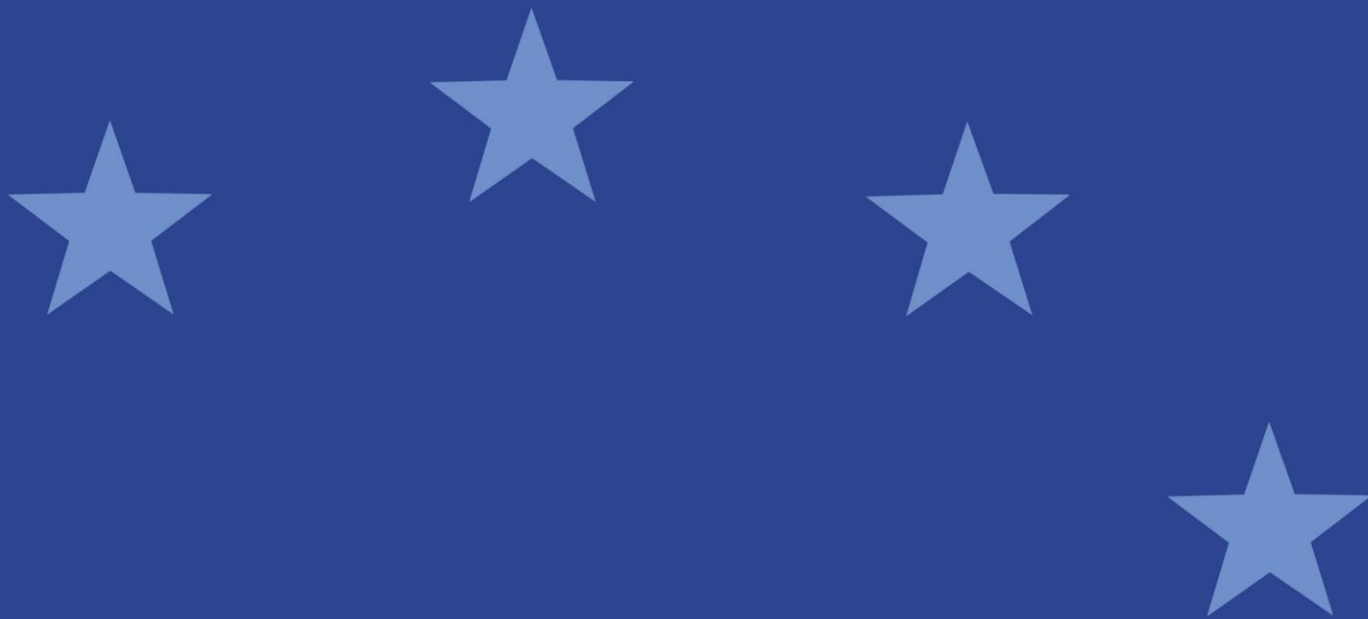




European Securities and  
Markets Authority

**Reply form for the  
Consultation paper  
Guidelines on the application of C6 and C7 of Annex I of MiFID**



30 September 2014



European Securities and  
Markets Authority

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Date: 30 September 2014



## Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the Consultation paper - Guidelines on the application of C6 and C7 of Annex I of MiFID, published on the ESMA website ([here](#)).

### **Instructions**

Please note that, in order to facilitate the analysis of the number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, please follow the instructions described below:

- i. use this form and send your responses in Word format;
- ii. do not remove the tags of type < ESMA\_ MIFID\_ C6\_ C7\_ QUESTION\_1 > - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
- iii. if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

- i. if they respond to the question stated;
- ii. contain a clear rationale, including on any related costs and benefits; and
- iii. describe any alternatives that ESMA should consider

To help you navigate this document more easily, bookmarks are available in “Navigation Pane” for Word 2010 and in “Document Map” for Word 2007.

Responses must reach us by **05 January 2015**.

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input/Consultations’.

### **Publication of responses**

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

### **Data protection**

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Disclaimer’.



**Q1: Do you agree with ESMA’s approach on specifying that C6 includes commodity derivative contracts that “must” be physically settled and contracts that “can” be physically settled?**

<ESMA\_MIFID\_C6\_C7\_QUESTION\_1>

FESE agrees with the assessment by ESMA that “forwards” are indeed to be subsumed by “any other derivatives” in C6.

