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Possible initiatives to enhance the resilience of OTC derivatives markets

Argus Media response to the consultation document from the European Commission

28th August 2009

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Executive summary

Argus is an independent energy price reporting agency (PRA) [see glossary], reporting globally on the energy markets from 11 major offices including London, Singapore, Houston and Washington DC, with over 260 employees.

Argus welcomes the consultation on over-the-counter (OTC) derivatives from the European Commission. As an independent PRA, Argus supports measures from the commission to protect the consumer, and to deter industry participants from market manipulation and unfair business practices.

PRAs provide a comprehensive service in bringing transparency to the physical energy markets. Argus' price assessments [see glossary] are rigorous and robust, and the methodology is transparent. The assessments are sold on a subscription basis. In some cases, real-time physical market information is available to subscribers. Prices published by Argus are frequently used as a financial settlement basis for OTC derivatives.

Argus supports the aims of the commission in increasing the robustness of the derivatives market, but notes that OTC commodity derivatives, especially energy derivatives, are inherently more robust than financial derivatives. They are used for vital commercial risk management functions by businesses with an energy price exposure. They are underwritten by the physical asset or commodity, and are therefore not subject to the same degree of systemic risk as purely financially based derivatives. They are also not as large as the financial derivative markets, both in aggregate and as individual products.

Therefore, regulators should take care, if setting up any new boundaries for OTC derivative trade, to ensure that:

- Mandatory clearing does not damage market liquidity
- Any requirements for a central data repository should not adversely impact the transparency that already exists on energy market price assessments that are used for financial settlement of energy derivatives
- Any action does not reduce the already high level of market transparency that currently exists
- Regulatory intervention should not damage PRAs that provide price transparency on energy markets

Price discovery is a full-time enterprise that is already provided by the PRAs. Argus believes that the regulator would be well-served by satisfying itself that the PRAs such as Argus are well-placed to provide this function. Argus would be happy to explain in more detail how robust and transparent our price assessment process is, and how we audit and monitor our editorial processes to ensure compliance with our published methodologies.

Market context

Financial markets, especially OTC derivatives in credit default swaps and securitisation, have been subject to much scrutiny and criticism in recent months, because of their linkages to the failure of the worldwide banking system. Energy markets do not create the same systemic risk as these financial markets.

OTC energy derivatives link back to an underlying physical asset

Risk in energy derivatives is not open-ended and not liable to cause systemic failure, because any deal is ultimately linked to, and backed by, a valuable physical asset — the underlying energy commodity itself. Price discovery [see glossary] in physical markets by PRAs is a crucial part of this link, because it ties the value of OTC derivatives to the value of the physical commodity, as the OTC prices are financially settled against transparent price assessments that are published daily by the PRAs. In contrast, during the credit crisis, many financial derivatives were found to have underlying assets of no value, or of unknown value, and market values for these derivatives were difficult or impossible to ascertain in the absence of trading or regular assessment.

Wide-ranging participants in OTC energy derivatives markets

Energy market participants — including the major international oil companies such as Shell or ExxonMobil, state-owned oil companies, and large independent trading companies — are generally highly solvent organisations with more solid assets and better credit ratings than the financial institutions at the heart of the credit crisis, and are financially more secure than the clearing houses.

Banks participate in the energy derivatives market, but a default in an energy market by a bank would not cause a collapse in the global financial system, because the underlying commodity would always retain a clear value in the physical market. This is in contrast to financial derivatives before the credit crisis, where the underlying asset was highly opaque, frequently even to the participants in that market.

Examples of how the energy derivatives markets work

Jet fuel derivatives provide an example of the way physical assets back up energy OTC trading. A jet fuel swap contract may be transacted between a buyer with exposure to the price of the product, such as an airline, and a seller with an exposure to the production or trade of the product, such as an oil refiner. A bank or broker that sells the swap to the buyer will always offset this risk by taking an equal and opposite position.

