

Mr Glen McKee
Clerk of the Committee
Science and Technology Committee
House of Commons
London
SW1P 3JA

Our ref: EPIC/MP/105474

27 May 2011

Dear Mr McKee

Strategically important metals

Thank you for your letter of 17 May 2011 enclosing a copy of the Science and Technology Committee's report 'Strategically important metals'. We note the Committee's conclusions (at paragraph 81) regarding the alleged activities of large dealers on the London Metals Exchange.

The allegations reported, based on the comments made by Mr Lipmann, are that:

- JP Morgan, a ring dealing member of the London Metal Exchange (LME), is also one of four large companies that own warehouses used for storing metal traded on LME, and
- JP Morgan had been reported to have held, at one point, a quarter of the stock of metal on the LME.

We note that the Committee would be concerned if the former were found to be anti-competitive and if the latter impeded the correct functioning of the market.

In relation to the first point, we note that Mr Lipmann does not set out any additional evidence to suggest that JP Morgan's ownership of warehouses is having an anti-competitive effect. We are aware that there are over 400 warehouses in over 35 locations across the world, and that Henry Bath (the

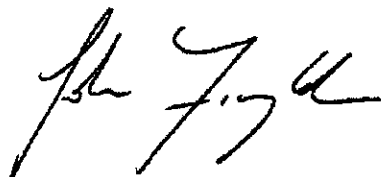


company owned by JP Morgan) has warehouses in only 14 locations. We are also aware that there are 12 ring dealing members, as well as several other members that have trading rights but are not able to trade in the ring. In the light of the range of options that appear to be available to companies that wish to arrange trades on the London Metals Exchange, we do not consider there to be any obvious competition issues that would merit further investigation at this stage. However, were we to receive any information in the future that suggested competition issues were arising we would, of course, consider whether to investigate further.

In relation to the second point, we understand that the reports that JP Morgan held 50 per cent of the stock of copper refer to purchases made by JP Morgan ahead of launching a physically backed exchange traded fund. We understand that concerns were raised by several metal traders about such trading funds, including claims that licensing such funds could distort commodity markets. We consider that these issues to be within the jurisdiction of the Financial Services Authority.

In light of the comments above, we are not proposing to investigate the issues raised by Mr Lipmann at this time. We would like to thank the Committee for drawing these matters to our attention and reassure the Committee that should we receive any evidence of potential competition concerns in future, we will consider the matter further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Fingleton', written in a cursive style.

John Fingleton
Chief Executive