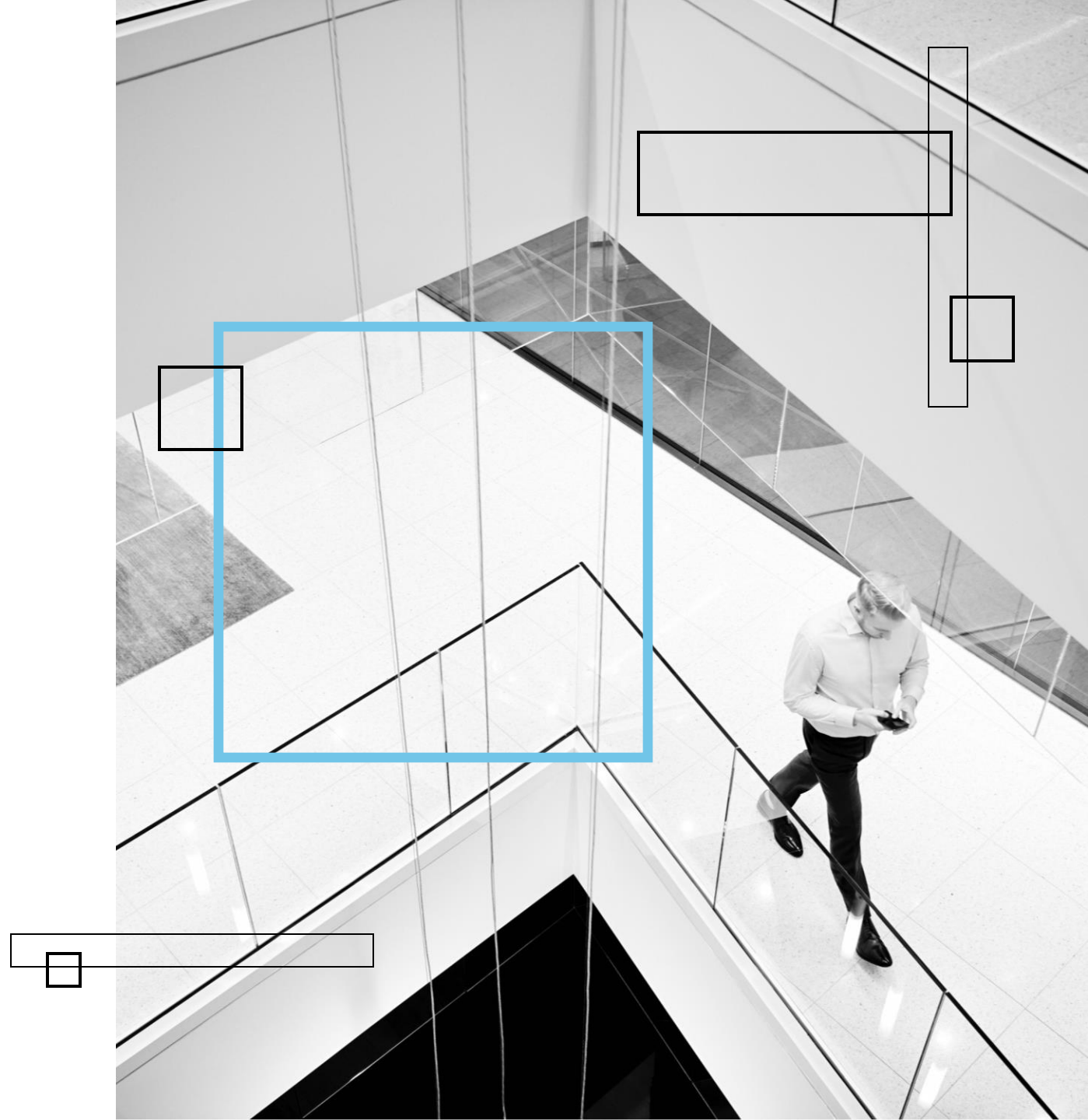




RESTRICTED

ICE Commodity Traceability (ICoT)

August 2023



Introduction

Dear FCC Member,

Thank you very much for attending the webinar hosted by Robin Dand and the FCC last week. The attendance of so many members testifies to the importance that the industry places on meeting the EU Deforestation Regulation (EUDR) and the potential implications for trading that the regulation raises.

ICE Benchmark Administration is committed to deploying considerable resource in working with the industry to bring forward a solution that meets the market's needs.

There are three important messages that I would like to emphasise:

- **ICoT's central objective is to maintain the existing frictionless trade in cocoa and cocoa products**
- **ICoT seeks to enhance the return on the significant investment made by traders and operators in their supply chain sustainability investments over many years, through maintaining the flexibility provided by frictionless trade**
- **ICoT will leverage the data from traders' and operators' existing supply chain sustainability processes and third-party systems, to maintain tradability of cocoa and cocoa products.**

My colleagues and I at IBA would be delighted to meet FCC members individually to receive your feedback and respond to questions you may have. Please email IBA-ICoT@ice.com to arrange a meeting or ask questions.

