



Optimising the Libor Switch with Portfolio Compression

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Q&A
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The transition away from Libor presents significant operational challenges for the many banks, swap dealers, hedge funds, asset managers, insurers and corporates that need to identify ways to convert their ICE Libor trades in each jurisdiction.

Regulation Asia sat down with Guy Rowcliffe, Global Head of Optimization Services at CME Group, to understand how its TriOptima business is supporting the market need for benchmark migration, along with its other regulatory driven initiatives.

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***- Guy Rowcliffe
Head of Optimization Services
CME Group***

Regulation Asia: TriOptima was recently awarded ‘Outstanding Project’ for its benchmark conversion service. Can you tell us more about this service?

Rowcliffe: At TriOptima, we felt we had a strong basis to help market participants transacting in OTC swaps achieve an efficient and orderly transition if they choose to move between benchmarks. This is based off our multilateral compression cycle pool, which forms the foundation of our existing compression services.

The strength of our existing network and liquidity pool, coupled with the breadth of our service, provides an effective mechanism for us to assist market participants who do not traditionally use compression, including the buy-side. This is important for two reasons: firstly, it allows firms to more aggressively reduce outstanding ICE Libor swap inventories, and secondly, it reduces benchmark risk by replacing ICE Libor trades with those referencing alternative reference rates within the same process.

For market participants, this is not expected to be a one-time event - it is an iterative process, as they gradually replace old ICE Libor exposures with new benchmark reference rates over time.

Regulation Asia: Why have the buy side only just begun to utilise compression?

Rowcliffe: A significant part of the buy-side didn't utilise compression because of the nature of their trades or the risk they had; they often had smaller scale and

much more directional swap trades. In a situation where you have a lower inventory of transactions, and you're governed by slightly different economics, the need to compress transactions has a different priority. Including buy-side participants widens the scope of impacted entities that can participate in compression cycles, which further enhances overall efficiency.



Bringing extra efficiency and operational lift is indeed one of our core value propositions. The triReduce compression services bring significantly enhanced value to what would otherwise be a largely manual and bilateral process. The power of a multilateral approach to compression, versus a bilateral approach, brings a number of benefits, most notably significant increases in efficiency. On the client side, being able to enter a compression exercise against multiple counterparties at the same time brings its own operational efficiencies .

Our triReduce team has invested a lot of time and effort in making the process itself more efficient, and we recently launched low-touch compression, the next evolution in the compression process which delivers improved usability, user transparency and full automation with API technology. This is a unique differentiator from other vendors as it streamlines the workflow for clients entering and completing compression cycles.

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Regulation Asia: What are some of the other ways TriOptima is helping market participants in Asia adapt to regulatory change?

Rowcliffe: TriOptima helps clients in Asia in several ways. The compression services we offer are designed to respond to increases in balance sheet pressures, leverage ratios and general collateral rules, which are common constraints on banks' activities - whether they're global banks or regionally based banks in Asia. All of these factors drive a desire or a need to compress portfolios.

Compression for us is one key area where we significantly help Asian clients. In fact, we are the only compression provider for AUD, CNH, HKD, JPY, KRW, MYR, NZD, SGD, THB, TWD. We also run offshore compression for non-deliverable CNY, INR and KRW and are the only provider of cross-currency swap compression for USD/JPY, USD/KRW, USD/HKD, USD/CNH, USD/AUD, USD/SGD, USD/NZD.

If you look outside of compression services, the other key regulatory drivers for us in the region and globally are the uncleared margin rules. As UMR moves into phase 5 and phase 6, more Asian based entities will come into scope. TriOptima has three key services where we're providing clear efficiencies in this space.

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Through our triResolve and triResolve Margin services, we help clients reconcile their portfolios, calculate and reconcile initial margin with counterparties, minimise counterparty exposures, and optimise net funding amounts.

The triResolve Margin platform has approximately 220 subscribers now, about 30% of which are from Asia, comprising a mix of buy-side and sell-side participants.

Another key service for us is triBalance, which allows clients - again using a multilateral liquidity pool and network - to optimise their counterparty risk exposures and margin across multiple asset classes. This brings significant operational and cost efficiencies.

Regulation Asia: TriOptima will be 20 years old in 2020, how do you ensure the business continues to evolve and innovate?

Rowcliffe: A key strength for us is that we are always monitoring how the regulatory environment is evolving, and how the changes impact our clients.

Our core focus has traditionally been the OTC swaps market, as it's the sector where compression brings the most benefit as a result of long-term rates with multi-year profiles. While the issues in OTC swaps are widely known, the degree of understanding and adoption or extent of the impact varies across markets.

Over the past 18 months we have focused on expanding into other asset classes, most notably FX, where we've seen particularly strong growth in the last six to nine months, with volumes up about 70% from the previous year. This is a trend that's currently accelerating as a result of the increased impact of G-SIBs [globally systemically important banks] – at which gross notional is highly determinative.

Historically, our clients were almost exclusively major sell-side institutions, using our services for their trading operations. This has been extending to prime brokers and executing brokers, bringing buy-side trades into scope. When you think of TriOptima's trading model, our network and multilateral underpinning creates significant volume growth and efficiency as you add new participants to the network, and that's what we've seen very much in regard to FX.

Lastly, our triBalance service has also recently expanded into commodity exposures. As of late last year, we included gold as one of the asset classes in a triBalance initial margin optimisation cycle, and we ran margin optimisation across FX and commodities at the same time.

TriOptima, a CME Group company, won an Outstanding Project award for 'Benchmark Transition Management' and was highly commended in the 'Initial Margin Compliance' category in the 2nd Regulation Asia Awards for Excellence 2019 at a ceremony in Singapore on 13 November 2019.

About TriOptima

TriOptima, is the leading provider of post-trade services to the OTC derivatives market, and is now part of CME Group. As the world's leading and most diverse derivatives marketplace, CME Group enables clients to trade futures, options, cash and OTC markets, optimize portfolios, and analyze data – empowering market participants worldwide to efficiently manage risk and capture opportunities.

CME Group exchanges offer the widest range of global benchmark products across all major asset classes. The company offers futures and options on futures trading through the [CME Globex®](#) platform, fixed income trading via BrokerTec and foreign exchange trading on the EBS platform. In addition, it operates one of the world's leading central counterparty clearing providers, CME Clearing. With a range of pre- and post-trade products and services underpinning the entire lifecycle of a trade, CME Group also offers optimization and reconciliation services through TriOptima, and trade processing services through Traiana.

www.trioptima.com

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