Ms. Melissa D. Jurgens
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre, 1155 21st Street NW.
Washington, DC 20581

Re: RIN 3038–AE12 - Review of Swap Data Recordkeeping and Reporting Requirements

Dear Ms. Jurgens,

TriOptima welcomes the opportunity to provide comments in relation to the Commodity Futures Trading Commission's ("**CFTC**" or "**Commission**") Review of Swap Data Recordkeeping and Reporting Requirements RIN 3038-AE12 (the "**Reporting Review**"). 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 Reporting Review, unless otherwise specified herein.

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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[1],
- triResolve: a service for the reconciliation of counterparty positions in OTC derivatives and other financial products, margin management and operational risk management, and

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[1] See Annex 1.

- triBalance: a service for the mitigation of portfolio risk imbalances across bilateral and cleared OTC derivative exposures [2].

TriOptima's comments on the Reporting Review

B. Continuation Data (§ 45.4):

6. Swaps should be linked when new swaps result from the assignment, netting, compression, clearing, novation, allocation, or option exercise of existing swaps (or other events wherein new swaps result from existing swaps). a. What is the most effective and efficient method for achieving this link (including information regarding the time of the relevant event)?

As described in Annex 1, compression results in the complete termination of some swaps and amended swaps or replacement trades, depending on the methodology employed. For each compression event, TriOptima generates an *event processing id* in the form of an alphanumeric string and each swap resulting from such compression event is tagged with the event processing id. By including the event processing id in the information reported to swap data repositories, swaps generated by the compression event can be linked to the event.

It should be noted that participants participating in a compression event are responsible for reporting.

6. Swaps should be linked when new swaps result from the assignment, netting, compression, clearing, novation, allocation, or option exercise of existing swaps (or other events wherein new swaps result from existing swaps). c. Aside from those events set forth in part 45, are there other events that require linkage between related swap transactions?

TriOptima is of the view that component swaps resulting from compound transactions[3] should (i) be tagged such that they can easily be differentiated from normal trading activities, and (ii) require linking in the form of an event processing id to enable the Commission to identify the event they result from. As described in Annex 2, swaps resulting from compound transactions differ from trading and by being able to identify such swaps, the Commission can easily monitor the swaps separately. On (i), TriOptima suggests that an indicator of whether a reported swap came about as a result of a risk mitigation service should be included in the data to be reported to swap data repositories.

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[2] See Annex 2.
[3] Ibid.

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C. Transaction Types, Entities, and Workflows: Can the Swap Data Reporting Rules be Clarified or Enhanced to Better Accommodate Certain Transactions and Workflows Present in the Swaps Market?

15. What are the challenges presented to reporting entities and other submitters of data when transmitting large data submissions to an SDR? Please include the submission methods utilized and the technological and timing challenges presented.

Compound transactions may consist of several thousand individual component swaps and, in relation to triBalance, these individual swaps will be executed (if required) on a swap execution facility ("**SEF**") and follow existing reporting conventions for similar types of services. Owing to the volume of individual swaps being executed, there are technical and operational challenges in reporting such swaps within the current stipulated time frames but TriOptima will work with existing swap data repositories and the Commission to solve such challenges.

18. How should swaps resulting from compression exercises and risk mitigation services be reported to, and identified in, an SDR so that the Commission is able to effectively review these exercises and determine what swaps result from a specific exercise? a. Please describe any technological, operational, or logistical challenges associated with reporting of such swap transactions.

Swaps resulting from post-trade risk mitigation services differ from normal trading activities and are entered into in bulk using stale valuations. As such, these swaps need to be clearly differentiated from normal trading activities in order not to mislead the Commission or the market in respect of prices and market turn-over. TriOptima suggests that (i) an indicator of whether a reported swap came about as a result of a risk mitigation service should be included in the reported data so that such swaps are easily identified to be the result of a risk mitigation service/rebalance run, and (ii) for public dissemination purposes, swaps resulting from risk mitigation services should be clearly differentiated from normal trading activities.

Also, please see comments under 15 above.

Yours sincerely,

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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 $450 trillion of gross notional exposure from the financial system since its launch in 2003, including cleared transactions. triReduce has approximately 180 subscribing legal entities.

Multilateral portfolio compression exercises result in the complete termination of some swaps and the aggregation or reduction of the notional value of other swaps. As defined in the Commission's rule on Confirmation, Portfolio Reconciliation, Portfolio Compression, and Swap Trading Relationship Documentation Requirements for Swap Dealers and Major Swap Participants, 77 Fed. Reg. 55904 (September 11, 2012), a "multilateral portfolio compression exercise" is

> *"an exercise in which multiple swap counterparties wholly terminate or change the notional value of some or all of the swaps submitted by the counterparties for inclusion in the portfolio compression exercise and, depending on the methodology employed, replace the terminated swaps with other swaps whose combined notional value (or some other measure of risk) is less than the combined notional value (or some other measure or risk) of the terminated swaps in the compression exercise."*

For "replacement swaps," compression is accomplished through the termination and entering into of swaps which reflect the net notional exposures between a pair of counterparties. In the vast majority of situations there is a reduction in the notional exposures due to netting, however, in some situations there is merely an aggregation of outstanding gross exposures arising from multiple swaps into one replacement swap with no net reduction (or increase) in notional exposures. There is no change in the counterparties, reference entity, or maximum maturity in the compression "replacement trade" method.[4]

Another method used in a triReduce compression exercise is the "amended swap" method, where swaps are wholly or partially terminated to represent (as close as possible) the net notional exposures between a pair of counterparties. In both methods – "amended swap" and "replacement trade" – the substance of the transaction is that an existing swap is being "amended". As noted above, there is no change in the counterparties, reference entity, or maximum maturity in either the

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[4] Replacement trades are utilized primarily in respect of credit default swaps.

