

LME responsible sourcing

October 2019



SETTING THE GLOBAL STANDARD



Contents

1	What are we doing?	3
2	Why are we doing it?	4
3	What are the core features of our approach?	5
4	What do LME brands need to do?	8
5	What is our ongoing commitment?	14

1 What are we doing?

The LME is committing to the introduction of responsible sourcing requirements for its listed brands. We have been working with a variety of industry bodies regarding the responsible sourcing of minerals for several years. In 2017, we conducted a comprehensive responsible sourcing survey with all producers of our listed brands and in October 2018, set out a proposed approach to responsible sourcing to which we received extensive feedback from the market. Following detailed analysis of this feedback, the LME released a formal market-wide consultation in April 2019, the responses to which have helped us shape the final set of requirements for all LME-listed brands in respect of responsible sourcing.

The LME occupies a unique position in the global metals industry. Our brand lists determine which brands of metal can be delivered against LME contracts; and more broadly, many global physical supply contracts require LME brands for delivery. As such, the LME fulfils a broader role across much of the metals industry in identifying the brands which reflect the needs of the market. We are therefore able to work with our industry to ensure that our brand lists embody global expectations of best practice.

For over a century, the LME has stipulated only metallurgical standards for its brands. And while we do not change our approach lightly, we now believe that the time is right for responsible sourcing principles to be embedded.

We recognise that by voluntarily taking on a leadership role in the responsible sourcing space, we may subject ourselves to criticism from those on all sides of the debate. Our role will necessarily be to forge a consensus between the potentially divergent views of various stakeholders – and this role is never popular. But we believe that this topic is now too pressing for the LME not to be an active participant in this debate. Our commitment to serve our market requires that we play our part.

2 Why are we doing it?

We are taking this action for three intrinsically linked reasons:

Our collective ethical responsibilities

We believe that our industry has an ethical imperative to embrace principles of responsible sourcing – and therefore, the LME has a key role in facilitating this. The LME is a seller’s market, which means that a buyer of metal may be delivered metal of any LME-listed brand. We cannot accept a situation where consumers are required to take delivery of metal which is not responsibly sourced.

Our commercial imperative

The fundamental service of the LME is to price metals – and, by the nature of its market, the LME price will generally be the price of the least valuable brand in the brand lists. We must act to ensure that our price reflects the value of responsibly sourced metal, and is not artificially depressed by metal which is not sourced in such a manner.

Providing leadership for the global metals industry

Our stakeholders all demand responsible sourcing – and we must collectively live up to our responsibility. We have listened to calls for us to take a leading role on responsible sourcing – calls which arise because the LME can most efficiently promote a centralised process. And we can do this in a manner which leverages the LME’s embedded knowledge of the metals market, respects the logistical challenges, builds on existing work in the sector, and provides appropriate time and support to producers in meeting these requirements.

We see these drivers as entirely complementary. The ultimate arbiter of ethics must be the global consumer; increasingly, consumers are standing up for their ethical beliefs, and demanding that the products they purchase are made from responsibly sourced metal. And those who work in the metals industry also bring strong ethical views on the activities of their own companies. Given this combination, then, the entire supply chain must react, and it becomes the commercial interest of all participants to provide responsibly sourced metal.



3 What are the core features of our approach?

The twin tools of transparency and standards

Transparency sits at the heart of the LME's strategy; it allows consumers to understand the steps being taken by brands in respect of responsible sourcing and drives consistency in the application of standards across and within industries. Equally, the LME recognises that if it is to request such transparency from its producers, then those producers must be able to trust that transparency will be used fairly. In particular, producers who embrace transparency should not feel that they will be disadvantaged by being open about their supply chain risks, while peers may not; further, that the provision of such transparency will not reveal confidential sensitive information about their company. The information to be made transparent must be meaningful and verifiable without being commercially prejudicial; this balance is at the heart of the LME's requirements.

