

# NEW REGULATIONS: IMPACT ON COMMODITY FUTURES MARKETS

20 September 2017

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**EURONEXT**

# AGENDA

## 1- contracts Review

- Commodity Franchise development at Euronext

## 2- New regulation :

- MiFID II update and impacts



# 1-CONTRACTS REVIEW



EURONEXT



# EURONEXT COMMODITY DERIVATIVES

## Product range today

Milling Wheat | Corn | Rapeseed | Rapeseed Meal | Rapeseed Oil



Dairy | UAN 30 | Wood Pellets



# EURONEXT COMMODITIES | KEY FACTS

**Euronext is now offering the global trading community a UAN 30 physically deliverable contract**

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A dynamic franchise in comparison with our peers: fast growing and already established as an international benchmark.

Key contracts now included in major commodity indices – Rogers International Commodity Index® and S&P World Commodity Index™ – increased spread volume around roll. Diverse customer base led by commercial hedgers includes funds, proprietary traders and investment banks

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**27,729 lots of Rapeseed futures traded on 13/07/2017, representing the equivalent of 1,3 million tonnes**

**121,292**

**lots of wheat contracts traded on 21/04/2016 beating last record on 18/12/14 of 96,971 lots (6,1 million tonnes)**

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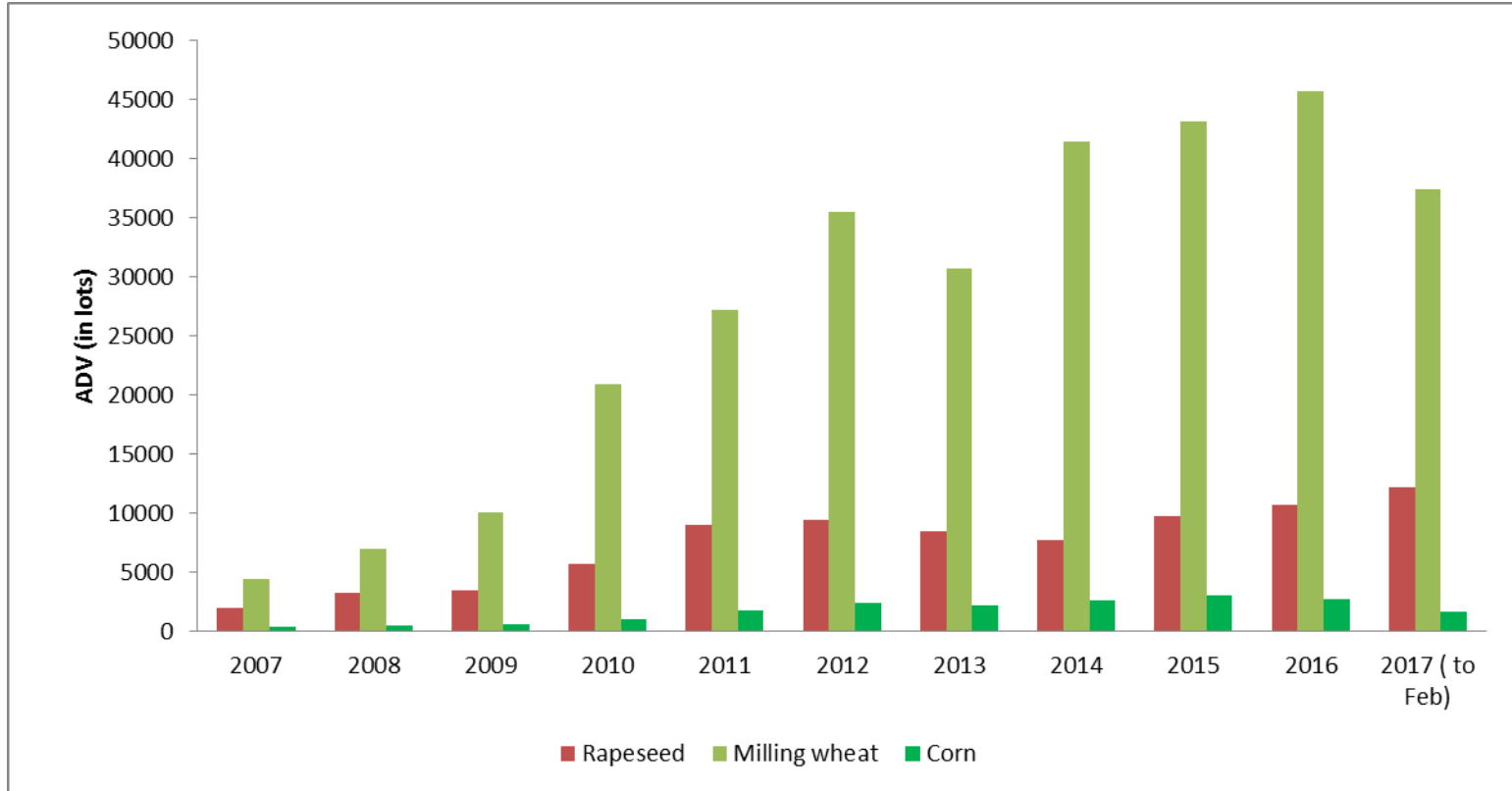
# COMMODITIES VOLUMES AND OI IN 2016

