FCA finalises reforms to UK commodity derivatives regime to improve resilience of markets

February 2025



More than a year since the FCA consulted on significant reforms to the UK regulatory regime for commodity derivatives in December 2023, the changes to the regime have been finalised (FCA PS25/1).

The reforms form part of the wider UK Wholesale Markets Review but also respond to the experience of the LME nickel market suspension and are intended to make UK commodity derivatives markets more resilient to market stress. The reforms include the following:

- The revised regime will apply position limits only to the most critical commodity derivative contracts, as set by the FCA, and contracts "related" to these. The final rules allow venues greater flexibility in identifying some related contracts than had been proposed in the CP.
- Trading venues (rather than the FCA) will become responsible for setting position limits in line with a framework / principles set by the FCA.
- Venues will also decide whether participants benefit from position limit exemptions, as well as having powers to set "ceilings" for the availability of exemptions. Certain enhancements have been made to the "hedging exemption", as venues will need to be satisfied that the relevant position is capable of being unwound in an orderly manner. In addition, two new position limit exemptions for liquidity providers and financial firms that are dealing with commercial entities hedging risks from their commercial activities have been introduced.
- There will also be enhancements to position management controls in respect of critical and related contracts to support increased supervision of commodity derivatives markets, with venues required to set accountability thresholds for positions in certain contracts (and having discretion to set these to other contracts). Although the final rules (in a change to the CP proposals) do not prescribe what actions venues must take where accountability thresholds are breached, venues will need to have powers within their rulebooks to request enhanced reporting (including of OTC data) from their participants.

UK venues on which commodity derivatives are traded will need to put in place new systems and governance to facilitate their new responsibilities. Participants in relevant markets need to note that position limits, position limit exemption decisions, position management controls and related reporting requirements will be set by venues, and the approach to these could therefore differ between venues.

The new UK commodity derivatives regime will sit in MAR 10, which should make it easier for firms to identify relevant rules.

The revised rules will apply from 6 July 2026, although the FCA has set several milestones that relevant trading venues will need to meet as they transition to the new regime. This will allow the FCA time to assess trading venues' proposed approach to meeting the new requirements before the new regime goes live. This is particularly relevant given that the final rules provide additional discretion to trading venues when implementing certain requirements (such as the reporting of OTC positions by venue members and their clients), allowing them to tailor their processes to specific markets.

Background

UK commodity derivatives markets are some of the largest in the world. They are referenced and provide benchmarks for commodity pricing across the world, and through them market participants can manage risks of exposures to commodities.

The FCA reforms form part of the wider UK Wholesale Markets Review (WMR), which also seeks to make relevant rules more proportionate for market participants. However, there are some aspects of the FCA reforms which go beyond the feedback from the WMR and which seek to enhance resilience of relevant markets in periods of stress and volatility in response to volatility in commodity markets over recent years. The FCA has also taken account of the 2023 IOSCO Principles for the Regulation and Supervision of Commodity Derivatives Markets and regimes in other jurisdictions, such as the EU and US.

Under FSMA 2023, the FCA is given rulemaking powers to establish a framework on how trading venues should set and apply position limits and position management controls. Going forward, venues will set the relevant requirements (in line with the principles specified by the FCA in the new framework).

The changes impact the key pillars of the UK commodity derivatives regulatory regime, which are:

- scoping (i.e., the contracts which are subject to the regime);
- position limits (i.e., the maximum net positions any person can hold in commodity derivatives that are in scope);
- the exemptions from position limits;
- position management controls (i.e., the arrangements and powers of venues to minimise risks related to large positions); and
- position reporting (i.e., the reporting requirements which provide venues and regulators with data to monitor the build-up of positions).

Although the FCA CP had also included new guidance on the ancillary activities test (i.e., the requirements non-financial firms need to meet to be exempt from authorisation), the policy statement does not include finalised guidance. This guidance was meant to supplement legislative changes to the ancillary activities test which would have changed the test from a quantitative test to a qualitative assessment. However, due to feedback expressing concern about the new qualitative test, the legislative change to the ancillary activity exemption test (which was due to apply from January 2025) has been delayed to 1 January 2027. As a result, the FCA has not included the related guidance in the current policy statement. This

means that the current quantitative test remains in place for now (subject to previous comments made by the FCA on how the regime operates in the absence of data on the overall size of the market). The annual notification requirement on the use of the exemption, however, has been disapplied since the end of 2024.

