the Enterprise Risk Management teams is kept under constant review. Oversight of the Market Surveillance teams is undertaken by the Head of Market Surveillance, who reports directly to the Co-Chief Operating Officer, LME Group (Trading). Internal compliance and regulatory policy is undertaken by the Regulation and Compliance department.
124. Regulation 12 and Regulation 24 of Part 2 of the LME Rules sets out comprehensive obligations on Members to provide the LME access to information, including in relation to Over-The-Counter transactions and information held by third parties. Regulation 10.5 of Part 2 of the LME Rules supplements this obligation, but this regulation will only apply where there is disciplinary action against a former Member.

⁶ <https://www.lme.com/api/sitecore/MemberNoticesSearchApi/Download?id=2315779f-dd04-4652-9870-87c4a6b51bc3>



125. Members must submit to the regulation of the LME as a condition of access to the LME market. Regulation 2.5 of Part 1 of the LME Rules stipulates that the LME Rules shall be binding on all members. Regulation 1.7 of Part 3 of the LME Rules specifies that all Client Contracts may only be written by Category 1, Category 2 or Category 4 Members, the effect of which is that all Client Contracts will have at least one party being a Member. Regulation 1.7 of Part 3 of the LME Rules specifies that all Client Contracts shall be governed by the LME Rules.



J. RULEMAKING

Purpose of Rules

- (a) **The exchange has rules, policies and other similar instruments (“Rules”) that are designed to appropriately govern the operations and activities of participants.**
 - (b) **The Rules are not contrary to the public interest and are designed to**
 - (i) **ensure compliance with applicable legislation,**
 - (ii) **prevent fraudulent and manipulative acts and practices,**
 - (iii) **promote just and equitable principles of trade,**
 - (iv) **foster co-operation and co-ordination with persons or companies engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in products traded on the exchange,**
 - (v) **provide a framework for disciplinary and enforcement actions, and**
 - (vi) **ensure a fair and orderly market.**
126. The LME Rules are available on the LME website [here](#). The LME Rules are separated into 13 parts and each part focuses on a specific area. In addition, the LME has the power to issue Notices and Administrative Procedures (“Notices”), which, pursuant to Regulation 2.2 of Part 1 of the LME Rules, have the force of rules.
127. The LME Rulebook and Notices are binding on all Members. In order to become a member, applicants must sign an Exchange Membership Agreement with the LME undertaking to be bound by the LME Rules.
128. As a RIE under FSMA, the LME is obliged to adhere to the FSMA Recognition Requirements. The FSMA Recognition Requirements specify that the LME must ensure that appropriate procedures are adopted for it to make rules, for keeping its rules under review and for amending them. The FCA has adopted guidance in the FCA Handbook which elaborates on the Recognition Requirements. This guidance sets out principles which the FCA will take into account to determine if the above requirement has been satisfied. This guidance is set out at REC 2.14 of the FCA Handbook.
129. Pursuant to section 293(5) of FSMA, whilst there is no formal approval requirement for rules, if the LME alters or revokes any of its rules or guidance, or makes new rules or issues new guidance it must give written notice to the FCA. Further, the combination of a legal requirement to consult on rule changes where appropriate, under REC 2.14.1(2), and the ‘close and continuous’ nature of the supervisory interaction with RIEs means that, in practice, the FCA is aware of all material proposed rule changes well before they are made, and if there is a regulatory concern, then this will be built into the formulation of those rules. In determine whether consultation is required, or otherwise appropriate in the circumstances, the LME will have regard to its internal Consultation Procedures, and to its public law obligations. The FCA receives copies of all Notices issued by the LME. Should the FCA wish to review proposed changes to the LME Rules, it will request further information from the LME, which the LME will provide. In such instances, the FCA and the LME will work closely to produce a form of wording that is acceptable to both entities. In addition, section 300A of FSMA (introduced by the Investment Exchanges and Clearing House Act 2006) gives further powers to the FCA in respect of rules which may amount to an “excessive regulatory provision”, requiring a formal notification process and right for the FCA to disallow any such rules. Finally, for any major changes to the LME Rules (such as new contracts, structural and other changes) and other significant initiatives, the LME will prepare a detailed regulatory analysis, referred to as a “REC analysis”, which details how the LME will comply with all relevant provisions of REC following the change.



130. The LME Rules have been designed to ensure compliance with all applicable legislation and to ensure a fair and orderly market. The LME has an internal Compliance department which, amongst other things, monitors the LME's compliance with all applicable legislation. The Compliance Monitoring Programme (CMP), which is maintained by Compliance, lists all legislation applicable to the Exchange on a line-by-line basis and explains how the LME complies with such legislation.
131. The LME Rules have extensive provisions regarding the conduct of Members. These include provisions relating to "prohibited practices" (see Regulation 14 of Part 3 of the LME Rules), which are designed to prevent fraudulent and manipulative acts and practices. More generally, the provisions of Part 3 (Trading Regulations) and Part 4 (Contract Regulations) are designed to set out how trading on the LME should take place in a fair and orderly manner and have been designed to ensure just and equitable principles of trade and to foster co-operation and co-ordination with persons or companies engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in products traded on the Exchange.
132. Part 2 of the LME Rulebook sets out the requirements for admission to membership, as well as provisions relating to provision of information and discipline / enforcement. Regulation 12 of Part 2 of the LME Rules sets out the obligations of Members to promptly provide information reasonably requested by the exchange. Part 2 also sets out the ability of the LME to investigate and take disciplinary action against Members for suspected breaches of the Rules. The provisions relating to investigations are set out at Regulation 13 of Part 2, and the provisions relating to discipline are set out at Regulation 14 of Part 2. Pursuant to Regulation 14.22, a Disciplinary Committee has broad powers to impose penalties on members, including a reprimand, a fine, an order that the Member make restitution to any person when the Member has profited from an act of misconduct at that person's expense, a requirement to comply with such terms and conditions as appropriate, and suspension or expulsion from membership.

