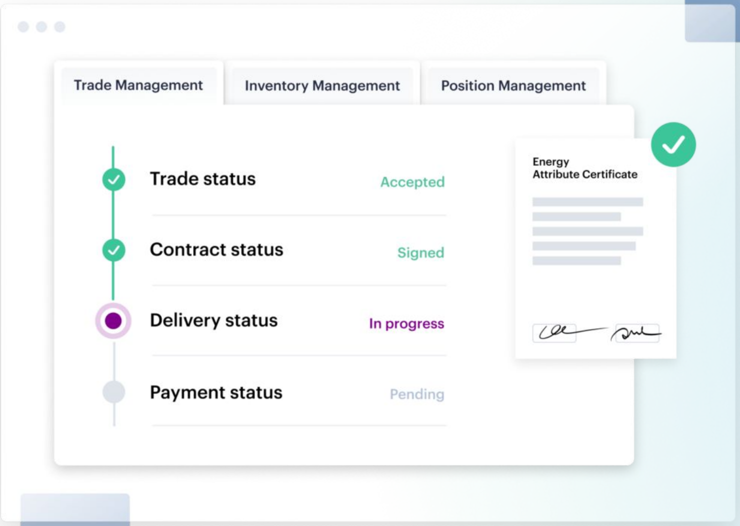
Risk Management and Market Developments

Managing Post Trade Operations

Handling operational risk



CERQLAR
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Head of Product Management

Agenda

Managing post trade operations

01 Post trade operations & operational risk

02 Why proper post trade management is important

03 The risks associated with post trade operations

04 Mitigation of risks

05 Risk mitigation using CerQlar

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About me

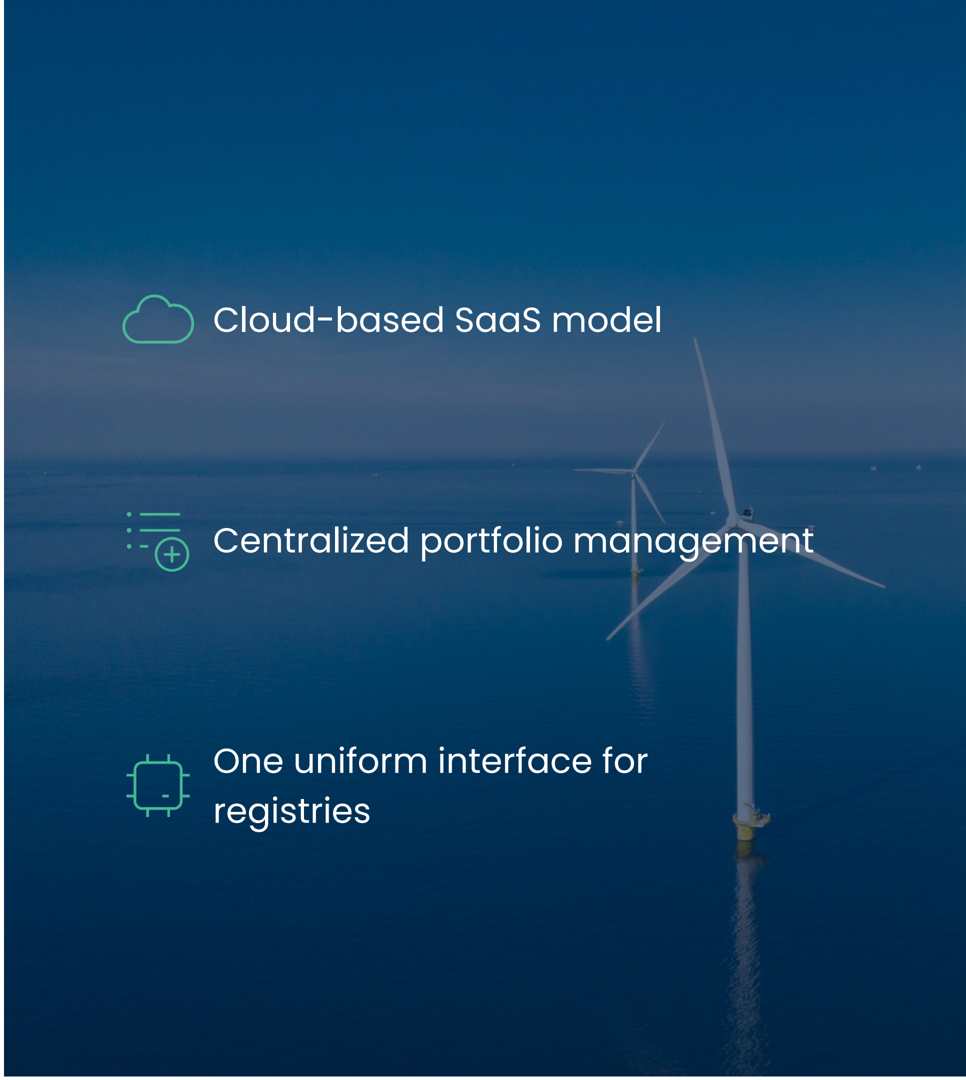
- 15+ years of experience in building software solutions across various industries.
- 10+ Years of experience in product management for B2B SaaS solutions.
- Responsible for CerQlar's product strategy and roadmap.

