making sense of

MiFID II

PMQs

By Anne Plested

What can MiFID II do to help address excessive commodity price volatility?

The G20 agreed to "improve the regulation and functioning and transparency of financial and commodity markets to address excessive commodity price volatility". MiFID II is an integral part of that effort.

Under MiFID II regulators could be given complete powers to manage and control positions in commodity derivatives more rigorously.

Will it help the regulator to have commodity derivative position information?

Currently commodity derivative trading venues use a variety of ways to monitor positions taken by members. In general the venues co-operate with the regulators to keep a fair and orderly market. However, as there is no current obligation under MiFID to report positions, the available information varies widely across the EU.

Regulators want to have a clearer picture of who is trading and what type of entity they are, e.g. a commercial trader hedging a position, or a proprietary trader dealing on his own account. Commercial users and producers of commodities would be exempt from the obligation, as they are assumed not to pose systemic risks in the same way as financial institutions and investors - provided of course that they do not provide investment services themselves! However, if a commercial company meets a certain position threshold (including OTC trades), MiFID II would introduce an obligation on them to also report.

The consultation document also proposes making such position information available to the public in an aggregated form. I am not sure of the value to the public of seeing this aggregated view since there are plans already in MiFID II to increase the pre- and post-trade transparency across equity and non-equity (including derivatives) markets. Is this not enough?

Where will the position data come from?

It is the Central Counterparties who will have this information; they are the ones who know about positions.

Are there any other changes coming?

For contracts that can be physically settled there have been problems in the US, with certain agricultural derivatives, around futures and spot prices not converging. This issue appears to be down to exchanges and deficiencies in contract specifications so, to avoid this happening in Europe, MiFID II wants to introduce a requirement on contract specification to ensure that prices do converge.

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