

## With Dealers on Board, TriOptima Targets Buy Side

NEW YORK — With valuation of derivatives gaining more attention over the past year, investors in these securities needed more sophisticated ways to resolve disputes in portfolios or margin calls.

As a result, when JPMorgan enhanced its Derivatives Collateral Management (DCM) solution about one year ago, it relied on support from triResolve, a network community for proactive portfolio reconciliation operated by Stockholm-based TriOptima. JPMorgan's DCM solution services more than \$70 billion in derivatives collateral.

"JPMorgan provides a full service OTC Derivatives Collateral Management (DCM) offering to a number of buy-side institutions. Our clients vary in size and complexity, as do their portfolios," says Colm Gaughran, Executive Director, Financing and Markets Products, JPMorgan.

"The lack of data consistency in the OTC market makes position reconciliation extremely challenging, especially for larger, more complex portfolios. Time is of essence in effective collateral management, and the use of an automated service such as triResolve is exceptionally important in allowing us to get through our daily workflow."

Using triResolve, DCM helps clients resolve margin call disputes, explains Gaughran. "triResolve allows us to identify issues in an automated, robust fashion," he says. "It helps identify

trade errors or mismatches sooner rather than later. Any smart technology like that is extremely useful. As a web-based platform, triResolve does not require hardware integration or system upgrades, and is extremely simple to use."

In the year that DCM has had triResolve in place, the number of banks using DCM has increased from 16 to 40. Also, triResolve eliminates hardware integration because it is web-based and maps portfolios using TriOptima's resources rather than users' resources.

triResolve also supported more frequent reconciliations by DCM, explains Gaughran. "In addition to investigating disputes, we reconcile our clients' entire book at a minimum of once a month," he says. "We rolled that out for all clients in partnership with TriOptima technology last year. As the industry moves towards more frequent reconciliations, triResolve allows us to meet our clients' needs."

TriOptima began developing triResolve in anticipation of coming changes in the regulatory environment, starting in late 2004, before such potential changes were even precipitated by the economic crisis beginning in 2008, according to Per Sjoberg, Executive Vice President, TriOptima. triResolve launched at the beginning of 2007 after being piloted for about one year.

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## OTC DERIVATIVES

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together to establish better practices in the collateral space,” says Sjöberg. “One of the key issues and concerns they had was that a portfolio reconciliation practice was non-existent. Back then, people really only reconciled portfolios if they had a dispute on one of their margin calls. Clearly, that is not a good way of handling it. If you maintain reconciled portfolios, you typically avoid the disputes in the first place.”

In addition, the **Operations Management Group (OMG)**, an industry body working to establish weekly proactive portfolio reconciliation by large OTC derivatives portfolio holders, had been working with the **Federal Reserve Bank of New York** on operations standards for OTC derivatives trading. “One of the key aspects of [those standards] is portfolio reconciliation to make the whole collateralization process more automated and robust,” says Sjöberg.

“The benefits of portfolio reconciliation are significant in terms of mitigating risk and reducing operational challenges,” says Eraj Shirvani, Managing Director and Head of European Credit at **Credit Suisse**, who also serves as Chairman of the **International Swaps and Derivatives Association (ISDA)**, and as a board member of the **Clearing Corporation and the Depository Trust & Clearing Corporation’s Deriv/SERV**. “TriOptima’s work in this field is groundbreaking. It is critical that the industry works together to more widely implement reconciliation capabilities.”

TriOptima now has 16 major broker-dealers signed on as users of triResolve. The percentage of collateralized OTC derivative transactions it reconciles has risen steadily from 50 percent in October 2008 to about 75 percent as of late May, according to the company.

Users pay a start-up fee and regular subscription fee linked to the number of trades they enter. If they exceed limits on the number of trades, they pay fees for processing the additional tickets.

Buy-side firms followed major banks in using triResolve. “In general, buy side institutions have always been more interested in making sure they are reconciled in their positions,” says Sjöberg. “They have a responsibility to their shareholders, so they have always been very keen, but whenever you approach a buy-side institution, the first question they ask is whether all their counterparts are using that service.

“That was the main reason why we wanted to start with the dealers, because no buy-side institution is willing to sign up unless the dealers are on,” he adds. “But it’s been the intention on our side as well as with the dealers we developed this with to include the buy side in this process.”

TriResolve has also made it easier to submit data for portfolio reconciliation, Sjöberg explains. “We enable our clients to send the data in their own formats, as long as it’s complete enough to be useful for reconciliation,” he says. “We accept the way the asset comes out of their system, which makes our deployment process extremely fast. You can have it up and running in days.”

Some users have been able to even go beyond the OMG’s weekly reconciliation goal to daily reconciliation, according to Sjöberg. “Most of the institutions that have been using triResolve for a while move to a daily reconciliation,” he says. “We see an enormous amount of transactions go through the system on a daily basis, proving that this whole process works on an industrial scale.”

For JPMorgan and its DCM solution, triResolve’s adoption by all the major broker-dealers serves as the “icing on the cake,” adds Gaughran.

“JPMorgan offers a full-service collateral management product,” he says. “The TriOptima solutions provide the collateral industry with a robust, scalable OTC reconciliation solution. I think of TriOptima more as a market facility than a software provider.” □