

# Fastmarkets Risk Solutions

presented by

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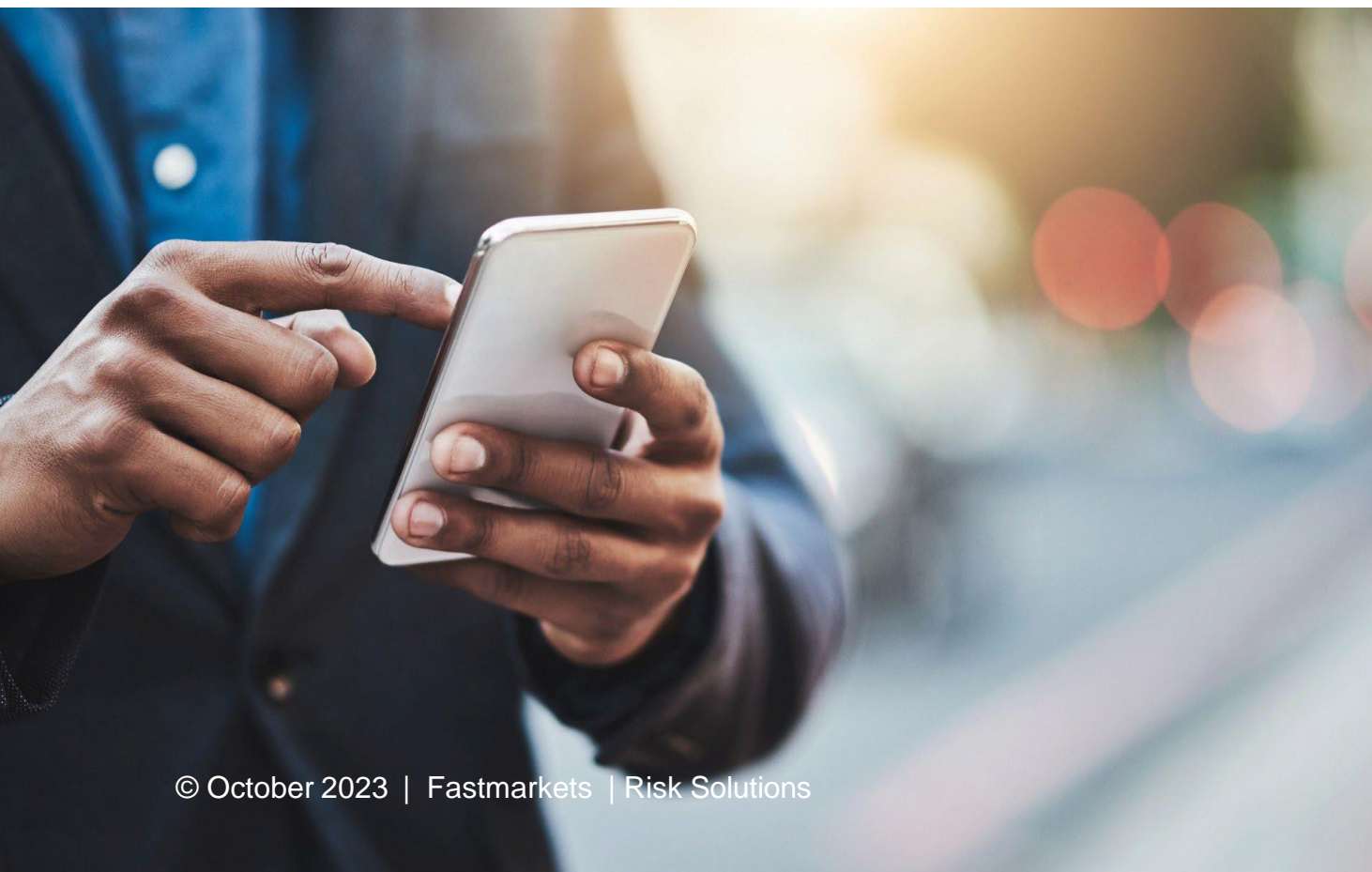


# Introduction

This presentation is a description of a risk solutions consulting engagement with Fastmarkets.

The engagement will consist of several consultations and a set of risk measurement and risk management deliverables.

Our risk solutions services are crafted to help companies strategically manage commodity risk using a structured approach.



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# Fastmarkets Risk Solutions: What We Do?

