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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

IOSCO/MR/04/2015

MADRID, 12 February 2015

IOSCO Requests Public Comment on Continuing Implementation of PRA Principles

Request for Public Comment

The International Organization of Securities Commissions (IOSCO) is requesting comment on the continuing implementation of the *IOSCO Principles for Oil Price Reporting Agencies (PRA Principles)*.¹

Background

In September 2014 the Board of the International Organization of Securities Commissions (IOSCO) published its report on *Implementation of the Principles for Oil Price Reporting Agencies, prepared in collaboration with the International Energy Agency (IEA), International Energy Forum (IEF) and the Organization of Petroleum Exporting Countries (OPEC)*.² The conclusions in the 2014 report were based upon informal visits by members of IOSCO's Committee 7 on Commodity Derivatives Markets (C7) to PRAs, review of the initial external assurance reports on the four main PRAs (*i.e.*, Argus Media, ICIS, OPIS, and Platts), written stakeholder input, and input obtained at a stakeholder meeting in February 2014 at IOSCO's headquarters in Madrid.

The September 2014 report concluded that during the first year of implementation the four PRAs had made good progress with regard to the PRA Principles by, among other things, aligning their policies and procedures with the PRA Principles and investing considerable time and resources to do so. The first external assurance reviews validated assertions by the PRAs that they had

¹ The *IOSCO Principles for Oil Price Reporting Agencies* were adopted by IOSCO in October 2012 and had been prepared in collaboration with the International Energy Agency (IEA), International Energy Forum (IEF), and the Organization of the Petroleum Exporting Countries (OPEC). The report is available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD391.pdf>

² *Implementation of the Principles for Oil Price Reporting Agencies (IOSCO)(2014)* available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD448.pdf>

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made changes to their assessment frameworks and methodologies, record keeping, conflicts of interest management and complaints processes. IOSCO's evaluation of stakeholder feedback also confirmed the overarching conclusion that the efforts by the PRAs in implementing the PRA Principles had brought about significant changes to the PRAs' policies and procedures.³

IOSCO recognized that its 2014 report's conclusions were preliminary due to the fact that the PRAs had devoted their primary efforts to aligning their procedures with the PRA Principles. The PRAs were engaged in a continuing process of implementation and change in their policies and practices, so many important policies had not yet been tested by stakeholders. Accordingly, IOSCO, in collaboration with the IEA, IEF, and OPEC undertook to carry out further examination and monitoring in this regard (including outreach to stakeholders) and report again on implementation efforts in 2015.⁴

Questions for Public Comment

IOSCO invites comment from interested parties on the following questions. Please note that the feedback we receive from interested parties will inform our next report to the G20 and will be considered as public documents.

1. **What changes have interested parties seen from the PRAs as they have continued to implement the PRA Principles in the oil markets?** Among other things, commenters are invited to address and provide their evaluation of:
 - (a) The changes they have seen from the PRAs as they have continued to implement the PRA Principles throughout 2014;
 - (b) Whether there is sufficient transparency regarding those changes (*i.e.*, to what extent are you aware of the changes to PRA practices required by the PRA Principles, such as, among others, content of the methodology, the complaint process, explanation of how judgment was used.);
 - (c) Whether there had been any noticeable effects on reporting of price assessments by PRAs since their adoption of the PRA Principles?

³ In this regard, in October 2014 Argus Media, ICIS, OPIS and Platts completed their second annual assurance reviews under the *IOSCO PRA Principles*. Argus media (<http://www.argusmedia.com/About-Argus/Press-Releases/2014/Third-IOSCO-PRA-Review/>); ICIS (<http://www.icis.com/press-releases/icis-meets-the-iosco-pra-principles-for-second-year-running/>); OPIS (<http://www.opisnet.com/about/press-releases.aspx>); Platts (<http://www.platts.com/pressreleases/2014/103014/no>).

⁴ *Implementation of the Principles for Oil Price Reporting Agencies*, at p. 17.