K. RECORD KEEPING

Record Keeping – The exchange has and maintains adequate systems in place for the keeping of books and records, including, but not limited to, those concerning the operations of the exchange, audit trail information on all trades, and compliance with, and/or violations of exchange requirements.

133. MiFID II imposed a broad obligation upon investment firms to retain records for a minimum of five years. The FCA Handbook requires authorised firms to retain certain records for longer periods.
134. All persons that have been authorised to conduct investment business in the UK are subject to the audit trail and conduct of business rules imposed by the FCA. FCA authorised firms are required to maintain records of any written communication between the firm and its customers concerning regulated business and to retain copies of contract notes, confirmation notes, and exercise notices.
135. LME Rules set forth similar audit trail requirements – see for example Regulation 12.6 of Part 2 of the LME Rules in particular. All dealings by Members must be properly documented and then reconciled with LME and LMEC. For every contract traded, Members must use a specific code indicating the nature of each transaction. Additionally, the LME's IT infrastructure ensures that all material information regarding: (i) the activity of LME participants; (ii) all orders placed, varied or cancelled by Members; and (iii) all transactions executed by Members, is recorded, processed and stored in a manner that enables the information to be reviewed by LME and other entities that have a regulatory interest in the information. Regulation 12 of Part 2 of the LME Rules requires Members to permit access to their premises and to relevant records; the Market Surveillance team exercises these powers during its audit program (headed by the Member Audit sub-team). In addition pursuant to Regulation 12 of Part 2 of the LME Rules, Members are required to forward information about their activity to LME, and procure their clients to do the same, upon request.



136. All relevant data relating to orders and trades is captured in LMEselect. This information can be exported by appropriately authorised Member users and LME users of LMEselect and therefore retained indefinitely.
137. The LME has a detailed record retention policy which details how all relevant records must be kept, and for how long. This ensures that the LME remains in compliance with all relevant regulatory requirements, which include REC and also relevant data protection requirements (including the UK Data Protection Act and the General Data Protection Regulation or “GDPR” as onshored into UK law).

L. OUTSOURCING

Outsourcing – Where the Exchange has outsourced any of its key services or systems to a service provider, it has appropriate and formal arrangements and processes in place that permit it to meet its obligations, and that are in accordance with industry best practices.

138. The LME Group Critical Service Provider and Outsourcing policy sets out the arrangements for outsourcing. Formal sign off procedure is required from the LMEG Co-COOs for any new arrangement entered into (with support/review from relevant executives and/or ExCom). The LME Board has responsibility for this policy and ensuring arrangements remain within Risk Appetite.
139. The FCA is to be consulted on any significant changes to outsourcing arrangements, and procedures to ensure responsibility remains with the exchange are required and must be approved for any material outsourced arrangements particularly in areas delivering on regulatory obligations.
140. The LME Group Chief Regulatory and Compliance Officer has a direct reporting line into the Board if regulatory conflicts materialise at Executive level that risk compromising meeting regulatory requirements.



M. ENFORCEMENT RULES

For any decision made by the exchange that affects a participant, or an applicant to be a participant, including a decision in relation to access, exemptions, or discipline, the exchange ensures that:

- (a) parties are given an opportunity to be heard or make representations, and**
- (b) it keeps a record of, gives reasons for, and provides for appeals or reviews of its decisions.**

141. The Market Surveillance and Enforcement teams (as referenced in section I) are governed by the following procedures:

Regulations 13 and 14 of Part 2 of the LME Rules respectively set out the investigatory and disciplinary procedures of the LME. The LME has wide powers to investigate suspected acts of misconduct by members. Any suspected act of misconduct will be investigated by the Market Operations and Legal functions. A report detailing the findings of the investigation shall be passed to the Head of Market Surveillance who may, or may not, recommend to the Enforcement Committee that disciplinary proceedings should be commenced. Where the Enforcement Committee decides to institute disciplinary proceedings, a Notice, approved by it setting out the alleged act of misconduct together with a summary of the facts relied upon ("the Notice") shall be served on the Member concerned. The Member has twenty working days from service of the Notice in which to serve a statement of defence (the Defence), in accordance with Regulation 14.4 of Part 2 of the LME rules responding to all or any of the allegations, stating its intended pleas and what admissions of fact, if any, it makes. Generally in practice the LME and the Member will settle the enforcement action (pursuant to Regulations 14.45 to 14.50 of Part 2 of the LME Rules) prior to the service of the Defence. However, if the matter is not settled, the matter may proceed to a Disciplinary Committee. The Enforcement committee is responsible for ratifying any Settlement. The Terms of Reference of the Enforcement Committee are available [here](#).

142. A Disciplinary Committee drawn from the Disciplinary Panel will determine the outcome of the proceedings (Regulations 14.24 to 14.29 of Part 2 of the LME Rules). Regulations 14.30 to 14.34 of Part 2 empower a Disciplinary Committee to impose penalties on a member, including to fine, suspend or expel any Member pursuant to fair and clear standards.

143. A Member may appeal the decision of the Disciplinary Committee to an Appeal Committee drawn from the Appeal Panel (Regulations 14.36 to 14.44 of Part 2 of the LME Rules).

144. The membership and composition of a Disciplinary Committee and Appeal Committee is set out by Regulations 14.56 to 14.71 of Part 2 of the LME Rules. The Disciplinary Panel and the Appeal Panel are staffed by independent and impartial experts, who are generally former senior members of the judiciary of the English courts or experienced former senior regulators or business people. The members of the Disciplinary Panel and Appeal Panel are set out on the LME website: <https://www.lme.com/about/governance/lme-governance/rules-and-regulations-committees>

145. There is no explicit power for the LME to issue warning letters to Members. Despite this, the LME does issue such letters in relation to infractions of the LME Rules such as a failure to comply with Regulation Rule 12.6 of Part 2 of the LME Rules (organising and control of a Member's internal affairs). These letters are usually issued with a view to evidencing at a later date a systematic failure to maintain such controls through repeated breaches. The FCA is kept fully abreast of all instances in which such warnings are issued. The AMF would be notified at the same time as the FCA should any Québec participants fail to comply with the LME Rules. This is in line with our required reporting requirements with other overseas regulators in jurisdictions where we hold licences.