Name	Code	Total Volume	Open Interest (30/12/2016)
<b>COMMODITY PRODUCTS</b>		<b>13 165 310</b>	<b>567 136</b>
<b>AGRICULTURAL Futures</b>		<b>12 115 438</b>	<b>374 948</b>
CORN	EMA	522 273	21 086
NITROGEN FERTILISER SOLUTION	UAN	56	36
MILLING WHEAT	EBM	9 006 649	250 193
RAPESEED	ECO	2 567 941	101 379
RAPESEED MEAL	RSM	15 725	704
RAPESEED OIL	RSO	2 794	1 550
<b>AGRICULTURAL Options</b>		<b>1 643 378</b>	<b>192 188</b>
CORN	OMA	71 369	12 153
MILLING WHEAT	OBM	1 222 123	136 895
RAPESEED	OCO	349 886	43 140
RAPESEED MEAL	OSM	0	0
RAPESEED OIL	OSO	0	0

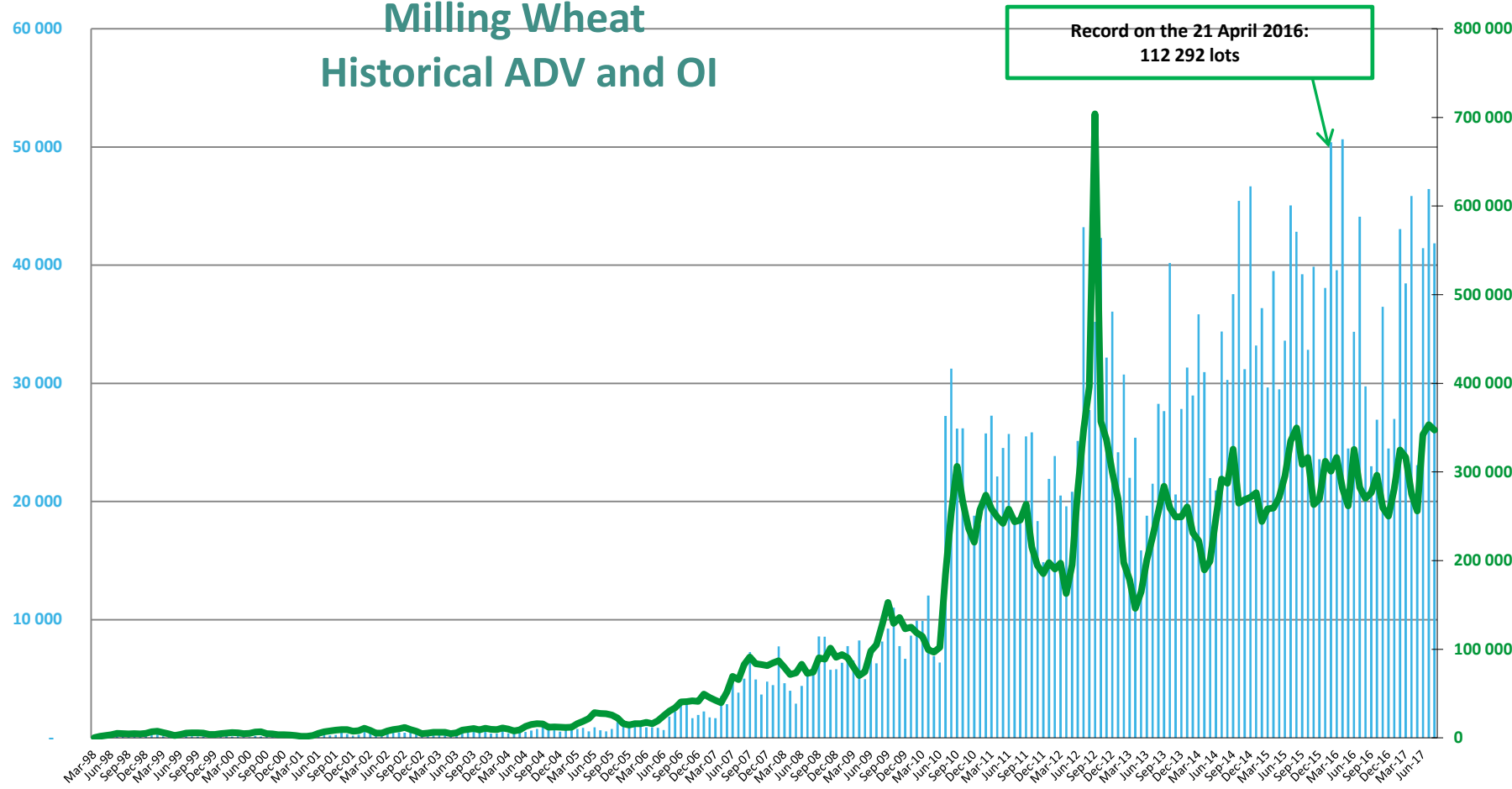
257 Trading Days



## AVERAGE DAILY VOLUMES COMMODITY FUTURES AND OPTIONS



# Milling Wheat Historical ADV and OI





## **2- NEW REGULATION: MIFID 2 UPDATE AND IMPACT**



# POSITION LIMITS



# POSITION LIMITS

## *The main changes from the amended RTS 21*

- Methodology for an harmonised approach while providing competent authorities with flexibility to take into account the variations among the different commodities derivatives markets
- **Long and short positions should be netted** to determine the effective size of a position a person controls at any time
- **Aggregation vs non-aggregation:**
  - Any positions held by other persons on behalf of a person should be included in the calculation of that person's position limit
  - Position limits should be aggregated at both an entity level and at a group level
  - Positions should not be aggregated when the parent cannot control them and when positions are held by collective investment undertaking on behalf of their investors.



