EXHIBIT S-1 (REDACTED)

TRIOPTIMA AB REQUEST FOR EXEMPTION

(August 9, 2024; revised Dec. 2, 2024; amended to expand the scope Feb. 13, 2026)

I. INTRODUCTION AND REQUEST FOR EXEMPTION

TriOptima AB ("TriOptima") submitted its application for exemption from registration as a clearing agency on August 9, 2024, to cover the post-trade risk reduction services called triReduce and triBalance (together, the "Services") described herein as such Services apply to security-based swaps. TriOptima is amending the application to expand the request for exemption, as further described below, so that TriOptima may offer the triBalance Service to clients with respect to their portfolios of transactions in repurchase and reverse repurchase agreements (which portfolios may also include cash market transactions in related securities), pursuant to a clearing agency registration exemption.

TriOptima provides its triReduce and triBalance Services to financial institutions active in the over-the-counter ("OTC") and on venue derivatives markets, including markets for derivatives that are security-based swaps under the definition of that term in the Securities Exchange Act of 1934, as amended ("Act" or "Exchange Act"). For over twenty years, participants in the OTC derivatives markets have relied upon TriOptima's Services to reduce risks in their portfolios of swaps and security-based swaps. The Services reduce overall risk in the markets for OTC derivatives transactions, furthering the policy objectives reflected in the Act following the amendments made by the Dodd-Frank Wall Street Reform and Consumer Protection of 2010 Act ("Dodd-Frank Act") as well as the policies of Section 17A of the Act.

The triBalance Service and the triReduce Service each constitutes a non-central counterparty clearing service with respect to security-based swaps that brings TriOptima within the Act's "clearing agency" definition and but for an exemption TriOptima would have to register as a clearing agency under the Act with the Securities and Exchange Commission ("Commission" or "SEC"). TriOptima currently relies upon a class exemption issued by the Commission in 2011 from clearing agency registration to offer the Services to market participants for their transactions in security-based swaps. TriOptima has filed its request for exemption so that it may seamlessly, without disruption, continue to offer the Services to market participants following sunsetting of the class exemption as announced by the Commission in late 2023.

In addition to the Services currently offered to clients for security-based swaps, TriOptima wishes to expand its triBalance Service offering to clients with respect to their portfolios of transactions in repurchase and reverse repurchase agreements (including those characterized as buy/sell, sell/buy back transactions) involving certain types of underlying securities (collectively "Repo products"), which portfolios may also include cash market transactions in such types of underlying securities. The "output" of an optimization run for a Repo product portfolio may also in the future include proposals to execute outright securities transactions to rebalance the portfolio. The triBalance Service will be offered to clients to aid them in optimizing initial margin requirements and leverage exposure in their portfolios of uncleared and cleared transactions in Repo products. TriOptima anticipates client interest in use of triBalance as a risk reduction and optimization feature for portfolios of transactions in Repo products that are collateralized by U.S. Treasury securities (which portfolios may include transactions in U.S. Treasury securities) in light of the Commission's amendments to Rule 17ad-22 under the Act and will focus on offering triBalance for such Repo products but may also expand the Service offering to cover transactions in Repo products collateralized by liquid U.S. government agency securities, which portfolios may also include cash market transactions in such types of securities.

TriOptima believes that client usage of triBalance for portfolios of transactions in Repo products that may also include cash market transaction in related securities, once offered, will be *de minimis* and consequently that TriOptima will not be carrying out a clearing agency function.[1] TriOptima anticipates, though, that following the June 30, 2027, compliance date for the clearing mandate for Repo products,[2] it will see increased client demand to use the triBalance Service for their portfolios containing cleared transactions in Repo products and that usage will likely expand beyond *de minimis* and constitute a clearing agency function.

Thus, TriOptima requests the Commission to grant an exemptive order from clearing agency registration pursuant to which TriOptima may (i) continue to provide post-trade risk reduction services for security-based swaps that encompass the activities of the Services described herein and in other exhibits to this Form CA-1 application (whether under the name of triReduce, triBalance or another name);[3] and (ii) may continue to provide the triBalance Service for Repo products once it expands beyond *de minimis* and constitutes a clearing agency function (expected to occur following implementation of the clearing mandate for Treasury Repo products[4]) that encompasses the activities described herein and in other exhibits to this amended Form CA-1 application (whether under the name of triBalance or another name);[5] including in each case any enhancements to the Services that are within the ambit of such post-trade risk reduction services and, in the case of security-based swaps, any expansion of the Services to types of security-based swaps beyond those described in this application.

