Platts
McGraw Hill Financial
20 Canada Square
Canary Wharf
London
E14 5LH

30 January 2015

FEMR consultation
London

Via Email to: FEMR@bankofengland.co.uk

Dear Sir/Madam,

Fair and Effective Markets Review
Platts, a division of McGraw Hill Financial Inc., welcomes the opportunity to respond to the Fair and Effective Markets Review October 2014 consultation document and to offer its views on some of the issues raised. As a provider of a wide variety of information that contributes to increased transparency in the world's commodity markets, Platts shares the view that transparent and robust markets are an important component allowing those markets to function effectively.

In addition to the other services Platts provides information about global commodity markets and publishes spot market price assessments used as commodity benchmarks. Platts will therefore focus its comments on topics relating to commodity benchmarks that are being reviewed by the joint consultation.

Independent Information Services Provider
Platts is an independent information and services provider. Our role as an independent publisher is to observe, analyze and report on the markets. We have no stake in the value of the commodities we cover and Platts does not participate in those markets. Participation in our news gathering and price assessment processes is voluntary, as is the use of our information. Our aim is to protect the integrity of our price assessment processes and to publish information that is useful to our customers and which helps the markets operate with greater transparency and efficiency.

Platts focuses on the physical spot markets, which are primarily made up of market participants who actually produce, refine, process, ship, and take delivery of crude oil and other commodities. Participation in Platts' price assessment processes is entirely voluntary, as is the use of Platts' price assessments. Any company that wishes to participate in Platts' price assessment process must adhere to Platts' publicly available price assessment methodologies. These methodologies, developed over many years and evolving as necessary to adapt to changes in the marketplace, are among the most rigorous in the industry and are designed with safeguards to protect against distortion of its end-of-day price assessments.

Platts' market editors are trained in the assessment process, are knowledgeable in the markets they cover and observe the markets as part of Platts' price assessment process. A separate, internal compliance division monitors the price assessment activities to ensure that Platts' markets editors adhere to the detailed methodologies in order to maintain the integrity of Platt's price assessments.

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Commodity and Financial Markets
In commodity markets, which are different to financial markets in important ways, Platts believes that the standards described in the IOSCO Principles for Oil Price Reporting Agencies published in October 2012 (the "PRA Principles") capture the essential elements of providing robust benchmarks in commodity markets, including the standards for data collection and validation.

Platts believes that its methodologies serve as the basis for defining the standards expected of data collected for use in benchmarks. Platts reviews and validates the data according to those standards. Platts does not believe it is practical or desirable to create or enforce additional codes of conduct practice for data contributors themselves (as discussed in *5.4 Standards of market practice*) because placing such constraints on the diverse set of entities contributing such data would likely have a chilling effect on the provision of the data itself, and likely result in less data overall being available for use in commodity benchmarks and therefore resulting in less, not more, transparency, to those markets.

Globally Consistent Benchmarks Framework
Platts believes that the PRA Principles provide a globally-consistent and appropriate framework for price assessments provided by Price Reporting Agencies ("PRAs") in the physical commodity markets, and therefore does not believe that further measures are required.

Accordingly, Platts is aligning its processes with these principles for all commodity markets. Platts believes that the annual, independent audit of the PRA's alignment with these principles, which must be published when complete, ensures alignment with the PRA Principles.

Platts engaged Ernst & Young (EY) to conduct annual independent assurance reviews of its alignment with the PRA Principles. In its 2014 review, EY has once again confirmed that Platts' strong governance structure and operational processes were aligned with the PRA Principles in all material respects. Platts has published the full reasonable assurance review here, which includes the policies and procedures it has in place to meet each of the PRA Principles, and EY's comments on those policies and procedures. Details of Platts' methodologies can be found at this link.

As with its 2013 review, EY's 2014 review was a reasonable assurance review - the highest standard for this type of review and the standard supported by IOSCO in its September 2014 report on the implementation of the PRA Principles.

For 2014, the reasonable assurance review included a comprehensive review of Platts' documentation of its processes for price assessments used for oil and also tested the operating effectiveness of these processes in Houston, London and Singapore for the twelve-month period from 1 October 2013 to 30 September 2014.

