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## **FEFAC answer to the public consultation on the review of the markets in financial instruments directive (MIFID)**

FEFAC is the European Feed Manufacturers Federation, representing the interests of the EU compound feed and premixtures manufacturers.

The EU compound feed industry is the largest outlet for EU produced grains and oilseed meals. Almost 4,000 compound feed units are active on the commodities markets every day.

### **1) Scope: the role of financial instruments for the feed sector**

The purpose of future markets is to give the opportunity to transact today what you expect to execute in the future. For the European feed industry, the financial instruments are used as price risk management tools. The perspectives for agricultural markets – as acknowledged by the EU Commission in the Communication COM(2010) 672/5 – are expected to be characterized by greater uncertainty and increased volatility. This is why the ability for the feed sector to express its know-how in the area of financial instruments is of crucial importance for the competitiveness of the European livestock industry. Therefore these instruments should be highly reliable.

The financial instruments available today (futures, options, over the counter contracts) are already used by food chain operators such as producers, traders, first processing industries as well as traditional financial actors (banks, hedge funds, insurance companies etc...). All the different actors are important to bring the liquidity that is necessary for a good functioning of these tools. To determine if the futures markets perform correctly their price hedging function, the right criterion should be the convergence between futures and cash markets.

### **2) Futures and options contracts**

#### **a. Transparency**

On the EURONEXT market, there is already trade transparency for future traded agricultural commodities. However the information available today (open interest, offer and bid, last traded price, closing price) may not be considered as sufficient. For futures and options for agricultural commodities traded on EURONEXT, there is so far no public information on positions taken by categories of operators. This information should be published at least once a week. For the sake of consistency, the classification of operators should be similar to the one already used in the United States (“commercials”, “swap dealers”, “hedge funds”, “others”).

b. Position limits

For FEFAC there is no need at this stage to set up position limits by categories of operators or by operators. These kinds of limits may endanger the liquidity of the exchange trade in agricultural raw materials. As far as standardized contracts are concerned, operators are protected against counterparty risk by central clearing. As already mentioned the legislative focus in order to prevent unjustified speculative price movements should be on convergence rather than on position limits.

**3) OTC contracts**

The OTC market is not transparent today. However this market can potentially have consequences on futures and options markets. As a first step, transparency for OTC should be improved with the disclosure of volumes and prices.

It seems difficult for FEFAC to increase standardization of OTC derivatives without threatening their efficiency. Regulators must take into account that some needs cannot be covered by standardized futures and OTC contracts. This is why central clearing cannot apply to OTC contracts. Although it is true that non standardization increases the counterparty risk, priority should be given to the information of operators to make sure they are aware that they take a greater risk on OTC market versus standardized contracts.