At the same time, the LME also believes that consumers of metal are entitled to a minimum standard – even if they do not themselves choose to analyse the metals which make up the supply chain of products that they consume. Accordingly, the LME believes that standards are a crucial element of its system. And while it understands that standards alone could lead to “greenwashing” and a lack of incentive to go beyond minimum standards, the LME believes that the combination of transparency and standards represents an optimised toolbox to protect consumers.

This is why the LME's requirements build on the core requirements of the Organisation for Economic Co-operation and Development (“OECD”) Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (“OECD Guidance”) in requiring both minimum standards and transparency from all brands, wherever they source their metal. Through OECD compliance, the LME market will meet these dual obligations.

To facilitate this, and in recognition that many models exist for achieving this end, the LME is providing a number of tracks through which brands may achieve such compliance, fully inclusive of transparency requirements. The LME will be monitoring this intersection of standards and transparency carefully, to ensure that the resulting transparency meets globally-accepted requirements in order to drive progress. In the event that the LME does not believe that reporting meets these requirements, it reserves the right to increase its expectations in respect of such transparency to ensure that this progress continues. The LME believes that this will motivate brands to go as far as possible in embracing ethical principles, as their consumer base will then recognise the additional steps taken and react positively.

No discrimination between large-scale and artisanal / small-scale mining

Both forms of mining clearly carry differing, but equally important, risks and challenges. In acknowledging these, the LME does not favour any specific form of mining; rather, it recognises that risk assessments must be tailored to the circumstances. Therefore, the LME sets out to provide an equally meaningful set of requirements for both large-scale and artisanal / small-scale mining.

This is particularly relevant in two areas. Firstly in allowing sufficient time for artisanal / small-scale mining to comply with the relevant requirements, the LME is recognising that this industry has further to travel in order to meet globally-accepted standards for responsible sourcing, and that without the provision of adequate time to achieve this, the LME will be unfairly disadvantaging those legitimately working in artisanal or small-scale mines.

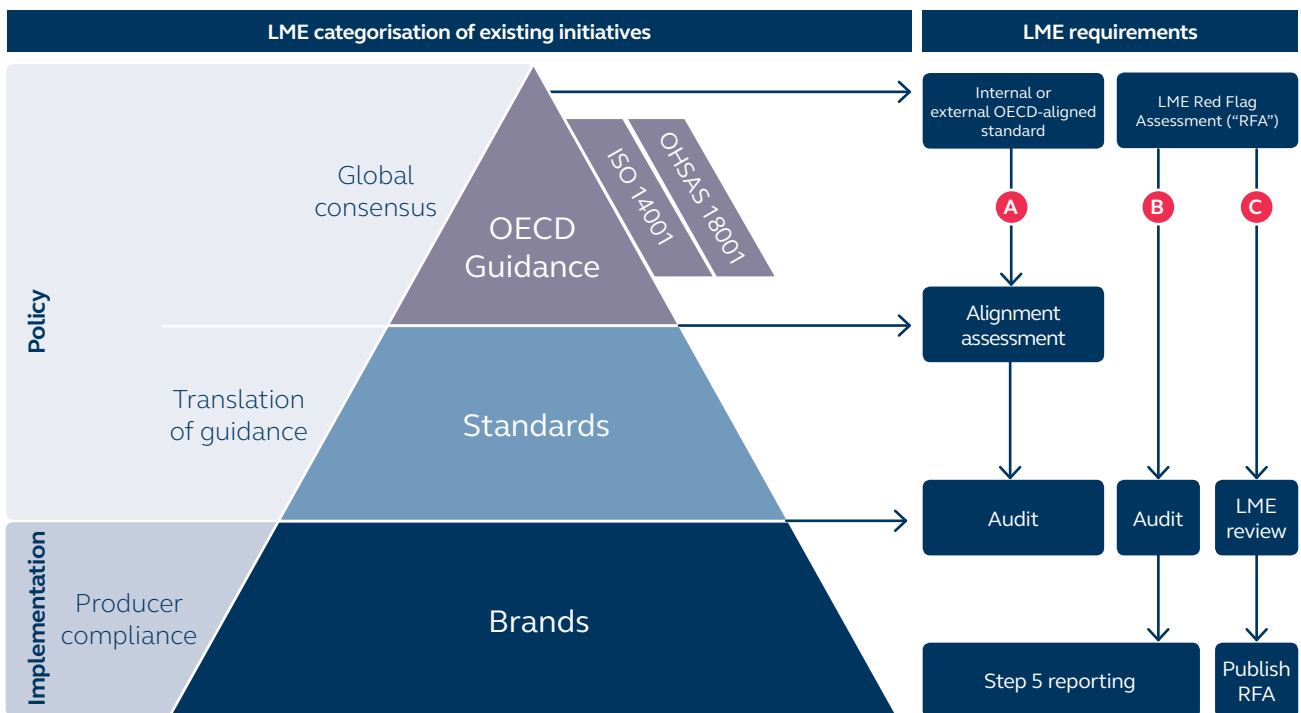
Secondly, in prioritising Extractive Industries Transparency Initiative (“EITI”) reporting, the LME is acknowledging the potential for financial crime

