As a result the exposure and the relating commodity price risk increases, leading to significant P&L effects, operational risks and compliance issues.

The main challenges imposed by paper trades, which are settled through a cash payment at the end of the term, are:

- Risk calculation of market prices and valuations
- Credit exposures
- Hedge accounting
- Generation and distribution of confirmations
- Application of relevant taxes
- Generation of invoices
- Generation of netting statements
- Update of margin requirements and calculation of required margin amounts
- Financial reporting and risk controlling

Additional challenges for trades, which are settled through a physical delivery of the respective commodity – physical trades, are:

- Integration of trading and logistics processes
- Physical Trades require dispatching and scheduling of the delivery – inventory management and valuation of the stocks
- Handling of different qualities and penalties and its allocation

Most Commodity Management Systems are either specialized on handling Paper Trades or Physical Trades. Due to the structure of the complexity of commodity contracts, very few systems cover all functionalities that are required to manage Physical and Paper Trades and mostly without an efficient full integration into an ERP System.

**The Solution**

BearingPoint provides an efficient approach to implement appropriate processes and adaptable IT landscapes to manage commodities and exposures (commodity, FX) in order to meet today’s market challenges:

- Analysis and process improvement within commodity trading departments
- Implementation of global commodity and exposure management solutions

---

**Commodity Trading & Exposure Management**

Increasing volatility of foreign exchange (FX) rates and commodity prices confront corporations with a new level of complexity.

This is due to legal and process requirements of different commodities. Paper trades are handled differently from physical trades, not only on settlement but also on issues like taxation and pricing. This poses a challenge on the IT landscape.

To understand the different level of complexity it is necessary to analyse a sample process of commodity settlement.

With the background of numerous successful projects BearingPoint combines business knowledge with IT skills in trading, logistics and risk management (end to end process). Therefore our company is well positioned to analyze and implement your commodity processes.

BearingPoint has an exclusive partnership with SAP for Treasury & Risk Management. Logistic processes are handled via the fully integrated Global Trade Management.

The **Key Question** is to be aware of the overall exposure and the risks depending on the accuracy of transaction data as well as automatic controls.

The general **Challenges** for companies which are exposed to commodity markets are:

- Increased volatility of commodity prices
- Lack of transparency on commodity exposures
- Poor data quality, lack of consistency and completeness
- Missing system and process integration (no single point of truth)
- Lack of controls

As a result the exposure and the relating commodity price risk increases, leading to significant P&L effects, operational risks and compliance issues.

The main challenges imposed by paper trades, which are settled through a cash payment at the end of the term, are:

- Risk calculation of market prices and valuations
- Credit exposures
- Hedge accounting
- Generation and distribution of confirmations
- Application of relevant taxes
- Generation of invoices
- Generation of netting statements
- Update of margin requirements and calculation of required margin amounts
- Financial reporting and risk controlling
Helping our clients get sustainable, measurable results

BearingPoint is an independent management and technology consultancy. Owned and operated by its Partners throughout Europe, BearingPoint provides its clients with the best possible value in terms of tangible, measurable results by leveraging business and technology expertise. The company currently employs 3,200 people in 14 European countries and serves commercial, financial and public services clients. BearingPoint offers its clients a seamless cross-border approach, strong focus on results, an entrepreneurial culture, profound industry and functional knowledge, as well as solutions customised to clients’ specific needs. The firm ranks high in client satisfaction, has long-standing relationships with reputable organisations and is seen as a trusted adviser. BearingPoint has European roots, but operates with a global reach.

For more information, please visit: www.bearingpointconsulting.com

We are BearingPoint. Management & Technology Consultants

Contact:

Vahan Gürmann, Partner
vahan.gurmann@bearingpointconsulting.com

BearingPoint Switzerland AG
Pfingstweidstrasse 60
CH-8005 Zürich

www.bearingpointconsulting.com

© 2011 BearingPoint Switzerland AG, Zürich. All rights reserved. Printed in the EU. The content of this document is subject to copyright (“Urheberrecht”). Changes, cuts, enlargements and amendments, any publication, translation or commercial use for the purpose of trainings by third parties requires the prior written consent of BearingPoint Switzerland AG, Zurich. Any copying for personal use is allowed and only under the condition that this copyright right annotation (“Urheberrechtsvermerk”) will be mentioned on the copied documents as well. TC 0594 CH