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Chapter 3 - Consultation Questions

1. **Equity indices: Indices may be used to measure a wide range of underlying Interests, using a variety of calculation methodologies and inputs. In the specific case of equity indices, inputs are typically based on transactions concluded on Regulated Markets. In light of this: are there any principles or parts of the principles that cannot, or should not, be applied to equity indices? If so, please identify these principles and explain why their application is inappropriate.**

Platts does not produce equity indices and therefore does not provide comment as to which, if any, of the principles should apply to equity indices.

2. **Additional measures to address risks resulting from Submission-based Benchmarks or ownership or control structures: Additional measures have been specified within certain principles to address specific risks arising from a reliance on Submissions (principles 4, 10, 13 and 17) and/or from ownership or control structures (Principles 2, 5 and 16).**

   a. **Should these additional requirements apply to Submitters and Administrators of all submission-based Benchmarks or Benchmarks with the specified ownership/control structures?**

As an observer of marketplace activity, Platts understands and agrees benchmarks should meet standards that promote confidence among all market stakeholders, including producers, consumers, traders, policy makers and regulators.

It should be noted, however, that benchmarks are achieved in markets by different mechanisms, and it is important to understand the dynamics of individual markets that are served by these benchmarks, the state of their development, and the methodologies by which the benchmarks are determined. In particular, there are benchmarks that are utilized in markets where a benchmark is developed, calculated and published by direct participants in the market with a vested interest in the benchmark, and there are benchmarks developed, calculated and published by independent parties who have no financial interest in the numerical value of the benchmark.

Platts believes that benchmarks produced by independent parties should be considered with care and that great thought should be put into any constraints placed on those publishers. Independent publishers' function is to inform the public and customers in as transparent a manner as possible and to report on what is happening in the marketplace. This distinguishes independent publishers such as Platts from financial entities that can, at times, participate directly in the financial markets.

Platts also would urge IOSCO in its report not to recommend for all benchmarks, including specifically those produced in the commodities markets by publishers such as Platts, overly stringent measures regarding the submission of data, as such requirements would present the strong likelihood of a retreat from participation in benchmark formation. In the physical commodities markets, which are frequently illiquid, such a result would result in reduced market transparency and would be detrimental to the effective functioning of such markets.

b. If not, please explain why all or some submission-based Benchmarks or Benchmarks with the specified ownership/control structures should be exempt.

While data submitters should examine their own business practices to determine how best they convey information into the broader marketplace, Platts believes that it is ultimately the publishers, or administrators, of a benchmark who must determine the standards of data that they will accept, to verify and test that the data received is appropriate to be utilized in benchmark assessment processes, and to ultimately bear responsibility for the quality of the published assessment.

Platts believes that the proposed creation of a Submitters Code of Conduct, as drafted in principle 13 of the consultation report, is overly prescriptive and fails to recognize the varied nature of data gathering methods conducted by price reporting agencies (PRAs), and how different those methods are from panel-type processes, such as Libor, where either mechanical or passive use of the data can call into question the credibility of the inputs and the resulting benchmark.

The model of "administrator, submitter and calculator" as described in the IOSCO consultation report also is not a very helpful one to describe the work of PRAs. An independent price publisher functions not as an administrator, but as an *assessor,* meaning that it plays a highly active role in examining data inputs, screening the data for credibility, and determining whether the data meets the criteria of the assessment methodology. There are very few instances where data is "submitted," and none where the data is not carefully interrogated for quality and appropriateness. Indeed, the very role of PRAs is to interrogate such data to form an impartial view of true market value.

In the formation of physical commodity price assessments, in which data is provided on an entirely voluntary basis, Platts believes that an overly prescriptive imposition of external oversight and other regulatory requirements on data submitters runs the risk of unintended consequence — the primary one being a retreat from participation in price formation. This in turn reduces the volume and quality of information supporting benchmarks, which would be incompatible with regulatory goals because it would create less, not more, price transparency in markets, and ultimately be detrimental to the effective functioning of the physical commodity markets.