arising from large-scale mining and the resulting need for transparency. This is why those producers using the LME's Red Flag Assessment (RFA) template will be required to confirm whether they facilitate the disclosure of potential financial crime and corruption risks under EITI, thus addressing one of the key concerns in respect of large-scale mining. Producers utilising a standard will be obliged to meet the requirements of that standard in respect of EITI reporting (in line with the OECD Guidance), and the LME will monitor all associated reporting to ensure this issue is meaningfully addressed. Twinned with the well-established application of OECD requirements to artisanal / small-scale mining risks, the LME intends to achieve an equitable balance which does not disadvantage any route of economic empowerment.

Well-established work in the sector

A huge amount of work has already been undertaken in the responsible sourcing space. The LME wishes to build on this and provide a framework by which the industry can benefit from this investment.

In particular, the LME's approach is grounded in the OECD Guidance, the most globally-relevant approach to responsible sourcing. This then allows brands to make use of existing standards (defined by industry bodies, commercial entities and others). And because these standards define audit approaches, the most appropriate auditors will be positioned to assess compliance.



The first stage is the establishment of company management systems and the OECD red flag identification process, which provides a consistent and widely accepted model to identify metal brands which may require higher focus due to the specific nature of their operations. By using the red flag model – and facilitating it by providing a specific red flag assessment template for those brands which choose to use it – the LME is embracing global best practice, and indeed, advancing it.

In this respect, the LME intends to play a positive role where it is able to most add value; namely, in facilitating the identification of red flags, and the embedding of transparency principles and standards. The LME does not intend to define or audit those standards, since others are better placed to undertake this role. Rather, the LME's rules provide the framework within which standard definition and auditing can be undertaken on a consistent and fair basis.

We have defined a pragmatic and clear process

In order to be meaningful, the LME understands that its approach must be feasible for global producers of all metals. As such, it must ensure that its requirements are clear and achievable. As outlined above, the LME has detailed a number of routes through which its brands may achieve OECD-compliance, designed to leverage existing work and provide both risk and preference-based optionality, as well as a clear and practical structure for those who are new to the field of responsible sourcing.

