

► FEATURE

GOING WITH THE GRAIN:

Busy year for a burgeoning market

Europe may no longer be the dominant force in the global market for grain futures, but it is keenly interested in the sector. Euronext plans to continue building a stronger position by launching innovative products and services to keep step with market needs and challenge the CME's grip. Let's take a look at trends in the grain market.

(Suite page 2)



► EDITORIAL Stéphane Giordano and Bertrand de Saint Mars | AMAFI

As 2020 draws to a close, two huge challenges loom large: the global health crisis and Brexit. Each extends far beyond financial markets, but also has particular importance for them.

The financial response to the twin supply and demand shock unleashed by Covid-19 has so far consisted primarily in distributing state-backed loans to businesses. But markets have to play a central role in relaunching the economy, notably by financing national and European stimulus plans. As part of our partnership with *Revue Banque* magazine, we spotlight this topic in a new *special issue*.

The other major challenge is Brexit. While the UK officially left the European Union on 31 January 2020, it remains bound by EU regulations until the end of the year. But huge uncertainty still surrounds the rules that will shortly govern our relations with the City, which is still, for now, the Union's biggest financial centre by a considerable margin. As AMAFI

has been stressing for months, we need to take the measure of this deep-seated structural change. While some headway has been made in discussions, we are not convinced that all of the consequences have yet been drawn at the political level. Key challenges in terms of attractiveness and competitiveness must be addressed for Europe, which needs to retain proper control over the financial flows that fuel its economic growth. To achieve this, amendments to the EU regulatory framework should be informed by cost/benefit analyses in every case to ensure that the adjustment costs borne by participants are truly offset by sufficient collective benefits. We also need to check that the priorities guiding the design of the regulatory framework thus far are still commensurate with the demand placed on markets to grow their role in financing the economy. This newsletter describes several of AMAFI's current workstreams, which clarify these concerns.

Busy year for a burgeoning market

 Sandra Sebag

Waves of restructuring have brought futures contracts closer to physical markets in recent years. And, at the same time, participants are looking for better integration between the continent's east and west as a way to regain more influence on the international scene.

"Everything invented in finance has its origins in agricultural markets," says commodities specialist Philippe Chalmin, economics professor at Paris-Dauphine University and founder of Cercle Cyclope, a commodity research institute. Derivates are no exception to that rule. There is evidence of forward timber and barley sales in ancient Mesopotamia. Europe's medieval fairs laid down the first rules for futures trading, while the Dojima Rice Exchange in Osaka, Japan, considered the world's first commodity futures exchange, operated from the end of the 17th century to just before the Second World War. Meanwhile the encyclopaedia edited by Denis Diderot and Jean le Rond d'Alembert, published in 1751, mentions the Amsterdam and London stock exchanges as well as the Antwerp exchange, a declining force by that time, where traders used spot instruments, forward contracts and even options.

Rise of the US Midwest

Europe had a firm grip on trading until the 19th century, when the balance of power tilted westward. Over the course of the 1800s, America's Midwest farming sector became more structured and technologically advanced, organising production, storage and transportation as it expanded. During this period, Chicago developed from a tiny settlement into a powerful trading hub. The Chicago Board of Trade was formed in 1848 and introduced standardised centrally cleared futures contracts in 1865. Nowadays, the CBOT is an exchange that offers trading services in an extensive array of financial instruments. But the organisation's close ties to farming are symbolised by the 30-ft, 6,500-lb statue of Ceres, the Roman goddess of agriculture, that sits atop its Art Deco headquarters. There is actually a European connection too, as the

statue, designed by Chicagoan artist John Storrs, was assembled from 44 pieces made in France. Ultimately the CBOT went on to merge with the Chicago Mercantile Exchange to form CME Group, which today dominates commodities trading internationally and handles 70% of trading in agricultural futures. Yet CME does not have total control: it faces brisk competition from local exchanges in New York but also in Europe, which is striving to recapture its place.

An evolving market

Futures trading has grown enormously over the centuries. Most of the expansion, though, has centred on non-agricultural assets. Today grain markets account for a tiny share of transactions relative to overall market trading volumes. For instance, a typical trading session in Euronext wheat futures involves around 30,000 lots and 5,000 trades, roughly the same as the volumes for a listed small-cap. Despite this, agricultural derivatives still play a strategic role on many levels. They allow the agricultural sector to lock in prices against risk factors relating to climate, geopolitics and health-related developments. From a political and economic viewpoint, they contribute to more efficient supply. And they give investors a valuable source of diversification.

