



– Feedback to Public Consultation –

IOSCO Consultation: Principles for the Regulation and Supervision of Commodity Derivatives Markets

Brussels, 12 January 2022 | Europex firmly supports the IOSCO Principles for the Regulation and Supervision of Commodity Derivatives Markets (hereafter: the Principles). We are fully aligned with the core objectives of the Principles to ensure that commodity derivatives markets can serve their fundamental role of facilitating fair and efficient price discovery and hedging in a transparent, secure and well-regulated trading environment, while remaining free from market manipulation and other abusive practices. To this end, Europex welcomes the current update and reaffirmation of the Principles to reflect developments in the commodity derivatives markets over the past decade and to ensure that they continue to provide resilient international guidance for their regulation and oversight.

In line with the IOSCO Principles and the G20 Pittsburgh Commitments, **regulated venues such as energy exchanges, play a fundamental role in providing the necessary transparency and security in the trading of commodity derivatives.** In this regard, it is vital to ensure that the messages embedded in the updated Principles continue to recognise the benefits of trading in efficient, secure, cleared and transparent markets, such as regulated exchanges.

Concretely, **Relevant Market Authorities should ensure that changes to their market surveillance frameworks and programmes are proportionate and do not push traded volumes away from transparent regulated markets towards over-the-counter (OTC) trading** (see Principle 10). Measures which lead to any such shift would neither be in line with the objectives of the Principles themselves nor the related G-20 Pittsburgh Commitments.

Europex shares the view that **Relevant Market Authorities should promote investor education in commodity derivatives markets and their associated benefits** (see Principle 24). Specifically, this should also include education on the operation and functioning of these markets, as well as the differences between the existing markets and their different contributions towards greater transparency and risk-mitigation. Special attention should be paid to the further added value of transparent, cleared regulated markets in comparison to less transparent, uncleared OTC trading.



– Consultation Response –

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Europex would like to suggest the following amendments (see below in green) to Principles 10 and 24:

Original	Revised (New Revision)
Principles for Market Surveillance: Appropriate framework and resources	
<p>Principle: Framework for Undertaking Market Surveillance - Market Authorities should have a clear and robust framework for conducting market surveillance, compliance and enforcement activities and there should be oversight of these activities. A market surveillance program should take account of a trader’s related derivatives and physical market positions and transactions. Market surveillance programs should be supported by sufficient resources, access to physical market data and analytical capabilities.</p>	<p>Principle 10: Framework for Undertaking Market Surveillance – Relevant Market Authorities should have a clear and robust framework for conducting market surveillance, compliance and enforcement activities and there should be oversight of these activities. <i>Market surveillance programs should promote transparency and security in the trading of commodity derivatives. Relevant Market Authorities should ensure that changes to their market surveillance frameworks and programs are proportionate and do not push traded volumes away from transparent regulated markets towards over-the-counter (OTC) trading.</i> A market surveillance program should take account of a trader’s related derivatives and physical market positions and transactions, <i>including the impact of ETPs, where relevant.</i> Market surveillance programs should be supported by sufficient resources, access to physical market data and analytical capabilities.</p> <p>Explanation: Text added to reflect recent market developments related to ETPs.</p>

Principles on Promotion of Investor Education and Awareness	
	<p>(New)</p> <p>Principle 24: Promotion of Investor Education in Commodity Markets - Relevant Market Authorities should put in place an appropriate mechanism for promoting investor education amongst market participants and the general public about the potential benefits of the commodity derivatives markets. This should also include education on the operation and functioning of commodity derivatives markets, as well as the differences between the existing markets and their different contributions towards greater transparency and risk-mitigation. Special attention should be paid to the further added value of transparent, cleared regulated markets in comparison to less transparent, uncleared OTC trading. Relevant Market Authorities should also inform the public and retail investors, about the unique risks associated with investing in commodity exchange-traded products derivatives, particularly during times of market stress and extreme volatility.</p>

About

Europex is a not-for-profit association of European energy exchanges with 30 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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