OTC energy markets are not as large as the financial derivative markets that have caused such concern. The OTC energy market is large, but it is broken down into many specific markets relating to commercial hedging requirements for individual product grades, timing periods and locations. Each individual market has low levels of liquidity compared with standardised financial products.

European gasoline market prices around the Rotterdam market for Eurograde gasoline provide one example of a specific OTC market with limited liquidity. The OTC derivative market for European gasoline is known as the gasoline swaps market. In this market, trading takes place on the basis of a fixed price being swapped for floating price averaged over a month or other period. This floating average price over an agreed period of time is derived from the price assessment provided by Argus for Rotterdam Eurograde gasoline barges. The data for this price assessment are available in real-time to subscribers through the Argus European Gasoline Bulletin Board (see Appendix 2).

Just 25 companies participate in the physical gasoline barge market. The average number of physical trades in this market is less than 20 barges a day, of which an average of only 12 will meet the standard pricing terms used to identify the primary gasoline price reference for Europe. The maximum number of physical trades reported in one day was 70, and when this figure was achieved only half of those transactions met the standardised requirement to be included in the Argus gasoline price reference.

The importance of maintaining liquidity
Given the limited liquidity in specific OTC oil markets, any changes to the market that impact adversely on liquidity in these markets would have serious consequences on price discovery. If OTC derivative markets that are used to manage price risk become more expensive, then derivative trade could decline. A decline in derivative markets would, in turn, provoke a decline in the level of physical trading and make physical energy markets more vulnerable to price volatility, which would not be in the interest of consumers.

Areas of response from Argus

Central data repositories

"As mentioned above and detailed in the Staff Working Paper, central data repositories improve operational efficiency of OTC markets by facilitating payment and [financial] settlement instructions and by central processing of corporate events.

"By their nature, central data repositories are also essential sources of information and therefore substantially contribute to improving market transparency, especially for the market segments not covered by CCPs. The contribution to transparency is both toward regulators and to the public. The former should be granted full and unimpeded access to central data repositories to perform their supervisory functions. The latter can access aggregate market information."

Questions
(9) Are there market segments for which a central data repository is not necessary or desirable?

Argus believes that there should be no mandate for centralised clearing, or for central data repositories, in the OTC energy derivatives market.

As we have already argued, the OTC energy derivatives market is not subject to systemic risk in the same way as the financial derivatives market. Centralised clearing is used by choice in the energy derivatives market where the participants deem it necessary for management of credit risk. There is also adequate provision of centralised clearing services within the OTC energy derivatives markets to allow for this. There has been an increased uptake of centralised clearing in the OTC energy derivatives market since September 2008, as the market participants have taken a more conservative approach to credit risk. So there is no need to mandate central data repositories to mitigate risks in the market.

Additionally, mandating a central data repository for derivatives that are cleared bilaterally will increase operational costs for market participants. This could in turn reduce liquidity and force legitimate market participants away from the OTC energy derivatives market. Either way it would increase operational costs for the market participants. These costs would ultimately be passed on to the consumer.

So the only benefit that could be derived from a central data repository is increased regulatory oversight. Whilst this may be desirable for the regulator in its own right, Argus believes that the regulator should take full account of the negative impacts of the increased costs and operational burden to the market participants of such a requirement. It should then decide whether the relatively extremely low level of risk in the OTC energy derivatives market warrants the potential consequences of mandating a central data repository. Argus believes that the costs will outweigh the benefits.

We therefore believe that the interests of the consumer are best served by letting the market decide what level of centralised clearing and therefore central data collection should exist in the OTC energy derivatives market.

(11) What information should be disclosed to the public?

Argus is concerned that indiscriminate information disclosure to the public may have unintended and damaging consequences. Argus does not object to public disclosure of trade information, such as volume and open interest, provided this is done strictly on a time-delayed basis. Argus strongly recommends those market participants' individual derivatives price positions should not be disclosed to the public on a regular basis; such disclosure would lead to the risk of companies withdrawing from the markets altogether, because this would be forcing them to disclose sensitive commercial information that they would otherwise not have to disclose in the ordinary course of business.