146. Pursuant to English administrative law, the outcome of a Disciplinary Appeal Committee may be subject to judicial review by the English Courts.



147. The Head of Market Surveillance may publish the findings of an investigation where some or all of the findings may be of relevance to the market (Regulation 13.7 of part 2 of the LME Rules). The outcome of disciplinary proceedings may be notified to the relevant parties (Regulation 14.24 to 14.26 of Part 2 of the LME Rules). The definition of the relevant parties depends on the facts of each disciplinary proceeding. However, since 1998, the LME has made public the outcome of all disciplinary proceedings.
148. Provisions relating to applications for membership are set out in the LME Rulebook at Regulation 5 of Part 2. Applications for membership are considered by EXCOM, to whom the LME Board of Directors has delegated authority to consider such applications. The applications are considered objectively against the criteria set out in the LME Rulebook at Part 2. If the LME decides not to admit a Candidate to Membership, it must notify him with a statement of reasons for the refusal and the Candidate may within 14 days of being notified of the Directors' decision lodge notice of appeal with the Secretary. Provisions for appeal to a single arbitrator are set out at Part 2 Regulation 5.8.

N. SYSTEMS AND TECHNOLOGY

Systems and Technology – Each of the exchange's critical systems has appropriate internal controls to ensure completeness, accuracy, integrity and security of information, and, in addition, has sufficient capacity and business continuity plans to enable the exchange to properly carry on its business. Critical systems are those that support the following functions:

- (a) order entry,
- (b) order routing,
- (c) execution,
- (d) trade reporting,
- (e) trade comparison,
- (f) data feeds,
- (g) market surveillance,
- (h) trade clearing, and
- (i) financial reporting.

Description of the matching system

149. LMEselect is the electronic trading platform of the LME. The system allows trading users to change, cancel, activate and inactivate orders in metal futures, carries, strips, averages, options and TAPOs traded on the LME. Non-trading users of members have read-only access to all functions of LMEselect. Users – whether acting in a trading or non-trading capacity – can only access LMEselect if they have been authorised by their firm's compliance department. Users will have unique logon credentials supplied to them by the LME Trading Operations team. LMEselect trades are anonymous in all windows but details can be seen in LME Clear, however. To track trades executed on LMEselect, users can find the clearing number displayed in the Trade History window to check details in LMEsmart or the LME Clear application, LMEmercury.



150. A comprehensive description of how Members may connect to LMEselect is set out in the connectivity guide which is included within the supplemental documentation pack. There are two primary methods of access: (i) via a graphical user interface (GUI); and (ii) by way of the FIX API, which Members use to develop an interface between their in-house systems and LMEselect. The FIX API interface permits Members to route orders from their in-house systems to LMEselect. In addition to this, a number of independent software vendors (ISVs) offer off-the-shelf software solutions to members using the FIX API. Members and ISVs must have entered into software licences with LME prior to accessing LMEselect.
151. As non-Members of LME cannot have direct access to LMEselect in their own name, trades will always be routed through a Member (as Members must undertake business on the LME as principal) and the counterparty risk to non-members will always be carried by a Clearing Member. This principle is imposed on the two primary forms of access to LMEselect as follows:
- (a) GUI: Any trader using the GUI to access LMEselect must be an accredited user. Each accredited user of LMEselect must be an employee of a Member or a person authorised by the FCA to trade on behalf of that Member; customers of Members cannot access LMEselect via the GUI. Once authorised, each accredited user is given a unique user login that is the responsibility of the Member to maintain. Each Member must ensure that necessary and proportionate pre and post-trade risk controls are in place with regards to use of GUI and certain functionality of the GUI may be customised such that use of the GUI can be restricted or limited for a particular user.
 - (b) FIX API: Where a Member wishes to access LMEselect via the FIX API, it will submit a request for a FIX key to LME. As a client of a Member is able to order route its trades via a Member into LMEselect, each request for a FIX key must specify who will access LMEselect via that FIX key. Each Member must ensure that any necessary and proportionate pre and post-trade risk controls are in place with regards to access using the FIX key. It is the responsibility of the Member to notify LME of any change of user associated with a particular FIX key. Members must ensure that a tag field is populated within LMEselect with a code produced by the Member's own system that will identify a client. LME's Market Operations department is able to identify which Member or client account is represented by that code. This condition of access enables the LME to monitor order routing through the FIX API.
152. Irrespective of the means of access to LMEselect, Members are responsible for ensuring that all activity on LMEselect is conducted in accordance with the LME Rules and with all other applicable regulatory requirements. A Member to which a GUI login or FIX key is provided is responsible for all activity in relation to that GUI login or FIX key, including ensuring that necessary and proportionate pre and post-trade risk controls are in place. In the case of a FIX key, this applies irrespective of whether a Member or client account is trading through that FIX key. Members are financially accountable for any trading activity undertaken on LMEselect via a GUI log-in or FIX key in their name and may be subject to disciplinary action, if such Member fails to ensure compliance with the LME Rules.
153. In respect of all other overseas regulatory relationships, the GUI is considered the only method of direct access to the LME's trading system, and therefore the volume generated on LMEselect by individuals who are notified to the Exchange as having access through the GUI from the relevant jurisdiction (i.e. US, Australia, Hong Kong, Singapore) is the volume we report to the relevant regulator. So for example in the US the LME reports all participants who have access to the GUI from the US (i.e. who are physically located in the US) as "US Participants" but we do not report participants who have access via the API because they are not accessing the LME's systems directly (they are using their own systems to access the market). In the same way, we would propose to report any individuals who are physically located in Québec and accessing the GUI as "Québec Participants".

