European Capital Markets Institute

www.eurocapitalmarkets.org

Newsletter 4/2008

RESEARCH ACTIVITIES
RECENT RESEARCH

ECMI Commentary 19: Commodity Derivatives Markets: Regulators' leap in the dark?
By Piero Cinquegrana

In spite of the growing importance of commodity derivatives markets in the financial services industry, precious little is known about their impact on commodity spot prices and their functioning and structure. This ECMI Commentary calls for greater information and transparency on a number of fundamental questions related to these markets.

Download paper.

UPCOMING RESEARCH

ECMI Policy Brief 13: The Urgent Need of Transparency in Commodity and Commodity Derivatives Markets.
By Piero Cinquegrana

Although commodity derivatives are lumped together with other alternative investments and treated as a new asset class conveniently providing portfolio diversification, they are not classical financial instruments. Firstly, unlike interest rates, inflation rates, stocks, bonds or other financial or meteorological variables, commodity derivatives' underlying assets are physical commodities with finite supply and sizable storage and transportation costs. Secondly, commodity and commodity derivatives markets are only partly transparent, and the paucity and unreliability of the data do not provide a foundation for sufficient market integrity. This brings us to a third difference with equity and fixed-income markets: commodity derivatives afford a fundamental price discovery function coalescing in futures prices information about present and expected supply, demand and inventory, all of which directly affect spot commodity prices. Because of the social utility and informational role attached to futures markets, it is imperative to explore the implications of the *financialisation* of commodity derivatives, whereby more and more institutional investors have entered the market treating commodities as an alternative asset class. This policy brief argues that transparency-boosting measures specifically tailored on commodity and commodity derivatives markets are needed.

ECMI Policy Brief 14: Target 2 Securities and the Clearing and Settlement Architecture in Europe. By Karel Lannoo

Two years after the surprise announcement, the ECB in July decided to go ahead with its Target 2 Securities (T2S) project. In front of a dis-united front of market participants, the European Central Bank had a fairly easy task in creating a securities settlement monopoly, which is not part of its tasks as described in the Maastricht Treaty. In doing so, the ECB concluded a decade of debates on the architecture of securities settlement in Europe and relegated the Commission work on the Code of Conduct to a second plan. On the other hand, and in absence of a EU directive, the question about direct access to the ECB's T2S re-launched the debate on the minimum standards for clearing and settlement operators, on which work is on hold since 2004. This policy brief reviews the ECB's decision to go ahead with T2S and the remaining issues, discusses the progress achieved with the Commission's Code of Conduct, looks into the question of the level-playing field for C&S in Europe and the ECB/CESR standards, and raises some outstanding issues.

ECMI Statistical Package 2008:

The staff of ECMI has devised a completely renovated statistical package in spreadsheet format. The content is divided in four sections: equity markets, debt securities markets, exchange-traded derivatives markets and over-the-counter derivatives markets. Internal links as well as a complete table of contents facilitates the internal navigation of the document. Moreover, the most important dataset are represented in charts in order to easily visualize the trends in European capital markets. All the data are in euro terms and each section provides notes and explanation of the terminology used. Two annexes about symbols and the features of each table complete the information.

EVENTS SECTION

ECMI lunchtime Roundtable on Commodity Derivatives

The European Capital Markets Institute is organising a lunchtime meeting on commodity derivatives. We are pleased to invite you to this event, which is meant as a starting point for discussions about the development of commodity derivatives markets and the role regulators should play. The keynote speaker for this session will be the **US Commodity Futures Trading Commission's (CFTC) Acting Chairman Walter Lukken**. Other discussants are: Stephen Hanks (FSA), Mike Davis (Platts) and Jacqueline Mesa (CFTC).
The event will be held at CEPS on **September 17** at 12:30h.

Download the programme. Register for this event.

ECMI Board Meeting

On **October 3, 2008 between 10h-13h** the ECMI Board of Directors will gather to discuss about the financial situation of the institute, the research agenda and the prospect for future growth

MEMBERS SECTION.

ECMI Staff Developments

Alessandra Chirico resigned from her position of Head of Research at ECMI starting from September 2008.

If you are interested in becoming an ECMI member, please write to secretariat@eurocapitalmarkets.org & visit the members' page on our website www.eurocapitalmarkets.org.