Key points from FCA PS25/1

Reduced scope of the position limits regime

The FCA is reducing the scope of the position limits regime so that it would only capture 14 "critical" contracts. Contracts "related" to these critical contracts will need to be identified by trading venues and will also be caught.

Current position	Position in FCA PS25/1	Reason for change	Related legislation / other publication
Position limits currently apply to all commodity derivatives traded on a trading venue and to economically equivalent OTC contracts (EEOTC contracts). The FCA had previously reduced the scope of the regime to physically settled contracts and cash settled agricultural contracts as part of the UK MiFID II quick fix in 2021. The new scope of "critical" contracts in scope of position limits will represent a further reduction in scope.	Position limits will only apply to **"critical" contracts** (**set by the FCA** and to be published on a register), which will initially capture 14 contracts as consulted on (see list at paragraph 3.5 of the policy statement, all of which are traded on UK recognised investment exchanged (RIE,) rather than MTF, or OTF). "Critical contracts" set the primary scope for the regime. EEOTC contracts are not within the scope of the position limits regime. No fixed qualitative or quantitative thresholds for determining "critical" contracts have been set, so the FCA can respond flexibly, as different criteria may be more relevant to some contracts than others. However, the **FCA will take account of the following criteria "holistically"**: - **Settlement method at expiry** (with physically settled contracts viewed as generally more susceptible to disorderly pricing or settlement than cash settled contracts); - the **size of the commodity derivative market** compared to the **underlying physical commodity market** and the robustness of the reference price used to settle contracts (e.g., the size / liquidity of the underlying commodity market may be relevant for cash settled contracts);	The reduction in scope is intended to make the UK commodity derivatives regime more proportionate and targeted at contracts which could pose risks to the resilience of relevant UK markets. The FCA indicates that this should make UK commodity derivative markets more attractive to participants, improving liquidity and innovation (while ensuring resilience of these markets through more stringent requirements for a smaller range of critical contracts).	FSMA 2023 replaces the current scope of position limits and gives the FCA the power to establish the scope of the position limits regime. These FSMA powers will also be extended by HM Treasury to enable the FCA to require a person to limit or reduce a position, in a wider range of commodity derivatives that are not in scope of the position limits regime, including an OTC position.

Current position	Position in FCA PS25/1	Reason for change	Related legislation / other publication
	- the **type of underlying** and the impact on end-users (e.g agricultural derivatives may act as key benchmarks for the underlying commodity market); and - the absolute **size of the market**. The **FCA can add contracts to the list of critical contracts**, subject to a 45-day comment period for market participants. Once a contract is added to the list, the FCA will specify the date from which venues will need to establish position limits (rather than, as had been proposed in the CP, setting the application date 30 days after the contract has been added to the list).		
Currently, a single position limit applies to the principal contract and its related contracts such as mini, balance of the month (Balmo), mini-Balmo and others. Positions are aggregated across the primary and related contracts. There are rules on how firms should aggregate and net their positions (including positions of different group entities).	Similarly to the current regime, **contracts that are "related" to the "critical" contracts** will also be in scope of position limits. Related contracts will be **identified by trading venues**. Venues will need to publish a list of related contracts for each critical contract traded on their markets (and the FCA notes that they would expect venues to engage with their members before adding a related contract to the list, and to give reasonable notice of additions). The final FCA rules specify **contracts which will have to be related contracts for these purposes** because they impact pricing of the critical contract. These include minis of a critical contract, options on critical contracts, spreads where one of the legs is a critical contract (and options, minis and spreads on related contracts). Beyond this, in response to feedback, the FCA is giving more **flexibility to venues traded on that venue to determine whether there are additional contracts that should also be related contracts**. Venues would add contracts to the list of related contracts because: (a) they are capable of influencing the pricing or settlement of a critical contract; or	The FCA has introduced greater flexibility for venues to calibrate "related" contracts for their specific markets (beyond those contracts which the FCA has said must be included) as this will allow venues to draw the regime as required to maintain market integrity (and not broader).	