# POSITION LIMITS

## *Regulatory update*

- **RTS 20** (ancillary activity) and **21** (position limits) have been published in the Official Journal of the European Union. MIF 2 will take effect on **3 January 2018**.
- **Market size estimation for the ancillary activity exemption's test:**
  - **ESMA published on 6 July 2017 its opinion on market size** (which combines notional values for listed and OTC contracts) of the European agricultural derivatives markets for 2015 and 2016.
  - For their estimate of the market size of Euronext contracts, market participants will be able to use (among others) statistics published by Euronext.
- **Position limits:**
  - **AMF has applied for its position limits for agricultural derivatives to ESMA since mid April.**
  - **The limits have been officially approved by ESMA on 10 August 2017.**



# POSITION LIMITS

	Spot month limits		
Liquidity of the underlying contract	Standard Baseline		Validation process
> 50 000 lots Wheat Rapeseed	Deliverable supply	20%	2,5% - 35 %
<50.000 lots and >10.000 lots Corn		25%	5 % - 35%
<10 000 lots Rapeseed oil Rapeseed meal	2 500 lots		Proposed by AMF, validated by ESMA

All other months limits			
Standard Baseline		Adjustment factor	Validation process
Open Interest	25%	2,5% - 35 %	Proposed by AMF, validated by ESMA
	25%	5 % - 35%	
2 500 lots			

# POSITION LIMITS

	Spot month limits		All other months limits	
	Step 1 <i>Spot Month until the last 12 trading days</i>	Step 2 <i>During the last 12 trading days</i>	Step 1 <i>From furthest maturities except during the 21 trading days prior to the expiry of the Spot Month</i>	Step 2 <i>During the 21 trading days before the expiry of the Spot Month</i>
Milling Wheat	60 000	20 000	60 000	100 000
Rapeseed	30 000	7 000	20 000	25 000
Corn	13 000		6 500	9 000
Other Contracts	2 500 lots		2 500 lots	

# POSITION LIMITS

- **For options:**

Positions on options should be converted into delta equivalent positions on futures (based on the delta published by Euronext) and added to actual positions on futures, resulting in a **single combined position**.

- Long calls and short puts should be added to long positions on futures
- Short calls and long puts should be added to short positions on futures

The limit for all other months applicable to the combined positions on futures and options shall be based on the open interest of futures only (i.e. excluding option).

- **AMF's determination of the deliverable supply:**

The methodology proposed by the AMF for the determination of the deliverable supply for the Milling Wheat, Rapeseed and Corn contracts is available on the ESMA website:

- Milling Wheat: [https://www.esma.europa.eu/sites/default/files/library/amf\\_milling\\_wheat\\_ebmobm.pdf](https://www.esma.europa.eu/sites/default/files/library/amf_milling_wheat_ebmobm.pdf)
- Rapeseed: [https://www.esma.europa.eu/sites/default/files/library/amf\\_rapeseed\\_eco\\_oco.pdf](https://www.esma.europa.eu/sites/default/files/library/amf_rapeseed_eco_oco.pdf)
- Corn: [https://www.esma.europa.eu/sites/default/files/library/amf\\_corn\\_ema\\_oma.pdf](https://www.esma.europa.eu/sites/default/files/library/amf_corn_ema_oma.pdf)



# RISK REDUCING POSITIONS

## MiFID II Art. 57, 58 and RTS 21

- Position limits shall not apply to positions held by non-financial entities and which are objectively measurable as reducing risks directly relating to the commercial activity (“risk reducing positions”).
- Before considering any position as “risk reducing”, the non-financial entity shall apply for and obtain the exemption by the AMF.
- The exemption may be delivered for a type of positions and may remain applicable until a significant change requires a new application.
- Position reports (if any) shall specify the risk reducing positions.

## The AMF approach

- The AMF intends to publish a non-comprehensive list of criteria in order to facilitate the application process.
- Such criteria are likely to address most frequent and/or standard cases, such as basis trades and macro hedges
- E.g. for basis trades, criteria should include nature of commodities which the derivative position can cover to qualify as « risk reducing », maturity of derivative contracts, etc.
- The exemption application should specify :
  - the position or activity to be hedged
  - the hedging instrument
  - the risk to be hedged
  - how the derivative instrument is risk reducing
- Potential applicants will be invited to contact AMF ahead of MiFID II entry into application.



# THE EURONEXT MIFID II SOLUTION: POSITION REPORTING



# COMMODITIES POSITION REPORTING

## MiFID II Art. 57-58, ITS4 & RTS 21

- Trading venues are required to provide competent authorities with a breakdown of the positions held by all persons on the venue on a **daily basis**
- Trading venues are required to make public a weekly report - the **Commitments of Trades (CoT) reports** - with the aggregate positions held by the different categories of market participants for the different Commodity Derivatives

## Euronext solution

- Trading participants will be provided with an **interface which will generate daily reports to Euronext**
- Information contained in the daily reports will be stored for the generation of the **weekly Commitments of Trades reports**.

***Products out of scope:** ESMA confirmed on 7 July through the publication of a Q&A that Exchange-Traded Commodities (ETCs) and Securitised Derivatives with a commodity underlying (including Warrants, Certificates & Structured Notes) are exempt from weekly position reporting. Securitised Derivatives (including Warrants, Certificates & Structured Notes) with a commodity underlying with less than 2.5 million units issued will also be exempt from daily position reporting, provided that Regulators have satisfactory evidence the issue is under 2.5 million units.*



