

Implementing a solution for Commodities trading

Client: European Bank

Consulting area: Business Consulting

Business areas: Quantitative modelling, Risk Management, Back Office processing

The client had decided to increase the scope and volume of its Commodity trading operations to cover a broader spectrum of commodities and their associated derivatives. This would include STP support for the entire front-to-back process as well as implementing proprietary algorithms and analytics for risk management and pricing. Mindwell was engaged to design and develop the necessary system support.

Business challenge

The client's commodities trading operation had evolved over several years and gradually become a substantial part of the client's overall trading volume. The initial models and processes for the commodity products were sufficient for limited trading volumes and moderate complexity in terms of derivative flavours and the subsequent analytics required for monitoring P&L and exposure. As trading volumes increased and market opportunities emerged in the form of more complex derivatives, scalability of the initial system solution became a challenge. Mindwell was engaged to redesign the solution and implement a front-to-back process, implementing the functionality required to meet the existing as well as the future needs of the commodities trading desks.

Our engagement

Mindwell's engagement covered a business requirement analysis phase as well as the subsequent implementation and testing of the new commodities trading functionality.

The following key business requirements were identified and refined in the analysis phase of the assignment:

- Finding an optimal object representation for the commodity derivatives in scope
- Implement correct theoretical valuation of all the derivatives in scope including (including use of proprietary valuation models).
- Implement correct risk analytics and exposure aggregation along a projected timeline (bucketed measures)
- Implement a streamlined trading process for the Front Office users
- Implement a workflow for the Back Office allowing commodities to be managed within the existing channels for BO administration and without additional overhead.

During the project, Mindwell assumed several different roles including **Quantitative Analysis**, investigating and structuring the modelling requirements behind the various commodity products and the flavours of different derivatives.

Our **Financial Engineering** specialists with in depth understanding of the underlying system functionality as well as the model theory then helped the client implement the required additional system functionality in the underlying trading and back office systems.

Client benefits

Mindwell's functional expertise around the underlying system technologies was a key factor in taking the new trading models and processes from the drawing board into the production environment within a short time frame. The project enabled the client to trade and administrates a complete new spectrum of commodity based instrument with a minimum deviation from the existing STP channels.

Further information

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