

OPINION on position limits on CORN contract

I. Introduction and legal basis

1. On 2 June 2017, the European Securities and Markets Authority (“ESMA”) received a notification from the Autorité des Marchés Financiers (“AMF”) under Article 57(5) of Directive 2014/65/EU on markets in financial instruments¹ (“MiFID II”) regarding the exact position limits the AMF intends to set for the Corn commodity contract in accordance with the methodology for calculation established in Commission Delegated Regulation (EU) 2017/591 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the application of position limits in commodity derivatives² (“RTS 21”) and taking into account the factors referred to in Article 57(3) of MiFID II.
2. ESMA’s competence to deliver an opinion is based on Article 57(5) of MiFID II. In accordance with Article 44(1) of Regulation (EU) 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority)³ (“ESMA Regulation”), the Board of Supervisors has adopted this opinion.

II. Contract classification

Commodity base product: agricultural (AGRI)

Commodity sub product: grains and oil seeds (GROS)

Commodity further sub product: other (OTHR)

Name of trading venue: EURONEXT PARIS

MIC: XPAR

Venue product codes: EMA, OMA

¹ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (OJ L 173, 12.6.2014, p. 349).

² Commission Delegated Regulation (EU) 2017/591 of 1.12.2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the application of position limits commodity derivatives (OJ L 87, 31.3.2017, p. 479).

³ Regulation (EU) 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15. 12.2010, p. 84).



III. Market description by the competent authority

3. The MATIF corn contract (also known as Euronext corn contract or European corn) refers to corn from any EU origin. The trading volume settles in lots, a lot is equivalent to 50 tons of underlying.
4. The EU corn production reached 60.7 Mt in 2016/17 (vs 59.2 Mt in 2015/16, source: EU DG Agri), or 7% of the total world production (source: USDA WASDE report). The main European producers are France, Hungary and Romania. Unlike wheat, the EU is a net importer of corn, with 11.7 Mt of corn imported and 2.5 Mt exported in 2016/17 (source: EU Balance sheets for cereals).
5. The human consumption of corn accounts for as little as 5 % of the EU supply (source: EU Balance sheets for cereals), most of the corn being used for cattle feed and industrial use, such as alcohol or bioethanol. Moreover, the specifications of the MATIF contract in terms of quality correspond to cattle feed and industrial use rather than human consumption.
6. The market participants in these derivatives contracts are mostly cattle feed industrials, European grain merchants and starch industrials.
7. Expiring months of futures are January, March, June, August and November. Ten consecutive maturities are listed at any time. At expiry, the future contract is physically delivered, with seven silos located in Western France, representing a cumulated storage capacity of 1.55 Mt (or 31,200 lots). Options expire on the 15th of the month preceding each maturity of the future (or the following business day). The delivery of options being physical, their exercise results in the assignment of underlying futures at the exercise price i.e. the strike price.
8. The average daily volumes amounted to 2,000 lots in 2016 for futures (vs 2,600 lots in 2015, based on public data available on Thomson Reuters) and less than 300 lots for options (vs less than 400 lots in 2015, source Euronext).

IV. Proposed limit and rationale by the competent authority

Spot month position limit

9. Deliverable supply amounts to 260,000 lots (i.e. 13 Mt).
10. Data corresponding to the total production of corn in Europe over the last five years have been collected from the European Commission's Directorate General for Agriculture: 64.92 Mt per year on average.
11. Based on feedback from the trading venues and market participants, the specifications of the derivative contract correspond to the quality of the vast majority of corn in Europe. Therefore, no quality adjustment on the production figures has been deemed necessary.



12. Thereafter, the figure has been time-prorated to take into account the duration of spot month contracts (five contracts each year): 13.00 Mt, or 260,000 lots.
13. As a reference, taking the last twelve months instead of the average of the last five years would result in 243,000 lots.
14. The seven silos eligible for delivery have a cumulated storage capacity of 1.55 Mt. These silos, which are located in ports, are dedicated to export and do not keep the corn for a long time. In fact, Sica Atlantique, the biggest silo in La Rochelle with a storage capacity of 0.3 Mt, had a turnover of three Mt over the latest harvest year (i.e. more than 10 times the storage capacity). The risk of stockpiles blocking the silos is limited, as most of the total storage capacity available for the corn contract belongs to public silos that do not belong to one single participant.
15. Under these circumstances, the AMF decided to determine the deliverable supply based on production instead of the storage capacity.

Spot month position limit

16. The spot month limit is 13,000 lots, which represents 5% of deliverable supply. The spot month definition includes 75 calendar days.

