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To each of:
Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Manitoba Securities Commission
Financial and Consumer Services
Commission (New Brunswick)
Nova Scotia Securities Commission
Ontario Securities Commission

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Re. CSA Consultation Paper 92-401 - *Derivatives Trading Facilities*

Ladies and Gentlemen:

TriOptima AB ("**TriOptima**") is pleased to submit the following comments in connection with CSA Consultation Paper 92-401 - Derivatives Trading Facilities (the "**Proposal**"). 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 Proposal, unless otherwise specified herein.

TriOptima

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

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

- *triReduce*: a service for early termination of OTC derivatives - so called portfolio compression,[1]
- *triResolve*: a service for the reconciliation of counterparty positions in OTC derivatives and other financial products, margin management and operational risk management; and
- *triBalance*: a service for the mitigation of portfolio risk imbalances across bilateral and cleared OTC derivative exposures.[2]

TriOptima previously offered a trade reporting repository for interest rate derivatives, which has been wound down.

TriOptima's comments on the Proposal

Post-trade risk reduction services are not trading activities

Post-trade risk reduction services, such as bilateral and multilateral trade compression, multilateral counterparty credit risk/portfolio rebalancing and multilateral basis risk reduction, can be clearly differentiated from trading activities in that they do not involve the interaction of buying and selling interests and are not price-forming. Instead, they are designed to reduce counterparty credit risk, basis risk and/or operational risk. Post-trade risk reduction services operate with some variation but there are common parameters that reflect their risk-reducing function and differentiate them from trading activity:

- They are typically multilateral and they need to be executed in bulk as a single compound transaction[3] to achieve the identified risk-reduction result and cannot be executed in part by any individual participant;
- There is no price negotiation – participants are not able to post bids or offers to enter into specific positions;
- They are designed to provide a result which is overall market risk neutral for each participant;
- They are designed to reduce unwanted secondary risks, such as counterparty credit risk, basis risk and/or operational risk – these risks have arisen as a result of contracts already entered into by the participants (e.g. because of their normal trading activities);

[1] See Annex 1.
[2] See Annex 2.
[3] See Annex 3.

- They are non-continuous and non-real time – they operate on an overnight or intra-day basis using stale valuations.

Providers of post-trade risk reduction services are not party to any trades and do not provide advice in relation to any trades. Rather, providers of post-trade risk reduction services perform a calculation exercise based on parameters received from participants participating in the service and report the calculated results back to the participants, who verify the results and decide whether or not to implement the calculated results. It is important to note that the results can only be implemented in full or else the post-trade risk reduction event will be deemed null and void (i.e. all-or-nothing compound transaction).

Defining "Derivatives Trading Facility", Question 1

TriOptima acknowledges that the Canadian Securities Administrators Committee (the "**Committee**") has clarified in the Proposal that "/../ the proposed definition would not capture facilities or processes where there is no actual trade execution or arranging taking place, such as bulletin boards used for advertising buying and selling interests, other entities aggregating or pooling potential buying or selling interests, electronic post-trade confirmation services, *or portfolio compression, which reduces non-market risks in existing derivatives portfolios without changing the market risk of the portfolios*". TriOptima encourages the Commission to also clarify that other post-trade risk reduction services that reduce, rebalance or eliminate non-market risk in existing derivatives portfolios without changing the overall market risk would not be captured by the proposed definition of a Derivatives Trading Facility.

As described above, post-trade risk reduction services are risk reduction tools designed to reduce second order risks such as counterparty credit risk, operational risk and/or basis risk and thus systemic risk. As such, and because these services can be clearly differentiated from trading activities (no price discovery, the services are designed to be overall market risk neutral and the services' compound transaction nature), it is not appropriate to classify them as trading venue activities. It should also be noted that it has been clarified in recital 8 of MiFIR that the European organized trading facility category shall not be deemed to capture compression services. Also, recital 27 of MiFIR clarifies that (i) trade execution requirements should not apply to the components of non-price forming post-trade risk reduction services which reduce non-market risk in derivatives portfolios without changing the market risk of the portfolios, and (ii) MiFIR is not intended to prevent the use of post-trade risk reduction services.

Based on the above, we would ask the Commission to clarify that providers of post-trade risk reduction services delivering compound transactions are not captured by the Derivatives Trading Facilities category, and accordingly not subject to the license requirements for Derivatives Trading Facilities.

