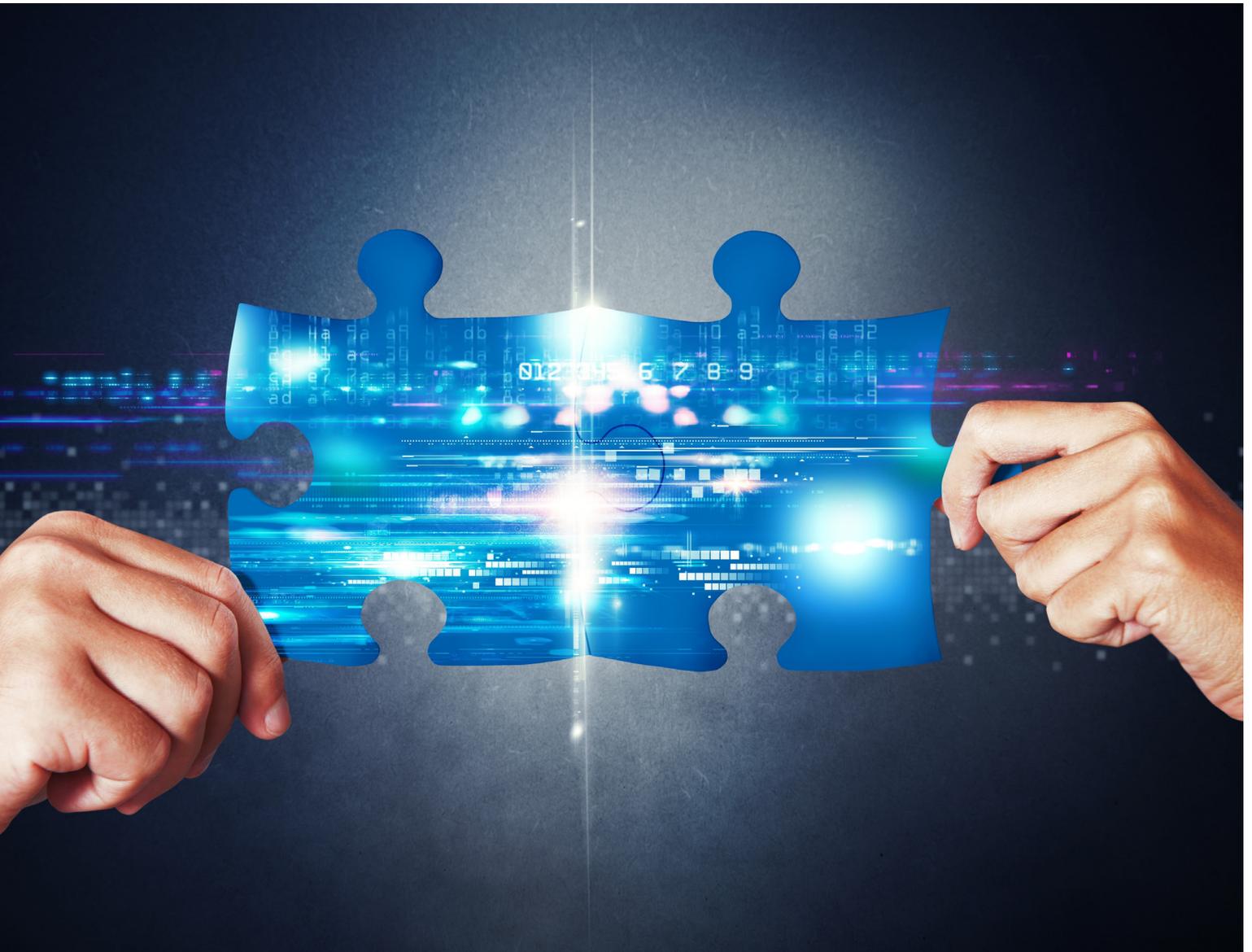


Next Generation Integrated Treasury and Trading for Energy and Commodity Companies



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INTRODUCTION

Commodity markets have always been uncertain and have often exhibited extended periods of volatility. Events such as the collapse of Enron and other marketers, the financial crisis, and more recently, BREXIT, have all had massive impact, and yet, after each event, measures have been put in place, both regulatory and in terms of controls, to protect markets, margins and profits. Each tumultuous event has brought learning, innovation and improvements in business processes. The energy industry has also learned from these experiences; adopting better and improved risk controls, systems and tools to predict, protect and profit. Yet, now may be the time to innovate once again to better protect margins amid increasing costs and lower commodity prices.