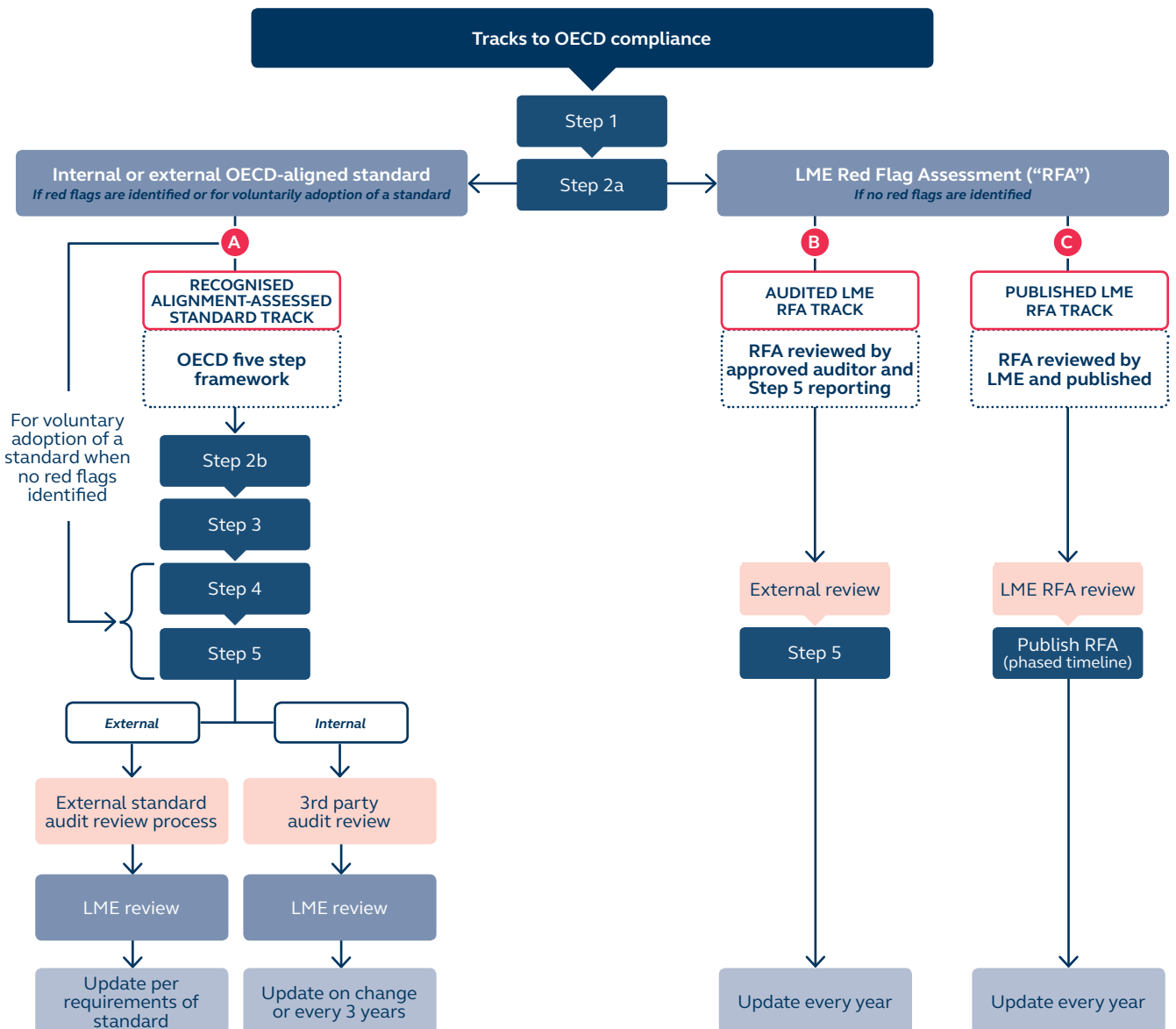


4 What do LME brands need to do?

We understand that a number of factors will go into a brand’s decision making process when choosing how to meet the LME’s responsible sourcing requirements, and we wish to respect this by providing optionality. As such, the LME has provided three routes – tracks A, B and C – through which a brand can achieve full OECD compliance,

with a clear process and timeline for each to deliver tangible and meaningful action on responsible sourcing. Each track will require a full assessment of supply chain risks, and market-facing transparency.

These three tracks are summarised below.



