23 March 2012
Ref. 12TRA19

FEDIOL Position
on
the Markets in Financial Instruments Directive (MiFID) 2

FEDIOL represents the EU Vegetable Oil and Proteinmeal Industry, whose members are European oilseeds crushers, proteinmeal producers, vegetable oils refiners and processors.

The Markets in Financial Instruments Directive (MiFID) is the essential framework for regulating trading and marketing of financial instruments, including commodity derivatives, therefore FEDIOL believes that MiFID II will play a fundamental role in harmonizing standards and preventing distortions in the markets.

FEDIOL supports the Commission proposal of MiFID 2 in principle, and considers that the following points are significant for the well-functioning of agricultural commodity markets and a level playing field.

<u>Categories of Traders and Position Reporting:</u>

FEDIOL welcomes the provisions defining the categories of traders for position reporting. It is notably important to see that categories are aligned towards major international standards, under which FEDIOL members will be classified as commercial undertakings.

<u>Scope and Exemptions:</u>

FEDIOL fully supports the provisions which exempt companies that trade financial instruments for their own accounts or for their group companies, or trade commodity derivatives for accounts of direct customers/suppliers, all on ancillary basis, since those hedging practices do not pose any systemic risk.

For the purposes of price discovery and price risk management (through hedging), FEDIOL members trade exchange-traded futures on physical agricultural commodities and freight exchangeables, in order to mitigate market volatility and ensure price stability for consumers. These include MATIF futures for rapeseeds and forward freight agreements (FFAs) for freight rates, dry bulk carriers and containerships.

The trading of futures and derivatives is essential, since they reduce the risks related to the main FEDIOL commercial activity of oilseeds crushing and vegetable oil refining.

<u>Position Limits and Position Management:</u>

The functioning of agricultural futures commodity markets are not fundamentally broken or out of control. It must be emphasized that the major factors behind price volatility in the agricultural markets are related to the supply and demand imbalances.

As a means to address concerns in commodity markets, Article 59 of the draft Commission proposal envisages the set-up of position limits or alternative arrangements with equal effect, in order to support liquidity, prevent market abuse and guarantee orderly pricing and settlement conditions for commodity derivatives.

FEDIOL considers that position management systems, as an alternative arrangement, would better achieve the aforementioned goals, since this would bring a constant dialogue between regulators, exchanges and market participants; thereby helping involved parties to have a better understanding of the market. Since the commercial operators are exposed to price risk on physical goods, position management systems, rather than rigid position limits, would help cope with such risks, while preventing market abuse. Ensuring convergence between the futures and physical cash markets is also essential.

Rigid position limits would inhibit the ability of commercial users to hedge real risks, since operators would not be able to lay off the amount of risk needed and they would be forced to reduce the size of their physical business in order to mitigate associated risk. Should that happen, price volatility would

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increase and the functioning of the real economy would be impaired. Therefore, rigid position limits should not be applicable to commercial operators.

In addition, the liquidity and well functioning of EU agricultural commodity derivatives markets shall be maintained by MIFID 2 and FEDIOL recognizes that non-commercial third-party involvement is also fundamental in ensuring sufficient liquidity and for the well functioning of financial markets.

Over-The-Counter Derivatives (OTCs):

In order to achieve adequate flexibility for the financial commodity markets, FEDIOL supports the Commission proposal to declare client specific, non-liquid, low-volume agricultural OTCs not eligible for clearing or for trading on regulated trading platforms. These specific OTCs are important derivatives in providing hedging solutions, where commodity markets are not functional or accessible.