

ISDA response to IOSCO consultation on Post Trade Risk Reduction Services

Executive summary

We support IOSCO reviewing the PTRRS landscape and setting out best practices. We agree with many of the risks and challenges identified in the report, but would like to share the following observations:

- We disagree with IOSCO's observation regarding the potential for PTRRS to increase counterparty risk. IOSCO's assumption seems to be that by freeing up collateral, PTRRS allow market participants to invest in more risky investments. Even if market participants use the freed up collateral to add risk, they would, at most, have as much risk as before. It is important to note that, for the same risk model, a reduction in collateral is indicative of a reduction in counterparty risk. PTRRS therefore reduce, not increase, counterparty risk.
- We also believe that the risks associated with market concentration of PTRRS providers and the outage of a PTRRS provider are overstated. While we agree that there is market concentration of PTRRS providers, we see value in this concentration as it increases the efficiency of a run, and we see no evidence of the market being uncompetitive. Although an outage at a PTRRS provider could result in the postponement of a run, this would not have any material market impact unless the outage lasts (even for the largest G4 currencies) several days or even weeks. In some cases, the outage would have to last weeks or months to have any material impact given some risk reduction exercises do not take place frequently.
- We are broadly supportive of the sound practices set out under Chapter 5. We note, however, that Financial Stability Board (FSB) recommendations on *"Enhancing Third- Party Risk Management and Oversight"*¹ already exist. We believe that the toolkit provided by the FSB in this report can be harnessed by financial institutions when performing onboarding, due diligence and ongoing risk management of their relations with third-party services providers such as PTRRS providers.

More generally, we recommend that, in line with the recent decisions taken in the UK² and EU³, an exemption from the clearing obligation is introduced for transactions that result from PTRRS. As IOSCO notes in section 4.4. of the consultation, among PTRRS services, counterparty risk optimisation (also called portfolio rebalancing) does not work if the resulting transaction is subject to the clearing obligation. Clearing the transactions resulting from a PTRR exercise would mean these risk-reducing transactions would become detached from the risks of the non-cleared derivatives positions they are trying to rebalance or reduce. Since one of the key pre-requisites for mandatory clearing — the effect on the mitigation of systemic risk — is not applicable to these transactions, there is no policy reason to require these transactions to be cleared.

¹ [Enhancing Third-Party Risk Management and Oversight: A toolkit for financial institutions and financial authorities \(fsb.org\)](https://www.fsb.org/2018/03/enhancing-third-party-risk-management-and-oversight-a-toolkit-for-financial-institutions-and-financial-authorities/)

² [Financial Services and Markets Act 2023 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/2023/1/section/100)

³ [pdf \(europa.eu\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R0600)

General comments

We welcome the opportunity to respond to the IOSCO consultation, which reviews the PTRRS landscape and proposes best practices.

PTRRS including compression, counterparty risk optimisation, and mitigation of basis risk, optimise bilateral and cleared derivatives portfolios in order to minimize the build-up of notional amounts and trade count, counterparty risk, and basis risk respectively, which in turn reduces systemic risk.

The need for market participants to have access to efficient multilateral risk-reduction techniques has been reinforced by recent market volatility and the need for market participants to mitigate both counterparty risks and the liquidity stress of volatile margin demands.

Specifically for counterparty risk optimisation, providers are unable to propose transactions that are subject to the clearing obligation. Clearing the administrative, technical, non-price-forming output transactions resulting from a PTRR exercise undermines the very objective of the risk reduction exercise, which is to offset uncleared counterparty risk to reduce counterparty credit risk. If these risk-reducing transactions are booked outside the portfolio whose risk they are meant to reduce, they would not be effective in reducing the intended risk. Due to the clearing obligation on swaps, a portfolio of swaptions need to be proposed to effect the counterparty risk reduction. This unnecessary complexity makes the process less efficient and makes smaller market participants wary of participating. This barrier to adoption for smaller firms prevents those firms from reducing their counterparty credit risk multilaterally. The lost network effects through their non-participation also reduce the benefit for participating firms and the system as a whole.

