

Transparency

Opacity is a risk management problem

The Russia-Ukraine conflict has put geopolitical exposure squarely in the spotlight. The inability to accurately assess this risk has exposed a key deficiency for private markets – the lack of transparency to credit risk at multiple distinct levels on a real-time basis. Beyond geopolitical and credit risk, market participants also struggle to gain a clear view of counterparty, payment and liquidity risk, to name just a few.

Identifying and understanding risk requires transparency into counterparties, financial performance and the assets underlying loans in the private debt space. Only then can you understand to whom you're exposed and evaluate whether the accounts receivables associated with your investment are likely to perform as expected.

Opaque markets

In the public markets, this data is readily accessible. Trustees and custodians gather comprehensive information and the process for sharing this information with investors is institutionalised. Private debt markets, though, can be opaque. The lack of transparency has been due to fragmentation, a lack of structure and standardisation, and little or no observable market data.

In the current environment, this opacity can create particular risk management challenges. Investors may not be certain whether they have exposure to Russian companies. Credit funds may not know their loan exposure to Russia or Ukraine, or the risk associated with accounts receivables. Even if they do know, the lack of available data



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constrains visibility and, therefore, any certainty as to whether or when payments will be made. Back offices, therefore, must simply wait to see whether wires come in.

Current events have highlighted such concerns, but these are longstanding issues that deserve to be addressed. Private markets should have the same transparency and efficiency as public.

Taking the first step to capture, aggregate and standardise data from across the market can dramatically improve visibility and inform decision making. Platforms that can provide detailed information on borrowers and investors can shine a light on underlying exposures and the risk facing the borrower's company – from payment flows to underlying assets to major event risks, such as bankruptcies, that could lead to defaults.

Next evolutionary step

The Russia-Ukraine crisis has highlighted the need to expand these tools to include geographical and geopolitical risk factors, so that parties to a transaction gain a deeper understanding of how they impact fundamentals and performance. These capabilities are the next evolutionary step in creating transparent private debt markets.

The ability to nimbly respond to market events is a significant benefit of technology-first infrastructure and data-driven approaches to private markets.

We firmly believe that transparency creates opportunity for the entire ecosystem and, as platforms like Percent and others expand the scope of real-time data that is available and digestible, all parties in the marketplace will be able to better evaluate and manage their risk, and opportunity, in dynamic private markets. ■

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