Central counterparties (CCPs) [see glossary] receive information from PRAs for the financial settlement of swaps, where the swap is settled in relation to a physical price assessment. This information is available to the CCPs on a subscription basis.

Additionally, Argus is concerned that mandatory disclosure of energy trade price information would damage the existing services provided to the energy sector by PRAs. As noted elsewhere in this response, PRAs already carry out price discovery of the physical energy market to the benefit of all market participants. Specifically, PRAs' assessments of the physical energy markets provide transparency and indexes for energy derivative financial settlement. These are provided efficiently, on a subscription basis, and in a manner that the energy industry understands. PRAs serve a critical function in ensuring that commodity derivatives can always be pegged back to the value of the underlying physical asset. If the PRAs were forced to put into the public domain the information compiled, produced and distributed by PRAs under licence, there would be no incentive for the PRAs to continue to provide their services; price discovery of the physical assets would be severely impacted, which would have a knock on effect on energy derivatives.

Similarly, any attempts by regulators to take on the role of price discovery and physical energy market price publication would risk damaging the well-understood system of independent reporting by PRAs. In the absence of trusted index prices provided by PRAs, liquidity in many energy derivative markets could collapse. Less liquid markets would be less efficient and less competitive, damaging consumer interests by adding to volatility and creating the risk of manipulation.

Price discovery is a full-time enterprise that is already provided by the PRAs because the PRAs have the necessary expertise and resources. Argus believes that in the context of energy derivatives, all parties would be better served by the regulator taking steps to satisfy itself that the PRAs such as Argus are well-placed to provide these services. Argus would be happy to explain in more detail how robust and transparent our price assessment process is, and how we audit and monitor our editorial processes to ensure compliance with our published methodologies. Such an approach would allow the regulator to maintain some distance from the activity of price discovery, and not compromise its status as a watchdog.

Move clearing of standardised OTC derivatives to central counterparties (CCPs)

Questions
(12) Do you agree that the eligibility of contracts should be left to CCPs? Which governance arrangements might be necessary for this decision to be left to the CCPs' risk committees?

(13) What additional benefits should the CCP provide to secure a broader use of its services?

CCPs have traditionally competed for business from OTC derivative market participants in providing a clearing service. In many cases, clearing services have been provided together with the provision of electronic market platforms for regulated contracts. Market participants have taken up these clearing services for OTC derivatives where they require the assurance of a clearing house in order to mitigate counterparty risk. This market-led response is a model that has worked well in providing clearing services that match market demand. To date, Argus does not have any experience of energy market participants needing an OTC derivatives clearing service and not being able to obtain one.

Argus is in favour of CCPs determining the eligibility of contracts for clearing. Sufficient CCPs exist to provide a competitive service, and the innovation that they offer in providing a commercial clearing service ensures that the market is well served.

A CCP is most likely to secure a broader use of its clearing service if:
- It is has a higher level of financial security (for example by being underwritten by the state), or
- It can achieve a lower cost service, thus effectively reducing the premium that participants pay for the clearing service.

(20) How could European legislation help ensuring safety, soundness and a level playing field between CCPs?

The commission could provide a regulatory framework for CCPs to ensure that sufficient capital liquidity is obtained for their services (but no more) and that the fee structure is consistent with the level of service provided. The regulator should encourage the maximum level of innovation in clearing service provision, in line with the innovation in the derivatives market itself.

Increase transparency of prices, transactions, and positions

(22) How should transaction reporting of OTC derivatives to competent authorities be envisaged? Should it be extended to all contracts or to certain categories? If so, which ones? Are there other means to ensure that the competent authorities receive the relevant information on OTC derivatives transactions?

