

Introduction to Baltic Benchmark Governance

Executive Summary

The Baltic Exchange's freight market indices are widely used benchmarks within the shipping industry, supporting physical freight contracts, forward freight agreements (FFAs), and market analysis. This paper provides an introduction to the governance framework applied to the administration of Baltic benchmarks. It explains the roles and responsibilities of the Baltic's management, advisory councils, and oversight bodies, together with the controls that safeguard the integrity, independence, and reliability of benchmark administration.

This paper should be read in conjunction with the Guide to Market Benchmarks, which is BEISL's core governance, methodology, and process document. The Guide is mapped to the IOSCO Principles for Financial Benchmarks and the requirements of the UK Benchmark Regulation, and sets out a robust corporate governance framework based on clear segregation of duties, proportionate application of standards, independent oversight, and regulatory compliance. Taken together, these arrangements ensure that Baltic benchmarks remain fit for purpose and continue to meet the needs of the market they serve..

1. Introduction

Baltic Exchange Information Services Ltd (BEISL), a subsidiary of the Baltic Exchange, administers the Baltic's suite of regulated freight benchmarks. These benchmarks reflect prevailing market rates for dry bulk, tanker, LNG, LPG and related shipping markets, and are produced using confidential submissions from panels of independent competitive shipbrokers.

The Baltic's benchmarks are regulated under the UK Benchmark Regulation (UK BMR), compliant with the EU BMR and aligned with IOSCO Principles for Financial Benchmarks. They are produced daily through a rigorous, transparent and independently overseen process.

2. Market Inputs and the Role of Panellists

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2.1 Panellist Criteria

Panellists are independent shipbrokers who:

- Are active in the specific market segments they report.
- Do not trade in financial instruments or derivative products that are derived from, the routes they submit Input Data..
- Meet the eligibility criteria set out in the Guide to Market Benchmarks (GMB), including requirements relating to competence, governance arrangements, systems and controls, and the ability to submit Input Data reliably on each publishing day..

2.2 Submission Process

Panellists submit their assessments via the Baltic's secure web platform within designated reporting windows (e.g., Dry 10:30–10:45 UKT, Tankers 15:30–15:45 UKT). Submissions must:

- Reflect the panellist's expert judgement of the prevailing market level at the time of the assessment that meets the route description.
- When referencing market data that is different from the route description, be normalise back to the route description accounting for differences in vessel specs, dates, laycans, cargo, or contract terms.
- Provide explanations and reasonings for their assessments to Baltic assessors, assessments.

3. The Role of BEISL Assessors

Assessors are experienced freight market professionals responsible for:

- Monitoring market activity, fixtures, sentiment, and fundamentals.
- Validating all Input Data before inclusion in benchmark calculations.
- Identifying outliers, typographical errors, or suspicious input.
- Communicating with panellists to validate submissions.
- Ensuring "four-eyes" sign-off of every index before publication.

Assessors perform *control number assessments*, including:

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- **ZBEX** – Assessor-generated control price, submitted ~60 minutes before publication.
- **ZPRIN** – Principal assessments from owners/charterers, also control numbers.

These control numbers are **not used** in index calculations but provide early indicators and enhance data quality assurance.

4. Index Calculation Methodology

4.1 Overview

Indices are based on simple arithmetic averages of all valid Input Data received from panellists. For physical freight routes:

- No highs or lows are removed.
- All contributions are weighted equally unless explicitly defined otherwise (e.g., in weighted derivative curves).

4.2 Time Charter and Voyage Route Definitions

Each route has a strict and detailed definition, including:

- Vessel specifications (size, draft, age limit, speed/consumption profiles).
- Voyage or timecharter parameters (laycan windows, load/discharge ranges, durations).
- Standard market norms (commissions, load/discharge rates, cargo basis).

These definitions ensure standardisation across highly heterogeneous global markets.