We recommend that, in line with the recent decisions taken in the UK and EU, an exemption from the clearing obligation is introduced for transactions that result from PTRRS.

There are three different types of PTRRS prevalent in the market today: portfolio compression; portfolio rebalancing; and mitigation of basis risk.

Portfolio Compression

Portfolio compression refers to the practice of tearing up existing transactions between two participants and replacing them with a small number of new contracts, without altering participants' market positions beyond very small, preset, tolerance thresholds. It aims to reduce the number of contracts outstanding, the gross notional value of contracts, or another measure of risk without materially affecting the market risk of the portfolio.

The PTRRS provider's algorithms look for a portfolio of trades with offsetting characteristics that can be netted off against one another, within preset tolerance thresholds, and so can be torn up in order to reduce the number of transactions and the gross notional amount outstanding.

Coupled with this, service providers use a limited number of replacement transactions, agreed between the counterparties as part of the risk reduction exercise, to efficiently rebuild the original market risk profile of the portfolios, as applicable. This allows large portfolios of transactions to be terminated without materially changing the original risk profile that those trades represented.

Compression exercises can be carried out bilaterally between two counterparties, but are more commonly done multilaterally between a network of counterparties. They are also scheduled to take place at specific pre-determined times, on a pre-determined currency, and for cleared populations on a pre-determined CCP.

Counterparty risk optimisation/ Portfolio Rebalancing

Portfolio rebalancing involves inserting new derivatives transactions into the portfolios of participants to reduce risks linked to those trades. These are offsetting trades that rebalance relationships between different counterparties when it comes to the portfolios' exposure to certain types of risk, such as interest-rate risk, while ensuring each participant's portfolio remains market risk neutral (other than very small tolerances).

In order to work, exercises need to be multilateral (and not bilateral) so that offsetting transactions can be found among a network of counterparties, such that the total impact of all the transactions for each participant's portfolio is market risk neutral. Overall market-risk exposure is not changed by these exercises, and the new transactions are collectively risk-neutral swaps.

What this means in practice is that the new transactions reduce overall credit risk exposures between counterparties, and thus, reduce the size and volatility of margin and capital requirements that are costly to market participants.

Rebalancing exercises are scheduled to take place at specific times. Each participating firm provides information on the sensitivity of its portfolio to the PTRRS provider, and all participants need to agree (on an "all or nothing" basis) to the population of new trades that are created to enact the rebalancing. The calculations to make the rebalancing exercise work are based on the risk input data provided by all participants.

This could be achieved with vanilla swaps but due to the derivatives clearing obligation, this risk reduction must be achieved using swaptions instead of vanilla IRS. As noted above, this unnecessary complexity makes the process less efficient and is a barrier to adoption by smaller firms.

Basis Risk Mitigation

Basis risk mitigation is used when firms are concerned about P&L impacts from misaligned fixing dates or expiry dates (for options) in their hedged portfolios, creating unwanted second order risk profiles. The service is aimed at reducing exposure to second order fixing or strike risk from the main trading activity (e.g. sensitivity of an IRS portfolio to daily changes in Euribor fixing). The shift does not remove positions, but instead, it adds new administrative transactions to neutralize the second order fixing risk of original positions. Traders then enter into offsetting administrative transactions, and as a result, there is no change to overall direction of portfolio.

RESET is a service provided by TriOptima AB, not BrokerTec Europe Limited as referred to Footnote 14 of the consultation report, and, more importantly, is a Basis Risk Mitigation services and not a counterparty risk optimisation/rebalancing service which has different aims and characteristics as described above.

Question 1: Are there any other PTRRS that should be taken into consideration for potential future analysis aside from portfolio compression and counterparty risk optimisation services? Please provide details.

Portfolio compression and counterparty risk optimisation are the two PTRRS that are explicitly covered in the consultation and reduce operational and counterparty credit risks respectively. Basis risk mitigation services, such as Reset are only mentioned in footnote 14 of the consultation, and in an erroneous context, as Basis Risk Mitigation services are a separate type of PTRRS.

