

MIFID 2 and agricultural products

FCA experiences

Paul Willis, 18 April 2018

UK agricultural contracts

Both global and national

- All four contracts on ICE Futures Europe
- **Coffee, sugar, cocoa**
- All contracts globally traded benchmarks
- Alternative venue, Chicago Mercantile Exchange

- **UK feed wheat**
- Domestic market for UK consumption
- Substitutable by Euronext milling wheat, but at a cost

Ancillary activity regime

Feedback from industry

- Ancillary activity test process okay in practice
- Recent HMT legislation of transitional periods viewed as helpful
- Industry concern over the need to renew a notification annually but ESMA data on market size only later. FCA will be understanding if firms have to change their regulatory status.
- Industry assumes FCA will spot-check that notifications are correct. Follow up if obvious concerns like number of speculative positions reported.
- Industry concern over timing and/or content of the future market data figures from ESMA

Position limit regime

Feedback from commercials

- “Overall, not as bad as it could have been”
- A short timetable for testing systems was not helpful
- Acknowledged that FCA were early to produce limits, and publish them for guidance before the regime started
- Continued concerns were methodology of RTS 20 does not reflect all of the scenarios and complexities of the markets
- Observed that where there were similar contracts, trading would tend to head to the most liquid venue, regardless of limits as they don't apply to commercials with exemptions

Position limit regime

Feedback from investment firms

- Increased impact of limits restricting ability to provide hedging services to commercials
- More likely to trade on non-EU venues as “pass-through” hedge exemptions available
- Non-EU reporting more proportional as on a top-down basis, not bottom-up

Position limit exemptions

FCA working with industry

- Exemptions granted in all four ICE contracts
- Six different commercial entities
- All approved before MIFID2 went live
- FCA aims for sub-24 hour turnaround

Overall FCA implementation

“Smooth and effective”

- Position limits and notification systems available well in advance of 3 January 2018
- Initial problems with position reporting worked through with venues and firms
- Significant transparency of positions and potential for data analysis
- Reviewing limits and revising as necessary

FCA and agricultural contracts

Questions?