THE ROLE OF TREASURY

Energy producers, traders and consumers today face a challenging trading environment with more regulatory oversight, lower prices, increasing costs and almost constant volatility. As a result forward thinking energy companies are already adopting a more closely integrated treasury and trading approach, a potentially overlooked opportunity by many. Typically, trading and treasury are separate areas of business with limited or no integration between them. The traders work to sell commodities at the best price or to profit from trading, while the treasury function with its concern over available cash, navigating future investments and doing so in the right currency and at the right location, has a range of responsibilities, including FX and IR hedging, broader credit management, debt and capital management and more. Usually, the treasury department gets a fixed time view of trading positions to work with and can miss opportunities to protect profits or control costs as a result as these exposures change rapidly. Even large oil and gas majors have experienced the situation where trading has a good month but FX rates moved against them to give an entirely different result. Despite believing that they were hedged, FX markets went against the company leaving it with significantly eroded traded profits.

Almost all energy companies face the challenges of operating in multiple markets and across multiple jurisdictions. Operations may be spread across multiple geographies such that they must manage FX variations proactively to protect margins and in many instances, may also have to deal with a variety of legal restrictions on funding its overseas offices operations adequately. These complications and intricacies extend into other areas of the treasury function including loans, debt, investment and collateral requirements. However, by optimally managing these and similar challenges, companies can actually increase efficiency and margins. Most Exploration & Production companies face an even larger problem in that their operations around the globe almost all involve exposure to local currency fluctuations in terms of operating costs.

As a result, over the last 12-18 months, there has been a move in many businesses to centralize their treasury functions but, despite considerable improvements in the treasury management functionality on offer in the market, many treasury departments continue to utilize a number of poorly integrated suboptimal software solutions for areas such as currency hedging, investment management, collateral management and so on. These are often supported by the use of the ubiquitous spreadsheet, either as internally developed tools, or as points of 'integration'. Not only does this add appreciable costs to the business in terms of software support & maintenance, people and development but also, it inhibits optimization and margin protection while increasing the inherent risk of not being able to react swiftly to events such as the recent BREXIT fallout.

Meanwhile, the Treasurer is looked upon to answer important questions on a timely basis by executive management about liquidity, investment opportunities, hedging and much more. In energy companies in particular, the Treasurer needs enhanced and time-

ly visibility into trading positions in order to address these issues comprehensively and is actively seeking to break down the barriers within the treasury function and between the treasury function and trading.

EMERGING OPPORTUNITY

There are two areas of opportunity to consider at a high-level,

- 1) To better integrate treasury functions and systems to provide a broader, more accurate, less error-prone view for management, and**
- 2) Better integration with trading or procurement departments and systems to provide real-time visibility into positions and an ability to act in a timely and optimal manner.**

Adopting a single, fully integrated treasury and trading application can solve both of these issues at the same time. This approach offers many potential benefits as well as increased efficiency and protection of margins,

- From an IT perspective it allows the elimination of several siloed systems – commercial, homegrown and spreadsheets - across the treasury function in particular, helping to reduce costs and remove expensive points of interfacing, while improving timeliness and accuracy of key information,
- It affords treasury staff with a real-time view of trading positions for better hedging, FX and IR exposure management, enabling Treasury managers to model the severity of risks under a variety of scenarios, and develop effective hedge strategies in accordance with all accounting standards,

- It eliminates time-consuming, labor-intensive, and error-prone core treasury processes, with straight through processing and,
- It helps to break down barriers between departments providing key decision makers like the CFO, CRO, Treasurer, Head of Trading and CIO visibility into one version of the truth.

In fact, this is not just another innovative idea but also, a concept actually being implemented by energy and other commodity intensive companies around the world. Not to have an integrated treasury and traded solution is increasingly viewed as a missed opportunity, especially in a more regulated commodity trading business where auditability is so important.

Case Study

A leading integrated oil and gas company with operations in 42 countries and over 26,000 employees globally selected an integrated treasury and trading platform from OpenLink that supported trading operations for oil and refined products, derivatives, FX and IR with consolidated credit and collateral management across the Group.