We hope that you find this shortened presentation helpful and look forward to collaborating with the FCC and its members in the months ahead.

Best wishes,

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President, ICE Benchmark Administration

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1. EU Deforestation Regulation – *what you need to know*
2. ICE Commodity Traceability (ICoT) Service – *what we will provide*
3. ICE Benchmark Administration – *who we are*

EU Deforestation Regulation (EUDR)

Article 3 - Prohibition

Relevant commodities and relevant products **shall not** be placed or made available on the market or exported, **unless** all the following conditions are fulfilled:

- (a) they are deforestation-free;
- (b) they have been produced in accordance with the relevant legislation of the country of production; and
- (c) they are covered by a due diligence statement.

Cocoa	1801 Cocoa beans, whole or broken, raw or roasted
	1802 Cocoa shells, husks, skins and other cocoa waste
	1803 Cocoa paste, whether or not defatted
	1804 Cocoa butter, fat and oil
	1805 Cocoa powder, not containing added sugar or other sweetening matter
	1806 Chocolate and other food preparations containing cocoa

Timeline

31 December 2020:
EUDR cut-off date
for deforestation

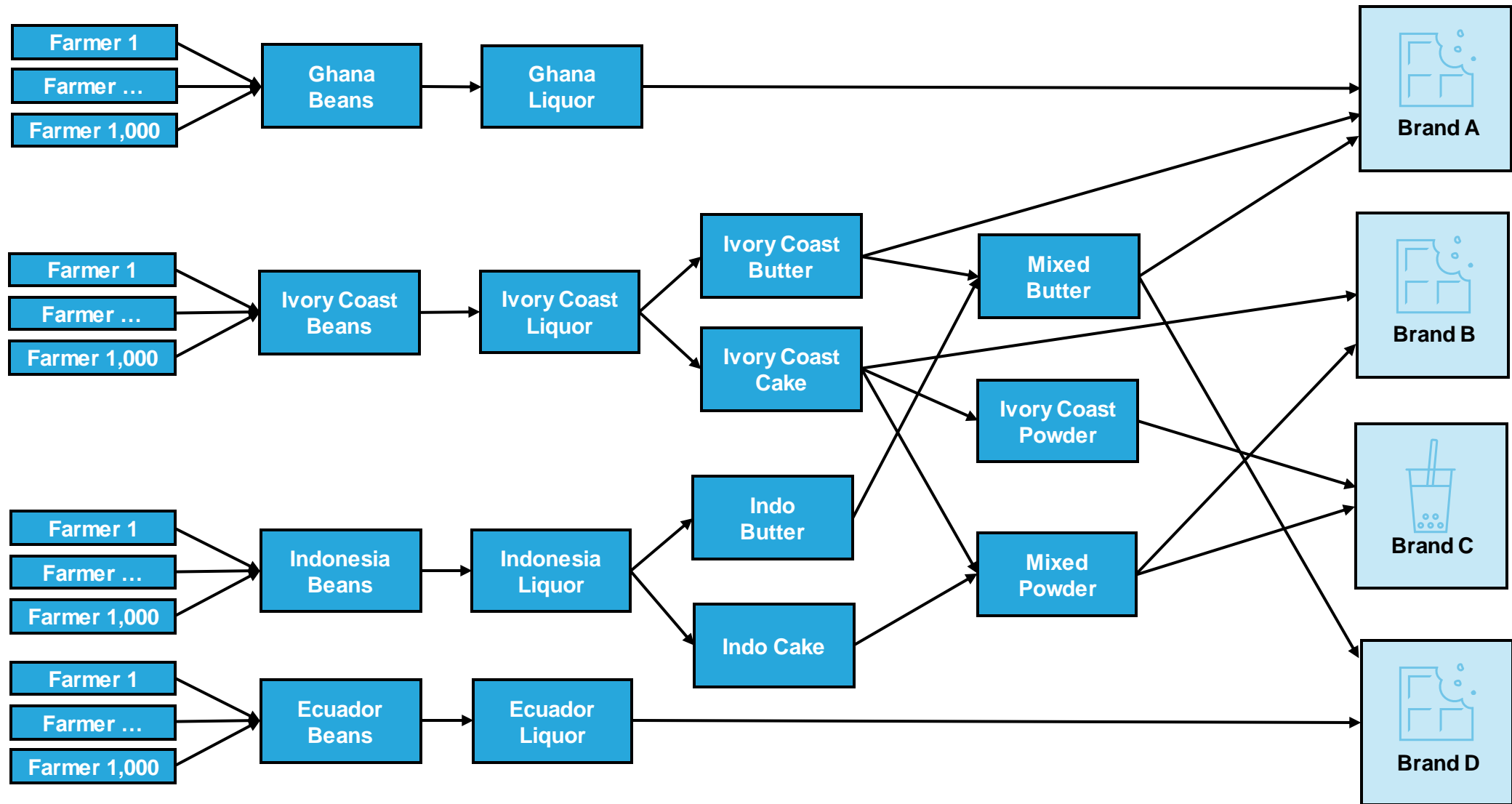
29 June 2023:
EUDR entered into force

30 December 2024:
EUDR enters into
application

Challenges for the cocoa industry and trade

- EUDR requirements
 - For products placed on, or exported from, the EU market, Traders and Operators will need to produce a Due Diligence Statement (DDS) including the **geolocation of every farm plot – either a GPS point or a polygon if the plot is over 4 hectares**
 - Traders and Operators must confirm in the DDS that due diligence in accordance with the regulation has been carried out
- Will there be a deficit of EUDR compliant cocoa in 2025 and beyond?
 - Third party suppliers and indirect supply chains needing to be compliant could lead to a deficit of compliant cocoa
- EUDR adds complexity to trading
 - Danger of de-commoditisation
 - Threats to the existing trading model of the industry
 - FCC contract terms for cocoa bound to Europe needing to incorporate EUDR terms
 - Risk that de-commoditisation and restricted trade hinder the price discovery process
- ICE Futures Exchange delivery terms
 - Delivery points are in Europe
 - Initial assessment is that Exchange certified stock should meet the EUDR standards
 - Similar to Grading cocoa for quality, ICE intends to introduce EUDR compliance data checks, via ICoT

Cocoa: A Complex Global Supply Chain





ICE Commodity Traceability (ICoT) Service

ICoT: Validation of Traceability Data

- ICoT is designed to track parcels from Traders and Operators to provide traceability data for EUDR compliance
- ICoT will carry out automated validation checks on farm and traceability data provided by Traders and Operators to ensure compliance, reasonability and plausibility
- ICoT will support the submission of Due Diligence Statements. Traceability data can be made available to National Competent Authorities to support checking of parcels and Traders or Operators
 - Parcels can be handed over from buyer to seller within ICoT. Traceability data will move with the parcel and remain confidential. The buyer can build upon this traceability data as they move, merge, split and process parcels
 - Independent validation of farm and traceability data increases buyer confidence