Consistent with other orders granted by the Commission providing exemptive relief from clearing agency registration, TriOptima agrees it will undertake the following if the Commission grants the exemption: (1) provide the Commission with information on any material changes to the clearing

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[1] As of the date of this amended Exhibit S-1, TriOptima has not commenced offering triBalance for Repo products and is completing its build of the technology and network to expand the Service. * * * *

[2] The Commission announced on February 25, 2025, that it extended the compliance date for the amendments to SEC Rule 172a-22(e)(18)(iv) for eligible repo market transactions to Jume 30, 2027. *See* https://www.sec.gov/newsroom/press-releases/2025-43.

3 TriOptima also currently offers a portfolio reconciliation service called triResolve including within that service triResolve Margin. TriOptima has previously provided information to Commission Staff describing triResolve and triResolve Margin. Based on our own analysis and discussions with Commission staff we believe that triResolve Margin, in the manner the service operates, is not a collateral management service that constitutes a non-CCP clearing agency function. * * * *

[4] Depending upon the timing, it is possible the Commission may act upon TriOptima's application for exemption before TriOptima begins offering triBalance for Repo products. See footnote 1 for a description of the expected rollout of triBalance for Repo products. See footnote 1 for a description of the expected rollout of triBalance for Repo products.

[5] As part of this amendment to the exemption application, TriOptima is submitting a revised Exhibit J-2 that includes Repo products and related cash Treasury securities transactions within the description of the triBalance services and made conforming revisions to a small number of other CA-1 exhibits.

agency services that are the subject of the exemption; (2) allow the Commission to inspect its facilities where such clearing agency functions are performed and where related records are maintained; and (3) make periodic disclosures to the Commission regarding its operations as required or requested by the Commission.[6]

II. PROCEDURAL BACKGROUND AND LEGAL BASIS FOR THE REQUEST

The definition of the term "clearing agency" in Section 3(a)(23)(A) of the Act states:

> The term ''clearing agency'' means any person who acts as an intermediary in making payments or deliveries or both in connection with transactions in securities or who provides facilities for comparison of data respecting the terms of settlement of securities transactions, to reduce the number of settlements of securities transactions, or for the allocation of securities settlement responsibilities. Such term also means any person, such as a securities depository, who (i) acts as a custodian of securities in connection with a system for the central handling of securities whereby all securities of a particular class or series of any issuer deposited within the system are treated as fungible and may be transferred, loaned, or pledged by bookkeeping entry without physical delivery of securities certificates, or (ii) otherwise permits or facilitates the settlement of securities transactions or the hypothecation or lending of securities without physical delivery of securities certificates.

If a person conducts activities within the scope of this definition, the person must register as a clearing agency with the Commission under Section 17A of the Act and related Commission rules, absent an exclusion or exemption. As interpreted by the Commission, the clearing agency definition covers persons that act as central counterparties ("CCPs") for securities transactions ("covered clearing agencies" under SEC Rule 17ad-22) as well as persons offering certain post-trades services deemed to constitute non-CCP clearing agency functions.

The Dodd-Frank Act amended the Act to establish a comprehensive regime for regulating security-based swaps. Among other changes, the Dodd-Frank Act added "security-based swap" as a defined term to the Act and expanded the Act's definition of "security" to include security-based swaps. Thus, the Act's clearing agency definition and registration requirement for clearing agencies now applied to persons performing activities with respect to security-based swaps transactions that fall within the scope of the definition.

In 2011, the Commission issued a class exemption from clearing agency registration in connection with its rulemaking activities to implement the Dodd-Frank Act amendments ("Class Exemption").[7] The Class Exemption covered three categories of services offered to the OTC

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[6] *See e.g., Bloomberg STP LLC; SS&C Technologies, Inc.; Order of the Commission Approving Applications for an Exemption from Registration as a Clearing Agency,* Release No. 34-76514 (November 24, 2015), 80 FR 75388 at 75390 (December 1, 2015) ("Bloomberg Order").

[7] *Order Pursuant to Section 36 of the Securities Exchange Act of 1934 Granting Temporary Exemptions From Clearing Agency Registration Requirements Under Section 17A(b) of the Exchange Act for Entities Providing Certain Clearing Services for Security-Based Swaps,* 76 FR 39963 (July 7, 2011) ("Class Exemption Order").

markets for security-based swaps that the Commission determined could, depending upon the facts and circumstances, constitute non-CCP clearing agency functions, including "tear-up" and portfolio compression services and substantially similar services, *i.e*., services of the type that TriOptima offers via triReduce and triBalance.[8] The Commission issued the Class Exemption, which is specific to security-based swap activities, to allow firms such as TriOptima to continue offering their covered services as the Commission continued its myriad rulemaking initiatives.

