

REGULATION

Bank of England's David Bailey on Basel 3.1 implementation

SECURED FUNDING

Steps needed to preserve SFT role for derivatives markets

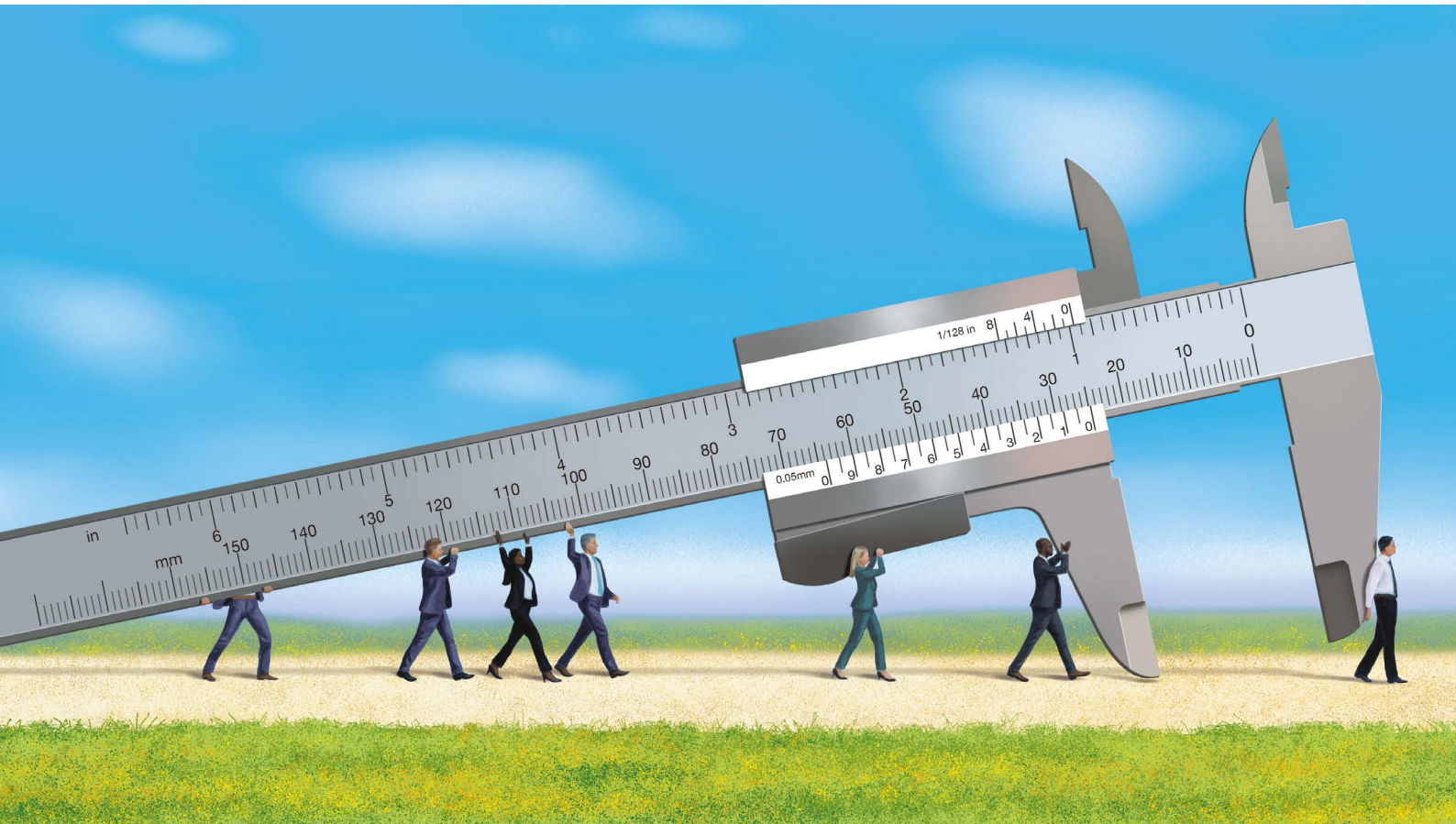
CLEARING

SEC's Mark Uyeda on priorities for US Treasury clearing

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* MEASURED ADJUSTMENTS

Some regulations require targeted recalibration to ensure they meet their objectives while supporting the efficient functioning of markets

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The Global Washington Accord?

The Basel III capital framework is now one important step closer to completion following publication by US prudential regulators of the revised Basel III endgame proposal on March 19. The proposal is widely seen by the banking industry as a big improvement, with important changes on internal models, cross-product netting and the capital charges for global systemically important bank client clearing businesses. But there's still a way to go – initial analysis suggests further calibration tweaks may be necessary to ensure we end up with a capital framework that is risk-sensitive and supports deep and liquid markets. ISDA is now working with members to dissect the framework so we can provide an informed, constructive response to US regulators by the June 18 deadline.

The elephant in the room is what this means for the international framework. The EU and UK had already made changes to their rules to reflect the timing delays and mood music coming out of the US. Other regulators say they will study the new US proposals. It's way too early to say for sure, but further modifications may be on the cards as jurisdictions opt to align with the US to avoid competitive distortions. Will the Basel Committee on Banking Supervision play a role in coordinating any of the changes and addressing common areas of divergence? We'll have to wait and see, but the Basel Committee should be readying itself for action.

In this issue of **IQ**, we explore the outlook for the global capital framework following publication of the Basel III endgame proposals and discuss what the future might hold. In our regulatory cover package, we also look at the importance of ensuring a risk-appropriate capital treatment for securities financing transactions and efforts by regulators in the EU and UK to simplify their regulatory reporting requirements.

All of these topics will be covered at this year's ISDA Annual General Meeting in Boston on April 28-30. What better place to be as the US digests the impact of the Basel III proposal? We hope to see you there for what promises to be a very lively three days.

Nick Sawyer

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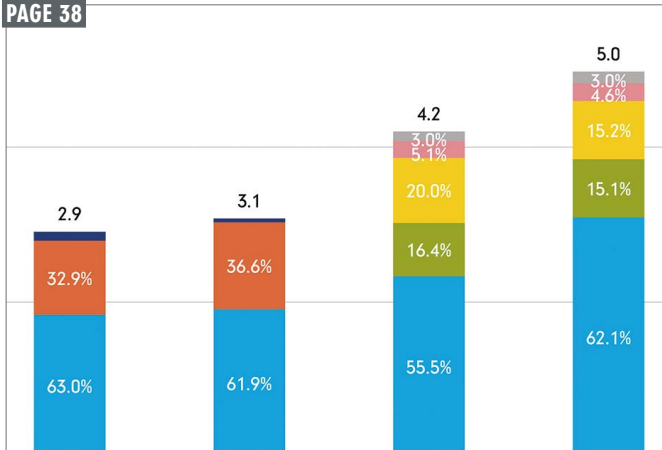
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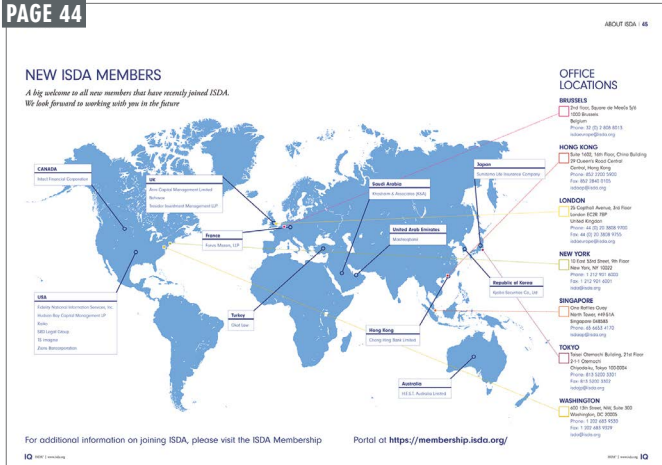
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Derivatives trade reporting in the EU and the UK has been hampered by duplication of requirements across multiple regulations and the challenge of dual-sided reporting. Following recent consultations, regulators have an opportunity to reduce the burden and complexity of reporting



“Guardrails are important, but they need to be dependent on context. No one wants regulation that quickly becomes outdated, with costs outweighing benefits”

Mark Uyeda, US Securities and Exchange Commission



Seizing the Moment

*With the right level of vision, ambition and determination, technologies like artificial intelligence and digital assets could transform financial markets, writes **Scott O'Malia***

Financial markets are facing a transformation. Artificial intelligence (AI) and digital assets have unleashed powerful opportunities to revamp how markets function and reduce inefficiencies. But there is nothing inevitable about the transformation. We may not know exactly what the future holds, and there will be new challenges to unpack along the way, but we need vision, ambition and determination to realise the potential.

