

SECTION 8

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8. **LME DELIVERIES**

8.1 **INTRODUCTION**

These Procedures should be read in conjunction with the Clearing House's General Regulations and the LME Rules and Regulations and the SWORD Regulations and Operating Procedures.

These Procedures apply to LME deliveries effected through the SWORD system as prescribed by The London Metal Exchange.

Clearing Members must be fully aware of their obligations under the relevant contracts.

In the event of any conflict between these Procedures and the LME Rules and Regulations, the LME Rules and Regulations shall take precedence.

Enquiries concerning the procedures in this section should be directed to **Business Operations staff at the Clearing House.**

8.2 **GENERAL INFORMATION**

8.2.1 **Clearing Accounts**

Clearing Members' house and client accounts are treated separately for deliveries. It is not possible to offset delivery positions between these two accounts. Sellers must create a separate *Authorised Cleared Transfer Instruction* to the Clearing House for each account. Buyers will receive from the Clearing House a separate *Authorised Cleared Transfer Instruction* from the Clearing House for each account.

8.2.2 **Delivery Settlement Price**

The Delivery Settlement Price is established by the Exchange in accordance with the LME Rules and Regulations. The Delivery Settlement Price is published on the LME Matching system.

8.2.3 **Delivery Position**

A final delivery position is calculated individually for each product maintaining Clearing Members' house and client positions separately. The delivery position is calculated for each product in the following way:-

- (a) sold and bought lots are netted for each currency with an open position. The result will be an uncovered sold or bought position for each currency; then
- (b) the netted (uncovered) sold or bought position, for each currency, are netted against each other to derive a single sold and bought position for the product. This is the delivery position.

The delivery position will be the number of warrants deliverable via SWORD.

8.2.4 **Days and Times**

All days are London business days unless otherwise stated.

All times are London times unless otherwise stated.

8.2.5 **Cash Settlement**

For LME cash settled contracts the cash settlement procedures apply (see section 2A.6.5.1).

8.2.6 **SWORD**

For designated products warrant deliveries are effected using the SWORD system. Clearing Members participating in LME deliveries are required to be fully conversant with the operating procedures and processes of the SWORD system. Clearing Members must submit and retrieve delivery information via the SWORD system.

8.2.6 (cont'd) When using SWORD, Clearing Members must always ensure they allow sufficient time to connect to and transmit their delivery details within the deadlines prescribed in the SWORD Operating Procedures. Failure to do so will constitute late delivery and may be subject to disciplinary action by LME.

Clearing Members experiencing connection difficulties should contact Business Operations staff at the Clearing House immediately.

8.2.7 **SWORD Clearing Accounts**

In order to facilitate the delivery process via SWORD both the Clearing House and Clearing Members will have mandatory clearing accounts.

8.2.7.1 **The Clearing House Clearing Account**

Warrants transferred from the seller to the Clearing House and from the Clearing House to the buyer will be held in the *Clearing House Clearing Account*. The allocation of warrants will be performed whilst the warrants are held in this account.

8.2.7.2 **Clearing Member Clearing Account**

Warrants allocated to buyers in fulfilment of delivery entitlements will be transferred from the *Clearing House Clearing Account* to either a *House Collection Account* or a *Customer Collection Account*. Both these accounts are automatically created by SWORD and cannot be deleted. Warrants will be transferred to the relevant account depending on whether the delivery position is held under the house or customer account.

8.2.8 **SWORD - Notification of Delivery Commitments and Entitlements**

Clearing Members with delivery positions will be notified of their delivery commitments and entitlements via SWORD for the relevant prompt date. Clearing Members can view this information by selecting the *Giver Summary View* or *Taker Summary View* within the Cleared Transfers folder.

8.2.9 **SWORD - Delivery Mechanism**

8.2.9.1 **Warrant Collection**

SWORD will automatically initiate a *Warrant Collection* process at the delivery deadline at 11:00 hours. All warrants nominated in an *Authorised Cleared Transfer Instruction* will be transferred to the *Clearing House Clearing account*.

