

TRIPLE POINT SOLUTION BRIEF

Regulatory Compliance for Energy and Commodity Companies

COMMODITY XL

MEET REQUIREMENTS FOR DODD-FRANK AND EUROPEAN UNION LEGISLATION



MARKET OVERVIEW

As anyone involved in the commodities industry knows, the world regulatory landscape is changing – dramatically. Much of the 2008 financial crisis was blamed on the “opaque” world of over-the-counter (OTC) derivatives in which trillions of dollars were tied up in positions virtually invisible to regulators. As a result, numerous pieces of legislation have been enacted or proposed to provide increased visibility into the market. In the United States this includes The Dodd-Frank Wall Street Reform and Consumer Protection Act, and in Europe this encompasses multiple interlinked regulations such as REMIT, MAD, MiFID II, EMIR, and CRD.

These far-reaching regulations will affect both the financial and commodity markets. Participants trading swaps, OTC derivatives, and wholesale energy contracts will be impacted across the entire value chain, from front office sales and trading to back office reporting and all points in between.

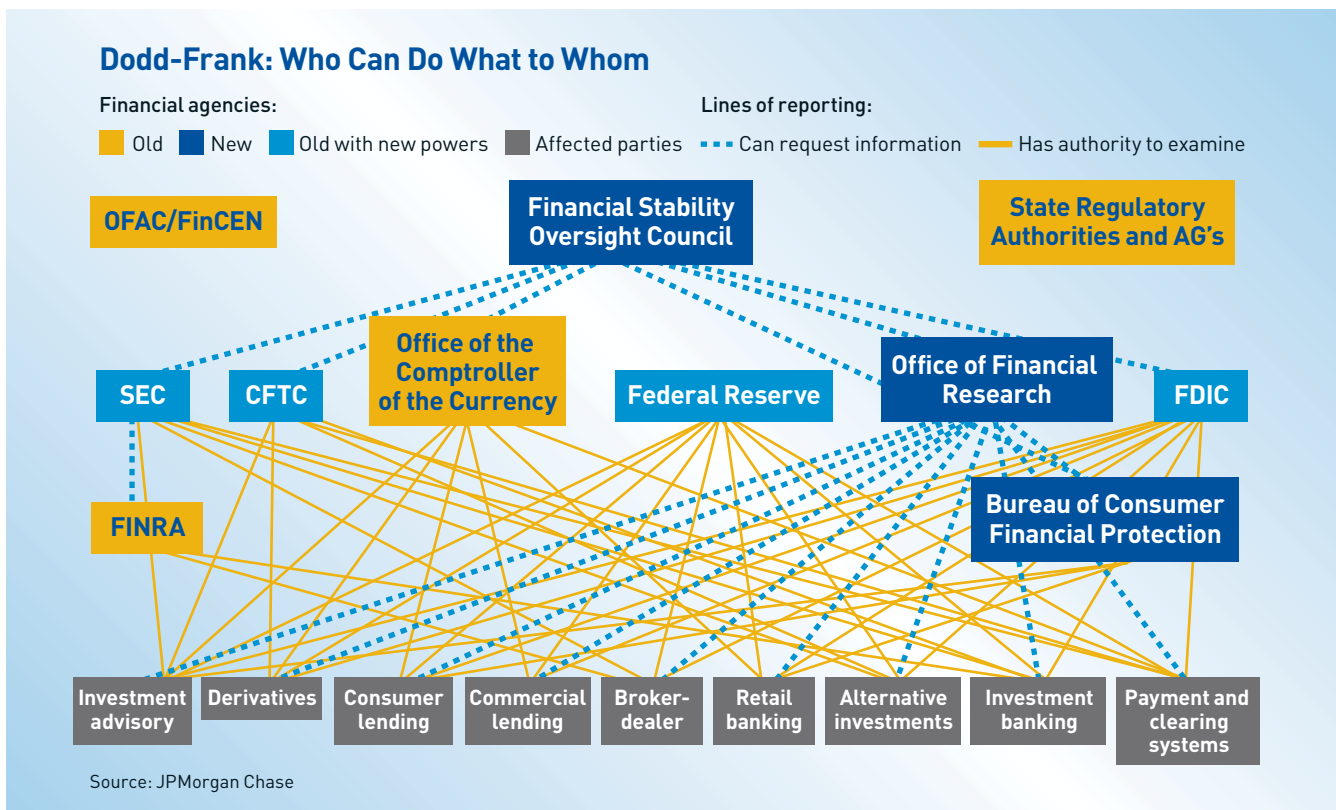
Companies that have not already commenced execution of a compliance plan need to take action immediately to avoid the potentially disastrous ramifications of being caught unprepared as regulations take effect. Trading and supporting IT systems must be scrutinized to ensure compliance with stringent regulations related to transaction reporting, swap clearing, and other areas.