# WHO REPORTS ?

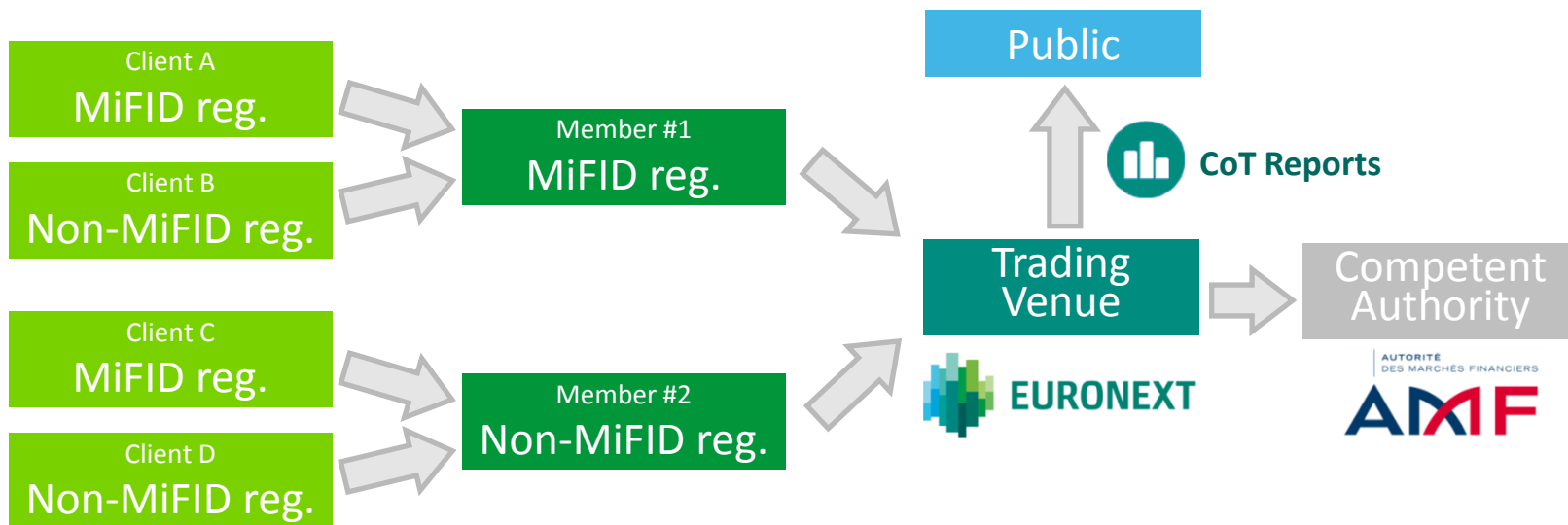
## MiFID II Art. 58 and 4.1

- MiFID II requires members to report to the trading venue the details of **their own positions as well as those of their clients** and the clients of those clients until the end client is reached.
- MiFID II defines **clients** as any natural or legal person to whom a **MiFID-regulated investment firm** provides investment or ancillary services.

## Consequences for the reporting obligations

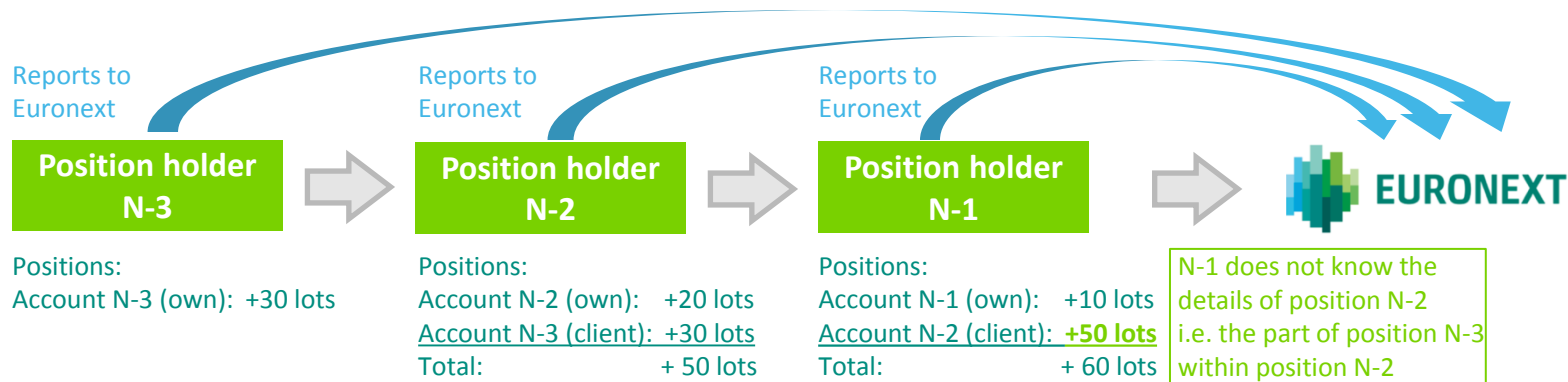
- Clarifications on reporting obligations are expected in ESMA Q&A to be released in the coming weeks.
- But the very definition of client is likely to limit the reporting obligation down the chain of intermediaries.
- Where General Clearing Members of the CCP (GCMs) are also trading members of Euronext, they report the positions they hold for their own account and for that of their clients i.e. the Non Clearing Members.

# REPORTING ALONG THE INTERMEDIARY CHAIN



- **Reporting obligations apply only to members and MiFID-regulated investment firms (art. 58.3).**
- By reporting its own positions and those of its clients, a participant – even not MiFID-regulated – is able to demonstrate that no single position holder is actually in breach while the cumulated positions may exceed the limit.

# REPORTING OF NESTED POSITIONS



- Regardless the level in the chain until which reporting is required, Euronext solution has been designed to allow any position holders – not only members – **to report directly** the details of their positions **to Euronext** instead of reporting to their intermediary up to Euronext.
- Reporting directly to the trading venue avoids participants subject to reporting obligations from passing potentially sensitive information through intermediaries.

