SCILA QUARTERLY NEWSLETTER

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Keeping a watchful eye on the trading world

A look back on the last year or so, also with a risk point of view, there is much that needs to be looked at carefully. Many billions were risked and lost. Maybe surveillance and risk should be linked more closely, coupled with good corporate governance?

Starting with the nickel debacle: one player had a huge position, others may have been aware, financing to cover the position was huge, there wasn't a physical nickel holding to offset the massive short - so it was a speculative position. Until the exposure was too big to cover. The position was twice the daily volume of the nickel contract, making it impossible to liquidate without disastrous consequences. Should this have managed to get this far? Did many participants not understand the possibility of a short squeeze, and also that there were no price limits at the exchange? Managing risk within limits is possible, with the right rules and procedures, and without exceptions.

Putting aside the likelihood that FTX's activities weren't subject to good oversight and customer money was not safeguarded, leading to the firm's failure, the negative impact on crypto currencies was clear. Firms who properly monitored exposures, managed those exposures by ensuring adequate funding to cover daily losses, and eventually liquidation, did not fare badly. Customer trading in other markets was not disrupted and customers' money wasn't gambled away by an affiliate of their clearing company.

Perhaps, like the large long positions held by Archegos that weren't reportable, these big risk positions evolved without any adequate alerts and actions - perhaps because they weren't visible outside the firms that were directly involved. But even then, risk managers are able, if equipped properly, to assess the probability of difficulty in managing position liquidation in adverse circumstances. The fact is that larger and riskier positions should always carry a higher premium to hold. As the probability of an exceptional event becomes likely the risk should be adequately underwritten by the beneficial owner of the risk, and not the bank or broker holding those positions.

In all of these cases, ensuring the right kinds of monitoring and alerts are in place is paramount, adhering to prudent procedures and policies and continuously adapting the rules to changing market conditions, on an instrument by instrument basis can have massive value, in keeping markets safe for investors.

Asia - Update from events sponsored by Scila

In November, Scila sponsored and attended three major financial markets events in Singapore - FIX Singapore, FIA Asia and Independent Wealth Manager (AIWM) Conference. Following the pandemic period where very few physical events took place, it was exciting to finally meet customers and partners again at conferences.

Scila opens up US office

Scila has become present in the United States since November, and would be delighted to meet with customers based in the Americas as needed and on a frequent basis. The US subsidiary is wholly owned by Scila AB and is led by Mr Alexander Lamb, Head of Americas at Scila Inc.

Mr Lamb is an industry veteran with decades of experience in both the business as well as technology of trading, from front to back-office operations. Having run a bank in Germany, brokerage operations in the UK and the US he moved to technology with Trading Technologies (TT) and on to building trading and risk management systems and for the last decade has had first hand experience in helping to develop and improve risk management and compliance systems for both small and large firms.

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