Each brand will be asked to complete the following stages:

Stage one – complete Steps 1 (establish company management systems) and 2a (identify supply chain risks)

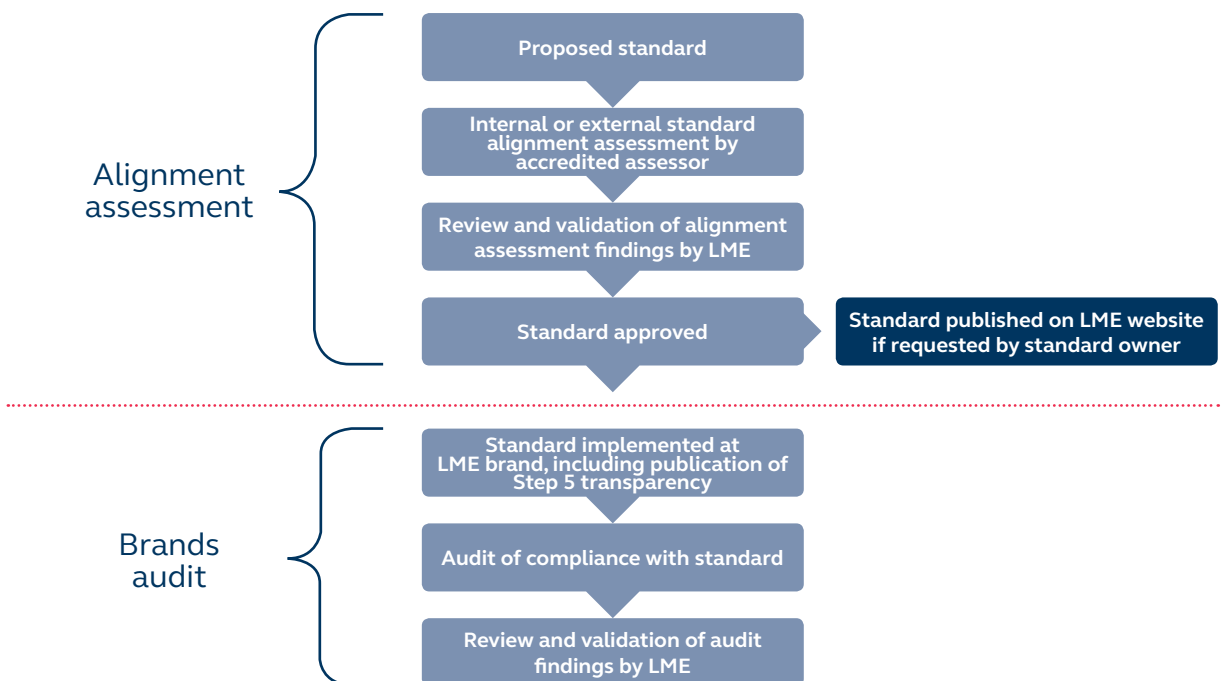
Stage two – identify the appropriate track for compliance and follow the steps set out in that track as outlined below

Stage three – complete ISO 14001 and OHSAS 18001 certification or equivalent

Track A

(for those who (i) have identified red flags, (ii) have not discovered red flags but wish to use a standard to demonstrate compliance with the relevant OECD five steps or (iii) voluntarily wish to complete all five steps)

1. *Identify a standard* – standards may be internal or external
2. *Ensure the standard has undergone OECD alignment assessment*
3. *Demonstrate initial compliance with the standard* – the standard will specify the requirements for audit
4. *Demonstrate ongoing compliance with the standard*

