

Insights



SCILA RISK INSIGHTS

Navigating risk and oversight in fastmoving markets

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The industry will soon gather at the FIA Expo conference to discuss the latest market developments, the evolution of market structure, and the need for participants to embed the latest tools and technologies while also applying the best safeguards, specifically to emerging areas such as prediction markets.

These themes are very much aligned with the trends we have been observing throughout the year, in meetings and at several conferences.

Above all, there is a recognition that, like risk, surveillance needs to keep pace with market developments and is increasingly moving into real time. While some firms remain content with T+1 alert and report generation, this approach is generally suitable only for those with limited and easily accessible trading participants. In addition, the proliferation of digital exchanges, digital assets, and tokenised versions of traditional assets has prompted risk managers, compliance officers, and market monitors to maintain close oversight of markets and participants.

Here are the three areas that stand out today:

- **Prediction markets**

These platforms are expanding rapidly, yet their classification within the global financial framework remains varied across jurisdictions, ranging from gambling or betting to swaps and futures contracts. Regardless of how regulatory frameworks evolve, market participants will need to understand, clear, and risk-manage these novel instruments. Some

industry observers view this shift as an evolution of traditional futures and options markets, replacing standardised contracts with highly customisable ones.

- **Perpetual futures**

Often referred to as "perps", these derivative contracts do not expire, eliminating the need to roll positions from one contract month to another. Their pricing closely tracks the spot market, though deviations can occur based on supply and demand dynamics. Margin adjustments, known as the funding rate, are settled between buyers and sellers multiple times daily.

While the continuous nature of these positions makes them attractive, participants must exercise caution, as rapid price movements and funding costs can lead to significant financial exposure without adequate risk preparation.

- **Digitised and tokenised assets**

Digitised assets serve as digitally accessible tokens representing ownership of underlying assets. Settlement often occurs atomically, where the exchange of the asset and payment takes place simultaneously and instantly, provided full funding is established at the point of trade.

Bridging the needs of DeFi and TradFi

In addition to the aforementioned, the Decentralised Finance (DeFi) ecosystem is fast-moving and complex, requiring surveillance and risk tools that offer seamless scalability, high-speed processing, and robust APIs. For example, these integrations must bridge traditional finance (TradFi) back-office

systems with blockchain networks, making real-time, intraday continuous collateral management essential.

To maintain market integrity and contract performance, regulatory bodies require effective tools to observe trading activity and identify risk as well as potential misconduct or fraud. Trust in emerging asset classes depends heavily on reliable, transparent oversight.

Cryptocurrencies, digital wallets, and decentralised exchanges have existed for years, but institutional adoption has progressed cautiously. Institutional investors typically require clear regulatory frameworks, established legal standards, and predictable governance before entering new asset classes. Historically, standardising complex financial products such as interest rate swaps or options required decades of market evolution.

That evolution involved significant learning curves. Past market growth shows how weak risk oversight and improper distribution led to costly litigation and substantial market losses.

Today, the velocity of innovation is significantly higher. In these faster-moving environments, relying solely on T+1 or batch processing can present limitations in detecting and addressing intraday risks.

Global regulatory standards for DeFi and digital assets remain in development. However, waiting for complete regulatory certainty can stifle market growth and innovation.

"Perfect is the enemy of good" (Voltaire)

Navigating these developments requires early risk identification, the establishment of industry best practices, and proactive self-regulation to minimise systemic exposure.

Achieving this level of oversight requires immediate access to comprehensive market data. Building infrastructure capable of real-time processing, analysis, and alerting presents a significant challenge for many market participants. Integrating financial risk management tools with trade surveillance and behavioural analytics will be essential to manage all risk exposures effectively.

While this rate of change presents complex operational challenges, it also highlights the need for robust oversight. To successfully navigate these fast-moving markets, participants will need to adopt multi-asset surveillance and risk management solutions capable of monitoring activity in real-time and protecting market integrity.

About Scila

Scila is a provider of trade surveillance and risk management solutions for market participants, marketplaces, and regulators.

Founded in Stockholm in 2008, the company delivers technology designed to help clients manage market surveillance, risk management, and regulatory compliance.

Scila offers two main product platforms:

Scila Surveillance: a market surveillance solution.

Scila Risk: a multi-asset risk management platform.

The company delivers solutions tailored to specific client requirements across different

financial markets.

Its client base includes exchanges, financial institutions, and regulatory bodies globally.

Scila is headquartered in Stockholm, Sweden, with offices and local representation in Chicago, London, Paris, and Singapore.

The Scila logo consists of a stylized 'S' icon followed by the word 'SCILA' in a bold, uppercase, sans-serif font.

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