EXECUTIVE SUMMARY

On May 8, 2012, representatives from 12 energy and commodity firms convened at the Sapient Global Markets Roundtable. Many came hoping to hear about industry trends and challenges facing their colleagues, how others are successfully using CTRM systems, best practices for CTRM systems and how they will be used in the future. And the session delivered. Below is a brief summary of the changes we see in the industry and the common themes that emerged from the discussion on the state of today’s enterprise CTRM environments.

ROUNDTABLE DISCUSSION TOPIC

The key topic for the Roundtable was the state of today’s enterprise CTRM environments. The goals of the session were to identify the key challenges across business, processes and technology, and brainstorm the most impactful solutions that CTRM organizations should focus on today.

PARTICIPANTS

Participants included:

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Arun Karur, Sapient’s commodities practice lead started off the evening with a keynote presentation highlighting the current state of the industry, its challenges and future opportunities for all stakeholders. The following are some of the key points made in the keynote presentation.

The business demands for CTRM systems are changing to address new markets, deal transactions and regulatory reform. Companies are challenged to assemble the right mix of skills and capabilities to maintain CTRM systems and realize the full benefit of the investment in CTRM.

The IT delivery mechanism for implementing and maintaining CTRM has not changed significantly in the last four to five years. IT and business advisory service providers are still engaged using the same scope of activities and project-based economics. Companies must still piece together the needed skills and capabilities to implement a complete solution to meet the needs of the business. This often results in a higher total cost of ownership and poor client satisfaction with CTRM projects.

Going forward, Sapient Global Markets believes there is a more cost-effective way to engage IT and business advisory services for CTRM projects. The Next Generation CTRM Application Service will be characterized by:

- Skills specialized in a CTRM vendor architecture with deep business application expertise
- Shared services deployed across multiple contracting companies
- Project structures that efficiently scale to address a range of project scopes
- Specification of services to the lowest unit of work

CHANGES IN THE CTRM INDUSTRY

The following key themes emerged during the round table discussion:

- **System flexibility and features**: CTRM systems are standard products with limited flexibility to make changes quickly and match the pace of business changes. Some small companies do not need all the system’s features and its large footprint. However, large corporations may encounter functional gaps due to missing CTRM features that make it difficult to adopt as a standard solution across all business lines and departments. As a result, they are forced to use different products for different businesses or, at a minimum, rely on BI tools or Excel to meet the needs of other departments.

“How do you get a niche business like LNG into an existing system?” - Bob Goelzer (BG Group)
• **Duration and cost of CTRM projects:** Most CTRM implementations and upgrades require large upfront budget commitments and usually span a long time. Moreover, the reported total cost of ownership does not accurately account for system maintenance and management of data quality. Also, there are few ways to achieve incremental value with partial investments over time.

“How do we bridge current known gaps one step at a time without a big bang approach that requires us to invest millions of dollars?” – Chris Tenant (CrossTex Energy)

• **Capability development:** There are very few people who can effectively understand the business issues and facilitate discussions between IT and business teams to get to a solution. What’s more, business users do not completely understand how transactions flow from the front office to the mid or back office in CTRM systems and need to be either trained or supported.

“Very few people can understand business issues/needs and facilitate discussions with the business to get to solutions.” – Kevin Davis (Phillips 66)

• **Support for optimization and decision making:** In a market where spreads are thin, businesses need to make the most out of their assets and maximize profits. Current-state solutions are mostly focusing on transaction processing and not providing enough support for decision making and optimization.

“Difficult to get visibility into the optionality in downstream business and then modeling the optionality to grow profitability.” – Shanda Dixon (Chevron)

• **Organizational challenges and mindset:** Getting alignment from different lines of the business, regions and cultures is hard due to the inherent differences in the nature of their businesses. Moreover, IT and the business are usually talking about resolving current-state issues and rarely connecting in a forward-looking manner.

“It took us six months to get all managers together and get alignment amongst them.”

• **System Performance:** Large corporations and those involved in high-volume data inputs (e.g. daily postings) and multiple geographies usually run into performance issues in one area or other. As a result, they are not able to meet the business need for timely availability of data.

“Time to get to flash P&L by end of day is limited due to the complexity of the business and the processing power needed.” – Rudi Zipter (Eco Risk Markets)
Several key solutions were discussed during the Roundtable discussion:

- **Need for user groups:** The CTRM community needs to get together more often in more avenues than they currently do. Great examples to learn from the past include the Dodd-Frank Act and LEAP, where user groups got together to understand the problem better, predict the future landscape and find a solution that works for everyone.

- **Commoditization of common processes:** Business needs to commoditize activities that are not a competitive advantage in the industry so they can focus on areas to grow the business and make strategically better decisions. It’s important to find the smallest units of work that can be outsourced (e.g. End of Day reporting, deal post processing, etc.) in the most efficient manner and hence lower the costs of running such activities. This will also help reduce the need for high-cost CTRM projects and support structures commonplace in the industry today.

- **Trading shared service utility:** Business needs to explore the possibility of an industry-led shared service utility to reduce operational costs and standardize non-proprietary processes. Depository Trust & Clearing Corporation is a good example of this.

- **Develop flexible and modular solutions:** The CTRM vendors needs to look deeply at the solutions and come up with products that are simple to use and have smaller initial footprints, but allow additions or changes based on business needs. Also, the solutions need to be capable of being used across the organization.

- **Organizational change:** Business needs to set up multi-disciplinary teams (aka Centers of Excellence), having skills such as business analysis, modeling, prototyping skills, etc. to identify future challenges that need to be addressed.

- **Creating clear systems of record:** There needs to be clear systems of record for all fundamental pieces of data (curves, positions, counterparties, etc.) and all other systems need to subscribe to these.

**ADDITIONAL READING**

The presentation from the event is available at

About Sapient Global Markets

Sapient Global Markets, a division of Sapient® (NASDAQ: SAPE), is a leading provider of services to today’s evolving financial and commodity markets. We provide a full range of capabilities to help our clients grow and enhance their businesses, create robust and transparent infrastructure, manage operating costs, and foster innovation throughout their organizations. We offer services across Advisory, Analytics, Technology, and Process, as well as unique methodologies in program management, technology development, and process outsourcing. Sapient Global Markets operates in key financial and commodity centers worldwide, including Boston, Chicago, Houston, New York, Calgary, Toronto, London, Amsterdam, Düsseldorf, Geneva, Munich, Zurich, and Singapore, as well as in large technology development and operations outsourcing centers in Bangalore, Delhi, and Noida, India.

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