Within the OTC energy derivatives market, the commission should first of all bear in mind the forms of transaction already available to competent authorities. There are many sources of trade transparency, such as price assessments from PRAs and broker trade reports that are already widely available as a commercial service. CCP data repository information should be transparent to the regulator, but needs to be disclosed to the public only in an aggregated and post-event manner, in order not to undermine the commercial positions of the market participants.

Extending to all contracts or certain categories carries with it the risks already described in our response on central data repositories. Argus believes that mandating additional information disclosure for the OTC energy derivatives market is unnecessary for market integrity, and increased operational burden will potentially reduce market liquidity and is ultimately harmful to consumer interests.

Attempting to list all classes of derivative instrument is ultimately limiting. Any attempt to create a list should recognise that the list may need to be extended over time, as the market innovates to provide speculative or risk management instruments to a developing trade. For example, a biodiesel swaps market has developed in recent years in Europe, allowing producers, traders and consumers of biodiesel alike to manage their price risk. Further OTC energy derivatives could or should be developed as the market continues to innovate, for example in relation to alternative fuels. Setting a broad definition in the style used in MiFID[1], that does not limit or preclude further market innovation, is likely to be more helpful to market participants and the regulator.

[1] DIRECTIVE 2004/39/EC, ANNEX I, Section C "Financial Instruments":
(5) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);
(6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market and/or an MTF;
(7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in C.6 and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled

Appendix 1 – Argus — an energy price reporting agency

What is Argus?

Argus Media is a price reporting agency (PRA). It is a leading independent provider of price information, market data and business intelligence for the global petroleum, natural gas, electricity, emissions and coal industries. Founded in 1970, Argus is a privately-held UK limited company, owned by its employees and by the family of its founder. There are no external shareholders. Argus has over 260 employees worldwide, with offices in London, Singapore, Beijing, Tokyo, Dubai, Kiev, Moscow, Washington, Houston, New York and Astana. Argus produces over 70 publications on the energy markets.

Argus provides three major areas of service:

- Price discovery and price reporting on daily spot markets [see glossary] in physical energy and energy derivatives markets;
- Informed news, analysis and comment, provided both online and in business intelligence reports; and
- Databases and research services on the energy markets.

Almost everywhere that an active spot market exists in an energy commodity throughout the world, Argus produces price assessments. These assessments are sold on a subscription basis.

Most energy markets would be opaque without the work of the PRAs to provide price transparency. PRAs have a widely accepted role in making energy markets more transparent. Argus has almost 40 years experience of employing a variety of methodologies to determine a price that best reflects market value.

Argus' clients include every major oil company plus many smaller ones, as well as utilities and financial and government institutions.

Argus market coverage is extensive. Argus has reported on the major physical oil markets since its foundation. Its coverage has broadened in recent years to include natural gas and power, coal, LPG, NGLs, biofuels and emissions.

Markets covered by Argus

	Americas	Europe/ Africa	Former Soviet Union	Asia/ Middle East
Crude oil	X	X	X	X
Oil products	X	X	X	X
Natural gas liquids	X	X	X	X
Asphalt	X	X	X	X
Petroleum coke	X	X	X	X
Natural gas	X	X	-	-
Coal	X	X	X	X
Electricity	X	X	-	-
Emissions	X	X	-	X
Freight	X	X	X	X

How Argus assesses energy prices

Argus' primary role is to provide daily energy price information for spot markets in physical energy commodities. Some of these prices are then widely used as benchmarks [see glossary] in other spot physical trade, term contracts [see glossary], and as indexes [see glossary] for OTC paper trades.

Argus journalists report the energy markets on a daily basis to assess spot trade transacted during that day and use this information for price discovery. They identify daily spot price benchmarks and differential prices [see glossary] for the markets they investigate. The methodological approach for making these price assessments varies according to the market, reflecting the uniqueness of the different physical commodities. The methodologies employed by Argus to report on each market are published and are detailed and transparent. All methodologies are available publicly, and are published online at www.argusmedia.com.

