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MIFID2 IMPLEMENTATION

THE AMF'S POSITION LIMITS ON AGRICULTURAL DERIVATIVES



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LEGISLATIVE AND REGULATORY FRAMEWORK



1

Article 57 MiFID 2 (i)

- *Member States shall ensure that competent authorities, in line with the methodology for calculation determined by ESMA, **establish and apply position limits on the size of a net position which a person can hold at all times in commodity derivatives** traded on trading venues and economically equivalent OTC contracts.*

Objectives of the MiFID2 position limits regime:

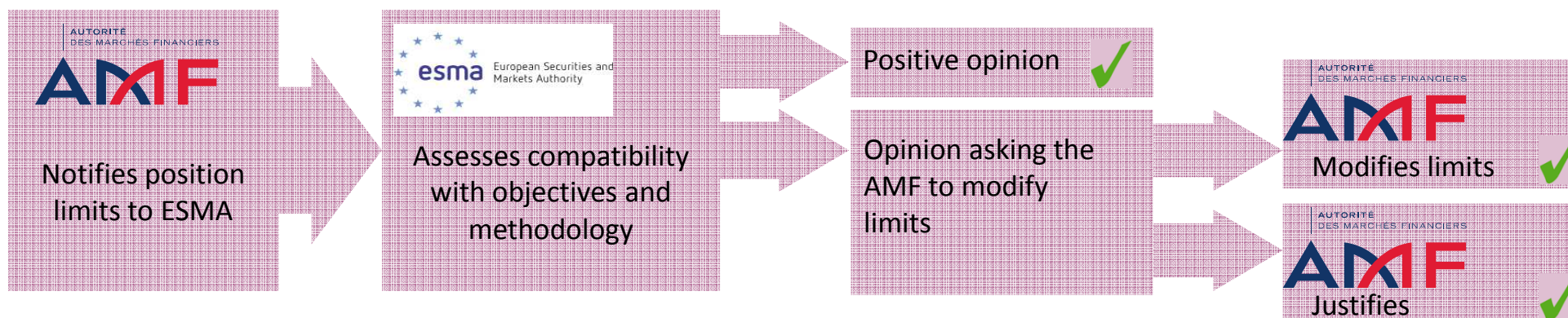
- (a) **prevent market abuse;**
- (b) **support orderly pricing and settlement conditions, including preventing market distorting positions,** and ensuring, in particular, **convergence between prices of derivatives in the delivery month and spot prices** for the underlying commodity, without prejudice to price discovery on the market for the underlying commodity.

- Limits are set for each contract in commodity derivatives **traded on trading venues** and **economically equivalent OTC contracts**
- **Position limits shall not apply to positions** held by or on behalf of a non-financial entity and **which are objectively measurable as reducing risks directly relating to the commercial activity** of that non-financial entity.

Article 57 MiFID 2 (ii)

Procedure for fixing position limits:

1. **Competent authorities notify ESMA** of the exact position limits they intend to set in accordance with the methodology for calculation established by ESMA
2. Within two months following receipt of the notification, **ESMA issues an opinion** to the competent authority concerned **assessing the compatibility of position limits with the objectives and with the methodology for calculation**
3. The **competent authority** concerned shall **modify the position** limits in accordance with ESMA's opinion, **or provide ESMA with justification why the change is considered to be unnecessary.**



NCA shall review position limits where there is a significant change in deliverable supply or open interest or any other significant change on the market

Article 57 MiFID 2 (iii)

Mandate for establishing a methodology to calculate position limits and adjustment factors foreseen in level 1

ESMA shall develop draft regulatory technical standards to determine the methodology for calculation that competent authorities are to apply in establishing the spot month position limits and other months' position limits for physically settled and cash settled commodity derivatives based on the characteristics of the relevant derivative. The methodology for calculation shall take into account at least the following factors:

- a) the maturity of the commodity derivative contracts;
- b) the deliverable supply in the underlying commodity;
- c) the overall open interest in that contract and the overall open interest in other financial instruments with the same underlying commodity;
- d) the volatility of the relevant markets, including substitute derivatives and the underlying commodity markets;
- e) the number and size of the market participants;
- f) the characteristics of the underlying commodity market, including patterns of production, consumption and transportation to market;
- g) the development of new contracts.

