

# Technology and Responsibility

Stockholm (HedgeNordic) – Transtrend aims to contribute to well-functioning, well-organized and reliable markets. This ambition plays a prominent part in our responsible investment policy. When we wrote this policy back in 2010 we dedicated a few pages to the role of active investors in the marketplace and how we strive to fulfill that role. But we didn't write a single word about the use of technology and the responsibilities involved. Which doesn't mean that we did not feel responsible for our technology and its potential impact – this just wasn't a big thing 10 years ago.

Since then the power of technology has continued its rapid expansion. Technology is changing our lives every second, often without us realizing it. And the general attitude towards technology is also changing. On one side we have the avid adopters, on the other a growing group of people who are becoming increasingly suspicious of technology. Especially the increased use of technology based on machine learning techniques – artificial intelligence – raises concerns. Are organizations still in control of what they are doing? Will humanity be respected by machines?

In and around the marketplace the impact of technology is scrutinized as well. And some market participants believe that computerized trading undermines the functioning of markets. A recent event that received some media attention, for instance, was the uptrend in the cocoa market in early 2018, on which we provided some additional color via an earlier publication. We cannot deny that technology has changed market dynamics. Markets – and especially their participants – need to adapt to this new reality.

The public attention to the role of technology in markets – and its potentially undesirable impact – gained momentum since the 2010 Flash Crash. The market surveillance bodies of regulated exchanges saw themselves forced to re-evaluate and redefine their policies with regard to error trades, market disturbance and market manipulation, among other things. Supranational authorities also felt the need for new regulation to address the risks resulting from the use of technology. An example of such new regulation is the chapter on Algorithmic Trading that became part of MiFID II.

A fundamental question underlying all these new rules and regulations: Who is responsible? Should we regard people as the unwilling victims of machines? Or should we treat people as the responsible masters of their machines? To clarify our stance on this and related matters, we amended our responsible investment policy with the paragraph Human responsibility below.

In addition to this new section on technology and alongside a few smaller amendments we also added a section on trading (futures on) indices, which has been added to the paragraph on Price discovery.

## **Human Responsibility**

Before we move on to the source of investment return and the role of investors in society, we'd like to clarify what exactly constitutes Transtrend. Yes, we are a Dutch company based in Rotterdam, managing assets of investors from all over the world and active in markets all over the world. But most importantly, we are a group of people. A group of specialists working together, sharing a passion for investing, and sharing responsibilities. As a systematic asset manager we use a lot of technology, process huge amounts of data, apply a technical & quantitative investment approach and use algorithms for trade execution. But at the end of the day, the responsibility and accountability for all of Transtrend's actions – and their impact – lies with us, the people constituting Transtrend.

Nowadays, it may often feel like technology is gradually taking over human responsibility – but that isn't really the case. A person driving a car is responsible for driving that car. That didn't change when cars got equipped with ABS. That didn't change when road maps got replaced by built-in navigation systems. And that didn't change with cruise control. In fact, this responsibility will grow exponentially when cars become even more autonomous, for instance, due to the application of self-driving technology.

The crucial element: no matter the level of sophistication, technology lacks awareness. It can be amazingly efficient in achieving the specific purpose and goals it has been designed for, but it does so in a completely unconscious way. Which is actually part of its efficiency – its activity is never interrupted by second thoughts. Technology can be compared to a dog. If trained to chase strangers away from your property, it will also chase the distant family member who is bringing you a surprise visit. That's not really a problem as long as the dog only barks. But it becomes a serious responsibility if the dog is also trained to bite.

What applies to technology in general also applies to the increased use of technology in the financial and commodity markets. The more people rely on technology in their decision-making process and the execution of their decisions, and the more sophisticated and autonomous this technology becomes, the greater the human responsibility for the well-functioning of the technology used.

But who, at the first instance, should be responsible then? Is it the user of the technology? The owner? Or the manufacturer? This is not always a simple matter. Our baseline: Technology does not do anything without someone allowing it to. Therefore, "It just ran out of control!" is no valid excuse for the person who is expected to control the technology. From a responsibility standpoint, the person to turn to should be the user. Going back to the car example: someone who gets hit by a car should be assured that the person driving the car will take all responsibility for the accident (assuming the person who got hit is not to blame). Whether or not the driver wants to seek redress from the owner of the car or the car manufacturer does not change his responsibility towards the person who got hit.

At Transtrend, we hold ourselves fully responsible for all technology we use. That's an important reason for designing, developing and/or installing all technology at the core of our business ourselves. And also for closely monitoring its functioning, keeping a keen eye on potential undesired (market) impact. We expect the same level of responsibility from other market participants. When the functioning of a market is temporarily disrupted due to a 'computer glitch', for instance, we believe it's fair that the market participants who are using software that caused the disruption shouldn't be compensated for their losses if their software did precisely what they could have known it would do in the specific circumstance. And surely not at the expense of other market participants who were not responsible for the software used. We hold ourselves responsible for the behavior of our dogs. We expect other market participants to take full responsibility for the behavior of their dogs.

We aim to invest in a responsible manner. At Transtrend, this means being an active investor, conscious of the role we have in the marketplace, aware of the impact we can have on markets, and aware of the fundamental role that markets have in our society. Our use of technology doesn't replace our responsibility but increases it instead.

This article was written by Harold De Boer, Managing Director and head of R&D at Transtrend, and featured in HedgeNordic's special report on systematic strategies in June 2019.