Digital assets are a good example. There is no doubt that tokenised securities, stablecoins and other types of assets are going to be a big part of the financial landscape of the future. A recent survey from Nasdaq and ValueExchange found that more than half of the responding institutions expect to be managing tokenised collateral by the end of this year and the biggest organisations could unlock over \$340 million in annual interest earnings by mobilising collateral through tokenisation.

A regulatory framework is taking shape in the US, with the Genius Act setting the standard for stablecoins and the Clarity Act intended to do the same for crypto assets. The Commodity Futures Trading Commission and the Securities and Exchange Commission are working together on Project Crypto, an initiative to bring a unified approach to the federal oversight of these markets. Meanwhile, Europe is taking a multi-issuance approach with a digital euro, tokenised deposits and stablecoins all under consideration.

For traditional market participants, there is a choice. They can continue to treat digital assets as a separate ecosystem and risk being left behind as others race off to a bold new future, or they can get up to speed with what's going on, acknowledging that digital assets are here to stay and we need to be ready for what the future holds.

At ISDA, we've always recognised the need to stay ahead of the curve, to be ready to realise opportunities and embrace efficiencies. That's how we're approaching the rapid evolution of this market. We need to fully understand the complex legal issues posed by different types of digital assets, such as asset ownership, bankruptcy and insolvency treatment, and custody and segregation rules.

In 2023, we launched the ISDA Digital Asset Derivatives Definitions and we also published two whitepapers on navigating bankruptcy in digital asset markets. We're now working to bring greater clarity to the legal aspects of transferring tokenised assets, and we're

exploring the use of tokenised assets as collateral, starting with money market funds – identified by the Nasdaq and ValueExchange report as the second most compelling tokenisation use case after cash. There's also a terrific opportunity to optimise the collateral infrastructure to improve liquidity, reduce risk and provide capital efficiency.

The potential for transformation also applies to ISDA's mutualised industry solutions. For too long, firms have wrestled with inefficiencies, manual intervention and operational risk in key processes. It slows things down, creates additional costs and adds to the strain in areas that should by now have been automated.

We've seen rising adoption of our digital solutions that help firms standardise, optimise and automate key processes. But we can now use advanced technologies to bring greater firepower to those solutions. That's what we're doing with our Digital Regulatory Reporting (DRR) initiative, which we launched in 2022 and has proved highly effective in enabling firms to implement reporting rules with greater accuracy and consistency. We're now

looking at using AI agents to convert reporting rules into code and give users greater insight into coding decisions. Watch this space as we take the ISDA DRR to the next level.

Transformation requires vision, ambition and determination, but ISDA's track record shows we can deliver. This year marks a decade since we launched our very first mutualised industry solution – the ISDA Standard Initial Margin Model (ISDA SIMM). Ten years on, the ISDA SIMM has become an integral part of the market infrastructure, underpinning the efficient daily exchange of margin. It blazed the trail for all the ISDA solutions that followed by showing the huge benefits of reducing risk, saving costs and bringing greater efficiency to critical industry processes. As we move forward, we'll continue to explore how advanced technologies could be used to pack even greater power into those solutions.

Of course, effective transformation depends on collaboration between market participants. ISDA's 40th Annual General Meeting, which takes place in Boston on April 28-30, will be the perfect forum for that collaboration and dialogue. I hope to see you there.

Scott O'Malia
ISDA Chief Executive Officer

"We may not know exactly what the future holds, and there will be new challenges to unpack along the way, but we need vision, ambition and determination to realise the potential"

ISDA and EMTA Publish Revised Definitions for FX Derivatives

ISDA and EMTA, the trade association for emerging markets, have jointly published a revised set of standard definitions for FX derivatives transactions, which update key market practices and consolidate various FX and FX-related product templates and provisions into an integrated document.

The 2026 FX Definitions will be implemented on November 22, 2027, replacing the 1998 FX and Currency Option Definitions as the market standard for FX derivatives transactions. From the 2027 implementation date, global financial messaging services provider Swift is no longer expected to support the 1998 definitions.

“The 2026 FX Definitions reflect the various changes in regulations, market practices and technology that have occurred since the last definitions were published in 1998. The result is a modern, digital set of definitions that will keep pace with future developments and support the safe and efficient trading of FX derivatives in the 21st century,” says Scott O’Malia, chief executive of ISDA.

Importantly, the 2026 FX Definitions consolidate the various supplements and provisions published by ISDA and EMTA since 1998 into an integrated document and eliminate the need for separate master confirmation agreements (MCAs). This is intended to make the definitions easier and more efficient to use. Rather than search through the main definitional booklet plus any additional provisions, supplements and recommended market practices that may be relevant, firms will be able to find everything in a single document and won’t have to maintain thousands of bilateral MCAs. The definitions have been published in digital form on the ISDA MyLibrary platform, making it easier to navigate and search for key provisions online, but also allowing a revised version of the definitions to be published in full each time a future update is required, with users able to compare changes against previous versions.

“The new definitions pull significant ISDA and EMTA documentation published

since 1998 into a single document, making them much easier to navigate, while the digital format means the definitions can be seamlessly updated whenever necessary. With an implementation date of November 2027, market participants have plenty of time to prepare for the switch, and ISDA will continue to support the market as these important changes are made,” says Katherine Tew Darras, ISDA’s general counsel.

“The new definitions pull significant ISDA and EMTA documentation published since 1998 into a single document, making them much easier to navigate, while the digital format means the definitions can be seamlessly updated whenever necessary”

Katherine Tew Darras, ISDA

The updated definitions also include revisions to disruption events and fallbacks for deliverable transactions. Specifically, three disruption events and corresponding disruption fallbacks apply automatically to deliverable FX transactions, whereas there were no automatically applicable disruption events under the 1998 definitions. The disruption events are: general settlement or conversion disruption, which applies if payment or conversion is impossible across FX market participants generally after a waiting period; material change in circumstance, which applies if a force majeure event would prevent payment or delivery after a waiting period; and settlement system disruption, which applies if payment via the applicable settlement system (eg, Continuous Linked Settlement) is not possible on the relevant settlement date.


The 2026 FX Definitions contain a fourth disruption event that counterparties can elect to include – specific settlement or conversion disruption, which applies if payment or conversion is impossible for the relevant transaction, irrespective of whether market participants generally are affected.

The updated definitions also

incorporate the EMTA template terms and market practices for non-deliverable FX transactions, contain provisions for calendar adjustment events and align the calculation agent standards with those in the 2021 ISDA Interest Rate Derivatives Definitions.

To help with the rollout, ISDA has published a roadmap to guide market participants in their efforts, as well as a fact sheet highlighting the key changes.

The roadmap encourages firms adopting the definitions to reach out to clients early to manage expectations and implement a formal project governance process that supports dedicated workstreams to make the necessary changes. Additional educational materials will be published in the coming months to support the transition to the new definitions.

“FX derivatives are a critical tool, used by banks, corporations, pension funds, asset managers, government agencies and others to hedge the risks associated with shifts in currency markets. We therefore need to ensure the definitions governing trading and settlement are fit for purpose and reflect the realities of the market. The 2026 FX Definitions achieve this, enabling firms to transact FX derivatives transactions safely and efficiently, now and in the future,” says O’Malia. 

More information about the 2026 FX Definitions is available on the FX Definitions Update InfoHub: tinyurl.com/ynmkz37x

For more on latest trends in the global FX market, see pages 38-41

LSEG's TradeAgent Integrates ISDA's Digital Regulatory Reporting Solution

LSEG has integrated ISDA's Digital Regulatory Reporting (DRR) solution into its new Post Trade Solutions business, TradeAgent, representing a significant milestone in the industry deployment of the ISDA DRR.

The ISDA DRR converts an industry-agreed interpretation of reporting rules into unambiguous, machine-readable code and has so far been applied to eight sets of reporting rules around the world. By integrating it within TradeAgent, the new market utility will have the certainty of a unified, mutualised industry interpretation of reporting rules.