Current position	Position in FCA PS25/1	Reason for change	Related legislation / other publication
	(b) could be used to circumvent the position limit regime because they provide a comparable economic exposure to a critical or related contract. Venues will take a risk-based decision whether to include contracts as related contracts. The FCA notes that (where a contract has not been included as a related contract and is therefore not in-scope of position limits) they would still expect venues to apply appropriate position management controls to *all* commodity derivatives traded on their venue to prevent market abuse / disorderly trading. Position limits will apply to the **aggregated net positions in the critical and all related contracts** traded on the same venue as the critical contract (although venues are expected to have power to request information about positions, in related contracts and other contracts, held on other venues, or OTC see below). But **venues could decide not to permit netting of positions** where this would increase the risk arising from large positions to the orderly pricing and settlement of transactions (with the FCA calling out trade-at-settlement transactions (TAS) transactions in this context). The FCA will review instances where contracts are not netted.		

Trading venues to set position limits

As trailed in the feedback to HM Treasury's Wholesale Markets Review, and reflecting changes made by FSMA 2023, trading venues will become responsible for setting position limits (and for adjusting position limits in response to changing market conditions). FCA rules do, however, indicate which factors venues should use when setting position limits. The FCA will also retain ultimate power to set position limits in certain circumstances.

Current position	Position in FCA PS25/1	Reason for change	Related legislation / other publication
Under current rules, the FCA is required to set the precise level of position limits for	**Trading venues** on which commodity derivatives are traded will **become**	Venues are closer to relevant market activity and more able to assess what the	Going forward, FSMA 2023 requires trading venues to set position limits for

Current position	Position in FCA PS25/1	Reason for change	Related legislation / other publication
contracts in scope of the regime (in accordance with MiFID RTS 21). The methodology specifies the data to be used when calculating position limits, differentiating between spot months (for which the limit calculation is based on deliverable supply of the underlying derivative) and other months (for which the limit calculation is based on total open interest). Fixed thresholds and parameters are specified for these calculations.	**responsible for setting position limits**. This will be done in line with a **criteria-based approach** (rather than set thresholds or minimum / maximum levels) **set by the FCA**. The FCA has set the following **criteria which venues should take into account** in their position limits methodology and when setting limits (or adjusting position limits either upwards or downwards): - deliverable supply in the underlying commodity; - aggregate open interest and its relationship with the deliverable supply; - maturity; - volatility in relevant markets and ability to risk manage; - liquidity in relevant markets; and ability to make or take delivery and characteristics of the underlying commodity market.	position limit should be and to react to relevant market volatility.	critical contracts determined by the FCA (see above). The legislation also provides for the FCA to set the framework for how trading venues should apply position limits.
	Venues will also have to **periodically review their methodology** for setting position limits (in line with the FCA criteria above). There needs to be transparency about the level at which position limits are set and applied. Venues should **consult on the level of position limits** and should		

Current position	Position in FCA PS25/1	Reason for change	Related legislation / other publication
	indicate the circumstances when this may not be possible. Venues will need to **notify the FCA of their proposed methodology for setting position limits**, with which the FCA needs to agree *before* it is implemented. The FCA will look at how venues set their methodology, the inputs used, whether they adequately considered market stress etc. The FCA will also compare limits set by UK venues with those set by overseas venues for similar / equivalent contracts. Venues will also need to **systematically report to the FCA any breaches of position limits** (with the FCA suggesting in the policy statement that the frequency of these reports will be determined in due course).		

Exemptions from position limits

The FCA is introducing new exemptions from position limits for liquidity providers and financial firms that are dealing with commercial entities hedging risks from their commercial activities. Venues will be subject to enhanced requirements to monitor the impact of these exemptions to avoid them impacting orderly markets. Venues will also be responsible for assessing and granting exemptions, as well as setting any “exemption ceilings”.