RTS 21 - COMMISSION DELEGATED REGULATION (EU) 2017/591 (...) with regard to regulatory technical standards for the application of position limits to commodity derivatives

COMMISSION DELEGATED REGULATION (EU) 2017/591

Classification of contracts for the application of limits depending on their maturity:

- 'Spot month contract' means the commodity derivative contract in relation to a particular underlying commodity whose maturity is the next to expire in accordance with the rules set by the trading venue.
- 'Other months' contract' means any commodity derivative contract that is not a spot month contract.

Limit to spot month contract:

- **Deliverable supply** : quantity of the underlying commodity that can be used to fulfil the delivery requirements of the commodity derivative.
 - Average monthly amount of the underlying commodity available for delivery over the one year period immediately preceding the determination.
 - Taking into account:
 - The storage arrangements for the underlying commodity;
 - The factors that may affect the supply of the underlying commodity.

Limit to other months contract:

- **Open interest**: aggregation of the number of lots of that commodity derivative that are outstanding on trading venues at a point in time.

Determining the baseline figure

Spot month contract:

- **The baseline figure for the spot month position limit** in a commodity derivative is **25 % of the deliverable supply** for that commodity derivative.
- **The baseline figure** for the spot month position limit for any derivative contract with an underlying that qualifies as **food intended for human consumption** with a total combined open interest in spot and other months' contracts exceeding 50 000 lots over a consecutive three month period is **20 % of the deliverable supply** in that commodity derivative.

Other months contract:

- **The baseline figure** for the other months' position limit in a commodity derivative is **25 % of the open interest** in that commodity derivative

Assessment of factors

Competent authorities set the spot month and other months' position limits for a commodity derivative by taking the baseline figure adjusting it according to the potential impact of the factors to a limit:

- **between 5 % and 35 %;**
- **between 2,5 % and 35 %**, for any derivative contract with an underlying that qualifies as food intended for human consumption with a total combined open interest in spot and other months' contracts exceeding 50 000 lots over a consecutive three month period;
- **between 5 % and 40 %**, for commodity derivatives traded on a trading venue with a total combined open interest in spot and other months' contracts in excess of 10 000 but not exceeding 20 000 lots over a consecutive three month period;
- **between 5 % and 50 %**, if:
 - the average number of market participants is lower than 10;
 - the number of investment firms acting as a market maker is lower than 3.

New and illiquid contracts

- ✓ **Position limits should not create barriers** to the development of new commodity derivatives and should not prevent less liquid sections of the commodity derivative markets from working adequately.
- ✓ Competent authorities should take into account in applying the methodology the **time required to develop and attract liquidity to both new and existing commodity derivatives** and, in particular, for commodity derivatives that may support risk management in bespoke or immature markets or seek to develop new hedging arrangements in new commodities.
- ✓ Many commodity derivative contracts which may never attract sufficient participants or liquidity to enable the effective application of position limits without the risk of participants regularly and inadvertently breaching the limit and consequently disrupting the pricing and settlement of those commodity derivatives.
- ✓ For **commodity derivatives with a commodity underlying until a threshold of 10 000**, position limit for the spot month and for other months is set at a fixed level of **2 500 lots**.



THE AMF'S POSITION LIMITS ON AGRICULTURAL DERIVATIVES



2

Position limits on RAPESEED contract

Market description:

- ✓ Rapeseed from any origin that can be delivered in Europe
- ✓ Seasonality: main harvest in July/august
- ✓ 10% for human consumption
- ✓ Expiring months: Feb, May, Aug & Nov
- ✓ Ten consecutive maturities listed at any time
- ✓ Delivered on boats rather than silos

Spot month

Deliverable supply: total production and imports into the EU over the last 5 years, quality-adjusted and time-prorated (4 contracts a year), **123 500 lots**.

Baseline: 20%, as the underlying is considered to be directly intended for human consumption;

Position limit: **20,2%** of the deliverable supply

Position limit on the last 12 trading days before expiry: **5,7%** considering natural constraints on delivery and significant difference between deliverable supply and open interest

Other months

Open interest: average of the daily open interest on Rapeseed Future Contracts for all maturities during 2016, **77 800 lots**.

