



Editorial : Xavier Perea

Market Life : LSE Options.

What are the weekly options and the associated volatility.
Massimo Butti

Power mkt in EU. L.Colasante

Luis Colasante is providing in this issue an
extensive analysis of the European Power Market.

Interview. Netguardians.

Joel Winteregg, NetGuardians CEO's was in Geneva for a short
interview. Data mining, fraud detection, complexe data usage.

Mkts Review. K.Grindlay.

An extensive mkt analysis by Keith Grindley for Q3 2016.

Trade reporting: Regis-TR.

Trade reporting – towards convergence or equivalence?

By John Kernan

Six Sigma: episode1

Shailesh Shoprah: what is operational excellence?
1st episode from our operational excellence corner.

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Representing Covalence Antoine has been named in Ethisphere 2009's 100 Most Influential People in Business Ethics, finalist of the Social Entrepreneur of the Year 2005 award in Switzerland, and laureate of the Cantonal Sustainable Development Prize (Geneva) in 2004. He's a co-founder of Sustainable Finance Geneva. Holding a Master in political science from the University of Geneva, Antoine is the author of *Swiss business and human rights: Confrontations and partnerships with NGOs* (Fribourg University Press, 2001).



Is Geneva really the world's first sustainable finance center?

"Geneva is the world's first sustainable finance center", said Federal Councillor Doris Leuthard during a recent speech at the Graduate Institute of International and Development Studies, where she defended the Swiss government's opposition to the popular initiative for a green economy (Geneva is the only canton having voted yes).

Sustainable finance, usually defined as the integration of Environment, Social, and Governance (ESG) factors into financial decisions, has indeed been gaining importance in Geneva over the last years. For instance, the law establishing the pension fund of the canton (CPEG) indicates that it shall operate in line with the principles of sustainable development and responsible investment. In its economic strategy 2030, the canton intends to promote the development of Geneva as an international crossroads of sustainable finance. This vision is at the heart of Sustainable Finance Geneva (SFG), an association founded in 2008 by a group of professionals convinced by the opportunity to connect the financial center with the locally-based international and non-governmental organisations, this "research laboratory on global issues", in the words of Ivan Pictet, former managing partner of the Pictet Group.

Innovations: will trade finance be next?

In 2014, SFG published a book presenting 10 innovations in sustainable finance that were built in the Geneva area. It features pioneer developments in shareholder engagement (Ethos), ESG assessments (Inrate, Covalence), thematic funds (Pictet, Lombard Odier), microfinance (Symbiotics, BlueOrchard), impact investing (Bamboo Finance, Impact Finance Management), public-private partnerships (UNEP Finance Initiative), social impact bonds (GAVI, International Finance Facility for Immunisation), indices (GAIN, Access to Nutrition Index), and philanthropy advisory (Wise). Interestingly, the 10th chapter of the book is a prediction: that the next innovation in sustainable finance in Geneva will come from trade finance.

Yes, the potential of Geneva to embrace sustainable finance is impressive.

Is it the world leader in this field? This is true for microfinance: 38% of the world's microfinance investments are managed in Geneva and Zürich (Swiss Microfinance Report 2015).

Considering sustainable finance globally, we must adopt a more contrasted view. Few of the innovations mentioned above came from mainstream financial institutions. This resonates with the findings of “Sustainable Finance in Switzerland: Where Do We Stand?”, a recent Swiss Finance Institute (SFI) white paper: “Apart from a range of specialized institutions and initiatives, the Swiss financial sector as a whole is currently not an international leader in terms of sustainable finance.” London, Luxembourg, Paris and Singapore are described as having shown more dynamism lately.

Lack of high-level endorsement

While an increasing demand for sustainable finance products is observed, according to SFI, there is a need for high-level endorsement from the big players in the Swiss financial sector as well as from mainstream industry associations “in order to strengthen Switzerland’s international position in the sustainable finance world.” Specialized associations such as Sustainable Finance Geneva and Swiss Sustainable Finance play a useful role, but stimulation from the top is required as well. This is also indicated by Geneva banks which recently named sustainable finance among strategic priorities for the years to come, together with asset management and fintech (Geneva Financial Center, Enquête conjoncturelle 2016-2017).

Misperception and complexity

Many finance professionals and investors still think sustainable finance does not perform financially, although several academic meta-studies find a neutral or positive correlation between ESG and financial performance at the level of the firm. The persistence of this “deeply rooted misperception” (SFI) is striking. There are other informational barriers to consider in addition to those relating to performance, especially in private banking. This is suggested by Falko Paetzold, a researcher at the University of Zürich and Harvard Kennedy School. Among his findings are that advisors often refrain from offering sustainable finance products to their clients because these products are too complex and time-consuming, and represent a “nuisance” to their commercial narrative (“Sustainable Investing in Private Wealth Management”, available online).

Education needed

Most client relationship managers only possess a superficial knowledge of sustainable finance products, which refrains them from offering these products to their clients. Few had the opportunity to acquire this knowledge during their studies. So far a small number of universities have integrated sustainable finance into their business and finance cursus, as research by WWF-Switzerland and Sustainable Finance Geneva is showing.

The situation is evolving.

In 2012, the Graduate Institute of International and Development Studies established the Centre for Finance and Development. In 2014, the University of Geneva has named an assistant professor of responsible finance. In 2015, Swiss Sustainable Finance has set up a workgroup for developing training material to educate finance professionals on sustainable finance. Since 2013, the Geneva School of Business Administration (HEG) has been offering a module on sustainable finance within the Diploma of Advanced Studies in sustainable management, in partnership with Sustainable Finance Geneva and Institut Supérieur de Formation Bancaire. HEG is currently developing a Certificate of Advanced Studies in sustainable finance, including an important online component, to be launched in the fall of 2017.

Opportunities

Enriched education programs should help current and future professionals seize the opportunities offered by sustainable finance. Geneva has a key role to play in this sector, and becoming the world’s first sustainable finance center is an ambitious yet possible horizon. According to Charles Kleiber, former Swiss State Secretary for Education and Research: “Validating the role of banks, which are essential to the real economy, represents a chance for Switzerland.

After the excess and disappearance of the banking secrecy, there is now the opportunity to develop a financial strategy rooted in universities, the humanitarian tradition and the international Geneva¹.”

¹ <https://www.letemps.ch/economie/2014/10/30/finance-durable-prend-enfin-galon-universite>