TradeAgent is a centralised over-the-counter derivatives post-trade processing platform designed to eliminate inefficiencies and streamline workflows through three services: trade confirmation and routing; a central authoritative data store; and calculation and settlement of bilateral cashflows. Like the ISDA DRR, TradeAgent is built on the Common Domain Model (CDM), an open-source data standard for financial products, trades and lifecycle events, which provides the vital foundation to standardise and automate industry processes.


"Integration of the ISDA DRR within the TradeAgent platform is an important step forward in the broad adoption of the CDM and ISDA DRR. By embedding the CDM and the DRR into post-trade platforms as LSEG has done, industry service providers can achieve greater standardisation and automation, improve the accuracy and consistency of regulatory reporting and reduce operational complexity across the trade lifecycle," says Scott O'Malia, chief

executive of ISDA.

Developed in collaboration with a consortium of more than 10 leading banks and buy-side firms, TradeAgent aims to enhance accuracy in cashflow calculations, prevent breaks and valuation disputes and mitigate counterparty and funding risk through centralised margin and settlement services.

"Integrating ISDA's Digital Regulatory Reporting solution into TradeAgent is a significant step in delivering greater consistency, accuracy and confidence in regulatory reporting for our customers. By combining the DRR with TradeAgent's CDM-based post-trade processing platform, we are helping firms reduce operational complexity, achieve a single, reliable interpretation of reporting rules and advance the industry's move towards more standardised, automated post-trade processes," says Annabel Harrison, head of agent services, Post Trade Solutions, at LSEG.

The CDM has been used across derivatives, repo and securities lending markets to foster greater standardisation. The model is jointly maintained by ISDA, the International Securities Lending Association and the International Capital Market Association, while the Fintech Open Source Foundation (FINOS) provides the open-source governance framework for the CDM.

"It is very exciting to see LSEG's TradeAgent leveraging the CDM, reflecting years of industry collaboration to create a shared standard ready for production deployment. The CDM's flexible, composable representation of trades supports a growing range of use cases," says Jane Gavronsky, chief operating officer of FINOS. 

AI is the Next Frontier for ISDA DRR, Says O'Malia

Artificial intelligence (AI) will be used to take ISDA's Digital Regulatory Reporting (DRR) solution to the next level, ISDA chief executive Scott O'Malia told delegates at the CDM Showcase in London on March 4.

"Since its launch in 2022, we've applied the DRR to eight sets of reporting rules globally, improving the efficiency and accuracy of reporting and reducing implementation costs. As more firms test and adopt the ISDA DRR, we're not standing still. AI will be the next frontier for this initiative, allowing us to extend the code to new rule sets more quickly and efficiently," said O'Malia.


In recorded remarks at the event, O'Malia revealed that ISDA is developing two AI agents for the ISDA DRR. The first is a translator agent that will review new or

updated reporting requirements and support the conversion into code, further reducing the time, effort and cost of keeping pace with evolving rules. The second is a traceability tool that will give users transparency on why and when DRR coding decisions were made, and how they tie back to the regulations. AI company Gentek AI will develop the traceability agent on behalf of ISDA.

The event, which ISDA co-hosted with the Fintech Open Source Foundation, the International Securities Lending Association (ISLA) and the International Capital Market Association (ICMA), brought together participants from derivatives, repo and securities lending markets to discuss use cases for the Common Domain Model (CDM), an open-source data standard for financial

products, trades and lifecycle events.

In his remarks, O'Malia welcomed the work by ISLA and ICMA to apply the ISDA DRR to securities financing transactions and he explained how ISDA is also using the CDM to bring improvements to collateral management processes.

"Working with a wide range of market participants, including ISLA and ICMA, we've used the model to digitally represent eligible collateral and key documents, such as the ISDA credit support annexes. This work – which most recently included umbrella agreements and amendments – is improving interoperability and automation, reducing operational friction and mitigating counterparty and liquidity risk," said O'Malia. 



Measured Adjustments

Some regulations require targeted recalibration to ensure they meet their objectives while supporting the efficient functioning of markets

Eighteen years on from the global financial crisis of 2008, the rollout of central clearing, margining of non-cleared derivatives trades and higher capital requirements has completely reshaped derivatives trading and risk management. But effective regulation requires regular monitoring to ensure the rules are working as intended, without adverse consequences for financial markets and the broader economy. Sometimes, fine-tuning may be needed to improve the calibration of the rules.

This edition of **IQ** shines a light on several areas of the post-crisis regulatory framework where recalibration is on the cards. The first is the completion of Basel III in key jurisdictions. In the US, regulators published a new proposal on March 19 that makes significant improvements, but some further adjustments may be needed to achieve an appropriate, risk-sensitive capital framework (pages 10-14). In the UK, the Basel 3.1 framework was finalised in January for implementation at the start of 2027, but the Prudential Regulation Authority has delayed the internal models approach for market risk by one year to allow more time to get the calibration right (pages 20-23).

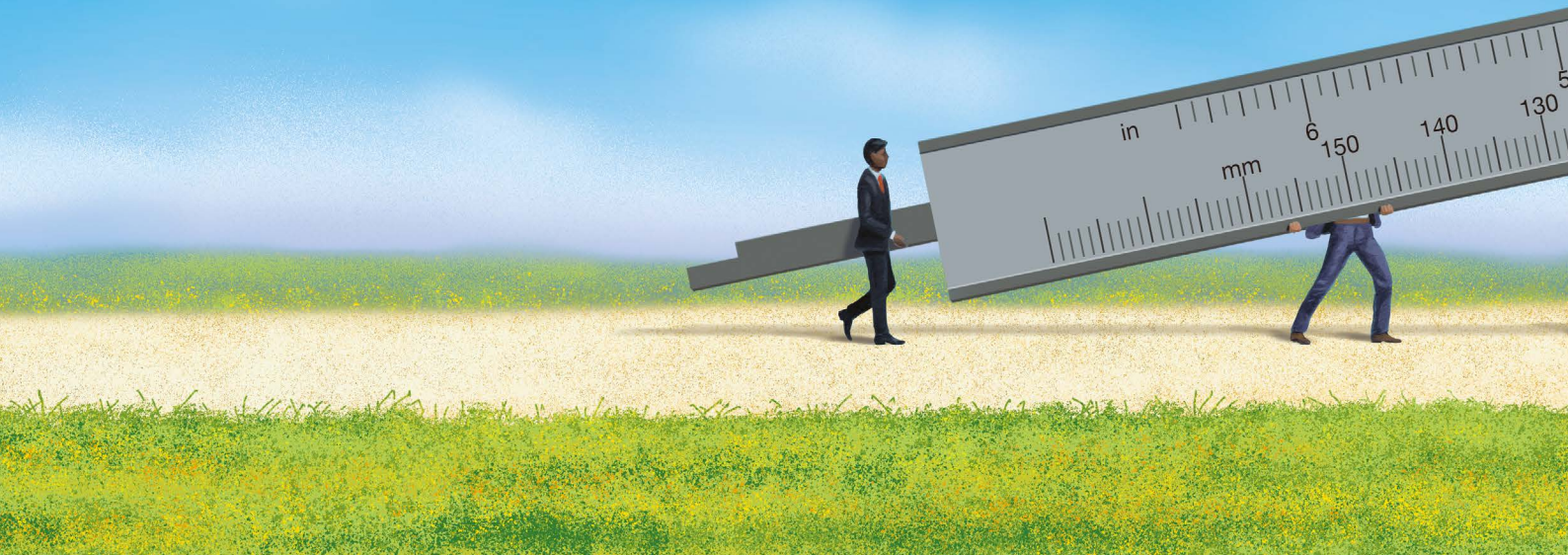
One of the more subtle changes since the financial crisis is that central clearing and margin requirements have drawn securities financing transactions (SFTs) and derivatives markets closer together. In a recent whitepaper, ISDA made a series of recommendations for adjustments to the prudential framework to better reflect the secured, short-dated and collateralised nature of SFT exposures (pages 16-19).