Description of the architecture of the systems, including hardware and distribution network, as well as any pre- and post-trade risk-management controls



154. The LME's pre-trade and post-trade systems and controls to comply with the requirements of ESMA's "Guidelines on systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities" issued in December 2011. LME's pre and post-trade risk management controls are well aligned to the business which takes place through its markets and are robust enough to ensure continuity and regularity in the performance of these markets. The LME's pre and post-trade risk management controls include (among others):

- (a) Error Trades and Erroneous Order Submission Policies: The LMEselect [Error Trades and Erroneous Order Submission Policy](#) relates to error trades and erroneous orders on the LME's electronic trading platform, LMEselect. Among other things, the Policy includes the ability to invalidate transactions where the LME determines, in its absolute discretion, that it would be more appropriate for the market if the transactions in question were invalidated. The LME has a separate [Error Trades and Erroneous Order Submission Policy](#) relating to those inter-office trades that are subject to pre-trade transparency.
- (b) Order cancellation and controls: The maximum number of order or entries updates that can take place on LMEselect is 40 per second for each LMEselect FIX key. Order or entry updates submitted in excess of this in any given second will be queued and smoothed over the following seconds according to the throttling limit maximum. Order or entry updates are not rejected.
- (c) User-level permissions: The trading ability of each GUI or FIX key user can be restricted so that only a certain type or types of contract can be traded. Members can also set bespoke volume and price deviation limits for each user.
- (d) Price bands: As outlined above.
- (e) Daily price limit functionality: Please refer to [Notice 20/080](#) for details on LME's daily price limits. Limits are set at the start of each Business Day.

Concerning trading on LMEselect, in the event that a bid is entered above the higher daily price limit or offer is entered below the lower daily price limit, trading will continue but such order submission will be rejected. Trades on Execution Venues other than LMEselect will be prohibited, through manual controls, from being executed outside the daily price limit. In relation to the Ring and the inter-office market, where an outright trade is entered into LMEsmart outside of the applicable limit-up and limit-down range in either direction, such action shall be treated as an error trade and therefore invalidated. The LME reserves the right to adjust the percentage depending on market conditions.

If the daily price limit on LMEselect is hit during a trading day, the LME may determine that a "Disruption Event" has occurred, the effect of which is to cause the Closing Prices (which are determined on LMEselect each day) not to be a good tradeable price for the purposes of OTC contracts that reference these prices. For the avoidance of doubt, the LME and LME Clear will still use these prices to margin LME Contracts (subject to their respective powers to adjust Closing Prices where appropriate). If the daily price limit is hit in the Ring, trading for that Ring session will be null and void, and a Disruption Event will be called in relation to the Official Prices. Consolidated guidance on Disruption Events is set out in [LME Notice 22/092](#). The LME may, in its absolute discretion, determine whether a Disruption Event has occurred. In doing so, the general principle applied will be whether a daily price limit or suspension has impacted the ability of participants to appropriately hedge at the relevant Official or Closing Price.



Members and their Clients are prohibited from placing orders in tom-next carries for Aluminium, Aluminium Alloy, Cobalt, Copper, Lead, NASAAC, Nickel, Tin and Zinc on any LME Execution Venue at a price in excess of 1% of the relevant metal's previous day's Cash Official Price. Should a trade be executed at a price greater than this, the relevant Members will be instructed to book a reversal and correction through LMEsmart to adjust the trade so that the price is in line with the backwardation limit.

- (f) Pre-trade risk management (PTRM): This provides functionality to LMEselect. As well as enabling a more secure market for all, PTRM provides greater visibility when onboarding new clients. More specifically, PTRM provides Members with the ability to set limits for their own trader users and order-routing clients. All orders sent to the LMEselect system pass through this pre-trade risk system regardless of whether specific limits have been set for a particular user account or not.
- (g) Order throttling: LMEselect employs a limit on the maximum number of order entries/updates to 40 per second for each LME Select FIX key or 10 per second for each GUI user. Entries/updates submitted in excess of this figure are rejected by the system.
- (h) Order flow monitoring: An Unexecuted Order to Trade Ratio is applied on a contract by contract basis to prevent degradation of the trading system caused by unnecessary message flow. Breaches of the ratios are monitored and referred to Market Surveillance for follow up and potential disciplinary action.

LMEselect also provides for the real time monitoring of the capacity of the trading system, providing alerts to staff in Trading Operations to highlight instances where specified message thresholds are breached.

- (i) Position limits: Position limits are not applied on the LME. Our own regulatory obligations require us to collate specified position data for transfer to the FCA weekly, for each metal in respect of aggregate positions held by different person and daily, containing a breakdown of all positions across all maturities of contracts, on a weekly basis.
155. LME stays abreast of technological advancements and trends in the use of technology by its members and their clients by liaising directly with other exchanges and attending and participating in industry working groups and roundtable events. In line with the implementation of MiFID II, the LME has introduced additional pre and post-trade risk controls including dynamic price limits.
156. Members and ISVs may also add additional pre and post-trade risk management functionality to the trading systems that are used to connect to LMEselect via the FIX API. The GUI also has certain in-built controls as set out in the LMEselect user guide.

Market continuity provision

157. For the LME, any stoppages that may occur are mitigated by the failover to its parallel markets: the inter-office market and the Ring. As a result, any interruptions that may occur to LMEselect are less significant than those faced by purely electronic exchanges given that trading can continue on these parallel markets.

The LME has two powers in Part 3 of the Rules under which it can suspend trading. The first is under Regulation 1.3 of Part 3 of the LME Rules, under which the LME can "*at its absolute discretion and acting reasonably suspend trading on one or more of the Execution Venues for such period it considers necessary in the interests of maintaining a fair and orderly market*". This power is exercisable by the LME COO, delegated to him by the CEO, who ultimately holds delegated responsibility for the day to day business of the LME and as a result, this decision may be escalated up to the CEO.