Complete Coverage

Standardisation

Confidentiality

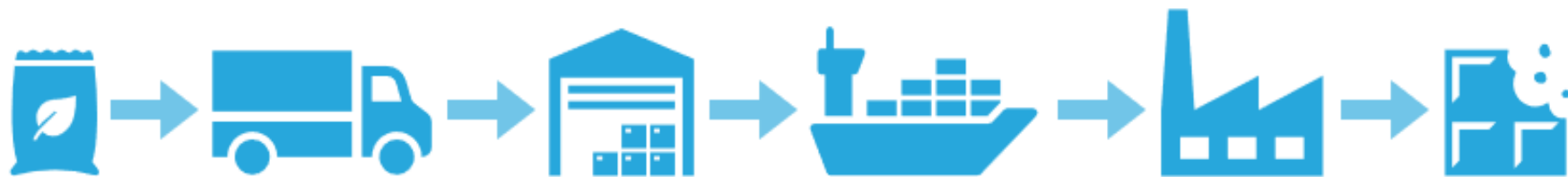
Validation

Increased Trust

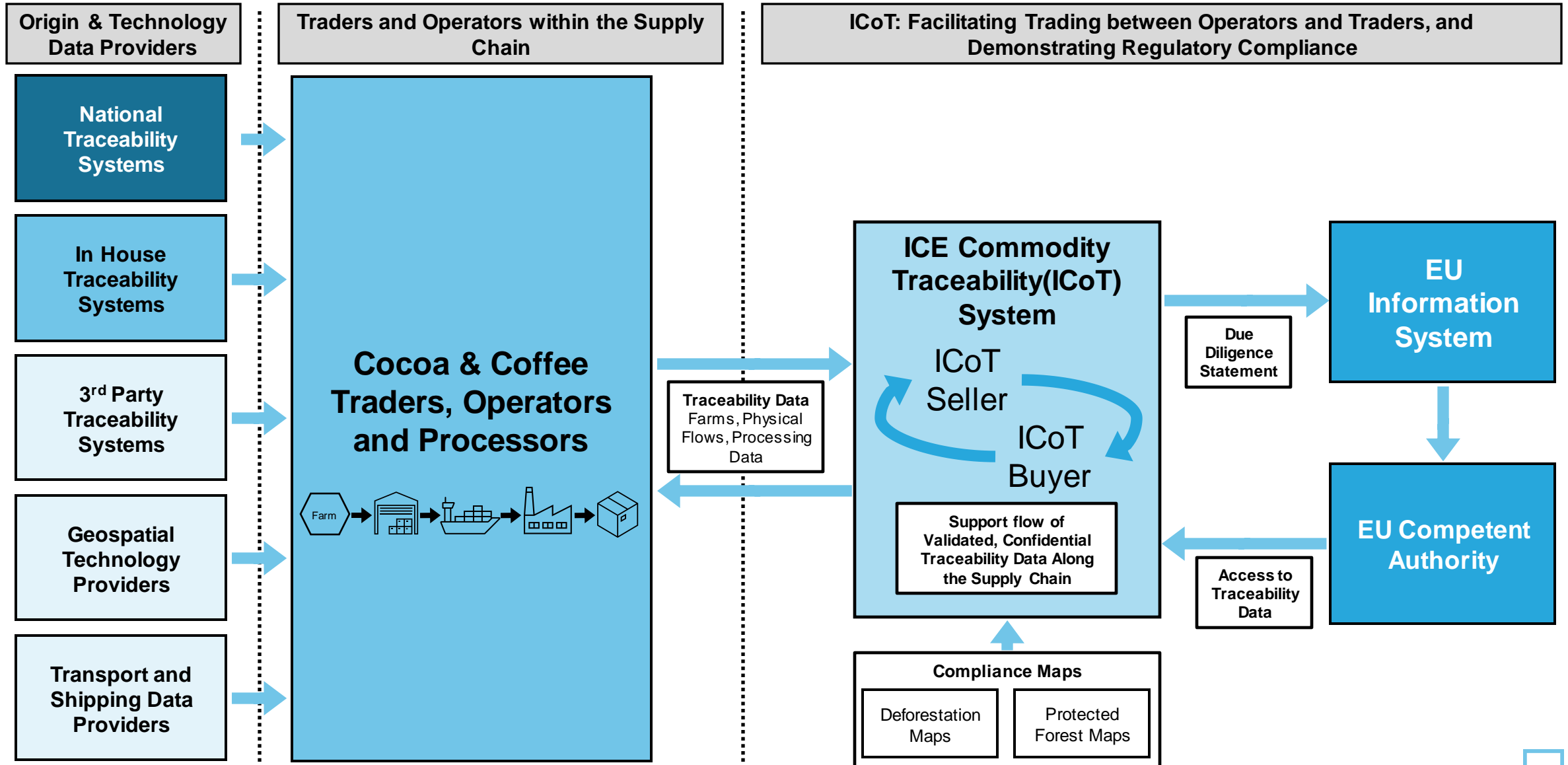
ICoT data validation

ICoT will:

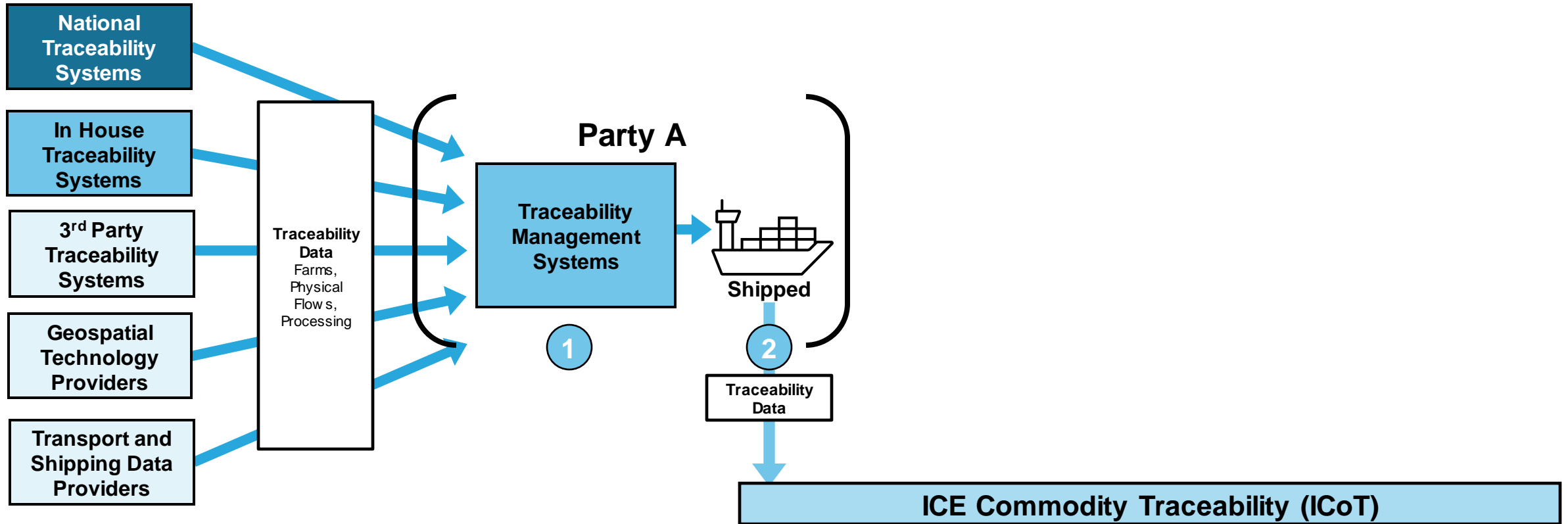
- Validate that each plot is not in an area of deforestation, according to the reference map
- Validate that each plot is not within a protected forest, according to maps produced by each origin country
- Conduct additional sense and reasonability checks on farmer and plot data
- Conduct sense and reasonability checks on physical flow and processing data (e.g. validating expected yields when processing beans to liquor)