One area of the post-crisis regulatory framework that has been particularly challenging has been trade reporting, with inaccuracies, duplication and delays in reported data. Recent consultations from EU and UK regulators on ways to simplify, streamline and reduce the burden of reporting could be a positive step forward. As the rules are improved, ISDA's Digital Regulatory Reporting initiative enables firms to reduce the cost and burden of implementation, while improving the accuracy and consistency of reported data (pages 24-27). **IQ**

"It's really important that we ensure firms can continue to innovate and that markets are vibrant and competitive while maintaining that level of resilience that is necessary for sustainable growth"

David Bailey, Bank of England

* Finishing the Framework



As the UK, EU and US move to complete the implementation of Basel III in the coming years, banks and policymakers will need to work together to achieve a risk-sensitive global capital framework that supports deep and liquid markets

Just get it done. That was the simple instruction a former chair of the Basel Committee on Banking Supervision sometimes gave to the secretariat after long and difficult discussions at the committee – a body that today comprises 45 central banks and supervisors from 28 jurisdictions. Setting consistent regulatory capital standards for a diverse set of financial markets and institutions is a complex undertaking, but there comes a time when decisive and conclusive action is needed rather than continued negotiation. The message was referenced by Neil Esho in his final speech as secretary general of the Basel Committee, given in Abu Dhabi in December 2025. “When it comes to Basel III implementation, the time has long come to just get it done,” Esho declared.

A significant step towards getting it done was taken on March 19, when US agencies published a new proposal for the Basel III endgame package. Home to some of the world’s largest banks, the US is a key Basel Committee jurisdiction, and the new proposal gives greater clarity on

the likely calibration of the rules for those banks, including important changes to improve the risk sensitivity of the framework. In the meantime, Basel III implementation deadlines are rapidly approaching in the UK and EU, and banks need to prepare for a generational change that will fundamentally reshape how trading book risks are managed and capital is allocated.

“ISDA has always made the case for an appropriate, risk-sensitive capital framework that is as consistent with other jurisdictions as possible. We’ve worked closely with policymakers around the world to achieve that outcome, which remains critically important as we move into the Basel III implementation phase, but we also need to focus on what comes next to achieve a robust capital framework that will stand the test of time. With the UK, EU and US moving to finalise and implement the rules in the coming years, banks must think carefully about the transition and how they want to run their trading books in the future,” says Mark Gheerbrant, global head of risk and capital at ISDA.

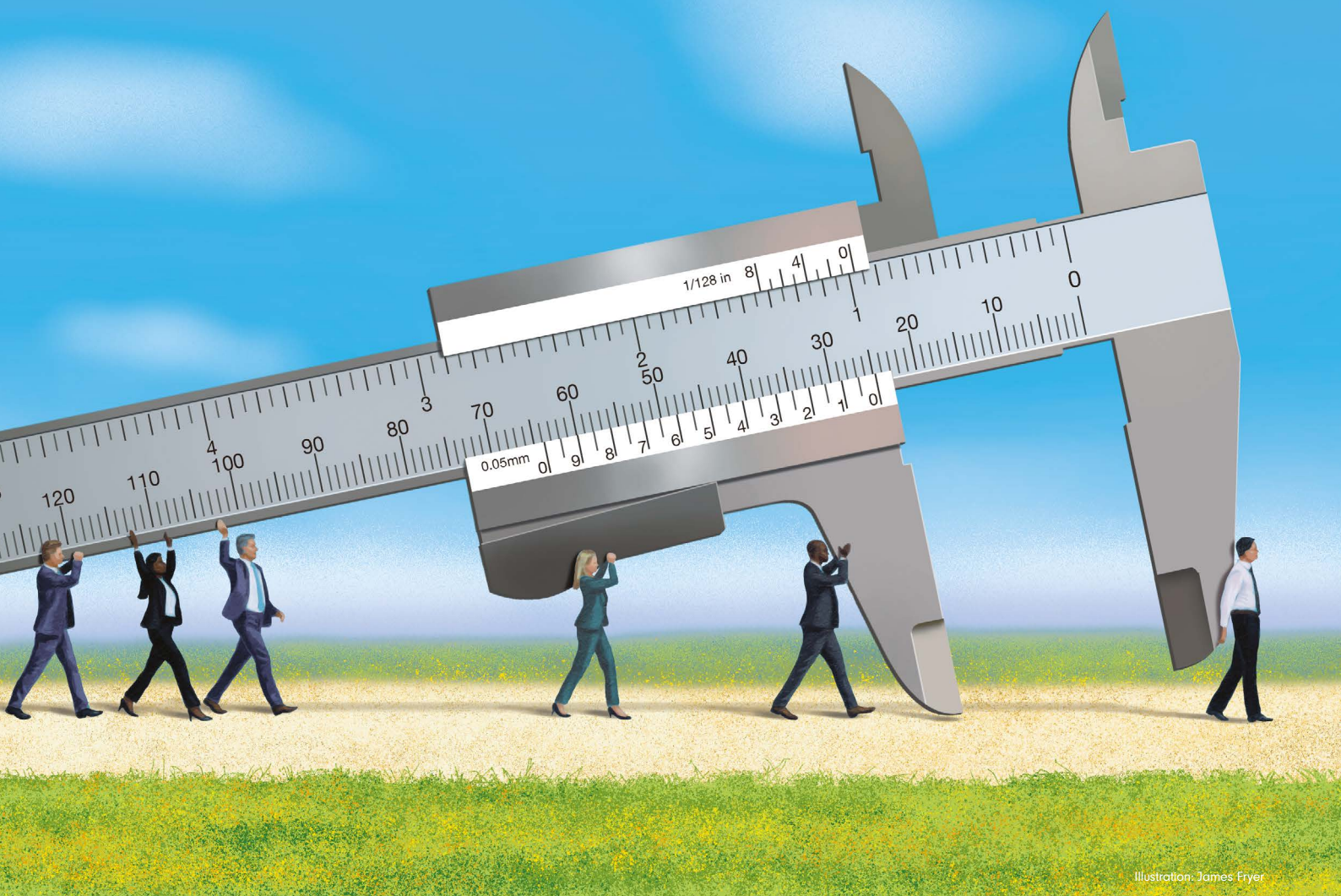


Illustration: James Fryer

Beginning of the end

As Neil Esho pointed out in his valedictory speech, the first part of Basel III, which focused on the level and quality of regulatory capital – including capital buffers, the leverage ratio, liquidity ratios, limits on large exposures and the framework for global systemically important banks (G-SIBs) – has long been implemented in all Basel Committee jurisdictions. It is the second batch of reforms, which focuses on restoring credibility to the risk-weighted capital framework, that hasn't yet been fully implemented. These include new capital standards for credit risk, operational risk and market risk, which were originally due for implementation from January 1, 2023, following a one-year delay to relieve pressure on banks during the pandemic.

More than three years on from that deadline, a host of countries, including Canada, Hong Kong, Japan, Singapore, South Africa and Switzerland, have implemented the standards, but Australia, the EU, the

UK and the US are still to fully implement. The lengthy rulemaking process is due partly to the scale and complexity of the reforms, which means the process of drafting rules and refining the calibration has taken longer than anticipated. In the US, for example, the first notice of proposed rulemaking wasn't published until July 2023, and it took nearly three years until a revised proposal was issued last month.

In the UK, the so-called Basel 3.1 framework was finalised in January, with implementation set for January 1, 2027. However, introduction of the internal models approach (IMA) for the new market risk capital framework – the Fundamental Review of the Trading Book (FRTB) – has been delayed until the start of 2028 to give policymakers more time to gather data and refine the calibration (see pages 20-23).

Meanwhile, the European Commission (EC) completed a consultation in early January on targeted temporary adjustments to the FRTB, which is set to be

March 19

US regulators published revised Basel III endgame, open for comment until June 18



“The new proposal is a major improvement on the original and includes a number of important changes that ISDA had advocated for. We’re grateful to policymakers for engaging with the industry on its concerns and making these modifications, which should improve risk sensitivity and avoid disproportionate increases in capital requirements”

Scott O’Malia, ISDA

→ implemented in the EU from the start of next year. One of the objectives of these proposed adjustments was to address aspects of the framework on which other jurisdictions have already deviated (or indicated they plan to deviate) from the Basel standards. These are longstanding issues for which ISDA has consistently sought resolution.

One option under consideration would be to implement a set of amendments to the FRTB standardised approach and the IMA, similar to those included in an earlier EC consultation last year. Another would be to apply a multiplier to market risk capital requirements, which could be used by banks that are negatively affected by the rules to limit their capital increases for three years.

