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31 July 2013

Mr. Graham Knowles
Wholesale Markets
Ofgem
9 Millbank
London
SW1P 3GE

Via email: graham.knowles@ofgem.gov.uk

Re: Ofgem: Pricing benchmarks in gas and electricity markets – call for evidence

Dear Mr. Knowles,

The members of the Commodities Working Group of the Global Financial Markets Association (GFMA)¹ appreciate the opportunity to participate in the consultation in respect of the Office of Gas and Electricity Markets' ("Ofgem") call for evidence as it relates to pricing benchmarks for gas and electricity markets.

GFMA and its members believe that the integrity of benchmarks is important for market functioning and ensuring confidence in the price setting mechanisms. In November 2012, GFMA published its Principles for Financial Benchmarks to provide support and input into the regulatory dialogue on benchmarks.²

Robust Benchmark Framework

The International Organization of Securities Commission ("IOSCO") has now published its final report on Principles for Financial Benchmarks.³ IOSCO and GFMA Principles outline a benchmark framework that is based on strong governance with participants' codes of conduct, a transparent benchmark setting process, and robust internal controls.

¹ The Global Financial Markets Association (GFMA) brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, please visit <http://www.gfma.org>.

² GFMA Provides its Updated Principles for Financial Benchmarks to the Global Regulatory Community (<http://www.gfma.org/initiatives/market-practices/gfma-provides-its-updated-principles-for-financial-benchmarks-to-the-global-regulatory-community/>)

³ <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>

This follows IOSCO's publication in October 2012 of its Principles for Oil Price Reporting Agencies ("PRAs")⁴, in which GFMA also participated in the public consultation.⁵

IOSCO, in collaboration with the International Energy Forum and Organization of Petroleum Exporting Countries, will evaluate the degree in which the PRA Principles have been implemented and will consider in due course the modification of the PRA Principles to align more closely with the Principles for Financial Benchmarks.

Adherence to a strong benchmark framework will improve the integrity and transparency of the marketplace as a whole and will begin to create a more uniform regulatory framework.

It is therefore important that the PRAs conform to IOSCO's PRA Principles, to ensure the integrity of the gas and electricity markets. We would also urge our members, many of whom are customers of the PRAs and participate in the assessment processes, to encourage and support the PRAs with which they do business in applying these principles.

Regulatory Authority and Scope

GFMA advocates the need for a clear and transparent regulatory framework, including consistent regulatory treatment with those undertaking similar price reporting or price formation activities.

We would encourage Ofgem and the Financial Conduct Authority to oversee the adoption by market participants of the IOSCO PRA Principles through their formal regulatory process. This is to ensure a consistent standard across participants and maintain confidence in the marketplace.

Transparency and Quality of Price Assessments

The PRAs have a significant systemic impact on the global derivatives and physical oil, gas, and electricity markets as they play an increasingly important price discovery role in these markets. Accordingly, the integrity and reliability of assessments published by PRAs are critical to the effective functioning of the UK electricity and gas markets.

We fully support the standards as outlined by the PRA Principles for a sound price methodology based on quality information and robust internal controls.

GFMA believes that any framework should be transparent, with external accountability and appropriate regulatory oversight given the systemic importance of these benchmarks. Oversight, however, would be proportionate to the significance of the assessment in line with benchmark principles.

Codes of Conduct for Independent Price Reporting Organizations ("IPRO")

We consider that it essential for market integrity that the PRA's move forward with codes of conduct in line with benchmark principles.

IPRO codes should be robust to ensure not only transparency of methodology and price assessment but also strengthening of governance oversight, internal controls and management of

⁴ <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD391.pdf>

⁵ <http://www.gfma.org/Initiatives/Market-Practices/GFMA-Submits-Comments-to-International-Organization-of-Securities-Commissions-on-Functioning-and-Oversight-of-Oil-Price-Reporting-Agencies>

conflicts of interest. In particular, clear whistleblowing procedures need to be in place to ensure that incidences of suspected market abuse are escalated to the appropriate regulatory authority.

The integrity in the price formation of the underlying gas and electricity markets is crucial to maintaining confidence of energy consumers and the public.

Conclusion

The members of the Commodities Working Group are pleased to provide these written comments to Ofgem and would very much welcome the opportunity to meet and discuss further at your earliest convenience.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Strongin', with a stylized flourish extending to the right.

David Strongin
Executive Director
GFMA