A seller will receive a separate notification, via SWORD, for each product informing them that the warrant collection process has been effected.

8.2.9.2 **Warrant Allocation and Delivery**

The Clearing House will initiate the *Warrant Allocation and Delivery* process. The warrants held in the *Clearing House Clearing Account* will be sorted and allocated in accordance with the SWORD Warrant Allocation Method (section 8.2.10). The warrants allocated to the buyer will be transferred from the *Clearing House Clearing Account* to the buyer's mandatory Clearing House Collection Account.

8.2.9 (cont'd) A buyer will receive a separate notification, via SWORD, for each product informing them that the transfer of warrants has been effected.

8.2.10 **SWORD Warrant Allocation Method**

The warrant allocation process allocates warrants from the seller to the buyer in the following way:

- (a) buyers for each product will be sorted in SWORD Participant Number sequence, with client and house delivery positions being considered separately, the "buyers sequence";
- (b) SWORD will randomly pick a buyer from which to commence allocating warrants;
- (c) the warrants received by the Clearing House from the sellers are sorted by product, location and warrant number, the "ordered list". A random allocation starting point is selected by SWORD;
- (d) commencing from the selected buyer SWORD will begin allocating warrants in batches of fifty warrants for metals and ten warrants for plastics;
- (e) *for metals*, if the buyer is expecting to receive more than fifty warrants, the first fifty warrants from the ordered list will be allocated to that buyer and the process will move on to the next buyer in the buyers sequence. *for plastics*, if the buyer is expecting to receive more than ten warrants, the first ten warrants from the ordered list will be allocated to that buyer and the process will move on to the next buyer in the buyers sequence;
- (f) *for metals*, if the buyer is expecting less than fifty warrants, the whole amount will be allocated to that buyer and the process will move on to the next buyer. *for plastics*, if the buyer is expecting less than ten warrants, the whole amount will be allocated and the process will move on to the next buyer; and
- (g) the process will continue until all of the warrants received by the Clearing House have been allocated.

8.2.11 **Access to Reports**

8.2.11.1 **LME Matching and Clearing System**

The following reports can be accessed using the LME Matching and Clearing System via the report printing and browsing facility:

- (a) Invoice and Account Sales

This report displays the amount due to the seller and payable by the buyer against the net open contracts in the relevant product and currency. The amount is based upon the contract tonnage and does not take account of weight adjustments and rent allowances.

8.2.11.1
(cont'd)

(b) Prompt Date Settlement Statement

This report displays the net open contracts in the relevant product and currency and the amount due to sellers and payable by buyers.

(c) Member Japanese Yen Settlement Advice Listing

This report details values in respect of settlement differences and delivery amounts for Japanese Yen contracts.

8.2.11.2 **SWORD**

The following reports can be accessed using SWORD:

(a) Warrant Collection Adjustment Invoice

This report lists the warrants collected by the Clearing House from the seller and displays to the seller the rent and weight adjustment due on those warrants. A separate report is produced for each product delivered.

(b) Warrants Allocation Adjustment Invoice

This report lists the warrants allocated by the Clearing House to the buyer and displays to the buyer the rent and weight adjustment due on those warrants. A separate report is produced for each product delivered.

8.2.12 **Invoice and Account**8.2.12.1 **Invoice and Account Sales Calculation**

The Clearing House calculates the amounts due to the seller and payable by the buyer against the net open contracts in the relevant product and currency. The calculation is as follows:

$$\text{Amount} = \text{contract weight} \times \text{Delivery Settlement Price} \times \text{lots}$$

where: the Delivery Settlement Price is in the currency of the open contract (JPY, EUR, USD, GBP) and is set in accordance with LME trading regulations.

The contract weight is determined by LME special contract rules for metals and plastics.

8.2.12.2 **Invoice and Account Sales Calculation - Example**

Using the above formula where:

Contract weight	=	25
Delivery Settlement Price	=	USD1300
Lots	=	5
Total Invoice/Account Sale	=	25 x 1300 x 5
Value	=	USD162,500

8.2.12.2 (cont'd) The total invoicing amount is shown on the *Invoice and Account Sales* enquiry and report; and on the *Prompt Date Settlement Statement* which is accessed via the printing and browsing facility.