TriOptima filed the requisite notice with the Commission to offer post-trade risk reduction services for security-based swaps pursuant to the Class Exemption.[9] When the Commission adopted Regulation SE governing security-based swap execution facilities it announced in the adopting release that it is sunsetting the Class Exemption.[10] It is our understanding that the Class Exemption expired on August 12, 2024, but that TriOptima may continue to rely upon the Class Exemption after that date by submitting its application for exemption from clearing agency registration on Form CA-1 on or before August 12 (which it did). We further understand that if Commission staff deemed the application complete on or before October 11, 2024, (which it did) the Class Exemption will continue to be available to TriOptima pending the Commission's ongoing review of the application and for 30 days following any final Commission determination to grant or deny the application.

TriOptima intends to provide triBalance to clients for their portfolios of positions in Repo products as well, to meet anticipated demand from market participants for the optimization benefits that the triBalance Service offers, in light of the SEC's amendments to its Rule 17ad-22 governing registered clearing agencies that are covered clearing agencies (i.e., that provide CCP clearing services) in early 2024.[11] As noted, portfolios of Repo products submitted to the triBalance Service may include outright transactions in related securities and the "output" of an optimization run for the portfolio may also include proposals to execute outright securities transactions to rebalance the portfolio. The Service output may also in the future include proposals for outright transactions in related securities to rebalance the portfolio. TriOptima recognizes that the triBalance Service for Repo products could constitute a non-CCP clearing agency function for securities transactions following implementation of the clearing mandate for Repo products on June 30, 2027. Because the Class Exemption described above is limited to non-CCP activities for transactions in security-based swaps, TriOptima is amending the exemption request application to encompass the triBalance Service for Repo products as well, for legal certainty following implementation of the clearing mandate.

[8] The relief under the Class Exemption is available with respect to collateral management services, trade matching services, tear-up / compression services order, and "substantially similar services for security based swaps." 76 FR at 39964.

[9] TriOptima submitted a letter dated August 4, 2011, notifying the Commission that TriOptima would operate pursuant to the Class Exemption. Updates to the notice, dated March 3, 2014, and September 20, 2021, were also provided to the Commission.

[10] *Security-Based Swap Execution and Registration and Regulation of Security-Based Swap Execution Facilities*, 88 FR 87156, at 87229 (Dec. 15, 2023).

[11] *Standards for Covered Clearing Agencies for U.S. Treasuries and Application of the Broker-Dealer Customer Protection Rule with Respect to U.S. Treasury Securities*, 89 Fed. Reg. 2714 (Jan. 16, 2024).

Section 17A(b)(1) of the Act authorizes the Commission to exempt a person from registration as a clearing agency if the Commission determines that such exemption is consistent with the public interest, the protection of investors, and the policy goals of Section 17A. For reasons explained below, we believe granting the exemption is consistent with each of those objectives, and importantly, will also further the Act's policies with respect to the Commission's oversight of OTC and on venue markets for security-based swaps. An exemption will allow TriOptima to continue offering invaluable services that enable market participants to manage and reduce the risks in their portfolios of non-cleared and cleared derivatives containing security-based swap positions, resulting in an overall reduction of risk in the markets for security-based swaps and the broader swaps markets.

III. Background on TriOptima and The Derivatives Markets

A. Overview

For many years, TriOptima has offered post-trade risk reduction services to financial institutions to enable them to reduce risks in their non-cleared and cleared portfolios of positions in various derivative products, including derivatives that are security-based swaps ("SBSs") under the statutory definition. TriOptima's clients include security-based swap dealers, inter-dealer brokers, prime brokers, and institutional buy-side firms.

The triReduce Service is a portfolio compression service that runs periodic cycles to identify potential bi-lateral transactions among clients participating in a cycle for early termination or amendment of open positions in non-cleared and centrally cleared OTC derivatives. This multilateral, risk-constrained compression service helps market participants eliminate unnecessary line items and notional principal outstanding for both cleared and uncleared OTC derivatives to manage counterparty risk and achieve the Basel III liquidity requirements.[12] By removing unnecessary, outstanding transactions from their portfolios, market participants eliminate costs and credit and operational risk, and can reduce their capital requirements. The triBalance Service is a portfolio rebalancing service that helps market participants reduce credit risk exposure by identifying transactions to rebalance counterparty risk exposures across a participant's counterparties for non-cleared positions and CCPs, while maintaining an unchanged market risk position within small pre-defined tolerances as set by the Subscriber.