Spot month position limit rationale

17. To set the spot month limit at the lowest level of 5%, the AMF took into account the following two downwards adjustment factors.
18. The overall open interest (Article 18 of RTS 21): The AMF has considered in particular the significant difference between deliverable supply and open interest. Setting the spot month limit at the baseline standard of 25% would lead to a limit of 65 000 lots, way above the highest total open interest actually observed in corn of 43 000 lots. As the maximum spot month open interest ever reached corresponded to 8% of the deliverable supply, the AMF considered that a spot month limit set at the minimum level of 5% (13 000 lots) was appropriate.
19. The characteristics of the underlying commodity market (Article 20 of RTS 21): In adjusting the spot month limit downwards, the AMF has also taken into account the fact that the EU is a net importer of corn. Should EU corn imports be affected, this would likely translate into increased interest for corn of EU origin and may result in participants willing to build more significant positions in the MATIF corn contract .
20. The AMF did not take into consideration the maturity of the commodity derivatives contract (Article 16 of RTS 21): The lifetime of the spot month, between 2 and 3 months depending on the expiry, was not considered short compared to the one-month duration of some contracts and no adjustment has been applied under this article.



Open interest

21. The open interest amounts to 26,000 lots. The open interest value was calculated as the average of the daily open interest of futures (after cumulating the open interest of all futures i.e. maturities for every day) from 4 January 2016 to 30 December 2016 based on public data provided by Thomson Reuters.

Other months' position limit

22. Two different limits are set for the other months. The other months limit amounts to 9,000 lots (which represents 34,6% of the open interest) during the 21 days before the spot month expires, and 6,500 lots (25% of the open interest) during the rest of the other months period.

Other months' position limit rationale

23. For most of the other months, the position limit is the same as to the baseline figure of 25% for contracts where the underlying commodity does not qualify as food intended for human consumption. In particular, the AMF noted that the overall open interest, which amounted to 26,000 lots in 2016, can be assessed as relatively low and did not consider a downward adjustment justified under Article 18(1) of RTS 21.
24. The AMF also noted that, the open interest (26,000 lots) is significantly lower than the deliverable supply (260,000 lots) and considered this may create an issue requiring an upward adjustment according to Article 18(3). This is linked specifically to the roll period so that participants holding positions in the spot month contract coming close to expiry, but not interested in going to delivery, can roll back their positions into the first other months contract that will soon become a spot month contract.
25. When the positions on the spot month future which roll into the next spot month contract add to those of all other months futures, a temporary increase of the all other months limit is then applied to accommodate the transfer of positions until the expiry of the spot month, after which the rolled position becomes the new spot month and the all other months limit can take its normal value back again. This step-up adjustment results in a temporary limit that substitutes the regular value for the three weeks period (34.6% of the open interest instead of 25% for the all other months limit).
26. Maturity of the contract (Article 16 of RTS 21): The other months comprise nine separate expiries. By comparison, more than 100 separate expiries are listed in some gas derivatives, therefore the number of separate expiries has not been deemed large. No adjustment has been applied under this article.
27. The number of market participants (Article 19 of RTS 21): In absence of any reliable information source at this stage, the number of participants could not be assessed. There are neither market makers based on the MiFID II definition, nor liquidity providers recognised by the trading venue. Given the lack of market makers and according to Article 19(2), "the competent



authority may establish different position limits for different times within [...] the other months [...]”. The AMF has used this possibility to set two limits within the other months’ period, i.e. 25% and 34.6%.

V. ESMA’s Assessment

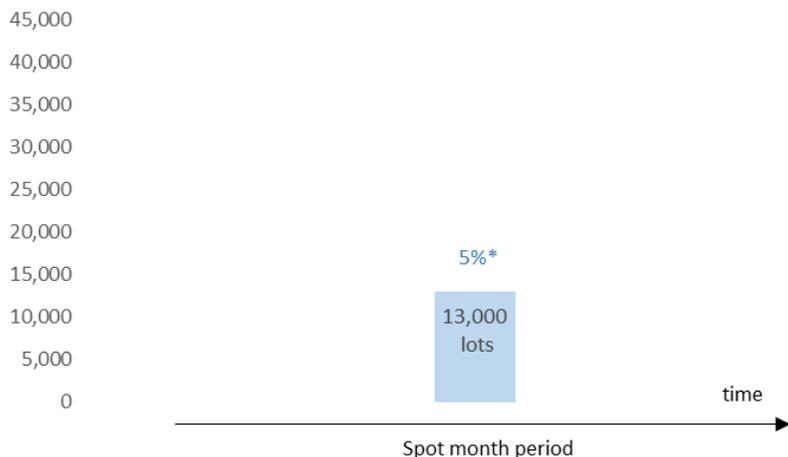
- 28. This Opinion concerns positions held in Corn futures and options.
- 29. ESMA has performed the assessment based on the information provided by the AMF.
- 30. For the purposes of this Opinion, ESMA has assessed the compatibility of the intended position limits with the objectives of Article 57(1) of MiFID II and with the methodology for calculation of position limits established in RTS 21, in accordance with Article 57(3) of MiFID II.

Compatibility with the methodology for calculation of position limits established in RTS 21 in accordance with Article 57(3) of MiFID II

- 31. The AMF has set a single position limit for the whole spot month and two gliding path limits for the other months.

