

Guidelines for Exercise of Expert Judgement in Determining the Shanghai Metals Market Benchmarks

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SUMMARY

This document sets the Guidelines by which Shanghai Metals Market (known herein as “SMM”) ensures that its administration of the SMM Benchmarks (“the Benchmarks”) is compliant with Principle 8 of the IOSCO Principles for Financial Benchmarks (“the Principles”) regarding the and exercise of expert judgement in the determination of benchmarks.

The Guidelines are intended to make transparent to Benchmark users and other stakeholders, the manner in which transactional data, bids & offers, and other market information or expert judgment may be used for the calculation of the Benchmarks.

The Guidelines are not intended to create a rigid checklist or to otherwise restrict SMM’s ability as administrator to consider the sufficiency of data inputs, and to use those inputs in a way that ensures the quality, integrity, continuity and reliability of its Benchmark determinations, as set out in the SMM Benchmarks Methodology documents, or other SMM Benchmark documentation. SMM thus retains flexibility to use the data inputs it believes are appropriate under its Methodologies, to ensure the quality and integrity of its Benchmarks.

SMM wishes to collect the largest amount of relevant market data from its Submitters and other sources in order ensure the Benchmarks are as accurate and representative as possible. SMM therefore is not prescriptive or restrictive regarding the information Submitters offer for the Benchmark determination processes.

These guidelines are owned by the SMM Benchmark Oversight Committee and are subject to regular, and at least annual review.

EXPERT JUDGEMENT

Data Submitters

SMM's data submitters are subject to the SMM Submitters' Code of Conduct, which provides submitters with a framework by which their employees can use expert judgement in submitting data to SMM. The SMM Benchmark Oversight Committee owns the Code of Conduct and keeps under review both the Code of Conduct and Submitter compliance with the Code particularly as required by changes in the underlying markets the Benchmarks seek to measure, and in any case annually.

Amongst other matters, the Code of Conduct covers the requirement for submitters to have:

- Suitable data input procedures to ensure the security and integrity of such data
- Governance policies
- Arrangements for the identification, management and mitigation of conflicts of interest and their recording by means of a Conflicts of Interest Register
- Regular training on Conflicts of Interest for all staff involved in the calculation and management of Conflicts of Interest
- Arrangements to detect benchmark manipulation attempts, record these and escalate as appropriate to SMM and/or relevant authorities
- A complaints submission, recording and management facility
- Whistleblowing policies
- Suitable record keeping policies.

The Code of Conduct provides a framework to ensure that Submitters make data available to SMM in a manner that is open, transparent and comparable across the panels of Submitters to the Benchmarks.

SMM encourages Submitters that offer any input data for consideration in its assessment processes to submit all market data that they have which may be relevant to the assessment being made. The aim of SMM is to determine the full circumstances surrounding all reported transactional, bid/offer or other data. SMM uses that information to determine a typical and repeatable market level for the commodity being assessed.

SMM Employees

Based on SMM's experience interpreting market data, SMM will use its own judgement when it believes it necessary, to ensure the quality and integrity of the Benchmarks. In particular, SMM may rely on its own judgement more frequently in an active albeit low liquidity market where transactions may not be consistently available. SMM employees may therefore, where appropriate, exercise discretion with respect to the use of data in determining a Benchmark.

The calculation of a SMM Benchmark includes a validation process whereby SMM employees review data according to specific pre-determined tolerance checks. An SMM employee will when applying such checks have discretion (subject to internal policies and procedures) to include or reject certain data from the calculation of the Benchmark. SMM has in place internal guidelines and quality control procedures that govern the application of employee judgement and are intended to provide documentation, consistency and oversight to this process. Judgment guidelines promote consistency and transparency and are systematically applied by SMM. Where judgment is exercised, all information available is critically analysed and synthesized. The various possibilities are critically analysed and fully evaluated to reach a judgement.

Employees receive initial and on-going training in how to comply with these guidelines and procedures. The nature and quanta of these tolerance checks are kept under review by the SMM Benchmark Oversight Committee and are subject to formal review at least annually and whenever there is change to the nature of the markets the Benchmarks seek to measure. Benchmark staff are trained to identify potentially anomalous data. SMM defines anomalous data as any information, including transactions, which is inconsistent with or deviates from its methodology, standard market conventions or prevailing market conditions

SMM Benchmark staff follow specific methodology when exercising judgment or discretion during their assessment process. More information regarding the process of collecting data and checking its veracity can be found within the SMM Benchmark Methodology documents.

To ensure all Benchmark determinations are as robust as possible, the SMM Benchmark teams are backed by a strong corporate structure that includes managerial and compliance oversight.

An evaluation process is conducted before publication on every benchmark assessment by a competent peer or manager. The levels of the Benchmarks are reviewed and the exercise of judgment is further discussed and verified during this process.