



# GLOBAL CARBON INDEX

## BENCHMARK STATEMENT

### 1. General Disclosures

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|---|---|
| <b>Benchmark family name</b>                        | IHS Markit Global Carbon Index  |
| <b>Benchmark administrator</b>                      | <b>IHS Markit Benchmark Administration Ltd. ("IMBA UK")</b>   |
| <b>Date of initial publication of this document</b> | 1 August 2020   |
| <b>Date of last update to this document</b>         | 1 August 2020   |
| <b>ISIN (where available)</b>                       | There are presently no ISINs available or accessible for the benchmarks covered by this Benchmark Statement.  |
| <b>Determination by contributions of input data</b> | <p>The administrator does not receive contributions of "input data" (as defined by the BMR) in relation to this family of benchmarks.</p> <p>The IHS Markit Global Carbon Index utilizes IHS Markit OPIS Pricing and Intercontinental Exchange to determine the prices used for the index calculations.</p> |
| <b>Qualification of the benchmark family</b>        | The IHS Markit Global Carbon Index is administered as a significant benchmark.  |

### 2. Climate-related disclosures

|                                 |                        |
|---------------------------------|------------------------|
| <b>Type of benchmark family</b> | Commodities benchmarks |
|---------------------------------|------------------------|

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|------------------------------|------------------------------------|
| <b>Name of the benchmark</b> | IHS Markit Global Carbon benchmark |
|------------------------------|------------------------------------|

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|--|----|
| <b>Does the benchmark pursue ESG objectives?</b> | No |
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| <b>Where the answer to the above question is negative, is any EU Climate Transition Benchmark or EU Paris-Aligned Benchmark available in the portfolio of IMBA UK or does IMBA UK have benchmarks that pursue ESG objectives or consider ESG factors?</b> | Yes |
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### 3. Key information relating to the benchmark or family of benchmarks

#### General description of the market or economic reality

The IHS Markit Global Carbon Index is designed to measure the performance of the most liquid tradable futures contracts referencing carbon credits. These liquid markets currently include European Union Allowance (EUA), California Carbon Allowance (CCA) and Regional Greenhouse Gas Initiative (RGGI) carbon credits. The index is rebalanced annually on November 30 to include any new carbon credits that become eligible and to reset the component weights based on market volumes, subject to regional and contract constraints.

The IHS Markit Global Carbon Index operate under the assumption that the investor fully collateralizes their futures exposure, resulting in a collateral yield component of the index. Further, with the index being USD denominated, the inclusion of EUA contracts that trade in EUR creates an exposure to USD/EUR FX rates as currency is left unhedged.

#### Geographical boundaries of the market or economic reality

Geographical regions are defined by the underlying carbon credit futures contracts being tracked by the IHS Markit Global Carbon Index. The IHS Markit Global Carbon Index cover the EMEA, Americas and APAC.

#### Other relevant information relating to the market or economic reality

Market participants include energy companies, asset managers, specialized energy market brokers, investment banks and hedge funds.

#### 4. The potential limitations of the benchmark and the circumstances in which the measurement of the market or economic reality may become unreliable

##### Circumstances in which we would lack sufficient input data to determine the benchmark according to the methodology

In the unlikely situation of extreme market disruption or a severe decrease in liquidity in the underlying carbon credit futures contracts, the administrator would need to consult with the **Index Administration Committee** on the best way forward for the index.

##### Circumstances in which the degree of liquidity of the underlying market becomes insufficient to ensure the integrity and reliability of the benchmark determination according to the methodology

As above.

#### 5. The controls and rules that govern the exercise of judgment or discretion in the calculation of the benchmark or family of benchmarks

##### Position of each function or body that may exercise discretion in the calculation of a benchmark and governance thereof

The administrator's index is rules based and do not typically permit the use of discretion unless there are exceptional circumstances that are not addressed by either the index rules or an administrator policy. Such scenarios may include (but are not limited to):

- Failure of data providers;
- Significant changes to the underlying market;
- Complex corporate events;
- Action by governmental or regulatory bodies that causes market disruption;
- Events beyond human control.

In the event that the administrator needs to take action or make a decision that has not been foreseen by the methodology or associated policy, senior members of the administration team will consult internally with the applicable Index Administration Committee and externally, when appropriate, with the **Index Advisory Committee**; this is to arrive at a decision that is consistent with the objective of the index in question and that causes minimal disruption to index stakeholders.

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Any changes to the index methodology or cessations will be decided upon as per IMBA's Benchmark Methodology Changes and Cessation policy (available [here](#)).

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### Ex-post evaluation process

As above, the exercise of judgment or discretion in the calculation is guided by precise internal guidelines to ensure that no conflict of interest arises and that the IHS Markit Global Carbon Index continue to reflect the underlying economic reality. To the extent there is feedback or comment on the use of expert judgment or discretion, the administrator will review those comments at the earliest opportunity.