PTRRS are being developed and improved continuously, and it should be expected that the demand for new types of PTRRS will arise. Although the PTRRS definition needs to be specific enough to give regulators comfort, it needs to be principles-based to allow for further development and improvement of PTRRS over time.

Question 2: Are there risks specific to either portfolio compression or counterparty risk optimisation that are not applicable to PTRRS generally? Please provide details.

We are not aware of any risk specific to portfolio compression or counterparty risk optimisation that are not applicable to PTRRS generally. Portfolio compression, counterparty risk optimisation, and basis risk mitigation services address different risk exposures and have different characteristics and therefore they should be treated accordingly.

Question 3: Do you agree that there is a risk that proposals generated by the algorithm may not adequately ensure all participants receive the same treatment? Are you concerned that users and authorities are not able to review the algorithms or processes related to the creation and maintenance of the algorithms? Please provide details and examples where possible.

The algorithms employed by PTRRS providers optimise for the best aggregate outcome based upon the input portfolios supplied by participating firms, which have different optimisation goals. They are unlikely to give firms equal savings due to the specificities (different sizes, directionality and composition) of their respective portfolios and the specific constraints each participant may set. Therefore, we agree to the question on whether there is “a risk that the proposals generated by the algorithm may not adequately ensure all participants receive the same treatment”. We are, however, not concerned about unequal treatment as this is not the objective of the PTRRS provider and this will never result in a participant’s deteriorated risk position due to the constraints agreed upfront with the PTRRS provider. Treating all participants equally, however this is defined or measured, would lead to suboptimal outcomes for all participants in aggregate.

Overall, we believe that it is appropriate that PTRR algorithms are not subject to as much scrutiny by authorities and market participants as other market infrastructure whose failure would have credit risk implications, or even systemic risk implications (e.g. CCPs). Rather, market participants should manage their relationships with PTRRS providers as they manage any other type of third-party service providers. In line with the recommendations set out in the FSB report on third-party risk management and oversight, this includes identifying the level of criticality of the service provided and performing thorough onboarding and ongoing monitoring of the service provider. PTRRS providers should provide the information required for their users to comply with relevant third-party risk management requirements.

We do not see a role for the authorities in reviewing the algorithms.

While PTRRS users are already given the opportunity to conduct checks of proposals generated by the algorithm before they need to agree (on an “all or nothing” basis) to the population of terminations and new trades that are created to enact the PTRR exercise, we support increased transparency on the PTRRS algorithms. We therefore support the proposal set out in section 5.1. of the consultation that PTRRS users should have sufficient information and aim to have a basic understanding of the design of the proprietary risk reduction algorithm used by the service provider. A participant may be targeting different constraints in a run and transparency would help ensure that it is not disadvantaged just because it is not targeting (or perhaps not even aware of) a given constraint that other participants are optimizing for. Some examples of transparency required by users of PTRR exercises would be:

- What optimisation objectives are being targeted in counterparty risk optimisation exercise;
- Information about the available constraints in the algorithm;
- Information on whether different fee levels negotiated by PTRRS participants have an impact on the outcome of the algorithm;
- Information on the product types used for the administrative output transactions.

The IOSCO consultation notes that “*PTRRS providers indicated that a fairness function was included in the algorithm, which would try to move all users in the fairest way to maximum reduction in either notional amount on IM, depending on the primary objective of the PTRRS exercise, compression or optimization*”. We agree with the proposal set out in section 5.1. that “*if a fairness function is used in the algorithm, the fairness function should be explainable to the users and be capable of being verified by an external source/entity/regulator⁴*” in line with the transparency requirements set out above, although we do not believe (as noted above) that it is the role of regulators to review the algorithm.

Question 4: Are there any mitigants that can be put in place to avoid potential risks associated with the governance of the algorithm by PTRRS providers? Please provide details and examples where possible.

We have not identified any concern with the governance of the algorithm by PTRRS providers.