About us

Introducing CerQlar

With CerQlar, market participants save time and reduce the cost of the trading process. They can manage inventory, react quickly to market changes, and prepare for future trading opportunities.

CerQlar supports **25+** registries, including **MEKH, HKNR, Statnett, GSE, and many more.**



Post Trade Management

Post trade management operations is everything that happens from the **trade confirmation** until the **settlement** of the trade: that is when certificates and money change hands, and both parties have been made whole.

Current challenges:

- Relies on a number of **non-connected systems**:
    - Excel sheets and Macros
    - Registry platforms
    - Inhouse systems
    - ETRM systems
- High Degree of **Ad hoc processes**
- Post Trade operations is a significant source of Operational Risk

Operational Risk

Operational Risk is the risk of losses caused by flawed or failed **processes**, **policies**, **systems** and or **events** that disrupt business operations. At best, this leads to operational inefficiencies and at worst to significant trading losses.

Examples:

- **Different functions within the same organization work with different data**. Mismatches between trade record in internal system and contract (or lack of a contract)
- **Calculating your position takes too long and is error prone**. (market may have moved, the position isn't calculated correctly and the result is a trading error)
- **Certificates left to expire on the registry account** (in best case they were not part of a missed delivery)
- **Erroneous cancellations** of Certificates that are non-reversible.

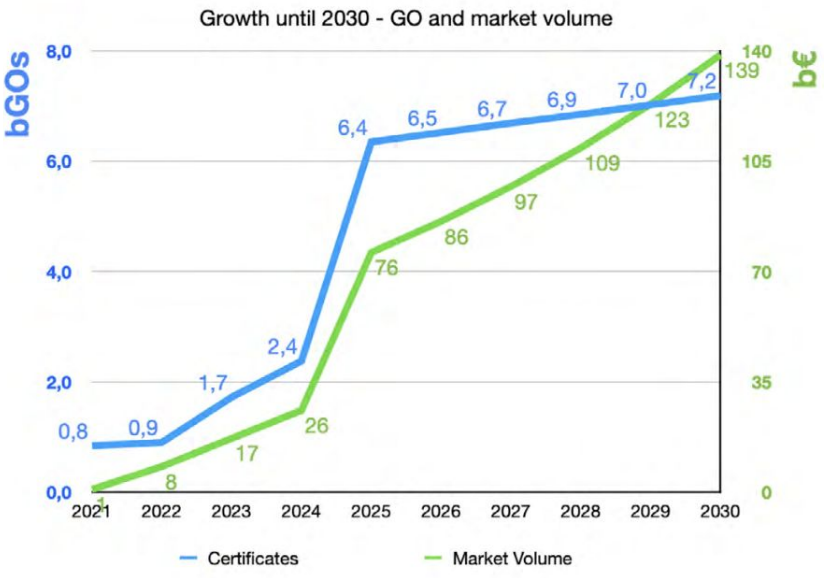
Proper post trade management operations and systems help mitigate Operational Risk

Why it is important to have proper post trade management in place

Prepare for massive growth in the GoO market

The GoO market is growing fast, and the industry needs to take action if it plans to accommodate the growing scope and complexity of an evolving trade market.

- GoO market growth to reach **8 billion** certificates by 2030
- The current **900 million** GoOs are already pushing market participants to their limits.
- Processing and handling methods must be improved to accommodate future growth.
- Risk of increased handling costs & missed obligations without any solution.



Source: https://www.cerqlar.com/blog/2022-in-review-looking-back-at-important-developments-in-the-guarantee-of-origin-go-markets-and-what-they-indicate-for-the-futures/

Risks in GO post trade management

The Risks sources associated with post trade management of a GO portfolio

- **Internal processes:** inadequate controls in place or the lack of clear segregation of duties, e.g. during the trade capture and settlement process.
  Example: missing or erroneous contracts, cancellations or transfers.

- **IT Systems:** inadequate infrastructure, including lack of GO portfolio management software, such as shared excel files, macros or relying on systems built for physical power such as ETRM systems.
  Example: missed trade details, and missed delivery obligations

- **External events:** such as Icelandic GO export ban (1), or the availability of the registries, such as the hacking attack against GSE (2).

