Principles for the regulation and supervision of commodity derivative markets. November 2011.

IOSCO Technical Committee has published, on the 15th of September, a final report (prepared b the Task Force on Commodity Futures Market) on Principles for the regulation and supervision of commodity derivatives markets. These principles are aimed at ensuring a globally consistent approach to the oversight of commodity derivatives markets, combat market manipulation and improve price transparency.
Principles take the guidance of the 1997 Tokyo Communiqué as a starting point and update and add contemporary trends in commodity derivative markets, such as: 1) the scale, speed and cross-border nature of trading on markets, 2) novel forms of market abuse, 3) investors focus on commodities as an asset class, 4) the impact of new investor classes and futures trading on physical commodity trading, and 5) the rapidly evolving regulation of OTC derivatives markets and market participants.

Principles themselves are high level standards supported by detailed explanatory background information on how regulators can apply them in their respective jurisdictions.

Contract design principles.

Market authorities should established a clear framework as to design and review criteria or procedures for commodity derivatives contracts. Contracts should meet the risk management needs of potential users and promote price discovery of the underlying commodity, reflect –to the extent possible- the operation of the underlying physical market, avoid impediments to delivery and made available to market participants settlements and delivery terms.

Relevant information concerning contract´s terms or delivery or pricing should be readily available to market authorities and to market participants.

Principles for surveillance of commodity derivatives markets.

Market authorities should have a clear and robust framework for conducting market surveillance of activities, positions and transactions of traders in derivatives markets and also in underlying physical markets. This surveillance programs should be supported by sufficient resources, access to physical market data and analytical capabilities. Market Authorities should employ methods for monitoring, colleting and analyzing information taking into account that effective monitoring of orders and electronic transactions requires real-time monitoring capabilities.

Market authorities should have access to positions and transactions of market participants in OTC commodities derivatives and in the underlying physical commodity markets; in particular, information should be adequate to allow the reconstruction of all transactions (audit trail) and the identification of large positions.

Principles to address disorderly commodity derivatives markets.

Market authorities should have effective intervention powers to prevent or address disorderly markets and to ensure the efficiency of the markets; these intervention extends to trader´s positions management powers (for example, set ex ante position limits) and other discretionary powers such as price movement limits or cancelling trades; they also should have powers to identify and address evolving trading practices that might result in a disorderly market.

Principles for enforcement and information sharing.

Market authorities should have powers to prohibit, detect, prevent and deter abusive practices including manipulation or attempted manipulation of the market in an overall framework for a coordinated multi-market action. Market authorities should have capacity to investigate and prosecute in front of court market abuse and discipline themselves its members or other participants if an abuse practice has occurred, even against firms non-members of the market.

Market authorities should cooperate and share information for surveillance purposes one another, both domestically and outsider the jurisdiction, to share information for surveillance and disciplinary purposes and should have arrangements.

Principles for enhancing price discovery on commodity derivatives markets.

Market authorities should publish the aggregate exposures of the different types of traders and promote the reporting of OTC derivative contracts to trade repositories.

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