Transaction Reporting

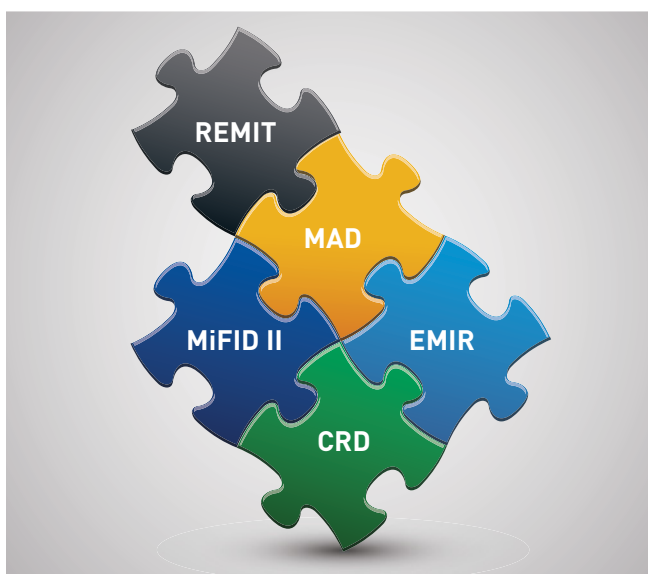
Companies need robust reporting functionality to remit data to repositories that are monitored by regulatory authorities. Dodd-Frank requires both cleared and uncleared (OTC) transactions to be reported to a swap data repository (SDR) in near real-time, while EMIR requires financial counterparties to report all OTC derivative transactions to a repository within one working day of execution.

REMIT imposes similar reporting requirements to EMIR, but for “wholesale energy contracts,” which encompasses a broad range of transactions including physical deals and



“Requiring them [end users] to divert scarce capital to margin would likely increase risk, rather than reduce it, by making hedging more expensive and thus less likely to occur.”

– Jill E. Sommers, Commissioner, Commodity Futures Trading Commission



OTC derivatives. In addition, MiFID II imposes transaction reporting requirements for “financial instruments” which include certain environmental commodity products like emissions. This creates a real headache for international commodity traders who trade on both sides of the Atlantic and are expected to comply with a diverse array of complex, non-intuitive requirements.

Market participants must ensure that all data are captured and reported to the appropriate, officially authorized repositories. These data encompass interim valuations and changes occurring over the entire trade life cycle, including exercise of any constituent option or “swing” components, price adjustments, and any financial settlement or early termination/default.

Position Monitoring and Reporting

A portion of Dodd-Frank known as the Position Limits Requirement was recently repealed in Federal Court. However, there is the chance US regulators will appeal the Court’s decision. If the appeal is successful, market participants will be restricted to holding no more than a specified number of contracts within certain commodity classes. And if a market participant exceeds a position limit, it will be required to report the incident to the Commodity Futures Trading Commission (CFTC). EMIR and MiFID II also stipulate position limits and reporting.

EMIR exempts participants categorized as “non-financial counterparties” from central clearing if their positions for OTC derivative transactions are under a specified threshold. Like Dodd-Frank, bona fide commercial hedges are exempt from inclusion in the clearing threshold calculation. If the threshold is exceeded, regulators must be notified and the reason for the limit breach must be adequately justified. Furthermore, under EMIR a breach of the threshold in ONE asset class is considered a breach for ALL asset classes - AND bona fide commercial hedges entered after the limit breach are subject to clearing.

It doesn’t stop there - MiFID II requires weekly position reports to be filed by market participants categorized as Multi-lateral Trading Facilities (MTFs) and Organized Trading Facilities (OTFs). To maintain compliance with all of these regulations, companies must continuously monitor their positions, and aggregate commodity positions in future equivalent contracts.

End User Exemption Elections

Dodd-Frank requires market participants to centrally clear OTC derivative trades designated as “clearable” by the CFTC and SEC. Companies that trade derivatives to protect against price volatility are exempt from clearing, but must apply for an End User Exemption on a hedge-by-hedge basis. To qualify for an End User Exemption, it must be proved that the derivative is being used to hedge or mitigate commercial risk. Other requirements for exemption include ensuring that at least one party to the swap is not a “financial entity,” and providing a notice specifying how the organization meets its financial obligations associated with entering into a non-cleared swap. EMIR imposes a similar regime for exempting genuine hedges.

Collateral and Margining

Under both Dodd-Frank and EMIR legislation, cleared and uncleared swaps are subject to higher collateral and margining requirements. This puts a strain on market participants by reducing the amount of available working capital. To ensure an accurate view of liquidity and exposure, participants must have systems that provide comprehensive collateral and margining management.

COMMODITY XL – FACILITATING COMPLETE COMPLIANCE

It is an understatement to say that every company involved in the commodity markets needs a flexible, robust, and comprehensive Commodity Management solution to meet regulatory requirements. Failure to implement the functionality necessary to ensure compliance could result in stiff penalties, criminal prosecution, and in extreme cases, the complete demise of a business.

