



Our Commodity Trading Practice Overview

Trading in challenging times

Trading under challenging market conditions

The commodity trading sector has witnessed significant changes over the past few years enhanced regulatory pressure and a more complex trading environment, traders and fin

Industry change

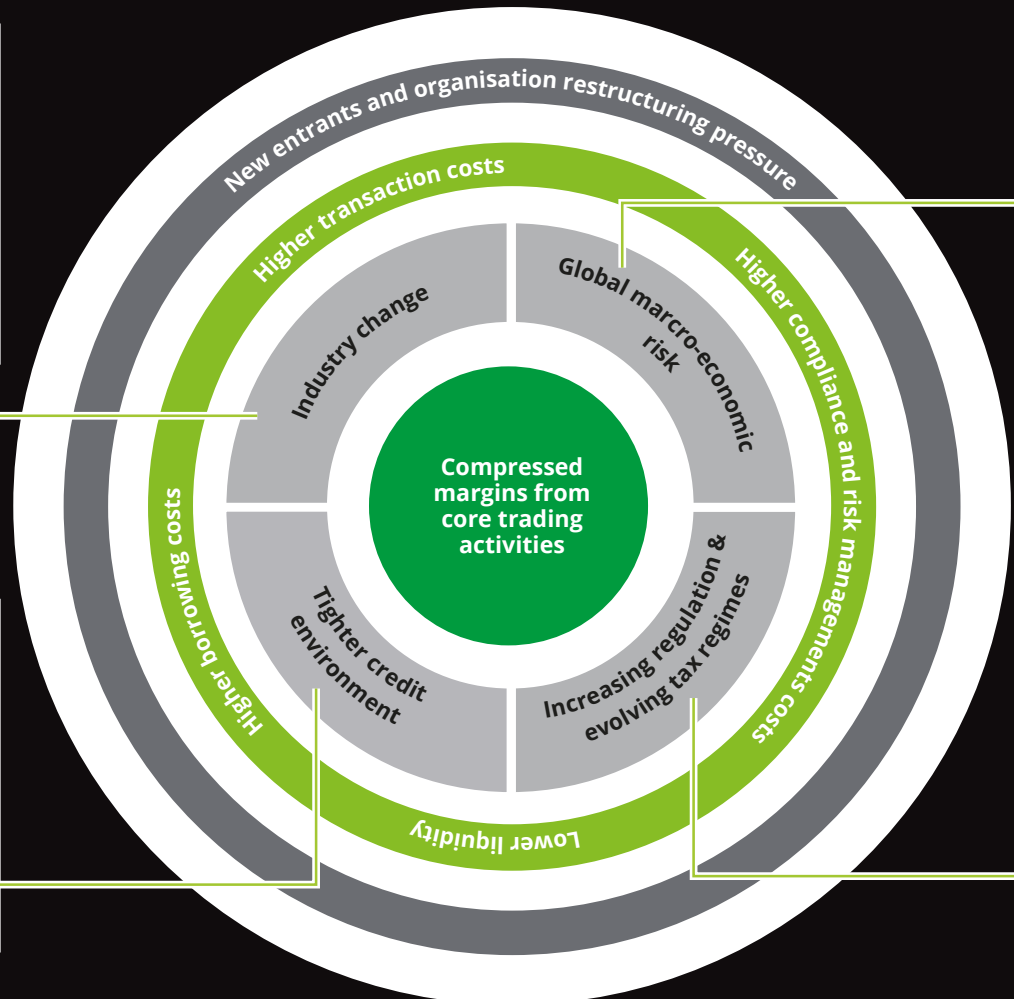
Publicised downscaling illustrated by banks exiting from the commodity markets combined with trading houses and new entrants expanding their activities.

Business models are moving towards unconventional oil and gas production along with expansion into new geographies. Renewables, nuclear and utility sectors undergoing changing business models.

Tighter credit environment

Banks are currently facing regulatory, compliance and capital adequacy challenges.

These challenges are impacting the costs of trading as banks focus more on margin requirement as the primary form of collateral. Small market players may experience banks withdrawing from their trade finance agreements, creating opportunities for alternative financing providers.