“We welcome the EC’s willingness to revisit the FRTB and hope this will lead to a robust, appropriate framework in the EU. A multiplier is a fairly crude measure, so we have to get the design and calibration right. When we engaged with the industry to inform our response to the EC, we found a preference for it to be a bank-specific multiplier, rather than an industry-standard measure, and for it to be recalibrated periodically throughout the three-year period, with the aim of neutralising any increases in capital as a result of the FRTB,” says Panayiotis Dionysopoulos, global head of financial and enterprise risk at ISDA.

Endgame 2.0

The US may be only one of the 28 Basel Committee jurisdictions, but publication of the revised endgame proposal was a widely anticipated milestone in the long

path towards finally getting Basel III ‘done’ on a global basis.

Following the original US proposal that was published for consultation in 2023, ISDA and the Securities Industry and Financial Markets Association undertook a quantitative impact study that showed the proposed calibration of the FRTB would result in market risk capital increases of between 73% and 101%, depending on the extent to which banks use internal models.

Since 2023, ISDA has engaged regularly with US policymakers, advocating for a series of calibration changes to improve the risk sensitivity of the package and avoid adverse consequences for US capital markets and economic growth. The new proposal addresses many of the concerns that had been raised, even if some further fine-tuning may be needed to achieve a fully appropriate framework. With a three-month consultation now open until June 18, ISDA and its members will use this time to fully scrutinise and test the latest rules.

“The new proposal is a major improvement on the original and includes a number of important changes that ISDA had advocated for. We’re grateful to policymakers for engaging with the industry on its concerns and making these modifications, which should improve risk sensitivity and avoid disproportionate increases in capital requirements. There is still a long way to go, however. This is a highly complex set of rules, and we need to carefully analyse the calibration of each component and the implications for banks and financial markets,” says Scott O’Malia, chief executive of ISDA.

A strong area of focus for ISDA has been on ensuring

the ongoing viability of internal models for market risk after Basel III is implemented. One of the key features of the FRTB is a more stringent series of tests that banks would need to pass to use internal models, including a profit-and-loss attribution test (PLAT), a risk factor eligibility test (RFET) and a stressed capital add-on for non-modellable risk factors (NMRFs).

While the Basel Committee's intention was not to curtail the use of internal models altogether, excess complexity and conservatism in the calibration of those tests could lead to that outcome. Given the operational challenge of running the tests and meeting requirements, many banks have indicated they will switch to standardised approaches for market risk. In 2024, ISDA sought to get a clearer view on this trend by surveying FRTB executive sponsors from 26 global banks with trading operations around the world. Of those 26 banks, 24 were using the internal models approach for market risk under the existing Basel 2.5 framework, but this was set to fall to 10 with the transition to the FRTB.

Speaking at an ISDA event earlier this year, prior to the publication of the revised US proposal, senior market risk managers expressed profound scepticism about the future of internal models under the FRTB.

"There are a couple of reasons why banks have been reluctant to apply for IMA – the first is the cost-benefit advantage, which seems to be non-existent or very, very low, so clearly the banks are struggling to see a reason to invest. The IMA framework itself is pretty complicated and requires a lot of initial investment to build the systems and ongoing investment to run them. Another reason is that IMA capital is still pretty high – sometimes even higher than the standardised approach – so banks don't see much benefit to doing this," said one expert.

Continued uncertainty over the viability of FRTB internal models has led some banks to shelve their modelling capabilities. "We've been having this discussion

for more than 10 years and we still don't know whether the IMA is going to be credible – many banks have looked at this long timeline and opted not to build it. Bringing that capability back would mean rehiring, training and building the models, so it's a big challenge," another banker warned.

Under the new endgame proposal, the future of market risk internal models seems more positive. US policymakers made several changes, including the removal of the output floor, which would have limited the extent to which internal models can result in lower capital requirements than standardised models. Adjustments have also been proposed to the FRTB testing framework, including improvements to the PLAT that are broadly in line with ISDA's recommendations to remove instability from the test. Further changes were made to the RFET and NMRFs, but it will take time to determine the overall impact of those changes on the viability of internal models.

"These are definitely constructive changes, and we can see a strong focus on improving the incentives to invest in internal models. We now need to work with members to look in more detail at how the revised methodology will work in practice so we can provide informed, quantitative feedback in our response to the US agencies," says Dionysopoulos.

Further fine-tuning will be needed to ensure the viability of internal models, but with improvements in the US and further consideration of the FRTB ongoing in both the EU and UK, banks need to think carefully about how they are preparing for the future. ISDA's advocacy in this area has always been driven by concern that wholesale reliance on standard capital models could lead to concentrations of risk and one-way patterns of buying and selling. During periods of stress, this could increase the risk of liquidity problems.

As ISDA continues to make the case for internal models, banks will need to consider what resources

→

"There is still work to do on the policy front, but it's also incumbent on banks to carefully assess the viability of internal models and prepare to implement them for those trading desks where it makes sense to do so"

Mark Gheerbrant, ISDA

→ and support they might need to develop the necessary modelling capabilities. This will require strategic planning for a regulatory framework that, although not yet fully implemented, will govern risk management and capital allocation in the future.

“There is still work to do on the policy front, but it’s also incumbent on banks to carefully assess the viability of internal models and prepare to implement them for those trading desks where it makes sense to do so. Given how long it has taken to secure revisions to the proposed rules, some banks have clearly shelved their modelling programmes and redeployed resources elsewhere. Restoring these capabilities is likely to be a long process, involving hiring, building, testing, sourcing data and securing regulatory approval. Banks will need to think about interim arrangements that will allow them to comply with the regulations without incurring huge costs,” says Gheerbrant.

Preserving liquidity

One of the reasons why appropriate, risk-sensitive capital requirements are so important is that they are a prerequisite for deep and liquid capital markets. If banks are required to hold excessively conservative amounts of capital that don’t accurately reflect their risks, it puts pressure on their balance sheets and could lead them to scale back participation in certain businesses, which will have an adverse impact on market liquidity.

The preservation of deep and liquid markets has been a cornerstone of ISDA’s capital advocacy in all jurisdictions over the years, and the Basel III endgame was no exception. One example was a disproportionate capital charge for US

G-SIB client clearing businesses. The original endgame proposal, combined with the G-SIB surcharge, would have increased capital by more than 80%, constraining client clearing and negatively affecting market stability. With the exclusion of the client-facing leg of cleared trades from the credit valuation adjustment framework and the removal of clearing from the G-SIB surcharge, regulators have now addressed this flaw in the proposal.

Another example was the lack of recognition of cross-product netting in the standardised approach for counterparty credit risk (SA-CCR). Under the original US proposal, banks would have had to calculate their exposures on a single-product basis without netting repos against derivatives, leading to higher capital requirements that don’t reflect the economic risk of the portfolio. The new proposal addresses this issue by permitting recognition of netting under a qualifying cross-product master netting agreement for client cleared transactions under SA-CCR. But there are still concerns over the scope and methodology in the proposed rules, which ISDA will work through as it develops a response to the US consultation (see pages 16-19).

“We’re encouraged by the progress that has been made in the US with the removal of the punitive capital charge for client clearing and the improved recognition of cross-product netting, but we will continue to focus on the details to ensure the capital framework doesn’t negatively affect efficient market functioning and liquidity. Cross-product netting is one of a number of areas where we will recommend further fine-tuning in the final Basel III endgame,” says Gheerbrant. [IQ](#)

UNFINISHED BUSINESS: BASEL CRYPTO STANDARD

As Basel III was being developed in response to the global financial crisis, with the objective of strengthening the regulation, supervision and risk management of banks, bitcoin emerged in 2009 as the world’s first cryptocurrency.

Crypto assets may have come too late for Basel III, but the Basel Committee has kept a close watch on the evolution of this new asset class. In 2019, it published a discussion paper on the prudential treatment of crypto assets, followed by a consultation paper in mid-2021 that set out a preliminary framework. That framework was finalised at the end of 2022, establishing a new Basel standard for bank exposures to crypto assets, including tokenised traditional assets, stablecoins and unbacked crypto assets.

