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Portfolio optimisation
solution of the year
OSTTRA

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The need to post initial margin is no longer limited to the world's largest derivatives users. Relatively small traders have started to be hit as phase five and six of uncleared margin rules have taken hold in the market.

Consequently, the past 12 months has seen a fairly dramatic rise in the number of firms requiring compression services, especially in Asia.

OSTTTRA, has stood out ahead of the competition for the value it has been able to provide the market.

"There was a lot of requests from our member firms to introduce compression services, and [we are] grateful [we] can now provide a high-quality service in cooperation with OSTTTRA," says the chief executive officer of one exchange in Asia.

During 2021, OSTTTRA's compression service powered by triReduce, helped optimise \$239 trillion notional in the cleared rates space, \$2.2 trillion in forex, \$787 billion in bilateral rates and \$41 billion in credit.

Globally, there are more than 230 legal entities that use OSTTTRA triReduce, consisting of both direct and indirect clearing participants across more than 28 currencies.

Over the past 12 months, OSTTTRA continued to expand its network, both globally and within the Asian region.

For instance, the Australian Securities Exchange joined as a central clearing counterparty (CCP) in 2021, while earlier this year the Korean Exchange selected OSTTTRA triReduce to run its compression services.

The Osaka Exchange has also started using OSTTTRA triReduce, enabling members to reduce their open interest positions and thus lowering the capital costs for trading and market-making activities.

The firm continues to innovate and improve its offering. For example, it launched a new 'trade refactoring' system in 2021, which has been patented.

Previously, market participants would experience a buildup of historic trades that lacked the necessary offsets to unlock compression.

However, the new improvement allows historic population of trades to be unlocked, which can significantly improve compression levels. OSTTTRA claims this new technique can deliver increases of well over 25% in gross notional compression for market participants.

The OSTTTRA triReduce service has also been helping with global benchmark transitions by helping market participants "proactively and iteratively" reduce exposure to legacy benchmarks while increasing adoption of the alternative reference rates.

"We have been collaborating with OSTTTRA to provide a comprehensive compression service for our benchmark equity index derivatives. This is the solution to client demand to optimise their

outstanding positions and make capital work more efficiently," says one executive officer at an exchange in Asia.

In 2021, OSTTTRA triReduce helped compress Japanese yen worth \$7.3 trillion notional at the Japan Securities Clearing Corporation, Singapore dollars, worth US\$1.23 trillion notional, at London Clearing House and uncleared Thai baht trades worth \$100 billion. The firm also onboarded three new domestic banks in Thailand.

This all goes towards helping the region transition to new benchmarks, OSTTTRA noted in its submission document.

Reducing capital exposure

The OSTTTRA triBalance service helps clients across the world manage their bilateral and cleared counterparty risk exposures across multiple relationships and across different asset classes, including rates, forex, commodities and equities. This allows clients to reduce their funding costs when posting initial margin.

Packages of risk-reducing trades are introduced to rebalance each bilateral relationship. This occurs across all relationships simultaneously, with each participant remaining market-risk neutral.

During 2021, OSTTTRA made a number of technical refinements to its OSTTTRA triBalance service and, as a result, saw optimisation efficiency across its client base (in terms of initial margin reduction) improve by 30%.

The firm also added a new asset class (credit) to the service, which no other margin optimisation service has previously included.

These improvements (combined with a dramatic rise in the number of firms requiring initial margin support) has won plaudits from clients and seen OSTTTRA significantly expand its network of clients that are participating in its capital optimisation service.

"We are pleased with the OSTTTRA triBalance service and welcome scalable solutions that optimise margin and capital for industry participants. We actively manage participation in multilateral services that facilitate risk reduction with over-the-counter participants and CCPs," says the head of portfolio optimisation at one large global bank.

OSTTTRA's optimisation services have also proved their worth for clients wanting to optimise their capital under Basel's new standard approach for counterparty risk (SA-CCR).

The idea is that initial margin and SA-CCR optimisation should work seamlessly together, so that both can be done with a single execution. This avoids the danger of one capital improvement adversely affecting the other.

Participation in OSTTTRA's SA-CCR optimisation saw explosive growth in 2021, with a significant rise in capital benefits across the client base. ■