

**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 91-407 – DERIVATIVES: REGISTRATION –  
Consultation Paper April 18, 2013 (the “Consultation Paper”)**

Dear Sirs,

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 Registration. 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.

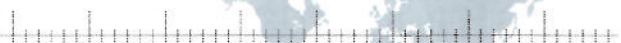
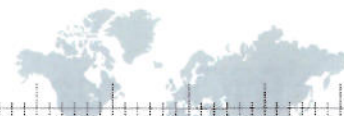
**TriOptima**

TriOptima offers post-trade services in the OTC 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.

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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<sup>1</sup>,
- *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<sup>2</sup>.

### **TriOptima's responses to the Consultation Paper**

TriOptima supports the CSA Committee's approach to regulate market participants in accordance with international principles and the CSA Committee's continued monitoring of international standards.

#### **Consultation paper Question 5, 8 and 23**

As a provider of post-trade risk reduction services for the OTC-market and for reasons described below, TriOptima is seeking clarity to ensure that providers of post-trade risk reduction services (as further defined below) do not inadvertently fall within the scope of derivatives dealer or derivatives adviser activity as described in the Consultation Paper.

Post-trade risk reduction services, such as multilateral trade compression counterparty credit risk/portfolio rebalancing and 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 multilateral and need to be executed in bulk as a single compound transaction 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);
- They are non-continuous and non-real time – they operate on an overnight or intra-day basis using stale valuations

<sup>1</sup> See Annex 1.

<sup>2</sup> See Annex 2

Providers of post-trade risk reduction services are not party to any transactions and do not provide advice in relation to any transactions. 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 result back to the participant that verifies the result and decide whether or not to implement the calculated result.

#### *Derivatives dealer*

Post-trade risk reduction services may be captured by the concept of being in the business of trading derivatives as described in the Consultation Paper due to the fact that reducing counterparty credit risk, basis risk and/or operational risk in a portfolio requires terminating, replacing and/or putting on trades between participants and may potentially fall under the 'intermediating trades' concept in the Consultation Paper. It should be clarified that post-trade risk reduction service providers should not be regarded as being in the business of trading derivatives since such services do not involve any 'trading activity' and should such services be seen to involve trading activity, such trading activity is only incidental to the administrative calculation functions it performs. For example in relation to trade compression, this view would also be in line with US<sup>3</sup> and European (proposed) regulation<sup>4</sup>.

#### *Derivatives adviser*

Post-trade risk reduction services may be captured by the concept of being in the business of advising in relation to derivatives as described in the Consultation Paper since such services propose terminations, replacements and/or new trades in order to reduce counterparty credit risk, basis risk and/or operational risk in a portfolio of derivatives. Specifically, such services could be captured by the very broad interpretation that a person should be considered to be advising where they "provide another person with any advice or direction relating, either directly or indirectly, to trading derivatives, including the provision of advice in relation to the management of portfolios /.../". It should be clarified that providers of post-trade risk reduction services should not be regarded as being in the business of advising in relation to derivatives as such providers only perform a risk-reducing calculation based on parameters provided by participants and report the result back to the participants. E.g., in a trade compression run, TriOptima merely calculates a compression proposal that would enable participants to reduce their gross position to be closer to their net position and participants verify the calculated proposal and decide whether to accept or reject

<sup>3</sup> See CFTC's final rule on Core Principles and Other Requirements for Swap Execution Facilities 78 FR at 33480-33482.

<sup>4</sup> Recital (7) and Article 25(a) of the latest EU Council's proposal for a regulation of the European Parliament and of the council on markets in financial instruments and amending Regulation (EU) No 648/2013 of the European Parliament and the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

the proposal. The provider does not provide participants with advice on the merits of entering into any trades. Should post-trade risk reduction service providers be seen to involve advising activity, such advising activity is only incidental to the administrative calculation functions it performs.

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





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 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 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 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 \$300 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.