Current position	Proposal in FCA CP23/27	Reason for change	Related legislation / other publication
Currently, the FCA assesses the availability of exemptions from position limits.	**Venues will be responsible for assessing** whether any **exemption from position limits** applies and would grant relevant exemptions (or withdraw exemptions where conditions are no longer met). Firms intending to use exemptions will need to apply to the relevant venue and provide the information required under the venue’s rules (which will be based on parameters on which exemptions may be granted, which are set		

Current position	Proposal in FCA CP23/27	Reason for change	Related legislation / other publication
	by the FCA). Venues need to put in place a process for exemption applications (including relevant timelines).		
	Under the new rules, venues should decide whether so-called **"exemption ceilings"** (i.e. limits to the size of a venue participants' exempt positions) should apply. When exemptions exceed the "ceiling", the firm holding the position would need to reduce it or (if the venue considers that the position is compatible with the firm's activity and an orderly market) the venue would need to raise the exemption ceiling. Venues will need to specify in their rules how they set (and may amend) exemption ceilings. Relevant factors when setting ceilings would include the participant's current and anticipated activity over the year ahead (included positions in related derivatives held OTC), their credit worthiness, risk management approach and experience. Venues will need to **notify each exemption granted promptly to the FCA** (including whether these are subject to exemption ceilings). There will also be an **annual report of all exemptions granted** (including whether exemption ceilings applied and, if relevant, what steps were taken following a breach of the ceiling). On request by the FCA, venues will need to provide information on how specific exemption decisions were made, meaning that venues will need to put in place appropriate record keeping.	Exemptions from position limits can be limited so that relevant exempt positions of any particular market participant do not become so large as to undermine the regime. Setting a ceiling for exemptions will ensure that venues adequately monitor the positions benefiting from exemptions. In order to be able to do so, venues are able to employ enhanced position reporting requirements (see below), e.g. to obtain information about a participant's positions in critical / related contracts held OTC or on overseas venues.	
There is an existing exemption (known as the hedging exemption) from position limits for producers and consumers of commodities who use derivatives to hedge risks	The FCA is **maintaining the existing hedging exemption** but, for firms to benefit from this exemption, venues need to satisfy themselves that the relevant position is capable of being unwound in an orderly manner (the **"risk management condition"**). In the CP, the FCA had spelled out several pieces of information venues would need to consider for this stress test.	The enhancements to the conditions for the availability of the hedging exemption, including the potential setting of an exemption ceiling, aim to address risks that can arise when large positions are held across different	

Current position	Proposal in FCA CP23/27	Reason for change	Related legislation / other publication
that arise from the future sale or purchase of the underlying commodity (see Article 7(1)(a) and (b) of MiFID RTS 21).	However, in response to feedback (which included concerns about the commercially sensitive nature of some of the information position holders would need to submit to venues for these purposes), the FCA has made this assessment less prescriptive than proposed in the CP.	counterparties (citing the example of the 2022 LME Nickel Futures suspension).	
At the end of 2020, the FCA issued a supervisory statement indicating that they would not take supervisory or enforcement action for breaches of position limits where the breach arises from a position held by a liquidity provider to fulfil its obligations to provide liquidity on a trading venue.	The FCA now introduces **two new exemptions from position limits** for liquidity providers and financial firms offering risk-mitigation services to non-financial clients. A **new "pass-through" exemption** will allow financial firms to facilitate hedging by non-financial firms (who are relying on the hedging exemption), or where financial firms enter into OTC transactions with non-financial firms conducting valid hedging activities. (The non-financial firm will need to confirm this either on a trade-by-trade basis or through a standardised agreement similar to one used in the US for these purposes or one created by industry for this purpose.) In either case, where the financial firm offsets its position with the non-financial firm by entering into an in-scope commodity derivative contract, the exemption will apply, meaning that the relevant exposures will not count towards the financial firm's net position subject to position limits. A **new liquidity provider exemption** will allow firms fulfilling obligations as liquidity providers to enter into positions outside of position limits. There will be certain conditions to the use of this exemption, including the need to unwind relevant positions as soon as possible and sufficiently before the expiry date of the contract, and a requirement for the relevant liquidity provision to be clearly spelt out by the venue. For both new exemptions, the FCA rules include provisions addressing how firms might satisfy venues that they fulfil relevant conditions for these exemptions.		

Current position	Proposal in FCA CP23/27	Reason for change	Related legislation / other publication
	Respondents to the CP suggested a further exemption which would apply (in line with US practice) where a person takes on positions from a firm in financial distress. The FCA has not included a "financial distress exemption" in the final rules, but has indicated that this could be considered in a future CP. Further work would be needed to establish the parameters for such an exemption, related notification requirements, and whether it could be granted by relevant venues (rather than by the regulator, as is the case with the US exemption).		