Euronext has operated in this area – particularly wheat – for many years, drawing on expertise built up in France through the Matif exchange/clearing house in the early 1990s. A centralised physical market is another critical factor. Since the end of the Second World War, producers in France have been required to send their grain to authorised storage organisations with a monopoly on trade. These organisations deal at forward market prices from which they deduct (in the case of a purchase) or add (in the case of a sale) a margin to reflect production quality or the location of the delivery point. Take the example of wheat: Europe's benchmark, listed on Euronext, is French wheat, with delivery in Rouen and a lot size of 50 tonnes. ▶▶

►► Storage organisations and traders set their contract prices based on proximity to these specifications. The same goes for most major European markets, as the contract with delivery in Rouen establishes the benchmark futures price for wheat in Belgium, Luxembourg and Germany. Business is also influenced by what goes on in Chicago. As Philippe Chalmin explains: “The Chicago wheat contract is measured in bushels and dollars, while Euronext’s is in tonnes and euros. Financial firms exploit these differences, arbitraging between the two markets, which then tend to converge”.

Despite this convergence, European futures markets are still relatively imperfect and will have to change if they are to truly challenge the CME and the wider US ecosystem. A slew of restructuring measures have been taken recently, and more are underway. They are aimed at diversifying the number of contracts in wheat and other grains, where trading levels remain relatively modest. Firms doing business in the market are looking to open new delivery points across the region to serve European customers – in Dunkirk for wheat, for example, and in Gand for corn. “Euronext-listed contracts with delivery points in France give French traders an edge over their Dutch, Belgian or Germany counterparts,” says Arthur Portier, a consultant at the consultancy Agritel. To take a decisive step forward in this area, Euronext’s teams are working on a platform for settlement without physical delivery, a practice fairly common on the CME.

Building greater liquidity

By boosting the number of contracts, the goal is also to build the number of participants and so make the market more liquid. In Europe, forward markets operate at an estimated ratio of 1:3 relative to volumes traded on physical markets, whereas the ratio can be 1:10 or higher

on the CME. “Lots are traded several times, but because of the market’s size, there are fewer participants on Euronext than on the CME,” says Arthur Portier. As a result, investors are still secondary players, making up just 30% of wheat futures users, most of whom are traders. These shares are even lower in other grains, with traders and other commercial participants accounting for an estimated 90% of open interest in corn and 70% in rapeseed. In wheat, financial participants supply additional liquidity that allows commercial firms to hedge risks more easily. But even this European flagship market is far less liquid than the CME, with just ten million contracts traded on Euronext in 2019, compared with 45 million for its Chicago-based counterpart. Nicholas Kennedy, Head of

Commodities at Euronext Amsterdam, acknowledges that grain markets occupy a niche relative to all listed assets on Euronext. But he also stresses that the business has a much more recent track record compared with the world’s main agricultural commodity market, the CME, whose first contracts date to the mid-1800s. Trading in France began in 1994 with the rapeseed contract, but did not really take off until Europe’s Common Agricultural Policy was liberalised. Volumes have grown steadily ever since, to the point that the Euronext wheat contract is now a viable alternative to the equivalent Chicago-listed one.

These developments are especially critical because the physical wheat market itself is being transformed. North America no longer dominates the world wheat export market. The lion’s share of global production is now in continental Europe, particularly France, as well as increasingly around the Black Sea region as the continent’s wheat basket shifts eastward. Although traditionally a major wheat growing area, the Black Sea basin has stepped up a level. It now has the infrastructure needed to establish its place on the world scene and

//

Europe’s wheat benchmark is the Euronext-listed futures contract with delivery in Rouen

//





attract international interest, at the CME and among specialised firms. In fact, CME Group launched a Black Sea grain contract in 2012, but the product struggled to catch on for a variety of reasons, including lack of liquidity. In 2017 the exchange launched new, cash-settled futures and options for Black Sea wheat and corn. These have proven more successful, with 320,000 lots – equivalent to 16 million tonnes – being traded, cleared and settled between launch and July 2019, according to the CME. Euronext, meanwhile, has several projects underway as it jockeys for position on the Black Sea market and seeks to promote greater integration between the east and west of the continent.