Question 5: Do you believe there are challenges or risks associated with having a limited number of PTRRS providers as described above? Have you experienced any impediments associated with the limited number of PTRRS? Please provide details, including the nature of the impediment, its frequency and qualitative nature (material, non-material, negligible).

As noted in the consultation, there are significant network effects in PTRRS. Concentration of PTRRS providers typically leads to more participants participating in a risk reduction exercise, which in turn increases the efficiency of the risk reduction exercise.

⁴ Explaining an existing fairness function could avoid a scenario where a PTRRS providers’ fees structure is used to maximise the aggregated fee per the PTRR cycle instead of maximizing the PTRR benefits to individual users. A PTRRS provider could determine fees in proportion to the resources reduced in a cycle, where resources are the targets of the PTRRS such as the number of transactions, notional, IM, SA-CCR, risks or other measures, and the fee schedules are negotiated on a user-by-user basis. Such fee structures could incentivize a PTRRS provider to develop an algorithm to maximize the aggregated fee per the PTRR cycle (so that the PTRRS provider can maximize its revenue) instead of maximizing the PTRR benefits in aggregate.

Our members do not see any evidence of the market being uncompetitive. There is no sign that market concentration is limiting innovation: PTRRS providers have been expanding the services they provide over the past few years. Similarly, our members did not report that concentration resulted in difficulty in onboarding PTRRS, or in disproportionate costs.

As noted in our response to question 14, the divergence in file format for submission of transactions to PTRRS providers could be an impediment to onboarding to an alternative provider in case of failure of one provider. We support the proposal under section 5.7. that, where appropriate, users could consider requesting providers to standardise the file format and data collection practices. We do not believe that there is a role for authorities in this regard.

While we do not have any immediate concern with the current market concentration and competition between PTRRS providers, we support the proposals in section 5.6 that IOSCO members observes the level of concentration and competition among PTRRS providers and fair access to PTRRS.

Question 6: Are there any measures that can be put in place to address the challenges or risks associated with a limited number of PTRRS providers? Please provide details

We do not observe any challenge or risks associated with the limited number of PTRRS providers that need to be addressed. With the network effect present in PTRRS, i.e. more risk is reduced if more users participate, a larger list of smaller providers would not be as efficient for the market.

We support the principle of open access to data and a level playing field, and, as noted above, support IOSCO members observing the level of concentration and competition among PTRRS providers and fair access to PTRRS.

Question 7: What due diligence checks do you conduct when onboarding with a PTRRS provider? Do you believe there is a need for additional due diligence before onboarding? Why or why not? If yes, please elaborate on the particular areas that require additional due diligence and any impediments to performing this due diligence you have experienced, in particular as it relates to portfolio compression services.

Users of PTRRS conduct thorough due diligence covering all relevant areas (financial risk, operational risks, reputational risk, cyber risk etc.) before onboarding a PTRRS providers. Third-party risk management follows well-established principles, governance and processes within financial institutions. The report published by the FSB in December 2023 on *Enhancing Third-Party Risk Management and Oversight* provides a thorough toolkit to financial institutions in that regard. The FSB's recommendations are reflected in some jurisdictions' regimes, such as under the EU Digital Operational Resilience Act⁵, and the proposed Critical Third Party Regime⁶ in the UK.

As we noted under question 3, we believe that the level of due diligence applied by users on PTRRS algorithms should be proportionate to the risks that the PTRRS provider pose. Smaller players will also have more limited resources to devote to due diligence on algorithms. We believe it is appropriate that users mainly focus their due diligence on the efficiency of the outcome generated by the PTRRS algorithms.

⁵ [Publications Office \(europa.eu\)](https://european-council.europa.eu/media/en/press-communications/infographic/infographic_publications-office-2023-11-14_en.pdf)

⁶ [Financial Services and Markets Act 2023 \(legislation.gov.uk\)](https://www.legislation.gov.uk/uk/2023/11/12/1/2023-11-12-1)

Question 8: Are there measures for fostering more robust PTRRS user due diligence of providers? Is there a role for policy makers in facilitating more robust due diligence? Please provide details.

