



NEWS RELEASE
For Immediate Release

ISDA Publishes Paper Highlighting Achievements in Portfolio Compression: \$164 Trillion of IRS Notionals Eliminated Through YE'2011

NEW YORK, February 23, 2012 – The International Swaps and Derivatives Association, Inc. (ISDA) today announced the publication of a paper titled *“Interest Rate Swaps Compression: A Progress Report.”* The paper describes a risk reduction practice, portfolio compression, which was introduced to the interest rate swap (IRS) market in 2003 by TriOptima. It also highlights how compression could be optimized to achieve greater effect in reducing interest rate swap notionals.

Through year-end 2011, participating institutions have eliminated \$164 trillion of notional principal outstanding through portfolio compression, with \$56 trillion compressed in 2011 alone. ISDA estimates that, without compression, the size of the IRS market would be approximately 30 percent larger.

Much of the recent progress has been the result of collaboration between TriOptima and LCH.Clearnet’s swap clearing service, SwapClear. Compression of cleared swaps reached \$89 trillion as of the end of 2011.

Compression (which is sometimes called trade tear-ups) enables swap dealers with substantial two-way (pay and receive) swap activity to terminate substantial amounts of swap contracts before they expire by their terms. The benefits of compression include reductions in counterparty credit exposure, operational risk and cost as well as lower legal and administrative expenses in the event of a default of any participating dealer. Importantly, since contracts are actually eliminated, under some regimes capital costs can be reduced. Together with expanded clearing of IRS, compression produces tremendous reduction of risk in the derivatives marketplace.

“Compression has quietly become one of the industry’s most successful means of managing interest rate derivatives portfolios,” said Robert Pickel, ISDA Chief Executive Officer. “The commitment to compression of derivatives industry participants, as well as services such as SwapClear and TriOptima, is clear. Further progress in this area lies ahead as firms that currently engage in compression continue their efforts, and as more firms realize its manifold benefits and begin to do so.”

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“As ISDA’s analysis indicates, the one-book approach will produce even more significant reductions in IRS notional principal outstandings,” said Peter Weibel, Chief Executive Officer of the triReduce service from TriOptima. “We believe that total outstandings in interest rate swaps could drop just as CDS outstandings did in 2008 when the industry focused its efforts on CDS compression.” Clearing and tear-ups have reduced the size of the global credit default swap (CDS) market by over 75 percent.

“We are pleased to have seen a dramatic increase in the adoption of compression over the last six months as its benefits—risk reduction and operational efficiency—become more widely known,” said Michael Davie, Chief Executive Officer of SwapClear. “And given the industry's commitment to systemic risk reduction, we expect the uptick to continue.”

While results to date have been very positive, significant opportunities remain to further realize the benefits of compression. The evolution of industry participants to a “one-book” approach for swaps that are cleared through SwapClear poses perhaps the most opportunity. Under this approach, all of a firm’s swaps are submitted for clearing and compression as one trading unit. This has several advantages. First, participation needs to be coordinated by only one desk. Second, the desk will have a much larger portfolio of swaps which produces many more offsetting swaps and opportunities for compression. The impact of these central booking desks would also yield important results for compression of uncleared IRS.

The paper also noted that the pace and scope of global regulatory reforms have placed huge compliance burdens on firms. Regulators around the world have developed different standards for clearing and execution of IRS. This has impacted not only the dealers themselves but their clients as well. The groups that might otherwise create one-book desks and processes to optimize compression are busy responding to regulatory developments and client requirements.

The paper is available in the ISDA website’s Research section under Studies:

<http://www2.isda.org/functional-areas/research/studies>

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About ISDA

Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA is one of the world’s largest global financial trade associations, with over 815 member institutions from 58 countries on six continents. These members include a broad range of OTC derivatives market participants: global, international and regional banks, asset managers, energy and commodities firms, government and supranational entities, insurers and diversified financial institutions, corporations, law firms, exchanges, clearinghouses and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org.