4.3 Benchmark Calculation Examples

- **BDI** = Weighted composite of C5TC, P5TC, and S11TC.
- **BCI** = Weighted composite of routes C8, C9, C10, C14, C16.
- **BPI / BSI / BHSI** = Weighted indices from 5–11 global routes.
- **BDTI / BCTI** = Tanker indices weighted across major clean and dirty tanker routes.

Forward curve benchmarks may incorporate weighted contributions based on recent market share of clearing activity.

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5. Governance and Oversight

The Baltic maintains a robust multilayered governance structure:

5.1 BEISL Board

Responsible for:

- Approving benchmark methodologies.
- Overseeing compliance with BMR and GMB.
- Managing changes, cessation processes, and conflicts of interest.

5.2 Baltic Index Council (BIC)

A committee of independent market representatives providing:

- Advisory input on methodologies.
- Feedback on panellist performance.
- Recommendations on benchmark change and cessation.

5.3 BEISL Oversight Function

An independent FCA-aligned function that:

- Oversees operations and governance.
- Reviews complaints, audits, methodology changes.
- Provides escalation to the FCA when required.

6. Quality Assurance and Controls

The Baltic employs multiple layers of audit and quality control:

6.1 Daily & Monthly Controls

- Daily validation of all route submissions.
- Monthly quality check of submissions through 'Operational Benching'
- Automated surveillance systems identifying anomalies.
- Routine informal engagement with panellists.

6.2 Annual Panellist Audits

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The Baltic conducts ~168 annual audits across all market sectors assessing:

- Timing and reporting reliability.
- Market activity levels.
- Internal capacity.
- Quality of market assessments

Outcomes include “successful”, “successful with observations”, “opportunity for improvement”, “non-conformity issued”, or suspension.

6.3 External Audits

- **PwC:** Annual review confirming compliance with IOSCO and BMR.

6.4 Error Handling & Restatements

Errors may trigger:

- Historical restatement.
- Forward correction only.
- Both, depending on severity.

All restatements are governed by documented procedures, internal investigation, and external notifications where required.

7. Benchmark Change & Cessation Framework

Benchmark changes reflect evolving market realities such as vessel design, trade flows, or liquidity shifts. Changes follow a defined process:

1. Internal review by Senior Assessors.
2. BIC preliminary approval.
3. Private panellist trials.
4. Public consultation (minimum 14 days).
5. Dual reporting period (typically 12–24 months).
6. Finalisation and migration.

Past examples:

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- BHSI from 28k to 38.2k dwt.
- BPI from 74k to 82.5k dwt.
- BSI transitioning to 63k dwt.
- BCI transitioning to the new 182k dwt standard vessel.

8. Transparency, Confidentiality & Market Integrity

8.1 Confidentiality Principles

- Input Data is strictly confidential.
- Panellist identities per route are not disclosed.
- All communication is recorded and retained for five years.

8.2 Prevention of Market Abuse

Controls include:

- Automated surveillance for manipulation.
- Mandatory reporting of suspicious activity.
- FCA escalation procedures.
- Strict conflicts of interest controls for staff and panellists.

8.3 Complaints and Whistleblowing

Formal procedures ensure:

- Independent investigation.
- Transparent reporting.
- Protection of whistleblowers.

9. Conclusion

The Baltic Index Production Process is carefully designed to balance market representativeness, transparency, robustness, and regulatory compliance. It integrates:

- A global network of specialist panellists.

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- Expert oversight by professional market assessors.
- Formal governance structures (Board, BIC, Oversight Function).
- Strong quality assurance, auditing, and compliance frameworks.

This system allows the Baltic Exchange to continue delivering trusted, credible, and widely used freight benchmarks that sit at the heart of global shipping and derivative markets.

10. Further Information

For additional detail, stakeholders are encouraged to consult:

- *The Guide to Market Benchmarks (v8.1)*.
- The Baltic Exchange website (routes, vessel descriptions, FAQs).
- The Baltic complaints and engagement channels:
balticbroker@balticexchange.com.

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