

# APPROACHES TO ACCOUNTING INTEGRATION



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# INTRODUCTION

**The integration of trade and risk management solutions with the corporate accounting solution has long been an area of focus for commodity companies and software vendors alike.**

There are many apocryphal stories in the industry regarding trading profits that entitled trader's to be paid large bonuses. Those trading profits then seem to evaporate when accounted for in the enterprise accounting system. These stories are symptomatic of a broader but important issue – that of integrating two sets

of solutions to provide timely and accurate auditable results. Over the last three decades, many different approaches have been tried out and mooted to address and solve the problems. This paper will examine the problem and discuss potential solutions including highlighting the approach taken by Enuit.

## COMMONLY USED APPROACHES

**The first thing to consider is that this is an important point of integration between two key business systems that help to perform different sets of activities. The trade and risk management side are rightly concerned with capturing many different types of trades, deals and contracts and then managing the many and varied exposures that those represent.**

The accounting system is focused on accurately representing the broader financial activities of the business and providing stakeholders a clear picture of the financial health of the business. The trade and risk management solution will usually offer straight through processing from trade to invoice and may include specific accounting functionality specific to the trade and risk operations including a general ledger, AP, and AR.

On paper, it seems a straightforward exercise to integrate this with the accounting solution but integration of any two systems is often not straightforward and can be a source of continuing complexity and constant expense. Of course, the accounting treatments being utilized can also fall into the interface area. Differing accounting rules between say North America and other parts of the world and different methods to deal with how things are accounted for at the detailed level add complexities

to this interface. So, approaching the integration of these two systems can be significantly more complex than it looks at first sight.

Most Energy or Commodity Trading and Risk Management (E/CTRM) solutions come supposedly pre-armed with an ability to integrate with the most used accounting systems. However, this is usually a basic dump of accounting information to be picked up by the accounting system and probably does not address the accounting treatment subtleties that may be required. In fact, this has historically been the approach utilized in the industry and it often results in discrepancies' emerging between trading profit and loss and accounting profit and loss, while making it even more difficult to resolve the differences. This can be a workable solution in some instances however especially if the business is local and niche. However, the more complex the business, the bigger an issue this becomes to resolve. Additionally, this sort of a simplistic interface must be maintained through time including because of business and software changes on both sides.

Other approaches have involved attempting to create fully integrated trading and accounting solutions and examples of this approach include many of the accounting package vendors who have either developed added on ETRM functionality themselves or via partners. The issue with this approach historically appears to be a lack of understanding of the details and complexities involved in commodity trading and risk management. This often manifests itself as a lack of reporting flexibility, an inability to view exposures by book, trader and so on, or the use of simplistic risk metrics and models that really are not a good fit for commodities. Again, this route has not in reality solved the problem and poses a new set of issues and problems that usually begin with a lack of functionality of in the E/CTRM side of the solution.

The overall solution footprint also tends to be extremely large and expensive and so this option is usually only available for larger businesses with deeper pocketbooks.

# ENUIT'S EXPERIENCE WITH THE PROBLEM

**Enuit, a leading supplier of CTRM software, has experienced this issue at many of its installations but particularly in places like Singapore, Japan or China and with extremely large and complex commodity trading operations globally.**

Like other vendors, it initially adopted a generic interface readiness approach (see above), but quickly saw that this was a suboptimal approach. For a specific Chinese customer, Enuit created a tool to help with Journal Entry mapping believing that the right approach lay at the level of journal entry creation. Part of the problem with that approach though is that especially internationally and specifically in the cargo-side of a commodities business, all sorts of events can trigger a journal entry. Tracking and reconciling all these journal entries is extremely hard work. In the Chinese instance, the journal entry mapping tool worked but the complexities involved with the client's business meant that this was a very time-consuming exercise.

However, Enuit's experience with this approach resulted in an automated journal entry mapping tool between the CTRM and accounting system that worked quite well. Even in some global complex businesses involving multiple commodities, cargoes, and contract optionality's, with several thousand transactions a month, the solution worked extremely well. In fact, it worked so well that the client could reduce its back-

office accounting team that had been manually creating journal entries in a time consuming and error-ridden set of processes with resulting delays in its ability to report on the key metrics.

Essentially, Enuit's approach is event-based accounting and triggering of journal entries that is highly applicable to the nature of complex commodity businesses. The solution means that anytime the operations team make any adjustments or entries into the trade and risk management side, it automatically triggers activity-based accounting journal entries and ensures seamless integration with accounting. In addition, end-of-month closing is treated as one special event, for which, journal entries of accruals, unrealized P&L and inventory can be previewed before being posted. Enuit has also taken an approach in which it developed its own accounting functionality within a commodity management version of its software known as Entrade Unite. The solution is used in Entrade Unite to ensure timely, accurate and reconcilable accounting integration and can also be deployed to integrate Entrade with a third-party accounting package.

# ABOUT ENUIT LLC

Enuit was founded in 2008 with a single goal in mind: To bring to market affordable, functional trade management software. ENTRADE® is all of this and more. And, it really works. It can help your company track its transactions through the entire deal life cycle: From done deal through to sent bill.

ENTRADE® supports Every commodity, every feature, and every user in one place.

There's no Third Party or Legacy System to integrate. Enuit calls it One Platform.

Whatever you trade, wherever you trade. Its universal deal manager and risk engine ensure that all of your trading activities can be well managed within one system, with one architecture, on one trade management platform. ENTRADE® also provides industry and market segment-specific logistics management forms and reports, which take into account the nuances of the specific logistical requirements of each commodity.

Enuit gives their customers complete visibility, insights, control and management over their business operations helping them to have peace of mind to make quick and informed decisions that affect the bottom line.

Enuit, LLC is headquartered in Houston, Texas, USA, with offices located in Beijing, China, London, Singapore, India and Tokyo to serve markets in China, Asia-Pacific, Middle East, Europe, and North America

To learn more about Enuit visit [www.enuit.com](http://www.enuit.com)



# ABOUT

## **Commodity Technology Advisory LLC**

Commodity Technology Advisory is the leading analyst organization covering the ETRM and CTRM markets. We provide the invaluable insights into the issues and trends affecting the users and providers of the technologies that are crucial for success in the constantly evolving global commodities markets.

Patrick Reames and Gary Vasey head our team, whose combined 60-plus years in the energy and commodities markets, provides depth of understanding of the market and its issues that is unmatched and unrivaled by any analyst group.

For more information, please visit:

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ComTech Advisory also hosts the CTRMCenter, your online portal with news and views about commodity markets and technology as well as a comprehensive online directory of software and services providers.

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