Baseline: 25%

Position limit: **25,7%** of the open interest

Position limit on the last 21 trading days before expiry of the spot month: **32,1%** of the open interest considering difference between deliverable supply and open interest and to allow rolling back of positions

Position limits on RAPESEED contract

Spot month

Position limit: **20,2% i.e. 25 000 lots**

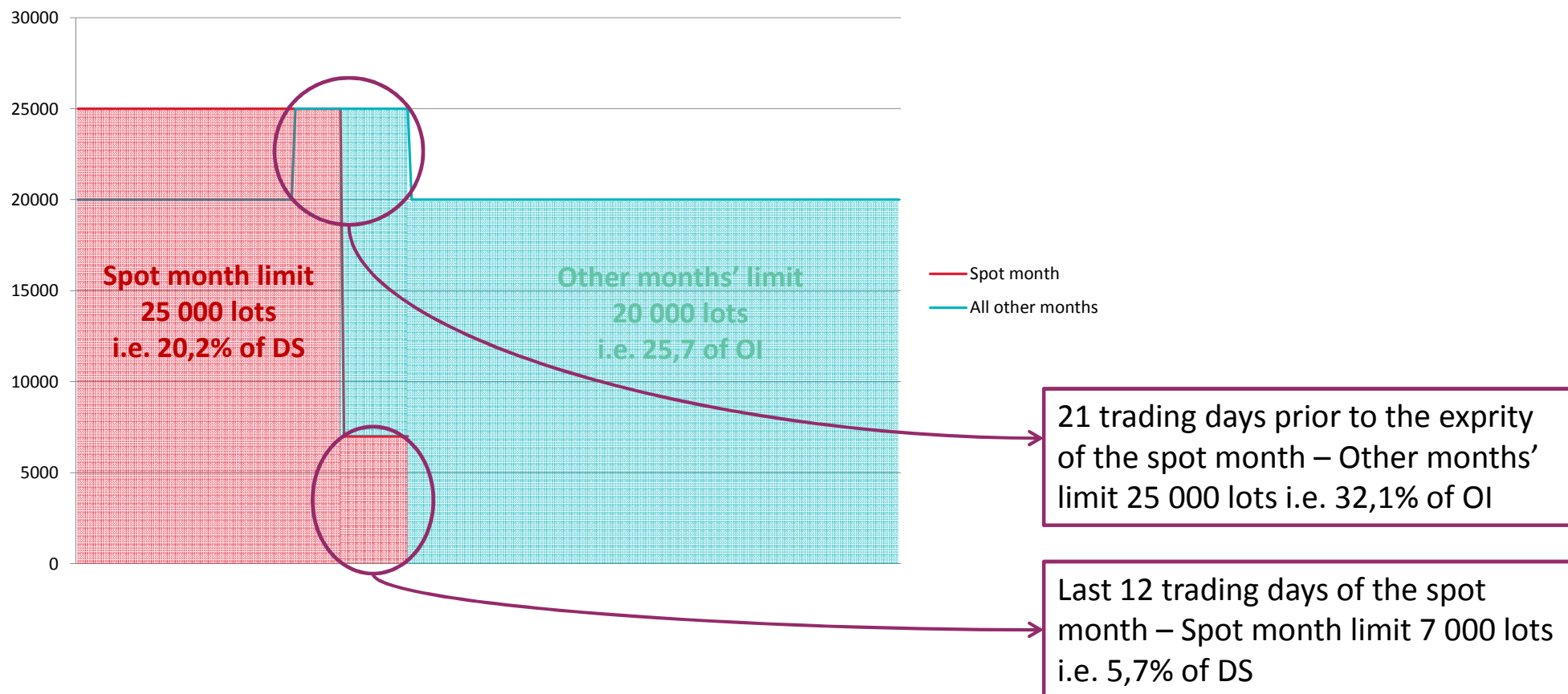
Position limit on the last 12 trading days before expiry: **5,7% i.e. 7 000 lots**

Other months

Position limit: **25,7% i.e. 20 000 lots**

Position limit on the last 21 trading days before expiry of the spot month: **32,1% i.e. 25 000**

Position limits on RAPESEED contract



Position limits on CORN contract

Market description:

- ✓ Corn from any EU origin
- ✓ EU net importer
- ✓ 5% for human consumption
- ✓ Expiring months: Jan, March, Jun, Aug & Nov
- ✓ Ten consecutive maturities listed at any time
- ✓ Delivery in silos with 1,55 Mt (31 200 lots) capacity

Spot month

Deliverable supply: total production in Europe over the last 5 years, time-prorated (5 contracts a year), **260 000 lots**.

Baseline: 25%, relevant contract specifications refer to corn for cattle feed and industrial use;

Position limit: **5%** of the deliverable supply, considering significant difference between deliverable supply and open interest and EU net importer.

Other months

Open interest: average of the daily open interest on Corn Future Contracts for all maturities during 2016, **26 000 lots**.