## Risk Measurement, Hedging, Operations Checklist



Payout diagrams for in-depth understanding of payout provided



Discuss operational setup - settlements, invoicing, compliance, legal, systems, accounting



Interactive hedging education: Risk before, during and after



Identify financial products available from various market makers and exchanges



Discuss risks



VaR modeling and scenario hedging analysis



Evaluate physical exposure and design financial solutions



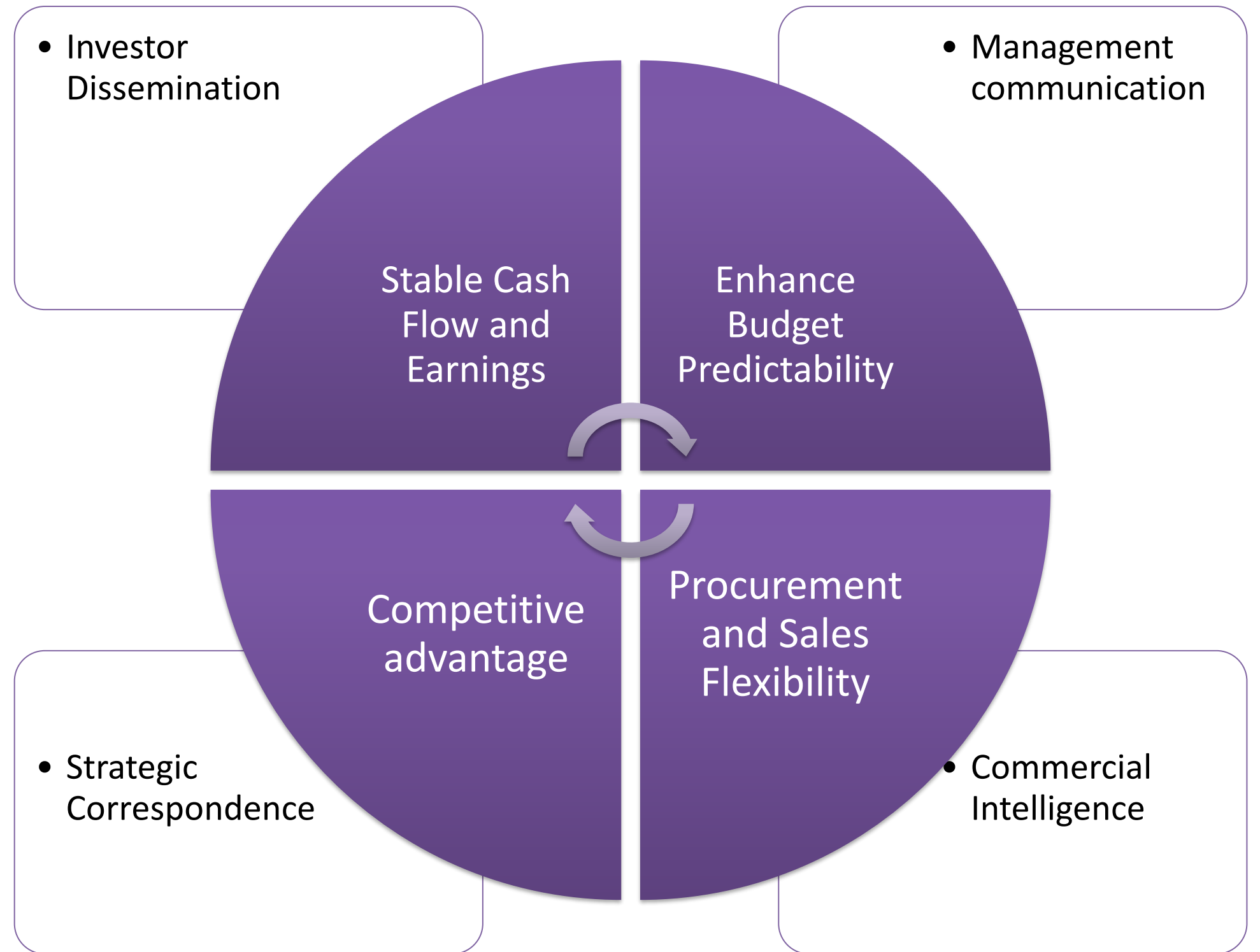
# Hedging Benefits

Enhance predictability of cash flows

Improved budgetary forecasting

Market share improvements using flexible pricing options

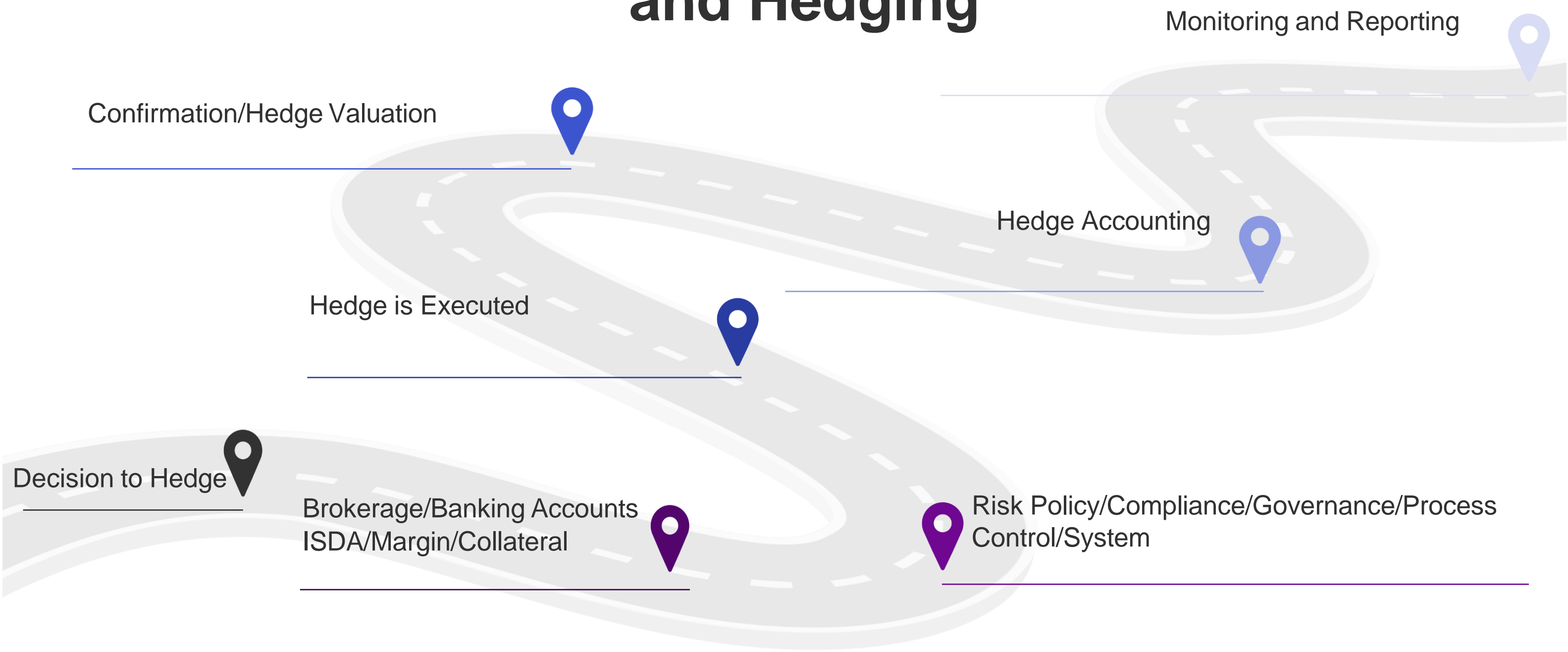
Cost protection from rising input prices