Our services

Strategy

Strategy and the market

- Business plan preparation, review and challenge
- Business/trading model design
- Planning and roadmaps for new products, markets and geographies
- Market fundamental studies, market entry strategy, development and challenge of market and stress scenarios

Commodity transactions and investments

- Commercial due diligence and negotiation support
- Contract and portfolio risk reviews
- Post-transaction integration
- Design, challenge and implementation of hedging strategies for transactions

Process & Systems

Systems

- Trading software/vendor a
- Trading systems delivery a
- Trade portfolio and system

Process and operations

- Trading operating model d
- Process optimisation, strai
- and automation

IT Strategy

- Systems architecture review
- Trading system health asse
- IT Programme assurance
- IT support and delivery op
- IT strategy and roadmap d

. Faced with tighter trading margins, lower volatility across most commodities, financial institutions have been forced to alter their trading activities.

Global macro-economic risk

Absolute prices for many commodities fell sharply in the second half of 2014, and have remained low.

The rise in volatility in oil, at its highest level since the financial crisis, has opened up new opportunities in a market which buys and sells large volumes under intense margin pressure, especially given lower working capital requirements.

Increasing regulation and evolving tax regimes

More stringent regulation covering derivative trading and reporting obligations (EMIR, MiFID II, FinfraG, Dodd-Frank Act). Additionally, new requirements for banks capital adequacy with Basel III.

Tax complexity adds to difficulty of making locational decisions.

Strategic implications

- Refocusing of commodity trading strategies; adapt to new risk/cost/return paradigm. New opportunities to capture optionality.
- Increase in M&A activity; optimise margin across the value chain and divestiture of non-core assets.
- Realignment of strategies which are capital consuming; optimise use of capital and risk prioritisation.
- Implementation of tax effective structures across global trading business lines.

Risk and control implications

- Requirement for effective governance and transition to greater transparency; meet regulatory requirements.
- Ability to integrate complex and predictive analytical tools into both the business and risk management processes.
- Demand for advanced trading risk management solutions.
- Balance the need for increased organisational efficiency with the risk of excessive cost cutting in support functions; reduce costs without increasing operational risk.

IT and technology implications

- Increased cost pressure on the IT function. Limited capital investment in core systems and infrastructure, and focus on removing cost from the IT organisation including reviewing IT support and delivery operating models.
- IT focus on regulatory requirements, critical upgrades, systems remediation, stabilisation and consolidation, or supporting changes in trading business and operating models.
- Data management and analytics.

appraisals and selection
 and upgrades
 migration and integration
 design and implementation
 through processing,
 ws
 ssments
 erating model design
 evelopment

Governance & Control

Governance, policies and internal control

- Delegation of Authority review to check if transparent allocation of authority from top level down to operational business units
- Policies mapped to governance, business strategy and risk appetite
- Limits structure (volume, greek, VaR PaR, credit) and consistency assessment against commercial mandates
- Internal audit co-sourcing

Risk reporting

- Reporting risk and performance, integration with finance/accounting processes
- Enterprise risk management adapted to governance framework (e.g. book structure, trading accounting treatment)

Regulation & Compliance

Derivative legislation

REMIT, EMIR, MiFID II, FinfraG, Dodd-Frank

- Readiness assessments
- Transaction repository (TR) reporting assistance
- Post implementation reviews
- Strategy – knock on impact of transacting in commodity markets

Compliance

- Fraud and market manipulation assessments
- Compliance with regulatory reporting requirements

The questions our clients are asking

ETRM system implementation

Can we improve our trading systems, decrease our operational risk and enhance our risk management capabilities?

Risk practices and committee benchmark

Can you assess and improve our approach to capital allocation?

Could you help us rationalise our risk governance and committee structure?

Define Target Operating Model

Can you help us move our trading business towards industry best practice?



Digital strategy

How can digital technology better enable our business?

Commodity regulation/compliance assessment

Can you help us design the right compliance model for our business?

Market risk

Can you validate our VaR model?

Review of option pricing model

How can we benefit through a third party assessment of our internal pricing and valuation methodology?

Process and control review

Do we have appropriate risk management practices? Have we set up an optimal internal control structure?



Trade life-cycle benchmarking

Can you benchmark our deal flow processes and provide focused guidance for enhancement?

Acquisition search

Can you help us identify a strategic acquisition opportunity in our key markets?

Quantitative credit pricing

Can you benchmark our quantitative credit methodology and give us a roadmap to enhance our overall capabilities?