Expanding Euronext's role

Euronext has long been looking to acquire a central role on these markets in Europe. Next year the exchange plans to launch new services that will be decisive in this effort. It is setting up a trading platform on which contracts will no longer be subject to physical delivery. When trades are settled, participants will earn or lose the spread between the forward price and the spot price, as on any market. The new platform's diversity will make it possible to launch numerous contracts in wheat and other grains or oilseed crops, with different qualities and provenances.

This will address the needs of the farming industry, while also offering new products for investors seeking safe and accessible price benchmarks. Euronext is additionally finalising the launch of a new line of commodity warrants that incorporate delivery. Legislation passed by France in May 2019 will enable the creation of new storage spaces, which will help to grow the market. The warrants will be linked to storage facilities and will be tradeable, which should promote more fluid trading.

Will this be enough to lure back the major European banks that have shunned this market segment in recent years? Only time will tell, but the omens are promising. One expert, Thomas A. Hieronymus, author of a seminal work on the economics of futures trading, had this to say: "Futures markets were not invented and imposed on the existing marketing system but evolved out of the need for the performance of marketing functions that the then existing marketing system was not doing adequately. They did not start as a separate or alternative way of doing business but as an extension and refinement of existing practices. They have been in a continuous state of change, development and refinement throughout their history." A busy 2021 beckons as Europe works to develop and buttress its position on the global market in grain futures.



IOSCO

IOSCO Annual Meeting and ICSA meetings, 9-18 November 2020

The annual general meeting of the International Organization of Securities Commissions (IOSCO) was replaced by a series of virtual meetings because of the Covid-19 pandemic.

The International Council of Securities Associations (ICSA) and ICI Global, an international association representing investment funds, organised a number of virtual bilateral meetings between the finance industry and international and European regulators.

Key regulatory topics broached during the meetings included issues relating to the impact of Covid-19 on the functioning of financial markets and especially the resilience of non-bank financial institutions (NBFIs), in the light of recent Financial Stability Board (FSB) reports. Increased FSB/IOSCO collaboration was another major topic of discussion, particularly regarding the current work on NBFIs. The meetings also covered Europe's regulatory agenda, the Capital Markets Union reboot, the importance of improving supervisory convergence, plus sustainable finance and the challenges of implementing a European taxonomy.

Arnaud Eard

BREXIT

Share trading obligation and derivatives trading obligation

In late October ESMA published a [statement](#) clarifying the scope of the EU share trading obligation (STO). It said that trading in a third country of shares with an International Securities Identification Number (ISIN) issued by a European Economic Area country would be considered to comply with the MiFIR STO provided the transactions were in the country's local currency. AMAFI welcomed the clarification, which it had been requesting for several months ([AMAFI / 20-55](#)). In early November the UK Financial Conduct Authority also released a [statement](#) on the scope of the STO, indicating that it will use its Temporary Transitional Power to allow UK investment firms to continue trading all shares on EU platforms.

On the DTO, ESMA published a [statement](#) on 25 November indicating that existing rules will continue to apply as there are no risks to financial stability. ESMA stressed nonetheless that the absence of an equivalency decision for UK venues could pose problems for some European entities, particularly UK-based branches. However, there is still a risk that financial flows could be diverted, since US venues are currently the only ones capable of meeting a potential dual UK/European obligation.

Extending AMF certification equivalency

In late October the AMF published a [news release](#) announcing that it would extend certification equivalency through to 12 December 2022. Under the framework, professionals demonstrating that they have appropriate qualifications recognised by the UK regulator are granted equivalency with the AMF's certified examination of basic knowledge.

Originally set up in late 2017, equivalency was initially granted until 12 December 2020 to employees of UK-based investment services providers or their branches who had fulfilled certain duties in Britain and could provide evidence of being appropriately qualified to do so, and who were then appointed to hold specific positions in France as part of a Brexit transfer. With this decision, the AMF responded to calls from AMAFI, which had asked the regulator to consider extending equivalency given the challenges arising from the health crisis and continued uncertainty about Brexit implementation.

