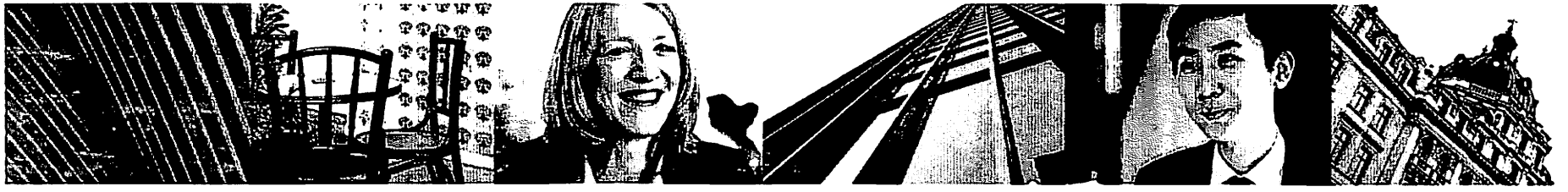
MEMORANDUM

TO:	File Nos. S7-08-11; S7-06-11
FROM:	Andrew Blake Division of Trading and Markets
RE:	Meeting with Representatives from TriOptima, Clifford Chance LLP and Delta Strategy Group
DATE:	June 10, 2011

On June 10, 2011, representatives from the Securities and Exchange Commission ("SEC") met with representatives from TriOptima and Clifford Chance LLP. SEC representatives were Jeff Mooney, Joe Kamnik, Andrew Bernstein, Andrew Blake, Pam Kesner, Bonnie Ji, Chris Novak, Heather Seidel, Nancy Sanow, Michou Nguyen, Sarah Schandler, Jasmine Sethi, and Michael Ogershok. TriOptima representatives were Michael Modlock and Sofia Rosenkvist. Christopher Mohammar of TriOptima participated telephonically. Gareth Old attended from Clifford Chance. Pat McCarty, Scott Parsons and Lara Driscoe attended from Delta Strategy Group.

During the meeting, the representatives discussed the SEC's proposed rules for Clearing Agency Standards for Operation and Governance (File No. S7-08-11); and Registration and Regulation of Security-Based Swap Execution Facilities (File No. S7-06-11).



Introduction to TriOptima's credit portfolio compression service triReduce

Securities and Exchange Commission

10th June 2011

Introduction

Compression cycle walk through demonstrating that:

- triReduce does not present any systemic, market or operational risk
- Execution, confirmation, updating of trade records, settlement and reporting are the responsibilities of the participants and made outside of the triReduce system
- triReduce is an *optional* risk mitigation tool for swap participants where trades are terminated
- TriOptima is a service provider, not a utility

triReduce does not...

- Enable price determination
- Provide CCP functionality
- Clear trades
- Execute trades
- Settle trades
- Calculate or collect margin
- Administer default funds
- Record trade data

➢ ***triReduce is not a clearing agency or an execution facility.***

TriOptima

How triReduce works

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Process overview

Trade submission

Participants upload existing trades to triReduce secure website

Unwind proposal calculation

A risk neutral unwind proposal is calculated based on the trades, values and tolerances submitted

Compression

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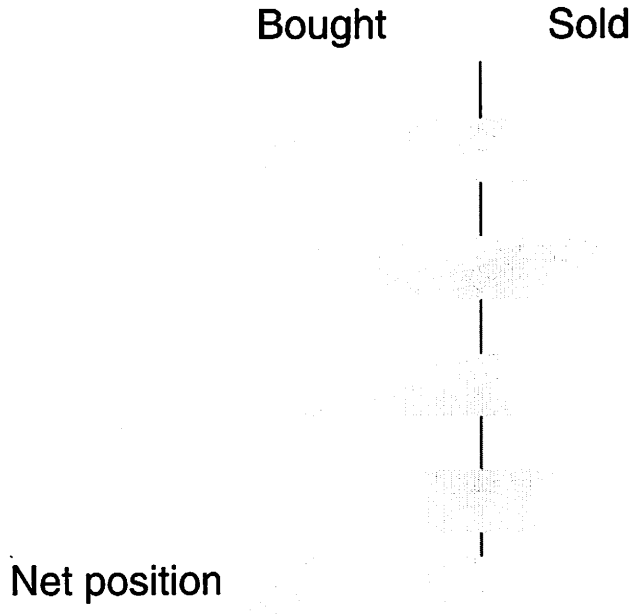
triReduce
Compression calculation



before compression

- Uses each participant's own data, risk values and tolerances
- Is market risk neutral – triReduce algorithm has minimal flexibility
- Is within counterparty exposure tolerances preset by each participant