Argus gathers information from a wide range of sources representing all segments of the energy markets. Argus receives its information from multiple sources, including transactional data supplied from the back offices [see glossary] of energy companies, as well as market surveys conducted over the telephone, instant message and email exchanges. The information flow from companies to Argus is voluntary but robust.

Without price reporting agencies such as Argus, companies would only be aware of the transactions in which they were involved. Argus adds transparency to markets by aggregating transactions and arriving at a single price for the day. In the interests of transparency, these transactions are published each day. This enables subscribers to raise any concerns they may have about the quality of the information in a timely manner.

Some of the physical energy market data that Argus provide are published in real time, and includes counterparty names. For example, in Europe, the Argus European Gasoline Bulletin Board reports the trades that take place in relation to Eurograde gasoline in the Rotterdam barge market. The Argus Eurograde gasoline price is used as the financial settlement basis in the Eurograde gasoline swaps market [see glossary]. An example of the Argus European Gasoline Bulletin Board is included in appendix 2.

How Argus prices are used

Argus price assessments are widely used as a financial settlement basis for OTC energy derivatives, because of the high level of rigour, robustness and reliability underpinning the price assessments. They are used as a financial settlement basis for a number of energy swaps products, where market participants sell and buy the differential between an agreed fixed price and the floating price, which is the arithmetic average of a set of price assessments for that commodity over a period of time. This linkage between physical markets and the OTC derivative trade is an extremely important factor in providing a robust derivative market. It is exactly this linkage that ensures that the derivative is pegged back firmly to the underlying commodity or asset.

Argus price assessments are used in the following OTC markets in Europe:

Petroleum products

- Argus European gasoline barge assessments are used as the price benchmark in the European gasoline swaps market

LPG

- Argus is the main international benchmark in Europe and Asia

Coal

- Argus is the leading provider of price indexation for physical and derivative markets in Europe (API2), South Africa (API4) and Asia

Natural gas

- Argus is a leading provider of natural gas price assessments used for gas contract pricing in the UK and northwest Europe

Electricity

- Argus provides UK and mainland European mark-to-market values

This position is constantly evolving as the OTC derivatives market innovates to produce new derivative products, or conversely where products are no longer used.