We do not see a role for policy makers in facilitating more robust due diligence of PTRRS providers. Participants using PTRRS are sophisticated users and are very capable of, and already do extensive due diligence on PTRRS providers.

Question 9: Do you believe that there is a risk of legal uncertainty relating to contracts as a result of using PTRRS? Please provide details.

Legal certainty around the effectiveness and timing of new trades that result from PTRR exercises is important. PTRRS users already assess the robustness of the legal framework and the set of agreements provided by the PTRRS provider as part of their due diligence.

We support the sound practice under section 5.4. that recommends that PTRRS providers have proper disclosure and controls around PTRRS documentation to ensure legal certainty around the timing of execution and confirmation of new trades.

Question 10: Do you believe there are potential risks associated with data protection and PTRRS as described above? Please provide details.

We agree with the description of the risks associated with data protection. PTRRS users already assess the robustness of the PTRRS providers systems and procedures in place for robust data management and safekeeping of commercially sensitive data on the portfolios of the clients as the consultation suggests under section 5.3 as part of their due diligence.

Question 11: Do you agree there are potential operational and resilience risks as described above? Please provide details.

Overall, we agree with the description of the operational and resilience risks. However, given that PTRR exercises are not run daily, an outage at a PTRRS provider is very unlikely to have a material market impact. G4 currencies risk reduction exercises are taking place much more frequently than other currencies. An outage would have to last several days or even weeks to have an impact on G4 currencies and months to have an impact on other currencies. More importantly, if the next risk reduction exercise is delayed, all that happens is that new risk accumulated by participants is not mitigated, which participants should be able to manage until the service is run again.

Based on the FSB Guidance on Identification of Critical Functions and Critical Shared Services⁷ we do not believe that PTRRS are critical shared services.

As described above, currently PTRRS providers use swaptions for counterparty risk optimisation exercises, which are cancelled and replaced with new transactions every run because the swaptions have Mandatory Early Termination provisions embedded to avoid pin risk⁸. Should these counterparty

⁷ [Guidance on Identification of Critical Functions and Critical Shared Services - Financial Stability Board \(fsb.org\)](#)

⁸ Pin risk is the risk to options traders that the underlying security will close at or very close to the strike price of expiring options positions held.

risk optimisation exercises be allowed to use plain vanilla IRS without embedded mandatory termination events, counterparty risk optimisation could be effective permanently rather than only until the next cycle. This would further reduce the impact of an outage of the PTRR service – users would merely not be able to reduce risk any further.

We support PTRRS providers having back-up measures and processes in case of a provider outage or during a wind-down as the consultation suggests under section 5.2.

Question 12: Do you agree there are potential risks relating to a change in counterparty risk as described above? Please provide details.

We do not believe that counterparty risk optimisation/rebalancing has the capacity to increase counterparty risk. Quite the opposite, these services are designed to reduce counterparty risk. It is important to note that, for the same risk model, an increase in collateral is indicative of an increase in risk.

The assumption underlying the question seems to be that dealers would use freed up collateral to support an increase in other more risky investments. Collateral funding is only one constraint for banks. Rules like the Volcker rule, limits of risk weighted assets (RWA), the leverage ratio and market risk capital requirements, would restrict build-up of risk. Freed up collateral could however be used to better service clients or reduce pressure on funding markets. Bank regulation has addressed a variety of risks arising from the use of collateral, such as FX collateral haircuts, securities haircuts, legal enforceability right of collateral vs derivative net present value, collateral substitution risk, margin segregation and bankruptcy remoteness etc. Minimising a collateral balance will in turn minimise collateral risks and lead to a more stable market environment. The focus should therefore be on the reduction of the need for collateral, through corresponding reductions in the underlying risk exposures, rather than concentrating on ever increasing collateral balances for increased risk exposures.

Even if a firm would use the released margin or risk limits to add risk, they would not add more risk than they had before, but might be able to optimise their resources better.