# CONTENT OF POSITION REPORTS

- There is no specification on the template of position reports to the trading venue (pursuant to art. 58.3) in the texts. In particular ITS4 is required only for position reporting of EEOTC and listed instruments by investment firms to the competent authorities (art.58.2).
- In order to reduce implementation costs for participants, Euronext considers using the same specifications as prescribed in ITS4 for its reporting **as a general approach**.
- Positions are reported gross, although the limits apply to the net position (net will be computed by AMF).
- Granularity of the reports** : the daily position report of each participant for the milling wheat may be made up of :

Reporting ID	Position holder ID	Underlying ID	Position Type	Maturity	Indicator whether position is long/short	Indicator whether position is risk reducing	Quantity
LEI for legal person			<ul style="list-style-type: none"> <li>FUTR for futures</li> <li>OPTN for options</li> <li>OTHR for other contracts</li> </ul>	<ul style="list-style-type: none"> <li>SPOT for spot month position</li> <li>OTHR for all other months position</li> </ul>	<ul style="list-style-type: none"> <li>LONG for long</li> <li>SHOR for short</li> </ul>	<ul style="list-style-type: none"> <li>TRUE for risk reducing</li> <li>FALSE for non risk reducing</li> </ul>	
2 x 2 x 2 x 2 = 16 rows							

# THE DAILY POSITION REPORTS

- Euronext will offer Commodity Position Reporting through **Saturn** a new and global tool for reporting purposes under MiFID II operated by Euronext Market Surveillance, including:

## 1- Web Service

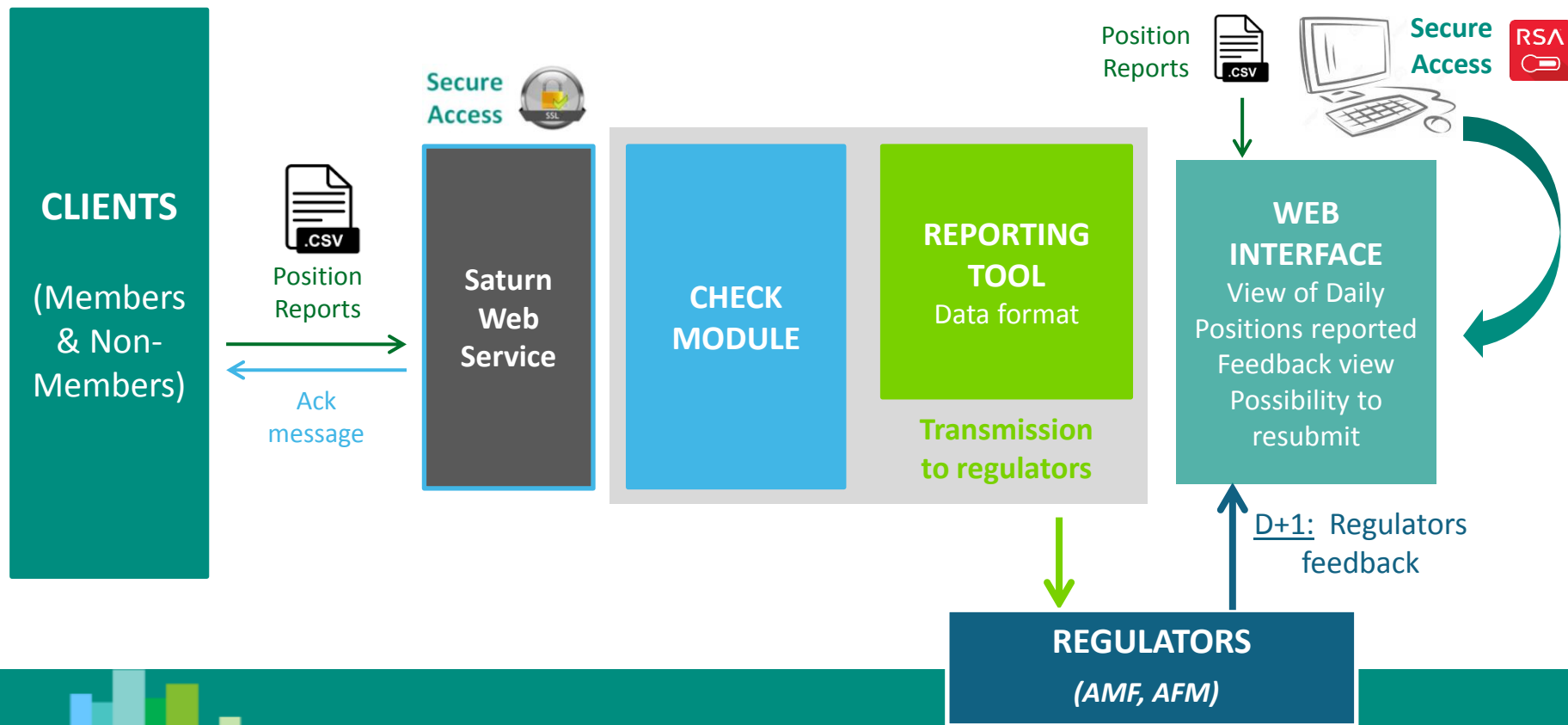
- Automatic upload
- HTTPs secure access over the Internet – no infrastructure required
- Flexible integration thanks to new Web API REST format supporting multiple formats (JSON, XML, FIX, CSV)
- Accuracy & ESMA control checks included
- Translation of reports in ESMA / NCA compliant format
- NCAs feedbacks provided
- Possibility to resubmit in case of errors

