

# AN INTRODUCTION TO PLATTS MARKET-ON-CLOSE PROCESS IN PETROLEUM

## *WHAT IS PLATTS MARKET ON CLOSE?*

Platts Market On Close (MOC) is the process Platts' editors use to assess prices for crude oil, petroleum products and related swaps. The MOC approach to methodology operates on the principle that price is a function of time. The MOC is a structured, highly transparent process in which bids, offers and transactions are submitted by participants to Platts' editors and published in real-time throughout the day until the market close. Following the close, Platts editors examine the data gathered through the day, conduct their analysis and develop price assessments that reflect an end-of-day value.

The MOC process was launched by Platts in Asia in 1992, in Europe in 2002, and in North America in 2006, and is now used at Platts offices in Singapore, London, New York and Houston.

## *WHO PARTICIPATES IN THE MOC?*

MOC participants are buyers and sellers of crude oil, petroleum products and financial instruments tied to the value of physical oil. They can be major international oil companies, national oil companies, independent trading houses, financial institutions and end-users such as airlines and utilities, or entities acting on their behalf.

Any market participant may submit bids, offers and transactions to Platts as part of the MOC process. However, the majority of participants are subscribers to Platts Global Alert (PGA), the company's real-time news and price information service for the oil industry. Participants who are not subscribers do not have access to the real-time trading data published by Platts during the MOC process.

Participation in the MOC is voluntary. However, Platts is selective as to which companies are permitted to participate in its price assessment process. As a publisher, Platts will only accept data provided by reputable companies that meet counterparty acceptance criteria and comply with the guidelines Platts has set to govern the MOC process.

## *WHAT GUIDELINES GOVERN THE MOC?*

MOC participants must adhere to certain guidelines and protocols which are published in Platts' methodology documents. These guidelines are rooted in certain principles that maintain the integrity of the MOC process, and thus the quality of Platts' price assessments.

For instance, the guidelines mandate that the MOC process be fully transparent. Thus, Platts requires full disclosure on the details of any bid, offer or transaction submitted into the MOC process, and does not allow participants to submit bids, offers and transactions anonymously.

Also, Platts requires that the data submitted reflect actual verifiable transactions and/or bids and offers that are "firm," open to the market at large, and therefore executable. This is to prevent a participant from distorting the process (and thus a Platts assessment) with a bid or offer that is not representative of market value. On occasion, Platts' editors will request supporting documentation from the counterparties in order to verify a transaction.

Further, to ensure orderly price formation, participants must follow strict standards regarding increment levels for each change in a bid or offer, and the timing of those changes. This allows potential counterparties sufficient time to act on a bid or offer, and assures that price indications will be tested at each level, mitigating against dramatic and sudden price movements.

For the same reason, Platts requires that companies declare their intention to post bids or offers before a cut-off point in the afternoon, which is 30 to 45 minutes before the close of the market, depending on the commodity. During those final minutes, those buyers and sellers can adjust their prices in line with the Platts' incrementability and repeatability guidelines, but new participants cannot post bids and offers. Companies that have not submitted bids or offers, however, may choose to accept a bid or an offer posted through the MOC process. This allows the universe of potential buyers and sellers to be far larger than the number of companies that have posted bids and offers.

There are also MOC guidelines that apply to specific commodities. These guidelines, which are detailed in Platts' methodology documents and published on [www.platts.com](http://www.platts.com), relate to various factors such as product specification, location, cargo size, and delivery terms.

To help ensure the integrity of the price assessment process, Platts maintains the right to exclude companies from the MOC process when they do not adhere to Platts' methodology protocols and guidelines.

## **WHAT IS THE "WINDOW"?**

The "window" is the term market participants use to refer to the 30- to 45-minute period before the close of the market when Platts no longer accepts new bids or offers in the price assessment process. The "window" is not to be confused with the MOC process itself. It is just a part of the overall process, which involves surveying the market throughout the day as well as during the "window," which is typically the time when the market is most active.

## **HOW ARE THE BIDS, OFFERS AND TRANSACTIONS COMMUNICATED TO AND FROM PLATTS?**

Throughout the day, Platts editors are in constant contact with MOC participants. They gather price data via telephone; squawk box; Yahoo Instant Messenger, a standard industry communications vehicle; or Platts Editorial Window (eWindow), an online communications tool that enables users to electronically enter, and immediately view, bids, offers and transaction data. As soon as the data goes into Platts' editorial system, it is published in real-time on Platts Global Alert, facilitating price discovery by making all MOC participants visible to one another and all price information transparent.

## **HOW DOES THIS PROCESS LEAD TO THE DEVELOPMENT OF A PRICE ASSESSMENT?**

At the end of the MOC process, Platts editors analyze the data they have gathered throughout the day and during the "window" to develop a time-specific price assessment. To prevent distortion of the final price assessment, they may eliminate bids, offers and other market information that cannot be verified as meeting Platts' stated guidelines. They also take into account product specifications, cargo size, and other factors detailed in the methodology for each commodity or product.

In the absence of an actual trade, the editors use various other indicators, including bids and offers, or spread relationships to other crudes or petroleum products, to develop the price assessment.

## **WHY DOES PLATTS USE THE END-OF-DAY VALUES FOR ITS PRICE ASSESSMENTS?**

Platts believes that price is a function of time, and that, in the oil and refined products markets – just like the stock markets – the most useful price for the day is the value at the close of the market. Time sensitivity of data and end-of-day assessments is critical in markets where price values can fluctuate significantly during the day due to high volatility. Further, by determining the value of individual commodities at market close, Platts' price assessments facilitate cross-commodity spread comparisons and mark-to-market accounting practices.

## **WHERE ARE PLATTS PRICE ASSESSMENTS PUBLISHED?**

They are published on the Platts Global Alert real-time service; available for download as data files through Platts' Market Data service; and published in Oilgram Price Report and other Platts newsletters and newswires.

## **HOW ARE PLATTS PRICE ASSESSMENTS USED?**

Platts' subscribers who choose to use Platts' price assessments do so for various purposes. Buyers and sellers use them as a basis for pricing spot transactions and term contracts; risk managers use them to settle contracts and to place a market value on the product they hold; and analysts use them to identify trends and patterns in supply and demand. They are also used by governments to set royalty payments and retail prices, and by exchanges and investors to price over-the-counter (OTC) 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.



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