## 6. Review of the methodology and changes to, or cessation of, the benchmark or family of benchmarks

### The methodology

The IHS Markit Global Carbon Index is designed to measure the performance of the global carbon credit market. Carbon credit futures are utilized to access carbon credit markets due to their liquidity and accessibility to investors. The eligible carbon credit futures for the index are selected based on the most liquid segments of the relevant markets. The index is weighted according to constituent trade volumes subject to a capping methodology. Capping is applied on a regional basis with regions being defined as EMEA, Americas, and APAC, as well as on a contract-level basis within each region to ensure diversification.

The methodology is subject to at least annual review by the administrator. Such review is approved by the **Board** and reported to the **Benchmark Oversight Committee**.

1. Membership of the underlying carbon credit futures contracts is determined by clear, transparent and objective rules that are publicly available. Example criteria include accessibility of futures markets, liquidity and the maturity of the program. The constituents of the underlying carbon credit futures contracts are determined every twelve months.
  2. The pricing used in the IHS Markit Global Carbon Index is sourced from IHS Markit OPIS Pricing and Intercontinental Exchange Pricing. IHS Markit OPIS Pricing is a standalone service that is independent of the index administrator and is based on contributed data, observed quotes in the market and parsed data. Once the set of contributions have been selected, they are passed through an iterative outlier cleaning process.
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Experienced analysts manage the process of determining the carbon contract futures prices based on a rules-based methodology. Intercontinental Exchange Pricing is based on traded levels as observed on their exchange. Intercontinental Exchange is also a standalone service that is independent of the index administrator.

3. The exercise of judgment or discretion is very rarely used and governed as described above in section 5.
4. In the unlikely situation of extreme market disruption or a severe decrease in liquidity in the underlying IHS Markit Global Carbon Index, the administrator would consult with the Index Administration Committee and Index Advisory Committee on the best way forward for the index. A notification will be sent to users if there is a situation where the index cannot be calculated or when the calculation of a significant part of the index is based on assumptions due to the lack of available data. In exceptional situations where it is not possible to calculate an index at all, an index calculation day may be declared a non-trading day.
5. The IHS Markit Global Carbon Index is subject to an official restatement policy that describes how errors in the calculation, or the membership are handled. The key determinants to decide if an index needs to be restated following an error are the magnitude of the error on the index performance as well as the impact on the users of the index.
6. The identification of potential limitations of the IHS Markit Global Carbon Index, including its operation in illiquid or fragmented markets are addressed above in section 4.

Further details of the administrator's Restatement policy are available on the administrator's website [here](#).

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**Possible impacts of changes to, or the cessation of the benchmarks upon the financial contracts, financial instruments that reference the benchmark or the measurement of the performance of investment funds**

The IHS Markit Global Carbon Index is used for benchmarking, risk and performance reporting, total return swaps, credit linked notes and exchange traded products. In the event of a cessation of the IHS Markit Global Carbon Index, users would need to switch to other comparable indices or agree appropriate terms for settlement of contracts linked to the IHS Markit Global Carbon Index.

Further details of the administrator's Change and Cessation policy are available on the administrator's website [here](#).

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## 7. Key Terms

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| <b>Benchmark Oversight Committee</b>                      | Means the independent function overseeing the IMBA UK Board with regard to the administration of the IHS Markit Global Carbon Index  |
| <b>Board</b>  | Means the Board of Directors of IMBA UK  |
| <b>ESG</b>  | Means Environmental, Social, and Governance, recognised as the three central pillars measuring sustainability and societal impact of institutions, sovereigns, or other entities |
| <b>IHS Markit Benchmark Administration Ltd. (IMBA UK)</b> | Means the administrator, which is the UK entity authorised by the FCA responsible for the daily provision of the IHS Markit Global Carbon Index                                  |
| <b>Index Administration Committee</b>                     | Means the committee with responsibility for overseeing day to day administration of the IHS Markit Global Carbon Index   |
| <b>Index Advisory Committee</b>                           | Means an advisory committee composed of industry experts, representing both buy and sell-side stakeholders   |

### **IMPORTANT:**

This Benchmark Statement will be updated whenever the information it provides is no longer correct or sufficiently precise and at least where:

- (a) there is a change in the type of the benchmark;
- (b) there is a material change in the methodology for determining the benchmark or, where the Benchmark Statement refers to a family of benchmarks, in the methodology for determining any benchmark within the family of benchmarks.

This Benchmark Statement will be updated at least every two years.



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## **CONTACT US**

For more information, including methodology documents please visit <https://ihsmarkit.com/products/indices.html> or contact us at [indices@ihsmarkit.com](mailto:indices@ihsmarkit.com)

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