insights

SCILA SURVEILLANCE INSIGHTS

Surveillance without borders

Risk control in Asia's Interconected Derivatives Markets

Monitor. Identify. Act.

SCILA





Risk control in Asia's interconnected derivatives markets

Asia-Pacific's highly interconnected derivatives markets increasingly sit at the intersection of regional and global trading.

Investment banks, brokers, market makers and commodity firms now execute strategies across exchanges, asset classes, currencies and time zones. Equity-index futures may be traded alongside FX hedges, commodity exposures may span local and global venues, and positions opened during the Asian session can remain active as liquidity moves into Europe and the US.

This creates significant opportunities for hedging, arbitrage and relative-value trading, but it also creates a harder surveillance and risk-management challenge. Arbitrage itself is not the risk. It is a fundamental part of efficient derivatives markets. The challenge is understanding the relationship between all legs of the strategy.

Surveillance teams increasingly need to ask whether activity in one product makes sense when related positions are considered, whether a less liquid market is being used to influence the value of a larger position elsewhere, and whether behaviour around a close, benchmark or settlement creates an economic benefit in another instrument. They also need to understand whether the activity is consistent with the trader's approved strategy. These questions cannot always be answered by monitoring each order book independently.



Single-market surveillance is no longer enough

Traditional surveillance remains essential for behaviours such as spoofing, layering, wash trading and marking. But the economic strategy increasingly spans more than one instrument or venue. A firm may hold an equity-index future and an FX hedge, trade related contracts on different exchanges, hedge physical commodity exposure through listed derivatives, or hold positions across several maturities and correlated products.

Monitoring those legs independently creates two risks. The first is false positives. Activity that appears unusual in one product may simply be part of a legitimate hedge or relative-value strategy. The second is missing the wider behaviour because no individual order or trade appears sufficiently unusual on its own.

For firms operating across Asia, surveillance therefore needs to reflect the way trading strategies are constructed, rather than assuming each market operates in isolation.

Risk management must follow the same strategy

The same principle applies to risk management. Individual positions can appear modest while the combined portfolio creates meaningful exposure across products, currencies and venues. That exposure may come from basis risk between related instruments, concentration across correlated positions, liquidity risk if a hedge becomes difficult to execute, or increased margin requirements during volatile markets.

Time zones add another dimension. A position can remain exposed while a related market is closed, less liquid or moving into a different trading session. Asia is also the first major trading region to respond to many overnight macroeconomic, geopolitical and commodity developments.

Price moves and positioning established during Asian hours can therefore influence the starting point for European trading and, later, North America.

For global firms, surveillance and risk management cannot simply reset at the end of a regional trading session. Positions, market signals and related strategies can continue across the global trading day.

Risk teams therefore need to understand how positions evolve across venues and time zones, while surveillance teams need to understand whether the trading activity that created those positions remains consistent with the intended strategy.

One region, different market structures

Asia should not be treated as one homogeneous market. Singapore, Japan, Hong Kong, Australia, Korea and other regional markets differ in their product mix, liquidity, trading hours and market structure.

Those differences are visible in the exchanges themselves. SGX has developed a broad regional derivatives franchise spanning equity indices, FX, rates and commodities, while Japan's OSE brings equity-index, government-bond, precious-metals and FX derivatives onto the same trading infrastructure. Korea provides another model, with KRX extending trading in key equity, currency and rates derivatives through a night session running into the following morning.

For investment banks, brokers and market makers, this means a strategy can move between different products and trading environments without remaining within the boundaries of one exchange or local trading day.

The surveillance framework can therefore be common, but the controls need to reflect the individual market. A highly liquid index future should not necessarily be monitored in the same way as a less liquid commodity contract. Continuous markets, overnight sessions, block trading and products whose value is linked to another market can each create different surveillance considerations.

Reducing noise across diverse markets

Expanding surveillance across more products and venues can quickly increase alert volumes. The answer is not to apply the same controls everywhere. Different products behave differently, and liquidity, volatility, market structure and participant activity can all affect what should be considered unusual.

Surveillance therefore needs to be flexible enough to reflect those differences. Thresholds, filters and alert logic should be capable of being adjusted for different instruments, participants, asset classes and trading models. The objective is not simply to generate more alerts. It is to improve the quality of the alerts that reach the surveillance team.