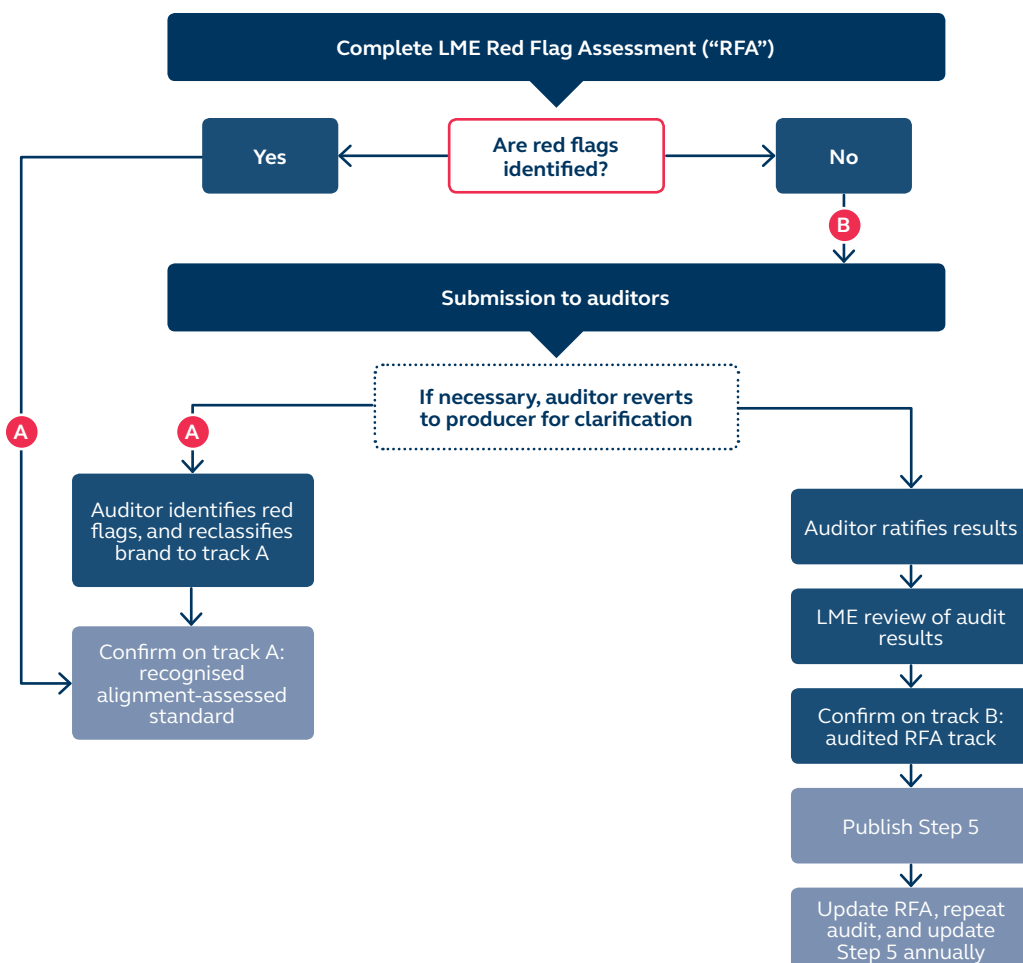


- Alignment assessment re-performed if either guidance or standards undergo material change
- Alignment assessor not permitted to conduct standards audit for minimum of two years following alignment assessment
- Audit process repeated as specified by standard body, and at least every three years for internal standards

Track B

(for those who do not discover red flags, do not wish to use a standard and wish to have their red flag assessment independently audited)

