

SPECIAL INTEREST PAPER

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Report prepared for the City of London Corporation
by BSI Standards
Published March 2013

Capacity Trading Standardisation Workshop Report

City of London Economic Development
PO Box 270, Guildhall, London, EC2P 2EJ
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Executive Overview

The City of London Corporation identified multilateral reciprocal trade as an emerging sector that has the potential to create complementary credit systems alongside traditional financial credit. However, capacity exchanges are at an early stage of development, with diversity in approaches, participants, industries and scale.

Following the City of London Corporation's joint commissioning of the report, *Capacity Trade and Credit: Emerging Architectures for Commerce and Money*, the organization hosted a Capacity Trading round table. At this meeting there was strong support for the need for regulatory development and assurance and also specifically for the development of industry standards to support good practices, enhance the reputation of the industry and create industry confidence. It was felt that BSI may be well placed to support the industry in this respect.

BSI and the City of London Corporation agreed to investigate the possible development of an initial standard in this developing market. As part of this, the City of London and BSI agreed that BSI should prepare and deliver an industry workshop to engage stakeholders, confirm feasibility and to determine the scope of a standard.

This report describes the key findings of this workshop and makes recommendations for next steps. Further consultation on this report is welcomed and, and assuming this is positive, BSI and the City of London Corporation shall explore options for further development work.

The workshop was held at the BSI offices in Chiswick, London on 21st November 2012.

Report introduction

This report aims to summarise the information captured during the workshop, list stakeholders' key comments and contributions, measure stakeholders' overall support for a potential standard and make recommendations about the way forward.

The report is anticipated to provide the City of London Corporation with an accurate picture of the level of support that can be expected for the development of a standard, but also those areas where resistance may be expected. It shall make recommendations regarding how to minimize such resistance. It may also be used as a basis for wider industry consultation.

In conjunction with BSI, the City of London Corporation will be able to propose editorial and formal amendments to the report. It can thus be put in a suitable format to use it as a tool to inform the industry and promote any further work. The report aims to support the City of London's research programme regardless of how the work progresses beyond this initial stage.

Background

The City of London Corporation acts as the local authority for the Square Mile business district, supports the UK-based financial services industry and provides many other services and facilities for London and the wider UK.

The City of London Corporation has identified multilateral reciprocal trade as an emerging sector that has the potential to create complementary credit systems alongside traditional financial credit. Capacity exchanges are at an early stage of development, with diversity in approaches, participants, industries and scale.

The City of London Corporation has a strategic vision of London housing a European Hub for reciprocal trade to help stimulate activity which could be supported by standardization.

Therefore, the City of London Corporation commissioned a report, '*Capacity Trade and Credit: Emerging Architectures for Commerce and Money*', looking at the feasibility and benefits of establishing a capacity exchange or hub of capacity exchanges in the UK, and the regulatory structure which would be needed. The report concludes that Capacity exchanges appear to have the potential to increase trade and growth, and to provide other economic and social benefits. It states that such potential is tied to the trust participants place in the robustness of the exchange model and the common tender, as well as levels of liquidity. If capacity exchanges were formally recognised, a more solid regulatory framework might encourage more rapid development.

Following publication of the report, the City of London Corporation hosted a Capacity Trading round table. There was strong support for the need for regulatory development and assurance and also specifically for the development of industry standards to support good practices, enhance the reputation of the industry and create industry confidence. It was felt that BSI may be well placed to support the industry in this respect. Standards can help to establish greater transparency, build trust and assurance and this in turn may lead to increased business activity.

Workshop Purpose

- Introduce BSI, standards and certification
- Provide background to the workshop and a general overview of the issues
- Propose and discuss and verify the concept of a standard as a possible industry solution;
- Explain the expected benefits of such a project;
- Seek input from the workshop delegates;
- Outline BSI standardization, explaining the development processes in detail;
- Determine and gain support from stakeholders to take a project forward;
- Determine what type standard is most appropriate (e.g. specification, management system, code of practice)
- Determine certification and accreditation requirements
- Determine the scope of a potential standard

Project Stakeholders

In inviting stakeholders, BSI conducted the following exercises:

- Desktop research of industry stakeholders
- Contacting related organizations who have conducted similar exercises e.g. the City of London Corporation and ZYen

The City of London Corporation, ZYen and BSI worked together to identify and determine the stakeholders for the workshop. It was a requirement that there should be an appropriate mix of stakeholders with a wide range of experience. However, wider consultation and comment is invited and welcomed.