Since the Basel Committee first started work on this standard, the size and significance of the crypto-asset market have evolved quickly, with a growing number of applications and opportunities to use distributed ledger technology and tokenisation to bring improvements to capital markets. As it stands, however, the Basel standard imposes restrictive qualification standards and punitive market and credit risk capital requirements that would make it difficult for banks to participate meaningfully in the crypto-asset market.

In August 2025, ISDA and seven other trade associations wrote to the Basel Committee to recommend that the standard should be paused and recalibrated. The associations called for a more balanced approach that aligns with actual risk

profiles and encourages responsible innovation within the regulatory framework. The Basel Committee announced in November that it would review specific elements of the standard in light of recent market developments.

“The direct involvement of banks in crypto-asset markets, alongside other regulated participants, promotes safety and soundness, client protection and financial stability, but the calibration of the Basel standard would make bank participation very difficult. We welcome the Basel Committee’s decision to review the standard and hope progress will be made quickly to support innovation and growth in this market,” says Panayiotis Dionysopoulos, global head of financial and enterprise risk at ISDA.

ISDA[®]

Digital Transformation

ISDA offers a variety of digital solutions designed to help members organise and optimise various aspects of the derivatives process

ISDA Legal Solutions

ISDA Create is an online solution powered by CreateIQ and S&P Global Market Intelligence that allows financial institutions to extract key structured legal and commercial data while automating the creation, negotiation and execution of key derivatives documentation.

ISDA MyLibrary is a state-of-the-art platform that allows market participants to access ISDA documentation in digital form with enhanced navigation and easy-to-use comparability tools.

ISDA Amend is an online tool from ISDA and S&P Global Market Intelligence that centralises the sharing and matching of key regulatory and contract information with multiple counterparties.

The **ISDA Notices Hub** is an online platform powered by S&P Global Market Intelligence that is designed to provide market participants with a faster, safer and more efficient method for delivering and receiving critical termination-related notices.

ISDA Risk & Capital Solutions

ISDA's **Capital Models Benchmarking** initiative enables firms to implement and validate standardised and internal regulatory capital models across jurisdictions via two complementary solutions: aggregation tests and hypothetical portfolio exercises.

The **ISDA Standard Initial Margin Model (ISDA SIMM[®])** is an industry-standard methodology for calculating regulatory initial margin for non-cleared derivatives.

ISDA Analytics[™] is a secure web-based platform that can be used by banks and supervisors to participate in ISDA Capital Models Benchmarking, ISDA SIMM[®] maintenance and other regulatory or industry initiatives.

ISDA Data Solutions

The **Common Domain Model (CDM)** is a standardised, machine-readable and machine-executable model that represents financial products, trades in those products and the lifecycle events of those trades.

The **ISDA Digital Regulatory Reporting** solution uses the Common Domain Model to convert an industry-agreed interpretation of regulatory reporting rules into machine-readable code, making implementation more efficient and cost-effective.

Financial products Markup Language (FpML) is an open-source standard for the digital dealing and processing of derivatives transactions.

The **ISDA Common Risk Interchange Format (CRIF[™])** is an industry standard for the exchange of risk data that was initially developed to support the ISDA SIMM[®] and has evolved to enable benchmarking of standardised approach capital models for market risk, credit valuation adjustment risk and counterparty credit risk.

ISDA Reference Data provides key business terms used in ISDA documentation and other sources of trade reference data as fully machine-readable codes, values and lists to enable efficient straight-through processing.

ISDA's **Collateral Initiatives** apply the Common Domain Model to collateral management documentation, collateral representation and margin and settlement processes with the goal of mitigating operational, liquidity and counterparty risks.

To find out more, visit the ISDA Solutions InfoHub: www.isda.org/isda-solutions-infohub/

* Markets Intertwined

Securities financing transactions play a vital role in enabling firms to source liquidity and collateral for derivatives transactions, but certain regulatory and structural impediments to liquid SFT markets must be addressed

Securities financing transactions (SFTs) are the Swiss Army knife of modern financial markets, providing participants with a useful set of tools that help them achieve some key objectives, including liquidity management, funding efficiency and collateral mobility. But just as regular cleaning and oiling of a pocket knife help to preserve its effectiveness, the regulatory framework and operational infrastructure for SFTs also require periodic review and adjustment to ensure they continue to meet the needs of market participants.

Following the global financial crisis, central clearing and margin requirements have drawn derivatives and SFTs closer together, increasing interdependence between the two markets. Recent market shocks have shown that the availability of SFTs can come under pressure just when they are most needed. A spike in margin calls on derivatives trades may lead to increased demand for certain SFTs and a lack of liquidity can prompt firms to sell their holdings of liquid assets, which can amplify market stress. As firms prepare for the introduction of mandatory clearing of US Treasuries, there is growing consensus on the need to address the root causes of these problems to ensure the smooth functioning of both SFTs and derivatives in all market conditions.

“Following the implementation of regulatory reforms in derivatives markets, which require large volumes of high-quality liquid assets, SFTs and derivatives have become increasingly intertwined. Firms rely on both markets to effectively manage their risks, and problems emerging in one market can easily spill into the other. Addressing the regulatory and operational pain points in SFT intermediation will ensure this market continues to provide vital support to derivatives, especially during periods of volatility,” says Scott O’Malia, chief executive of ISDA.

Removing silos

The need for coordination between derivatives and SFT markets may have been more limited in the past, as both

markets served their own unique purposes. Just as different types of derivatives were used to manage the various risks an entity might face, different types of transactions grouped under the SFT umbrella – including repos, securities lending and margin lending – had their own individual use cases.

Repos and reverse repos, for example, provide short-term secured financing and liquidity based on the market value of high-quality collateral, primarily government bonds. Securities lending enables transactional short selling and provides market participants with access to specific securities needed for settlement, hedging or portfolio management. Margin lending provides leverage to market participants. The users of these products span a diverse range of entities, including banks and broker-dealers, money market funds, central banks, asset owners, hedge funds, central counterparties and custodians, as well as triparty agents that manage settlement, collateral allocation and margin workflows.

The post-crisis reforms changed the independence of derivatives and SFTs, with increased demand for high-quality collateral to support derivatives clearing, margining and liquidity ratios involving large volumes of SFTs, particularly repo. The gross size of the US repo market reached \$11.9 trillion in 2024, according to analysis by the Federal Reserve, while the latest survey of the European repo market by the International Capital Market Association showed it had reached a record high of €12.4 trillion by mid-2025.

Within financial institutions, there has been growing recognition that derivatives and SFTs can’t continue to operate in isolation.

“Traditionally, banks have viewed derivatives and repos as separate businesses, with different systems and different controls that rarely interact with one another. The introduction of clearing and non-cleared margining, alongside other market and technological developments, changes this picture. There is now incentive for significant

investment ongoing across the major dealer banks to integrate the two businesses at an operational level to provide a more unified view of risk and liquidity management,” says Benny Crapanzano, managing director and global co-head of financial resources and strategy at Morgan Stanley.

One of the challenges is that when SFT and derivatives positions are treated in isolation, liquidity can evaporate just when markets need it most, amplifying rather than absorbing market shocks. This kind of scenario has been highlighted by periods of stress dating back to the collapse of Long-Term Capital Management in 1998 and the global financial crisis a decade later. More recent episodes include the US repo rate spike in 2019, the dash for cash in 2020 and the UK gilt market crisis in 2022.

In each instance, a combination of directional trading, rapid deleveraging, margin dynamics, collateral valuations and balance sheet constraints exacerbated market stress and, in some cases, led to central bank intervention. Working with its members, ISDA has been assessing how the prudential framework could be adjusted to reflect increased connections between derivatives and SFTs and, in turn, reduce the impact of future shocks.

“There is no doubt that regulatory reforms have enhanced overall market resilience, but they have also introduced certain constraints that limit dealer capacity for intermediation during periods of stress. Episodes of repo market dysfunction can quickly spill over into government bond markets, impairing benchmark rate formation and monetary policy transmission. A well-calibrated, risk-appropriate capital framework is one of the critical ingredients needed to support resilient and efficient SFT markets, particularly as volumes continue to grow and the market structure evolves,” says Panayiotis Dionysopoulos, global head of financial and enterprise risk at ISDA.

Capital reforms

In a new whitepaper published on March 12, ISDA set out a series of adjustments that could be made to the prudential framework to better reflect the secured, short-dated and collateralised nature of SFT exposures. These targeted adjustments would promote a more coherent, risk-appropriate treatment for SFTs while maintaining strong supervisory oversight.