8.2.13 **Payment of Invoice and Account Sales**

Payments for delivery entitlements are posted to the debit of the buyer's cover / tender account, dependant upon currency.

Following receipt of warrants from sellers the Clearing House makes payment to the seller of the Account Sale amount by PPS (or by any other method as specified by the Clearing House).

8.2.13.1 **Japanese Yen**

Payments are made to or called from the tender account. The Invoice value is a debit posted to the tender account and called by 09:00 hours **on the morning of the business day prior to the delivery day, but for value on the delivery day**. The Account Sale value is a credit posted to the tender account prior to the delivery day. Payment will be made against the delivery of warrants, on the delivery day, for same day value by approximately 12:30 hours via PPS.

Clearing Members can access the *Member Japanese Yen Settlement Advice Listing Report* on the report printing and browsing facility.

8.2.13.2 **US Dollar/Sterling and Euro**

Payments are made to or called from the cover account. The Invoice and Account Sales values are debited and credited on the delivery day for same day value.

The Invoice value is a debit posted to the cover account and called by 09:00 hours. The Account Sale value is a credit posted to the cover account against the delivery of warrants by approximately 12:30 hours via PPS.

On the settlement day sold lots, for the same product, in USD, GBP or EUR are netted against bought lots in other currencies. The settlement value for the netted lots is credited or debited to the appropriate cover account for the currency. Remaining sold lots are delivered under normal procedures.

For example:

Currency	Product	Bought	Sold	Invoice Value DR	Account Sale Value CR	Confirmation Time
USD	AH		72		2,535,079	09:00
EUR	AH	67		3,906,502		09:00

The Account Sale value of the remaining sold 5 lots will be credited at approximately 12:30 hours following delivery of the appropriate warrants.

Note: for the purpose of this example approximate Invoice and Account Sale values are used.

8.2.14 Payment of Allowances**8.2.14.1 Rent and Weight Differences**

Allowance for accrued rent and any difference between warrant weight and contract tonnage weight are detailed on the *Warrant Collection Adjustment Invoice* (appendix 8A) and *Warrant Allocation Adjustment Invoice* (appendix 8B) produced by SWORD. The rent and weight values, calculated in US Dollars, are netted against each other to create an overall debit or credit amount. This amount is posted to the Clearing Member's US Dollar cover account on the delivery day for value and settlement on the next business day.

The rent and weight debit and credit amount is posted by product and can be reconciled against either the *Warrant Collection Adjustment Invoice* or *Warrant Allocation Adjustment Invoice*.

8.2.14.2 Premiums and Discounts

A premium or discount may apply to certain products for delivery purposes, refer to LME Rules and Regulations for applicable products and premium/discount rates. The premium/discount calculation is detailed on the *Warrant Collection Adjustment Invoice* (appendix 8A) and *Warrant Allocation Adjustment Invoice* (appendix 8B) produced by SWORD. The amount is posted to the Clearing Member's US Dollar cover account on the delivery day for value and settlement on the next business day.

8.2.15 Delivery Specification

A deliverable warrant must meet the acceptance criteria set out in the LME special contract rules for metals and plastics, listed brands and LME Registered Warehouses prescribed in the LME Rules and Regulations.