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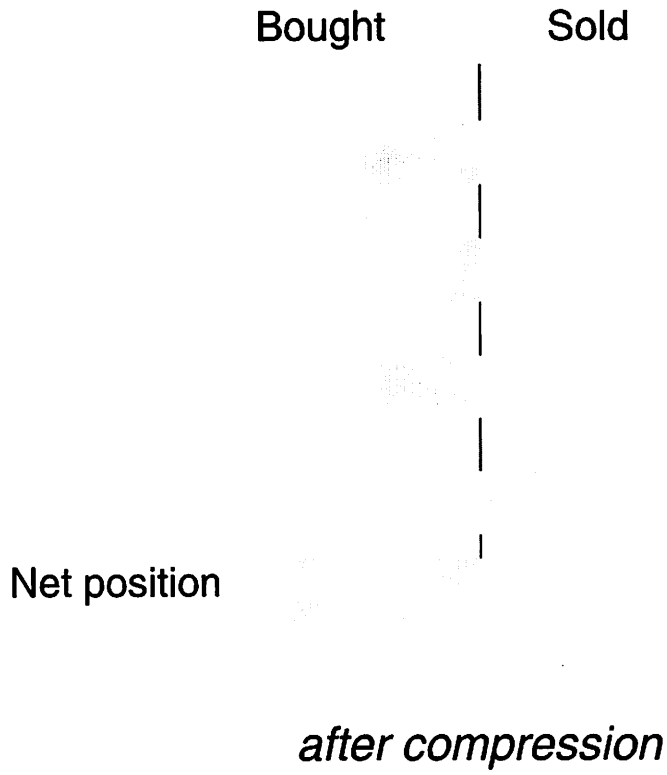
triReduce – Compression calculation



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Compression cycle responsibilities

Action	Responsibility	
	Client	triReduce
Cycle communication	✗	✓
Data selection	✓	✗
Data submission & accuracy	✓	✗
Tolerance settings	✓	✗
Unwind proposal calculation	✗	✓
Unwind proposal verification	✓	✗
Unwind proposal acceptance	✓	✗
Trade processing	✓	✗

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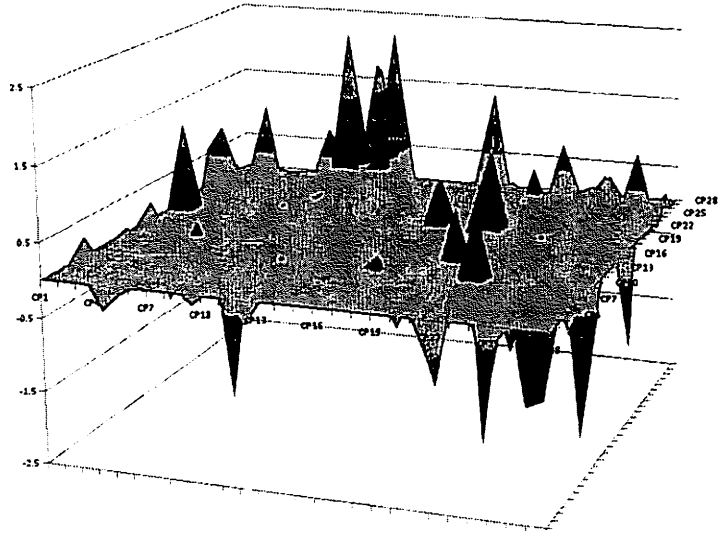
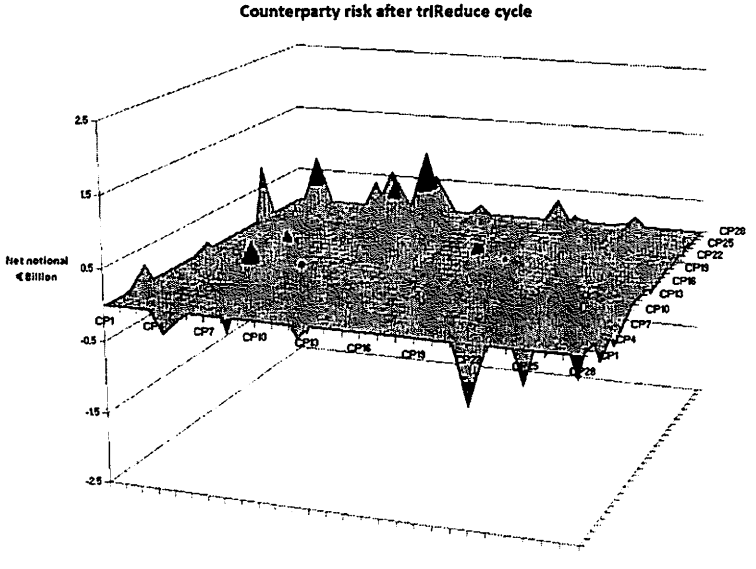
Credit reduction through compression



