

Via e-mail:
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Re: Consultation paper on the proposed regulatory regime for the over-the-counter derivatives market in Hong Kong - October 2011

Dear Sirs,

TriOptima is pleased to submit the following comments in connection with the joint Hong Kong Monetary Authority ("HKMA") and Securities and Futures Commission ("SFC") proposed regulatory regime for the over-the-counter derivatives market in Hong Kong (the "Proposed Regime"). As discussed below in further detail, TriOptima is a provider of post-trade services to major market participants within the OTC derivatives market.

TriOptima Background

Our headquarters are in Stockholm and we also have offices in London, New York, Singapore and Tokyo. Our business comprises three main operations:

- triReduce: a portfolio compression service;
- triResolve: a service centered around portfolio reconciliation; and
- a trade reporting repository for interest rate derivatives (expected to be wound down in the not too distant future).

TriOptima supports the stated policy aims of the G20 commitments, as also referenced in the Proposed Regime, to reduce counterparty risk, improve overall transparency, protect against market abuse, and enable regulators to better assess, mitigate and manage systemic risk in the OTC derivatives market.

TriOptima Services

As mentioned, TriOptima operates the triReduce portfolio compression and early termination service. triReduce is a service that allows multiple participants to compress their existing swap portfolios in order to (i) reduce counterparty risk, (ii) reduce the number of outstanding swaps, and/or (iii) reduce outstanding notional values by participating in a single, coordinated algorithmic compression cycle. The triReduce service does not constitute a type of service which increases risk in the OTC derivatives markets, on a counterparty or systemic level. Instead, post-trade services of this type, where participants cannot take a view on the markets and which do not result in an increased market exposure or changed market position, serve to decrease risk both on a counterparty and systemic level.

Effects of the Proposed Regime

The Proposed Regime, if adopted as currently drafted, appears potentially to classify the triReduce service as "Type 11" regulated activities due to the intermediary nature of TriOptima's role when delivering such post-trade service.

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TriOptima

While TriOptima supports the stated policy aims of the G20 commitments, as also referenced in the Proposed Regime, there are very few public policy benefits to treating triReduce and similar post-trade risk reduction services as regulated activities. There are several reasons for this, including the fact that (i) other aspects of the Proposed Regime in themselves already offer increased transparency on the pre-compression and post-compression transactions, (ii) operators of compression services only arrange the compression cycles, and do not enter into transactions or engage in payment transfers, and (iii) by their nature, compression/post-trade services do not result in an increased market exposure or changed market position, but rather decrease counterparty credit exposure, basis point risks and/or other risks inherent in OTC derivatives.

TriOptima is concerned that the effect of the Proposed Regime, if implemented as currently drafted, would be that TriOptima and other service providers may not be able to offer its risk-reducing services within Hong Kong in an optimal fashion, or at all. As acknowledged by the FED14 banks in their commitment letters to the New York Federal Reserve and other primary regulators, compression is an important tool for managing risk in OTC portfolios, and the discontinuation of compression services in the Hong Kong market would lead to increased systemic risk, regardless of whether CCP clearing is mandated or not. Further, given the global nature of the OTC derivatives markets, and because compression results are more efficient where more participants take part, non-participation of Hong Kong domiciled banks may have a negative effect on the global efforts, as determined by the G20 commitments, to mitigate systemic risk in the OTC derivatives markets.

Accordingly, TriOptima is of the firm opinion that post-trade services of the type described herein, including compression services and other (basis point) risk reduction services, should not be considered such "Type 11" regulated activities as contemplated by the Proposed Regime.

As an alternative, should the HKMA and the SFC not agree with the conclusion that post-trade services of the type described above should be outside of the scope of "Type 11" regulated activities, very broad exemptions should be granted such that these services can continue to benefit the Hong Kong market even after the implementation of the Proposed Regime. Any classification requirements should be limited so that they do not materially increase costs or reduce efficiency to a degree that would reduce the participation of market practitioners in trade compression cycles, or effectively prevent service providers from offering such services to the Hong Kong market.

Please contact us at your convenience with any questions.

Yours faithfully,

