MiFID II

Overview: Commodity Derivatives

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Workstream 6 – commodity derivatives

OVERVIEW

The four primary implications of MiFID II on the commodities derivatives market are:

- Position limits per trading venue will be applied and need to be carefully managed by firms.
- Position limits will be extended to apply to related securities and equivalent OTC transactions.
- Firms must provide daily position reporting to venues and regulators.
- Where a firm is classified as an NFC under EMIR, the application of the position limits will mean NFC classification is no longer applicable.

CHALLENGES

Reforms intended to increase transparency and monitor speculative trading in commodity derivative markets will lead to comprehensive disclosure and reporting requirements for market participants including investment firms and trading venue operators. This mandate will pose strategic and operational challenges for firms' activities in scope:

- Position reporting obligation by category of trader.
- Quantitative limits on the net positions (with exemptions for non-financial entities for hedging purposes).
- Being compliant to ESMA framework who will be granted position management powers.

Technical advice on the matter has yet to be provided by ESMA, therefore it is advised that detailed analysis is undertaken only once the standards are released in September 2015.

SPECIALIST REQUIREMENTS

Impact analysis (of trading activity): Seek to perform a QIS-like analysis to assess 'return on equity', taking into consideration factors such as reduced trading activity, potential negative impact on liquidity, regulator's intervention etc.

Population identification: Automate process to determine eligibility of trades based on key attributes.

Methodology: Understand and implement methodology set out by ESMA to determine the limits.