ICoT: System Overview and Data Flows

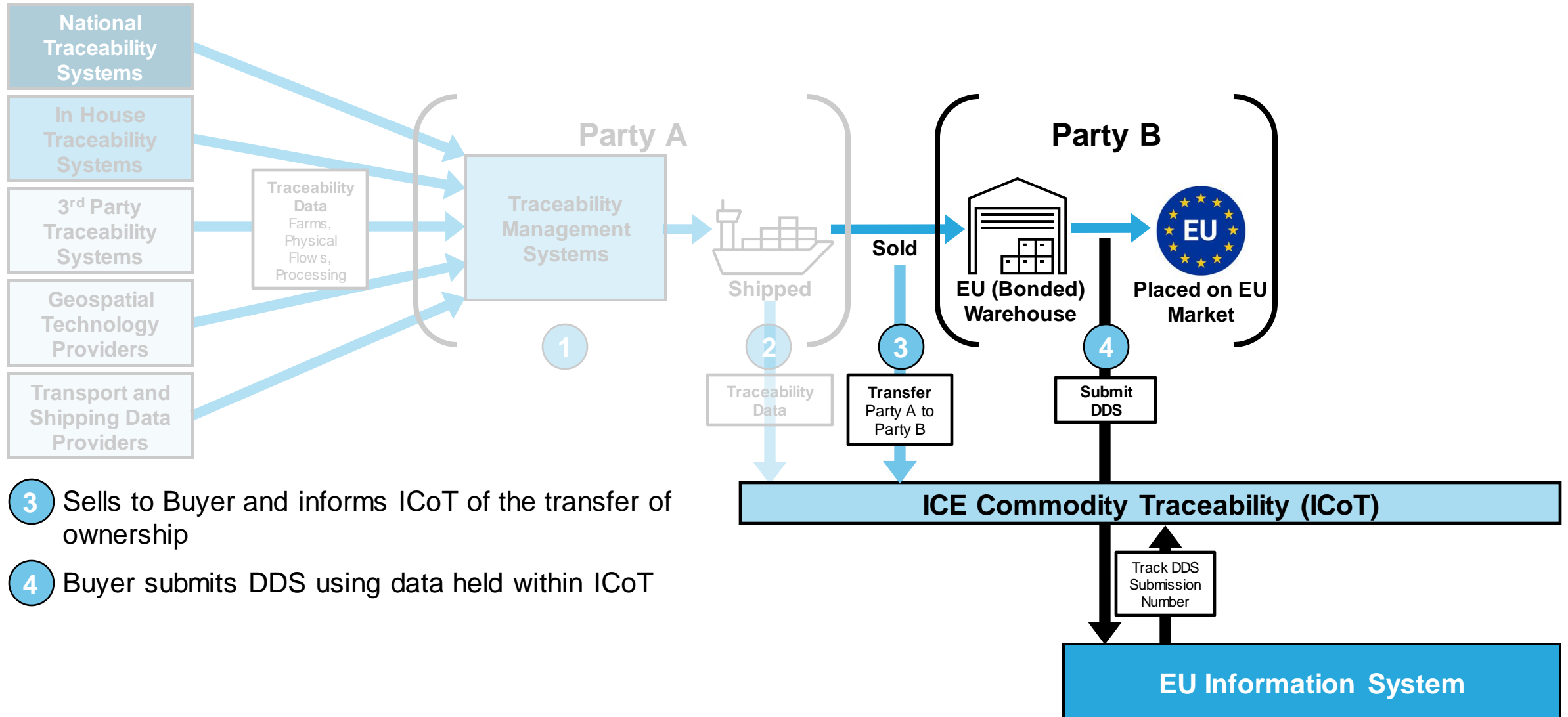


ICoT: Supporting Trade Across the Supply Chain – Example Part 1



- 1 Collects traceability data
- 2 Submits traceability data to ICoT for validation

