

INDUSTRY PLATFORM OF THE YEAR TRIRESOLVE/TRIREDUCE, TRIOPTIMA

When a storm hits, a community needs an infrastructure that can take at least part of the strain and help its members work together against forces that might otherwise overwhelm them. During the financial crisis, Stockholm-based TriOptima's market infrastructure proved critical in enabling the over-the-counter derivatives industry to weather the tempest.

TriOptima's infrastructure – the triReduce trade compression service and the triResolve portfolio reconciliation service – are not new. "TriOptima has been providing risk elimination and mitigation services for 10 years – long before the value of such services was truly appreciated by the industry or regulators," says Per Sjöberg, TriOptima's executive vice-president.

During the past year, the triReduce platform provided a venue where dealers could identify and tear-up redundant OTC derivatives trades and so reduce the gross notional of the market. The service was used to tear-up \$13.4 trillion in gross notional of credit default swap (CDS) contracts in 2009¹, a slight decline compared with the volume of trades torn up in 2008. However, TriOptima played a key role in one of the most testing events in the credit market over the past year – the settling of CDSs on Paris-based media firm Thomson in October.

On August 12, the International Swaps and Derivatives Association's credit determinations committee announced a restructuring credit event had occurred on Thomson, with the list of deliverable obligations published on October 6. However, as buyers and sellers of protection can choose whether to trigger the contracts following a restructuring, dealers were concerned a last-minute triggering by one end-user could leave them scrambling to retain a flat book by triggering against another.

Prior to the October 22 auctions, TriOptima conducted a compression cycle on single-name contracts referencing Thomson. But not only did it tear up offsetting trades, it also enabled dealers to link contracts they wanted to trigger if other trades were triggered against them. The compression cycle eliminated \$19.6 billion notional of single-name contracts referencing Thomson. TriOptima says this represented more than three-quarters of trades registered with the New York-based Depository Trust & Clearing Corporation by cycle participants.

Elsewhere, the volume of interest rate swaps terminated in 2009 soared to \$24.6 trillion compared with \$13.6 trillion in 2008.² And it is not just in conventional compression cycles that TriOptima has helped.

One major step regulators are taking to bring the OTC



Per Sjöberg, TriOptima

derivatives market under control is to insist standardised contracts go through a central counterparty (CCP). But the CCP then becomes a potential bottleneck, creating a concentration of operational risk. To mitigate this, TriOptima has made triReduce available to London-based clearing house LCH. Clearent for the termination of redundant interest rate swaps that have already been cleared, thereby taking them out of the system. In one compression cycle in November, dealers tore up \$500 billion notional in sterling-denominated interest rate swaps. "Managing the number of transactions in the clearing house is vital in a business where the maturity of the transactions can be very long-dated," says Andrew Powell, global chief operating officer for rates trading at JP Morgan. "Using a proven tool like the triReduce service to run compressions significantly reduces our execution risk."

Along with central clearing, regulators want dealers to report derivatives trades to central data repositories. In response, Isda's rates steering committee issued a call for proposals for an interest rate derivatives repository last year. From the eight submissions, the committee chose TriOptima in October. At the time of writing, the company said it was on target to complete the development of the repository before the end of 2009.³

"TriOptima's selection demonstrates the confidence the industry has in the company's platform technologically and in its ability to build out a service," says JP Morgan's Powell.

Meanwhile, regulators realise it will not be possible to push all OTC derivatives through a clearing house. "So there is an increased focus on ensuring the bilateral collateralisation process is as robust and resilient a method of credit risk mitigation as central clearing," says Sjöberg. The triResolve portfolio reconciliation platform is a key element in this process, with data from some 850 institutions and over 4 million trades reconciled a day.

Lloyds TSB is among the banks for which triResolve has become an essential tool to help improve controls and manage risk exposure. "We are now able to match our portfolios daily and identify trade and valuation discrepancies proactively, which results in us reducing our risk exposure to counterparties," says Paul Rose, senior manager, valuations and collateral, products and markets operations, at Lloyds TSB Corporate Markets. ■

¹ Total gross notional of CDS contracts terminated by year-end 2009 amounted to \$14.3 trillion

² Total gross notional of interest rate swaps terminated by year-end 2009 amounted to \$25.8 trillion

³ On January 15, 2010, banking regulators received the first reports from the newly-launched OTC Derivatives Interest Rate Trade Reporting Repository.