One of the most fundamental issues to be addressed is recognition of cross-product netting in the capital framework. As the market prepares for the introduction of mandatory clearing of US Treasury transactions, with repos targeted for clearing from mid-2027, the Fixed Income Clearing Corporation and CME Group have been working to extend their cross-margining arrangement to clients. With approval from the Commodity Futures Trading Commission and the Securities and Exchange Commission, this extension will enable a broader set of market participants to reduce their margin requirements across a portfolio of cleared Treasury repos and derivatives. This will be a vital step to ensure Treasury clearing can be efficiently implemented without disproportionate costs.

However, when the same portfolio is capitalised, problems could arise. The original design of the standardised approach for counterparty credit risk (SA-CCR) under the US capital framework would have required banks to calculate their exposures on a single-product basis and they would not have been able to net repos against derivatives. As a result, banks could have faced higher capital requirements on a portfolio of derivatives and repos, even though the economic risk of the portfolio is lower due to various risk offsets. Reduced collateral through cross-product margining would exacerbate the problem by inflating the capital requirement. This is a serious issue that could have reduced balance sheet capacity just as clearing volumes are set to rise.

On March 19, US prudential regulators published a revised proposal for the Basel III endgame rules, which



“A well-calibrated, risk-appropriate capital framework is one of the critical ingredients needed to support resilient and efficient SFT markets, particularly as volumes continue to grow and the market structure evolves”

Panayiotis Dionysopoulos, ISDA

“ISDA’s advocacy for the recognition of cross-product netting for capital purposes matches the direction of travel for banks at an operational level, but it will also ensure the broader financial system operates more efficiently and is better able to cope with periods of extreme stress in a more complex regulatory environment”

Benny Crapanzano, Morgan Stanley

→ makes a start in addressing this issue. Under the revised rules, repos and derivatives under a qualifying cross-product master netting agreement would be recognised for client cleared transactions under SA-CCR. However, there are concerns that the scope and methodology set out in the proposal lack sufficient risk sensitivity, are overly conservative and could result in capital requirements that do not accurately reflect the economic risks associated with these portfolios. ISDA will work with its members to respond to the US consultation, which runs until June 18.

“We’re advocating for an extended SA-CCR framework with a risk-sensitive aggregation methodology to be permitted in the capital rules across all key jurisdictions to support market efficiency globally and create a level playing field. Proper recognition of cross-product netting, harmonised on a cross-border basis, will help ensure the SFT market remains available to market participants at all times, including during periods of market stress,” says Dionysopoulos.

Another challenge relates to the treatment of settled-to-market (STM) transactions, such as US Treasury futures. Under the current capital rules, STM transactions must be placed in separate netting sets, as they are not considered to be subject to variation margin. Consequently, these transactions are netted separately from collateralised-to-market (CTM) transactions, such as cleared Treasury repos. This separation prevents the recognition of risk-reducing offsets that are fundamental to cross-margining.

In addition to the extension of SA-CCR to include SFTs, it is essential that the capital framework permits STM exposures to be treated as CTM for all derivatives and SFT transactions. This would enable STM and CTM transactions to be included within the same netting set,

facilitating proper recognition of risk offsets and supporting efficient cross-product netting. As it stands, however, the US proposal only permits STM/CTM netting for cleared transactions.

With the Treasury clearing mandate fast approaching and US regulators working to finalise the Basel III endgame package, there is a clear sense that recognition of cross-product netting should be an urgent priority. Banks are also clear this is a change that needs to be made to reflect how they manage their businesses internally and ensure an appropriate, consistent capital framework across products.

“ISDA’s advocacy for the recognition of cross-product netting for capital purposes matches the direction of travel for banks at an operational level, but it will also ensure the broader financial system operates more efficiently and is better able to cope with periods of extreme stress in a more complex regulatory environment,” says Crapanzano.

The ISDA whitepaper recommends a number of other changes to the capital framework to strengthen the resilience and efficiency of SFT markets, including improvements to the standardised approach for credit risk to recognise the short-term nature of SFT exposures, the exclusion of SFTs from the credit valuation adjustment framework and revisions to the Basel III liquidity ratios. Importantly, it also urges policymakers not to introduce minimum haircut floors for non-cleared SFTs to avoid a negative impact on market liquidity. A more economic, portfolio-based margining approach that allows for a range of prudent risk management practices should be considered as an alternative to transaction-level haircut floors, the paper argues.

“It’s clear that the availability of secured funding through SFT products has been constrained by capital,

leverage and liquidity rules that don't fully reflect the economic risk exposure. We've worked closely with market participants to formulate changes that would be needed to deliver a coherent and risk-appropriate framework that more closely aligns the treatment of SFTs and derivatives. We're not proposing a complete overhaul, but rather a recalibration that will strengthen resilience and liquidity transmission," Dionysopoulos explains.

Documenting change

Once the capital framework has been appropriately updated, firms will need to confirm they have incorporated language into their documentation that meets the requirement for qualifying cross-product master netting agreements. This language could be included in the agreement for derivatives, the agreement for repos or a separate agreement linking the two.

Although often documented separately, there are many similarities in the legal and contractual framework for SFTs and derivatives, including the use of collateral and reliance on close-out netting. Following a 2020 whitepaper that explored opportunities for collaboration and standardisation in non-cleared derivatives and SFT markets, ISDA published a new definitional booklet and related set of provisions in February 2022 to allow firms to document non-cleared derivatives and SFTs under a single ISDA Master Agreement.

The 2022 ISDA Securities Financing Transactions Definitions and SFT Schedule Provisions were designed to reduce complexity and duplication between SFTs and derivatives, create efficiency in document negotiation and management and enable documentation updates to be rolled out consistently for both product sets.


"Bringing in a new style of documentation for a well-established market like repos would be a significant operational and cultural change for trading desks, so the SFT definitions aimed to keep things as similar as possible to pre-existing agreements at a technical level. With these definitions, we have the legal framework that is needed for firms to negotiate non-cleared derivatives and SFTs under the same master netting agreement, which will yield significant benefits," says Mark New, co-head of digital transformation and senior counsel at ISDA.

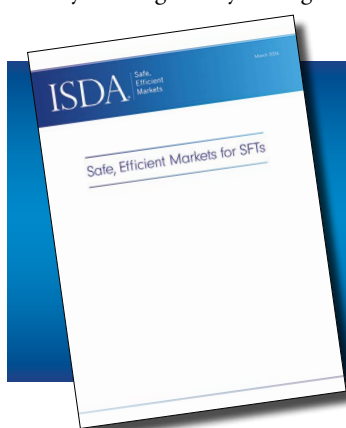
Beyond regulatory changes and the alignment of

documentation, the paper highlights other issues that should be addressed. For example, greater consistency is needed at the accounting level between International Financial Reporting Standards and US Generally Accepted Accounting Principles. In particular, balance sheet offsetting under the two accounting frameworks can result in materially different outcomes and make it difficult for cross-product netting to be reflected. ISDA has recommended that the principles for balance sheet offsetting should be harmonised across the two frameworks to mitigate gross balance sheet inflation, provide a more accurate representation of economic risk, enhance investment evaluation and reduce the costs associated with audits, compliance, reconciliation, data management and system reporting.

There is also an opportunity to bring greater efficiency to SFTs through standardisation and automation. ISDA has used the Common Domain Model (CDM), a standardised data model for financial products, trades and lifecycle events, to yield efficiencies and savings in key derivatives processes, such as trade reporting. ISDA is now working to unlock the potential use of tokenisation to bring greater choice and flexibility to collateral management, including through the use of tokenised money market funds as collateral.

The CDM has highlighted the potential to develop harmonised, machine-readable representations of trade lifecycle events across SFTs, derivatives and other financial products. By standardising how products, trades and lifecycle events are represented, the model can reduce operational complexity, improve the accuracy and consistency of regulatory reporting and open the door to the possible adoption of powerful new technologies. But improving the regulatory framework for SFTs must be the priority, market participants warn.

"Although tokenisation and other digital innovations could deliver a much larger universe of collateral in the future, improving the function of the traditional SFT market should still be a major priority in the here and now. Even if digital assets are widely adopted, an inability to net exposures across different products under the capital framework will still be a source of significant inefficiency, so we must grasp the opportunity and make sure this is addressed," says Jacques Vigner, chief strategic oversight for global markets at BNP Paribas. 



