I am deeply concerned about the impact of food speculation on consumers in the developing world and in the EU. Speculation by financial actors in commodity derivative markets is causing excessive volatility and inflating prices for physical commodities such as food. These markets exist for price discovery and risk management in the physical market however they are being distorted by speculators seeking to profit from rising prices and momentum traders increasing volatility.

This has a devastating effect in global food markets as was seen in the 2007-08 food crisis when a further 115 million people went hungry. Food prices reached a record high in December 2010 and I am concerned that without effective regulation to improve transparency and reduce speculation in commodity derivative markets we risk another food crisis on the same scale.

I support the strong proposals in the review of MiFID which would go a long way to ensuring these markets work effectively for producers and consumers and to reducing the negative impacts of speculation.

In relation to the questions in the consultation:

8. and 12.

I strongly support the introduction of a requirement that all commodity derivatives should be traded on an exchange (or equally regulated facility). All commodity derivatives should be eligible and would be sufficiently liquid due to the relatively limited complexity and high volumes involved. Many complex derivatives could be broken down into component parts and then each of these components traded through exchanges. Ensuring all commodity derivatives are traded on exchanges will improve transparency promoting price discovery, prevent dealers profiting from information asymmetry in OTC deals and ensure that OTC trading does not distort the prices of exchange traded derivatives.

It is vital that regulation reflects the difference between derivatives of financial and commodity assets, and the risk of distorting the underlying market. Food is not a financial asset like any other and regulation must reflect the potential for devastating impacts on peopleâ€™s lives through speculation on commodity derivative markets. Commodity, and in particular food, derivatives should be more effectively regulated to reflect this risk to vulnerable poor consumers around the world.

60.

All commodity derivative trading venues should make position limit information available to regulators and the public as proposed in the consultation document for the purposes of market transparency. I am concerned that financial speculation is severely distorting these markets; however analysts can only identify these effects if market transparency allows regulators and the public access to information about market participantsâ€™ positions. In order to ensure effective transparency this information needs to be published regularly and in sufficient detail to allow detailed analysis of the impact of different categories of traders (see below).

61.

Traders should be categorised in multiple ways to accurately reflect their role in the market. This categorisation should reflect whether they are commercial or non-commercial participants (i.e. whether or not the hedging relates to their trade in an underlying asset as part of their commercial activities), the investment vehicle (for example commodity index funds) as well as the type of regulated entity.

62.

As I have stated above I strongly believe that all food commodity derivatives should be moved off OTC due to the risk of distortion to underlying food markets. However should a small number of commodity derivatives remain OTC the harmonised position information should also be published to ensure market transparency and to prevent OTC trading distorting activity in public markets.

145.

Regulators should be given the power to adopt hard position limits for all types of derivative contracts, whether they are traded on exchange or OTC, and especially for food commodity derivatives. Regulators must have the power to prevent speculation affecting the underlying physical market and position limits are the most effective tool to ensure the effective functioning of these markets. In addition these limits can be set to allow sufficient liquidity to allow commercial hedging while minimising the negative impacts of excessive speculation.

146.

Position limits absolutely must be used to prevent market manipulation in both derivative markets and manipulation of the underlying asset. Preventing this kind of market abuse must be seen as good practice for the effective functioning of all markets but takes on an added significance for commodity derivative markets, especially for food. In addition, position limits must be used to prevent disorderly markets; including preventing markets becoming divorced from the fundamentals and instead reflecting wider market forces such as trends in currency or equity markets. Through using position limits to reduce excessive speculation regulators can ensure that derivative markets reflect the underlying asset, ensuring lower and more stable physical market prices, and allow commercial participants to better manage risk and plan commercial activities. The directive should introduce position limits on a permanent basis to ensure effective functioning of these markets, not just introducing the power for regulators to introduce them an emergency measure or under certain market conditions.

148.

Position limits should be applied to individual firms to prevent market abuse; to specific investment vehicles (such as â€˜long onlyâ€™ index funds); to investment firms such as hedge funds that rely on algorithmic or technical analysis (momentum traders) and overall to commercial and non-commercial participants in a market. Operators of investment vehicles such as commodity index funds should be required to disclose their positions on a frequent basis to the relevant regulator, momentum traders could be defined according to the definition of automated trading in the consultation document, and commercial and non-commercial by the definitions established in the Commissionâ€™s proposals on OTC derivatives, central counterparties and trade repositories. These three categories reflect the different ways in which derivative markets can be distorted; long-only index funds causing excessive price inflation, momentum traders increasing volatility and an overwhelming presence of non-commercial participants distorting prices away from the fundamentals.

I also urge you to consider the impact of this regulation on the people of the EU and the developing world in analysing responses to this proposal, not just its impact on the financial services industry. Many financial institutions make significant profits at the expense of affordable food here and around the world, due to our current under-regulated markets. I am aware that these institutions will be lobbying hard in their own interest to water down these regulations, however loosening these regulations will only serve to boost profits for a handful of firms while damaging markets, failing to reduce market risk and damaging the lives of people around the world.