

# What did we learn from 2022? And what can we expect from 2023?



Adam McIlroy  
 Co-Founder and CEO,  
 Skylight IPV

**A**t Skylight IPV we understand the vital importance of Independent Price Verification (IPV) as part of a comprehensive risk management framework. Our team of experts are committed to advancing IPV services for Over-the-Counter (OTC) derivative markets.

The global investment banking and commodity trading community needs an IPV service that is creative in its thinking, adaptable in its application and responsive to their evolving requirements. Our approach prioritises partnering with clients, combining our collective experience and knowledge with innovative technology, to deliver new, more effective and efficient solutions.

**What did we learn from 2022?** 2022 taught the OTC derivative risk management and valuations community about the importance of transparency during periods of elevated uncertainty. Having carved out its position as a disruptor of the opaque OTC market, Skylight IPV was in a position to support its clients, providing clarity about how their portfolios were marked against their peers as prices fluctuated widely.

In February 2022, against the backdrop of escalating Ukrainian war tensions, commodity prices experienced exceptionally large volatility swings. Intra-day price volatility rose to levels unseen in recent times and the importance of distinguishing mark to market between the exchange settlement prices at 16:15 GMT and the

generally accepted “closing time” of 16:30 GMT for the OTC market became abundantly clear.

For example, on 24th February 2022, the front-end of the Dutch Gas TTF Forward Curve moved up to c. €145 per MWh at 15:30 GMT before sharply selling off, to approximately €135 at 16:15 GMT and €115 just 15 minutes later at 16:30 GMT.

It is open to debate whether the fair value should be as of 16:15 GMT (listed close) or 16:30 GMT (OTC “close”), with either being reasonable. However, what is not open to debate is the nonsense of an aggregated price (and its associated uncertainty metrics) deduced from a combination of the two pricing times. It is simply incorrect to suggest that the uncertainty in the valuation of the closing price for the most liquid gas market in Europe is €20 wide when the bid-offer spread (the difference between the price at which units can be bought and sold on any given day), even at times of stress, is typically well under €1.

When faced with such a material difference between related pricing times, transparency in the data set is absolutely key. All of our clients were able to quickly and accurately verify the provenance of our valuation and confirm that our commodity experts had only accepted prices into our assessments from a single pricing time.

Transparency and expert opinion are essential to get accurate independent valuations in times of stress and uncertainty.

**What to expect from FinTech 2023?**

The FinTech industry and beyond is excited to see how far AI and robotics will go in making our business lives easier and ever-more efficient. The topic has continued to grab mainstream headlines in recent months, with the likes of OpenAI's launch of ChatGPT at the end of 2022 to the public. Everybody wants to get involved.

Markets reacted strongly in February 2023 as Alphabet's share price stumbled amid

**“The FinTech industry and beyond is excited to see how far AI and robotics will go in making our business lives easier and ever-more efficient.”**

concerns that output from Bard, Google's new AI rival to ChatGPT, required NASA to correct inaccuracies around new discoveries from the James Webb Space telescope.

These hiccups in AI are being quickly addressed as patch updates are implemented. However, just as Google highlights in its response to the event by encouraging its employees to rewrite any wrong answers, there is a fine balance between relying on the ever-improving AI and leveraging the value-add that a cognitive human review or sense-check supplements.

For 2023 we expect this trend to continue its trajectory, though it must be remembered that the effectiveness of AI is a pure function of its input data. The risk of garbage-in, garbage-out must be mitigated by utilising the tremendous expertise of professionals who can apply their decades of industry knowledge to ascertain the veracity of any input data.

As a disruptive FinTech, Skylight IPV continuously seeks to innovate its own embedded AI architecture as we further integrate it into our infrastructure. However, as the example above shows, we are simultaneously conscious of the significance of leveraging our most important assets; our human resource and their industry leading experience and expertise in financial markets.

In practise, this means that once our clients' data has been processed through our AI system, the output still goes through a human-review to check any remaining anomalies that AI may have missed. Matching the latest tech with unrivalled market experience allows Skylight to return the most accurate reflection of mid-market derivatives pricing, thus helping our clients truly understand and control their valuation risk.