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2. **Have the changes you observed addressed any previous concerns with the price assessment process, including but not limited to the adequacy of:**
 - (a) The level of detail generally with respect to individual methodologies (*i.e.*, does the methodology provide stakeholders with the granularity needed to allow them to understand how data generally is used to develop assessments?);
 - (b) The PRAs' explanation of how a particular assessment has been derived (*i.e.*, is there sufficient granularity in the descriptions of how methodologies were applied to individual assessments, including the application of judgment?; is there sufficient granularity with respect to the existence of any changes or deviations from the general methodology as applied to a particular assessment?; is the adequacy of those explanations consistent across assessments within a particular PRA and across PRAs?);
 - (c) The PRAs' formal complaints processes, including satisfaction with regard to the process and the PRAs' responsiveness to complaints;
 - (d) The PRAs' responsiveness to informal inquiries, including those relating to price assessments;
 - (e) The PRAs' transparency and responsiveness to stakeholders with respect to proposed changes to a methodology; and
 - (f) The PRAs' governance processes and compliance procedures, in particular with respect to the management of conflicts of interests.
3. **Are there any areas of the Principles that you feel the PRAs have not yet demonstrated their compliance with?**
4. **Have you identified any unintended consequences with respect to oil assessments or the amount or quality of data reported to the PRAs subsequent to the implementation of the PRA Principles?**
5. **Are you aware whether derivatives exchanges require that benchmarks referenced in a physical commodity derivatives contract are constructed by PRAs whose policies and procedures were subject to a successful assurance review?**
6. **Are you aware of benchmarks that are produced by PRAs other than Argus, ICIS, OPIS, and Platts that are referenced in oil derivatives contracts? If so, is there any**

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transparency as to whether the benchmark administrator has implemented the PRA Principles?⁵

- 7. The October 2012 IOSCO report encouraged the PRAs to implement the Principles more widely to other commodity price assessments referenced in derivative contracts. Are you aware that the PRA Principles have been applied in this way? Please provide any observations you may have with regard to such broader application of the PRA Principles.**

Responses should be provided in writing to alp@iosco.org by 12 March 2015.

NOTES FOR EDITORS

- IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions and it continues to expand.
- The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO). The Board is made up of 34 securities regulators. Mr Greg Medcraft, chairman of the Australian Securities and Investments Commission, is the chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Australia, Belgium, Brazil, China, Egypt, France, Germany, Greece, Hong Kong, India, Italy, Japan, Kenya, Korea, Malaysia, Mexico, the Netherlands, Ontario, Pakistan, Peru, Quebec, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Trinidad and Tobago, Turkey, United Kingdom and the United States.

⁵ IOSCO notes that when it published the PRA Principles, it called for the voluntary adoption and implementation of the PRA Principles by PRAs without distinction as to the identity, size, or market impact of particular PRAs. To date, IOSCO's implementation review has focused on the four main PRAs that voluntarily adopted and implemented the PRA Principles (*i.e.*, Argus Media, ICIS, OPIS and Platts). IOSCO has determined, however, that it should examine, first, the extent to which entities, other than those four main agencies, which also perform PRA activities, produce assessments that are referenced by oil derivatives contracts, and, second, whether it is appropriate to bring those other entities within the scope of IOSCO's review of implementation of the PRA Principles. *Implementation of the Principles for Oil Price Reporting Agencies*, at p. 17.

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3. The Growth and Emerging Markets Committee is the largest Committee within IOSCO, representing 75 per cent of the IOSCO membership. Mr. Ranjit Ajit Singh, Chairman, Securities Commission, Malaysia, and Vice Chair of the IOSCO Board, is the Chair of the GEM. The Committee endeavors to promote the development and greater efficiency of emerging securities and futures markets by establishing principles and minimum standards, providing training programs and technical assistance for members and facilitating the exchange of information and transfer of technology and expertise.
4. IOSCO aims through its permanent structures:
 - to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
 - to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
 - to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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