While we stress that PTRR rebalancing exercises will reduce risk along the chosen measure (SIMM or SA-CCR), there might be idiosyncratic effect for participants. Participants will have to monitor the effect of these exercises on their portfolio and the risk metrics important to them.

Also, the same concern would be valid with the use of CCPs. We have not heard concerns from regulators that CCPs, by reducing the risk of cleared transaction, were responsible for an increase in other risks (other than liquidity risk).

We, however, support the proposal in section 5.5 that users should monitor their portfolios to assess whether counterparty risk is reduced following a PTRR exercise and whether participating in a PTRR exercise have increased exposures to any counterparty. We would note that this is already the case today. It is a fundamental check that any user conducts every time they participate in a counterparty risk reduction cycle.

Question 13: Do you agree that there may be challenges associated with portability between CCPs of transactions resulting from PTRRS as described above? Please provide details.

There is no portability of transactions between CCPs. If a clearing participant wishes to move its transactions to another CCP, it just has to close out the risk (rather than each transaction individually) at one CCP and establish new positions at another CCP. This is independent from whether these transactions were resulting from a compression service. We note that during the migration of CDS transactions/risk from ICE Clear EU to either LCH CDS Clear or ICE Clear Credit, adapted PTRR services (rebalancing) were instrumental in migrating risk from ICE Clear EU to one of the other CDS CCPs.

Question 14: Should PTRRS providers adopt a standardised file format and/or method of data collection? Please provide details.

We agree that more standardisation of file format and data collection method would facilitate the switch from one provider to another as firms that have created data feeds facing a PTRRS providers would not have to reconstruct that data feed. Standards are already in use where they exist and are appropriate, e.g. using the existing CRIF files (ISO 8601).

However, as IOSCO states in section 5.7 “PTRRS users should consider requesting” this standardisation, it should not be required by IOSCO or its members. If this standardisation were to occur it should be done in a manner that does not prevent PTRRS providers from amending file format where this is necessary to keep up with product developments, innovation, regulations etc. As noted under Q3 and Q11, the failure/outage of a PTRRS provider would not have credit risk implications.

We support the proposal under section 5.7 that, where appropriate, users could consider requesting providers to standardise the file format and data collection practices. We do not believe that there is a role for authorities in this regard.

Question 15: Do you agree with the risks or challenges around PTRRS identified in the report?

We agree with the risks and challenges identified in the report. We do not see a role for policy makers in facilitating more robust due diligence of PTRRS providers. Participants using PTRRS are sophisticated users and already do extensive due diligence on PTRRS providers.

We disagree with IOSCO’s observation regarding the potential for PTRRS to increase counterparty risk. IOSCO’s assumption seems to be that by freeing up collateral, PTRRS allow dealers to invest in more risky investments. It is important to note that, for the same risk model, a reduction in collateral is indicative of a reduction in risk. PTRRS therefore reduce, not increase, counterparty risk.

We also believe that some of the risks associated with market concentration of PTRRS providers and the outage of a PTRRS provider are overstated. While we agree that there is market concentration of PTRRS providers, we see value in this concentration as it increases the efficiency of a risk reduction exercise, and we see no evidence of the market being uncompetitive. As noted above, although an outage at a PTRRS provider could result in the postponement of a risk reduction exercise, it is unlikely to have a material market impact.

Question 16: Do you see any risks or challenges around PTRRS not mentioned in the report?

No, we do not see any additional risks or challenges.

Question 17: Do you agree that the draft guidance (i.e. the sound practices and explanatory text) set out in Chapter 5 of the Consultation Report is appropriate to address the potential risks or challenges associated with the general use of PTRRS? If not, please provide details. Please also elaborate if there are missing issues.

Overall, we are supportive of the proposed guidance set out in chapter 5.