Workshop discussions

The specific questions for discussion were:

- Does the industry need a standard(s)?
- What should the priorities and objectives be?
- What type of standard is required?
- What should the scope of the standard cover?
- What should be included as content?
- Should the standard be independently verified?
- National or international?

Key findings from discussion groups

Discussion Round 1

Questions

- Does the industry need a standard(s)?
- What should the priorities and objectives be?
- What type of standard is required?
- National or International?

Feedback

The group confirmed that the industry does need a standard as this will help organizations to adopt an agreed way of working. Most importantly it will help to provide assurance and generate trust. Something that is vital to the industry. However, it was agreed that, in such a diverse industry, before any standard could be developed, it needs to first define:

- 1) what the 'product' is (i.e. the scope)
- 2) what exactly the industry needs to standardize
 - a. processes
 - b. organizational requirements
 - c. product/service performance

Opening discussions suggested that the standard could include how the industry operates to meet certain criteria such as business practices and also an agreement on commonly known vocabulary. It was agreed that the big issue to address is trust. The industry would rather be self-governing to ensure flexibility and freedom from bureaucracy e.g. to avoid government legislation. The scope, objectives and content of any standard must go to the heart of the trust issue.

There was some disagreement over what should be the priority. However, there was agreement in responses in relation to the need for a standard.

The standard should also define the scope of the industry (what can be defined as the industry) and include all stakeholder types.

In summary, the group recognized that a standard could help to define the industry better which in turn may help to set expectations for users and create trust in the longer term.

Priorities and objectives

Although, as identified, there is initially a need for a common language and definitions along with some generic good practice, in the future, there may be potential for specific codes or guidelines focusing on

- Systems collapsing
- Malpractice/fixing
- Trust/transparency

A road map could be produced showing what standards are needed in generic terms followed by specific standards covering the particular areas mentioned. Suggestions from the discussions for specific areas to be covered within the scope of the standard have been divided into two sections; financial management and general operational management:

Financial management

- Accounting practises (Double accounting system)
- Extending or eliminating lines of credit
- Contain principles like liquidity (different people have a different concept on what liquidity is and how its measured), liquidity of currency and security
- Capital requirements
- Regulation of various currencies (non-legislative regulation)

General operational management

- The type of software used and what software is used and the management of that software as well as security and protocol, although this was a point of discussion regarding detail level
- Quality management procedures, aimed at exchanges, accounting, earning and retiring credits, closing exchanges
- Procedures for recording information, records and data
- Reference to, or based on, corporate governance – e.g. existing good practice, standards, etc
- Harmonization (Economies are so different internationally)
- Exit strategy
- Due diligence throughout the process

In summary, it was agreed that the standard should not solely prioritize the financial aspect of the barter world; rather, it should be a more general guidance document.

An interesting discussion took place regarding the need to ensure provisions were made regarding both liquidity (or currency and business), capital requirements and sustainability more generally. It was pointed out that there is a significantly high failure rate in the industry and this affects the generation of trust by users. The standard should be aimed at reducing the failure rate. The barriers to entry are very high and start ups have a high failure rate. However, there was also an argument that there must be enough flexibility within such provisions to allow for new start ups and not act as a barrier to innovation.

The working group wanted to be open to new start-ups but to also to safeguard users of the bartering organisations to reduce disreputable organisations entering and 'spoiling' markets.

There could be potential for developing a separate standard for classification of safeguards for start-ups.

Should the standard be national or international?

This is an international industry. The standard/standards need to be applicable for international markets. Some countries don't have equivalent laws so bartering is still an emerging market but one which will ultimately help governments.

Discussion 2

- What should the scope of the standard cover?
- What should be included as content?

Scope (who is the audience, what does it cover and what doesn't it cover?)

It is apparent that the industry is extremely diverse in both service provision and user types.

Guidelines must relate to the user and therefore the standard/standards must consider using annexes to address the user type or develop another standard to cover the user.

The standard should not cover the detail of how to run an exchange but can help an exchange to set up. The working groups both agreed that the standard should be used for academic purposes such as additional content to supplement courses/degrees. The standard needs to cover roles and responsibilities within an organisation and how to run a business in a sustainable fashion. The document should cover failure procedures.

A standard should therefore try and change the culture of the industry

Who is it aimed at?

Barter companies
Software companies
Service providers
Users- the wider group
Trade exchanges

There are two audiences to cater for in the standard. First, there is a need for transparency of operations and education of those people using the barter exchanges. This may be supported through a code of practice and or terminology document. Secondly, there is also a need for best practice document for the management of the barter exchange itself. This could be addressed in two ways:

- A single standard document with annexes
- A two part standard for each audience

There is also potential for a standard for barter companies who use each other's services.