Global financial markets continue to experience growth in the use of OTC derivative transactions.[13] The value of notional outstanding OTC derivatives has steadily climbed for the last decade, and grew 8% overall in 2023, to well over $667 trillion notional outstanding at the end of December 2023.[14] Regulators globally recognize the critical value of post-trade risk reduction

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[12] *Basel III: A global regulatory framework for more resilient banks and banking systems*, Basel Committee on Banking Supervision, December 2010 (rev June 2011), available at https://www.bis.org/publ/bcbs189.pdf.

[13] OTC Derivatives Statistics at End-December 2023, Bank for International Settlements (May 16, 2024), available at https://www.bis.org/publ/otc_hy2405.pdf.

[14] *Id*. Due to seasonal factors, the growth experienced a see-saw pattern in that notional outstanding grew by 15% for the first half of 2023, and then contracted, for a year over year growth of 8%. *Id*. At end of June 2023, the notional value of outstanding OTC derivatives reached $715 trillion. OTC Derivatives Statistics at End-June 2023 (Nov. 16, 2023).

services of the type TriOptima offers to market participants in the derivatives markets to assist them in reducing operational and counterparty credit risks through managing their derivatives portfolios.[15] The Commission itself has acknowledged the importance of post-trade risk reduction services for the SBS markets.[16] The continued growth of the OTC derivative markets in the U.S. and globally underscores the importance of services that help market participants track and reduce risk exposures.

In short, the Services help reduce systemic and operational risk in the markets for swaps and SBS and are invaluable tools that improve the safety and soundness of participants in those markets and the resilience of those markets. In 2022, in single name credit default swaps alone the triReduce service compressed approximately $80 billion gross notional. This Service has compressed $2.791 trillion in gross notional across all products since its inception in 2003. To date, triBalance has reduced users' initial margin obligations by $15 to $20 billion across all swaps and security-based swaps.

B. DESCRIPTION OF TRIOPTIMA'S OFFERING

Each Service is a web-based service that enables industry participants that subscribe to the Service ("Subscribers") to efficiently analyze and reduce risk associated with their derivative portfolios (which may contain both non-cleared and cleared positions) and facilitate compliance with global SBS regulatory initiatives. TriOptima does not act in any manner as a central counterparty.[17] It does not guarantee trades, maintain credit exposure to any TriOptima Subscribers, provide margin, hold Subscriber assets, or act as a custodian. Rather, the Services identify a set of potential transactions among a set of Subscribers participating in a particular cycle, which the participating Subscribers must all then independently agree upon on an all or none basis.

1. *TRIREDUCE*

The triReduce Service is a web-based portfolio compression service that generates "unwind" proposals for Subscribers for multilateral and multi contract early termination of cleared and uncleared OTC derivatives, primarily interest rate swaps, cross currency swaps, inflation swaps, credit default swaps including SBSs and FX forwards. The triReduce service is offered to banks and investment firms active in the OTC derivatives market. Subscribers to the triReduce service sign a triReduce service agreement with TriOptima which governs the relationship between the Subscriber and TriOptima. Each unwind cycle (i.e., a compression or termination cycle) is specific to an asset class and designated sub-group, *e.g.*, credit, single names and North American reference entities. TriOptima runs multiple unwind cycles in single name CDS per year.

The Subscribers involved in a particular unwind cycle, referred to as the "Unwind Group," must all accept the unwind proposal, or the proposal is deemed rejected and void. Where an unwind

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[15] Post Trade Risk Reduction Services, Consultation Report, The Board of the International Organization of Securities Commissions (IOSCO), January 2024, available at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD760.pdf.

[16] *Risk Mitigation Techniques for Uncleared Security-Based Swaps*, 85 FR 6359, at 6361 (February 4, 2020). *See also* the Class Exemption Order.

[17] SEC Rule 17ad-22 defines a central counter party as "a clearing agency that interposes itself between the counterparties to securities transactions, acting functionally as the buyer to every seller and the seller to every buyer.

proposal contains trades that are cleared by an SEC-registered clearing agency (or other CCP), the accepted unwind proposal is also subject to implementation by the CCP. The Service is multi contract in that each unwind proposal will involve a plurality of existing OTC derivative transactions that are proposed for early termination. * * * *

Under an unwind proposal for credit default swap transactions including SBS transactions, existing legal obligations for each included transaction are either (i) terminated, (ii) the notional amount may be increased or decreased, or (iii) replaced with new obligations (new transaction details and as applicable referencing a different master agreement governing the trading relationship, typically in the form of ISDA documentation). If all Subscribers accept the unwind proposal in writing, they agree to be bound by the unwind proposal. TriOptima plays a crucial part in the unwind process by bringing together the Subscribers, providing the framework for the contract formation process and providing the unwind proposal. Importantly, TriOptima does not act as agent of the Subscribers[18] and has no power to bind the Subscribers to the terms of the unwind proposal. Neither does TriOptima provide advice on the merits of unwinding transactions; rather, TriOptima only calculates which transactions can be terminated, revised, or replaced, within tolerances set by the Subscriber, and provides the calculation results in an unwind proposal to be considered by each Subscriber.