Platts has extended its application of the PRA Principles to the other commodities it covers which underlie financial derivatives contracts. Platts expects to demonstrate alignment for its processes in the power and gas, agriculture, metals and petrochemicals sectors with a reasonable assurance review to be undertaken in 2015.

While Platts has embraced the IOSCO process and has demonstrated its willingness through that process to demonstrate its commitment to good governance, independence and transparency, Platts does have serious concerns about other initiatives - particularly the EC's September 2013 Proposal for a Regulation on indices used as benchmarks in financial instruments and financial contracts, as it would impose what Platts believes

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to be onerous requirements on market participants who voluntarily report price information to publishers. In Platts' view, the EC's Proposal is overly prescriptive and is not fit for purposes for commodities benchmarks, and has engaged policymakers and regulators to stress the importance of taking a calibrated, proportionate approach to benchmarks regulation.

Transparency in Markets

Platts supports greater transparency in both on-exchange and OTC commodity derivatives markets, and encourages the fullest degree of transparency possible in all markets for which it publishes benchmarks. The discussion around transparency in "Section 5.1.4 Commodities" of the consultation describes most specifically the concept of observable liquidity in derivatives markets – for example, the notion that exchange-traded derivatives are transparent because trading activity can be observed in real-time (or close to real-time) through activity on an exchange.

Platts agrees that the ability to observe market activity in real-time is a component of market transparency. Platts would highlight that this is not in itself full transparency. Full transparency in oil commodity derivatives markets additionally includes the ability to readily observe the identity of companies active in those markets, and the price, volume, and other terms agreed with each transaction. In some markets including the crude oil markets for which Platts publishes assessments, and including certain OTC commodity derivative markets, this heightened level of transparency is currently available, and it is important to encourage conditions that provide for the fullest measure of transparency possible not just a single element of transparency, such as observable liquidity which is nevertheless anonymous.

For example, and as noted in the consultation, many OTC commodity markets are comprised of transactions negotiated through interparty dealers like brokerages. These markets tend to be competitive in nature, with many brokers serving the needs of counterparties. A variety of information providers, including Platts, provide information about this activity, including wherever possible the real-time publication of fully transparent deal information.

For example, in crude oil and products markets, Platts' price assessment methodology provides the most transparent price discovery available, including the names of the companies providing each bid/offer and oil transaction, making the information visible to the marketplace at large in real time.

In addition to completed transaction data, the methodology also requires that any bids or offers supplied to Platts for consideration in the assessment must be "firm" and transactable, must be incremental in price movement, and verifiable. All bids and offers are published in real time to the market at large so they can be tested. Any data not reflecting true market value or which do not adhere to Platts' publicly-available methodologies, are omitted from consideration in the final assessment.

Broad Industry Participation in Benchmarks

In relation to the joint consultation's consideration of how an industry panel might review the construction of benchmarks in "5.3 Benchmarks", Platts believes that broad industry participation in the creation and continued review of benchmark design is an important ingredient in maintaining the relevance and representativeness of a commodity benchmark, and supports efforts to foster discussion and debate about benchmark evolution.

Platts itself seeks to ensure industry participation in its own benchmark reviews through a variety of means, including hosting public forums regarding reviews of its benchmarks, publishing solicitations for comment on possible changes, and other means for seeking industry input. Platts supports third party forums for these discussions as well, and regularly participates in such discussions.

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PRAs active in commodity markets operate in a competitive space, where participants themselves have a choice of benchmark provider, and the ability to choose between methodologies and benchmarks that best suit their needs. A key feature of Platts and PRAs in general, is that they are independent of the markets they assess. This independence is essential in maintaining representative benchmarks that are able to respond to market change.

For commodity markets in particular, Platts would therefore encourage that independence for benchmark providers be safeguarded so that entities using benchmarks remain able to freely choose from strong PRAs active in a competitive benchmark marketplace.

Conclusion
Platts appreciates the opportunity to comment on these important issues, and has sought to keep its comments focused on certain key areas relating to commodity markets in this reply. Platts welcomes the opportunity to discuss these issues or other issues with the policymakers and regulators conducting this joint consultation.

Yours faithfully,

Elizabeth Murphy
Global Regulatory Affairs
Platts