Frequently Asked Questions (FAQ) on IOSCO Principles for Price Reporting Agencies report (PRA Report) 1

1. Can Price Reporting Agencies provide confidentiality to or provide anonymity to stakeholders’ comments on changes to a methodology, if requested?

Response:

Yes, upon request. See Principle 1.5 (b), which provides for stakeholders’ comments to be accessible “except where the commenter has requested confidentiality.” The transparency requirements apply to formal consultation processes as prescribed in the Principles.

2. How does a Price Reporting Agency determine which of its published prices are used as settlement references in oil derivatives? Should a de minimis trading volume threshold apply?

Response:

IOSCO expects good-faith application of the PRA Principles with regard to any assessment which a price reporting agency reasonably believes is referenced in a derivatives contract, whether exchange-traded or OTC. The application of the Principles should not be limited by a de minimis trading volume threshold.

3. Do remedies available for complaints referred to an independent party extend to retroactive price adjustment and methodology changes?

Response:

Yes, but resolution of a pricing dispute brought to the formal complaints procedure of Principle 2.18 was not intended to result in a retroactive price adjustment. Principle 2.19 reflects IOSCO’s recognition that disputes that might result in a price correction needed to be settled expeditiously. A party who is dissatisfied with the outcome of the Principle 2.19 process might file a formal complaint under Principle 2.18. However, it would not be unreasonable for the PRA’s formal complaints process to exclude any retroactive price adjustment to the market.

4. **How should Principle 1.4c, which discusses gaining market acceptance of important changes to methodology, be balanced against the overriding objective of ensuring the quality and integrity of the price assessment process?**

**Response:**

While methodologies and changes to methodologies should be subject to a genuine consultation process and review as set out in Principles 1.4 and 1.5, the final responsibility for the methodology lies with the respective price reporting agency. IOSCO would expect the methodological review under Principle 1.4(b) and (c) to consider whether reasonable processes have been followed.

5. **With respect to judgment referenced throughout the Principles, how detailed should a description of a specific judgment be?**

**Response:**

The focus of Principle 2.3 is on providing subscribers with sufficient information to allow subscribers to understand how an assessment was developed. Whilst the format of disclosure is within the discretion of the PRA, the minimum information called for in Principle 2.3(a) should be provided with each published assessment.

Principle 2.3(b) contemplates that each published assessment would identify, and explain the rationale for, the exercise of judgment in each published assessment. The term “judgment” is illustrated in Principle 2.3(b) as being employed in the exclusion of data otherwise conforming to the requirements of the relevant methodology, in basing an assessment on spreads, in interpolation or extrapolation, in weighting bids or offers higher than concluded transactions, or, in general, in a more qualitative assessment in the absence of hard data.

With respect to the level of detail needed, the PRA Principles make clear that “where certain measures are called for, a “reasonableness” standard is contemplated, including for example, with respect to the length of any explanations that are called for in daily assessments.” (see PRA Report, page 11). For example, it would be reasonable for PRAs to develop standard descriptions and rationales for the type of judgments” that tend to be exercised in assessments and publish those descriptions and rationales as relevant with each assessment but with a degree of aggregation where appropriate.

Although PRAs may therefore develop disclosures in the most efficient manner, any such disclosures should provide more than the permissive procedures of the methodology.

6. **Does the requirement under Principle 2.2(d) to identify “anomalous and suspicious” transaction mean two separate categories?**

**Response:**

The term “anomalous” refers to transactions that are inconsistent with or deviate from the relevant methodology or are inconsistent with what the PRA knows of the typical business activities of the submitter. The term “suspicious” refers either to a transaction that raises doubts about the evidence supporting its submission, or to a transaction which may be submitted for ulterior motives. IOSCO
recognizes both that PRAs are not regulated entities and have no legal duty to investigate or detect fraud, and that the PRAs may well not see the entire context in which a transaction is submitted. The Principle, however, acknowledges that the detection and prevention of abusive transactions is in the interest of increasing the accuracy and integrity of assessments.

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