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## The Argus approach to oil price reporting and the voluntary code of conduct

| Illuminating the markets

# The Independent Price Reporting Organisations

There are many IPROs and many organisations providing price references

- Platts
- Argus
- OMR
- ICIS
- Opus
- Reuters
- Bloomberg
- and lots more, plus some entities that are not IPROs but which also provide price references, such as the CME and Ice

# What is Argus?

- Leading independent price reporting organisation (IPRO)
- Argus publishes market prices, market commentary, analysis and news for physical energy and related commodity markets globally:
  - Crude and oil products
  - Natural gas and power
  - Coal and biomass
  - Biofuels
  - Emissions
  - Petrochemicals
  - Fertilizers
  - Freight

# Argus today

- Founded in 1970 – over 40 years experience
- Today over 120 publications and services
- Over 450 employees and 40 freelancers (news journalists)
- Customers in 110 countries
- Twenty offices around the globe
- Investors in People  
People management and training standard of  
the UK Commission for Employment and Skills
- Queen's Award

# A selection of our publications

The image displays a collection of Argus publications, each featuring a distinct cover with the Argus logo and a specific title. The publications are arranged in a collage, overlapping each other. The titles include:

- Argus Crude
- Argus Coal Daily International
- Argus European Products
- Argus Biomass Markets
- Argus European Natural Gas
- Argus European Electricity
- Argus Biofuels
- Argus Global LNG
- Argus Power Europe
- Argus Global Markets
- Argus GasConnections
- Argus Fundamentals
- Argus Рынок нефти России
- Petroleum Argus
- Gulf of Opec

Each publication cover typically contains a table of data, a line graph, and a short text article. The Argus logo is prominently displayed on each cover.

Illuminating the markets



# Argus and other IPROs provide

- Market prices
  - Market report portfolio, databases
- Informed comment, analysis and news
  - Business Intelligence portfolio
- Data and statistics
  - Databases
- Consultancy services and conferences

# IPROs publish prevailing spot market prices

- Argus identifies and publishes the open-market clearing price (spot price) of bulk wholesale energy products
- This improves market transparency. It also helps create a level playing field among all market participants
- The spot price can also provide a reference for:
  - Long-term energy supply contracts
  - Internal transfer pricing
  - Taxation basis and/or guides
  - Portfolio mark-to-market
  - Risk management products such as swaps
  - Market analysis
  - Capital investment decisions

# What price reporting agencies do

- Define the methodology of price discovery and ensure it is transparent
- Define the basis, location, size, time period, specification of the contract being assessed or reported
- Define any standardisation of information
- Respond to evolving markets and emerging markets
- Decide upon choices from the available options
- Explain and justify choices
- Engage with stakeholders
- Collect, collate and clarify market information
- Ensure transparency of information in a timely and usable manner
- Ensure transparency of process through compliance
- Train and supervise staff
- Perform these functions in a competitive environment to ensure high levels of service and cost effectiveness



# A competitive environment

- There are many different IPROs
- There are very different methodologies employed by the IPROs
- There are similar methodologies employed by IPROs but with differences of detail
- The IPROs are commercial entities which succeed if their customers value their services
- The leading IPROs are highly professional

# Methodological approaches

- Transactional prices
  - Quotations based on transactions
  - Volume-weighted average of transactions
  - High and low of transactions
  - Transactional prices require clear rules for what will be included in the quotation
  - Require a degree of liquidity in the market
- Assessments
  - Buy-sell range through an intelligent assessment or through committed bids/offers
  - Conducted through an online service or by a poll (telephone, IM, internet discussion groups, internet sites, email)
  - Standardised terms for the contract that is assessed (timing of delivery, size, credit, specifications)
- Calculated prices
  - Based upon price references
  - Price reference plus/minus freight
  - Price reference plus/minus a differential
  - A formula including other price quotations

# Market surveys – how IPROs gather information

- Telephone contact
- Electronic media contact – instant messenger, email, internet discussion groups, internet broker platforms
- Data submitted by back offices

# Verification and validation

## Transactional methodology

- Transactions collected, collated and cross checked
- Deals confirmed with the parties involved
- Possible errors clarified and corrected with the parties
- Anomalies and deals not meeting methodology parameters are excluded

## Assessments

- Information is verified as being from an agent of the market participant
- If an intelligent assessment, as opposed to a committed bid/offer, the credibility of the bids and offers are checked with other market participants

# Regulation developments

- November 2010
  - G20 Seoul Summit Leaders' Declaration requesting joint report on PRAs
- October 2011
  - Joint IEA-IEF-Opec-IOSCO report on PRAs
- November 2011
  - G20 Cannes Summit request to IOSCO (Committee 7 Commodity Futures Markets)
- January 2012
  - Paris meeting of IOSCO and PRAs
- March 2012
  - IOSCO Consultation Report
- August 2012
  - Washington meeting of stakeholders
- September 2012
  - Wheatley Review of LIBOR endorses Independent Price Reporting Organisation Code
- October 2012
  - IOSCO Review published
- January 2013
  - Dubai meeting of IOSCO and PRAs
- March 2013
  - IOSCO FAQs

