BCOMCA FAQ

Bloomberg Commodity Carbon Tilted Index (BCOMCA)

May 2023

Why did Bloomberg create this index?

The BCOM Carbon Tilted index was created to expand our established sustainable Index offering, adding commodities to our Equity and Fixed Income sustainable offerings. This index also meets investors' needs by providing a Commodity sustainable product that can be used as an alternative, or complement, to BCOM and integrated into any sustainable multi-asset investment profile.

What is the primary objective of BCOMCA?

BCOMCA is designed to account for carbon emissions associated with the production of the physical commodities underlying the benchmark while maintaining diversification benefits and inflation hedging characteristics. A life cycle-based approach is used to measure carbon emissions; with an overweight applied to commodities with a lower carbon footprint.

How is the environmental data sourced and what GhG metrics are used in this index?

Greenhouse Gas (GhG) Emission Factors, used to tilt the BCOM weights, are sourced from Sphera (https://www.sphera.com/), a leading provider for Life Cycle Assessment (LCA) models, Environmental, Social and Governance (ESG) performance and risk management software, data and consulting services focusing on Environment, Health, Safety & Sustainability (EHS&S). Additional information about Sphera is available upon request.

How is carbon reduction measured? Why is it measured this way?

One of the key aspects of the decarbonization drive is to attempt to reduce the carbon cost while producing energy, metals, and food. This implies the basic unit of measure is the unit of output produced. Accordingly, for each commodity, the GhG emissions per unit of production is estimated. The portfolio value is the weighted average of the emissions values of the individual commodities and their weights in the portfolio. The relative/percentage difference between the weighted average of the portfolio and the weighted average as per BCOM weights, is the reduction.

How do the carbon considerations for BCOMCA differ from those in Equities and Fixed Income?

Traditional approaches used in equity and fixed income markets may not be directly applicable to commodities. Our research suggests the need for differentiation between the goals of introducing sustainability metrics into commodity portfolios versus equity and fixed income portfolios. This need arises from aspects such as ownership, the investment vehicle and the level of estimation uncertainty. Such considerations translate to important differences for commodity portfolios such as the appropriate unit of measure (of GhG emissions), investor objectives and data collection methods.

Does BCOMCA have a specific target for carbon reduction and how is it measured?

Since portfolios composed of commodity Futures do not contribute directly to the physical demand and supply of a commodity, assessing the emissions per portfolio has limited value; we have constructed a measure referencing the funding support per US dollar associated to a commodity. The difference in funding support measures the change in per unit emissions of the tilted portfolio versus the BCOM benchmark.

The Carbon Tilted BCOM index aims to achieve a change in per unit emissions of 20% compared to BCOM.

Why is there a different reduction in carbon emissions for each BCOM group?

Since we are interested in the reduction in carbon emissions for a given tracking error volatility (TEV) band, the amount of reduction is a function of three things (1) the magnitude of the GhG emissions per commodity, (2) the dispersion of the emissions values and (3) the correlation of returns within the sector. Given that these differ between sectors, reduction levels are expected to differ by BCOM group.

Why not target a 20% reduction in each group?

Each group has a distinct trade-off in terms of reduction versus TEV. As a result, targeting the same reduction percentage would lead to different tracking error levels per sector. This in turn can potentially alter the asset allocation characteristics of the commodity portfolio with regards to the diversification properties. It might also be the case that for certain sectors, a 20% reduction is unachievable due to the lack of dispersion of the GhG estimates within that sector. Lastly, applying a 20% reduction on a per sector basis would have a potential impact on the overall liquidity of the index.

What is the process for tilting?

The tilting process is done on an annual basis in line with the yearly changes to the BCOM composition (determination of the Index Commodity Index Percentages) as outlined in the BCOM methodology.

The process is designed to over (under) weight contracts associated with commodities with lower (higher) GhG emissions on a per unit of output basis.

Why are BCOM groups split into subgroups?

BCOM groups are divided into BCOMCA subgroups in order to partition certain sectors – Agriculture and Energy – into primary and derived commodity subgroups. This prevents the double counting of emissions across primary and derived commodities (e.g. Soybean and Soybean Oil).

What is an LCA process?

Lifecycle Assessment (LCA) models aim to estimate GhG emissions at each stage of a production process or service. For BCOMCA, dedicated LCA models aim to represent the production cycle of each commodity with clearly defined system boundaries such as:

- Inputs account for geographical variations (e.g., coffee production and crude oil extraction)
- Model parameters reflect relevant production processes, like for example the reduced emissions from recycled metals production and the treatment of carbon sequestration in agriculture

System boundaries define which physical processes contribute to the production of the underlying commodity as defined by the futures contract.

Does BCOMCA take social and governance factors into account?

The BCOMCA methodology reflects GhG emissions as a weighting factor and does not take into account any social or governance factors.

Are Scope 1, 2, 3 emission considerations included and why?

GhG emissions are commonly discussed on a scope 1, 2 & 3 basis in the context of firm-specific emissions; however, Commodities are extracted, grown, and/or farmed by multiple firms with different geographies and processes. We therefore utilize an emissions classification system instead.

The classification system is based on the physical production processes associated with each commodity to determine emissions that result from direct processes and indirect processes such as energy consumption. While not an exact equivalent, this is comparable to the scope 1 & 2 emissions reporting for individual companies. For more details consult the BCOMCA methodology.

How does BCOMCA compare to BCOM?

Comparing Index Construction of BCOM & BCOM Carbon Titled		
	BCOMCA	**BCOM**
Index Base Date	12/30/2011	12/30/1990
Annual Rebalance (January)	✓	✓
Holiday Schedule	✓	✓
Commodity Index Contact Calendar	✓	✓
Roll Schedule (6th to 10th Business Day)	✓	✓
Publication Times	✓	✓
Composed of Commodity Future Contracts	✓	✓
Diversified within Commodity Groups	✓	✓
Inclusion of Commodity Sub-Groups	✓	
Economic Significance (World Production)	✓	✓
Diversified within Commodity Groups	✓	✓
Climate Tilted Weights	✓	
Liquidity Criteria	✓	✓
Inflation Hedging	✓	✓

How do I get access to BCOMCA and is BCOMCA eligible for customization?

Yes, BCOMCA is fully integrated within BCOM and supports end-to-end customization. For access to BCOMCA index data, please reach out to your Bloomberg representative or contact commodities@bloombergindices.com.

Take the next step.

For additional information, press the <HELP> key twice on the Bloomberg Terminal.

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