## 2- User Interface

- Single entry point for Euronext reporting services as well as Short-Code / Long Code management
- Different User Profiles (Admin, Read-Only, ...)
- Online history of trades (30 days for successful transactions)
- Configurable dashboard per user for an easiest way to check reports, feedbacks from regulators and statistics
- Easy correction through the portal, incl. possibility to manually resubmit



# DAILY COMMODITY POSITION REPORTING





# THE WEEKLY COMMITMENT OF TRADER (COT) REPORTS

## RTS 20, 21

- Trading venues are required to make public a weekly report - the **Commitments of Trades (CoT) reports** - with the aggregate positions held by the different categories of market participants for the different Commodity Derivatives

## Euronext solution


- Euronext will issue **weekly Commitments of Trades reports** reflecting positions held on Friday at close of the trading session.
- The weekly CoT reports will be submitted to the competent authorities (AMF, AFM) and to ESMA by 17:30 CET Wednesday of each week, reporting positions held by close of trading Friday of the previous week.
- There will be one report per Commodity contract
- Reports will be published on ESMA website



# THE WEEKLY COMMITMENT OF TRADER (COT) REPORTS

The CoT report will contain aggregate positions by the five different categories of persons as defined under Article 58 (4) and include per category:

1. Number of persons
2. The long and short positions
3. Changes since the last report
4. Percentage of open interest



**EURONEXT**

**Product Code (e.g. ECO)**  
**Date of Publication**

	Notion of the position quantity unit		Investment Firms or credit institutions		Investment Funds		Other Financial Institutions		Commercial Undertakings		Operators with compliance obligations under Directive 2003/87/EC	
			Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Number of positions	1	Risk Reducing directly related to commercial activities										
		Other										
		Total										
Changes since the previous report (+/-)	2	Risk Reducing directly related to commercial activities										
		Other										
		Total										
Percentage of the total open interest	3	Risk Reducing directly related to commercial activities										
		Other										
		Total										
Number of Persons holding a position in	4		Combined		Combined		Combined		Combined		Combined	
		Total										

# THE WEEKLY COMMITMENT OF TRADER (COT) REPORTS

## *The five different categories of persons as defined under Article 58 (4)*

The different categories of persons should be classified in the CoT according to the nature of their main business:

- **Investment firms** (as defined in MIFID 2) or **credit institutions** ;
- **Investment funds**, either undertaking for collective investments in transferable securities or alternative investment fund manager ;
- **Other financial institutions** including insurance undertakings, reinsurance undertakings and institutions for occupational retirement provision ;
- **Commercial undertakings** (commercial activities are defined in ESMA guidelines on key concepts of the AIFMD, Ref. 2013/611).



# IMPACTS FOR NON-FINANCIAL ENTITIES



# NON FINANCIAL ENTITIES IN A NUTSHELL

Has a non financial entity to comply with the following provisions ?

## Transaction Reporting



- **NO**, but it may be requested to provide information (e.g. LEI as client ID) by its counterparty if it is an investment firm or by Euronext if the non financial entity is a member as a transaction report is still required.

## Position Reporting



- **NO, except if the entity is a member.** Voluntary reporting is however encouraged especially if positions are significant. A breach of position limit may be erroneously suspected if a non MIFID entity do not report its positions.

## Position Limits



- **YES**, anytime. The entity may apply for an exemption for its risk reducing positions.

## Applying for Investment Firm authorisation



- **Depending on the ancillary activity tests** (annual) : see the next slide.
- Non financial entities that intend to make use of the exemption of ancillary activity have to notify the AMF annually that they have performed the tests and are under the thresholds.

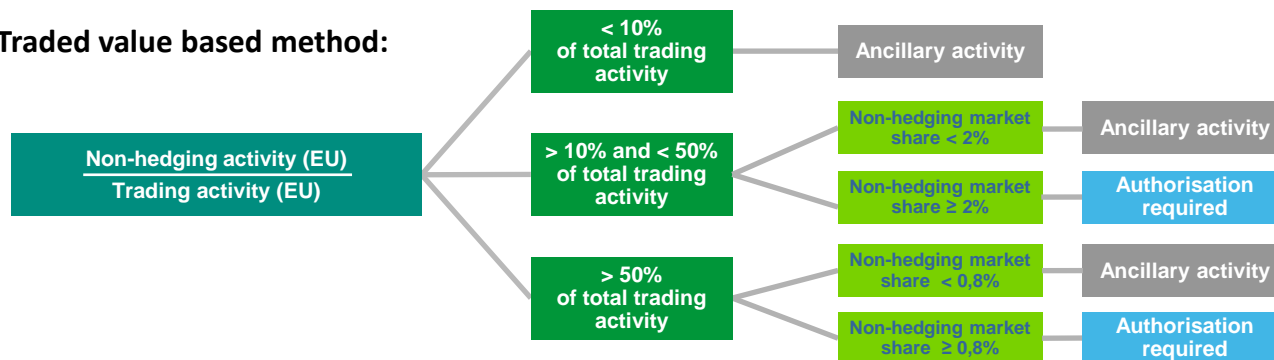
# ANCILLARY ACTIVITY TESTS

Has a non financial entity to apply for an authorisation of investment firm ?

1. **Overall market share test** : non-hedging market share > 4% of the total market size of EU agricultural derivatives (OTC+ETD) ?