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"amended swap" or "replacement trade" method. These two compression methods are explained graphically below.

Compression methodology description

The triReduce compression process involves notional adjustment and/or replacement of swaps, depending on the methodology employed. The examples below illustrate how these approaches differ. In both methodologies, the counterparty credit exposure remains between the same counterparties that originally submitted the swap.[5]

Example using notional change – amended swap (typically used for IRS products)
As a result of a compression exercise, a $100mm swap between parties A and B is required to be notionally changed to $40mm, in order that A remains overall risk neutral. Parties A and B adjust the notional on the swap in their respective systems from $100mm to $40mm. All swaps which are required to be notionally changed are enriched with an event processing ID by TriOptima.

Notional Change Approach
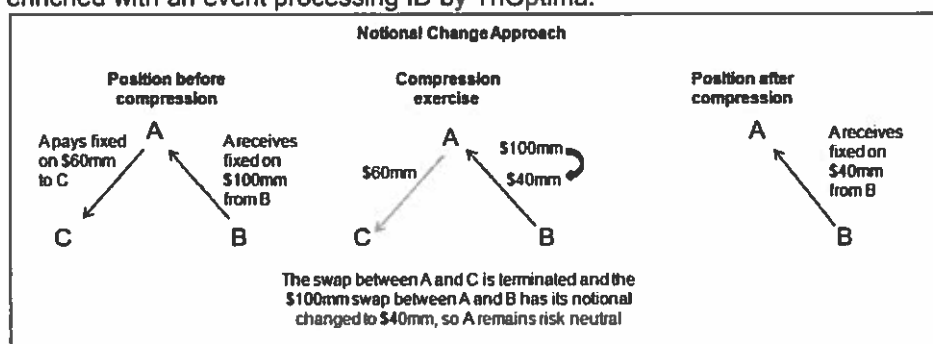
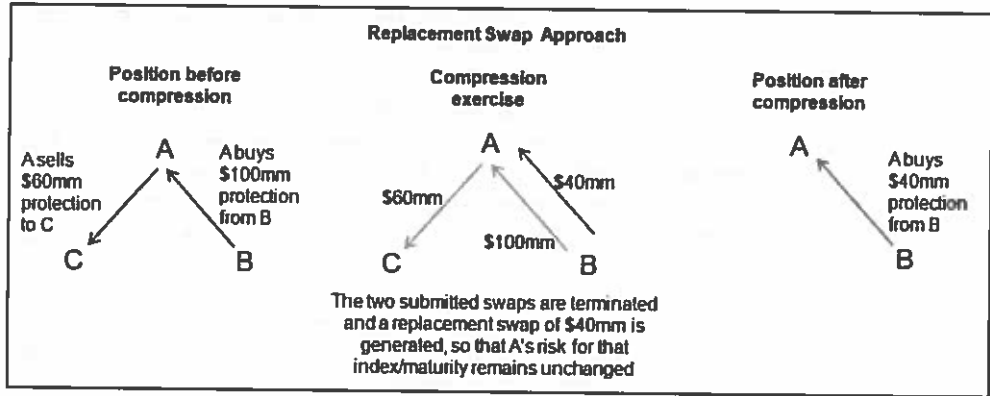Example using replacement swaps (typically used for CDS products)
For CDS products, although a swap may be notionally changed as in the description above, more commonly, the net position of two or more swaps is represented with a replacement swap.
Party A has two swaps in a CDX index (same maturity date and coupon)
- Swap 1 is $100mm bought protection versus counterparty B
- Swap 2 is $60mm sold protection versus counterparty C

As part of a compression exercise, both swaps are terminated. Party A's net position is represented with a replacement swap of $40mm bought protection versus counterparty B. The replacement swap is enriched with an event processing ID by TriOptima, which provides a common link between compressed and replacement swaps.

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[5] In the diagrams, only party A's risk neutrality is illustrated.

Replacement Swap Approach

Position before compression

A sells $60mm protection to C

A buys $100mm protection from B

A

C

B

Compression exercise

A

$60mm

$40mm

$100mm

C

B

The two submitted swaps are terminated and a replacement swap of $40mm is generated, so that A's risk for that index/maturity remains unchanged

Position after compression

A

A buys $40mm protection from B

B

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 trades, bilateral non-cleared trades as well as cleared trades. Injections of off-setting trades 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.

Compound transaction

A compound transaction may be delivered to participants by a service provider as part of a risk mitigation exercise. The "component transactions" which collectively make up the compound transaction are only relevant when executed as part of the compound transaction.

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;
  - 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
  - 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 mitigation 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.

In relation to compound transactions resulting from a triBalance exercise, the individual swaps will be executed (if required) through a SEF.