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**Best compression/
optimisation
service for FX**

TriOptima

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As regulations targeting over-the-counter (OTC) derivatives continue to unfold and increase the pressure on portfolios, participants in the FX market are increasingly turning to services that will help them reduce their cost of capital and manage their exposure to counterparties.

As the volume of OTC FX derivatives trading has picked up in recent years, compression and optimisation have emerged as invaluable tools for enhancing capital efficiency and managing credit risk without fundamentally changing participants' market positions.

At TriOptima, a market-leading post-trade risk management service provider, the use of these services has seen phenomenal growth.

On the compression side of the business, \$11 trillion worth of gross notional was processed through the firm's triReduce service in the past 12 months, with a record \$4.9 trillion compressed in the fourth quarter of 2019 alone – 153% above the previous quarterly high achieved in Q3 2018.

In a compression cycle, a set of forward and swap trades are eliminated and replaced with new transactions with a combined gross notional equalling less than the original combined gross, thus reducing costs without changing overall market risk positions. Depending on their requirements, market participants can prioritise certain objectives for each cycle, such as gross notional reduction or net FX delta optimisation for the standardised approach to counterparty credit risk (SA-CCR), leverage ratio or risk-weighted assets.

The recent uptick in volumes compressed is largely due to more banks joining TriOptima's FX network, with approximately 30

globally systemic important banks (G-Sibs) now on board.

"It's a network-based service," explains Mattias Palm, head of triReduce FX at TriOptima, "so the more relationships that are involved in the service, the greater the reduction in counterparty exposure will be. But we've also seen participants become more mature in their use of the service. They've grown accustomed to tailoring their risk tools and fine-tuning their settings to improve their results dramatically."

This, he says, is because banks have made the necessary technological investments to centralise their portfolio, thus enabling them to compress more trades on their global book. Additionally, many of them have also integrated their prime brokerage services into the network.

And, with a large portion of the interbank market participating, the network becomes more attractive to smaller market participants.

While most of the compressed volumes are largely made up of continuous linked settlement (CLS) currencies, the return of volatility to FX markets in 2020 has highlighted the settlement risk associated with non-CLS emerging market currencies. Consequently, demand for compression cycles involving the offshore renminbi, the Russian ruble and the Turkish lira, among others, is on the up.

"The volumes are small, but the impact of each exposure is so much bigger," says Palm. "That's something that the market learned with Turkey earlier this year when it went from stable to unstable very quickly."

Amid this turbulence in FX markets, TriOptima maintained a consistent service without any system failures.

"This is really important," says Phil Junod,



Mattias Palm, head of triReduce FX at TriOptima

head of triReduce and triBalance business management at TriOptima. “The industry was faced with a unique set of events. Market volatility was back, but all of our clients were faced with the challenge of working from home, so the fact we managed to keep the service running without missing a beat and with full participation is very impressive.”

This consistency in service was true across all of TriOptima’s services, including optimisation.

Launched in 2017, the firm’s triBalance service was set up to help market participants optimise their counterparty risk following the introduction of the uncleared margin rules (UMR).

“With greater attention to the SA-CCR over the past year, the capital regime focus is changing from gross notional to a risk-based approach,” says Erik Petri, head of triBalance solutions at TriOptima.

As counterparty exposure is the centrepiece to both UMR and SA-CCR, triBalance’s weekly optimisation cycles prioritise rebalancing the credit relationship

between counterparties. It does this, in part, by introducing short-term risk-reducing hedge trades across all relationships and asset classes with each participant remaining market risk neutral. “We have recently extended the triBalance solution to optimise SA-CCR in addition to UMR, which is something that attracts a lot of interest and positive feedback.”

Having recently introduced gold to its triBalance cycles, market participants can now optimise initial margin between counterparties across equities, rates, commodities and FX. The impact of diminishing counterparty risk is a reduction in the initial margin requirements.

With \$7 billion to \$10 billion dollars’ worth of FX-driven initial margin reduced on a continuous basis, Petri expects the network to continue to grow steadily, with the potential to double over the next five years.

TriOptima was voted best compression/optimisation service for FX at the 2020 FX Markets e-FX Awards. 

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