It is completely appropriate for IOSCO and other regulators and policy makers to expect benchmark publishers or administrators to maintain first-rate standards and controls in their data gathering and assessment processes, but it is both impractical and counter-productive to expect publishers to formulate and then enforce a one-size-fits-all code of conduct on market participants. It is also important to note that Platts does generally maintain a well-developed set of guidelines for data contributors. These range from extensive counter-party acceptance protocols in its oil market assessment processes, to detailed instructions for submission of data from companies active in the US natural gas market. But in emerging markets that are characterized by low liquidity and heterogeneous data attributes, data gathering is conducted journalistically from a range of market sources that would not fit into the mold of data “submitter.” Platts believes there should be ample flexibility in defining what represents a data “submitter.” Absent that flexibility price transparency and market development in emerging markets will be stillborn.

Platts expects participants to meet its data collection standards and to be accountable for the role they play in price formation. If Platts detects concerns with submitted data, it routinely contacts the submitting party to discuss those concerns. If corrective action is needed and not taken, Platts will exclude that party’s data from its data collection process until it can ensure its data meets Platts’ data standards.

It is critical that contributors of data for inclusion in a benchmark creation process should provide relevant data that appropriately reflects the submitter’s activities in the marketplace. Such data should also be in accordance with the data standards established by the benchmark provider. Such standards should be publicly available for review by all interested parties, to assess that the standards themselves are fit for purpose.

Expectations established for data submitters must reflect that diversity to be appropriate for each market in turn. Moreover, many markets do not conform to a process of active data submission by market stakeholders to benchmark publishers. Data *gathering*, whereby benchmark publishers reach out to market participants to collect data and other market information and, in doing so, employ a range of verification techniques, is the norm in certain commodities markets.

Data quality and integrity are the crucial ingredients to maintain the value of any benchmark. Platts’ overriding interest in its price assessment activities is to ensure the validity of the transaction information and other data inputs that Platts’ editors use as the basis for their price assessments. Data gathering and submissions are managed in a number of ways depending on the nature of the market being covered, and include conversations with market participants, submission of completed transactions from back or mid offices of trading entities, or direct participation by market participants via real-time posting to the marketplace at large of bids, offers and transactions. Each approach is carefully calibrated to the nature of the market in question and the state of development of that market.

The elements noted above to assure the quality of data inputs into benchmark formation are well articulated in the IOSCO Committee 7 Principles for Oil PRAs, which a number of oil PRAs are now in the process of implementing, including by conducting an independent assurance review to be completed by October 2013.

3. Notice Concerning Use of Expert Judgment: Should Administrators be required to briefly describe and publish with each benchmark assessment:

a. a concise explanation, sufficient to facilitate a User’s or Market Authority’s ability to understand how the assessment was developed, terms referring to the pricing

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methodology should be included (e.g., *spread-based*, *interpolated/extrapolated* or *estimate-based*);

A robust commodity benchmark should demonstrate at least three critical characteristics in order to enjoy the confidence of the marketplace. There must be a clear definition of what the benchmark represents; there must be a reliable source of data representing the underlying market; and there must be a clear methodology that explains how the data will be used to formulate the benchmark. Platts agrees that it is important for a benchmark provider to supplement the publication of a benchmark with an explanation for how a price assessment or benchmark has been determined.

The IOSCO Principles for PRAs specify the kinds of information that would be included in an explanation for how a benchmark assessment has been determined "to facilitate a PRA subscriber's or market authority's ability to understand how the assessment was developed." Platts agrees with these IOSCO provisions and is taking steps to be fully aligned with these recommended practices.

Platts strives to make the process by which it arrives at published prices as transparent as possible. In the oil markets, Platts discloses the names of market participants, so that if as a result of a purchase or sale of a commodity there is an impact on price, then the market should be given transparency. Additionally, Platts publishes comprehensive price-reporting methodologies, regularly updated, on its website at www.platts.com.

Most importantly, in terms of process, Platts employs real-time information systems in the interest of transparency. Teams of Platts' market editors publish in real time the bids, offers, transactions and other market information as it becomes known to us. The effect is to create a virtual community in which market participants are visible to one another, and any anomalous behaviour can be identified.