Trading Mandate, Questions 23, 24 and 25

When determining which derivatives must be traded on a Derivatives Trading Facility, for reasons explained above TriOptima would encourage the Commission to make it clear that any derivatives trades resulting from post-trade risk reduction services should not be subject to the trading venue execution obligation. This is particularly important because post-trade risk reduction services are typically multilateral in the sense that several participants from different jurisdictions in different time-zones participate in one and the same service run. The efficiency of a service run is directly related to the number of participants and the number of trades that are submitted to the service run; the greater the number of participants and trades, the more risk reduction can be achieved. A service run can only be effected in full, i.e. all component transactions proposed to reduce risk by the service must be executed for it to have the intended risk-reducing effect. If one or several component transactions do not execute pursuant to the risk reduction optimization calculation, the risk reduction is not achieved. With respect to post-trade risk reduction services, trading venue obligations in different jurisdictions would mean that these services could not be delivered in more than one jurisdiction at a time, which would materially impede post-trade risk reduction efficiency.

It should be noted that trades resulting from post-trade risk reduction have been exempted from trading venue execution obligations in other jurisdictions.[4] Therefore, TriOptima would encourage the Commission to make it clear that any derivatives trades resulting from post-trade risk reduction services should not be subject to the trading venue execution obligation.

Market Transparency, Question 16, 17, 19, 27 and 29

As discussed above, post-trade risk reduction services can be clearly differentiated from trading activities in that they do not involve the interaction of buying and selling interests and are not price-forming. As such, no price discovery takes places which make price transparency irrelevant since there are no prices readily available to make transparent. For purposes of post-trade transparency, the market would be misled should prices derived from post-trade risk reduction services - if prices at all could be derived - be required to be made public and such prices would not have any relevant information value.

Under the Proposal, a DTF would be required to report to the public transactions executed on its facility in as close to real-time as technically feasible. In this context, and should transactions resulting from post-trade risk reduction services be required to trade on a DTF, it should be noted that transactions resulting from post-trade risk reduction services are executed in bulk and such bulks could consist of many thousands of individual transactions. DTFs are likely to face considerable operational and technological constraints, making it impossible to report such transactions in real-time. In the derivatives market generally, there is comparatively low transaction volumes and as systems are not designed to instantly process thousands of transactions, it is not technologically practicable to report thousands of transactions in real-time or close to real-time.

[4] See e.g. Art 31 and recital 27 of MiFIR.

For these reasons, TriOptima encourages the Commission to, to the extent transactions entered into as part of post-trade risk reduction services would be mandated for trading on a DTF, exempt such transactions from future pre- and post-trade transparency requirements.[5] It should be noted that transactions resulting from post-trade risk reduction services should not be subject to pre- and post-trade transparency requirements under MiFIR.[6]

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

[5] Please also refer to TriOptima comment letter dated September 11, 2013.
[6] See Art 31 and recital 27 of MiFIR.

Annex 1

Because of the interconnectedness of derivatives trading, active market participants have at any one time large numbers of contracts outstanding with multiple counterparties, each creating counterparty credit risk and an operational burden to manage and oversee. However, when these risks are viewed on a portfolio basis and compared against the portfolios of other participants, there are ready opportunities to reduce certain risks without changing one's market risk. triReduce compression allows participants to terminate contracts early in order to eliminate counterparty credit risk, lower the gross notional value of outstanding contracts, and reduce operational risks by decreasing the number of outstanding contracts. triReduce is operated for rates, credit and commodity derivatives and has helped remove in excess of $500 trillion of gross notional exposure from the financial system since its launch in 2003 including, more recently, cleared transactions. triReduce has approximately 180 subscribing legal entities.

Annex 2

The objective of the G20 commitments adopted in Pittsburgh 2009 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 remain bilateral and not be cleared, and the combination of cleared and uncleared components in a portfolio may create risk imbalances within such portfolios and increase initial and variation margin requirements. The portfolio imbalances can however be efficiently rebalanced by lowering counterparty risk/DV01 in a portfolio.

Injections of off-setting trades between specific counterparties can rebalance risk exposures across multiple CCPs and bilateral counterparties alike. Proactive risk rebalancing helps reduce systemic risk and is a valuable tool for both CCPs and their members in the administration of their default recovery and resolution situations. In a multilateral context, these trades can be generated without changing participants' market risk and funding risk. TriOptima's triBalance (counterparty risk rebalancing) service was launched to enable rectification of such portfolio imbalances.

Annex 3

Compound transaction

A compound transaction may be delivered to participants by a service provider as part of a risk reducing exercise.
The differences between compound transaction services and trading are:

- A compound transaction is market risk neutral for each of the compound transaction participants;
- Participants are indifferent to the price at which the components in the compound transaction are concluded, since overall the compound transaction is balanced;
- 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;
- 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 stale 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. The individual component 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.