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Additional Information

Level 1 Regulation
Markets in Financial Instruments Directive II (MiFID II) Directive 2014/65/EU- Secondary Markets

Topic
Position limits

Subject Matter
Position limits - the definition of "a lot"

Question
What is the definition of a lot for the application of Article 57(1) of MiFID II to those commodity derivatives for which a lot, as defined in the contract specification by the trading venue, does not represent a standard quantity of the underlying across all maturities/delivery periods for that commodity derivative?

ESMA Answer

23-09-2022

Original language

[ESMA70-872942901-36 Commodity derivatives, Position limits, Q&A 2]

In some derivative markets (mainly related to power or gas), trading venues offer trading in derivative contracts that refer to an identical underlying but have a variety of delivery periods, e.g. annual (calendar), quarterly, monthly, weekly (whole week, working day week and weekend) or daily.

For these contracts a lot or unit of trading, as defined in the contract specification by the trading venue, does not necessarily represent a standard quantity of underlying across all maturities/delivery periods, i.e. the lot size for a daily contract is different from that for a monthly contract as the lot size usually depends on the number of relevant days and/or hours in the delivery period. For baseload power derivatives, this is illustrated by the following table:

Delivery period	Unit of trading (1 Lot = 1MW)	Quantity of underlying commodity (baseload)	Lot size
1 day	1 MW	24 MWh	24 h
1 week – 7 days	1 MW	168 MWh	168 h
1 month – 30 days	1 MW	720 MWh	720 h

Since there is not an unambiguous equivalence between a lot and an absolute quantity of underlying commodity, it is necessary to define a reference period and use the associated lot size to determine the open interest in a commodity derivative under Article 57(1) of MiFID II and to set position limits for critical or significant commodity derivatives under Articles 11(1) and 13 of RTS 21a.

As the trading activity in European power and gas derivative markets is generally concentrated in monthly contracts, the period of the monthly contract should be used as the reference period. The associated lot size should be calculated by using the relevant days and/or hours as specified by the trading venue for that particular contract type.

Example:

Lot size calculation for a monthly base load and a monthly peak load power derivative contract to determine liquidity and set position limits:

Base load lot size = 30 days * 24 hours/day = 720 h, 10,000 lots are equivalent to 7.2 TWh,

Peak load lot size: 22 days * 12 hours/day = 264 h, 10,000 lots are equivalent to 2.64 TWh.