Pre compression credit exposures



Post compression credit exposures

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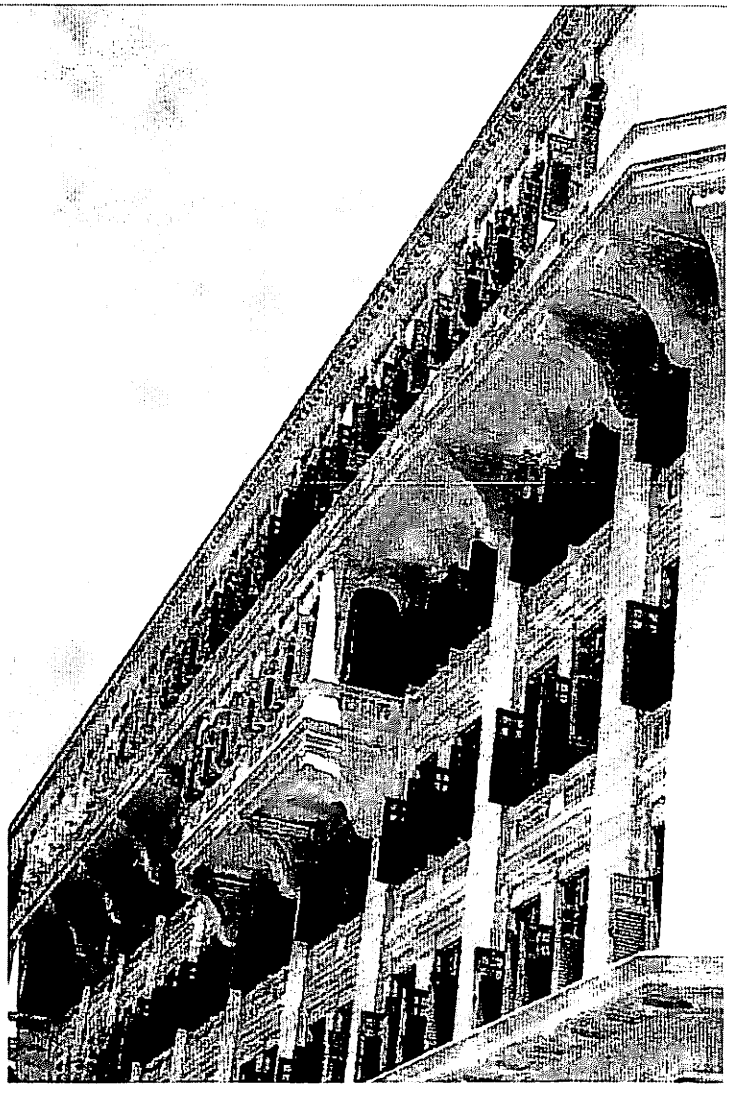
Compression cycle description



