



ICIS General Methodology Consultation

Response 4

General Questions

Q1 - We have no reason to believe that the current benchmark prices for olefins do not effectively represent a reliable market value.

Q2 – In our company view, ICIS should best address and update the methodology, and in particular the monthly olefin contract price process, to ensure it complies with the increased regulatory requirements and scrutiny by regulators.

Overall, we favor benchmark prices that:

- (1) consider as input data concluded transactions and not price intentions;
- (2) are based on a number of transactions sufficiently high to accurately and reliably represent the market reality (for all price index users, both buyers and sellers) that the benchmark is trying to measure;
- (3) are produced by the price reporting agency (“PRA”) itself as a more impartial party (i.e. the PRA is not a mere publisher of a benchmark agreed in industry discussions, but it produces the benchmark based on input data bilaterally and independently received);
- (4) do not exclude market participants that are willing to participate when they conclude representative transactions.

As further explained below, while we believe that the current system is broadly in line with these principles, we also believe that improvement of the current system with regard to each of these principles is desired. This is particularly needed in light of recent competition authority cases throughout the EU, increased enforcement activity targeting the exchange of price information between competitors, directly, or via common sellers or buyers, and functioning of price setting platforms.

In this respect, the following competition law compliance requirements need to be taken into account for the revision of the benchmark process:

- a) **Avoiding price manipulation:** need to ensure that the benchmark price is based on representative and accurate transaction prices that are validated by the PRA which is especially relevant for markets such as with Olefins, where parties, in terms of commercial interests, have dual market positions (being net sellers or net buyers).
- b) **Avoiding price signaling:** need to ensure that any reporting and publication of transaction prices for the purpose of a price benchmark does not amount to price signaling (setting a reference for future pricing to suit follower’s behaviour).
- c) **Avoiding exclusionary behaviour:** need to avoid that parties that may want to participate in the contract price process and provide input data are not excluded (unless such is required to maintain the accuracy and integrity of the benchmark).



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d) Avoid exchange of information between competitors (including through the PRA) when such information relate to price intentions and not to concluded transactions. For such purpose it is important that any price input data is reported bilaterally and independently to the PRA and not disclosed between market participants through common suppliers or buyers as part of the process.

To our understanding the European Commission is preparing a Proposal for an EC Regulation on Benchmarks which will not be applicable to the olefins markets but which nevertheless provides useful guidance on optimizing benchmark pricing systems. The Proposal provides that, in order to assure “representative contribution”, it is preferred that no contributor to the index shall be party to more than 25% of the volume or values of transactions used in the input data to determine the benchmark. With the current dual transaction approach (2+2 agreements between 4 different parties), the parties each contribute with 25% of the value of the transactions relevant to the benchmark, while only 2 transactions are used to set the benchmark, collectively accounting for 50% of the value that determines the benchmark.

In view of the above, we have the following specific recommendations:

- In our view, it is preferred to base the benchmark upon the highest possible number of transactions that are bilaterally and independently concluded between the market parties, and subsequently reported to ICIS and each transaction price is not disclosed between market participants or by the PRA as part of the process. When such transactions report different prices, we strongly favour that the PRA publishes a single price, with a transparent methodology that averages all the representative transaction prices reported. Our company does not favour the publication of all transaction prices.
- It would be preferable to base the benchmark upon all transactions reported (with each party allowed to report multiple transactions with different counterparties and prices) but to provide a mandatory minimum of at least 3 (but preferably more) transactions concluded between different independent suppliers and buyers (i.e. at least 6 independent parties involved).
- In order to limit the risk of price signaling, we believe it is of great importance that ICIS does not publish any transaction information, including names of parties involved and transactional values prior the publication of the benchmark price (i.e. no publication of the first transactional price reported).
- At all times, ICIS should test and validate the accuracy of the transactional prices reported. Amongst others, to mitigate any risk of price manipulation, ICIS should be able to exclude transactions between net sellers bilaterally and between net buyers bilaterally.



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Q3 – No additional comments.

Q4 – No additional comments.

Questions specific to global Ethylene pricing reports

Q5 – We do not favour a system whereby each party should have at least 2 counterparties having agreed the same price before a price can be reported, as this may fuel indirect exchange of price intentions between industry players (see point d of the abovementioned competition law principles).

Moreover, in view of the overall principle that the benchmark should accurately and reliably represent the market reality while at the same time avoiding any exclusion of market parties, our company would favour to allow benchmark reporting for i) pure buyers and pure seller regardless of any minimum volume threshold, and for ii) net sellers (that are also active on the merchant market as buyers) respectively net buyers (that are also active on the merchant market as sellers) subject to a sizable minimum net volume threshold. In addition, all transactions between net sellers bilaterally and between net buyers bilaterally (unless exceptional circumstances require otherwise) should be excluded.

Q6 – Our company does not favor a separate index for market segment given the risk that this would be based on insufficient market liquidity. However, if in the new methodology a higher number of transactions is required, to ensure the representativeness of the final contract price across different derivative segments, we would favour a minimum requirement that at least 1 transaction is concluded in each derivative market segment.

Q7 – Please see our response to question 2 above. In our view, it is preferred to base the benchmark upon all transactions reported (with each party allowed to report multiple transactions with different counterparties and prices) but to provide a mandatory minimum of at least 3 (but preferably more) transactions concluded between different independent suppliers and buyers (i.e. at least 6 independent parties involved).

In order to limit the risk of price signaling, it is our view that ICIS should not publish any transaction information, including names of parties involved and transactional values prior the publication of the benchmark price. By exception, we could suggest that ICIS may publish the fact that a number of undisclosed transactions have been recorded, but we recommend not to publish any names or value; only the final benchmark price or price range.

Q8 – See above.

Q9 – This version is open for publication.