Ms. Elizabeth M. Murphy,
Secretary
Securities and Exchange Commission
100 F Street NE.
Washington, DC 20549-1090

Re: RIN 3235-AL25 – Cross-Border Security-Based Swap Activities; Re-Proposal of Regulation SBSR and Certain Rules and Forms Relating to the Registration of Security-Based Swap Dealers and Major Security-Based Swap Participants

Dear Ms. Murphy

TriOptima welcomes the opportunity to submit comments in response to the Securities and Exchange Commission's ("**SEC**" or "**Commission**") Cross-Border Security-Based Swap Activities; Re-Proposal of Regulation SBSR and Certain Rules and Forms Relating to the Registration of Security-Based Swap Dealers and Major Security-Based Swap Participants (the "**Proposal**"). As discussed in more detail below, we would like the Commission to exclude compression replacement security-based swaps (as defined below) when calculating the amount of security-based swap positions connected with dealing activity for purposes of the Security-Based Swap Dealer ("**SBSD**") de minimis exception (the "**De Minimis Exception**").

We believe that, based on how the triReduce compression service operates and the Commission's view that transactions entered into in connection with a compression exercise would not be considered price forming transactions[1], compression replacement security-based swaps should not be regarded as dealing activity and should not count towards the de minimis threshold for purposes of SBSD registration. This would also conform with the Commodities Futures Trading Commission's ("**CFTC**") view on compression replacement swaps for these purposes.[2]

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[1] See note 1312 in Cross-Border Security-Based Swap Activities; Re-Proposal of Regulation SBSR and Certain Rules and Forms Relating to the Registration of Security-Based Swap Dealers and Major Security-Based Swap Participants, 78 Fed. Reg 31121.
[2] See CFTC Letter No. 12-62, No-Action Relief: Request that Certain Swaps Not Be Considered in Calculating Aggregate Gross Notional Amount for Purposes of the Swap Dealer De Minimis Exception for Persons Engaging in Multilateral Portfolio Compression Activities, CFTC Letter (December 21, 2012).

Background

TriOptima operates the triReduce compression service. To date triReduce has facilitated the compression of more than $350 trillion USD in notional amounts in interest rate swaps, credit default swaps[3] and commodity swaps. triReduce multilateral portfolio compression exercises include both cleared and uncleared swaps.

Multilateral portfolio compression exercises result in the complete termination of some security-based swaps and the aggregation or reducing of the notional value of other security-based swaps. As defined in the CFTC'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, <u>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.</u>"* [relevant part underlined for purposes of this letter]

Our request applies to the 'compression replacement swaps' referenced in the above definition, where compression is accomplished through the termination and entering into of compression replacement security-based swaps which reflect more closely the net notional exposures between a pair of counterparties (hereinafter called "replacement security-based swaps"). In the vast majority of situations there is a reduction in the notional exposures due to compression close-outs, however, in some situations there is merely an aggregation of outstanding gross exposures arising from multiple security-based swaps into one replacement security-based swap with no net reduction in notional exposures. There is no change in the counterparties, reference entity, or maximum maturity in the compression "replacement security-based swap" method.

Another method used in a triReduce compression exercise for swaps is the "amended swap" method, where swaps are wholly or partially terminated to represent (as closely as possible) the net notional exposures between a pair of counterparties. The "replacement security-based swap" method is primarily applied in respect of credit default swaps, including single names, compression.

As noted above, there is no change in the counterparties, reference entity, or maximum maturity in either the "amended swap" or "replacement security-based swap" method. These two compression methods are explained graphically in Appendix 1.

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[3] Single names as well as indices and tranches generally consisting of more than nine components.

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De Minimis Exception and request for clarification

In the Proposal, certain security-based swap transactions connected with dealing activity shall be included for purposes of the de minimis threshold.[4] As further explained below, a compression exercise should not be seen as dealing activity and we would therefore ask the Commission to adopt provisions to clarify that replacement security-based swaps as a result of a compression exercise should not be regarded as dealing activity and, consequently, should not be included when calculating the amount of security-based swap positions connected with dealing activity for purposes of the De Minimis Exception.