The triReduce process involves Subscribers/Adhering Parties and TriOptima in the following steps in relation to the creation of each unwind proposal:

- The participating Subscribers/Adhering Parties in the Unwind Group sign up to an appropriate contractual framework to facilitate the early termination, revision, or replacement of transactions.
- The participating Subscribers/Adhering Parties input existing trades among them or with a CCP, as applicable, that they want included in the unwind (*i.e.*, compression) cycle, which we refer to as trade linking.
- Each Subscriber sets its tolerances, *i.e.*, the parameters within which the unwind proposal that is generated must fit.
- The Service generates an unwind proposal in accordance with the Subscribers' respective tolerances.
- Each Subscriber must then decide whether to accept or reject the unwind proposal and if (and only if) all Subscribers/Adhering Parties give their written acceptance, they have agreed contractually with one another (or a CCP, as applicable) to terminate, revise or replace transactions as set out in the unwind proposal.

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[18] Other than for the limited purposes of administration of the Protocol.

2. *TRIBALANCE*

This section describes the services within the triBalance Service for SBS. For Repo products, the triBalance Service will operate in the same general matter as described for SBS, except as otherwise noted below. TriOptima plans to offer triBalance to clients and prospective clients with respect to their Repo product portfolios of cleared positions and uncleared positions, including both tri-party and bi-lateral transactions. The Repo product portfolios may also include cash market transactions in the types of securities underlying the Repo products. The "output" of an optimization run for a Repo product portfolio may also in the future include proposals to execute outright securities transactions to rebalance the portfolio.

The triBalance Service is a web-based portfolio rebalancing service that enables multilateral and multi-contract rebalancing of counterparty risk exposures of OTC derivatives portfolios (currently foreign exchange, interest rate, equity, credit and commodity derivatives). It is used by Subscribers to rebalance bilateral and cleared outstanding risk exposures. Specifically, the Service helps Subscribers mitigate or reduce counterparty credit and operational risk without adjusting market exposure by reviewing positions at a portfolio level across all applicable counterparties and proposing elimination or reduction of offsetting positions in the same or comparable products. Subscribers that have offsetting positions with different counterparties may have an increased exposure to counterparty credit risk.[19]

The Service proposes new bilateral transactions that are injected into existing netting sets to offset outstanding risk exposures, enabling Subscribers to mitigate their outstanding exposures. The package of new risk mitigating transactions in a triBalance cycle (a "run of the service" for optimizing or rebalancing portfolios) is market risk neutral overall for each participant. Reducing risk exposure in bilateral and cleared netting sets reduces requirements for initial margin, regulatory capital, margin volatility, CVA hedging costs and close-out risk. TriOptima runs multiple rebalance cycles per year on credit default swaps including SBS and on equity swaps.

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The triBalance Service is predominantly offered to banks, investment firms and commodities trading companies but may also be provided to other entities classified as eligible counterparties active in the OTC derivatives market. The Service is multilateral, in that two or more Subscribers are involved in the rebalancing of their OTC portfolios, and multi-contract, in that multiple new OTC derivative transactions will be proposed for rebalancing the Subscribers' OTC derivatives portfolios.

The triBalance Service generates a proposal based on input data provided by each Subscriber participating in a particular run of the service. * * * * TriOptima calculates and suggests new transactions which, if entered into, will reduce participating Subscribers' outstanding risk exposures, within tolerances set by the Subscribers. The calculation results are provided in a triBalance proposal to be considered by each Subscriber.

[19] * * * *

The triBalance process involves the following steps:

- signing up to an appropriate contractual framework;
- submission of Subscribers' relevant outstanding risk exposures;
- submission of Subscribers' tolerances; and
- triBalance proposal generation.

