AN INTRODUCTION TO PLATTS PRICE ASSESSMENT PROCESSES AND METHODOLOGIES

How does Platts define “price assessment”?  
Platts uses the term “price assessment” to refer to the market value it publishes for specific commodities or baskets of commodities. Typically, Platts develops its price assessments through the collection and analysis of trading data obtained from participants in the physical spot markets, but it also produces price assessments that are calculated as differentials to prices published by exchanges. In its general, non-technical materials, Platts employs the term “price assessment” in a broad context, referring to all types of price references it develops, including indexes.

For what markets does Platts provide price assessments?  
The physical spot markets for petroleum and petroleum products, petrochemicals, natural gas, liquefied natural gas, electricity, coal, uranium, carbon emission allowances, shipping, metals, steel, and bulk materials such as iron ore and alumina.

How does Platts develop price assessments?  
Platts employs a global team of market reporters who are trained in Platts’ methodologies and are responsible for monitoring the markets, collecting and reviewing data, and publishing assessments. They gather information from market participants such as commodity producers, consumers, transporters, processors, storage facilities, traders, brokers, and others via telephone, squawk box, instant messaging, e-mail, and increasingly in certain oil and oil products markets, via eWindow, Platts’ online data-entry and communications tool.

At the end of the physical market trading day, Platts editors analyze the market data collected (i.e. bids, offers and trades) with respect to Platts’ methodology guidelines, then publish price assessments quoted as a low-high range or a single value. Any data submitted to Platts editors must be verifiable and all bids and offers must be executable.

Who participates in Platts price assessment processes?  
Any market participant may supply bid, offer or transaction data to Platts, but Platts will only include that information in its price assessment process if it meets Platts’ methodology guidelines and is considered indicative of market value.

Participation in Platts’ price assessment processes is voluntary. It reflects participants’ belief that effective price discovery benefits the efficient functioning of commodity markets and depends on participants’ willingness to provide trade data to companies such as Platts.

What is a methodology and why is it important?  
The term refers to a defined set of guidelines and specifications designed to produce consistent quality in a price assessment. Clearly defined and transparent methodologies are the backbone of Platts’ price assessment processes. Platts’ methodology documents provide detailed explanations of how Platts assesses the market value of specific commodities so that customers and other interested parties understand those processes. Platts’ methodologies are posted on its website at http://www.platts.com/MethodologyAndSpecifications.aspx.

From time to time, Platts revises its methodologies in consultation with the industry in order to reflect changes in the market and to maintain the integrity of its price assessment processes.
Does Platts have a standard methodology across all commodities and regions?

All Platts’ price assessments share the same basic principles: well-defined processes, independence and impartiality, compliance with editorial standards and use of editorial judgment. However, the methodology will vary by commodity. Platts aligns the appropriate methodology to each commodity market, based on the market’s stage of evolution, extent of standardization, frequency of trading, typical volatility and seasonal tendencies, among many other factors.

Platts has employed a number of price assessment methodologies over its 100+ year history. However, over time as commodity markets have become more volatile, Platts has increasingly employed a market-on-close time stamp for its price assessments. Platts’ market-on-close methodology, which is based on the principle that price is a function of time, yields the tradable value of the commodity at a given point in time, typically at the end of the trading day. This allows Platts assessments to be easily used for cross-commodity price comparisons, mark-to-market and value-at-risk accounting, and makes its assessments consistent with market-on-close time references commonly used in the stock market and other financial markets.

How is Platts Market-On-Close methodology applied in the petroleum markets?

In the petroleum markets, Platts applies its market-on-close methodology through an all-day, structured and highly transparent process, known as Platts Market-On-Close (MOC), in which bids, offers and transactions are submitted by participants to Platts editors, identified by company of origin, and published in real time. To be considered in the Platts MOC process, the data submitted must be verifiable and executable, and transaction prices must move in an incremental fashion. Following the market’s close, Platts editors review and analyze the collected data, subject it to Platts’ published methodology and specification guidelines for quality consistency, and publish a price assessment that reflects the end-of-day transactable market value of the commodity.

This process, which Platts first introduced in the Asian oil markets in the early 1990s, provides the most transparent view of price discovery available in the global crude and products markets. Platts believes that the MOC, with its time sensitivity, is the best methodology for assessing the petroleum and petroleum products markets due to the maturity, trading patterns and increased volatility of those markets, among other factors.

Is Platts able to publish a daily price assessment if no transactions actually occur?

In its price assessment processes, Platts editors aim to reflect confirmed trades first and foremost. In the absence of actual trades, Platts reporters may consider firm bids and offers at the end of the trading day as useful information reflecting the price at which a commodity could have traded. Platts editors also may look at intra- and inter-market spreads as useful information on market value.

Does Platts review the companies that supply data to its price assessment processes?

Yes. As part of its standard editorial practice to maintain the integrity of the price assessments and the quality of information it publishes, Platts routinely reviews the companies that provide that data. Reviews are conducted on a regular basis and may take into consideration an array of factors, including, but not limited to, adherence to Platts’ editorial guidelines, operational and logistical specifications and counterparty acceptance. Platts does not disclose the nature or scope of these routine reviews.

Does Platts ever disallow information in its price assessment processes?

Yes. To maintain the integrity of its price assessment processes and price assessments, Platts only includes information that it deems to be of appropriate quality — that is, data that reflects bona fide transactions and market value. Platts maintains the right to disallow any data that does not reflect the market, does not meet its methodology or quality protocols, or is in question for any reason.

Can Platts stop companies from trading?

No. Trading is conducted between buyer and seller in the open marketplace. Platts’ activities are confined to its price assessment processes and the assessments those processes produce.

How does Platts protect the integrity of its processes and price assessments?

Platts employs rigorous, specific methodologies and quality protocols with the goal of publishing price assessments reflective of market value. It reserves the right to eliminate inputs that are not verifiable or may distort the true market level. In periodic secondary checks, Platts will request documentation for deals done. In certain markets such as U.S. gas and electricity, Platts requires signed statements from participating companies attesting to the reliability of the data they provide to Platts.

Do global regulatory bodies or governments oversee Platts price assessment processes?

No. As a publisher, Platts operates independently and impartially. However, as a matter of course, Platts is in routine communication with government entities, regulatory bodies and policy-makers who frequently look to Platts to share its expertise on price discovery in the physical commodities markets, and to discuss ways to bring greater transparency to those markets.
Does Platts have a compliance function or body to oversee its price assessment processes?
Yes. In 2002, Platts became the first price reporting company to voluntarily establish a compliance function. The compliance department is independent of the editorial staff and performs on-site and remote reviews of the price reporting staff and their work to check adherence to Platts’ published methodologies and editorial standards. The compliance department reports to the vice president of strategic business operations with a dotted line to the president of Platts.

Where are Platts price assessments published?
Platts makes its price assessments available to its subscribers via a number of real-time information services and newsletters. A complete list can be found on its website at http://www.platts.com/ProductServicesHome.aspx.

How are Platts’ price assessments used?
Platts’ subscribers who choose to use its price assessments do so for various purposes. Buyers and sellers use them as a basis for pricing spot transactions and term contracts; risk managers reference them to place a market value on the commodities they hold; and analysts use them to identify trends and patterns in supply and demand. They are also used by governments as references for royalty payment and retail pricing formulas and by exchanges for referencing, settling and clearing futures contracts and over-the-counter (OTC) and other derivatives contracts.*

* Platts makes no representation or warranty as to the results to be obtained by market participants who elect to use Platts prices and indices as the basis for transactions.