Baseline: 25%

Position limit: **25%** of the open interest

Position limit on the last 21 trading days before expiry of the spot month: **34,6%** of the open interest considering open interest significantly lower than deliverable supply and to allow rolling back of positions

Position limits on CORN contract

Spot month

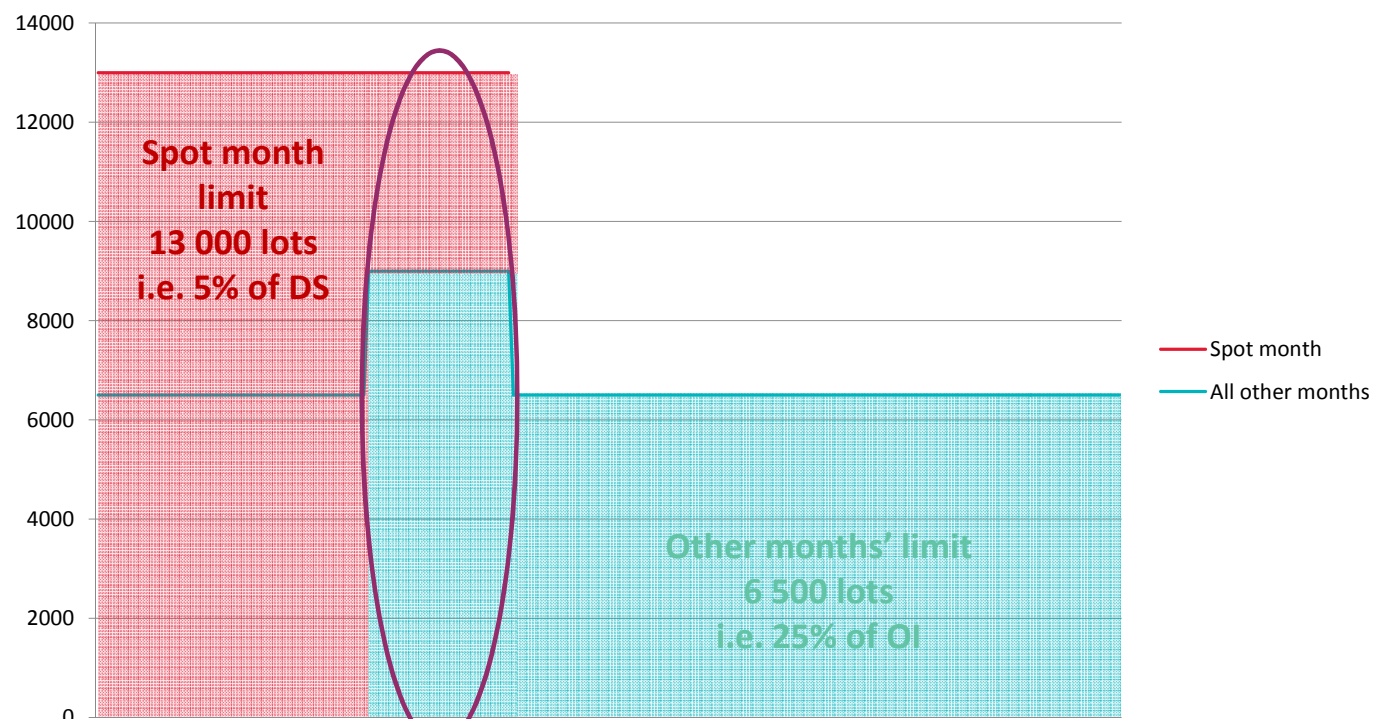
Position limit: **5% i.e. 13 000 lots**

Other months

Position limit: **25% i.e. 6 500 lots**

Position limit on the last 21 trading days before expiry of the spot month: **34,6% i.e. 9 000**

Position limits on CORN contract



21 trading days prior to the expiry of the spot month –
Other months' limit 9 000 lots i.e. 34,6% of OI

Position limits on MILLING WHEAT contract

Market description:

- ✓ Milling wheat from any EU origin
- ✓ EU 18% of world production and 15% of world exports.
- ✓ Contract widely use as a benchmark.
- ✓ Food human consumption.
- ✓ Expiring months: March, May, Sept & Dec.
- ✓ Twelve consecutive maturities listed at any time
- ✓ Delivery in silos with 1,4 Mt capacity (28 000 lots).

Spot month

Deliverable supply: total production in Europe over the last 5 years, quality adjusted per country and year and time-prorated (4 contracts a year), **383 349 lots**.

Baseline: 20%, food for human consumption;

Position limit: **15,7%** of the deliverable supply, considering large volume of open interest and constraints of delivery.