8.3

METALS AND PLASTICS DELIVERY TIMETABLE

DAY	TIME	ACTION	
		SELLERS	BUYERS
For metals and plastics Two days prior to delivery day	20:00	Trading and input ceases for JPY.	Trading and input ceases for JPY.
For metals and plastics Business day prior to delivery day	09:00	The Clearing House credits sellers, Account Sales value, for JPY for value the delivery day.	The Clearing House debits buyers, Invoice value, for JPY for value the delivery day.
For metals and plastics Business day prior to delivery day	At 12:30	Trading ceases for GBP/USD/EUR.	Trading ceases for GBP/USD/EUR.
	At 13:30	Input ceases for GBP/USD/EUR.	Input ceases for GBP/USD /EUR.
For metals and plastics Business day prior to delivery day	By Approx. 16:00	The Clearing House calculates delivery positions for sellers. The positions are sent to SWORD.	The Clearing House calculates delivery positions for buyers. The positions are sent to SWORD.
	By Approx. 16:30	The Clearing House informs the seller of delivery commitments via SWORD. SWORD produces <i>Unauthorised Cleared Transfer Instructions</i> for each sellers. <i>Invoice and Account Sales</i> report available via screen enquiry on the Clearing system.	 <i>Invoice and Account Sales</i> report available via screen enquiry in the LME Clearing system.
	From 16:30	Seller may nominate warrants to add to the <i>Unauthorised Cleared Transfer Instruction</i> . <i>Unauthorised Cleared Transfer Instruction</i> may be <i>Authorised</i> ready for submission on the prompt date.	
For metals and plastics Delivery day	By 07:30	<i>Invoice and Account Sales report</i> and <i>Prompt Date Settlement Statement</i> become available on the report printing and browsing facility.	

8.3
(cont'd)**METALS AND PLASTICS DELIVERY TIMETABLE**

DAY	TIME	ACTION	
		SELLERS	BUYERS
For metals and plastics Delivery day (cont'd)	By 09:00		The Clearing House debits buyer for Invoice value for delivery entitlement.
	By 10:30	Seller must inform Business Operations staff at the Clearing House if their delivery commitment will be late or if they cannot deliver.	
	By 11:00	Seller must nominate all necessary warrants in to an <i>Authorised Cleared Transfer Instruction</i> in order to fulfil delivery commitment.	
	At 11:00	Warrant Delivery Deadline The Clearing House collects all <i>Authorised Cleared Transfer Instructions</i> from the seller.	
	By Approx. 11:30	The Clearing House informs seller of warrants transferred. The Clearing House initiates <i>Warrant Allocation and Delivery</i> process.	Buyer receives warrants in fulfilment of delivery entitlements.
	Approx 12:30	The Clearing House credits seller via PPS for Account Sales value for delivery commitments.	
	Approx. 13:00	<i>Warrant Collection Adjustment Invoice</i> available. Rent and weight Adjustments posted to cover accounts for payment on next succeeding value date.	<i>Warrant Allocation Adjustment Invoice</i> available. Rent and weight Adjustments posted to cover accounts for payment on next succeeding value date.
	At 15:00	Automatic end of day deadline for <i>SWORD Cleared Transfer Instructions</i> .	Automatic end of day deadline for <i>SWORD Cleared Transfer Instructions</i> .

8.4 **DELIVERY PROCEDURES**

8.4.1 **Cessation of Trading**

8.4.1.1 **Japanese Yen**

For Metals and Plastics

Contracts must be entered into by 17:00 hours and input to the LME matching system by 20:00 hours, two business days prior to the delivery day (i.e. 'cash' prompt date).

8.4.1.2 **US Dollar, Sterling and Euro**

For Metals and Plastics

Contracts must be entered into by 12:30 hours and input to the LME Matching system by 13:30 hours on the business day prior to the delivery day (i.e. 'cash today' prompt date).

8.4.2 **Day Prior to Delivery Date**

By 09:00 Hours

For JPY (only)

The Clearing House will debit buyers and credit sellers for the amount of the *Invoice and Account Sales* for value on the delivery day.

By 16:00 Hours

Delivery positions are calculated based upon Clearing Members' positions at the close of business the previous day and trades up to 12:30 hours on the day for the relevant product. The netted delivery position, for each member and sub account is calculated by netting the uncovered lots across currencies for each product. The *Invoice and Account Sales* report is made available via an enquiry screen on the LME Clearing system. The delivery positions and relevant Delivery Settlement Prices are sent from the Clearing system to the SWORD system.