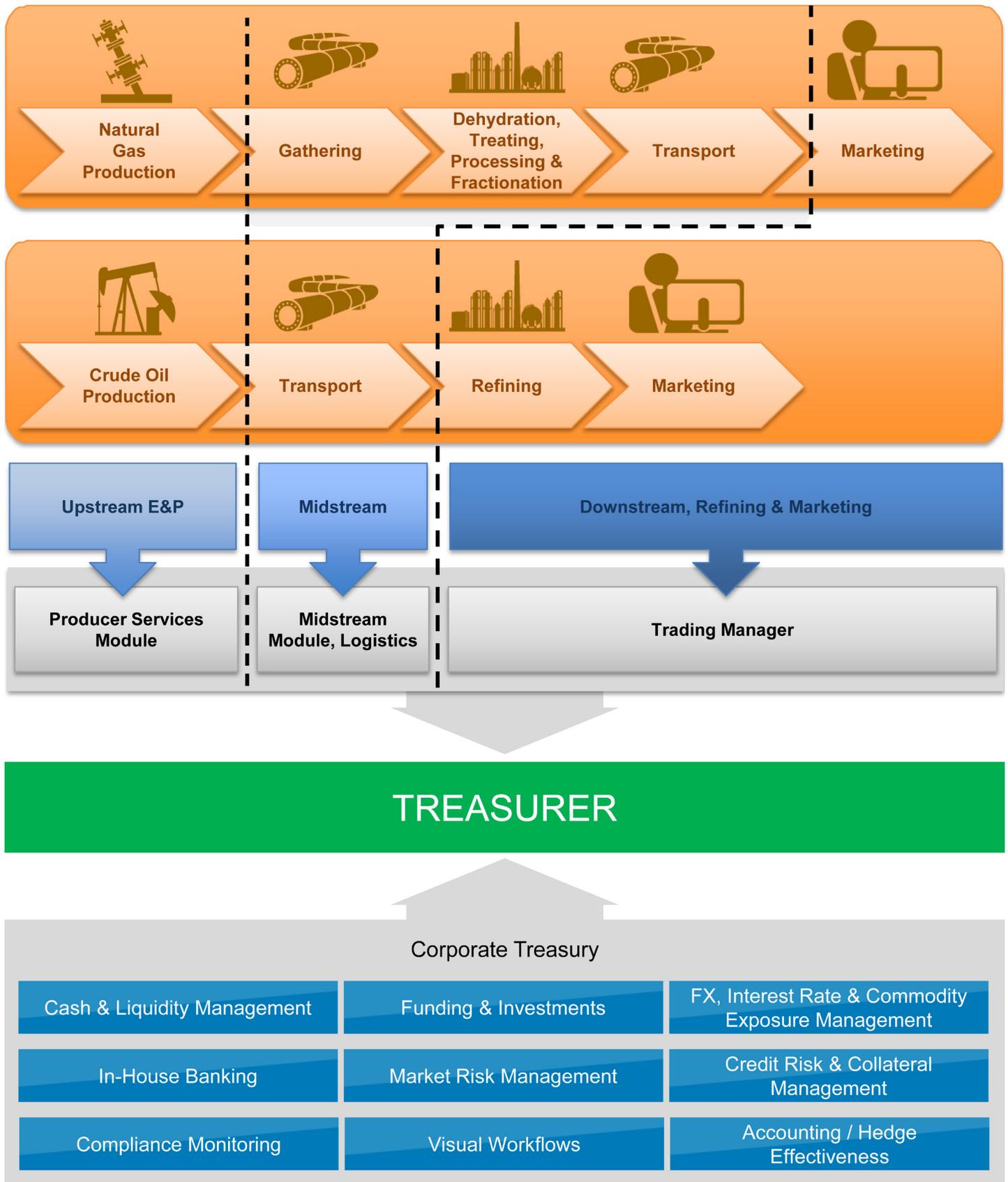
The single solution generates significant business process synergies across the business lines and a single and consistent view of risk across the company's divisions. It also resulted in substantial cost savings and reduced integration points by using one platform rather than two independent solutions.