It is assumed at this stage that a standard, or indeed multiple standards, could be created through a single development process, using a single set of stakeholders. In relation to this, it should also be noted that as barter organizations often act as users of each other's services, as well as suppliers, this might be helpful in informing the development process.

Should the standard be independently verified?

The group discussed different approaches to standardization and how certification would work. It was agreed that 3rd party assessment and audit may be too soon for the industry but may have a place in the future. However, it was felt that guidance, although educational, may not have enough 'teeth'. Therefore, a Code of Practice may be a suitable approach, allowing a reasonably prescriptive approach whilst not requiring 3rd party assessment.

If we develop a code of practice there would be the potential to revise this and create a management specification in the future if appropriate.

BSI routes to developing a new standard

BSI's preferred route for developing a standard would be development of a BSI PAS standard. Typical features of the PAS model are:

- A fast and flexible approach
- Developed in typically 8 to 12 months
- Developed through a rigorous consensus-based process
- Enabled for the development of certification schemes where appropriate
- Drafted in accordance with BSI/ISO drafting rules
- Reviewed on a regular basis
- Potential for submission into formal national and international standardization arenas (i.e. British Standard, CEN and/or ISO) as a seed document

This route is considered appropriate by BSI for the following reasons:

- There is currently no committee or programme of work
- PAS is appropriate for emerging industries and new areas of standardization
- For a British Standard to be developed, committee membership must typically be through UK Government or Trade Association nomination
- PAS model allows for international consultation

Conclusions and Recommendations

Conclusions

There was agreement within this group that a standard would be helpful in progressing trust within the industry. The group agreed that the primary objective in the development of any standard is that its adoption creates trust by users. To do this, the group agreed that the following aspects should form part of the scope and contents of any potential standard:

- The standard should define key terms and aspects that will help to create a common vocabulary across the industry and set clear expectations
- The standard should provide a credible approach – possibly a code of practice that provides a relatively prescriptive approach whilst allows enough flexibility to accommodate the significant differences across the industry
- Based on the diverse businesses and users that operate in this industry, the standard should focus on the key issues and not be too technical or product oriented – it should also be flexible through the provision of annexes or complementary documentation to reflect this diverse range of services and users
- The standard must address both the financial and general operational management of a capacity exchange
- Although there were differences of opinion regarding operational approach, all participants agreed that sustainability of the business is a critical area to address given the failure rate of start-ups
- The management of the business life-cycle is key. The standard should cover the set-up, operation and closure of an exchange.

Based on information gathered during the research and from the workshop with key UK experts and stakeholders, there is a need and a desire for a standard(s) to be developed covering the Barter and Capacity Trade industry. There is potential to develop standards for people, process and product standards but the initial priority appears to be the organizational/process standards as these will provide a shared understanding and a solid foundation for future development.

Recommendations

The key aspects to address initially are:

1. Consultation on this report to ensure it accurately reflects the input and priorities of those that attended the workshop as well as attracting further comment
2. Subject to point 1, an initial standard that defines and classifies the industry along with vocabulary/terminology could be an appropriate starting point particularly given the diverse nature of the industry
3. General principles around good management practice are required to address the issues around transparency and trust. This should initially be relatively generic for the industry and may cover principles of establishing, operating and closing an exchange and/or currency. This should include the sustainability of the business.

A standard(s) would underpin further professionalization of the industry. Such professionalization should include use for academic purposes such as additional content to supplement course/degrees.

Next Steps

1. Assess the level of wider support and check that there would be buy-in within the industry at a broader level.
2. Following approval of this report by the City of London Corporation, report shall be sent out to delegates. The City of London Corporation would be able to publish the report as part of its research programme regardless of how the work progresses beyond this initial stage
3. There could be a press release to inform and educate the industry, initially just promoting the workshop and then updating the industry later with details of potential scope and formation of Steering Group / Review Panel
4. Utilize Barter News - Disseminate information on blogs and use utilize delegates and their contacts to achieve this
5. Should there be widespread support for development of a standard BSI, in partnership with the City of London Corporation, shall consider development of a standard.
6. Should any work commence, BSI will contact stakeholders to be involved in the consultation and drafting aspects.
7. The scope of the standard is yet to be determined and would be determined by a Steering Group during the process.

Appendix A – Workshop delegate list

Aberdeen, GETS Plus and TBEx
Bartercard UK Ltd.
Brazil Central Bank
BSI
City of London
Community Connect Trade Association
Metro Trading
New Economics Foundation
Ormita
Recipco
Sardex .net
Z/Yen