By 16:30 Hours

A seller with a delivery commitment receives an *Unauthorised Cleared Transfer Instruction* from SWORD for each sub account and product. This instruction may be discarded by the seller and a new instruction created. Sellers must deliver to the Clearing House the number of warrants equal to their final delivery position.

8.4.2 (cont'd) The seller may nominate warrants as soon as the *Unauthorised Cleared Transfer Instruction* is received and it can be *Authorised* up to 11:00 hours on the delivery date.

8.4.3 **Delivery Date**

By 07:30 Hours

The Clearing House will make the following reports available on the report printing and browsing facility:

- (a) Invoice and Account Sales
- (b) Prompt Date Settlement Report

By 09:00 Hours

The Clearing House will debit buyers for all delivery entitlements for the amount of the *Invoice and Account Sales*.

By 10:30 Hours

Sellers who anticipate that their delivery commitment will be made after the 11:00 hours delivery deadline or who are unable to fulfil their delivery commitment **must** inform the Clearing House.

By 11:00 Hours

The seller must nominate warrants in fulfilment of their advised delivery commitments into an *Authorised Cleared Transfers Instruction*.

At 11:00 Hours - Delivery Deadline

The SWORD system will automatically initiate the *Warrant Collection* process. All warrants held in a seller's *Authorised Cleared Transfer Instruction* will be transferred to the Clearing House.

Approximately 11:30 Hours

The seller will receive notification, via SWORD, that their *Authorised Cleared Transfer Instruction* has been collected.

The Clearing House will initiate the *Warrant Allocation and Delivery* process. All warrants collected will be ordered in accordance with the SWORD warrant allocation method outlined in section 8.2.10.

The Clearing House will transfer the allocated warrants to the buyer's mandatory *House or Customer collection* accounts. The buyer will receive notification of the warrants transferred from the Clearing House via the SWORD system.

Approximately 12:30 Hours

Following receipt of all warrant delivery commitments from the seller the Clearing House will make payment of the *Invoice and Account Sale* amount via PPS (or by any other method as specified by the Clearing House).

8.4.3 **By 13:00 Hours**
(cont'd)

Following the completion of the *Warrant Collection* and *Warrant Allocation Delivery* process the Clearing House will make the following reports available via SWORD:

- (a) Warrant Collection Adjustment Invoice (appendix 8A)
- (b) Warrant Allocation Adjustment Invoice (appendix 8B)

The rent and weight Adjustments are posted to Clearing Members' US Dollar cover accounts for value and settlement on the next business day.

At 15:00 Hours - End of SWORD Cleared Transfer Day

The SWORD system will automatically initiate an *End of Day Cleared Transfer* process. A seller will not be able to create a *Cleared Transfer Instruction* after this deadline.

8.5 DELIVERY DOCUMENTATION SUMMARY**8.5.1 Warrant Collection Adjustment Invoice (appendix 8A)**

The report is produced by SWORD for each product delivery commitment transferred from the seller to the Clearing House and provides the following details:

- (a) the delivery date
- (b) the seller's mnemonic and name
- (c) the seller's SWORD participant name
- (d) the product code and name
- (e) the sub account
- (f) the Delivery Settlement Price for the product
- (g) the warehouse company code for the warrant/s
- (h) the location code for the warrant
- (i) the warrant number
- (j) the brand for the warrant
- (k) the net weight of the warrant
- (l) the weight adjustment of the warrant
- (m) the rent start date of the warrant
- (n) the rent due on the warrant
- (o) the total net weight and adjusted weight amount due
- (p) the total rent due
- (q) the cover account posting
- (r) the total number of warrants

Clearing Members are advised to print this report and retain it as a record of their warrant delivery.