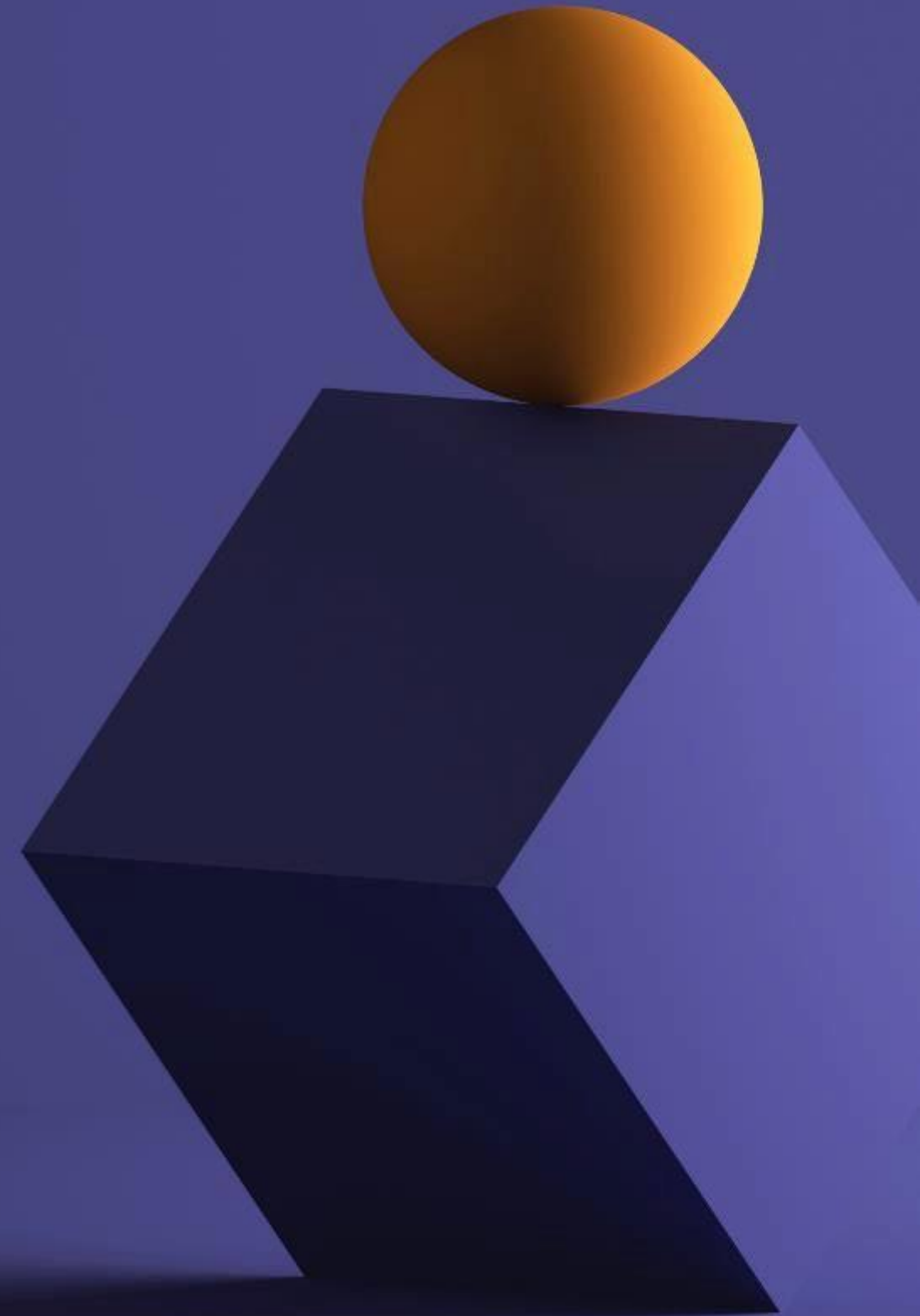
# Fastmarkets Risk Solutions: Operations Checklist and Hedging



# Scope of work and deliverables



Risk Measurement  
Hedging  
Operations



# Scope of deliverables

## Initial consultation

### Engagement Initial Consultation

- Detail how the combination of physical and financial purchases can benefit commercial operations
- Discuss physical contracts using an index price
- Describe price risk and the general impact on returns
  - Discuss the tools used to evaluate and mitigate risk
  - Futures over-the-counter the counter hedging
  - The nuances of futures contracts
  - Value at Risk (VaR) of commodity price risks
  - Conditional Value at Risk of commodity price risks
  - Sharpe Ratio of company returns with commodity price risk
- Describe financial hedging products
  - Describe payout
  - Discuss the risk management process
- Discuss risk parameters
- Describe prices that comprise the potential greatest risks
- Discuss the risk mitigation process
- Detail physical commodity purchases and sales
- Detail deliverables
- Discuss operations checklist



# Scope of deliverables

## Risk Measurement

### Risk Measurement Deliverables

- Value at Risk and cVaR on price exposure
- VaR with hedges
- Correlation price exposure
- Historical and forecast volatility
- Detail physical commodity purchases and sales exposure
- Talk about risk in volume and notional terms







## Value at Risk using Fastmarkets' prices

- Trading desks and portfolio managers commonly use **Value at Risk (VAR) Analysis** to determine outsized risk of loss during a defined period
- Fastmarkets' market-reflective price data facilitates:
  - An analytical approach to calculate VaR
  - The ability to calculate correlations and volatilities to run simulation VaR
- There are several assumptions used to calculate a VaR analysis
- Understand your Expected Shortfall (ES)



