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Monetary Authority of Singapore
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MAS Consultation Paper on Proposed Regulation of OTC Derivatives

Argus Media Ltd (Argus) is pleased to submit its comments in response to MAS' consultation paper on proposed regulation of OTC derivatives.

Argus is one of the leading independent price reporting organisations (IPROs) for international energy markets. Through our independent reporting of prevailing market prices, Argus — along with other IPROs — has for many decades worked to bring greater transparency to energy markets.

Argus has operated in Singapore, where its Asian headquarters reside, for more than 25 years. Staff in its Singapore office assess prices in regional markets for crude oil, refined oil products, liquefied petroleum gas (LPG), coal, liquefied natural gas (LNG), biofuels, asphalt, base oils and freight.

Argus' price series are used by companies for third party and internal pricing purposes, by governments as independent price references for taxation purposes, and increasingly as underlying indexes for over-the-counter (OTC) commodity derivatives. Please see the Appendix for further details on the role of Argus and other IPROs.

1. Comments on 6.1.2 — Attributes of derivative trading platforms to be regulated

Argus encourages MAS to clarify that informational-only Bulletin Boards, where there is absolutely no provision of trade execution or trade arranging, are not intended to be covered within the scope of derivative trading platforms that MAS intends to regulate.

The exclusion of informational-only Bulletin Boards would be fully consistent with the approach of other international jurisdictions and would help ensure appropriate alignment between Singapore's regulatory regime for OTC derivatives and that of other major trading hubs.

For example, the European Union's (EU) proposed Markets in Financial Instruments Regulation (MiFIR)¹, which comprises part of the EU's legislative package responding to the G20's commitments in the area of OTC derivatives, states:

"In order to make European markets more transparent and to level the playing field between various venues offering trading services it is necessary to introduce a new category of organised trading facility (OTF). This new category is broadly defined so that now and in the future it should be able to capture all types of organised execution and arranging of trading which do not correspond to the functionalities or regulatory specifications of existing venues. Consequently appropriate organisational requirements and transparency rules which support

¹ COM(2011)652: Proposal For a Regulation Of The European Parliament And Of The Council
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0652:FIN:EN:PDF>

efficient price discovery need to be applied. The new category includes broker crossing systems, which can be described as internal electronic matching systems operated by an investment firm which execute client orders against other client orders. The new category also encompasses systems eligible for trading clearing-eligible and sufficiently liquid derivatives. ***It shall not include facilities where there is no genuine trade execution or arranging taking place in the system, such as bulletin boards used for advertising buying and selling interests***, other entities aggregating or pooling potential buying or selling interests, or electronic post-trade confirmation services.” [Argus emphasis]

2. Comments on Section 8 — Proposals for the Regulatory Framework of Trade Repositories

Argus encourages MAS to clarify that the primary purpose of establishing Trade Repositories (TRs) is in order that they may collect data on derivative transactions for regulatory oversight purposes. This is consistent with approaches in other international jurisdictions.

In regards dissemination of data collected by TRs, it therefore follows that this should primarily be intended as dissemination to regulators — i.e. dissemination to MAS and (as appropriate) other regulatory authorities both nationally and potentially internationally.

In making this clarification, Argus encourages MAS to be cognisant of the importance of ensuring that confidential data reported to TRs is safeguarded and that TRs are not permitted to exploit this data for commercial or other purposes beyond the legislative intent.

Argus is concerned that without such safeguards, TRs — which we understand are intended to be commercial entities — may seek to exploit their privileged positions and the data reported to them in order to enter other commercial spaces, such as the provision of price discovery services, thereby causing an unintended market distortion.

For example, transparency of price discovery in energy derivatives markets (as well as the underlying physical energy markets themselves) is already well-provided by independent price reporting organisations (IPROs) such as Argus and our competitors. IPROs have been providing transparency of market prices for many years in the energy derivatives space. IPROs operate efficiently and effectively, in an open and competitive marketplace.

Since IPROs already provide efficient and effective price discovery in energy derivatives markets, Argus believes there is no market failure in price discovery requiring remedy. And therefore no public policy case for permitting TRs to exploit a privileged position and take advantage, in order to provide price discovery services, of data reported for regulatory oversight purposes. To permit this would cause an unintended market distortion.

In addition, allowing TRs to provide price discovery services in energy derivatives markets by publishing price indexes derived from transactional data carries substantial risk of less orderly markets in Singapore and consequently increased risk. This is particularly the case in less liquid energy derivatives markets where, on a daily basis, there may regularly be insufficient transactional data to robustly determine prevailing market price (including potentially no transactions at all).²

In terms of any public dissemination of data from TRs, Argus therefore encourages MAS to ensure that public release is limited to aggregate positions by class of derivatives and does not permit public release of aggregate pricing information.