Enhanced position management controls & position reporting

Under the new FCA rules, venues will need to enhance their oversight and surveillance. The rules will require venues to set accountability thresholds for certain contracts (and to consider whether accountability thresholds should be set for other contracts). Venues will have discretion to determine what actions to take where these thresholds are exceeded (which could include venues requesting certain information about OTC positions held by venue members and their clients). These enhancements will only apply to the more limited set of critical (and related) contracts which are in scope of position limits.

Current position	Proposal in FCA CP23/27	Reason for change	Related legislation / other publication
In order to mitigate risks of disorderly markets, trading venues are required to operate position management controls (see MAR 10.3). Venues employ a variety of controls. One form of position management control which venues may use are so-called "accountability thresholds", being thresholds	Under the new FCA rules, position management controls would continue to apply to all commodity derivatives admitted to trading. But **trading venues will be *required* to set "accountability thresholds"** for those contracts within the position limits regime (i.e. critical contracts and related contracts). Essentially, **venues need to calibrate accountability thresholds** taking account of the features and markets they apply to (taking account, at a minimum, of the relevant position limit, whether the accountability threshold is set at the right level to act as an early warning indicator for prospective position limit breaches, whilst still allowing enough time for action, and periods of market concentration). Thresholds will need to be **regularly reviewed (at**	Additional position management and reporting were not considered necessary in the WMR. However, recent disruption of commodity derivatives markets suggests that the proposed enhancements would support venues in their market surveillance, helping them to identify build-up of positions as they approach position limits.	IOSCO Principles recommend that regulators and trading venues have position management powers to address disorderly markets in commodity derivatives.

Current position	Proposal in FCA CP23/27	Reason for change	Related legislation / other publication
set below the position limit in order to monitor build-up of positions towards the limit, which trigger particular actions by venues (such as information gathering or asking the relevant participant to reduce their position). The use of accountability thresholds is currently optional (e.g., the LME introduced these in light of the nickel market problems).	**least annually)** and when there is a **significant change to position limits or other relevant criteria**. Under the FCA proposals in the CP, venues would have been required to set different accountability thresholds for spot and other months (as well as suggesting that there could be features / risks of relevant markets which may require different thresholds within the spot month / other months). However, in response to feedback, the FCA is **only mandating accountability thresholds for spot month** (due to the heightened risk of abusive trading in these contracts). For **other months, venues will have greater discretion to determine themselves whether accountability thresholds would be appropriate**. (As noted above, position limits will apply to both spot and other months, as under current requirements.) Aggregation (for the purposes of calculating positions towards accountability thresholds) would happen across critical and related contracts and would include positions which benefit from an exemption from position limits (unless the relevant exemption is subject to an exemption ceiling as, in that case, a venue would already monitor the build-up of positions towards the exemption ceiling). Once accountability thresholds are exceeded, venues would need to consider **additional factors**, including information on and experience with the relevant market participant (see below).	However, feedback suggested that a regime which applies accountability thresholds and position limits to both the spot month and other months would be more burdensome than in other jurisdictions. This is why the FCA's final rules introduce flexibility for venues to decide whether to set position management controls for contracts (other than for the spot month start, for which both position limits and accountability thresholds will apply).	
	The FCA will (amongst other things) expect to see details of **venues' methodologies for setting accountability thresholds**, and **venues' risk management frameworks** for their position management controls (in addition to details about methods for identifying contracts related to critical contracts, the setting of position limits, procedures for granting exemptions and setting any related ceilings). The **FCA will agree to methodologies for setting accountability thresholds in advance**.		