Position limit on the last 12 trading days before expiry: **5,2%** considering cumulated delivery capacities referenced for the Euronext wheat contract correspond to 7% of the deliverable supply.

Other months

Open interest: average of the daily open interest on Corn Future Contracts for all maturities during 2016, **290 859 lots**.

Baseline: 25%

Position limit: **20,6%** of the open interest, considering large size of open interest

Position limit on the last 21 trading days before expiry of the spot month: **34,4%** of the open interest considering open interest significantly lower than deliverable supply and to allow rolling back of positions

Position limits on MILLING WHEAT contract

Spot month

Position limit: **15,7% of the deliverable supply i.e. 60 000 lots**

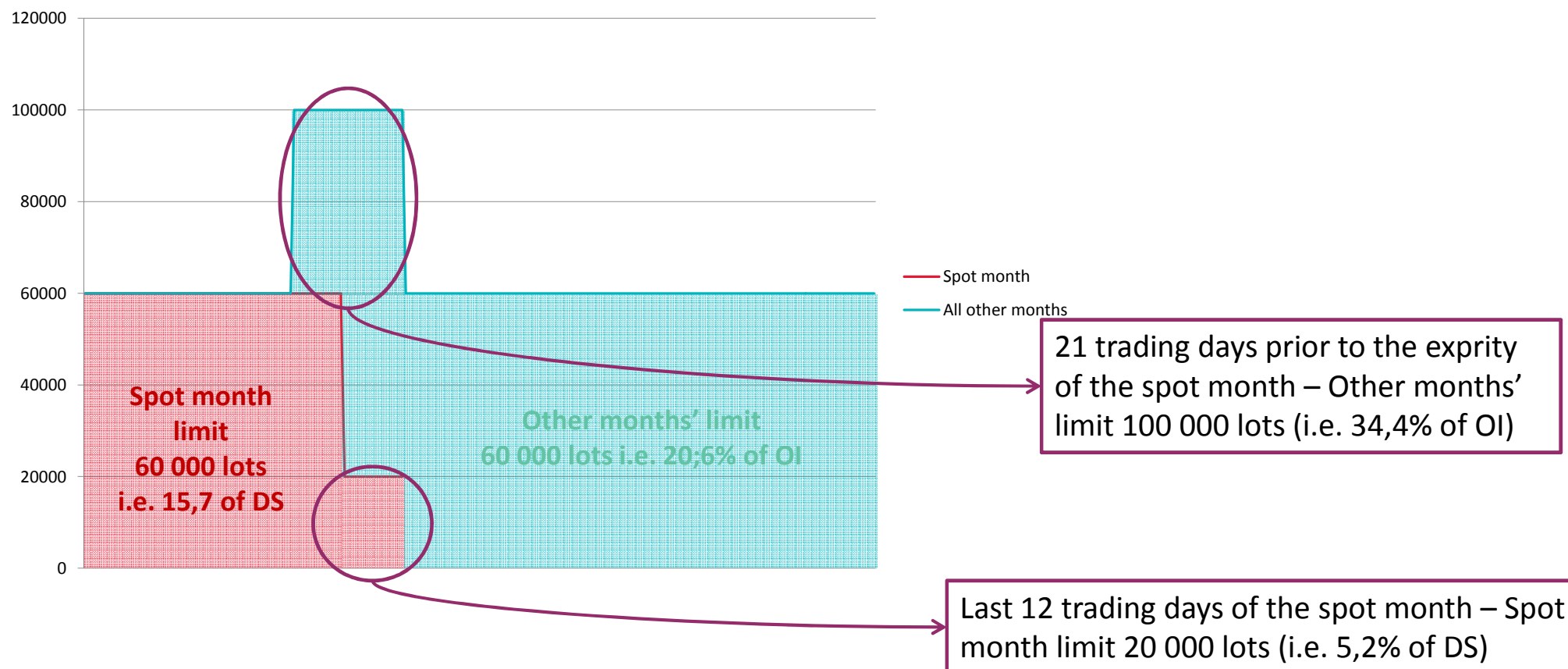
Position limit on the last 12 trading days before expiry: **5,2% of the deliverable supply i.e. 20 000 lots**

Other months

Position limit: **20,6% of the open interest i.e. 60 000 lots**

Position limit on the last 21 trading days before expiry of the spot month: **34,4% of the open interest i.e. 100 000 lots**

Position limits on MILLING WHEAT contract



Thank you for your attention!