Arnaud Eard, Pauline Laurent, Adélaïde Fischmeister

CMU

AMAFI Report

To promote AMAFI's Capital Markets Union (CMU) report, a delegation led by Stéphane Giordano met on 22 October with Sabine Thillaye, Chair of the National Assembly's European Affairs Committee, to explain AMAFI's priorities, particularly:

- ▶ Relaunching the European securitisation market to allow banks to manage their balance sheets more effectively in order to support SMEs and mid-tier firms;
- ▶ Ensuring that the Basel III transposition process considers competitiveness issues for European firms in relation to foreign competitors, especially as regards market making;
- ▶ Dealing with the consequences of a hard Brexit given the uncertainty surrounding the future relationship between the EU-27 and the UK;
- ▶ Creating a European safe asset to provide the EU-27 with an instrument that can act as a stabiliser while also fostering the euro's international role;
- ▶ Developing pension funds to tackle long-term financing challenges;
- ▶ Increasing supervisory convergence through direct ESMA supervision of European clearing houses.

Arnaud Eard

MIFID 2

Franco-German coalition on Quick Fix

As part of MiFID Quick Fix talks, AMAFI was involved in putting together a Franco-German coalition comprising the German Derivatives Association (DDV), the German Savings Banks Association (DSGV), the French Banking Federation (FBF), the French Structured Products Association (AFPDB) and AMAFI.

Meetings were held with German MEPs Markus Ferber and Sven Giegold and with French MEP Stéphanie Yon-Courtin's team to present the coalition's priorities in a joint position *paper*. With regard to AMAFI's priorities, the positions adopted by the plenary session of the European Parliament in late November are as follows:

- ▶ **Exemption from product governance requirements:** Only bonds with make-whole clauses are exempt while other plain-vanilla bonds and ordinary shares will continue to be covered by the requirements.
- ▶ **Best execution reports:** The requirement for investment firms, trading venues and liquidity providers to submit RTS 27 best execution reports is to be suspended.
- ▶ **Cost & charge disclosures:** Investment firms are to be exempt from all obligations to disclose costs and charges to eligible counterparties and professional clients, except when providing investment advice and portfolio management services. In the case of orders concluded over the phone, ex-ante disclosures may be provided by phone without delay after the transaction.
- ▶ **Research funding:** Bundling is to be authorised provided three conditions are met, including the requirement that the company's market cap does not exceed €1 billion for a 36-month period prior to the provision of research.

Reporting obligations

AMAFI responded to ESMA's consultation on transaction reporting obligations and reference data ([AMAFI 20 / 67](#)). The proposals were aimed at overhauling the transaction reporting mechanism and introducing additional restrictions for systemic internalisers in terms of transaction reporting, pre- and post-trade transparency and the supply of reference data. AMAFI expressed strong concerns, as ESMA had failed to make a viable case for the changes. Besides the need to carry out an in-depth cost/benefit analysis before making any structural change, it is vital to consider the international environment, keeping Brexit in mind from a competition perspective, and the political goals pursued through the CMU initiative.

OTF regime

ESMA also consulted on organised trading facilities (OTFs). Almost three years on from the introduction of this new type of bond and derivatives trading venue, AMAFI stressed the need to increase supervisory convergence among European authorities. The goal should be to ensure that all participants potentially covered by the regime are actually registered as OTFs, while streamlining some of the requirements attached to this status, for example concerning the provision of execution quality data ([AMAFI 20/ 68](#)).

Arnaud Eard, Emmanuel de Fournoux, Mehdi Ounjema

PRIIPs Review

In July the European supervisory authorities (ESAs) published proposed amendments to the Level 2 document. However, the proposals were accompanied by a letter notifying the European Commission that the ESAs were unable to submit revised draft RTS because EIOPA's Board did not support the draft standards. This prevents the Commission from turning the proposals into a delegated act.