The second power is contained in Regulations 17.1 and 17.2 of Part 3 of the LME Rules, such power being exercised by the Special Committee, in the event that they or the Clearing House have “*cause to suspect the existence or to anticipate the development or likely development of a corner or undesirable situation or undesirable or improper trading practice which in their opinion has affected or is likely to affect the market, the Special Committee after consultation with the Clearing House may take such steps as in their absolute discretion they deem necessary to contain or rectify the situation and they may give directions to Members accordingly... Such steps may include the suspension or curtailment of trading for such period or for such Prompt Dates in such metals or Contracts as may be specified*”. Therefore, whether trading being suspended on Select would lead to trading continuing on the other Execution Venues would not be automatic and would depend on the nature of the circumstances that have led the LME to consider any decision to halt trading and the power that the LME has exercised to do this.

158. LME has in place robust contractual arrangements with its third party service providers to ensure high availability of its entire core IT infrastructure.
159. LME has detailed business continuity and disaster recovery plans and procedures for all of its business operations. The FCA regularly reviews LME’s business continuity and disaster recovery procedures. LMEselect has a highly available design architecture that includes a dual data centre failover capability. If there is a fault with the primary data centre where LMEselect is hosted, the secondary data centre will be utilised. These installations replicate each other in real time so that the trading information on both is up to date at all times. LME routinely validates this failover capability to ensure continued service if there is a fault. Disaster Recovery Tests of all services are performed annually.
160. Members who access LMEselect are recommended to have two network lines diversely routed using the LMEselect service provided by COLT Technology Services in order to ensure resilient connectivity to LMEselect.
161. All LMEselect system data is backed up on a daily basis and stored off site; additionally, LMEselect current data is housed in two geographically separate data centres which are synchronised in real-time, providing a real-time backup of critical data.

Information Technology Risk Management Procedures – The exchange has appropriate risk management procedures in place including those that handle trading errors, trading halts and circuit breakers.

162. Under REC, the LME must always be able to take any reasonable step to “ensure that business conducted by means of its facilities is conducted in an orderly manner and so as to afford proper protection to investors.” In particular, the guidance in REC 2.6.29 (3) confirms that the FCA will have regard to whether the LME’s arrangements and practices “include procedures which enable [it] to influence trading conditions or suspend trading promptly when necessary to maintain an orderly market”.
163. The LME takes steps to ensure that a fair and orderly market is maintained with regard to the submission of orders, and to protect both the LME and Members’ own systems and infrastructure from inappropriate activity. The LME performs ongoing monitoring of the LMEselect, including, without limitation, performance and capacity, orders sent by Members on an individual and aggregated basis, message flow, and the concentration flow of orders, to detect potential threats to the orderly functioning of the market.
164. In addition to measures stated in section N, the LME has arrangements to prevent disorderly trading and breaches of capacity limits:
 - (a) throttle limit, which limits the maximum number of order entries/updates sent per Member per second;



- (b) mechanisms to manage volatility; and
- (c) pre-trade controls.

165. The dynamic price band functionality enables the LME to constrain volatility which may include, where appropriate, the temporary suspension of the matching of orders in LMEselect. The LME may, at its absolute discretion, acting reasonably, suspend trading on LMEselect for such periods it considers necessary in the interests of maintaining a fair and orderly market. The LME will keep such suspension under constant review, and trading will be resumed as soon as reasonably practicable following any such suspension of LMEselect.
166. The LME may suspend access to LMEselect or any of its systems, either at the individual Member or dealer level or for the whole market. This action may be taken at the initiative of the LME or at the request of the relevant Member or where required by the LME Clear Rules, or by the FCA or any other relevant regulatory authority.

Operational Trade Halts

167. The 'kill switch' or 'trade halt' is a feature of the LME's Pre Trade Risk Management functionality and enables relevant staff in Trading Operations to halt trading across the market as a whole, in a particular contract, a prompt date of a contract, or access to trading by individual users in LMEselect.
168. A trade halt can be applied by Trading Operations if LMEselect is experiencing one of the following issues:
- (a) Network or technical issues;
 - (b) Incorrect uploaded reference data;
 - (c) Any other scenario when a trade halt would be deemed to be in the best interests of the market.
169. In the event that the underlying of a derivative has been suspended, any related derivative that is completely dependent on the former must also be suspended. An example of this is an option that is linked to a derivative whose underlying has been suspended.

Error Trades Arrangements

170. The LME Rules include order and trade cancellation powers. Additionally, the LME implemented an Error Trade Policy for LMEselect trades and a separate Error Trade Policy for inter-office trades that are subject to pre-trade transparency requirements.
171. The LME Order Cancellations and Controls Policy refers to the LME's throttle limit per user, which limits the number of order entries and updates to 40 per second.

Members' Controls

172. The LME Rules require Members to comply with all relevant regulatory requirements including, but not limited to, those set out in MiFID II. In particular Members must have policies in place for the following:
- (a) pre-trade controls on price, volume, value and usage of LMEselect, and post-trade controls on the Member's trading activities across both LMEselect and the Matching System;



- (b) these policies should set out the process by which the configuration for each control is determined; the process for revising such configuration, and any over-ride or emergency process;
 - (c) the technical and functional conformance testing that must be undertaken prior to deployment of all third-party systems and/or applications that interface with LMEselect and/or the Matching System.
 - (d) in addition to any over-ride or emergency policy referred to in b) above, Members must have a policy relating to the use of kill functionality with regard to business executed on LMEselect.
173. Members must ensure that the above policies are also reflected in relevant “Business Continuity/Disaster Recovery Plans” maintained and followed by Members, such that the invocation of either does not result in any reduction in the level of control exercised over the business conducted through the LME’s systems. Members must ensure that all staff in key positions at Members are suitably qualified.