8.5.2 Warrant Allocation Adjustment Invoice (appendix 8B)

The report is produced by SWORD for each product delivery entitlement transferred from the Clearing House and to the buyer provides the following details:

- (a) the delivery date
- (b) the buyer's mnemonic and name
- (c) the buyer's SWORD participant name
- (d) the product code and name
- (e) the sub account
- (f) the Delivery Settlement Price for the product
- (g) the warehouse company code for the warrant/s
- (h) the location code for the warrant
- (i) the warrant number
- (j) the brand for the warrant
- (k) the net weight of the warrant
- (l) the weight adjustment of the warrant
- (m) the rent start date of the warrant
- (n) the rent due on the warrant
- (o) the total net weight and adjusted weight amount due
- (p) the total rent due
- (q) the cover account posting
- (r) the total number of warrants

Clearing Members are advised to print this report and retain it as a record of their warrant delivery.

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APPENDIX 8A

SWORD

Warrant Collection Adjustment Invoice for 24-Apr-2005

Giver Clearing Mnemonic : XYZ International Ltd

Date Printed : 24-Apr-2005

Giver Participant ID : 5002

Time Printed : 15:27:14

Sub-Account : H House

Product : PB Lead

Settlement Price : 474.00 USD

Warehouse Company Code	Location Code	Warrant Number	Brand	Net Weight	Weight Adjustment	Rent Start Date	Rent (USD)	Discount Rate (N/A)	Discount (N/A)
ABCDEF	GHIJ	LON1234	KLMNO	24,846	-73.00 DB	01-Apr-2000	-620.50 DB	0.00	0.00
ABCDEF	GHIJ	LON1239	KLMNO	24,978	-10.43 DB	01-Apr-2000	-620.50 DB	0.00	0.00
ABCDEF	GHIJ	LON1236	KLMNO	24,921	-37.45 DB	01-Apr-2000	-620.50 DB	0.00	0.00
ABCDEF	GHIJ	LON3456	KLMNO	24,913	-41.24 DB	01-Apr-2000	-620.50 DB	0.00	0.00
ABCDEF	GHIJ	LON4321	KLMNO	24,983	- 8.06 DB	01-Apr-2000	-620.50 DB	0.00	0.00
ABCDEF	GHIJ	LON9876	KLMNO	24,871	-61.15 DB	01-Apr-2000	-620.50 DB	0.00	0.00
ABCDEF	GHIJ	LON9865	KLMNO	24,829	-81.05 DB	01-Apr-2000	-620.50 DB	0.00	0.00
ABCDEF	GHIJ	LON8945	KLMNO	24,822	-84.37 DB	01-Apr-2000	-620.50 DB	0.00	0.00
ABCDEF	GHIJ	LON3267	KLMNO	24,911	-42.19 DB	01-Apr-2000	-620.50 DB	0.00	0.00
				224,074	-438.94 DB		-5,584.50 DB		0.00
Total number of warrants given : 9				Cover account posting : -6,023.44 DB					

APPENDIX 8B

SWORD

Warrant Allocation Adjustment Invoice for 24-Apr-2005

Taker Clearing Mnemonic : XYZ International Ltd

Date Printed : 24-Apr-2005

Taker Participant ID : 5003

Time Printed : 15:30:14

Sub-Account : H House

Product : NI Nickel

Settlement Price : 8160.00 USD

Warehouse Company Code	Location Code	Warrant Number	Brand	Net Weight	Weight Adjustment	Rent Start Date	Rent (USD)	Discount Rate (N/A)	Discount (N/A)
ABCDEF	GHIJ	LON1234	MLNOP	5,928	587.52 CR	01-Apr-2000	201.48 CR	0.00	0.00
ABCDEF	GHIJ	LON1235	MLNOP	5,916	685.44 CR	01-Apr-2000	201.48 CR	0.00	0.00
ABCDEF	GHIJ	LON1236	MLNOP	5,904	783.36 CR	01-Apr-2000	201.48 CR	0.00	0.00
ABCDEF	GHIJ	LON1237	MLNOP	6,000	0.00	01-Apr-2000	201.48 CR	0.00	0.00
ABCDEF	GHIJ	LON1238	MLNOP	5,969	252.96 CR	01-Apr-2000	201.48 CR	0.00	0.00
				29,717	2,309.28 CR		1,007.40 CR		0.00

Total number of warrants taken : 5

Cover account posting : 3,316.68 CR