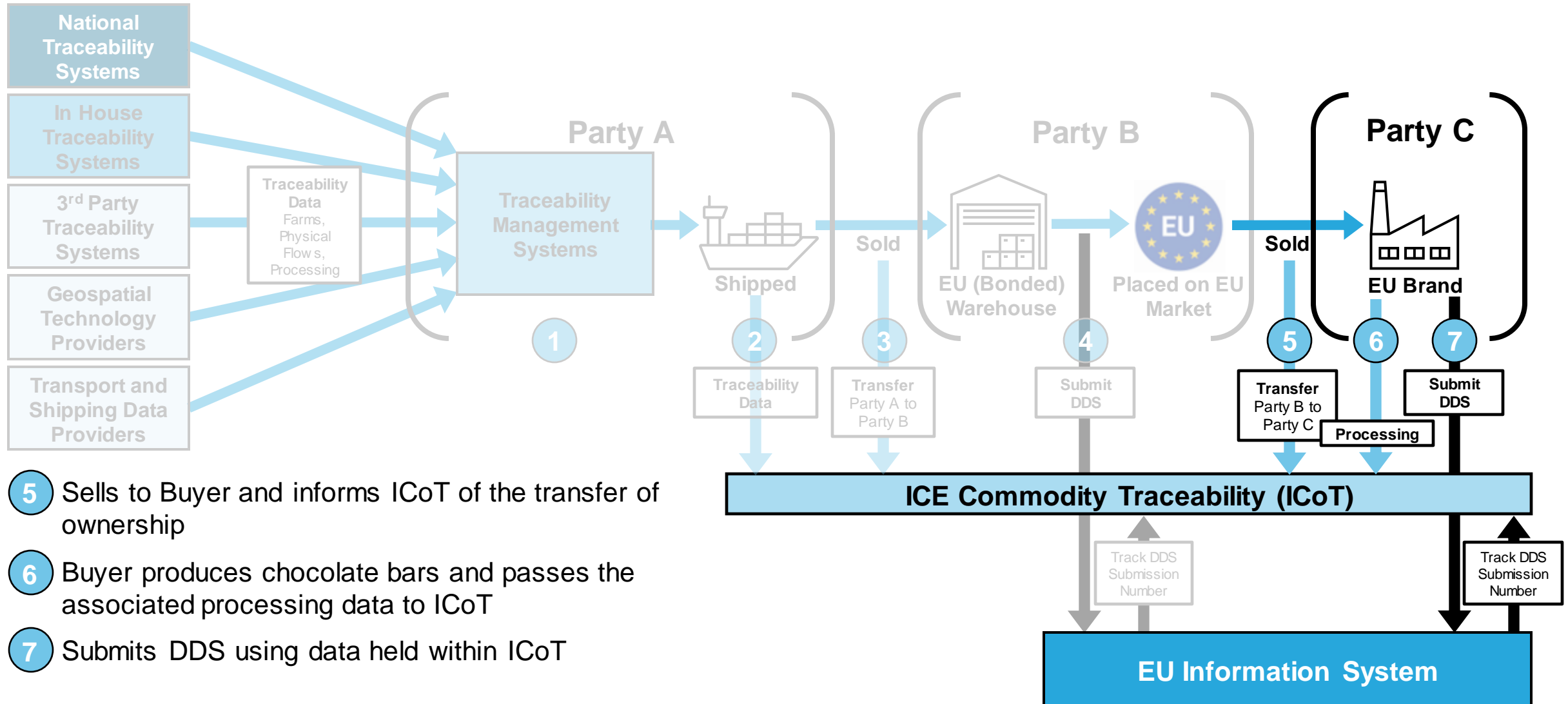
ICoT: Supporting Trade Across the Supply Chain – Example Part 2



3 Sells to Buyer and informs ICoT of the transfer of ownership

4 Buyer submits DDS using data held within ICoT

ICoT: Supporting Trade Across the Supply Chain – Example Part 3



- 5 Sells to Buyer and informs ICoT of the transfer of ownership
- 6 Buyer produces chocolate bars and passes the associated processing data to ICoT
- 7 Submits DDS using data held within ICoT



ICE Benchmark Administration (IBA)

IBA: Governance, technology and data management

- ICE Benchmark Administration (IBA) was established in 2013 and has a majority independent board of directors
- IBA's mission is to provide robust and reliable benchmark and other services that facilitate the smooth functioning of commodity and financial markets globally
- IBA is recognised worldwide for its expertise in governance, technology and data management
- IBA is authorised and regulated by the UK Financial Conduct Authority for the regulated activity of administering a benchmark
- IBA is owned by ICE, the world's home for trading physical commodities, including coffee and cocoa, delivered under futures contracts

