

To:

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Nova Scotia Securities Commission
Ontario Securities Commission

Re. CSA Consultation Paper 91-406 – Derivatives: OTC Central Counterparty Clearing – Consultation Paper June 20, 2012 (the “Consultation Paper”)

Dear Sir and Madam

TriOptima AB (“**TriOptima**”) is pleased to submit the following comments in connection with the Canadian Securities Administrators Derivatives Committee (the “**CSA Committee**”) Consultation Paper on OTC Central Counterparty Clearing. As discussed below in further detail, TriOptima is a provider of post-trade services to major market participants in the OTC derivatives markets.

Any defined terms used have the meaning prescribed to them in the Consultation Paper, unless otherwise specified herein.

TriOptima

TriOptima offers post-trade services in the OTC markets, primarily in relation to OTC derivatives. TriOptima is headquartered in Stockholm and also conducts its business through its four subsidiaries in New York, London, Singapore and Tokyo, respectively. The company’s client base is made up of major broker/dealer banks and other financial institutions globally.

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TriOptima currently offers three post-trade services for the OTC markets:

- *triReduce*: a service for early termination of OTC derivatives - so called portfolio compression;
- *triResolve*: a service for the reconciliation of counterparty positions in OTC derivatives, margin management and operational risk management; and
- *triBalance*: a service for the mitigation of portfolio risk imbalances across bilateral and cleared OTC derivative exposures (as further detailed below).

TriOptima responses to the Consultation Paper

TriOptima supports the stated policy aims of the G20 nations from their meeting in Pittsburgh in 2009, as referred to in the Consultation Paper, in terms of reduction of counterparty risks, improving general market transparency and protection against market abuse, and improved abilities for regulators to assess, limit and manage systemic risks in the OTC markets.

TriOptima encourages the CSA Committee's approach to develop rules for the Canadian market that accord with international practice and has opted only to respond to certain questions of the Consultation Paper, as identified below.

Consultation paper Question 1, 2 and 3

TriOptima is of the view that it is not appropriate to make all types of OTC derivatives subject to mandatory clearing. As further described below, it would not be appropriate to include certain transactions that participants enter into as part of post-trade risk reduction services in the clearing mandate.

The objective of the G20 commitments is to mitigate systemic risk, and the actions supported by the G20 (including mandatory clearing) are means toward that end. While many OTC derivatives will be suitable for central clearing, some OTC derivatives will, as recognized by the CSA Committee, remain bilateral and not be cleared, and the combination of cleared and uncleared components in a portfolio may create risk imbalances within such portfolios. The portfolio imbalances can however be effectively rebalanced by lowering portfolio risk/DV01 characteristics of the portfolio and, thus, systemic risks, by appropriate injections of new bilateral non-cleared trades. Injections of off-setting trades which are not cleared can help to rebalance and stabilize the portfolio by eliminating risk sensitivities in the portfolio. In a multilateral context, these trades can be generated, while the overall "compound transaction" (as defined below) is market risk neutral for each of the participants.

TriOptima offers this type of post-trade risk reduction service under the name *triBalance*. The compound transaction package of trades proposed in a *triBalance* cycle is market risk and funding risk neutral as a whole for each

participant. In order to be effective, however, the new risk off-setting trades must be added to the netting sets from where the risk they are off-setting arose. In order to off-set bilateral risks these new trades must thus remain bilateral and non-cleared themselves.

As mandatory clearing requirements are primarily aimed at reducing systemic risk, it is important that they are not applied in a way which effectively limits the opportunity for market participants to reduce such risk through the use of compound transaction post-trade risk reduction services. If portfolio risk reducing/off-setting trades are to fulfill their purpose, it is essential that they are not made subject to mandatory clearing requirements.

We would therefore encourage the CSA Committee to make clear that any class of OTC derivatives (as prescribed by Canadian market regulators) that will be subject to mandatory clearing requirements through a CCP should not include those OTC derivatives (i) the sole purpose of which is to reduce systemic risk and portfolio risk between more than two counterparties and (ii) which do not change the overall market risk for the counterparties. Such compound transaction derivatives should accordingly be outside any clearing mandate imposed by the Canadian market regulators.

Compound transaction

For your reference, we set out below an explanation of the concept of "compound transaction". This is the type of multiparty transaction that is the result of the type of risk reducing service described above, and other similar post-trade risk reduction services; and it is the "component transactions" which collectively make-up such compound transaction which accordingly should not be subject to mandatory clearing requirements.

The differences between compound transaction services and trading are:


- A compound transaction is market risk neutral for each of the compound transaction participants:
 - o Participants are indifferent to the price at which the components in the compound transaction are concluded, since overall the compound transaction is balanced;
 - o Participants do not submit bids and offers to enter into a specific position, but rather indicate tolerances (e.g. maximum change in counterparty credit exposure) which the compound transaction must satisfy; and
 - o The compound transaction and its components are not price-forming events. Normally, the compound transaction is effected several hours after the marks-to-market or the pricing curves are determined and, consequently, a compound transaction is calculated on basis of old and irrelevant market data.


- A compound transaction is designed to reduce second order risks emerging from existing OTC derivatives, such as counterparty credit risk, operational risk and/or basis risk.
- A compound transaction is multilateral and not bilateral (i.e. there are more than two parties to the transaction).
- All participants in the compound transaction must accept the transaction in full or it will not be executed. Unlike trading activities, it is an "all or nothing" proposal, arranged by the post-trade risk reduction service provider (e.g. TriOptima), where several thousands of individual transactions are components of the overall compound transaction and the individual transactions are irrelevant in their own right and cannot be executed separately to achieve the desired risk reduction effect. If one party fails to accept, the entire proposal is declared null and void and no changes to the participants' portfolios take place.
- Periodicity of arranging a compound transaction is not continuous, but rather cycle-based and a cycle extends over more than a trading day.
- The service provider is not party to the compound transaction; nor is it involved in settlement of the compound transaction.

We are happy to provide further information on the above, if and as required.

Yours faithfully,

TriOptima AB


Per Sjöberg
Chief Executive Officer


Christoffer Mohammar
General Counsel