Appendix 2 — Argus European Gasoline Bulletin Board

BBS Online - Today's Records

Page Tools

Argus European Gasoline Bulletin Board

	Running VWA: 674.46 (Volume included: 12,000)
28-Aug-2009 17:19:42	Trafigura sells to Statoil at $669.00/t fob Amsterdam/Rotterdam 30 Aug-05 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 17:09:35	Trafigura sells to Statoil at $672.50/t fob Amsterdam/Rotterdam 30 Aug-05 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 16:46:18	Trafigura sells to Statoil at $674.00/t fob Amsterdam/Rotterdam 30 Aug-05 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 16:43:23	Statoil sells to Total at $678.00/t fob Amsterdam/Rotterdam 05-09 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 16:43:18	Statoil sells to Total at $678.00/t fob Amsterdam/Rotterdam 05-09 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 16:43:03	Statoil sells to Total at $679.00/t fob Amsterdam/Rotterdam 05-09 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 16:17:06	Vitol sells to Cargill at $676.00/t fob Amsterdam/Rotterdam 30 Aug-05 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 16:17:01	Vitol sells to BP at $675.00/t fob Amsterdam/Rotterdam 30 Aug-05 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 16:16:19	Shell sells to Mabanaft at $676.00/t fob Amsterdam/Rotterdam 30 Aug-05 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 11:25:15	Shell sells to BP at $676.00/t fob Amsterdam/Rotterdam 30 Aug-05 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 11:23:31	Shell sells to BP at $676.00/t fob Amsterdam/Rotterdam 30 Aug-05 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 10:56:32	Gunvor sells to BP at $676.00/t fob Amsterdam/Rotterdam 30 Aug-05 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 10:56:24	Gunvor sells to Cargill at $676.00/t fob Amsterdam/Rotterdam 30 Aug-05 Sep 1000t Gasoline 10ppm 95R
28-Aug-2009 10:53:47	Petroplus sells to BP at $673.50/t fob Amsterdam/Rotterdam/Antwerp 30 Aug-05 Sep 2000t Gasoline 10ppm 95R
27-Aug-2009 16:34:49	Van der Sluisj sells to Total at $648.00/t fob Amsterdam/Rotterdam 04-08 Sep 1000t Gasoline 10ppm 95R
27-Aug-2009 16:34:33	Morgan Stanley sells to Total at $648.00/t fob Amsterdam/Rotterdam 04-08 Sep 1000t Gasoline 10ppm 95R
27-Aug-2009 15:24:35	Shell sells to BP at $647.00/t fob Amsterdam/Rotterdam 29 Aug-04 Sep 1000t Gasoline 10ppm 95R
27-Aug-2009 15:12:24	Shell sells to Statoil at $647.00/t fob Amsterdam/Rotterdam 29 Aug-04 Sep 1000t Gasoline 10ppm 95R
27-Aug-2009 15:03:57	Vitol sells to Statoil at $649.00/t fob Amsterdam/Rotterdam 29 Aug-04 Sep 1000t Gasoline 10ppm 95R
27-Aug-2009 15:03:34	Trafigura sells to Statoil at $650.00/t fob Amsterdam/Rotterdam 29 Aug-04 Sep 1000t Gasoline 10ppm 95R
27-Aug-2009 12:49:52	Vitol sells to Statoil at $656.00/t fob Amsterdam/Rotterdam 29 Aug-04 Sep 1000t Gasoline 10ppm 95R
27-Aug-2009 10:48:49	Shell sells to Northville at $659.00/t fob Amsterdam/Rotterdam 29 Aug-04 Sep 1000t Gasoline 10ppm 95R
27-Aug-2009 10:46:05	Chevron sells to Mabanaft at $660.00/t fob Amsterdam/Rotterdam 29 Aug-04 Sep 1000t Gasoline 10ppm 95R
27-Aug-2009 10:45:55	Shell sells to Mabanaft at $659.50/t fob Amsterdam/Rotterdam 29 Aug-04 Sep 1000t Gasoline 10ppm 95R
27-Aug-2009 10:43:57	Gunvor sells to Statoil at $659.00/t fob Amsterdam/Rotterdam 29 Aug-04 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 16:39:55	Gunvor sells to Morgan Stanley at $654.00/t fob Amsterdam/Rotterdam 06-10 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 16:39:42	Gunvor sells to Cargill at $657.00/t fob Amsterdam/Rotterdam 06-10 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 16:38:48	Morgan Stanley sells to Total at $656.00/t fob Amsterdam/Rotterdam 03-07 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 16:38:35	Chevron sells to Total at $656.00/t fob Amsterdam/Rotterdam 03-07 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 16:38:21	Chevron sells to Total at $656.00/t fob Amsterdam/Rotterdam 03-07 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 16:37:43	Chevron sells to Trafigura at $655.00/t fob Amsterdam/Rotterdam 01-05 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 16:37:27	Van der Sluisj sells to Northville at $657.00/t fob Amsterdam/Rotterdam 01-05 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 16:02:08	Trafigura sells to Statoil at $662.00/t fob Amsterdam/Rotterdam 28 Aug-03 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 16:01:15	Trafigura sells to Shell at $662.00/t fob Amsterdam/Rotterdam 28 Aug-03 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 16:01:08	Trafigura sells to Shell at $662.00/t fob Amsterdam/Rotterdam 28 Aug-03 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 16:00:59	Trafigura sells to Statoil at $660.00/t fob Amsterdam/Rotterdam 28 Aug-03 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 15:32:56	RWE sells to Hess at $659.50/t fob Amsterdam/Rotterdam 28 Aug-03 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 12:36:37	Shell sells to Morgan Stanley at $667.00/t fob Amsterdam/Rotterdam 28 Aug-03 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 12:35:36	Shell sells to Morgan Stanley at $667.00/t fob Amsterdam/Rotterdam 28 Aug-03 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 12:35:17	Shell sells to Mabanaft at $668.00/t fob Amsterdam/Rotterdam 28 Aug-03 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 10:47:55	Chevron sells to Glencore at $679.00/t fob Amsterdam/Rotterdam 28 Aug-03 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 10:47:26	Shell sells to Gunvor at $676.00/t fob Amsterdam/Rotterdam 28 Aug-03 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 10:47:04	RWE sells to Statoil at $676.00/t fob Amsterdam/Rotterdam 28 Aug-03 Sep 1000t Gasoline 10ppm 95R
26-Aug-2009 10:46:39	Shell sells to Gunvor at $676.00/t fob Amsterdam/Rotterdam 28 Aug-03 Sep 1000t Gasoline 10ppm 95R

