

# UBS-WEMI

## UBS World Emissions Index

### Special Announcement

# Minutes from December 2007 Steering Committee

The second meeting of the UBS World Emissions Index Steering Committee was held on December 17, 2007.

Attendance: Jerome Drouin, Julie Hudson, Katia Demekhina, Emma Jenkin, Roderick Schutt, Jeffery Schlesinger

Apologies: Per Lekander, Liselotte Arni, Thomas Ulrich

## 1. Market Analysis

Outlook for Phase II is strong and the price forecast is EUR30-40.

The CER futures market has been growing and futures contracts have been launched on a number of exchanges (see point 4 below).

NYMEX and other market participants are to form a Green Exchange, which would potentially have contracts that could be included in the index at a future stage (see article attached)

Due to the latest news that ECX is "caught in the crossfire of a battle between two of its business partners that could result in it losing a substantial portion of its trade to rivals", WEMI Steering Committee would observe the exchange volume on regular basis. For more information, please see <http://www.planetark.com/dailynewsstory.cfm/newsid/46046/story.htm>

## 2. Roll Period

An important question we have discussed is whether we should change the roll in order to not leave the index fully exposed to one particular future contract until the end of the year.

What we are proposing to do is to do a monthly roll of 1/12th of the index exposure from one future contract into the next (i.e. roll 1/12 of Dec08 into 1/12 of Dec09) over the last 3 business days of the month. This way, we would have exposure to both Dec08 and Dec09, with the Dec09 portion increasing as we move further in the year.

Market conditions would allow to do this as Dec09 has liquidity increasing on gradual basis and becoming the most liquid contract towards the end of Q208 and beginning of Q308 when traders start to role their DEC 08 positions. By rolling only 1/12th of the exposure, we are ensuring that there is enough liquidity in the Dec09 market even at the start of the year.

As this roll methodology would not be implemented till January 2008, for this year we would need to split the roll volume proportionally between 10 months, rather than 12 as would be done in the future.

### **3. New Weights**

There are currently no new components in the index and the weight has changed only slightly - Nordpool has increased by a small percentage.

New weights are:

ECX: 82.86%

NP: 17.14%

### **4. Potential future inclusion of CERs**

In June 2007, Nordpool have launched futures contracts on CERs. CER contracts could potentially be added to the index to add its diversification. (Barclays's Carbon Index launched last week has 20% of its weight in CER futures contracts).

One complication with including CERs with the current index methodology is that the first step of Secondary Analysis (analysis of tradability) is to determine the size of the market. In order to do so we need not just the closing prices, but the amount of CERs in circulation. This figure would be difficult to determine and it changes on regular basis as the new CERs get approved. The committee would think of the ways to determine the size of CER market to be able to look at CER's membership eligibility criteria.

Also, CER futures have been launched on CCFX in August this year. There is not much history and there seems to be very little volume (occasionally 5,000 are traded), while open interest is around 15,000-75,000 tonnes.

### **5. Steering committee**

Jeff Schlesinger has agreed to join the Steering Committee to replace Jerome Drouin who stepped down from the committee.

The next meeting of the UBS World Emissions Index Steering Committee will be held in May 2008.