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triReduce – Compression description – contractual framework

- Contractual framework; two sets of documentation
  - Protocol entered into by participants in order to facilitate compression (TriOptima is not a party to the protocol)
  - Service agreement entered into between each participant and TriOptima containing commercial terms

➢ ***This step presents no systemic, market or operational risk. TriOptima does not impose or enforce any rulebook on triReduce participants.***

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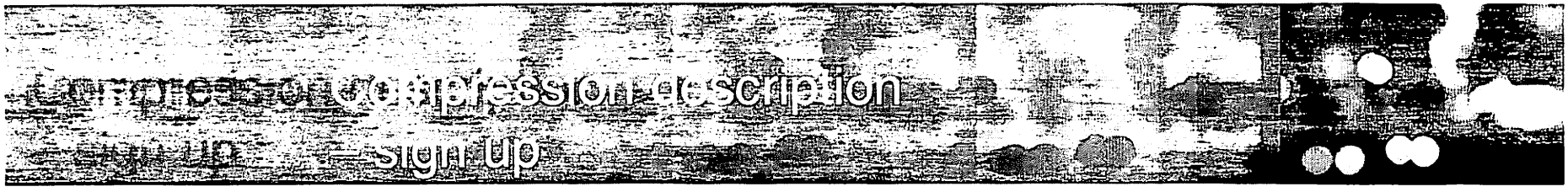

- triReduce selects product type and compression cycle timeline on ad hoc basis and participants sign up to those cycles in which they wish to participate
  - Publishes timeline on triReduce website
  - E-mail notification to triReduce participants

➢ ***This step presents no systemic, market or operational risk.***

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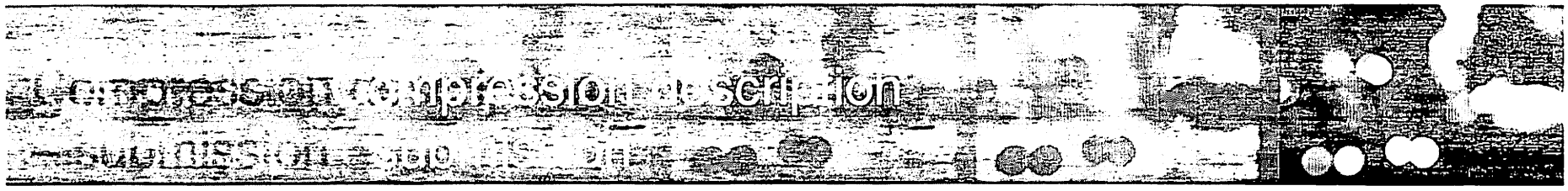

- triReduce participants submit trade population and indicative tolerances
  - Submitted trade population is only the trades the participant wishes to compress
  - Trades are held by the participants throughout the cycle; TriOptima is not a party to any trades
  - Tolerances are user-specified limits for maximum increase or decrease in counterparty exposure
  - Tolerances are not disclosed to other participants, i.e., no price discovery function

➢ ***This step presents no systemic, market or operational risk.***

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- triReduce links trades between participants' submitted portfolios in order to identify a subset of trades that have been submitted by both sides
  - triReduce does not verify or confirm data submitted by participants, but identifies trades that are linked/not linked (where only one leg has been submitted or submitted data does not match any of the counterparty's submitted trades)

➢ ***This step presents no systemic, market or operational risk and no participant is required to submit trades.***

- In some compression cycles, triReduce calculates a "dry run" unwind proposal (indicative unwind proposal) and makes the indicative unwind proposal available to participants

➢ ***This step presents no systemic, market or operational risk. triReduce only calculates a proposal and the indicative unwind proposal is easy for the participants to verify.***

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- Participants assess dry-run proposal and decide:
  - Whether to participate in the live run of the compression cycle
  - Which trades they wish to include in the live run of the compression cycle
  - Whether to submit revised tolerances

➢ ***This step presents no systemic, market or operational risk. Each participant makes its own discretionary assessment of the results. Participation in final compression run is not compulsory. Risk/benefit evaluation is wholly controlled by participants.***

