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IOSCO Issues Report on Impact of Storage and Delivery Infrastructure on Commodity Derivatives Market Pricing

The Board of the International Organization of Securities Commissions today published [*The Impact of Storage and Delivery Infrastructure on Commodity Derivatives Market Pricing*](#). The report sets out the findings and conclusions of the review of the impact of storage infrastructures on the integrity of the price formation process of physically-delivered commodity derivatives contracts traded on regulated exchanges.

The price formation process for commodity derivatives is complex and is affected by many factors, not just the traditional elements of supply and demand. Rail cars, grain silos, oil tankers and metal warehouses are all fundamental components of a delivery system that ensures derivatives contracts can be fulfilled and commodities are delivered. Physical delivery and storage infrastructure can therefore have a profound impact on the economics of the futures markets, such as the cost of carrying the derivatives contract, convergence between the derivative and the physical market prices, and the premiums for each of the contract's delivery points.

The report concludes that IOSCO's [*Principles for the Regulation and Supervision of Commodity Derivatives Markets*](#), published in September 2011, provide an adequate framework for implementing effective oversight, governance and operational controls of storage infrastructure and did not require additional principles or revision of the existing principles.

These conclusions were based on a research review, an industry survey and a public roundtable conducted by IOSCO's Committee 7 on Commodities Derivatives Markets.

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However, the report identified certain practices surrounding storage infrastructure that have the potential, if not addressed by appropriate policies and procedures, to affect derivatives pricing and affect efficient market operation. These practices can potentially increase uncertainty among market participants. Some practices also may hinder financial regulators and exchanges from identifying emerging problems and working toward resolution once problems have been identified. These practices could potentially cause market disruption, affect market efficiency and impair the price convergence process.

Bringing greater awareness of these practices and their potential effects on pricing and market operations may encourage the parties involved in storage infrastructure to anticipate, identify and address potential issues at an early stage in order to avert problems and avoid the need for regulatory involvement.

Accordingly, the report recommends that IOSCO conduct further work to develop guidance in the form of Good or Sound Practices with respect to the operation and oversight of storage infrastructures. This guidance should also address the concerns identified by the IOSCO review.

NOTES TO THE EDITORS

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions and it continues to expand.
2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO), and is made up of 34 securities regulators. Mr Greg Medcraft, chairman of the Australian Securities and Investments Commission, is the chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Australia, Belgium, Brazil, China, Egypt, France, Germany, Greece, Hong Kong, India, Italy, Japan, Kenya, Korea, Malaysia, Mexico, the Netherlands, Nigeria, Ontario, Pakistan, Peru, Quebec, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Trinidad and Tobago, Turkey, United Kingdom and the United States.

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3. The Growth and Emerging Markets (GEM) Committee is the largest Committee within IOSCO, representing close to 80 per cent of the IOSCO membership, including 10 of the G20 members. Mr Ranjit Ajit Singh, Chairman of the Securities Commission Malaysia and Vice Chair of the IOSCO Board, is the Chair of the GEM Committee. The Committee brings members from growth and emerging markets together and communicates members' views and facilitates their contribution across IOSCO and at other global regulatory discussions. The GEM Committee's strategic priorities are focused, among others, on risks and vulnerabilities assessments, policy and development work affecting emerging markets, and regulatory capacity building.
4. IOSCO aims through its permanent structures:
 - to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
 - to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
 - to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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