ICoT

**ICE Swap
Rate®**

**LBMA Gold
Price and
LBMA Silver
Price**

**U.S.
Treasury
Closing
Prices**

 **ICE** Benchmark
Administration™

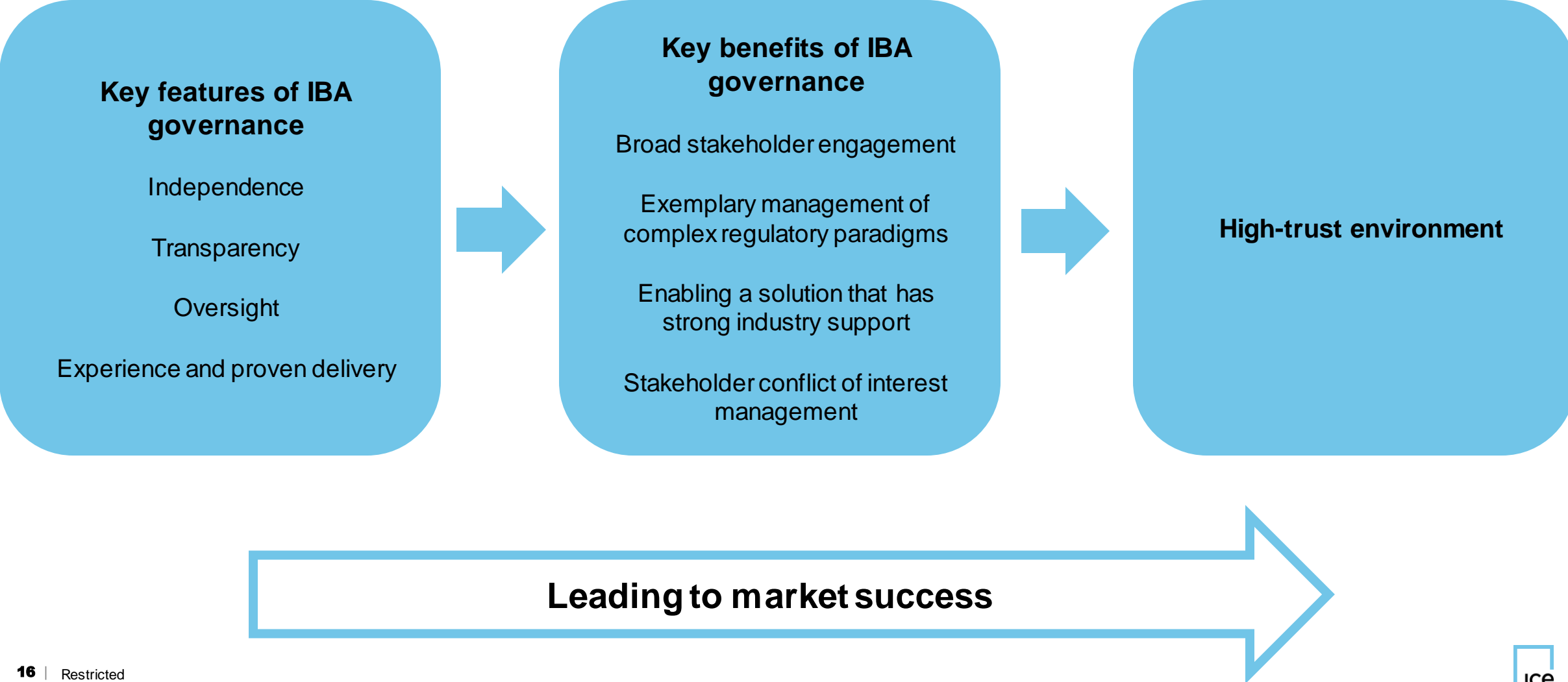
**ICE Term
Reference
Rates and
ICE RFR
Indexes**

**ISDA SIMM
Crowd-
sourcing
Facility**

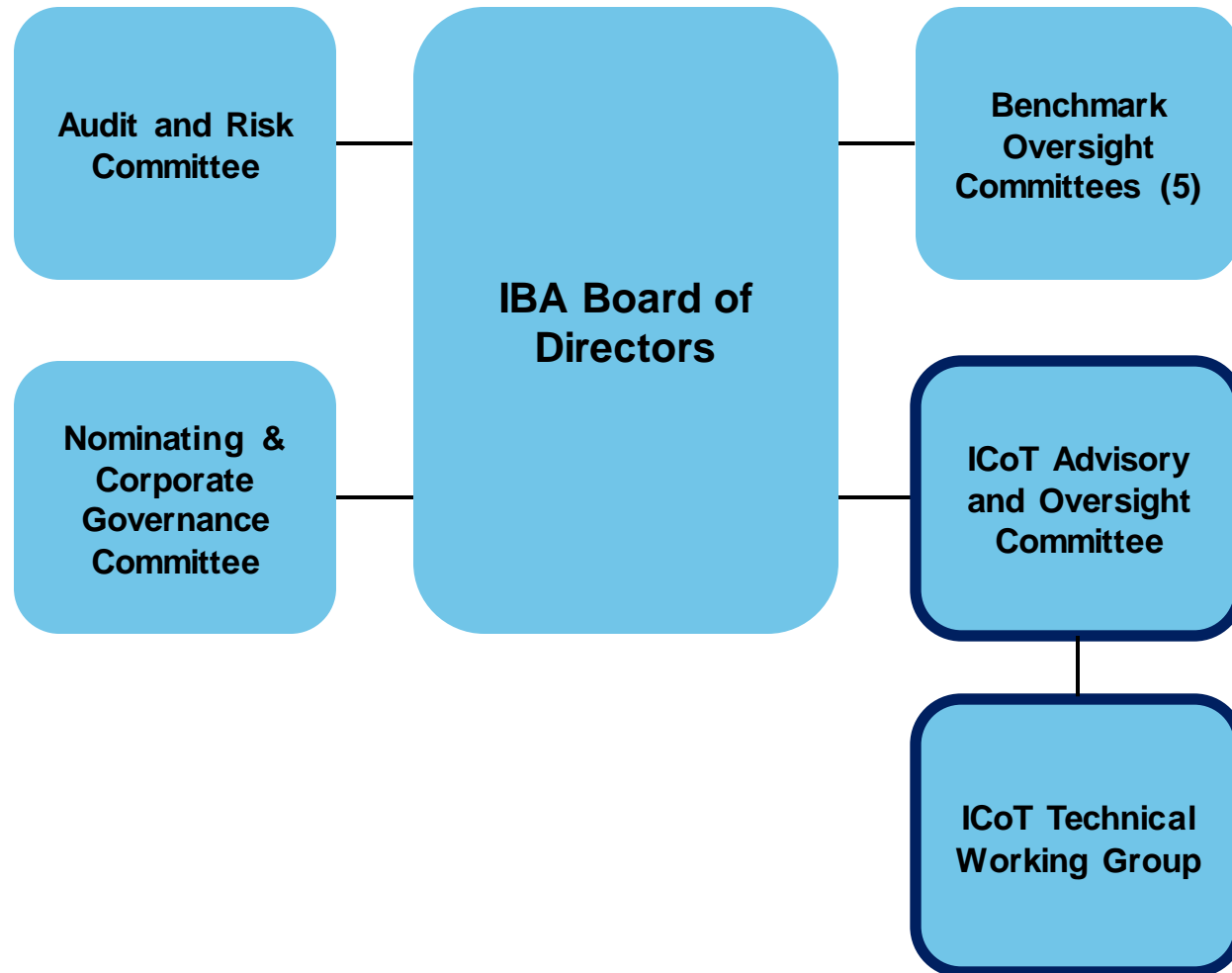
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IBA Governance: Creating a high-trust environment for physical cocoa trading



