

PRESS RELEASE



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BALTIC EXCHANGE WARNS ON OVER-ZEALOUS EUROPEAN DERIVATIVES REGULATION

The Baltic Exchange has called on the European Commission (EC) not to lose sight of the benefits of over-the-counter (OTC) trading in the freight derivatives market and warns that over-zealous regulation could drive business away from Europe.

In its response to the EC's consultation paper *Enhancing the Resilience of OTC Derivatives Markets*, the Baltic Exchange argues that the freight derivatives market has evolved successfully and in the direction desired by regulators thanks to an evolutionary rather than prescriptive approach. The freight derivatives market already sees around 90% of all trades cleared and is provided with independent forward pricing and volume data by the Baltic Exchange.

The Baltic warns against a move towards the imposition of exchange traded contracts by regulators, noting that market forces should be allowed to judge when the benefits of exchange or other electronic trading outweigh the benefits of OTC trading.

"OTC markets allow brokers and traders together to evolve contracts which meet their needs. There is considerable natural pressure for standardisation because using a standard instrument reduces liquidity risks and opens up access for example to clearing. It also offers the likelihood of finer pricing in a brokered market since the pricing of a standard contract is more likely to be subject to market-place competition."

Responding to calls for greater transparency in derivatives markets, the Baltic Exchange writes:

"It is unclear why more transparency of trading activity could help instil better due diligence and more efficiency in the markets."

It adds:

"In the commodity markets and specifically the freight market, private unregulated companies transact business with other private companies and often choose to keep this business confidential. Not only are

the benefits of greater transparency [of this nature] unclear, they are probably unattainable as other jurisdictions, Switzerland, Singapore etc are attractive alternative locations for market participants. Over-zealous regulatory intervention could easily drive business away from the EU.”

A full copy of the submission is available on

www.balticexchange.com/default.asp?action=article&ID=5457

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Notes to editors

The Baltic Exchange

The Baltic Exchange is the world's only independent source of maritime market information for the trading and settlement of physical and derivative contracts. Its international community of over 550 members encompasses the majority of world shipping interests and commits to a code of business conduct overseen by the Baltic.

Baltic Exchange members are responsible for a large proportion of all dry cargo and tanker fixtures as well as the sale and purchase of merchant vessels.

Baltic Exchange services

- Independent, high quality dry, wet and gas freight market information
- Self-regulated chartering, sale and purchase and freight derivatives markets
- Central forum for competing freight market interests
- Framework ensuring high standards of business practice and co-operation
- London-based business facilities for members
- A collective voice for members worldwide

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