Compression exercise not *dealing activity*

Multilateral trade compression is a post-trade risk reduction service and can be clearly differentiated from dealing activities in that they do not involve the interaction of buying and selling interests and, as the Commission has already recognized, are not price-forming[5]. Instead, post-trade risk reduction services 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 dealing 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

In the Further Definition of ''Swap Dealer,'' ''Security-Based Swap Dealer,'' ''Major Swap Participant,'' ''Major Security-Based Swap Participant'' and ''Eligible Contract Participant'' 77 Fed. Reg 30596, the Commission states that "[T]o the extent that a particular swap or security-based swap position is not connected to dealing activity under the applicable interpretation of the statutory dealer definition, it will not count against the de minimis thresholds."[6]. The Commission has indicated that the following factors are indicators of dealing activity:

    (i)   Seeking to profit by providing liquidity;

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[4] See § 240.3171-3(b) in Cross-Border Security-Based Swap Activities; Re-Proposal of Regulation SBSR and Certain Rules and Forms Relating to the Registration of Security-Based Swap Dealers and Major Security-Based Swap Participants.

[5] See footnote 1 above.

[6] See Further Definition of ''Swap Dealer,'' ''Security-Based Swap Dealer,'' ''Major Swap Participant,'' ''Major Security-Based Swap Participant'' and ''Eligible Contract Participant'' 77 Fed. Reg at 30631.

(ii)   Providing advice in connection with security-based swaps or structuring security-based swaps;
(iii) Presence or regular clientele and actively soliciting clients;
(iv) Use of inter-dealer brokers;
(v)   Acting as a market maker on an organized exchange or trading system; and
(vi) Helping to set prices offered in the market.[7]

As described above, triReduce does not involve any of the foregoing and, consequently, we do not believe that fully or partially terminated security-based swaps, or any replacement security-based swaps that result from such service runs or cycles, should be counted towards the De Minimis Exception.

We believe the foregoing is not only appropriate in light of the Commission's guidance, but also a sound policy result and consistent with CFTC's view. Counterparties that do not intend to register as an SBSD should not be deterred from reducing the risks in their existing portfolios through compression for fear of acquiring a potentially unwanted regulatory status. Moreover, to the extent counterparties opt out of participating due to this concern, it will necessarily reduce the universe of risk reduction opportunities for all involved. We believe this outcome is inconsistent with Dodd Frank's goal of reducing systemic risk associated with security-based swap activities.

Sincerely,

Per Sjöberg
Chief Executive Officer
TriOptima AB

**Christoffer Mohammar**
General Counsel
TriOptima AB

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[7] Id at 30608.

Appendix 1 - Compression methodology description

The triReduce compression process involves notional adjustment and/or replacement of security-based swaps/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 security-based swap/swap.[8]

Example using notional change (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

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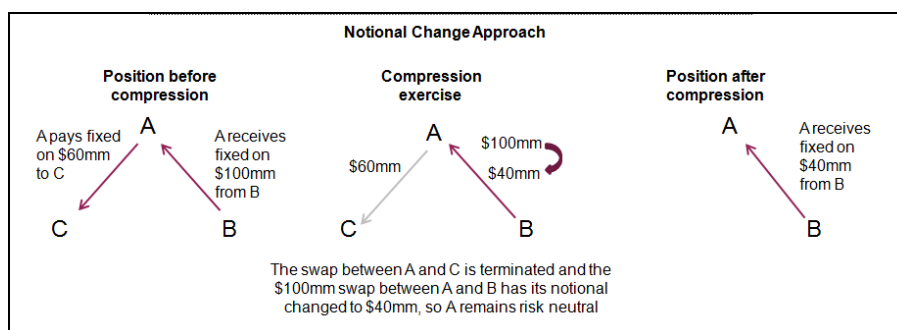
[8] In the diagrams, only party A's risk neutrality is illustrated

Example using replacement security-based swaps (typically used for CDS products including single names)

For CDS products, although a security-based swap/swap may be notionally changed as in the description above, more commonly, the net position of two or more security-based swaps/swaps is represented with a replacement security-based swap/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.

Replacement Swap Approach

Position before compression

A sells $60mm protection to C / A buys $100mm protection from B

Compression exercise

$60mm / $40mm / $100mm

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 buys $40mm protection from B