Guidance 5.1 Transparency, governance, comprehensibility, and fairness of the algorithm

We agree that *“PTRRS providers should aim to ensure that, without revealing any intellectual property, there should be appropriate transparency around the algorithm used and proper controls and governance around it, including regarding the use of Artificial Intelligence (AI) and Machine Learning (ML)”* and that *“users should aim to have a basic understanding of the design of the proprietary risk reduction algorithm(s) used by the service provider”*.

We also agree that *“if a fairness function is used in the algorithm, the fairness function should be explainable to the users and be capable of being verified by an external source/entity/regulator”*, although we do not believe that it is the role of regulators to review the algorithm.

Guidance 5.2 Operational risk

Although an outage at a PTRRS provider is very unlikely to have a material market impact, we agree, in line with current market practice, that *“PTRRS users should seek to ensure via their due diligence and risk management practices that PTRRS service providers have established back-up measures and processes in case of a provider outage or during a wind-down”*.

Guidance 5.3 Data integrity and security and regulatory data

We agree, in line with current market practice, that *“PTRRS users should aim to ensure via their due diligence that there are established systems and procedures in place for robust data management and safekeeping of commercially sensitive data on the portfolio of the clients”*.

Guidance 5.4 Legal certainty

We agree, in line with current market practice, that *“PTRRS users should seek to ensure that there is proper disclosure and controls around PTRRS documentation to ensure legal certainty around the timing of execution and confirmation of new trades, and the legal documentation with the PTRRS provider, such that the process and contractual terms of the service are clear and unambiguous, in compliance with regulatory requirements, including trade reporting”*.

Guidance 5.5 Considerations of potential counterparty risk by IOSCO members and PTRRS users

Although we do not believe that counterparty risk optimisation/rebalancing has the capacity to increase counterparty risk, we are supportive of users continuing *“to monitor their portfolios as to whether counterparty risk is reduced following a PTRRS exercise”*, and to *“analyse whether participating in a risk optimisation run may have increased exposures to particular counterparties”*. We note, however, that it is following a counterparty risk optimisation/rebalancing exercise (not portfolio compression or basis risk

mitigation) that users "*should monitor their portfolios as to whether counterparty risk is reduced.*" In addition, "*increased exposures to particular counterparties*" can only occur with portfolio compression or basis risk mitigation exercises (not risk mitigation/rebalancing).

The guidance should therefore be updated as follows:

PTRRS users should continue to monitor their portfolios ~~as to whether~~ **to confirm** that counterparty risk is reduced following a **counterparty risk optimisation/rebalancing** exercise, ~~as a reduction in the gross notional amount or margin posted in a portfolio to conform to regulatory requirements may not necessarily reduce counterparty risk or overall market risk.~~ PTRRS users should analyse whether participating in a **portfolio compression or basis risk mitigation** ~~risk optimisation~~ run may have increased exposures to particular counterparties (even though the relevant trades ~~will~~ **may** have reduced a user's overall ~~counterparty~~ **gross notional exposure or basis** risk respectively ~~and resulted in lower IM~~).

We support that "*IOSCO members should also consider the treatment of trades resulting from the use of PTRRS*". We, however, do not see a need for IOSCO members to "*consider complexities raised for porting of PTRRS trades from one CCP to another*" as there is no portability of transactions between CCPs. If a clearing participant wishes to move its transactions to another CCP, it just has to close out the risk (rather than each transaction individually) at one CCP and establish new positions at another CCP.

Guidance 5.6 Market concentration and competition

While we do not have any immediate concern with the current market concentration and competition between PTRRS providers, we support the proposals that IOSCO members observe the level of concentration and competition among PTRRS providers and fair access to PTRRS.

Guidance 5.7 Standardization and predictability of runs and file formats

We support that "*PTRRS users should consider requesting the limited PTRRS providers standardize their file formats and data collection practices*". We do not believe that there is a role for authorities in this regard. While we also agree that "*Changes in file format for submission of transactions to the PTRRS provider should be limited to the extent possible*", we note that product innovation or regulation may require change in file format and data collection practices.

About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 77 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on [Twitter](#), [LinkedIn](#), [Facebook](#) and [YouTube](#).