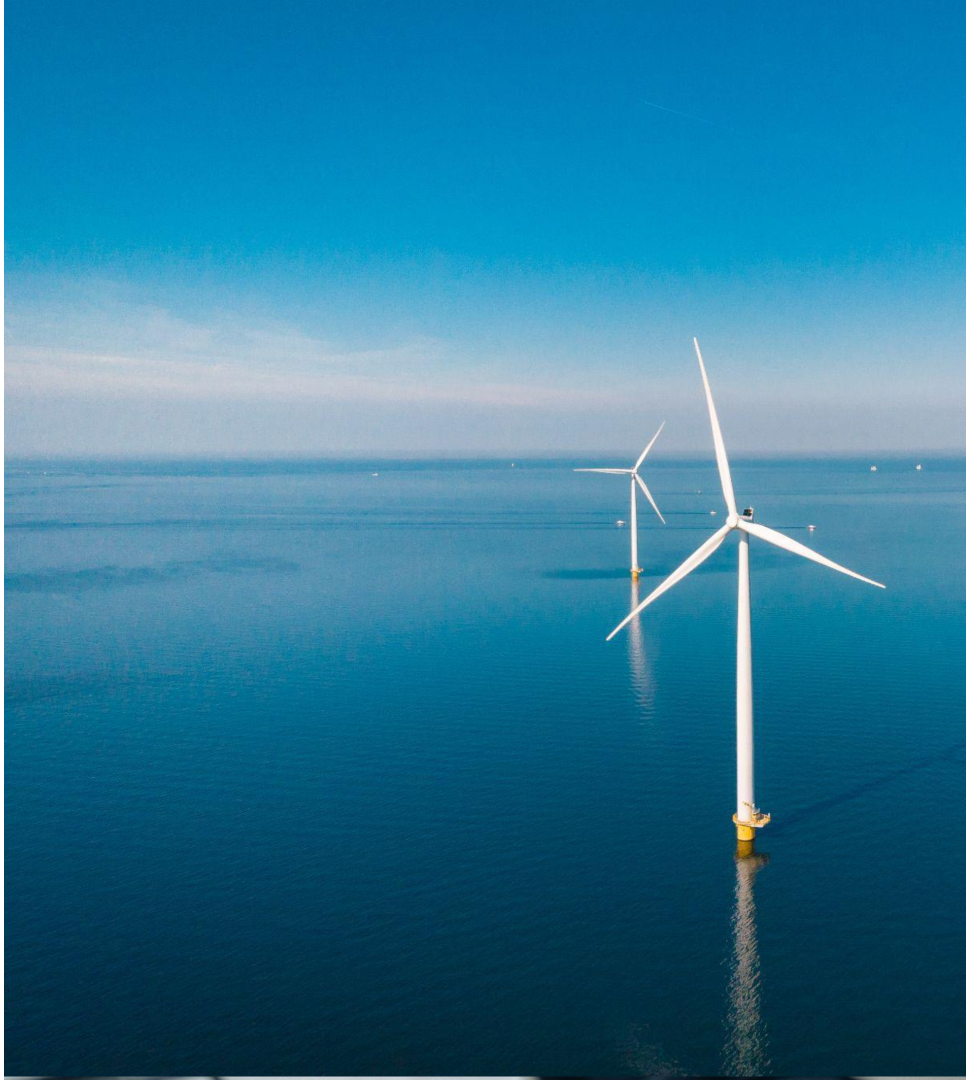
- **Regulatory requirements:** Such as Increased ESG reporting obligations, full disclosure or granular certificates. Regulatory changes such as requiring monthly cancellations in the Swiss market as opposed to yearly, could quickly have a ripple effect.

Sources:
1, https://www.reuters.com/technology/ransomware-group-blackcat-behind-italys-gse-hacking-researchers-say-2022-09-02/
2. https://podcast.montelnews.com/257968/13342619

Mitigating Risks

Mitigating Risks for GO portfolio management

- **Internal processes:** Clear segregation of duties and strict controls during trade capture process (ideally supported by IT systems).
- **IT Systems:** use a system built for GO portfolio management. That can capture all EAC attribute specific information, connect and reconcile your trade and inventory (registry) data, support auditing requirements and make sure that is ready to handle future regulatory requirements, such as changes to disclosure periods and granular certificates.
- **External events:** safeguard against external events on a contractual level. Use more than one registry to safeguard against unplanned outages.
- **Regulatory requirements:** Implementing the steps above will make you ready for future requirements.



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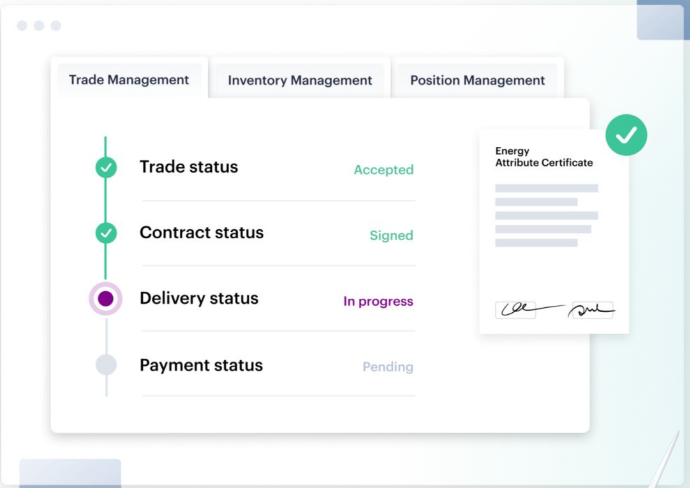

Get in touch

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