# IOSCO examination of oil PRAs

- In October 2012, IOSCO completed a detailed examination of PRAs at the request of the G20
- IOSCO concluded:
  - PRAs do not raise systemic risks
  - PRAs meet a legitimate physical market need, including bringing transparency to naturally opaque markets
  - IOSCO rejects direct regulation of PRAs
  - IOSCO warns that “precipitous regulation” is undesirable and could directly weaken market transparency
  - IOSCO promulgates a set of PRA Principles to promote best practice in PRA commodity benchmarks
  - IOSCO states that PRAs have, to varying degrees, already adopted policies equivalent to its PRA Principles

# IOSCO PRA principles

1. Methodology
2. Changes to a methodology
3. Market data and use in price assessments
4. Integrity of the reporting process
5. Assessors (ie market reporters)
6. Supervisions of assessors (ie market reporters)
7. Audit trails
8. Conflicts of interest
9. Complaints
10. Co-operation with regulatory authorities
11. External auditing

# I PRO Code

**Robust self-regulatory code for Independent Price Reporting Organisations (IPROs) with independent verification of compliance**

- Over the past three years, Argus has played a leading role in developing the I PRO Code to ensure consistent high standards across the whole I PRO industry
- The I PRO Code establishes standards to be met across the fundamental areas of I PROs' activities
- Following a period of stakeholder consultation and publication of IOSCO's final report and PRA Principles, the I PRO Code is being finalised and will be available for all I PROs to become a signatory



# IPROs versus CRAs

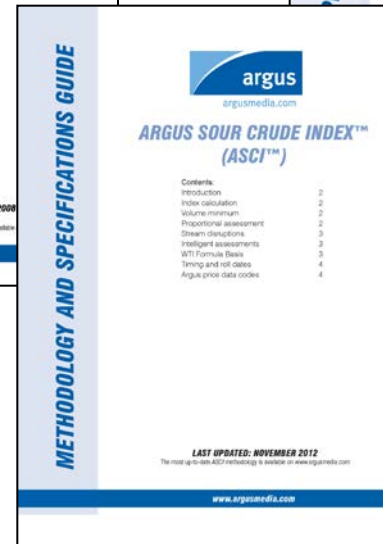
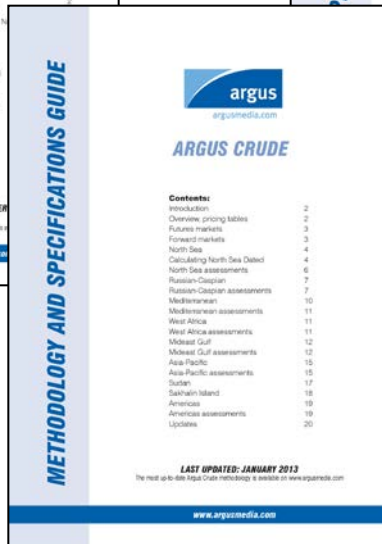
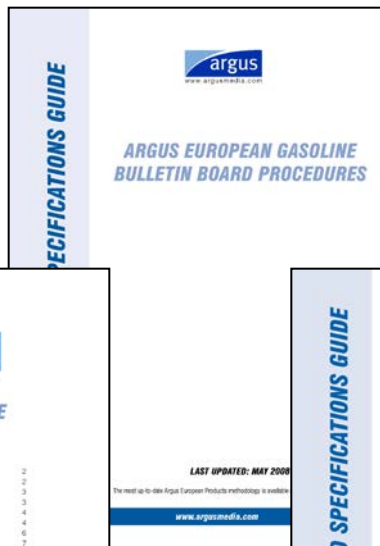
|                       | <b>Independent price reporting organisations</b>   | <b>Credit rating agencies</b>   |
|-----------------------|--|---|
| <b>Business model</b> | <p>No inherent conflicts</p> <p>Subscribers comprise buyers and sellers in equal numbers</p> | <p>Conflicted</p> <p>Issuer pays</p>  |
| <b>Output</b>         | <p>Report facts</p> <p>Report today's price</p> <p>Publish a number<br/>— testable</p>       | <p>Forecast</p> <p>Forecast likelihood of future default</p> <p>Publish a letter<br/>— not testable</p> |
| <b>Performance</b>    | <p>No failure</p> <p>Have always performed</p>   | <p>Demonstrably failed</p> <p>CDO ratings and 2008-09 financial crisis</p>                              |

## Energy price reporting fundamentally different to Libor

- IPROs are independent of the market and have no vested interest in the level of any price they publish
- IPROs do not use panel-based methodologies
  - IPROs publish oil market price indexes based on observed transactional data and other market information, which are subject to verification and tested against real market conditions to ascertain reliability, repeatability and relevance
- IPROs compete in an open, competitive and effective marketplace
  - Market participants have many choices of index available
- Libor is created by a panel process and is based upon unverified contributions from participants
- Libor is owned by the British Bankers' Association (BBA)
  - BBA is a trade association principally consisting of representatives of the banks who contribute to the Libor indices
- Libor is the monopoly provider of London interbank lending rates

# Argus methodologies

[www.argusmedia.com/methodology](http://www.argusmedia.com/methodology)



# Global editorial code and compliance policies

[www.argusmedia.com/About-Argus/How-We-Work](http://www.argusmedia.com/About-Argus/How-We-Work)