Current position	Proposal in FCA CP23/27	Reason for change	Related legislation / other publication
	Trading venues will need to **notify the FCA** of any significant change to their framework going forward (or, where this is not possible in advance, as soon as possible after a change has been made). Venues will also need to annually notify the FCA regarding the evaluation of their accountability thresholds, details of how often (and by which market participants) thresholds were exceeded and what actions were taken to address identified risks.		
The current position reporting regime requires trading venues to report to the public or to the FCA essential information about their positions in relevant commodity derivatives. The regime currently captures commodity derivatives traded on a trading venue and EEOTC contracts (although EEOTC contracts are removed from position reporting and position limits by FSMA 2023). Current reporting requirements applicable to venues in relation to positions in commodity derivatives are: - public weekly reports providing information about the aggregate positions held by different categories	The current position reporting regime will continue to apply. Separately and in addition to this, where **accountability thresholds are exceeded**, the FCA CP had suggested mandating additional reporting requirements (including as to positions in relevant contracts held OTC). Feedback to the CP suggested that this could, effectively, result in accountability thresholds being seen as a "second hard limit" because of the cost or effort involved in providing the additional information to venues. The final rules, instead, no longer provide that breaching an accountability threshold would automatically trigger additional OTC reporting obligations (nor will it automatically require venues to direct a position holder to stop trading in certain contracts or to reduce their position). Instead, **venues will have discretion on which action to take where accountability thresholds are exceeded**. Venues' risk assessment frameworks / rulebooks will need to clearly spell out when participants may need to provide further information and what actions the venue may take to address identified risks. The final rules require **venues to have powers in place under which they can obtain OTC position data, but do not specify that (or in what circumstances) venues need to collect such data**. This allows venues the freedom to decide whether positions held OTC pose risks to their specific market. Venues will also have discretion to specify what constitutes a related OTC contract for the purposes of their market and whether (and when and for how	Additional information on positions held OTC or on overseas markets may be relevant for venues when operating their position management controls. Neither UK EMIR data received by the FCA (which is subject, amongst other things, to reporting exemptions), nor MiFIR transaction reporting data (which would not capture all OTC commodity derivatives and would not capture related OTC contracts), are sufficient for these purposes. However, while recognising the importance of OTC position data, the FCA has relaxed the requirements (giving venues more flexibility on collecting such data) due to feedback that the more stringent rules proposed in the CP could adversely impact the competitiveness of UK markets.	The IOSCO Principles recommend that authorities should be able to obtain information on a routine and non-routine basis for regulated commodity derivatives markets. They also recommend powers to obtain information on a market participant's positions in related OTC commodity derivatives and in underlying physical commodity markets. As noted, HM Treasury has committed to extending the FCA's powers to oversee OTC trading of commodity derivatives. This will mean that the FCA will be able to step in, if needed, to require venues to collect information on OTC positions and for market participants to provide such data to venues, as well as the FCA requiring a market participant to provide information on and/or to reduce an OTC position should the FCA consider it necessary.

Current position	Proposal in FCA CP23/27	Reason for change	Related legislation / other publication
of firms for each commodity derivative, and - daily reports, provided to the FCA and not made public, with positions held by each person, including by the members or participants of a trading venue. Members of trading venues need to provide relevant data about their (and their clients') relevant trading to venues to enable venues to make the above reports.	long) to collect relevant information on positions held OTC and at overseas venues. Venues will need to **notify the FCA** – in advance of the new regime entering into force - as to whether they consider that additional reporting is needed for their markets (and, if so, the details of additional reporting requirements). In terms of data collected by venues through any additional reporting requirements, there is no prescribed format for collecting this data. As a result, the FCA is not imposing any regular requirement for venues to pass on the collected data to the FCA. Instead, the FCA expects **venues to undertake their own market risk analysis** (based on collected additional information and other data available to them) and to **share a periodic market risk analysis report with the FCA annually (or on any significant change to market risk)**. HM Treasury will broaden the FCA's powers in relation to the reporting of OTC positions. The policy statement indicates that the FCA would use these powers to require OTC information where necessary – for example, to introduce rules for periodic reporting or, where a trading venue already operates OTC reporting rules, to respond where firms do not comply with existing venue rules to provide OTC position data. The FCA rules also provide that venues should put in place **information sharing with CCPs clearing commodity derivatives lists on their market,** under which venues would share potential concerns about concentration or funding liquidity risks. The FCA has acknowledged that it may be easier to put in place these arrangements where relevant venues and CCPs are in the same group. The policy statement refers to concerns raised in feedback (in a variety of contexts related to the new rules) that information gathered by venues (e.g. OTC position data or data of relevant positions held on other venues) or shared between venues and		

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	CCPs may be commercially sensitive and could put the recipient of the information at a competitive advantage over other firms. The FCA has reiterated the need for venues / CCPs to appropriately manage conflicts of interest, including ensuring that information collected to fulfil regulatory obligations / functions is used for that purpose rather than for the wider commercial purposes of the venue / CCP.		

