

# Compliance with the IOSCO Principles for Financial Benchmarks

CRU

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Introduction	2
Definitions and methodology	2
Conflicts of interest	2
Data providers	3
Governance and audit	3
Training	3-4



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## Introduction

The IOSCO *Principles for Financial Benchmarks* published in July 2013 call for price reporting agencies (PRAs) which create prices used in the settlement of financial instruments to publicly disclose their compliance with the Principles “within twelve months of the publication of this report” – i.e. July 2014.

This document sets out the detail of CRU’s compliance with the IOSCO principles. As of July 2014 this applies to the CRU prices used in the settlement of financial instruments – Fertilizer Week (through the inclusion of some of its prices in the Fertilizer Index) and the US Midwest hot-rolled coil (HRC) index published in the Steel Sheet and Steel Monitor, and used to settle the CME US Midwest HRC futures contract. Further, CRU intends to demonstrate that all its prices are compliant with the IOSCO principles.

CRU believes the IOSCO principles represent current best practice in price assessment. The principles state they do not “expect a one-size-fits-all method of implementation to achieve these objectives [and] the application and implementation should be proportional to the size and risks posed by each benchmark.”

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## Definitions and methodologies

CRU publishes detailed and comprehensive documents which set out the methodologies used by all of its products to assess prices, and the definition of each of those benchmarks. These are publicly available from [www.crugroup.com](http://www.crugroup.com). These documents define each price and the overall methodology used and the criteria for including and excluding submitted data. In the case of Fertilizer Week, this includes the use of its prices in the Fertilizer Index (see its methodology document on [www.crugroup.com](http://www.crugroup.com) for details). The document also sets out a process for market participants to comment and to seek more information. A procedure is set out (with contact details) for complaints. These documents are reviewed on a regular basis and revised accordingly.

Market participants are consulted at least once a year to ensure that methodologies and definitions of specific prices remain relevant. No significant changes to benchmarks are made without consultation with the market.

As the IOSCO principles (“Principle 11: Content of the Methodology”) set out: “The Published Methodology should provide sufficient detail to allow Stakeholders to understand how the Benchmark is derived and to assess its representativeness, its relevance to particular Stakeholders, and its appropriateness as a reference for financial instruments.” This is true of all CRU’s published definitions documents.

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## Conflicts of interest

The IOSCO principles do not define what would constitute possible “material conflicts of interest”. CRU defines a conflict of interest in two ways:

- As part of their employment contract, a price assessor must declare employment with companies or organisations in the relevant marketplace – if CRU believes there is a risk of influence over a particular commodity’s price in return for financial benefit or career advancement, CRU would prohibit it
- As part of their employment contract, a price assessor is forbidden from actively speculating on commodity price futures because they have a financial interest in a particular commodity’s price

In both cases this applies to full time employees or contractors involved in FW or HRC prices. This is overseen by CRU’s Human Resources function and the specific oversight function provided by the Company Secretary. The specific wording used in employment contracts can be requested.

The IOSCO principles also say price reporting agencies should “ensure...adequate supervision and sign off by authorised or qualified employees prior to releasing benchmark determinations”. All CRU prices are authorised by someone other than the original assessor before publication.

- Data providers share their data submissions during telephone surveys with CRU Steel Team analysts.
  - CRU Steel Team analysts attach a weighting to each price submission to arrive at final price assessments.
  - Price data is collected and assessments are published on a once per week or once per month basis.
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## Data providers

Data on transactions is collected using a range of methodologies, relevant to specific products. The Steel Sheet Monitor's HRC prices are collected by market participants who sign a contract to be data providers and whose processes and data are open to audit (for full details go to [www.crugroup.com/prices/methodology/](http://www.crugroup.com/prices/methodology/) and download Level 2.0 Operations Manual. This contract includes an agreement which matches the 'Submitter Code of Conduct' set out in the principles. Other CRU prices (including those in Fertilizer Week) are collected through a network of market participants, via telephone, email and other communication methods.

In both cases, we assess the accuracy of different sources, reviewing them for bias or distortion, as stated by the IOSCO principles, "ensuring as far as possible that the Submitters comprise an appropriately representative group of participants taking into consideration the underlying Interest measured by the Benchmark".

The IOSCO principles ("7. Data Sufficiency") state that benchmarks should: "Be based on prices, rates, indices or values that have been formed by the competitive forces of supply and demand in order to provide confidence that the price discovery system is reliable; and Be anchored by observable transactions entered into at arm's length between buyers and sellers in the market for the Interest the Benchmark measures in order for it to function as a credible indicator of prices, rates, indices or values". This is reflected in the methodologies used by CRU, as set out in the publicly available Definitions documents. As the principles make clear, reliable benchmarks can be based on transactions, bids and offers, or "extrapolations from prior transactions". As stated in the IOSCO principles, CRU publishes, in its publicly available Price Definition and Methodology documents "clear guidelines regarding the hierarchy of data inputs and exercise of expert judgment used for the determination of benchmarks".

## Governance and audit

CRU provides oversight of policies and procedures on price assessment through monitoring by an appointed person, in this case the Company Secretary. That individual reviews all processes on a quarterly basis, reporting to the Group Executive Board and also arbitrates on complaints. This governance process covers the "development, issuance and operation" of prices as set out by the IOSCO principles.

The oversight function manages the internal "whistleblowing" process "to facilitate early awareness of any potential misconduct or irregularities that may arise", as stated in the IOSCO principles. All assessors are made aware of this process. All documents related to governance (such as complaints) are retained for a minimum of five years, as set out in the IOSCO principles.

CRU retains "primary responsibility for all aspects of the benchmark determination process", as set out in the IOSCO principles. All contacts with the market used to determine price benchmarks are logged and stored, confidentially, for a minimum of five

years, as stated in the IOSCO principles. This covers, as the principles state:

- a) All market data, Submissions and any other data and information sources relied upon for Benchmark determination;
- b) The exercise of Expert Judgment made by the Administrator in reaching a Benchmark determination;
- c) Other changes in or deviations from standard procedures and Methodologies, including those made during periods of market stress or disruption;
- d) The identity of each person involved in producing a Benchmark determination; and
- e) Any queries and responses relating to data inputs.

## Training

The IOSCO principles state that price assessment providers should "ensure Benchmark determinations are made by personnel who possess the relevant levels of expertise, with a process for periodic review of their competence; and ii. Staff training, including ethics and conflicts of interest training, and continuity and succession planning for personnel."

CRU has a consistent and auditable programme for ensuring that staff are prepared for effective price assessment. All new members of staff (regardless of product) are obliged to go through the foundation programme before carrying out price assessment. This ensures consistent standards across the company.

The training covers:

- Principles of how commodity markets work and the relationships and interests of different parties (buyers, sellers, traders)
- Principles about how customers use prices that CRU assesses
- Use of methodology and price definitions to preserve clarity on relevant data and how to use it
- Use of call logs and storage of notes
- How to record and react to complaints/questions
- How to collect information in a standard, principled way and expected volumes of information in order to set a price
- Principles of calculation: weighting of transactions, bids, offers and sentiment; approach to outliers and averages; use of information on volumes in weighting data
- Specifics on manipulation: how to anticipate it, how to spot and what to do about it

This training is delivered in a variety of ways:

- Workshops by experienced price assessors
- Written guidelines sent to assessors and available on CRU's
- Programme of listening in on calls by experienced assessors and doing calls while experienced assessor is listening
- Regular discussion about best practice in 'communities of practice' run by CRU's knowledge management function

Continued competence is assessed through formal annual appraisals.

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Should you require further information on CRU compliance with the IOSCO principles, please contact:

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