O. CLEARING AND SETTLEMENT

Clearing Arrangements – The exchange has appropriate arrangements for the clearing and settlement of transactions through a clearing house.

174. Clearing services are provided to the LME by LME Clear. Each LME Clearing Member (Categories 1, 2 and 3) must also be a member of LME Clear. As such, the clearing arrangements for all LME Clearing Members (as required by LME Clear Rules and the specific terms of the participant agreement(s) between LME Clear and each Clearing Member) include requirements for the maintenance of appropriate bank accounts, payment facilities, documentation and the provision of collateral.
175. LME Clear is in the process of applying, (i) pursuant to Regulation 24-102 respecting clearing agency requirements, CQLR, c. V-1.1, r. 8.01 (“R24-102”), for an order exempting it from recognition as a clearing house, and (ii) section 86 of the QDA for an order exempting LME Clear from recognition as a clearing house under section 12 of the QDA in order to provide its CCP service to Québec market participants (“Exemption Decision”).

Regulation of the Clearing House – The clearing house is subject to acceptable regulation.

176. LME Clear is a limited company incorporated in England and Wales and is subject to the regulations of a clearing house recognised by the Bank of England. If LME Clear’s application to become an exempt clearing organisation in Québec is granted, LME Clear will comply with the terms and conditions imposed by the AMF in its requested order, and compliance with these requirements are overseen by the AMF. As part of its oversight, the AMF reviews required filings and reviews any new substantive rules or substantive changes to current rules relating to access criteria, default management that are specific to the clearing services utilised by Québec clearing members.

Authority of Regulator – A foreign regulator has the appropriate authority and procedures for oversight of the clearing house. This includes regular, periodic regulatory examinations of the clearing house by the foreign regulator.

177. The legal basis for LME Clear’s clearing activities is founded in contract law and primary legislation and regulation. Specifically, LME Clear is:
- A Recognised Clearing House (“RCH”) under Part XVIII of the Financial Services and Markets Act 2000 (FSMA), and the sub-category of RCH referred to as a “recognised central counterparty” (“RCCP”) under Part XVIII of FSMA;



- Authorised as a CCP under the UK on-shored version of EMIR;
- Recognised as a Tier 1 third country CCP under EMIR by ESMA⁷;
- Classified as a designated system under the Financial Markets and Insolvency (Settlement Finality) Regulations 1999 (the Settlement Finality Regulations)⁸; and
- Recognised as a central counterparty for the purposes of Part VII of the Companies Act 1989.

⁷ Following the Brexit Transition Period, LME Clear became recognised as a third country CCP under EMIR

⁸ Following the Brexit Transition period, LME Clear became approved as a third-country system under French law for the purposes of the Settlement Finality Directive



178. The Bank is the responsible body for authorising and supervising CCPs in the UK. The Bank exercises its supervision of CCPs within the framework of the UK legal regime. Part 18 of FSMA is the main UK legislation relating to the regulation of CCPs. The standards that UK CCPs must meet to be recognised are set out in the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations. CCPs must continue to meet these standards to maintain their recognised status. The Bank oversees CCPs' continuing compliance with the recognition requirements.
179. Primary oversight of LME Clear's activities is carried out by the Bank of England. Whilst, following the UK's withdrawal from the EU LME Clear's EMIR College arrangement ceased, in Q1 2021 a new Global College was constituted by the Bank in order to facilitate information sharing around LME Clear activities and initiatives. The Global College met for the first time in June 2021 and meetings are intended to be held twice per year. The Global College met most recently in July 2022.
180. The Principles for Financial Market Infrastructures (PFMIs), published by the Committee on Payment and Market Infrastructure (CPMI) and the International Organisation of Securities Commissions (IOSCO), form the keystone for the Bank's supervisory approach. The UK regulatory framework is therefore consistent with the minimum standards set out in the PFMI. LME Clear operates primarily under the UK on-shored version of EMIR and within the boundaries of FSMA, the PFMI and other relevant UK regulation.
181. The UK regime provides for comprehensive, prescriptive and detailed regulations tailored specifically to CCPs. It also provides for settlement finality and for protections for CCPs in the context of a member's insolvency. It also contains a framework for the resolution of CCPs.

Access to the Clearing House

- (a) **The clearing house has established appropriate written standards for access to its services.**
- (b) **The access standards for clearing members and the process for obtaining, limiting and denying access are fair, transparent and applied reasonably.**
182. The LME Clear Rules act as the master agreement between LME Clear and its Members in respect of all transactions cleared by LME Clear. A copy of the current LME Clear Rules can be found [here](#).
183. The application process for LME Clear is set out in Membership Procedure Part B of the LME Clear Rules and on the LME Clear section of the Website.
184. There are two categories of LME Clear Membership:
- (a) Individual Clearing Members (ICMs) are permitted to clear transactions on their own behalf only;
- (b) General Clearing Members (GCMs) may clear transactions on their own behalf and also in respect of transactions effected (i) by the GCM with its Clients or (ii) by its Clients with other non-Members.
185. There are no other participant types. Only Members, in their capacity of ICMs or GCMs, can set up accounts with LME Clear and access the system for clearing services. All Members are subject to the same Membership Criteria applicable to their membership category described under LME Clear Rule 3. Once admitted as Members, all Members have access to the same range of accounts and services as described in the LME Clear Rules. There are no clearing privileges available to some Members only.



Sophistication of Technology of Clearing House – The exchange has assured itself that the information technology used by the clearing house has been adequately reviewed and tested and provides at least the same level of safeguards as required of the exchange.