In general, the differentiation between contracts that “can” be physically settled” and those that “must” be physically settled seems an obvious distinction; while the latter only constitutes a subset of the first (“must” < “can”). However, it is important to note in this context that almost all contracts in gas and power trading can be considered as “can be physically settled”. Yet, the overall market share of contracts that “must” indeed be physically settled is significantly smaller as it is directly linked to the ultimate production and consumption of commodities.

FESE also asks ESMA for clarification on those instruments that have a number of legs before being ultimately “physically settled”. In particular, we ask for clarification of how these guidelines will treat those instruments that settle into a future first, before being ultimately “physically settled”.

<ESMA\_MIFID\_C6\_C7\_QUESTION\_1>

**Q2: Do you consider there are any alternatives for or additions to the proposed examples of “physically settled” that ESMA should consider within the definition of C6? If you do, what are these?**

<ESMA\_MIFID\_C6\_C7\_QUESTION\_2>

FESE understands that ESMA aims to take into consideration the CESR advice issued in 2005. However, we note that in the proposed guidelines, ESMA omits Section C of the original advice: *“the amendment, assignment or other form of alteration of the records of rights of ownership in a central registry or other dematerialised system recording entitlement to establish a change in beneficial ownership of a physical commodity”*.

FESE is concerned that ESMA may have inadvertently omitted one leg of the ESMA advice and would ask that ESMA provides justification for this omission.

<ESMA\_MIFID\_C6\_C7\_QUESTION\_2>

**Q3: Do you agree with ESMA’s discussion of the relationship between definitions C5, C6 and C7 and that there is no conflict between these definitions? If you do not, please provide reasons to support your response. In particular, ESMA is interested in views regarding whether the proposed boundaries would result in “gaps”, into which some instruments would fall and not be covered by any of the definitions of financial instrument. ESMA also seeks views on whether there are any adverse consequences from the fact that some instruments could fall into different definitions depending upon the inherent characteristics of the contract e.g. those with “take or pay” clauses that may be either cash or physically settled.**

<ESMA\_MIFID\_C6\_C7\_QUESTION\_3>

FESE notes that those instruments that fall under C6 instruments are similar to spot instruments but ultimately are not considered as such. Therefore, we wish to ask ESMA for clarification as to where these instruments will ultimately fall.

We also wish to bring to ESMA’s attention the potential relationship between these guidelines and the Market Abuse Regulation (MAR). MAR should be taken into consideration as it includes a reference to what should be considered as “physically settled” and ESMA must avoid any unintended regulatory overlap. <ESMA\_MIFID\_C6\_C7\_QUESTION\_3>

**Q4: What further comments do you have on ESMA’s proposed guidance on the application of C6?**

<ESMA\_MIFID\_C6\_C7\_QUESTION\_4>

As stated in the ESMA consultation paper, there are a number of issues with regard to the uniform application of C6 (and C7).

ESMA must consider the sudden appearance of “non-MTF” platforms in relation to the entry into force of EMIR. These non-MiFID regulated trading venues have been explicitly created to avoid being caught under C6. Given that certain NCAs have confirmed them not to be MTFs and hence to remain outside the scope of financial regulation, the current C6 MiFID financial instrument definition does not apply to the products traded on them.

Hence, all contracts concluded on “non-MTFs” do not constitute either Exchange Traded Derivatives (ETDs) or OTC traded derivatives in relation to EMIR. These “non-MTFs” justify their creation on the basis that they must act with discretion. However, it is very difficult to draw the line between discretionary and non-discretionary practices. The electronic trading technology behind the trading screens works *de facto* very similarly in both cases and execution happens without any real intervention for almost all trades. In reaction to the introduction of EMIR, there has been a very significant shift of liquidity away from “traditional MTFs” to “non-MTFs”.

An example of the impact of these “non-MTF” platforms is that fact that currently almost no OTC derivatives are concluded in the energy markets. Most of the contracts are either ETDs concluded at exchanges or non-financial instruments traded on “non-MTFs”. Against this background, it is important to note that MiFID II is very likely to widen this shift and to diminish the share of financial instruments in energy trading even further. Given that from 2017 onwards gas and power derivatives that are traded on an OTF and “that must be physically settled” do not fall under C6. This will result in more trading moving outside the reach of financial regulation, should the related delegated act on the definition of physical settlement be too large.

<ESMA\_MIFID\_C6\_C7\_QUESTION\_4>

**Q5: Do you have any comments on ESMA’s proposed guidance on the specification of C7?**

<ESMA\_MIFID\_C6\_C7\_QUESTION\_5>

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<ESMA\_MIFID\_C6\_C7\_QUESTION\_5>