Spot month position limit

Spot months’ limit applying during the lifetime of a corn contract

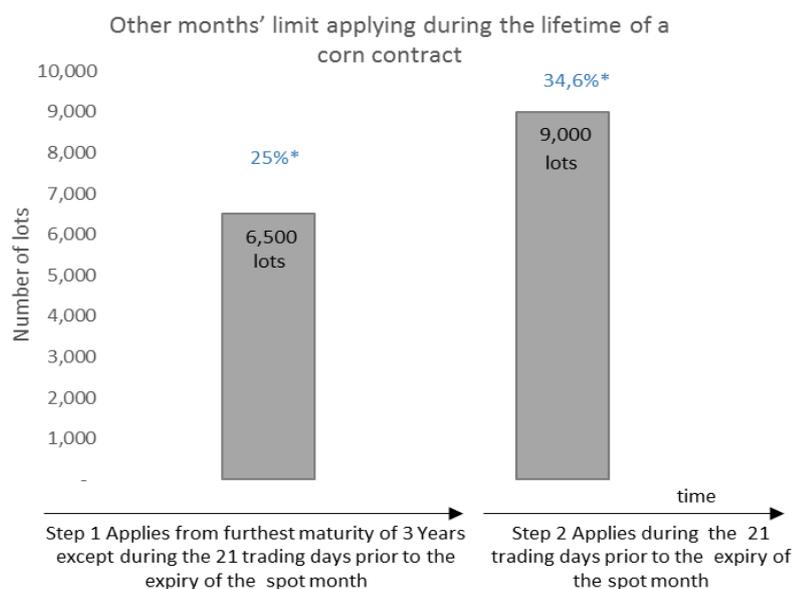


*Position limit as % of Delivery Supply

- 32. The calculation of the deliverable supply is based on average data over the last five years. As five expiries are traded each year, the annual available deliverable supply has been divided by five. This approach is consistent with Article 10(2) of RTS 21 that sets out that “Competent authorities shall determine the deliverable supply [...] by reference to the average monthly amount of the underlying commodity available for delivery over the one year period immediately preceding the determination”.

33. The baseline figure for the spot month limit is 25% since, based on the specifications of the MATIF corn contract, the underlying commodity does not qualify as food intended for human consumption. ESMA considers that the assessment by which the contract is not within the scope of Article 9(4) of RTS 21 is relevant as the contract specifications refer to corn for cattle feed and industrial use.
34. Compared to the baseline figure, the position limit for the spot month has been set at the minimum possible available level of 5%. This downward adjustment takes into account the significant difference between deliverable supply and open interest, as referred to in Article 18 of RTS 21. It also takes into account the characteristics of the underlying market and in particular the potential restrictions on imports of corn by the EU. Any such restriction would have an impact on the market of corn of EU origin and may increase the risk that some market participants in the MATIF corn contracts would try to build a dominant position and squeeze the market. Such downward adjustment to ensure orderly settlement is consistent with Article 20 of RTS 21.

Other months' position limits



*Position limit as % of Open interest

35. The open interest was calculated as the average value of open interests reported by a data vendor over 2016. ESMA considers such an approach sensible in this case as an average for a period of time gives a more stable measure of open interest and considers such approach consistent with Article 12 of RTS 21.
36. Two position limits are established for the other months': one for the 21 trading days preceding the expiry of the spot month and one for all the other months. Since there are no market makers in the MATIF corn future and option contracts, setting two different position limits is consistent with Article 19(2) of RTS 21 which foresees the possibility to have different limits



for the other months' where the number of investment firms acting as market makers at the time the position limit is set is lower than three.

37. For most of the other months', the position limit is set at 6,500 lots, i.e. 24.6% of the open interest. This is consistent with Article 11 of RTS 21.
38. Taking into account the fact that the open interest is significantly lower than the deliverable supply, the position limit is adjusted upward to 9,000 lots (34,6% of open interest) during the 21 trading days preceding the expiry of the spot month. This is consistent with Article 18(3) of RTS 21 and with the related Recital (20) of RTS 21, which clarifies that discrepancies between open interest and deliverable supply justify adjustments from the baseline applicable to the other months' limit in order to avoid a disorderly market.
39. Consequently, these position limits have been set following the methodology established by RTS 21.

Compatibility with the objectives of Article 57(1) of MiFID II

40. ESMA has found no evidence indicating that the proposed position limits are not consistent with the objectives established in Article 57(1) MiFID II. The limits set by the AMF on the quantity of corn each person may make or take delivery of should prevent any person from accumulating a dominant position such that persons are enabled to squeeze the market, and will support orderly pricing and settlement conditions.
41. Overall, the position limits set for the spot month and for the other months achieve a reasonable balance between the need to prevent market abuse and to ensure an orderly market and orderly settlement while ensuring that the development of commercial activities in the underlying corn market and the liquidity of MATIF corn futures and options are not hampered.

VI. Conclusion

42. Based on all the considerations and analysis presented above, it is ESMA's opinion that this spot month position limit does comply with the methodology established in RTS 21 and is consistent with the objectives of Article 57 of MiFID II. The other months' position limits do comply with the methodology established in RTS 21 and are consistent with the objectives of Article 57 of MiFID II.

Done at Paris, 10 August 2017

Steven Maijoor

ESMA Chair