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IV. GRANTING THE EXEMPTION WILL FURTHER THE PUBLIC INTEREST, THE PROTECTION OF INVESTORS, AND OTHER POLICY GOALS OF THE ACT

A. OVERVIEW

As noted, section 17A(b)(1) of the Act provides that the Commission may exempt a person from registering as a clearing agency if the Commission determines that granting the exemption is consistent with the public interest, the protection of investors, and the policy goals of Section 17A. The Commission has granted exemptive relief to certain providers of clearing agency services for securities transactions pursuant to this authority, balancing the need for regulation against the promotion of efficient markets and the burden of unnecessary costs.[20]

In support of prior exemptions, the Commission cited that the relief was consistent with the following policy goals reflected in Section 17A:

(i) prompt and accurate clearance and settlement of securities transactions, and the safeguarding of securities and funds;[21]
(ii) facilitating development and expansion of support services to reduce risk;[22] and
(iii) reducing unnecessary costs.[23]

[20] *See e.g.* (i) *Cedel Bank; Order Approving Application for Exemption From Registration as a Clearing Agency*, 62 FR 9225 (February 28, 1997)*;* and (ii) *Morgan Guaranty Trust Company of New York, Brussels Office, as Operator of the Euroclear System; Order Approving Application for Exemption From Registration as a Clearing Agency*, 63 FR 8232 (February 18, 1998), modified by *Euroclear Bank SA/NV; Order of the Commission Approving an Application to Modify an Existing Exemption From Clearing Agency Registration*, 81 FR 93994 (December 22, 2016).

[21] Omgeo Order at 20497.

[22] *Id*. *See also* Bloomberg Order at 75402.

[23] *Id*.

B. Reasons for Granting the Exemption

For many years, TriOptima has provided swap market participants with services designed to reduce both counterparty risk and overall systemic risk and to increase post-trade operational efficiencies, consistent with the policy goals of Section 17A (applicable with respect to SBS since the Dodd-Frank Act amendments in 2010). Moreover, the Services further one of the overarching objectives of the Dodd-Frank Act as reflected in the amendments it made to the Act (with comparable changes to the Commodity Exchange Act), namely, to remove risk from the markets for security-based swaps and swaps.

TriOptima believes that expanding triBalance's proven post-trade risk reduction optimization services to participants in the markets for Repo products will help achieve comparable benefits, furthering the policy goals of section 17A as well. For transactions in Repo products collateralized by U.S. Treasury securities, those benefits also align with the general policy goals underlying the SEC amendments to Rule 17ad-22 under the Act to enhance the strength and resiliency of the U.S. Treasury securities markets.

Portfolio Compression and Rebalancing Reduces Individual Subscriber Risk and Overall Systemic Risk

Section 17A of the Act directs the Commission to facilitate a system for prompt clearing and settlement of securities transactions, and the Congressional findings in Section 17A state that inefficient procedures for clearance and settlement impose unnecessary costs on investors and persons facilitating transactions.[24] Further, the Commission has consistently found that exemption from clearing agency registration is appropriate where it promotes a safe and efficient clearance and settlement system.[25] The Services further these objectives by providing crucial tools for SBS market participants to manage and reduce risks inherent in the portfolios of open non-cleared and cleared positions in OTC derivatives including SBS.

SBS. Unlike transactions in equity securities which settle promptly, SBS transactions typically are open for a longer time horizon where settlement occurs on one or more scheduled settlement payment dates or upon the occurrence of a credit event. This temporal feature introduces heightened default risks, whether due to a counterparty's financial distress, adverse market moves or other reasons. Participants typically manage the risks attendant to bilateral, non-cleared security-based swaps (and swaps) through credit support terms that may include the periodic exchange of initial margin and mark-to-market variation margin or settlement payments. They may also decide to manage these risks by submitting transactions to a CCP for centralized clearing and settlement.

Dealers and other active market participants may carry portfolios of open swaps and SBS positions, including a combination of non-cleared (bilateral) and cleared positions which depending upon the mix of positions may amplify risks. Participants often manage their risks on a bilateral basis between counterparties, and the associated credit risk of interconnected counterparties is a concern

[24] Bloomberg Order at 75391.

[25] *Id. See also* Omgeo Order at 20498.

both to the relevant counterparties, and the marketplace as a whole.[26] Portfolio compression and rebalancing services such as those offered by TriOptima help market participants reduce unnecessary risk exposures, while maintaining a market participant's overall exposure or risk profile.[27]

The Services are a necessary tool for OTC derivatives market participants to manage and reduce their risks. Since the adoption of the Dodd-Frank Act, global regulators have consistently determined that a robust and resilient system for measuring, monitoring and mitigating risk in market participants' OTC derivative portfolios is a requirement for a safe and efficient clearing and settlement system.[28] The Commission's recognition of the risks within the OTC derivatives market, and the importance of a post-trade risk reduction services, is made clear in the SEC's rules addressing SBS transactions.