There are certain elements contained in Platts' published methodologies that allow users of its assessments to assess the credibility, representativeness, relevance and suitability of a benchmark on an ongoing basis. Platts' methodologies contain standard elements across all the markets it covers. These include descriptions of data quality and submission processes; the methods Platts uses to keep price data secure and, where relevant, confidential; techniques used to formulate price assessments; and the specifications for assessed commodities. All methodologies are publicly available at www.platts.com.

Platts continuously reviews its price assessment processes to ensure they are robust and will result in representative market values. Platts analyses markets, reviews activity, engages with the marketplace and generates publications and services that are successful only if they are believed to add value to customers.

Methodologies for assessments in various commodity markets reflect the characteristics of those markets, including the size of the market, the volume and frequency of trading, and the diversity of buyers and sellers. In all cases, Platts adheres to the principle that methodologies should enable market participants to fully understand the specifications of the market being assessed, the type of data collected and how it is collected, and the components of the price assessment process.

Moreover, Platts employs a structured set of processes in the development of new methodologies and changes to existing methodologies that is characterized by extensive public engagement with market stakeholders, including producers and consumers, regulators, tax authorities, exchanges, and others. Platts believes it is important to engage with both active market participants — that is, those who participate in price formation — as well as with the more passive users of a benchmark, who nonetheless have a key interest in the integrity of the benchmark.

c. a concise explanation of the extent to which and the basis upon which judgment (i.e. exclusions of data which otherwise conformed to the requirements of the relevant methodology for that assessment, basing assessments on spreads, interpolation/extrapolation or estimates, or weighting bids or offers higher than concluded transactions etc.), if any, was used in establishing an assessment.

Platts' reporters follow specific methodology when exercising editorial judgment during their assessment process. Judgment may be applied when analysing transactional data to determine if it meets Platts' standards for publication; judgment may also be applied when normalizing values to reflect differences in time, location, and other trading terms when comparing transactional data to the base standard reflected in Platts' assessments. All such judgment is subject to review by Platts editorial management for adherence to the standards published in Platts' methodologies.

As in the first part of the question, Platts takes note of the provision in IOSCO's Principles for Oil PRAs recommending "a concise explanation of the extent to which and the basis upon which judgment" is applied in formulating an assessment. Again, Platts is fully aligned with this recommendation.

Platts' overall objective is to reflect the transactable value of the commodity assessed. In cases where the apparent value of the commodity includes extra optionalities, the intrinsic value of the commodity may be masked. In such cases, Platts may use its editorial judgement to factor out such extraneous elements from the value of the commodity, or it may decide not to use the bid, offer or transaction in its assessment process. Optionalities that may mask the value of the commodity include but are not limited to loading or delivery options held by the buyer or seller, volume option tolerances exercisable by the buyer or seller or quality specifications.

Further in response to the IOSCO Principles for Oil PRAs, Platts is in the process of introducing an assessment template to provide assessment commentary, published with the assessment, identifying the Platts market reporter responsible for the assessment and providing explanation of how the price was assessed, including details pertaining to judgment used and the exclusion of any transactions.

4. Revisions to the principles: Please provide any suggested changes to specific principles or definitions of key terms set out in Annex A, including drafting proposals and rationale.

Are any other principles needed: Should principles to address any additional issues, risks or conflicts of interest be developed? Please provide a summary of the issue and drafting for the proposed principle.

Platts considers that imposition of a Submitter's Code of Conduct proposed in principle 13 on the data supplied by submitters runs the risk of unintended and harmful consequences. By raising the regulatory burden on data reporting activity, such action would likely cause a retreat from participation in price discovery processes in general. This would in turn reduce the amount and quality of information supporting benchmarks, which would be incompatible with regulatory goals and ultimately detrimental to the effective functioning of the physical commodity markets. Any intervention in price formation that leads to prices that are not reflective of market value can adversely impact the functioning of global commodity markets. Indeed, regulation of submitters could encourage a market participant to opt out from the price discovery process, thus reducing the scope of market participation in price formation.

If submissions were regulated, assurances would need to be made to market participants via a "safe harbor" policy that provision of incorrect information as a result of clerical error to a publisher or the regulator itself would not be punished by an enforcement action. Any action leading to diminishing data quality around which the price discovery process has been developed could reduce the quality of a benchmark.