

## CMC position on MAR proposal

- ▶ Commodity Markets Council
  - Global trade association of regulated markets, commercial end-users
  - Focus on efficient, well regulated commodity markets
  - Engagement on MAR proposal since Q1 2012
- ▶ MAR proposal
  - Appropriate response to crisis, challenges of prosecuting abuse
  - May improve commodity derivative markets, if properly adapted
  - But grave concerns on applying inappropriate equity market restrictions

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## Equity vs. commodity markets

### 1. Equity markets

- ▶ Capital formation markets
  - **Primary markets** where investors own an interest in a corporation
  - Inside information **affects 100%** of value of stock
- ▶ Example 1 – equity markets and ‘inside information’
  - X plc. to announce earnings, X executive knows of record profits
  - X executive uses this inside information to buy stock ahead of report
  - Inside information used affects 100% of value of stock
  - Insider dealing prohibition is appropriate response

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## Equity vs. commodity markets

### 2. Commodity markets –

- ▶ Price discovery and risk management markets
  - **Derivative markets** that provide transparency on underlying physical market
  - Information on any one transaction **affects tiny fraction** physical market
- ▶ Example 2 – commodity derivative markets and commercial information
  - Bunge has large forward sale of soybean meal
  - Bunge exposed to price risk until delivery
  - Bunge hedges this price risk in the futures market
  - Information used one of thousands of pieces of information entering market
  - Commercial information ≠ 'inside information' per equity markets

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## MAR must allow legitimate hedging

- ▶ MAR must be adapted to specificities of commodity derivative markets
- ▶ Expansive Article 6(1)b definition does not serve commodity derivative market operators or commercial end-users
- ▶ Council GA's Article 7a(2)c is a start but would not safeguard most legitimate hedging transactions
- ▶ Council and EP encouraged to support appropriate hedging exemption to the 'insider dealing' prohibition per EMIR

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## If no hedging exemption in MAR

- ▶ Commercial end users must internalise risk
  - Lower prices for farmers
  - Higher prices for consumers
- ▶ Liquidity in commodity derivative markets evaporates, physical market volatility increases
- ▶ Regulators and market participants lose transparency on physical market
- ▶ Physical market volatility drives worst effects, supply and demand side