

Research Topic: **Business Model and Risk Management of Taiwanese Futures Commission Merchant or Its Subsidiary on LME Warrant**

Research Date: 2020/11/15 – 2021/03/31

Abstract:

The goal of this research is to explore and evaluate the best model for Taiwanese Futures Commission Merchants (FCMs) to carry on the business of London Metal Exchange (LME) Warrant domestically. To lay the foundation, we extensively studied the LME structures and operations, global hub and leader exchange on metals, and the dematerialized development of LME's electric warranting process. The research then focuses on business advantages and finds abundant synergy gains of all interested parties: FCMs, Metals Industries and Consumers, Warehouses and Kao Hsiung Harbor, and Its Metropolitan Area, may benefit by opening the gate for Taiwanese FCMs to enter into LME Warrant business. To maximize such synergy, the research then carefully examines the costs and benefits of different models to carry on the LME Warrant business. We examined multiple respects and considerations such as, the current legal frameworks, the expertise demanding, the business features, the risk control and default management, the regulatory costs and benefits ... etc.

The research concludes and recommends the following:

1. LME Warrant business will bring synergies to many parties and promote the economies in both the financial and the physical sectors, thus, Taiwanese FCMs should be allowed to enter into such operation.
2. The model with independent subsidiary of FCMs will be the best strategy to align both interests of Regulatory Authority and FCMs to engage in LME Warrant business.
3. To maximize the benefits of LME warrant toward related interested parties, all relevant business opportunities of LME Warrant, such as, metals trading; warrant swap, financing, pledge and repurchase, lending; and OTC metal derivatives trading, must be broadly offered to FCMs' subsidiary.

4. The Regulatory Authority and its rules and regulations should consider the hybrid features of LME Warrant and adopt a balanced, flexible, and reasonable regulatory policy toward this promising business.
5. A further profound research is strongly recommended as necessary to clarify the legal issues arising from the electric warranting process of LMEsword. This crucial need is based upon that LME expressly announced that unlike many jurisdictions, UK laws shall govern the operations of LME Warrant in Taiwan.