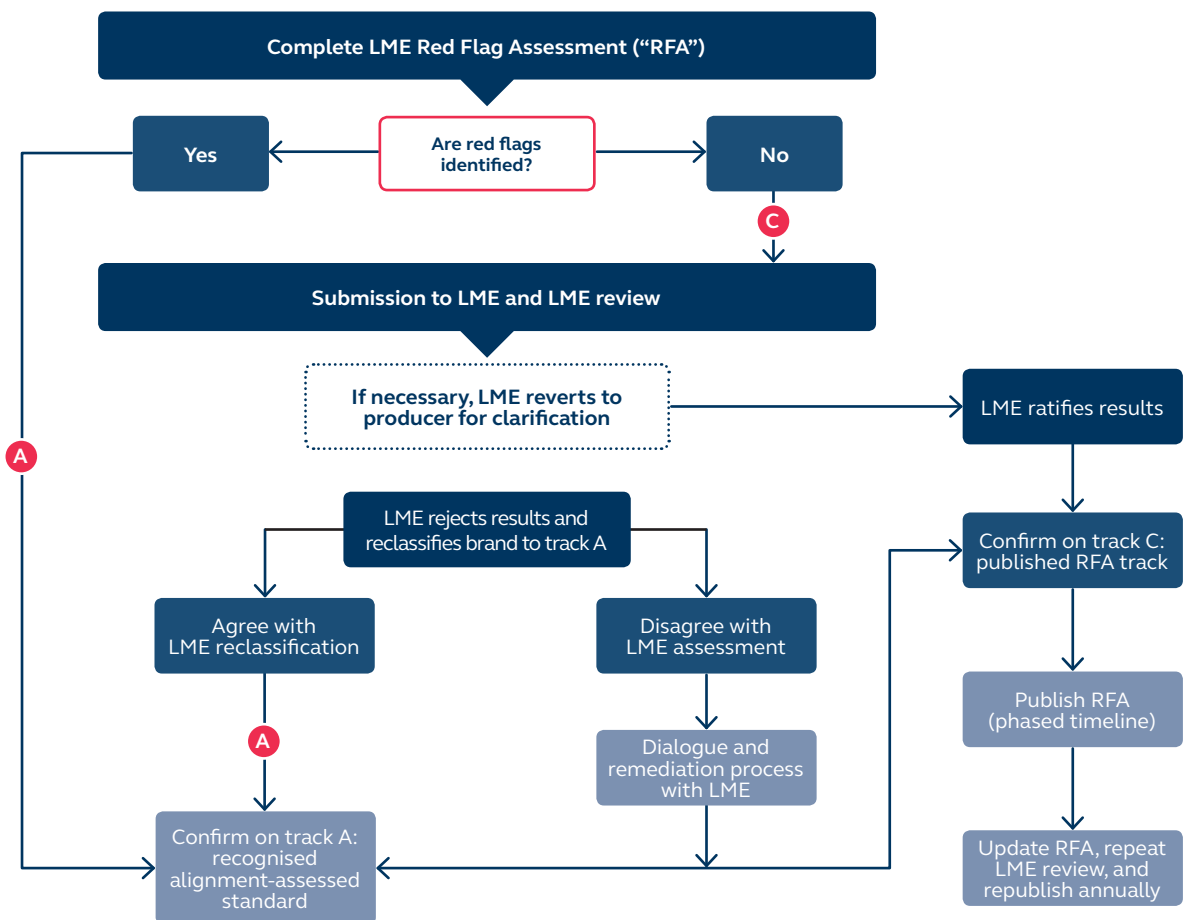
1. *Complete LME Red Flag Assessment template* – if red flags are identified revert to track A
2. *Appoint an independent third party auditor to assess the validity of Red Flag Assessment* – LME will maintain and publish an approved list of auditors
3. *Auditor confirms that the relevant supply chain contains no red flags*
4. *Audit results submitted to the LME for review*
5. *LME ratifies results and requires public disclosure in line with Step 5 of the OECD Guidance*
6. *Update RFA annually*



Track C

(for those who do not discover red flags, do not wish to use a standard, do not wish to have their red flag assessment audited and instead opt for its direct publication)

1. *Complete LME Red Flag Assessment template* – if red flags are identified revert to track A
2. *Submit Red Flag Assessment to the LME for review* – it may be necessary for the LME to revert to the producer with questions following an initial review
3. *LME confirms RFA*
4. *Publication of RFA* – we are introducing a phased approach in respect of RFA public reporting, as outlined in the table overleaf
5. *Update RFA annually*



Publication date	RFA results	
31 December 2022	Y1	Summary statistics
31 December 2023	Y2	Summary statistics
31 December 2024	Y3	Anonymous versions
31 December 2025	Y4	Anonymous versions
31 December 2026	Y5 and onwards	Attributed versions



As a result of our desire to ensure a level playing field across all our brands and in line with our commitment to pragmatism, it is important to provide sufficient time for all brands to achieve the requisite standards, and we have responded to industry feedback to ensure that all participants who are committed to compliance have time to achieve this. This is particularly relevant for small scale operators who we recognise do not have the access to the same legal and compliance infrastructure as their larger peers.