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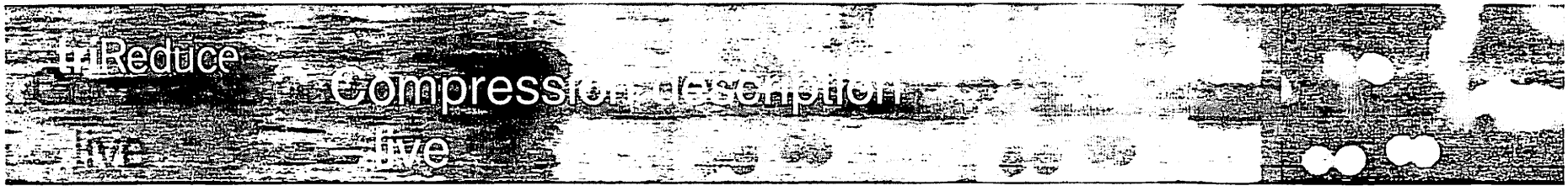

- triReduce calculates a live risk neutral unwind proposal using live tolerances and trades submitted by participants
  - The suggested unwind proposal is downloaded by participants and the file transfer is encrypted https
  - Each participant can only download their own individual part of the unwind proposal
  - TriOptima is not a party to the unwind proposal

➢ ***As with dry-run, this step presents no systemic, market or operational risk. triReduce calculates an unwind proposal within the participants' tolerances.***

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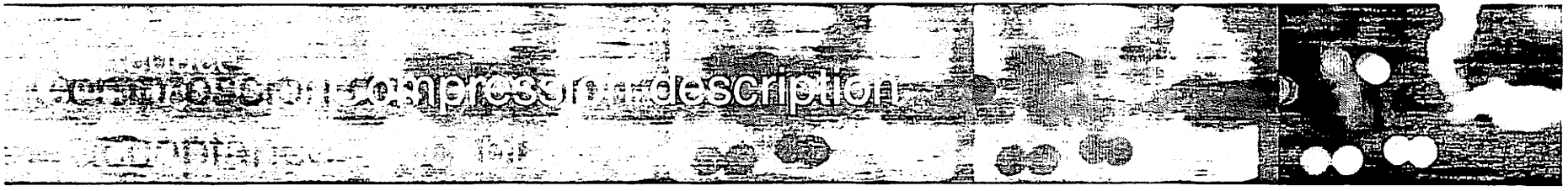

- Participants assess unwind proposal and decide whether to accept or reject
  - Acceptance is in participants' discretion – not compulsory
  - Unlike a clearinghouse, participants are responsible for ensuring that their part of the unwind proposal meets their tolerances
  - Acceptance is made by fax, sent to TriOptima as agent for each other participant outside of the triReduce system

➢ ***This step presents no systemic, market or operational risk. Each participant makes its own decision whether to accept the proposal. Acceptance takes place outside of the triReduce system.***

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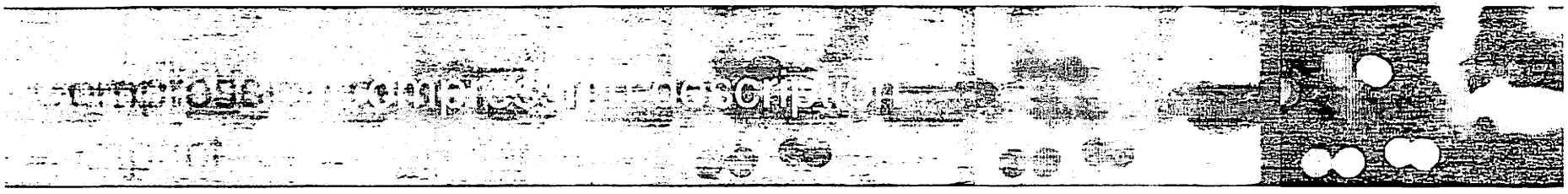
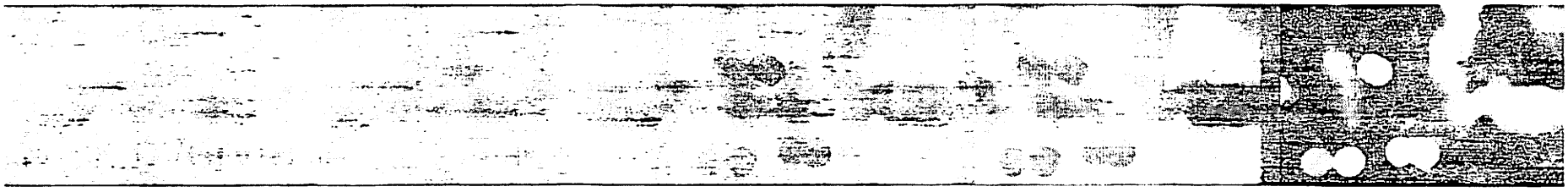