At this writing, it is unclear how this unprecedented situation will be resolved. Insofar as the revised draft RTS could be used as the basis for a new delegated act, AMAFI's PRIIPs group analysed the contents of the draft document (AMAFI 19-54 and 20-02). While some of the most problematic proposals were dropped (notably illustrative performance scenarios), the draft still proposes to apply new methodologies, particularly for autocallable products, that are deeply unsatisfactory. These methods would fail to ensure proper investor disclosure, while materially changing processes that have been in place for two years (AMAFI / 20-59). AMAFI feels that such regulatory instability, which would significantly inflate implementation costs, would be all the more unjustified unless progress is made in informing retail investors. AMAFI and DDV, its sister organisation in Germany, are concentrating on these aspects in their dealings with the authorities.

Pauline Laurent

MAR ESMA Report

In late September ESMA published its *final report on the Market Abuse Regulation (MAR) review*, following a consultation in October 2019 to which AMAFI provided input (AMAFI – 19/113). The report was submitted to the Commission, which must prepare legislation to amend MAR. This is expected in the second half of 2021.

In its report, ESMA makes various statements, recommendations and proposals spanning a wide range of areas, from MAR's scope to share buybacks, inside information, market soundings, insider lists, surveillance and sanctions. AMAFI sent members a summary of the report, highlighting positions taken and how they matched its own positions.

Pauline Laurent

ANTI-MONEY LAUNDERING High-risk countries

Article 2 of the *European Regulation* amending the European list of high-risk third countries came into effect on 1st October 2020. The following countries were added to the list: the Bahamas, Barbados, Botswana, Cambodia, Ghana, Iraq, Jamaica, Mauritius, Mongolia, Myanmar/Burma, Nicaragua, Pakistan, Panama, Trinity and Tobago, and Zimbabwe; while Bosnia-Herzegovina, Guyana, Laos, Ethiopia, Sri Lanka and Tunisia were taken off.

Adélaïde Fischmeister

VAT Rules for financial services

To remedy the lack of VAT neutrality and the legal uncertainty and complexity connected with VAT rules for financial and insurance services, the European Commission is launching an initiative to revise the rules in this area. Ahead of the public consultation scheduled for first-half 2021, AMAFI has already submitted several general observations (AMAFI / 20-66). It supports the effort to identify appropriate adjustments to the VAT regime coupled with a prior impact study, focusing on the following approaches:

- ▶ Set shared and adaptable definitions, though the comitology process, for the financial services covered by European VAT legislation, particularly in the event that different VAT treatments by type of service provided are maintained.
- ▶ Adopt the European-level principle that the VAT taxation option for financial services should be provided on a business-to-business basis, and specify in an implementing regulation the procedures for exercising this option.
- ▶ Harmonise VAT deduction rights for financial activities, especially the calculation of tax coefficients and the scope for setting up distinct business sectors with respect to VAT.

Eric Vacher, Maguette Diouf

AMF CONTRIBUTIONS

2021 Finance Bill

Beginning in 2019 reforms to the system of dues paid to the AMF led to a substantial increase in the contributions applicable to some smaller firms. The AMAFI lobbied for the system to be rebalanced, and the 2021 Finance Bill currently being discussed includes several amendments.

The aim is to reduce the flat-rate dues payable by firms providing only investment advice and/or order reception/transmission services. While the amounts are set by decree, not by legislation, the explanatory notes accompanying the bill offer some clarification: the annual flat-rate contribution will decrease from €30,000 to €10,000 for ISPs authorised in France and for third-country branches, while for EU branches it will be cut from €20,000 to €7,500. To offset the resulting reduction in contributions paid to the AMF, adjustments will be made to the base and contribution rate for ISPs that deal on own account, whose capital base will be lowered from €12 billion to €1.5 billion and whose contribution rate, set by decree, will be 0.063 per thousand.

Article 21 also introduces dues for two new sets of participants, namely issuers of initial coin offerings and digital asset service providers. The amount for ICO issuers will be set by decree, while it will be €1,000 for registered Digital Asset Service Providers and €5,000 annually for DASPs that apply for approval.

Thiebald Cremers

ANTI-MONEY LAUNDERING

Framework and internal control system in AML/CFT and asset freezes

The executive order on the framework and internal control system in AML/CFT and asset freezes is nearing completion. Given the order's impact and the relative closeness to its entry into force – which, at the urging of AMAFI and other professional associations, is scheduled for 1st March 2021 – the Association, in agreement with the Treasury, shared a version with members that is unlikely to change substantively. The statement was accompanied by a briefing note (*AMAFI / 20-62*) describing the provisions likely to materially affect the implementation of internal AML/CFT systems.

