Transparency and Integrity in Global Oil Markets Pricing

Energy markets always have been at the center of the world’s economic and political stage, but never more so than in the last decade. Periods of relatively high prices and increased volatility have caught the attention of policy-makers and the general public alike. As the focus on commodity markets grows, transparency and integrity take on heightened importance as the essential ingredients for market confidence and efficiency.

How is “price integrity” defined? For Platts, integrity of pricing refers not just to logical and logistical processes for observing price discovery, but also to processes that build confidence in the resulting assessment from a foundation of quality data and well-structured methodologies. In the oil markets, Platts believes that greater transparency fosters such price integrity and market confidence.

And “price transparency”? To Platts, whose main business is observing and reporting on energy markets and formulating ways to access reliable price information to serve those markets, transparency is the quality that makes it possible for observers to best assess the market value of a commodity and the reasons behind that value.

Historically, information in the over-the-counter oil markets was opaque, with transactional details shrouded in “private and confidential” agreements between buyer and seller. Platts consistently has introduced this market to more transparent assessment measures to the point where details surrounding a transaction are now fully open to market observation. Platts does not use any item of information in its oil assessment process that is inconsistent with its methodology and quality guidelines, not reflective of market value or not open to market view and testing.

In Platts’ view, there are two key elements to building confidence in the assessment process in the oil markets. The first is to make the process by which we arrive at our assessments as transparent as possible. In oil, Platts publishes the names of the market participants, on the principle that if you purchase or sell commodities and as a result your actions influence the price of the world’s most important commodity, people should know who you are.

Platts publishes comprehensive market-reporting methodologies, constantly updated, on its website at www.platts.com. Moreover, Platts was the first price publisher to have created in 2003 a compliance department that independently monitors the work of its price editors.
Secondly, in terms of process, Platts makes use of real-time information systems in the service of price discovery. As markets progress minute by minute, teams of Platts market editors publish in real time the bids, offers and transactions reported to Platts, via Platts Global Alert. The effect is to create a virtual community in which all participants are visible to one another and can assess for themselves the trading behavior of all other market participants.

Transparency in price discovery means collecting enough information to enable an understanding of supply and demand forces behind price movement, providing market participants with a clear view of the price discovery process, and seeing price as a function of time, which makes transparent a commodity’s price in relation to other commodities. In many markets, Platts has shifted from an all-day weighted-average assessment process, or even an all-week weighted-average assessment process, to what Platts terms: a daily “market-on-close” (MOC) assessment of price, which better allows for cross-commodity spread comparisons and facilitates mark-to-market practices.

For example, in MOC in oil, Platts considers only those bids, offers and transactions that are reported to it and subsequently published via Platts Global Alert in real time with full disclosure of details. Platts’ methodology requires that any reported bids and offers must be firm and open to the market at large in order to be considered in Platts’ assessment process. Time cut-offs are applied, after which a new bid or offer will not be accepted into the process, to ensure it is logistically executable. Secondary checks are carried out periodically in which Platts will request documents for deals done, which may include contract copies, loading and inspection documents, etc.

The level of transparency in Platts’ oil market assessment process is unique. Every single transaction and the pre-transaction activity where buyers and sellers offer their bids and offers is published real time to the subscribers of Platts Global Alert with full clarity, including identification of both parties to the transaction. Platts eWindow, an online editorial tool that allows for direct entry of bids, offers and transactions data to Platts editors, provides the clearest view of price discovery due to its easy-to-view, at-a-glance grid format. Unlike in a futures market, where participants can establish positions anonymously, and without scrutiny, the Platts MOC methodology is a process — a succession of transparent events which follow naturally from and crystallize the trading events of the day. The components of MOC are designed to avoid distortion of the final assessment by eliminating inputs that are not verifiable or that may not reflect the market level.

Platts monitors the oil market continuously through the day. By defining an end-of-day time stamp for its assessments, the indications shaping the market can be tested by the market at large. This tends to concentrate market activity, makes it more efficient and transparent, and greatly assists the process of price discovery for all concerned. Nothing is anonymous, and any behavior or data that is not in line with and reflective of the market would be plainly evident and can be discounted, if appropriate, in the process of making a Platts market assessment, or excluded from the process altogether.
Transparent and robust price assessments permit competitive and efficient markets, where producers, consumers, futures market participants, traders, regulators and all those interested in prices can witness full convergence between market values and published values.

*For greater detail, see the full white paper by the same name and backgrounders on MOC and benchmarks*

For more information about Platts, visit our website at [www.platts.com](http://www.platts.com). You may also contact Platts Communications via Kathleen Tanzy at [kathleen_tanzy@platts.com](mailto:kathleen_tanzy@platts.com) or 212-904-2860.