



Principles for Oil Price Reporting Agencies (PRAs). November 2012.

IOSCO Board has published, on 5th October, a final report on Principles for Oil Price Reporting Agencies (forward PRAs) which intends to enhance the reliability of oil price assessments that are referenced in derivative contracts. These principles were prepared in response to the G 20 leaders' request -in November 2011 and followed by the G 20 leaders' Los Cabos Declaration- that IOSCO, in collaboration with the IEF (International Energy Forum), the IEA (International Energy Agency) and the OPEC (Organization of Petroleum Exporting Countries), should prepare recommendations to G 20 Finance Ministers in order to improve PRAs functioning and oversight.. This report is built upon issues that were identified in a IOSCO, IEA, IEF and OPEP joint report -discussed at G 20 Cannes Summit in November 2011-, as well as on the comments received in response to IOSCO's March 2012 Consultation paper on functioning and oversight of PRAs.

The PRA principles detail a set of recommended practices aimed at promoting the quality and integrity of oil price assessments that will enhance the reliability of oil derivatives contracts that reference such assessments, the price discovery and risk management function of the oil derivatives markets and help minimize the susceptibility of contract to manipulation or price distortion. The principles implementation implies the adoption of measures to:

- Ensure that their methodologies provide sufficient information to explain how assessments are produced, including how changes to a methodology will be communicated to stakeholders.
- Give priority to concluded transactions and, if not, to explain the reasons.
- Adopt robust internal quality control procedures applicable to the submission and evaluation of market data used in an assessment.
- Adopt robust conflict of interest policies aimed at reducing the possibility of any undue influence in the assessment process.
- Institute documentation and retention policies (audit trails) and a formal complaints process which includes recourse to an independent third party.
- Commit to make available to market authorities audit trails and other related documentation intended to facilitate determination of the reliability of assessments or to investigate and prosecute illegal conduct affecting a derivatives market.

Although the PRAs principles were developed in the context of oil derivatives markets, other Agencies are encouraged to implement the principles more generally to assessments that are referenced by any commodity derivatives contract, without regard to the nature of the underlying.

The principles recognize that there is no requirement on any physical market oil participant to submit transaction data to PRAs because data are submitted on a voluntary basis and IOSCO's approach has focused on creating incentives for PRAs to institute this obligation. IOSCO recommends that market authorities consider whether to prohibit trading in any commodity derivatives contract that references a PRA-assessed price unless that assessment follows the PRA principles.

The PRA principles are the following:

1. Quality e integrity of PRA methodologies.

The methodology should be documented and made public. Its aim should be to achieve price assessments which are reliable indicators of oil market values, free from distortion and representative of the particular market to which they relate.

A PRA should adopt and make public explicit procedures and rationale of any proposed material change in its methodology. These procedures should be consistent with the objective that a PRA must ensure the integrity of its price assessments and implement changes for good order of the particular market to which such changes related, and should include process for taking into account the views of relevant stakeholders.

2. Quality and integrity of price assessments.

Market data used in price assessments should be used giving priority in the following order: first, concluded and reported transactions; second, bid and offers; and third, other market information. The possibility of selective reporting or the market data extrapolation requires, sometimes, a discretionary judgement and, along the same line, the voluntary reporting raises two issues: the potential for selective reporting in order to manipulate the price assessment and whether the data relied upon in an assessment are sufficient to conclude that the assessment reliably reflects transactions in the oil market that is referenced in a derivatives contract.

PRAs shall cooperate with Regulatory Authorities on the exchange of information and should appoint and independent external auditor that elaborates periodic audits about the PRA 's adherence to its stated methodology criteria and with the requirements of this Principles. IOSCO proposes to evaluate the implementation of the PARA principles alter 18 months and, if the conclusion is that the implementation has been ineffective, further recommendations may be developed.

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