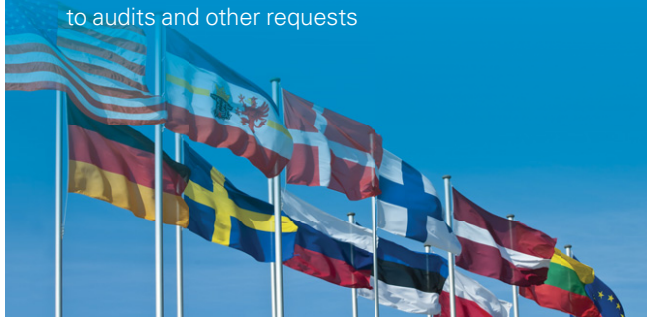
Triple Point's flagship Commodity Management platform, Commodity XL™, delivers the functionality companies need to achieve compliance with Dodd Frank and EU regulations.

Robust Transaction Reporting

Commodity XL helps companies achieve compliance with transaction reporting requirements by capturing all swap-related data and automatically transmitting them to repositories such as ICE Trade Vault, The Depository Trust & Clearing Corporation (DTCC), and RegisTR in near real-time. Commodity XL's connectivity platform uses a flexible framework that enables customers to connect to new SDRs as they materialize.

KEY FUNCTIONALITY

- Transmit transaction data to SDRs automatically in near real-time
- Monitor aggregate positions and receive alerts to prevent limit breaches
- Automate documentation and disclosure management including hedge objective, type of hedge, type of risk, length of hedge, and prospective and retrospective assessment to be used
- Assess the impact of higher collateral and margining requirements on the bottom line
- Ensure transparent business processes and enterprise-wide information access to enable a rapid response to audits and other requests



View comprehensive documentation on all hedging activities.

Complete Position Monitoring

Commodity XL includes a complete set of real-time tools that ensure compliance with position limits and reporting. The solution actively monitors aggregate positions in real-time, and provides trading and hedging alerts to prevent limit breaches. If a position limit is exceeded, Commodity XL facilitates compliance with legislation requiring that the incident be reported to regulatory authorities by automatically capturing the details of the breach in a report. In addition, Commodity XL can be configured to automatically notify key personnel of position limit breaches.

Unparalleled End User Exemption Support

Commodity XL ensures that market participants with bona fide hedging programs can meet all requirements necessary to obtain End User Exemption or Commercial Hedging Only status and avoid central clearing and margin requirements. The solution includes a complete audit trail of hedging activity, along with effectiveness testing, and automated documentation and disclosure management.

Extensive Collateral and Margining Management Tools

Commodity XL provides the collateral and margining management tools necessary to ensure an accurate view of liquidity and exposure. The solution improves cash flow and mitigates risk by enabling companies to understand their true position. Commodity XL automatically calculates liquidity, and enables users to view information at the enterprise level or the deal level. Extensive analytical tools are also available for assessing the impact of higher collateral and margining requirements on the bottom line.

“Derivatives trading volume in unregulated or OTC markets has grown exponentially with some estimates of up to 400% since 2006 alone.”

– Petroleum Marketers Association of America

Comprehensive Role Assessment

A company’s reporting obligations depends primarily on what “role” it plays in a deal transaction – that of a Swap Dealer, Major Swap Participant, End User, Financial Institution, Non-Financial Institution, etc. A company may be considered a Swap Dealer for one transaction, and an End User for another.

Commodity XL ensures that participants know their role and their counterparty’s role for each and every transaction by allowing them to define their contractual relationships. This ensures that companies are complying with the regulations affecting their specific roles for every transaction, and enables the correct compliance data to be routed through the appropriate channels.

CONCLUSION

The only thing certain about today’s regulatory environment is that it is constantly evolving. Many of the specific requirements that are part of Dodd-Frank and the myriad of EU regulations are not yet finalized. However, the objectives are clear, and companies that have not yet conducted a rigorous audit of their trading and IT systems to identify areas of exposure must do so immediately to avoid the harsh consequences of non-compliance.

Energy and commodity companies can count on Commodity XL to deliver what’s needed to ensure compliance. Triple Point’s regulatory experts continually monitor legislation to ensure that Commodity XL provides the functionality required to support our customers’ compliance efforts today and in the future.

ABOUT TRIPLE POINT TECHNOLOGY, INC.

Triple Point Technology® is the leading global provider of cloud and on-premise Commodity Management software that delivers advanced analytics to optimize end-to-end commodity and energy value chains. The company provides real-time, innovative solutions to competitively address the complex and volatile commodities supply chain: buying, selling, trading, and procurement; enterprise risk management; scheduling and logistics; storage; processing; and settlement and accounting.

Triple Point’s Commodity Management platform enables over 400 customers in 35+ countries to profitably manage exposure to energy and raw materials across industries, including energy, metals, minerals, agriculture, transportation, shipping, consumer products (CP), industrial manufacturers, and big box retailers. Triple Point was named a “Leader” in Gartner’s ETRM Magic Quadrant for its completeness of vision and ability to execute in 2009, 2010, 2011, and 2012. Founded in 1993, the company employs over 800 staff in 14 offices and support centers around the globe. www.tpt.com.

HOW TO GET STARTED

Learn more about how Triple Point’s Commodity XL software enables compliance with Dodd-Frank and EU legislation by contacting us at:

Triple Point Technology, Inc.
Global Headquarters
301 Riverside Avenue
Westport, CT 06880 USA

Tel: +1.203.291.7979
Fax: +1.203.291.7977
Email: info@tpt.com
Web: www.tpt.com