186. LME Clear applies industry best practice for development, implementation, operations, monitoring, management and maintenance of IT systems, using industry standard hardware and processes for which experienced resources are readily available. LME Clear ensures that a bi-annual ITIL assessment review is completed by its key IT providers. The Chief Technology Officer is responsible for ensuring IT standards are applied. At the highest level, the IT standards adopted are:
- (c) new system development and project management: system development lifecycle model supported by formal project management methodology when developing large business components; and
 - (d) IT Support Services: ITIL.
187. LME Clear has two key categories for changes that occur on its systems. These categories are Business As Usual (BAU) change and major releases.
188. BAU change encompasses minor patches and small works to the system. These changes can be in response to small works requested by the LME Clear business or patches required for incident and defect resolution. BAU changes are predominately internally facing with no or limited visibility to outside parties.
189. Major releases result in significant change to the system which may include impact to third parties.

Testing

190. Due to the differences in impact and visibility, the two change routes typically have differing levels of testing and coordination applied to them in line with their different risk profiles and LME Clear's own risk appetite statements. LME Clear aims to undertake two major releases per year, dependent upon business requirements and priorities. These changes are generally considered large scale in their nature with significant Member and external impact. Due to the size of these releases extensive testing is applied to each release, testing of a release is undertaken by LME Clear test and business teams as well as relevant subcontractors where appropriate. This ensures that LME Clear fully reviews all releases to ensure that they are of sufficient quality and stability for deployment into production.
191. Testing of a major release includes: Unit Testing, Functional Testing, User Acceptance Testing, Non-functional Testing, Regression Testing, Parallel Runs, Member Tests and Security and Penetration Testing.
- (a) Unit testing is undertaken on all new code developed on the system. This is the first test applied and is undertaken by the developers of the code. This ensures that the code is good quality and addresses the core requirements it is intended for. If the code passes this test then it is promoted to the release for delivery to the LMEC test team.
 - (b) Functional Testing is applied to all new releases and patches. This testing ensures that the new release or patch functionally works as expected. The functional testing is done against detailed requirements and test plans that are created prior to the code delivery. This allows the testers to execute a wide number of tests and compare against expected outcomes. If a defect is identified then it is raised with the developers for correction either via a patch or a subsequent release. All defects are tracked and reported on as part of the release project governance.



- (c) User Acceptance Testing is undertaken by the LME Clear business teams on each element of the release. This test ensures that the LME Clear business confirms that they are able to undertake their required actions and activities on the system. If a defect is identified then it is raised with the developer for correction.
 - (d) Regression testing is undertaken on all major releases. This test runs through a detailed risk based regression test pack. The pack covers key elements of the LME Clear activities to ensure all elements, regardless of whether they are being changed or not still function as expected. This test ensures that there are no unintended consequences of changes made to the system.
 - (e) Member Tests are carried out with LME Clear's external members. This is done with the use of two dedicated Member test systems which are available to all LME Clear members. The Member test environments are setup to provide members with the ability to test against current state and future state. During a major release members are required to self-certify that they have tested against the new release.
 - (f) Non-Functional Testing is applied to all major releases. This test is focused on performance of the system with the new release. The test ensures that the system continues to perform with required trade volumes. These trade volumes include peak LME trade volume and 3x peak volume as required by EMIR. Non-functional tests also include failover and resilience testing which ensures that the system continues to meet the UK EMIR regulatory requirement of a 2 hour recovery period.
 - (g) Parallel Run Tests are undertaken on all major releases. This test involves the pre-production system being run behind the production system with all trades and price updates experienced in production played into the test system. This test is carried out by the LME Clear business team and ensures that the system continues to provide the same results as production and that functionality is as expected by the business teams.
 - (h) Security and Penetration testing are undertaken on each new release. This is undertaken by a third party on LME Clear's behalf to ensure that there are no security flaws within the new release. If a severe security flaw is detected then this is corrected before go live of the release.
192. BAU changes are smaller in scope to the major releases and are delivered as patches to the system. This means that the changes are discreet in nature and can easily be removed if required. As a result of this, BAU changes typically undergo a minimum of Unit Testing, Functional Testing and pre-production deployment testing before deployment into production, although depending on the nature of the change, other test phases may also be included.
193. LME Clear's COO and CTO meet regularly with the Bank and inform it of major releases planned and the expected go-live dates of these. BAU changes are made with no regulatory consultation.

Risk Management of Clearing House – The exchange has assured itself that the clearing house has established appropriate risk management policies and procedures, contingency plans, default procedures and internal controls

194. Clearing services are provided by LME Clear and the relationship is governed by the Clearing Services Agreement.

ERM Framework



195. LME Clear operates a comprehensive Enterprise Risk Management (ERM) framework. The approach to capture all risks is twofold; a top-down management led assessment of risks for each of the risk types identified in the Risk Appetite Statement and also a 'bottom-up' process led approach through the Operational Risk Management Policy that ensures all operational risks are identified and mapped against the key risk types. This provides a full picture of the risks to which LME Clear is exposed and allows for the measurement, monitoring and management of these risks.
196. The management of each of the risk types is assigned to a member of the extended Management Team within LME Clear as the first line. The operational risks are assessed on an ongoing basis and are the subject of a dedicated resource to ensure comprehensive coverage and to identify trends and solutions. The ERM is updated on an ongoing basis and is subject to formal review by the ExCom and the Audit Committee on at least a quarterly basis

Risk Appetite Statement

197. The Risk Appetite Statement lays out how the Board wishes to manage risk; this includes details of policy review cycles and the need to review each policy at least annually. In addition, the Board Risk Committee or Audit Risk Committee (as the case may be) receives quarterly reporting on each of the policies and performance. In addition, the ExCom receives monthly reporting on operational issues and reporting on performance.
198. The Audit Risk Committee is responsible for (amongst other things):
- (a) Monitoring and reviewing the effectiveness of internal controls
 - (b) Enterprise Risk Management
 - (c) Operational Risk

Risk Models

199. All LME Clear's risk models and methodologies have been subject to validation, testing and will continue to be subject to regular review in accordance to its Model Risk Governance Framework. The review process encompasses a theoretical review and assessment of the model methodology including:
- (a) model and methodology coverage;
 - (b) theoretical properties and assumptions underlying the models;
 - (c) the adequacy of the models for their underlying products and markets and the purpose for which they were developed; and
 - (d) the theoretical conditions under which model assumptions may be violated and result in a potential understatement of risk.
200. Validation testing is also performed to ensure that:
- (a) the model has been correctly and comprehensively tested and assessed;
 - (b) the model produces results that are aligned to expectations under the test scenarios and validation procedures that have been performed;
 - (c) the model has been tested over a sufficiently long history and range of market regimes and appropriate environments; and



(d) the adequacy and appropriateness of the validation methodology and testing.

