

## **Important Distinctions Between LIBOR Rate Setting and Oil and Energy Market Price Reporting**

Several recent media articles have attempted to draw parallels between oil and energy market price reporting and the generation of the London interbank offered rate (LIBOR) indices. Argus, ICIS and Platts, three independent price reporting organisations (IPROs) covering the physical commodity markets and authors of the proposed draft IPRO Code, would like to clarify the fundamental differences between the creation of LIBOR and the reporting and publishing of oil and energy market price assessments:

### **Independence**

- The British Bankers Association's LIBOR is overseen by the Foreign Exchange and Money Markets Committee, which principally consists of representatives of the banks who contribute to the LIBOR indices.
- IPROs are independent of and have no vested interest in the oil and energy markets. Their ownership is transparent, and strict internal governance separates editorial and commercial functions. IPROs are not market participants, nor providers of transaction execution, clearing or settlement services.
- Use of IPRO price assessments is voluntary and at the sole discretion of the user.

### **Methodology**

- LIBOR is created by a panel process, and is based upon unverified contributions from participants.
- IPROs assess oil markets based on observed transactional data and other market information, which are then subject to verification and tested against real market conditions in order to ascertain reliability, repeatability and relevance. IPROs exercise the right to exclude contributions from the assessment process that do not meet these standards. The application of methodology is done in a transparent and consistent manner, and methodology evolves constantly through open consultation with stakeholders to ensure it remains robust.
- Physical oil markets reported by IPROs are highly distinct from financial markets such as those reflected by LIBOR interest rate indices. Physical oil is complex, heterogeneous and non-fungible. In less liquid oil markets, prices need to be identified by verifiable bids and offers and by using a complex series of price differentials that reflect the way the physical oil markets operate.

### **Competition**

- LIBOR indices are the product of a single organization.
- Physical oil price assessments come from a variety of sources including IPROs. IPROs operate in a competitive market, where numerous providers compete to gain the trust and confidence of the users of their oil price assessments. Hence it is in the interest of all IPROs to maintain assessments that are viewed by stakeholders as fair and unbiased.

Our organisations have played a significant role in increasing the transparency and efficiency of oil and energy markets. We have no vested interest in the markets. We have developed reliable and robust processes, and do not use panel-based pricing

mechanisms like LIBOR's, which by their nature, can be prone to inherent risks and conflicts.

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**About Argus:** Argus Media is a leading provider of price assessments, business intelligence, market data, consultancy and conferences on the global crude, oil products, natural gas, electricity, coal, emissions, bioenergy, fertilizer and transportation industries. Argus energy and fertilizer prices are widely used by leading companies, governments and international agencies as benchmarks in supply contracts, risk management and planning.

Argus is headquartered in London and has more than 400 staff in offices in Houston, Washington, New York, Portland, Calgary, Santiago, Bogota, Singapore, Beijing, Tokyo, Sydney, Dubai, Moscow, Astana, Kiev, Porto, Brussels, Johannesburg and other key centres of the energy industry. Argus was founded in 1970 and is a privately held UK-registered company. Learn more at [www.argusmedia.com](http://www.argusmedia.com).

**About ICIS:** ICIS is the world's largest petrochemical market information provider, and has fast-growing energy and fertilizer divisions. Our aim is to give companies in global commodities markets a competitive advantage by delivering trusted pricing data, high-value news, analysis and independent consulting, enabling them to make better-informed trading and planning decisions.

With a global staff of more than 550, ICIS has people based in Houston, Washington, New York, London, Montpellier, Dusseldorf, Milan, Mumbai, Singapore, Guangzhou, Beijing, Shanghai, Tokyo and Perth. The team covers over 120 commodity markets and has in-depth knowledge across markets in upstream and downstream sectors in Europe, Africa, the Middle East, Asia-Pacific and the Americas. ICIS is part of Reed Business Information.

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