Reforming the national asset freeze framework

Ordinance 2020-1342 of 4th November 2020 strengthening the framework for asset freeze measures and the ban on making funds available was published on 5th November. The goal is to clarify the obligation for reporting entities to have a specific internal control system in this area. To clarify the ordinance, AMAFI prepared a note presenting consolidated versions of the amended legislative provisions covering the asset freeze framework (*AMAFI / 20-64*). A decree will supplement the reform shortly.

Adélaïde Fischmeister

MARKET ABUSE

Update of the MAR Q&A

As part of its work on *MAR*, AMAFI prepared an update covering market soundings for the Q&A on *MAR* implementation and interpretation that it published in 2017. The primary purpose was to clarify that the pre-negotiation phase of a Euro Private Placement (Euro PP) transaction is excluded from the scope of market soundings under the *SME Regulation*. Another aim was to stress that early-look meetings held during an initial public offering are not included in the scope of market soundings, as they do not meet the two requirements for this. Discussions are underway with the AMF on the latter subject.

Thiebald Cremers, Mathilde Le Roy

PROSPECTUSES

Validity period

The AMF consulted the marketplace in July 2019 on the implementation of a guide to drafting prospectuses and providing information in the event of a public offering or admission to trading of financial securities. As part of work led by the Corporate Finance Committee on applying the *PR3* Regulation, AMAFI made a number of observations (*AMAFI / 19-98*). It is arguing that securities notes should contain a clarification reiterating, per *PR3* Article 23, that although the prospectus is valid for 12 months, obligations such as the requirement to publish a supplement when a material new event occurs must cease upon the "closing of the offer period or the time when trading on a regulated market begins, whichever occurs later".

Thiebald Cremers, Mathilde Le Roy

NEW MEMBER

► **RBC Paris Branch**, a credit institution whose parent company is in Canada, offering order execution services. Eric Meyer and Christophe Van Amersfoort are the co-branch managers.



CONTACTS

Ashley Berne

01 53 83 00 74 | aberne@amafi.fr

Philippe Bouyoux

01 53 83 00 84 | pbouyoux@amafi.fr

Thiebald Cremers

01 53 83 00 91 | tcremers@amafi.fr

Maguette Diouf

01 53 83 00 88 | mdiouf@amafi.fr

Arnaud Eard

01 53 83 00 75 | aear@amafi.fr

Adélaïde Fischmeister

01 53 83 00 81 | afischmeister@amafi.fr

Emmanuel de Fournoux

01 53 83 00 78 | edefournoux@amafi.fr

Pauline Laurent

01 53 83 00 87 | plaurent@amafi.fr

Juliette Le Drogou

01 53 83 00 83 | jledrogou@amafi.fr

Alexandra Lemay-Coulon

01 53 83 00 71 | alemaycoulon@amafi.fr

Mathilde Le Roy

01 53 83 00 76 | mleroy@amafi.fr

Mehdi Ounjema

01 53 83 00 73 | mounjema@amafi.fr

Bertrand de Saint Mars

01 53 83 00 95 | bdesaintmars@amafi.fr

Éric Vacher

01 53 83 00 82 | evacher@amafi.fr

Director of Publication:

Bertrand de Saint Mars

Editor:

Philippe Bouyoux

Design:

Rodolphe Herrera

Layout:

Sabine Charrier

ISSN: 2557-5317

AMAFI documents quoted in this Newsletter and flagged with a reference number are on our website at

www.amafi.fr

Most of them, notably AMAFI's responses to public consultations, are freely available, but some are restricted to members only.



FRENCH FINANCIAL MARKETS ASSOCIATION



<http://www.amafi.fr/en>



<http://amafi.fr/topics/en/lnfo-amafi>



[@AMAFI_FR](https://twitter.com/AMAFI_FR) [in amafi-france](https://www.linkedin.com/company/amafi-france)

13 rue Auber, 75009 Paris, France | Phone: + 33 1 5383-0070 | Email: info@amafi.fr

For further information about any of the topics discussed in this Newsletter, contact the person(s) named at the bottom of the article in question. Dial (+ 33 1 5383) followed by the extension number, or send an email.