Action	Track to OECD compliance		
	A: Recognised alignment-assessed standard track	B: Audited LME RFA track	C: Published LME RFA track
First reporting period	N/A (reporting periods will be as prescribed by standard)	1 Jan 2021 to 31 Dec 2021	1 Jan 2021 to 31 Dec 2021
		NB: first year reporting period can be shortened to align with annual reporting of the producer e.g. to cover period 1 Jan 2021 to 31 Mar 2021 only	
First reporting date	30 Jun 2022 Submit confirmation will be track A brand and proposed standard	30 Jun 2022 Submit audit results	30 Jun 2022 Submit RFA template
Standard to be accepted as recognised alignment assessed standard	31 Dec 2022	N/A	N/A
Audit of brand to standard to be completed	31 Dec 2023	N/A	N/A
Transparency	As prescribed by standard	31 Dec 2022 Step 5 reporting	31 Dec 2022 + 2023 – summary statistics 31 Dec 2024 + 2025 – anonymised reports 31 Dec 2026 onward – attributed reports
Update frequency	As prescribed by standard	RFA updated (with audit and Step 5 reporting) annually	RFA updated (with LME review and publication) annually
ISO 14001 and OHSAS / ISO 45001 (or equivalent certification programmes) certifications completion	31 Dec 2023 (Certification programmes to be accepted as equivalent certification programmes by this date) (and updated on timeline prescribed by certification programmes)		

5 What is our ongoing commitment?

Our responsible sourcing action represents a significant investment by the LME to oversee the compliance of its brands, and ensure that our framework remains fully aligned with stakeholder expectations. This will include continued dialogue with the market to further evolve the ruleset, and adapt to the evolving expectations of society in respect of global metal sourcing ethics.

Finally, we wish, on behalf of our market, to make a tangible financial commitment to enhancing working conditions and empowerment opportunities in those mining communities affected by responsible sourcing issues. Accordingly, we have decided to allocate a significant proportion of proceeds from fines levied on our trading market to charitable initiatives in the sector, with an initial allocation of US\$2 million approved by the LME Board. In this way, and in tandem with our responsible sourcing requirements, we believe that the metals trading community can have a direct and positive impact on the lives of those who underpin our global supply chain.







© The London Metal Exchange (the "LME"), 2019. The London Metal Exchange logo is a registered trademark of The London Metal Exchange.

All rights reserved. All information contained within this document (the "Information") is provided for reference purposes only. While the LME endeavours to ensure the accuracy, reliability and completeness of the Information, neither the LME, nor any of its affiliates makes any warranty or representation, express or implied, or accepts any responsibility or liability for, the accuracy, completeness, reliability or suitability of the Information for any particular purpose. The LME accepts no liability whatsoever to any person for any loss or damage arising from any inaccuracy or omission in the Information or from any consequence, decision, action or non-action based on or in reliance upon the Information.

The Information does not, and is not intended to, constitute investment advice, commentary or a recommendation to make any investment decision. The LME is not acting for any person to whom it has provided the Information. Persons receiving the Information are not clients of the LME and accordingly the LME is not responsible for providing any such persons with regulatory or other protections. All persons in receipt of the Information should obtain independent investment, legal, tax and other relevant advice before making any decisions based on the Information.

LME contracts may only be offered or sold to United States foreign futures and options customers by firms registered with the Commodity Futures Trading Commission (CFTC), or firms who are permitted to solicit and accept money from US futures and options customers for trading on the LME pursuant to CFTC rule 30.10.

In the event of any conflict or inconsistency between the Information and LME Policy on Responsible Sourcing of LME-Listed Brands (the "Policy"), the Policy shall prevail. Recipients of the Information should consult the LME website for further information on the Policy.

THE LONDON METAL EXCHANGE
10 Finsbury Square, London EC2A 1AJ | Tel +44 (0)20 7113 8888