# Scope of deliverables

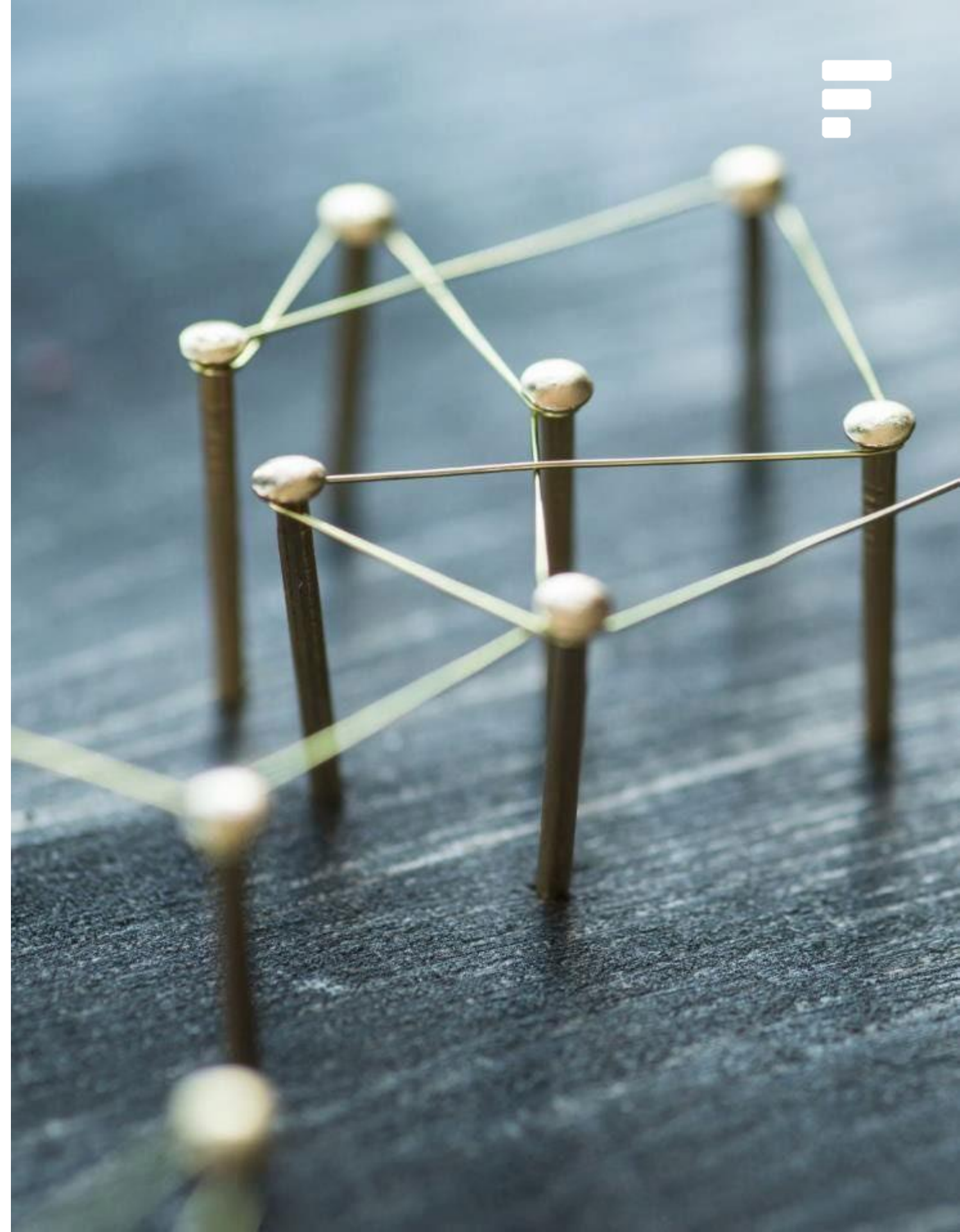
## Hedging Deliverables

### Hedging Deliverables

- Discuss hedging and actionable hedging tools
- Discuss pricing of potential hedges
- Describe the role of the Market Maker (for OTC transactions and discussion of ISDA or confirmations)
- Examine futures markets
- Discuss potential ongoing price risk management and operational setup
- Create periodic hedging and risk report



