TECHNOLOGY COMPANY OF THE YEAR
TriOptima

Credit risk has shown its dark side as the proverbial Achilles' heel of the financial system. Faced with extreme illiquidity and a lack of transparency, managing and – where possible – reducing the exposures has been a major challenge for most business heads and risk managers. TriOptima has brought welcome relief to the market by providing the ability to terminate unnecessary interest rate and credit derivatives trades via a multilateral termination platform. Its ability to reconcile portfolios on a weekly, or even daily basis, has also made it possible to address portfolio differences before collateral disputes arise. As a result, clients have been able to free up much-needed capital, while keeping a close check on counterparty risk and staying on top of regulatory requirements. Risk managers say they haven't looked back since signing up to the services.

Using triReduce, the firm's portfolio compression tool, clients identified trades that were no longer necessary to hold in inventory for accounting, regulatory or risk reasons. The service subsequently matches these trades to those put forward by fellow participants, after which triReduce produces a proposal of deals that can be terminated while maintaining an institution's predefined tolerance for changes in counterparty credit exposure, market risk and cash payments. Once the parties agree to terminate the transactions, they are eliminated, leaving minimal or no residual market risk.

Peter Weibel, TriOptima: "We collaborated with clients to meet their needs for regular portfolio reconciliations"

"I am amazed at how this system can perform such a complex yet accurate and effective function of working out unwinds among a number of financial companies in one shot," says Simon Mok, vice-president of operations at Mizuho Capital Markets in Hong Kong. "We find that up to 80% of our trades are matched in one go, which significantly reduces market and credit risks, collateral requirements and operational costs," he adds.

In Asia alone, the service accounted for $2 trillion of notional terminated across seven currencies in 2008, while in the year through to July 24, 2009, no less than $1.6 trillion was terminated.

The service allowed dealers to free up their bloated credit lines during periods of extreme market stress. For example, some derivatives dealers had to stop trading with one other in India in the second half of last year as they hit their counterparty limits. By running triReduce onshore, they were able to eliminate many of their bilateral swaps and resume trading. This injected liquidity into markets at a critical time. And it was a process that was repeated in many Asian markets.

Meanwhile, triResolve, the company's portfolio reconciliation service for over-the-counter (OTC) derivatives portfolios, has transformed portfolio reconciliation of OTC derivatives portfolios from a reactive, internal dispute-driven process, into a network community for proactive, regular reconciliations. The system allows users to upload their collateral portfolio information for all OTC derivatives trades – be they short-term foreign exchange transactions, forward rate agreements, energy swaps, credit default swaps, options, interest rate swaps, cross-currency swaps or structured trades – in their preferred formats.

Trade portfolios are then compared, and the match results, which can reach 99%, are accessible for dispute resolution on the website. Match results are stored and maintained so only the incremental differences need to be researched and resolved. This significantly reduces the time spent reconciling and allows users to analyse their counterparty credit risk exposures rapidly, focusing on important mark-to-market differences.

When a collateral dispute does arise, triResolve users can identify its source immediately and resolve it quickly, communicating with counterparties directly online to minimise unnecessary counterparty credit risk exposure. "Credit risk considerations have been at the forefront of every risk manager's mind this year. TriOptima's service provides increased transparency and highlights discrepancies in our credit risk positions, allowing us to manage our overall risk more effectively," says one Singapore-based customer at a large, global investment bank. At present, 5.2 million trades are regularly reconciled globally among 1,750 legal entities, representing more than 70% of the uncleared OTC derivatives market.

"We have collaborated with our users to meet their need for proactive, regular portfolio reconciliations, which are key for their collateral management programmes," says Peter Weibel, chief executive for Asia Pacific at TriOptima in Singapore. "In this new environment, both sell-side and buy-side firms find that using triResolve's shared platform provides immediate information about any differences in trade population and mark-to-market values."