201. Risk policies are reviewed at least on an annual basis. All material changes to the underlying model or methodologies, liquidity risk framework, policies or the validation process require independent validation, advice from the Board Risk Committee and approval from the Bank.

ARTICLE 3 – POWER OF THE APPLICANT REGARDING COOPERATION

The exchange has mechanisms in place to enable it to share information and otherwise co-operate with the AMF, self-regulatory organisations, other exchanges, clearing agencies, investor protection funds, and other appropriate regulatory bodies.

1. The Chief Executive of LME warrants that AMF staff will be notified promptly if any of the representations made in connection with or related to this application for LME's recognition cease to be true or correct in any material respect, or become incomplete or misleading.
2. Additional information relevant to LME, its Execution Venues and Members will be available to the AMF and its staff through the AMF-FCA MOU.
3. LME Clear does not have any existing arrangements in place with the AMF but has applied for an order seeking exemption from the requirements to be recognised as a clearing agency in Québec and thus it is expected that, if the order is granted, as part of its terms and conditions, there will be appropriate reporting requirements prescribed by the AMF.
4. The FCA is party to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, as is the AMF.
5. The FCA is party to the Declaration on Cooperation and Supervision of International Futures Exchanges and Clearing Organisations.

ARTICLE 4 – POWER OF THE FOREIGN REGULATOR IN THE HOME JURISDICTION REGARDING COOPERATION

Satisfactory information sharing and oversight agreements exist between the AMF and the Foreign Regulator.

1. The AMF, together with the Ontario Securities Commission, Alberta Securities Commission and British Columbia Securities Commission, have entered into a Memorandum of Understanding with the Bank and FCA concerning regulatory cooperation related to the supervision and oversight of regulated entities that operate in both the UK and Canada (the Supervisory MOU). The Supervisory MOU provides a comprehensive framework for consultation, cooperation and information-sharing related to the day-to-day supervision and oversight of cross-border regulated entities and enhances the AMF's ability to supervise these entities. The Supervisory MOU became effective on August 21, 2013.



ARTICLE 5 – CONDITIONS OF COMPLIANCE

1. If authorisation is granted, the Applicant undertakes to provide the AMF with the following information and any other information that may be required, notably but not limited to: (i) its annual financial statements; (ii) any material amendment to the laws or regulations governing its activities; (iii) any amendment to its Articles of Association; (iv) any change respecting its right to operate or the existence of conditions respecting the performance of activities in its home jurisdiction; and (v) notice of any situation that could have an impact on its financial viability or its ability to operate.
2. Furthermore, the Applicant undertakes to comply with any other applicable Québec law, including An Act respecting the legal publicity of sole proprietorships, partnerships and legal persons (R.S.Q., c. P-45), to maintain its recognition or authorisation in its home jurisdiction and to abide by any AMF decision.



Part III Submissions by LME

1. Submissions Concerning the Exchange Exemption

- A. All contracts traded on the LME fall under the definitions of “derivative” set out in section 3 of the QDA. An “exchange” is not defined under the QDA; however, subsection 3.1(2) of the Policy Statement to Regulation 21-101 respecting Marketplace Operation provides that a “marketplace” is considered to be an “exchange” if it, among other things, sets requirements governing the conduct of marketplace participants. The LME seeks to provide Québec market participants with direct, electronic access to trading in LME contracts. An exchange falls under the definition of a “regulated entity” set out in section 3 of the QDA.
- B. Pursuant to the Policy Statement and section 12 of the QDA, no regulated entity may carry on derivatives activities in Québec unless it is recognised by the AMF as an exchange exempt from recognition by the AMF.
- C. The LME satisfies all the criteria for exemption from recognition as an exchange. The LME submits that an exemption from recognition is appropriate as the LME is subject to regulation by the FCA and full regulation by the AMF would be duplicative and inefficient. The Québec market participants that trade in commodity futures would benefit from the ability to trade on the LME, as they would have access to a range of exchange-traded metal products. The LME would offer its Québec Participants a transparent, efficient and liquid market to trade LME contracts. LME uses sophisticated information systems and has adopted rules and compliance functions that will ensure that Québec users are adequately protected in accordance with international standards set by IOSCO. We therefore submit that it would not be prejudicial to the public interest to grant the Requested Relief.
- D. The LME understand that this Application will be reviewed and discussed with Staff and that it will be published, for a 30 day comment period.

2. Similar Relief has been Granted

The LME notes that exemptive relief similar to the Requested Relief has been granted by the AMF in (i) *In the Matter of FRTSIL*, (ii), *In the Matter of ICE Futures Europe*, and (iii) *In the Matter of Nodal Exchange, LLC*.



Part IV Other Matters

The LME consents to the publication of this Application for public comment in the AMF Bulletin.

Should you have any questions on this application, please contact the LME Regulation and Legal teams.

Yours faithfully,

LME



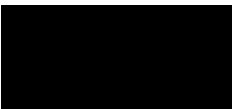
APPENDIX 1

Certificate of Verification

To: Autorité des marchés financiers

The undersigned hereby authorises the making and filing of the attached application and confirms the truth of the facts contained therein.

Dated: 25 May 2023

By 

Name: Kirstina Combe

Title: Chief Regulatory and Compliance Officer, LME Group

7.3.2 Publication

Aucune information.