Done Internet 100%

Glossary

Assessment • The value or price of a commodity in the *spot market*, such as Argus provides for various types of crude, refined products, LPG, power, gas, coal and emissions traded in major market centres. Such assessments typically serve as an *index* that contracts may refer to for pricing purposes.

Back office • The portion of a company that handles verification of trades and accounting functions related to trades.

Benchmark • A highly liquid and commoditised product that serves as the starting point for discussions of spot values for related products. A *differential price* is added to the benchmark to account for factors such as differing qualities or locations.

Central counterparty (CCP)• The role taken by a clearing house, usually a regulated trading exchange, when it acts as a third party in a derivatives contract transaction, taking on all of the risk in that transaction and thereby freeing the counterparties in the contract from exposure to each other's risk. Clearing is normally underwritten by a form of collateral. The abbreviation CCP is sometimes taken to refer to a "centralised clearing platform", with the same meaning as central counterparty.

Differential price • The value of crude or product, expressed as a premium or a discount to the price of the *benchmark*. The differential is meant to take account of quality, timing or location factors that are different when compared to the benchmark. Assessing the value of these differentials each day is one of the most important ways that *Argus* contributes to overall market transparency, allowing for price signals that encourage the flow of oil between regions of surplus to regions of deficit.

Index • In a contract, the price that two parties agree to use as the basis for valuing the product being traded.

Price discovery • Independently ascertaining the price of a commodity through obtaining a wide spread of information from as many participants as possible in a market that is otherwise opaque, and then publishing this price so that it may be used by the whole of the market.

Price reporting agency (PRA) • A company that specialises in independent valuation of a commodity, as priced in the over-the-counter spot market where visibility and transparency are often more problematic. Some of the major price reporting agencies are *Argus*, *Platts, Icis, Oil Price Information Service.*

Spot market • The market where companies sell excess supply, or buy to cover a shortfall of product. This market allows industry to quickly reallocate volumes that are not committed to *term contracts* or to internal use further downstream. The spot market also allows quick and efficient reallocation of product in the midst of unforeseen circumstances with an immediate impact on company operations. In economic terms, the spot market allows for trade of the marginal unit of prompt product, which in turn sets pricing across the wider sphere. Prompt is the time frame in physical petroleum markets that refers to loading or delivery during a few days within the near-term future. In futures markets and swaps, prompt refers to the first-month contract being traded.

Swaps market • A bilateral market in which companies exchange a fixed price for a floating price in order to transfer risk. The transaction is usually in the form of a comparison between a fixed price and an index average price, such as a monthly average. Seller and buyer agree the fixed price and the index average price for an agreed volume. The seller and buyer then exchange monies depending on the final calculated difference between the two prices.

Term contract • A long-running arrangement for the sale or purchase of crude oil or products. Such arrangements typically run from a few months to several years. Usually sold by the supply and trading department and representing a large, set volume of oil per day or per month. Most of these contracts are linked to independent spot market assessments such as those provided by *Argus*. Also known as a term deal or evergreen contract.