24 January 2014

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Submitted via Email: Raihana.Braimah@fca.org.uk
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Dear Ms Braimah

Re: Public Comment on Implementation of PRA Principles

The Commodities Working Group (CWG) of the Global Financial Markets Association (GFMA)[1] welcomes the opportunity to provide comments to the International Organization of Securities Commissions (IOSCO) in relation to the implementation of PRA Principles (Principles) which were published October 2012. As IOSCO is aware, the CWG is extremely interested in maintaining an active dialogue with IOSCO in respect of these issues and offer the following comments which we hope will serve as a part of that ongoing dialogue.

CWG welcomed the development of these Principles by IOSCO as a step towards ensuring that key oil market benchmarks are subject to robust, consistent, transparent and sound practices. Moreover, we fully endorse IOSCO's review of the implementation of the Principles to ensure the smooth functioning and transparency within these markets.[2]

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[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.

[2] http://www.gfma.org/initiatives/market-practices/gfma-comments-on-iosco-principles-for-oil-price-reporting-mechanisms/

CWG strongly supports a framework establishing standards for a sound price methodology based on quality information and robust internal controls. We believe that any framework should be underpinned by external accountability including appropriate regulatory oversight which is transparent to all appropriate parties given the systemic importance of these benchmarks.

As we noted in our response[3] to IOSCO's initial consultation regarding the Principles (CWG letter), we believe that the PRAs have a significant systemic impact on the global derivatives and physical oil 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 global oil markets.

We consider it paramount that both PRAs and market participants assure themselves that such price assessments meet the appropriate standards of integrity and reliability. Consequently, we think that PRAs, as sponsors of these assessments, should provide appropriate access, at a reasonable cost, to information or monitoring mechanisms which would help market participants to gain assurance in this regard.

Although we have noted progress in PRA practices since the Principles were put in place (e.g. transparency in changes of methodology), we consider that more could be done to ensure market integrity. We believe that PRAs should move forward with codes of conduct in line with the Principles. These codes must be sufficiently robust to ensure transparency of methodology and price assessment, and also to strengthen governance oversight, internal controls (including identification of trade anomalies and verification by third parties) and management of conflicts of interest.

As IOSCO is aware, CWG firmly advocated the need for consistent regulatory treatment for all entities undertaking similar price reporting or price formation activities in these markets[4]. We would therefore urge IOSCO to oversee the adoption by all market participants (including PRAs) of the Principles through their formal regulatory process. This is to ensure a consistent standard across all participants and maintain confidence in the marketplace.

Additionally, these Principles do not extend to any trade execution services provided by PRAs. We think that it is important that this activity is regulated consistent with regimes applying to others who provide analogous services. We would encourage IOSCO to consider developing complementary principles applicable to those PRAs applying such services. We believe that such measures would facilitate a more globally consistent approach to benchmark oversight, currently an area of key focus in many jurisdictions e.g. the European Union.

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[3]Letter from CWG to IOSCO "Re: Public Comment on Functioning and Oversight of Oil Price Reporting Agencies", 4 April 2012.

[4]CWG letter, page 2.

We recognize that models of benchmark setting vary between industries and note that while the Principles articulate uniform expectations, they do not contemplate "one size fits all" approach to implementation nor regulation. Oversight should be commensurate with the significance of the assessment in the market place. Therefore, as a practical matter, we suggest that IOSCO completes its current review with the oil benchmarks, with resulting recommendations, before considering application of the Principles to other commodity markets.

GFMA has endorsed the International Principles for Financial Benchmarks[5] published by IOSCO in July 2013. While GFMA considers that benchmark innovation, production and distribution should remain industry-driven activities, we believe that internationally-agreed best practice standards, supported by appropriate regional or local regulation, are critical to promoting both investor confidence and integrity of financial markets.

The Commodities Working Group welcomes the opportunity to provide these comments on the Principles and looks forward to having an ongoing dialogue with IOSCO.

Yours Sincerely,

David Strongin
Executive Director
GFMA

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[5]http://www.iosco.org/news/pdf/IOSCONEWS289.pdf