IOSCO Annual conference - Beijing
LDC perspective on Regulation of Commodity Futures and Financial Derivatives
May 17th, 2012
LDC is a physical agricultural commodities producer, processor and merchant...

Our mission is to feed and clothe a significant amount of world population globally in several major commodities...

- **Focus on physical goods value chain**, from origination to logistics
- **More than 70 MMT per year** handled in diverse commodities
- **We feed and clothe up to 450 million people**

- **Leadership** position in several commodities - #1 in Rice, cotton, Top 3 in grains, oilseeds, sugar, juice, 2nd largest sugar crushing company with LDC SEV, #1 Fertilizers merchant in West Africa

- **Global presence**

Over 34,500 Employees 55 countries
... that serves as a conduit between farmers and consumers who need price predictability.
Agri world has always had to face challenges...

- **World population has been and will continue growing and urbanizing, and food demand exploding:**
  - *World population (In million people)*
    - 1950: 1,798
    - 2010: 3,412
    - 2050: 6,398

- **So far, the world has met these challenges through**
  - Expanded arable lands
  - Technology
  - Globalization of markets
  - Access to risk management instruments – Futures - which provide the entire value chain (farm to fork) with price transparency and risk reduction through hedging

- **Land expansion, technology and globalization do not have unlimited potential**

- **Global food demand (1961=100)**

- **Need for investment**
  - Need for merchants to manage the risk
  - Increasing importance of risk management instruments
... and Futures markets are key contributors to help the Agri world overcome its challenges, LDC being the connecting agent.

- **LDC consolidates the risk from the small players of Agri Industry**
  - LDC originates, warehouses, processes, exports, and merchandises agricultural commodities
  - LDC manages price risk of agricultural commodities through the whole value chain from producer to consumer

- **To manage price risk, LDC hedges its physical positions**

- **Exchange traded futures are the most liquid hedge immediately available across most of our commodities**

**Commodity Futures and Option are vital to LDC and its industry**
Physical and financial agricultural Commodity Markets have different characteristics but should be a complement one to the other.

**Physical Commodity Market**

**Financial Commodity Market**

**Relationship between Physical and Financial markets**

Agricultural Commodity Futures, Options, other Derivatives represent physical agricultural commodities sometime in the future...

**Convergence**

Commodity futures contracts must converge with prices of the underlying physical commodities they represent.
LDC perspective on key characteristics of commodities derivatives markets

1 - Exchange contracts and rules should be designed to facilitate hedging

2 - Rules should provide a clear and stable environment to attract and facilitate liquidity

3 - Rules of commodity futures exchanges need to reflect the specifics of commodities

4 - Financial market should play the role of a supply of last resort