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Forward Curve Statement

Baltic Exchange Forward Assessments

1. Introduction

- 1.1 This forward curve statement is provided by the Baltic Exchange Information Services Limited (**BEISL**) as an administrator of the Baltic Forward Assessments (**BFA**). BEISL will review and, where necessary, update information provided in this benchmark statement in the event of any relevant changes, including whenever information contained in this statement ceases to be correct or sufficiently precise, and in any event at least once every two years.
- 1.2 The content of this document has been prepared in accordance with Section 4.4.3 of the Guide to Market Benchmarks (**GMB**) and should be read in conjunction with the GMB.

2. About Baltic Forward Assessments

General information

- 2.1 BEISL provides the BFAs as an end of day assessment of prices for the Forward Freight Agreement (FFA) and options market for various contracts with differing specifications as contained within the GMB. The BFAs are used to support the shipping derivatives market and BEISL applies rules with greater flexibility than those for the physical market.
- 2.2 A Forward Freight Agreement is a financial contract “for difference” that allows shipowners, charterers and speculators to hedge against the volatility of freight rates. This provides the contract owner with the right to buy or sell the price of freight for future dates. Settlement of the BEISL BFAs are effected against the relevant ocean bulk route assessment and specific asset class within a market segment it refers to, ie. Capesize, Panamax, Supramax etc. For full specification of BEISL’s BFAs please see the GMB.
- 2.3 The BFAs act as a tool for risk management. The FFA market that the BFA seeks to measure include (but is not limited to) participants who are shipbrokers, shipowners, operators, traders and charterers who may wish to use BFAs to manage their risk exposure.

Technical specifications and BFA methodology rationale

- 2.4 BEISL’s BFA determination process takes into account the relatively limited liquidity of the FFA markets for certain contract specifications and as such greater flexibility is applied over the number of assessments received from Panellists and their assessment value together with the source of Input Data. This allows Panellists to exercise discretion over the relative value that they attribute to various data sets (such as transaction data of FFA contracts, physical market information, order lists, sentiment and news flow) that they rely on in order to reach their assessments. Panellists may use their Expert Judgment stemming from their knowledge of the wider market in order to provide an appropriate assessment.
- 2.5 The source of Input Data to be used in the forward curve assessment process is determined on accepted market practice and based on the liquidity available at the time and at the initial listing of a BFA contract. (*Please see section 2.13 below*).

- 2.6 The FFA and options market are constantly changing intraday with market activity and as the rates fluctuate the market is closely monitored, and FFA brokers who act as BEISL Panellists, update their bid and offer rates.
- 2.7 BEISL's FFA broker Panellists provide a bid-offer spread for the FFAs as part of the BFA determination process. Determination of the BFAs includes a validation process whereby, among other steps, BEISL reviews Input Data and the determined BFA value pursuant to certain pre-determined tolerance checks.
- 2.8 The forward curve assessments provided for the dry bulk market are an average of the Input Data by each of the Panellists. In the case of the wet bulk market, the Input Data rates represent an average which is weighted according to the market share (based on data provided by the clearinghouses) of each Panellist in the preceding month.
- 2.9 BEISL is under obligation to ensure the integrity of its BFAs. To this end, BEISL strives to ensure that its methodology reflects the realities of the FFA market, which changes constantly. BEISL acknowledges the fast pace environment of the FFA market resulting in multiple available prices for FFA brokers and with a widespread on the underlying contract.

Controls for use of expert judgment or discretion

- 2.10 As indicated in section 2.3 of this forward curve statement, FFA broker Panellists retain discretion to decide the respective importance of the factors they take into the account when arriving at their assessments for the purpose of Input Data contribution. Expert judgement is exercised with the intent of ensuring the quality and integrity of the forward curve assessments. In particular, FFA broker Panellists may rely on their own judgement more frequently in an active albeit low liquidity market where transactions may not be consistently available. BEISL's internal guidelines and quality control procedures governing the application of expert judgment are intended to provide consistency and oversight to this process.

BFA Limitations

- 2.11 BEISL recognises that periods of stress, or periods when transactions for specific contracts in the FFA market are insufficient, may arise from time to time, therefore resulting in benchmark limitations in such periods. The ability of BEISL to determine and publish BFAs depends on:
- i. Activity in an FFA contract on a case by case basis, and
 - ii. The quality and representativeness of the forward curve assessments available to BEISL for the calculation of the BFA.
- 2.12 Due to the cyclical nature of shipping and the derivatives market, markets can be characterised by periods of relatively limited liquidity and as such it is possible that the number of transactions for specific contracts available to report on a given FFA contract may not be sufficiently representative in order to ensure the accuracy and reliability of a BFA. In such circumstances, the Panellists are required to rely on their expert judgment.

2.13 BEISL recognises that from time to time there may be an exceptional market event that could render the BFA reporting impossible or meaningless. Examples of such events include the outbreak of war, terrorism, civil unrest, sanctions and major accidents that render ports inaccessible. In such circumstances, BEISL’s methodology contains procedures for emergency changes, as set out in section 5.3 of the Guide to Market Benchmarks.

2.14 The table below identifies circumstances that represent a shortcoming applicable to all BFA assessments. The table is not intended to be exhaustive:

Circumstance	Description	Potential Limitation	Comments
1	Initial listing of an FFA contract	<p>To facilitate initial listing of a BFA by a Clearing House, BEISL relies on the availability of Input Data from the physical market for the BFA determination process.</p> <p>The intended use of BFAs by Clearing Houses for risk management purposes supports the approach taken.</p>	<p>A BFA requires Panellists to be able to source price information in order for a Clearing House to be able to list the BFA.</p> <p>On initial listing the FFA market and FFA brokers will have no to low liquidity or price transparency from their order books. BEISL acknowledges this limitation and adopts accepted market practice allowing initial listing based on the availability of Input Data from the FFA and forward physical market.</p> <p>Negligible impact is observed as the responsibilities of the Clearing House includes settling trading accounts, clearing trades, collecting and maintain margin monies all of which ensure market stability.</p> <p>Recognition is further given to the short duration of relying on available data from the physical market. Listing generates exposure and price transparency and as liquidity increases, BEISL is able to rely on Input Data solely from FFA broker Panellists.</p>
2	Two or less Panellists to contribute Input Data for the BFA determination process	Potential for the bid-offer spread to be wide.	<p>Deliverable forward contracts are widely used by market participants.</p> <p>BEISL relies on the continued availability of FFA data from FFA broker Panellists of BEISL. In the case of a market or data source disruption resulting in two Panellist being able to contribute Input Data, BEISL</p>

			<p>will proceed with the determination process of the respective BFA.</p> <p>In the case of only one Panellist, BEISL shall not determine a BFA but the Clearing House listing the BFA shall obtain price information directly from the FFA broker.</p>
3	The degree of liquidity of the underlying/FFA market becomes insufficient	Potential liquidity issues may be identified as part of the standard Input Data validation or may be identified in the context of market disruptions.	Impact to liquidity may require changes to Input Data used or the BFA determination.
4	Underlying index not published by BEISL	BEISL's BFA can be used for risk management purposes by Clearing Houses despite the underlying index not being determined or administered by BEISL.	Whilst the decision rests with the Clearing House on which FFA contract is listed, BEISL seeks to actively engage with the FFA market and provides BFAs to support market sentiment and ensure market stability within the FFA market.