Market entry strategy and commercial due diligence

What is the best strategy for entering a new market based on our asset and transacting profile?

What additional value can we realise through a potential acquisition?



Commercial and financial due diligence

Could you bring deep industry insight to our financial and acquisition teams?

Target Operating Model and roadmap

How do we integrate multiple, acquired generation assets and develop a unified portfolio trading approach?



Organisation structure review

Could you provide guidance on a potential organisation restructuring to create a YieldCo?

Risk and valuation

Can you challenge our commodity price assumptions?



Commodity Risk Analytics

Hedging and optimisation

- Hedging strategy assessment and risk appetite definition
- End-to-end design: strategy, quantitative risk exercise, hedging model application, integration between procurement, treasury and accounting

Quantitative risk methods and modelling

- Data analysis, forward curve simulation
- Risk metrics implementation
- Quant operating model design and benchmarking

Model development and validation

- Methodology selection and implementation
- Specification, accuracy and documentation check

Market data and predictive analytics

- Modelling market behaviour
- Risk management and valuation implications

Finance, Treasury & Credit

Finance

- Financial reporting processes and solutions
- Integration of trading, finance and accounting systems

Hedge accounting support

- Hedge accounting and fair value reporting (IFRS 9, 13)

Treasury and capital management

- Treasury related risk management (FX and interest rate)
- Cash and liquidity management
- Treasury technology

Credit

- Exposure management
- Credit risk governance
- Analytics and quantitative measurement

Setting priorities



REGULATORY

EMIR, Remit, Dodd-Frank, FinfraG – Regulatory complexity for transacting in the derivative markets has never been higher. Reporting obligations are becoming increasingly complex while penalties for non-compliance are substantial. Deloitte has developed a commodity specific regulatory reporting framework supported by a set of agile data management and tools to help companies meet their compliance and regulatory reporting obligations. Our focus is on helping companies establish an efficient, flexible and scalable capability for managing these challenges. We maintain a multi-disciplinary team of commercial, risk, compliance, legal and system resources specialists to ensure we remain current with evolving regulatory requirements and their potential impact on trading strategies.



TECHNOLOGY

Most commodity traders have spent heavily on their energy trading and risk management systems, yet few companies are satisfied they are actually realising the full benefits of their investment. As trading models evolve, assets are acquired or sold and reporting and risk capabilities change, existing systems cannot keep up. As a result, system work-arounds or spreadsheets become the predominant alternative solution. Deloitte has a dedicated commodity technology practice focused on helping traders design the right technology solution for their business. We look beyond the core CTRM in the design of agile solutions leveraging the newest technologies to facilitate faster trader decision making, enhanced risk modelling capabilities and more responsive reporting.



OPERATIONAL EXCELLENCE

Under ever increasing pressure on margins, commodity traders have a renewed focus on operational excellence and cost containment. Many leading organisations have borrowed techniques from lean six sigma as a means of optimising transactional process performance while driving out cost. Reducing transactional processing errors, leveraging better use of existing technologies, rationalising commercial strategies and enhancing focus on capital deployment, are all activities currently being undertaken by market participants in the design of leaner business models focused on managing costs and enhancing returns. Deloitte has helped many commodity traders with the design and implementation of new business models. Reducing costs without comprising the organisation's risk management capabilities is key to our approach.

Why Deloitte & Contacts

Deloitte's Commodity Trading Advisory practice is centred in London and Geneva, serving two of the largest commodity trading centres in Europe and acts as a Deloitte centre of expertise for commodity trading in the region. We have a strong track record of helping energy and commodity market participants address the challenges that they face and have supported investors, utilities, oil and gas majors, traders and commodity consumers in managing their risks, improving their processes and systems, enhancing their strategy and delivering robust transactions.

Integrated team

Practice based on a dedicated, multi-disciplinary team with experience across commodities and sectors (oil and gas, power utilities, trading).

Robust methodologies

Ability to leverage proven Deloitte methodologies, and the foresight and experience to create tailored and innovative approaches where required.

Advanced skills

Industry background including former analysts, quants, traders, risk managers and originators from leading trading houses.

Industry depth

Leadership position based on hands-on experience with leading trading companies across the spectrum of energy, agriculture, metals and shipping and freight.

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