# Operations Checklist

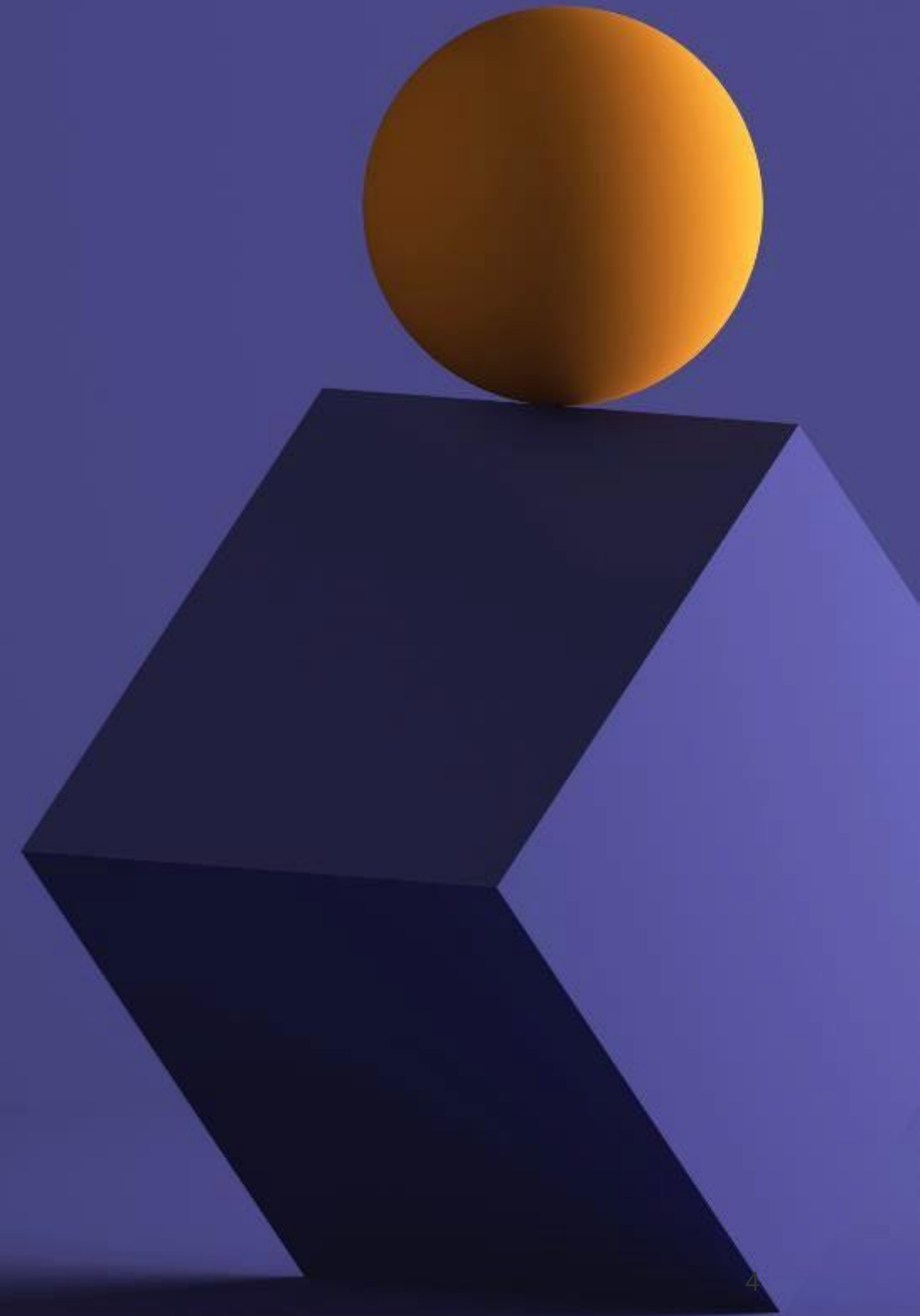




# Scope of work and deliverables



Operations Checklist  
Hedging





# Scope of deliverables



## Operation Checklist

### Engagement

- Detail the pros and cons of exchange versus over-the-counter hedging.
- Facilitate the Setup brokerage/bank relationship
  - Discuss margin
  - Discuss collateral
  - Discuss ISDA
  - Discuss confirmation
  - Discuss Settlement
- Introduction to ISDA/Legal
- Describe risk policy
  - Compliance
  - Regulatory Framework
  - Governance
- Discuss system/technology setup
- Introduce Hedge Accounting Specialists

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