The Commission has specifically sought to promote the safe and efficient operation of the SBS market, consistent with the policy objectives of the Dodd-Frank Act, in particular the policies reflected in Section 15F of the Act, to facilitate market participant's management of their SBS-related risk.[29] To this end, the SEC adopted Rule 15Fi-4, requiring security-based swap dealers and major security-based swap participants to establish policies and procedures for terminating fully offsetting OTC SBS with counterparties, including procedures for periodically engaging in bilateral and multilateral compression exercises.[30] The regulatory obligations of 15Fi-4 are intended, in part, to reduce both individual market participant risk, and overall systemic risk within the OTC SBS market.[31] Engaging in portfolio compression and rebalancing helps reduce a market participant's gross exposure to direct counterparties.[32] Further, reducing the total number of

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[26] *See* Financial Stability Board, *Implementing OTC Derivatives Market Reforms*, (October 25, 2010), available here: https://www.fsb.org/wp-content/uploads/r_101025.pdf ("FSB Market Reforms"). *See also Order Pursuant to Section 26 of the Securities Exchange Act of 1934 Granting Temporary Exemptions From Clearing Agency Registration Requirements Under Section 17A(b) of the Exchange Act for Entities Providing Certain Clearing Services for Security-Based Swaps*, 76 FR 39963 (July 7, 2011).

[27] FSB Market Reforms.

[28] *Id*. at pgs 37-38, stating:

> …authorities must ensure that market participants have robust and resilient procedures in place to measure, monitor and mitigate counterparty credit and operational risks associated with non-centrally cleared contracts. Authorities should set and apply strong bilateral risk management standards, including collateralisation, and require market participants to benchmark themselves against defined best practices.

[29] *Risk Mitigation Techniques for Uncleared Security-Based Swaps*, 85 FR 6359 (February 4, 2020) ("Risk Mitigation Release"). The adoption of Dodd-Frank provided for the comprehensive regulation of SBS, including the inclusion of such instruments within the clearing agency regulatory scheme under the Act.

[30] Rule 240.15Fi-4.

[31] Risk Mitigation Release, 85 FR at 6361.

[32] *Id*. stating:

> Eliminating these offsetting and redundant uncleared derivatives transactions through compression—as measured both by the number of contracts and the total notional value—reduces a market participant's gross exposure to its direct counterparties, including by eliminating all exposure to certain counterparties.

outstanding contracts within a derivatives portfolio provides market participants important operational benefits and efficiencies. With fewer open contracts to manage, maintain, and settle, there are fewer opportunities for processing errors, failures or other problems that could develop throughout the lifecycle of a transaction.[33] For these reasons, the SEC found that the use of portfolio compression and rebalancing processes would help eliminate risk, and work to further the policy goals of Section 15F of the Act.[34]

Providing TriOptima an exemption would further the policy goals of both Section 17A and Section 15F as applied to SBS transactions. The triReduce Service is designed to enable market participants to reduce their gross notional exposure by proposing termination or amendment of unnecessary or duplicative OTC SBS transactions, resulting in a reduced number of trades with a reduced notional amount. The triBalance Service allows market participants to optimize and mitigate their counterparty credit risk while maintaining the participant's overall market risk. Utilization of these Services provides Subscribers an opportunity to reinvest released capital and reduce the gross value of outstanding contracts, reduce counterparty risk without changing market exposure (except within small pre-defined tolerances), and mitigate operational risk by reducing the overall amount of outstanding exposure. Further, overall market stability is promoted through the general reduction in outstanding transactions, and the efficient usage of market participants' capital.

Repo Products. Adding the triBalance Service for Repo products to the scope of the exemption will provide comparable benefits to another sector of the financial markets, particularly for centrally cleared transactions, furthering the policies reflected in Exchange Act section 17A (and the Commission's recent amendments to Rule 17ad-22). Active market participants may carry portfolios of open positions in Repo products positions that include a combination of non-cleared and cleared positions which, depending upon the mix of positions, may amplify risks. The rebalancing services will help market participants reduce unnecessary risk exposures, while maintaining their overall exposure or risk profile. (As noted, Repo product portfolios submitted to the triBalance Service may also include related securities transactions and "output" of an optimization run may include proposals to execute outright securities transactions to rebalance the portfolio.)

REDUCTION IN UNNECESSARY COSTS

Congressional findings upon adoption of Section 17A state that inefficient procedures for clearance and settlement impose unnecessary costs on investors and persons facilitating transactions. In granting exemptions from clearing agency registration, the Commission has considered whether an applicant would improve or increase the efficiency of the U.S. clearing and settlement system (particularly processing efficiencies) and whether an exemption would lead to unnecessary costs.[35] Granting TriOptima's exemption request would be consistent with the purposes of Exchange Act section 17A, particularly in promoting efficiency and limiting costs.

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[33] *Id*.

[34] *Id*.