Trading venue governance related to commodity derivatives regime

The FCA will be interested in the senior manager involvement and board oversight over any new frameworks and processes venues need to put in place under the above proposals, as well as policies to manage conflicts of interest and other proposed enhancements to systems and controls. Existing governance requirements for regulated investment exchanges (RIEs) and other impacted trading venues will apply to any new processes being proposed by the FCA under the UK commodity derivatives regime.

Clarifications on new UK bond and derivatives transparency regime

The FCA has used FCA PS25/1 to correct a number of errors in the final rules setting out the new UK bond and derivatives transparency regime (FCA PS24/14, on which see our earlier client note). Most of the changes clarify how the transitional requirements apply to different types of firm. The additional changes correct errors, most importantly correcting a cross-reference to the table setting out pre-trade LIS thresholds, ensuring that the intended thresholds will apply when the new transparency regime enters into force in December 2025.

Timings

The new commodity derivatives regime will apply from **6 July 2026**.

However, from **3 March 2025**, the FCA will commence rules which allow venues to receive and process applications for exemptions from position limits. Existing exemptions will continue to apply until 5 July 2026, however, meaning that venues will have sufficient time to process exemption applications under the new rules.

The FCA has also provided for transitional provisions which will allow trading venues to notify the FCA, from **3 March 2025**, of various arrangements, including their framework for (and setting of) position limits and accountability thresholds and identification of related contracts, and relevant policies and procedures.

Trading venues will need to notify the FCA in advance of the framework they intend to use to reflect the above responsibilities and will need to take relevant FCA comments on board ahead of the application of the new regime. Venues will be able to submit these notifications to the FCA from 3 March 2025. The FCA will (amongst other things) expect to see details

of venues' methodologies for setting position limits, relevant accountability thresholds, methods for identifying contracts related to critical contracts, and venues' risk management frameworks for their position management controls, procedures for granting position limit exemptions (and related ceilings). Many of these will need to be tailored for different markets.

Between March 2025 and the go-live date for the new regime, the FCA envisages the following milestones:

- **May/June 2025**: Relevant trading venues and FCA Supervision will agree on related contracts for each critical contract.
- **Early July 2025**: Relevant trading venues will need to submit all relevant arrangements to the FCA (position limits, accountability thresholds, exemptions, and position monitoring, including when OTC reporting requirements will apply). These will be subject to the FCA's review and non-objection. The FCA will provide feedback for all completed frameworks by the **end of 2025**.
- **March 2026**: FCA Supervision will confirm no further questions on position limits and accountability threshold levels.
- **2026**: The content and format of the annual reports received from trading venues will be published in 2026 for use in the first reports, which will be due in Q3 2027 (to cover the period 06 July 2026 to 30 June 2027). The reports will cover the effectiveness and operation of accountability thresholds, a summary of exemptions, any exemption ceilings, positions that exceeded those ceilings, and relevant remedial actions taken. There will be separate annual analysis of market risk (as well as on any significant change of market risk).
- **6 July 2026**: The new UK commodity derivatives regime starts to apply.

The FCA will review the effectiveness of the new regime (and whether it has reduced unnecessary costs) in due course (without indicating a timeline for the post-implementation review).

Throughout the policy statement, the FCA explains how it intends to use (if absolutely necessary) its new powers to issue directions to venues or market participants regarding the collection / provision of information on OTC positions in relevant contracts. The FCA is open to feedback on its intended use of the new powers by **31 March 2025**.

As noted above, changes to the ancillary activities exemption (i.e. a move from quantitative to more qualitative tests) are a work in progress, with current rules remaining in place for now. We can expect further details to emerge in due course.

Documents

FCA PS25/1 is here, and the FCA's press release / webpage is here.

Our earlier client note on the FCA's December 2023 CP is here.

Our UK & EU Wholesale Markets Reform Timeline (last updated in January 2025) is here.

Contacts

If you would like to discuss any of the changes to the UK commodity derivatives regime, please reach out to those listed below or your usual Linklaters contacts.

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