2. **Trading activity relative to the main activity test** :

2. A. **Traded value based method:**



2. B. **Capital based method:**



# THE EURONEXT MIFID II SOLUTION: MICRO STRUCTURE CHANGES AND TRANSACTION REPORTING



# THIRD COUNTRY ACCESS

- MiFID II will allow third country firms to provide investment services and perform activities (wholesale business activities) in the EU following a determination by the Commission that the third country's legal and supervisory arrangements are equivalent to the EU framework
- Once equivalence has been granted, firms from an equivalent jurisdiction will be able to exercise these rights following their registration with the European Securities and Markets Authority (ESMA).
  - Equivalence will only be granted to authorised firms and potentially excludes firms who exclusively trade for own account (non-CFTC regulated), so it may not cover DEA, market makers or HFT under broader MiFID II definitions.
- Prior to a determination of equivalence being provided for a given country, the existing national frameworks governing access to third country firms may remain in place.
  - Netherlands has confirmed that any firm currently operating under the SRO regime can continue to trade on Dutch markets per January 2018.
  - French regulators have advised Euronext that existing proprietary trading members from the US should be eligible to remain members but it has not confirmed officially on its website. Euronext push for this clarification in the short term
- Euronext will provide a mandatory transaction reporting services on behalf of non-MiFID trading members via Euronext's Approved Reporting Mechanism.





# THE COMMODITY DERIVATIVES INDICATOR

## RTS 21, 22, 24

- New **Commodity Derivatives Indicator** field required to indicate whether the transaction *reduces risk in an objectively measurable way in accordance with Article 57 of Directive 2014/65/EU*
- Where the transaction is for a transmitted order that has met the conditions, this field shall be populated by the receiving firm in the receiving firm's reports using the information received from the transmitting firm.

## Euronext solution

New Commodity Derivatives Indicator added in the Order Entry client specifications for Derivatives markets

- Mandatory when submitting orders on Commodity Futures and Options contracts

It will be possible to modify the Commodity Derivatives Indicator post execution for transaction reporting and position reporting purposes.

- Reporting entities should ensure consistency between their transaction and position reports



# TRANSACTION REPORTING

## RTS 1, 2, 13 & 22

- MiFID II extends the requirements for transaction reporting via an Approved Reporting Mechanism (ARM) and for Regulated Markets
- Scope of covered instruments is extended to Derivatives instruments incl. Commodity Derivatives
- Stricter requirements with more data fields (65 fields required)

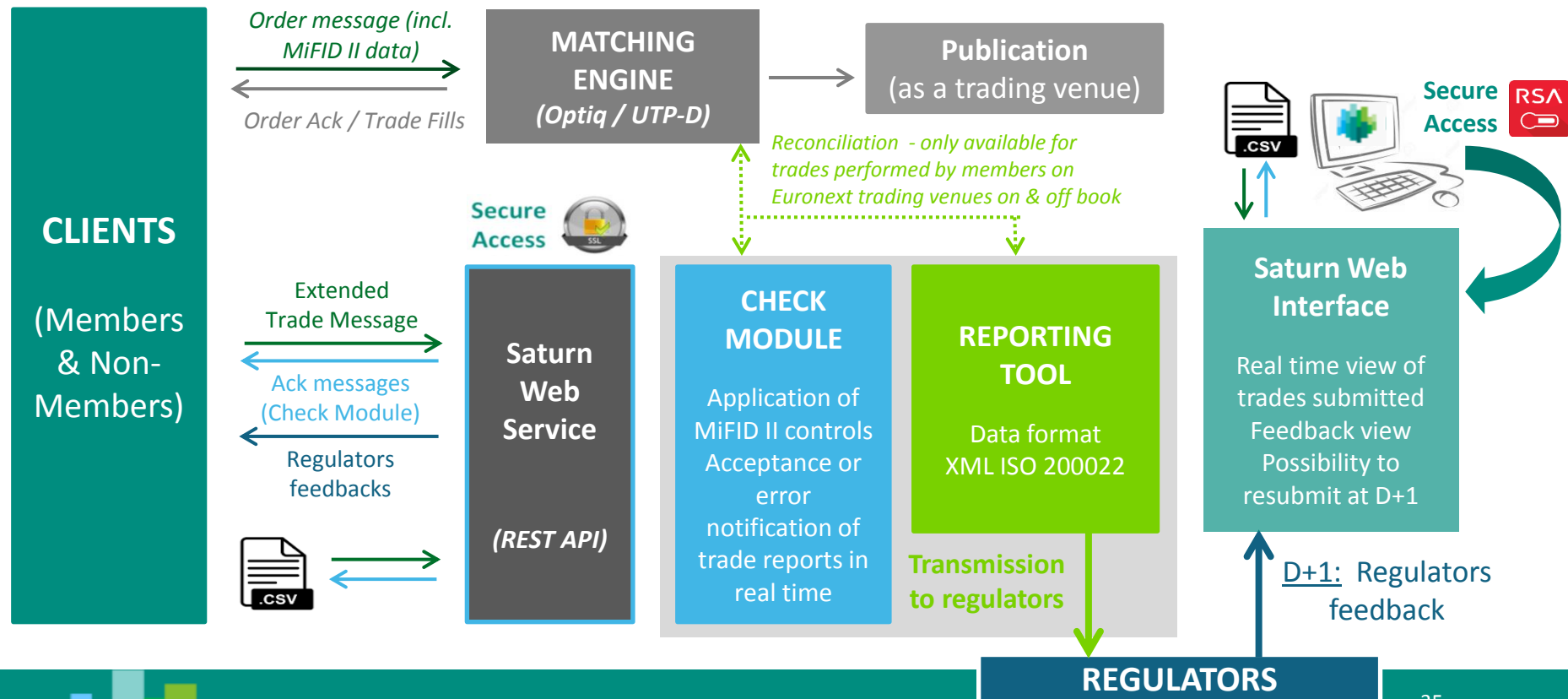
## Euronext solution

Euronext will deploy **Transaction Reporting Service as an ARM** which will deliver:

- Pan-EU coverage for Cash, Derivatives and Commodities
  - Transaction reporting for all European trading activity outside Euronext trading venue
  - Transaction reporting for all trading activity on Euronext trading venues (on-book or off-book / on-exchange)
- ESMA predefined ISO 2000022 standard for reporting to all relevant European authorities
- A powerful suite of reporting tools with new dedicated GUI
- Enhanced services and controls for OTC transaction reporting and order storage
- Available to members and non-members



# TRANSACTION REPORTING



# TRADE PUBLICATION/REPORTING MECHANISMS

## RTS 1, 2, 13 & 22

- MiFID II extends post-trade transparency and reporting requirements to most financial instruments, including Commodities irrespective of their venue of execution (RM, MTF, OTF or SI), including OTC transactions
- OTC transactions must be published via an APA

## Euronext solution

For all trading *on* Euronext markets, publication will be done by Euronext for all market participants

For trading *outside* Euronext markets, Euronext will offer enhanced **Trade Publication and Reporting Services as an APA** which will deliver:

- A powerful suite of tools with new dedicated GUI
- Data dissemination via Euronext Market Data feed with publication delays on request
- Multi-asset service package, pan-EU coverage for Cash, Derivatives and Commodities
- Available to members and non-members

# TRADE PUBLICATION AND TRANSACTION REPORTING

## Pricing

**Competitive** and **modular pricing structure** for members and non-members

Clients can decide and select the service they would like to receive, i.e.:

- Transaction Reporting service for Euronext markets
- ARM for off-book trade reporting service
- APA – Post Trade publication service
- APA – Pre-trade publication service for SI

As a complement, **packages** available at a small discount price

**Flat fee per month, no volume component**

## Onboarding & testing

### Onboarding:

- Onboarding documents available. Please contact your CCC relationship manager at [ccc@euronext.com](mailto:ccc@euronext.com).

### Testing:

- Phase 1: May 2017
- Phase 2: 4 July 2017
  - Web messages for Transaction Reporting and Post Trade Publication
- Phase 3: 25 July 2017
  - Dedicated rules for transaction reporting
- Last phase with full service availability : September 2017

# SATURN - ARM MAIN DASHBOARD



# SATURN - ARM DETAILED STATUS REPORT

Full historic  
of trade  
reports (incl.  
rejects &  
corrections)

**EURONEXT SATURN App** TRANSACTION REPORTING

My Criteria: ARM transactions:true|Euronext transactions:true **REDEFINE**

admin: ADMIN

TRANSACTION CRITERIA TOTAL ALERTS: 0 View details CLOSE STATUS REPORT

SELECT COLUMN TO DISPLAY FREE SEARCH

	HISTORY	ORIGIN	STATUS	DATE	VOLUME	B/S	INSTRUMENT	TRADE ID	PRICE	MIC	FIRM	TRADER ID
		S	⊕	2017-03-15 13:24:36	784330701	S	AOAGA150902500P	5007	470256	XEUE	FIRM1	EXCHG
		S	⊕	2017-03-15 13:24:36	1102273469	S	AOAGA151202200C	3351	419586	XEUE	FIRM1	EXCHG
		S	✗	2017-03-15 13:24:36	94140581	S	AOAGN150700630P	4435	310996	XSTO	FIRM1	EXCHG
		S	✗	2017-03-15 13:24:36	1320480277	S	AOAGA150902400P	7763	107921	XEUE	FIRM1	EXCHG
		S	⊖	2017-03-15 13:24:36	1300278163	B	AOAGA150902000C	4358	103275	XEUE	FIRM1	EXCHG
		S	⊕	2017-03-15 13:24:36	94140581	S	AOAGN150700630P	4435	310996	XSTO	FIRM1	EXCHG
<input checked="" type="checkbox"/>		S	⊕	2017-03-15 13:24:36	1320480277	S	AOAGA150902400P	7763	107921	XEUE	FIRM1	EXCHG
<input checked="" type="checkbox"/>		S	⊕	2017-03-15 13:24:36	1300278163	B	AOAGA150902000C	4358	103275	XEUE	FIRM1	EXCHG
<input checked="" type="checkbox"/>		S	⊕	2017-03-15 13:24:36	590921720	S	AOAGA151202200C	4767	204979	XEUE	FIRM1	EXCHG
		S	⊕	2017-03-15 13:24:36	9589533	S	AOAGA150902900P	4894	407199	XEUE	FIRM1	EXCHG
		S	⊖	2017-03-14 15:57:39	982553891	B	AOAGA150902800P	6563	942839	XEUE	FIRM1	EXCHG
		S	⊖	2017-03-14 15:57:39	325279442	S	AOAGA150902000C	3380	162162	XEUE	FIRM1	EXCHG
		S	⊖	2017-03-14 15:57:39	586260744	B	AOAGA150903600P	9743	568076	XEUE	FIRM1	EXCHG
		S	⊕	2017-03-14 15:57:39	129971645	B	AOAGA150902900P	4546	246806	XEUE	FIRM1	EXCHG

1 15

# CONTACT DETAILS AND USEFUL INFORMATION

- **Euronext MiFID II webpage:**
  - <https://www.euronext.com/en/regulation/mifid-2>
- **Euronext MiFID II contact email address:**
  - [MiFID2@euronext.com](mailto:MiFID2@euronext.com)
- **Additional contact details and useful information:**
  - Commodities Team: [commodities@euronext.com](mailto:commodities@euronext.com)
  - Client Coverage Centre: [ccc@euronext.com](mailto:ccc@euronext.com)
  - Optiq Support Desk: [optiq@euronext.com](mailto:optiq@euronext.com)
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