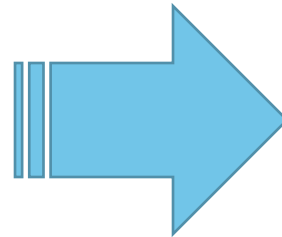
ICoT Advisory and Oversight Committee: An important voice



- IBA's Board has a majority of independent directors
- The ICoT Advisory and Oversight Committee will be a forum for advice and guidance from diverse viewpoints:
 - Providing independent governance and direction for ICoT
 - Providing important input in respect of ICoT
 - Ensuring that the ICoT design addresses the needs of industry participants

Key advantages of ICoT design

- Increases trust between buyers and sellers
- Makes cocoa parcels easily tradable
- Provides independent validation of EUDR compliance data
- Enables EUDR compliance data to be transferred confidentially
- Strong governance builds stakeholder confidence in the ICoT service



Key benefits for participants

- Maintains existing business model
- Keeps supply chain commoditised
- Facilitates both direct and indirect supply chain
- Enhances ROI on sustainability investments
- Reduces risk of non-compliance



APPENDIX

EUDR definitions & liability - 'Trader' and 'Operator'

Operator

- Legislation definition
 - An operator is a 'person who places relevant products on the [EU] market *or exports them*'
- EUDR FAQ #32
 - 'Operators further down the supply chain are those who transform a product listed in Annex I ... into another product'

Trader

- 'any person in the supply chain other than the operator who...makes relevant products available on the market'

Obligations (from EUDR FAQ #34)

- 'By virtue of Article 5(1) of the Regulation, the obligations of large traders are the same as those of large downstream operators:
 - a) they need to file a due diligence statement
 - b) they need to check the due diligence previously carried out in the supply chain
 - c) they are liable in case of a breach of the Regulation.'

Due Diligence

- For products placed on, or exported from, the EU market, Traders and Operators will need to produce a Due Diligence Statement (DDS) including the geolocation of every farm plot – either a GPS point or a polygon if the plot is over 4 hectares
- The DDS also includes confirmation that due diligence in accordance with the regulation has been carried out. Due Diligence can be checked (audited) by authorities

Article 9 - Information

- Including quantity, time of production, country, geolocation, name and address of suppliers
- ‘adequately conclusive and verifiable information that the relevant products are deforestation-free’

Article 10 – Risk Assessment

- ‘Operators shall verify and analyse the information collected....and shall carry out a risk assessment’

Article 11 – Risk Mitigation

- Collecting additional data, carrying out independent audits
- Having adequate controls and procedures to effectively manage risks of non-compliance
- Having measures and procedures documented and available for checks by authorities

EUDR liability, checks and penalties

Liability *(from EUDR FAQ #35)*

- FAQ #35: 'Who will be held liable if products have already entered the market or in case information is not properly disclosed by the operator?'
- FAQ Answer: ' All operators retain responsibility for the compliance of the relevant product they intend to place on the Union market or export from it. The Regulation also requires operators (or traders which are not SMEs) to communicate all necessary information along the supply chain. Therefore, in case of a breach of the Regulation, each actor of the supply chain concerned with the specific shipment is held liable'.

Checks

- National Competent Authorities will carry out annual checks on up to 9% of Traders and Operators.

Penalties

- Non-compliance could result in a fine of 4% of the company's annual turnover within the EU

Contact Details

Please email any questions to IBA-ICoT@ice.com

The team would be delighted to hold individual meetings to discuss ICoT



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