[35] Bloomberg at 75391-97

Requiring entities, such as TriOptima to register as a clearing agency, and to comply with the full obligations thereunder would increase TriOptima's costs to continue providing its invaluable services for SBS or to provide its triBalance Service for Repo products, without any attendant benefit. TriOptima does not – and for the triBalance Service for Repo products will not – hold any customer assets, manage or direct any customer collateral, manage margin requirements, or match executions. Requiring TriOptima to satisfy regulatory obligations directed at these activities would serve only to increase the operating costs of the applicant, and thus the costs on market participants. Moreover, certain obligations imposed on registered clearing agencies are incompatible with the TriOptima's operations as a non-CCP clearing agency, notably requirements to have a rulebook, perform self-regulatory oversight over "participants" and submit "rules" and "rule changes" to the Commission pursuant to the requirements of Section 19(b) of the Act.

Compliance with all clearing agency regulatory obligations would be financially unfeasible for TriOptima and deprive the U.S. OTC SBS market of access to a service provider that currently provides post-trade risk reduction services to a large segment of the swaps and SBS markets. As noted, post-trade risk reduction services, such as triReduce (compression) and triBalance (rebalancing) generate non-price-forming transactions to reduce risk in derivatives portfolios without changing the market exposure, except within small pre-defined tolerances. It would similarly be financially unfeasible for TriOptima to provide its potentially invaluable expansion of triBalance to the markets for Repo products if it has to register as a clearing agency to provide such non-CCP services.

The Services help reduce systemic risk and operational risk and are therefore a valuable tool in improving the resilience of the SBS market. As noted, in 2022, the triReduce Service compressed approximately $80 billion gross notional in single name CDS alone and since its inception in 2003 has compressed $2,791 trillion in gross notional across all products. To date, triBalance has, as noted, reduced users' initial margin obligations by $15 to $20 billion across all products. The loss of these Services would take away invaluable tools that market participants use to reduce their risks, which would increase their individual risks as well as systemic risk.

TriOptima's Systems and Controls Evidence its Capacity to Promote the Public Interest

As detailed in other exhibits addressing operational capacity to this Form CA-1, TriOptima has developed various systems and controls, as well as implemented policies and procedures reasonably designed to reduce operational risk, and the prompt clearance and settlement of transactions. (As noted, TriOptima does not and will not hold, control, manage, or custody any customer funds or securities.)

Further, TriOptima's procedures and practices are generally in accordance with industry best practices. In January 2024, the Board of the International Organization of Securities Commissions ("IOSCO") published a consultation report on the use of post-trade risk reduction services. [36] In this report, IOSCO provided recommendations for sound practices and consideration for post-trade risk reduction service, which included recommendations for service providers to:

[36] Post Trade Risk Reduction Services, Consultation Report, The Board of the International Organization of Securities Commissions (IOSCO), January 2024, available at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD760.pdf.

- Ensure appropriate transparency for service users of the service providers risk reduction algorithm, including the use of artificial intelligence and machine learning;
- Ensure proper controls and governance around the risk reduction algorithm;
- Establishment of reliable back-up measures and processes in case of an outage or during a corporate wind down;
- Establish systems and procedures for robust data management and safekeeping of clients' commercially sensitive data; and
- Ensure proper disclosure and controls around documentation used to ensure legal certainty around the timing and certainty of transaction terminations or amendments.[37]

As detailed in other exhibits, TriOptima has developed and maintained processes and procedures which, by design, already comply with the most recent IOSCO industry recommendations that are yet to be adopted by national regulators.

V. CONCLUSION

For the foregoing reasons, TriOptima requests the Commission to grant an exemptive order pursuant to which TriOptima may (i) continue to offer the Services to market participants for SBS transactions as described above and in other exhibits to this Form CA-1 application, and (ii) may continue to provide the triBalance Service for Repo products once it expands beyond *de minimis* and constitutes a clearing agency function (expected to occur following the June 30, 2027 implementation of the clearing mandate for Treasury Repo products[38]) encompassing the activities described above and in other exhibits to this amended Form CA-1 application; including in each case any enhancements to the Services that are within the scope of post-trade risk reduction services or any expansion of the Services to SBS beyond the derivative transactions described herein. Granting the exemption would be consistent with the public interest and previous Commission relief and would further the policy goals of Section 17A as well as policy goals embodied in the Dodd-Frank Act amendments to the Act with respect to the SBS markets and those embodied in the Commission's recent amendments to Rule 17ad-22 under the Act with respect to CCP clearing of Repo products collateralized by U.S. Treasury securities. If the Commission has any further questions, comments, or requires additional information, please do not hesitate to contact TriOptima.

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[37] *Id*.

[38] As noted, it is possible the Commission may act upon TriOptima's application for exemption before TriOptima begins offering triBalance for Repo products.