The principle of public dissemination only of aggregated positions has already been established and accepted in other international jurisdictions. The reporting of aggregate

² This issue is discussed in detail in a recent Argus White Paper, using gas and power markets in Europe to illustrate the risks posed. See: www.argusmedia.com/News/~/~~/media/FFDE53287E0C4D40B05E6C82C51A667A.ashx

positions by class of derivatives is consistent with IOSCO guidelines.³ Additionally, Article 67 of the EU's EMIR regulations requires only that a trade repository "shall regularly, and in an easily accessible way, publish aggregate positions by class of derivatives on the contracts reported to it"⁴. It is noteworthy that EMIR contains absolutely no requirement for public release by TRs of aggregate pricing information. Indeed, an initial proposal to include such an obligation was firmly rejected by EU legislators, recognising that this would otherwise cause an unintended and undesirable market distortion as well as risk causing disorderly markets.

Argus therefore encourages MAS to ensure beneficial alignment between Singapore's regulations and those of other international jurisdictions such as the EU's, by specifying that public dissemination of data from TRs shall be limited to aggregated positional information only.

Conclusion

In closing, Argus thanks MAS for the opportunity to contribute to the development of this important legislative work in order to ensure efficient, safe and sound derivatives markets, while avoiding any unintended consequences that could damage Singapore's interests. We would also like to offer our ongoing availability to meet with officials to further discuss our comments. If this is of interest, please do not hesitate to follow up with Jim Nicholson, Vice President Asia, by email at jim.nicholson@argusmedia.com, or Pierre Lever, CEO Asia at pierre.lever@argusmedia.com.

Yours faithfully

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³ Report on OTC derivatives data reporting and aggregation requirements, IOSCO/BIS, January 2012

⁴ The final text for EMIR has recently been agreed by the European Council, European Parliament and European Commission. Formal adoption is expected shortly. See agreed text at:

<http://register.consilium.europa.eu/pdf/en/12/st07/st07509.en12.pdf>

See also statement by European Commissioner Michel Barnier welcoming the political agreement on final EMIR text:

<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/12/90&format=HTML&aged=0&language=EN&guiLanguage=en>

Appendix Argus — An independent price reporting organisation

Argus is a leading independent price reporting organisation (IPRO) for international energy markets. Its Asian headquarters are in Singapore. The company is an independent provider of market price information, data and market commentary for the international crude oil, petroleum products, natural gas, electricity, emissions, coal and fertiliser markets.

Argus' assessments of open-market physical energy prices are extensively used by governments worldwide¹ as independent references for taxation and other purposes, by major energy producers and consumers as price references in long-term supply contracts, and by market participants for portfolio mark-to-market, counterparty exposure management, derivatives and a wide range of investment and market analysis purposes.

Argus operates in an open, competitive and efficient marketplace of independent price reporting organisations. These organisations are long established, respected and extensively used providers of price transparency on energy markets. Other price reporting organisations include Platts, Icis (including Icis-Heren), APPI, Rim, Opus, IHS McCloskey, OMR and Kortex. Thomson Reuters, Bloomberg and Dow Jones also compete in this space.

Argus was founded in the UK in 1970 and has 19 offices worldwide. Global headquarters are in London. Argus reports are available on a non-discriminatory basis to anyone subscribing.

One primary function of IPROs is to help level the playing field between participants in the physical energy markets by providing subscription access, on standard terms, to market price information. So Argus is committed to, and is an active proponent of, market transparency.

On a daily basis, Argus' well-trained market reporters identify prevailing prices in physical energy markets through the application of detailed and rigorous methodologies. These are publicly available online at www.argusmedia.com/methodology. The company has robust governance and operates a rigorous and transparent controls framework. A global compliance officer oversees the company's compliance regime. This includes a rolling programme of audits to ensure full and continuous adherence to the company's compliance policy, which is publicly available at www.argusmedia.com/compliance.

Further information on Argus can be found at www.argusmedia.com.

¹ Examples:

- The US government's sale of crude from the Strategic Petroleum Reserve in July 2011, as part of the IEA's stock release, used Argus prices as underlying reference for the sale
- Saudi Arabian, Kuwaiti and Iraqi state-owned oil companies use the Argus Sour Crude Index (ASCI) as the benchmark price for all grades of crude sold to US customers
- The Russian government uses Argus prices in its formulas to set export duty levels for crude and petroleum products
- The Indonesian government uses Argus prices in royalty and tax calculations for coal
- The Colombian government uses Argus prices to calculate royalty payments on the country's coal exports
- The UK government uses Argus prices in assessing statutory market values for non arm's length sales of North Sea crudes
- The Belgian federal government uses Argus prices in its formula to set the maximum retail values for petroleum products within Belgium
- French energy regulator CRE uses Argus prices in its official formula for GDF Suez supply costs
- Italy's electricity and gas regulator AEEG uses Argus coal and biomass prices in the supervision of variable costs of strategically important power plants
- Russia's state-controlled gas exporter Gazprom uses Argus prices for the increasing proportion of its gas sales to Europe that are indexed to spot European gas prices

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Offices: London (Global HQ), Singapore (Asia HQ), Beijing, Tokyo, Sydney, Dubai, Moscow, Kiev, Astana, Houston, Washington, Calgary, Johannesburg, Santiago, Hamburg, Porto
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