- If ANY participant rejects their unwind proposal, it fails for all participants and existing trades continue unaffected
- If ALL participants accept the unwind proposal, every participant is bound by the compression transactions described in unwind proposal

➢ ***triReduce is a binary "on/off" solution. There is no effect on existing trades if the unwind proposal is rejected.***

This is the final step of a triReduce compression cycle; execution, confirmation, updating of trade records, settlement and reporting are the responsibility of the participants and made outside of the triReduce system.



- Netting does not take place on triReduce platform
  - Trades are terminated or replacement trades executed by participants away from triReduce system
- No adverse effects on participants
  - All major decisions and data inputs are made by participants
  - Participants can withdraw their participation at any time or reject compression proposal and return to status quo ante
- No adverse effects on market
  - Participant's market risk does not change
  - Price has no role in a compression cycle. MTM is only used for delivering counterparty exposure /risk neutrality and not made available to a participant's counterparties (or any third party)
- Trades are held by participants throughout the cycle

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Action	MBSCC	triReduce
Trade recording	✓	✗
In-house trade netting to reduce settlements	✓	✗
Certificate safekeeping	✓	✗
Book-entry deliveries	✓	✗
Margin Calculation	✓	✗
Margin Collection	✓	✗
Trade Settlement	✓	✗

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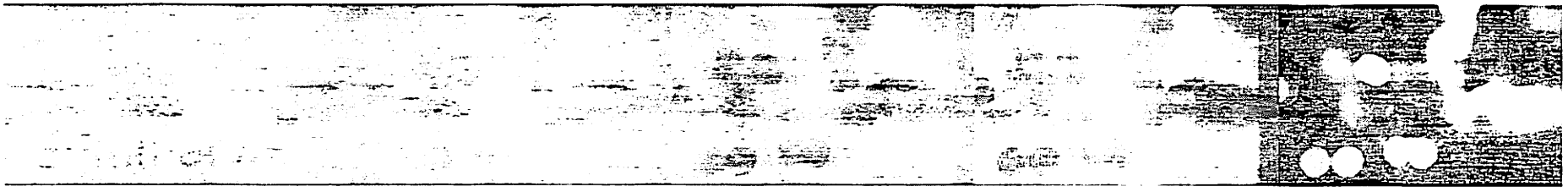
Source: SEC Order granting registration of MBSCC, February 2, 1987 File No. 600-22



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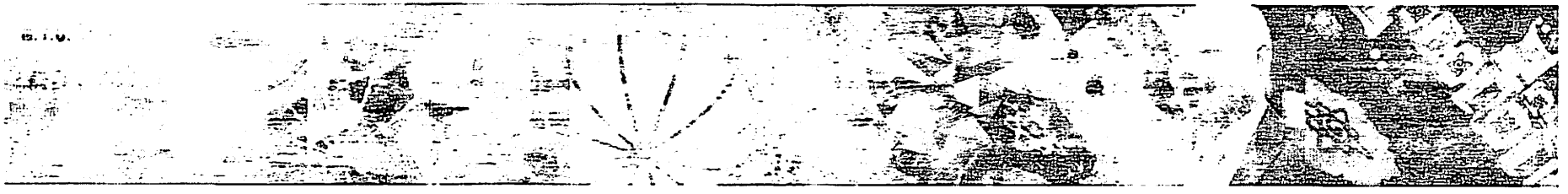

Thank You