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IHS Markit launches digital tracking system for physical metals inventory

IHS Markit has created a system to help physical trading firms to track their metals inventory digitally, replacing laborious manual processes.

The Commodity Tracker technology updates the way in which trading companies reconcile their inventories.

This is currently a manual process, which involves hundreds of documents, including bills of lading, inventory reports, warehouse receipts and end-of-month statements. These documents come in different formats and languages, which makes reconciliation, and keeping accurate and up-to-date books, a complex operation.

According to Garth Leonard – director for Commodity Tracker at the information, analytics and solutions firm – reconciling inventories using manual processes results in higher costs and more operational risks than are necessary.

"Teams struggle with the collaboration, transparency and accuracy of inventory data, because spreadsheets are either saved on local computers or buried in hard-to-locate file-shares," he said.

Keeping control of the various versions of a document was a constant challenge, he added. "Until recently, firms have continued to add manpower to overcome the challenge. But now there is a recognition that they need to invest in effective technology solutions," he said.

The Commodity Tracker technology is based on the internet cloud, and uses optical character recognition and artificial intelligence to extract and present data in a standardised manner. This gives its users almost real-time access to the information, allowing much more efficient inventory-tracking and management.

The technology is already being used in other asset classes, with products such as MarkitSERVE, which handles more than 80,000 processes in the markets for over-the-counter credit, forex, equities and interest rate derivatives.

IHS Markit also operates DealHub in foreign exchange markets, and Loan Settlement as well as Loan Solutions in the syndicated loans market.

With Commodity Tracker, IHS Markit is now focusing on banks and large trading companies active in the physical metals market.

Managing inventory is a key component of physical commodities trading. The London Metal Exchange has introduced its own electronic register for the creation and transfer of off-warrant warehouse receipts, while Brady plc has its own logistics and inventory management system that has been in the market for some years.

Physical metals trading has increasingly fallen under the spotlight because of instances of fraud-related activity including fake warehouse receipts in Qingdao, China and a continuing warehouse fraud related to nickel.

While Leonard acknowledges that the technology will not identify fraud, it will highlight inaccuracies, he said.

"If our platform presents all the documentation in real time, it becomes much more difficult for would-be thieves to take advantage in weak spots in the supply chain," he told *Metal Bulletin*.

Commodity Tracker helps to convert data from an impractical format, such as paper, into a more usable format of structured, electronic data.

He gave an example of its usefulness.

"After we processed some historical data directly from a customer, as part of a proof-of-concept, they were quick to point out that our scanning technology had failed us by misreading where a comma should have been," Leonard said.

"[But] a quick review of the original source document showed that the document itself carried the error, and the historical processing of that document by this organisation had missed it," he added.

"Not only had Commodity Tracker correctly read the document but also, by applying contextual logic to see it was an unusual number, we had highlighted the anomaly for review," he said.

Cyber security is a major concern, and one that the company takes "very seriously", Leonard said.

"IHS Markit operates many platforms that contain sensitive and market-affecting data across multiple asset classes, and we are always extremely mindful of the risks. In partnership with Amazon Web Services, we've focused on all modern best practices for data security," he added.

The system provides maritime tracking through vessels' GPS location systems, and there are plans to develop the technology further to capture the exact location of each tonne of metal.

Commodity Tracker tracks material by tracking custody. The paper trail that is generated every time materials change hands allows the technology to track their location down to a warehouse, for instance – although not to an exact position within that warehouse.

"However," Leonard said, "we have some ideas about how we can work with warehouses to capture even more granular location data, even down to the exact position of the material."

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