The benefits include;

- Physical crude and related derivatives, refined products and freight trading*
- Managing physical logistics of moving crude and refined products by vessel, barge and pipeline across the world*
- Group-wide FX/IR management and liquidity risk management reducing cost of finance by automating cash and liquidity management processes to reduce demand for cash and banking costs*
- Market risk, credit risk and collateral management*
- Commodity Risk management with risk analytics, mark to market calculations, stress testing, scenario analysis and value at risk*
- Integration with over 40 third-party systems including ERP systems, market data repositories, real-time market price providers and other in-house application*

Having a single platform not only enables a complete overview of physical and financial trading positions and exposure across the group. It also reduces risk and leads to better operational efficiency because there are fewer manual processes. The result is a more robust system at a lower cost.

Illustrative Example: Fully Integrated Solution Across Energy Value Chain



NEXT STEPS TOWARDS INTEGRATING TREASURY AND TRADING

For those energy companies considering integrating trading and treasury, the next steps to take are:

- Set up a task force to investigate the cost savings and improved efficiencies to be gained by this approach. This will involve, among other activities, examining the needs to the business holistically and building a view of all of the costly and disparate systems and points of integration that can be eliminated as well as looking at new more efficient and streamlined business processes and reporting. The task force can build a business case and offer an alternate view of how the energy company should operate with greater efficiency, better controls and reduced risks,
 - Other energy companies are setting up greater links between treasury and trading using regularly occurring meetings, for example, between the CFO, Head of Treasury, Head of Risk and Head of Trading. These are then able to identify points of weakness and points of improvement in the current set up and propose incremental improvements,
 - Bring in outside expertise in the form of advisory or consultancy to develop a roadmap to an integrated treasury and trading function and essentially develop the business case for the business.
- Given the current commodity business environment, these companies are often targeting a comprehensive set of benefits across the business by examining the impact of closer treasury and trading integration on the following areas,
- Increased productivity by enabling the company to do more in the same time via an integrated approach and using single verifiable source of data to drive all business decisions,
 - Enhanced controls by building in uniform and systematic risk policies into business processes and systems across the business,

Increasing Scrutiny

In recent months, some commodity traders have faced external speculation over their accounting practices, liquidity and profits as the prices for many commodities have collapsed. Being able to respond to such criticism and to the collapse of forward prices succinctly and swiftly as a result of having complete internal visibility through more closely integrated treasury and trading operations, may have helped such companies better answer critics more promptly and defend their share prices.

- System rationalization by utilizing a single integrated solution thus reducing the total number of systems and associated expenditures while increasing security and auditability of the overall solution,
- Reducing operational risk through straight through processing and improved business processes and workflow; eliminating possibilities for error and improving accuracy and verification while implementing best practice,
- Efficiencies of standardization by processing transactions in a similar and coherent, centrally coordinated manner.

Today, many energy companies are already taking these steps to integrate energy trading with treasury management to give their CFO's a single, detailed, transparent and timely view of risk (commodity, cash and currency) across the entire enterprise.

Using these turbulent times to assess and invest in technology advancements will allow companies to come out stronger and more nimble by ensuring they are able to present the right information, scenarios, and solutions to the boardroom when required and as a result, make more informed decisions as an organization.

ABOUT OPENLINK

OpenLink is the market leader in trading and risk management software, uniquely providing a solution for managing commodity price risk and treasury on a single platform. Owned by leading private equity investment firm Hellman & Friedman, OpenLink serves over 600 clients, including 12 of the world's largest commodity and energy companies, 9 of the largest financial institutions and 13 of the largest central banks.

OpenLink's recent awards and recognition include: top provider in the bobsguide Buyer's Guide to Treasury Management Systems 2015/2016; industry leader in Commodity/Energy Trading and Risk Management by Energy Risk; and leader in financial platforms from Gartner and Chartis.

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ABOUT

Commodity Technology Advisory LLC

Commodity Technology Advisory is the leading analyst organization covering the ETRM and CTRM markets. We provide the invaluable insights into the issues and trends affecting the users and providers of the technologies that are crucial for success in the constantly evolving global commodities markets.

Patrick Reames and Gary Vasey head our team, whose combined 60-plus years in the energy and commodities markets, provides depth of understanding of the market and its issues that is unmatched and unrivaled by any analyst group.

For more information, please visit:

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