Firms should be able to tune their controls around the risks that matter to their business, test changes before they are deployed and refine the approach as markets and strategies evolve. That becomes particularly important in Asia, where the same firm may be monitoring highly liquid international contracts alongside more specialised regional products.

How Scila can support a multi-market approach

Scila is designed to support surveillance across multiple asset classes, venues and market models within a common framework. That allows firms to maintain consistent investigation and governance processes while adapting the underlying surveillance to the characteristics of each market.

Relevant capabilities include:

- cross-product and cross-market monitoring;
- anomaly detection, explainable AI and configurable alert-rule parameters;
- flexible alert rule configuration and scenario simulation;
- support for algorithmic and high-volume trading;
- position and exposure context;
- real-time and historical market replay;
- integrated investigation and case management;
- connectivity to exchanges & trading platforms, market-data sources and proprietary systems.

This is particularly relevant for firms operating across Asia, where trading activity may span equities, fixed income, FX, commodities and derivatives across several venues and jurisdictions. The value is not simply broader connectivity. It is the ability to apply a common control framework while allowing the surveillance itself to reflect the differences between markets.

A practical operating model can be summarised in three stages.

MONITOR: Bring together orders, trades, positions and related market data across the products and venues in which the firm operates.

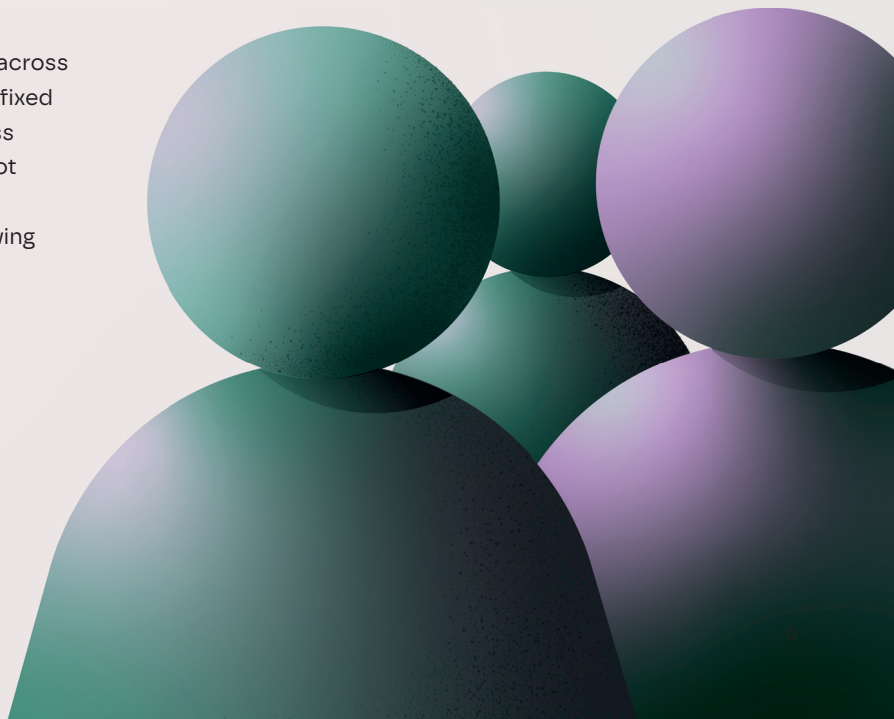
IDENTIFY: Apply market-appropriate surveillance scenarios while using cross-product and cross-market context where activity spans related instruments.

ACT: Reconstruct the relevant trading activity, understand why it was flagged, consider legitimate explanations and preserve the investigation and decision trail. The alert should start the investigation rather than represent its conclusion.

A control framework built for interconnected markets

As Asia's exchanges extend trading hours and liquidity becomes even more borderless, surveillance and risk controls can no longer stop at the boundaries of a single venue, asset class, or local close. Firms that succeed in interconnected derivatives markets are those whose control frameworks travel with the business, combining unified governance across equities, fixed income, FX, commodities, and derivatives with the precision to adapt to each local market.

Connected markets demand connected controls. If your teams are reviewing how to bridge cross-market surveillance and intraday risk across Asia-Pacific and global sessions, speak with Scila to explore how a single, adaptable framework can support your trading growth.



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.

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