

2nd Joint IEA-IEF-OPEC Technical Meeting

Financial oil market regulation

David Lawton – Managing Director
dlawton@alvarezandmarsal.com

ALVAREZ & MARSAL





The A&M Story

A&M applies its fact-based, entrepreneurial, objective approach to clients and situations that span the world and industry sectors. We understand the changing world and the world of change. We serve as advisers, interim executives, regulatory experts and expert witnesses. We are steadfast in our commitment to drive growth.

A&M by the Numbers



NUMBER OF EMPLOYEES

Approximately
2,900 employees,
including 444 MDs,
worldwide



GLOBAL FOOTPRINT

Global team of
senior professionals in
48 offices in 19 countries



EXPERTISE

A results-driven
mission combined with
a make-it-happen mindset
to move the needle
forward for clients



CORE INDUSTRIES

Powerful insight and rapid
assessments of industry-
specific situations

Financial market regulation : the key actors

G20	Set the overall agenda
IOSCO	Global principles for markets/trading
FSB/Basel	Global principles for capital/financial stability
US Congress (Dodd/Frank)	Legislative framework for US reforms
EU Commission (EP, Council)	Legislative framework for EU reforms (EMIR, MiFID II, REMIT, MAR, CRDIV)
ESMA	Technical rules for EU reforms
National Regulators	Enforcement and supervisory priorities

Financial market regulation : the key texts

G20 2009 Pittsburgh Summit leaders' statement:

“...we have agreed to improve the regulation, functioning, and transparency of financial and commodity markets to address excessive commodity price volatility.”

G20 2011 Cannes Summit leaders' statement:

“As part of our financial regulation agenda, we endorse the IOSCO recommendations to improve regulation and supervision of commodity derivatives markets. We agree that market regulators should be granted effective intervention powers to prevent market abuses. In particular, market regulators should have and use formal position management powers, among other powers of intervention, including the power to set ex-ante position limits, as appropriate.”

Financial market regulation : the key texts (2)

G20 2012 Los Cabos Summit leaders' statement:

“We recognize the importance to the global economic recovery of maintaining stability in international commodity markets. We stress the importance of well-functioning and transparent physical and financial commodities’ markets and reduced excessive price volatility to achieve food security and strong growth that is both sustainable and inclusive. [...] We therefore endorse the conclusions of the G20 report on the macroeconomic impacts of excessive commodity price volatility on growth [...] We ask our Finance Ministers to report in 2013 on progress on the G20’s contribution to facilitate better functioning of these physical markets, taking note of possible areas of further work outlined in the report. We reaffirm our commitment to enhance transparency and avoid abuse in financial commodity markets, including OTC, with effective intervention powers for market regulators and authorities and an appropriate regulation and supervisory framework. In this regard we look forward to IOSCO’s report on the implementation of its recommendations on commodity derivatives markets by November 2012.”

Financial market regulation : the key texts (3)

G20 2012 Los Cabos Summit leaders' statement (cont):

“We recognize that excessive price volatility in energy commodities is also an important source of economic instability. We remain committed to well-functioning and transparent energy markets. We will continue to work to improve the timeliness, completeness and reliability of JODI-Oil and look forward to a progress report next year. We will work on the JODI-Gas database on the same principles. We expect the International Energy Forum (IEF) report on improving the reliability of the JODI-Oil database and the report on transparency in international gas and coal markets submitted by the International Energy Agency (IEA), IEF, and Organization of the Petroleum Exporting Countries (OPEC) to be discussed by our Finance Ministers in November. We also look forward to IOSCO’s recommendations to improve the functioning and oversight of Price Reporting Agencies in November 2012, which will be produced in collaboration with other mandated organizations (IEF, IEA and OPEC), and task Finance Ministers to take concrete measures in this area as necessary.”

Financial market regulation : the key texts (4)

G20 2013 St Petersburg Summit leaders' statement:

“We welcome the Report on energy-related issues including on G20 work to facilitate better functioning of physical and financial commodity markets. We welcome Finance ministers' commitment to take actions on PRAs as set out in their Communique of July 20, 2013 with a view to improve their functioning through transparency and regulation as appropriate, and would welcome a further update in 2014. We also call on Finance ministers to monitor on a regular basis the proper implementation of IOSCO's principles for the regulation and supervision on commodity derivatives markets and encourage broader publishing and unrestricted access to aggregated open interest data.”

Financial market regulation : the key changes

Market structure

- Restrictions on activities of regulated firms (eg Volcker & “push-out” rules)
- Unregulated areas brought into regulation (eg swaps in US, some “ancillary” business in EU)
- Central clearing

Regulatory capital

- Increased capital and liquidity requirements for banks
- EU postponed application of capital regime to commodities firms to 2020
- EU reviewing capital regime for investment firms

Position limits/reporting

- Dodd/Frank extends scope of US position limits regime
- MiFID II introduces EU regime of position limits and position reporting

Financial market regulation : the key changes (2)

Transparency of trading

- New platforms (SEFs/OTFs)
- Pre- and post-trade transparency for “on-venue” instruments

Regulatory reporting of trading

- Commodity derivative trades reported to trade repositories (under EMIR)
- Transaction reporting (under MiFID II)

Market abuse rules/Benchmarks

- MAR creates two-way linkage between physical and financial markets
- Attempted manipulation now an offence
- EU Benchmarks Regulation – aligned to IOSCO principles for commodity benchmarks

Brexit: three scenarios for Financial Services

Hard: UK is a “3rd country”

- Market access only on basis of “equivalence” or “non-solicitation”
- (subject to wanting equivalence) UK able to set own rules

Soft: UK negotiates bespoke deal

- Somewhere between “hard” and “single market”
- Mix and match in terms of alignment of rules
- Regulatory cooperation arrangements

Single Market: UK pays for continued access

- Continued alignment to EU rules
- Passporting rights retained

ALVAREZ & MARSAL

© Copyright 2017. Alvarez & Marsal Holdings, LLC. All rights reserved. ALVAREZ & MARSAL®,
A&M® and A&M are trademarks of Alvarez & Marsal Holdings, LLC.

www.alvarezandmarsal.com