ISDA whitepaper identifies structural and regulatory drivers that influence secured funding availability



* Striking a Balance

*The Bank of England's Prudential Regulation Authority recently finalised its Basel 3.1 framework for implementation at the start of 2027. **David Bailey**, executive director for prudential policy, talks to **IQ** about the importance of global consistency and the need to strike a balance in regulating fast-changing markets*

IQ: Driven by technological innovation, economic shifts and geopolitical risks, the pace of change in financial markets is accelerating. How do you think prudential policy should adapt to ensure the regulatory framework remains appropriate and relevant without creating unnecessary burdens or complexity?

David Bailey (DB): We are in a particularly fast-moving external environment, whether that's the risk environment or the level of technological change we're seeing. Regulation needs to keep up to ensure the right level of resilience while also being responsive to external developments. It's really important that we ensure firms can continue to innovate and that markets are vibrant and competitive while maintaining that level of resilience that is necessary for sustainable growth. That's always been our approach, but what's changed in recent years is that the Prudential Regulation Authority (PRA) has taken on a new secondary objective to promote competitiveness and growth within the UK, subject to alignment with international standards. That sits beneath our primary objective of ensuring the safety and soundness of firms.

As we either write new rules to implement international standards or review existing rules in light of market developments, there's now a premium on making sure we're thinking not just about resilience but also making sure the rules are proportionate, efficient and effective. As an example, we took steps when implementing Basel 3.1 to tailor the rules on lending to small- and medium-sized enterprises to reflect the needs of the UK market. We've also taken steps to simplify other rules that had got overly complex and disproportionate to the underlying risks.

It's also important that we work actively to support the safe adoption of innovation across markets so firms can deliver new products, operate more efficiently and offer

their services to new markets. That's good for the resilience of firms, the resilience of markets and economic growth. For the PRA, there is a balance between supporting new ideas and making sure that's done in a responsible and resilient way. We have a choice when we're faced with innovation – we can write rules early and give firms clarity, recognising the rules may need to be adapted as developments happen, or we can take a step back, seek to understand innovation, see how it fits within our existing regulatory framework and only write rules if we think they're really necessary. There's a balance there, but the PRA's approach to technologies like artificial intelligence (AI) has generally been more principles-based. We are watching, we're engaging with firms, but we haven't rushed to write new rules.

IQ: This is a critical year for the completion of the Basel III reforms, with the US, EU and UK taking steps to finalise the rules for implementation. How important is global consistency in the timing and content of the rules, and do you think this can still be achieved?

DB: Yes, I do think it's still possible. International standards support international activity and cross-border trade, and they are incredibly important to what we do at the PRA and more broadly at the Bank of England, but also in the context of the UK's role as a global financial centre. We were heavily involved in developing the Basel III rules and it was very important that we implemented them in a robust way.

However, a commitment to international rules doesn't mean every jurisdiction copies them word for word. The exact implementation depends on national legislative structures and processes, and there is always some room for tailoring,



particularly for businesses that are more domestically focused. We will see some differences in implementation across different jurisdictions to reflect those differences. Where I think consistency matters most is for those rules that relate to cross-border activity. That's why there has been so much focus on the trading book rules, and we delayed implementation in the UK because we wanted to try to achieve a high level of consistency with other large financial centres.

IQ: Does the Basel Committee have a responsibility to revisit those parts of the framework where divergence is most evident, suggesting possible flaws in the original framework? Is there still a role for an international body to set bank capital standards, or will this increasingly now be driven by individual regulators?

DB: It's important we put the amount of divergence from international standards into context – it's actually a small set of the overall Basel III standards. That doesn't mean it's not important, but I think there are many more areas of alignment than divergence.

The Basel Committee does look at differences through

its regulatory consistency assessment programme, where it does targeted evaluations on how member jurisdictions have implemented the standards. For example, its assessment of the UK implementation of the large exposures standard and the net stable funding ratio (NSFR) was published last year, showing we were largely compliant with international standards. That particular assessment also flagged that there were some areas where several jurisdictions had taken common approaches to diverging from the NSFR, and the Basel Committee said in November that it would do a targeted review of that standard, focusing on those specific areas. That's a good example of where the committee has identified jurisdictions all deviating from the standard in a common way. I think there is an important role for the Basel Committee to monitor implementation and, where it sees divergences, seek to understand whether that means any adjustments are needed.

The Basel Committee and other standard-setting bodies will continue to have a really important role to play, both in developing new standards where they're necessary – for example, on crypto assets – and making sure that existing standards are implemented effectively, as well as reviewing them where necessary.



“It’s really important that there is a credible standardised approach and if firms are going to move to internal modelling of their market risk exposures, then that should represent a step-up in the accuracy of their risk measurement and management”

→ **IQ:** The PRA recently finalised the Basel 3.1 package, with implementation set for January 1, 2027, but the internal models approach (IMA) for market risk was delayed until the following year. What issues have you identified in the design and calibration of the IMA, and how do you think these might be addressed?

DB: It’s important that the option to use internal models remains, but the Fundamental Review of the Trading Book (FRTB) was designed with a number of objectives. The first was to make sure there’s a very clear boundary between what is in the trading book and what is in the banking book, so the market risk framework is applied only to the instruments it’s designed for. Secondly, it was designed to create a really effective standardised approach for market risk, which would be a credible alternative to internal models. And thirdly, it sought to make sure the standards for banks using internal models are robust, so they do a really good job of assessing the risks they’re running. On the first two goals, I think the FRTB is in a really good place, which is why we’ve chosen to move ahead with implementation.

On internal models, the standard focuses on the right things – it’s more a question of calibration and making sure the bar is set at the right level for firms to be incentivised to improve their models so they use those rather than the standardised approach. That calibration is complex and it needs data, which has been scarce up until now. So, we’re taking the extra time that is needed and we’ve got firms actively developing their models and some using them in practice. We’ve therefore got some more data we can use, which will give us a better sense of whether elements like the profit-and-loss attribution test and non-modellable risk factors are correctly calibrated. Those are the elements we’ll be looking at as we finalise and implement the IMA within the UK, while also having regard to other jurisdictions.

Overall, it’s really important that there is a credible standardised approach and if firms are going to move to internal modelling of their market risk exposures, then that should represent a step-up in the accuracy of their risk measurement and management. That’s why we have put so much focus on making sure the IMA is appropriately calibrated. It is important the most sophisticated banks that run complex books have ways of making sure they can accurately model their risks.

IQ: Non-bank financial intermediation (NBFI) has been under the spotlight in recent years as policymakers have sought to address perceived vulnerabilities in the context of recent market shocks. The Bank of England has carried out one system-wide exploratory scenario (SWES) exercise on public markets and is working on a second on private markets. What have you learnt from these exercises and how do they inform policy considerations?

DB: They’re a really important part of the stress testing framework that is run by our financial stability colleagues. The SWES we have already run provided us with valuable insights into how sterling markets and participants will react – both individually and collectively – to stress. For example, while NBFI resilience has improved in certain respects in recent years, the actions some participants took in the SWES, such as selling into falling markets, tended to amplify the stress. It also highlighted that the banking sector wasn’t necessarily likely to be able to provide all the additional repo that non-banks were looking for in a stress scenario. That strengthens the case for policies to enhance repo market resilience – we issued a discussion paper (DP) on this topic last year. The exercise also highlighted that firms weren’t necessarily factoring in the correct expectations about what would happen to initial margin

and repo lines in periods of stress. Those are important dynamics for us to understand so we can investigate what steps we need to take to ensure the right level of resilience. More generally, the results highlighted the value of system-wide stress testing, which is why we initiated a second SWES, focusing on private markets.

IQ: The Bank of England's DP on reforms to enhance the resilience of the gilt repo market explored policy measures such as central clearing and minimum haircuts on non-cleared trades. What are the next steps, and how will you ensure any policy changes don't increase the cost of funding or adversely affect market liquidity?

DB: We put the DP out there to stimulate a discussion about steps to improve gilt market resilience, and we had really good engagement from a wide range of market participants, which shows there is a shared interest in making sure gilt markets remain resilient in all market conditions. We're reflecting on the responses to determine the right way forward, but we're not committing to a single policy option at this stage. We will make sure any policy proposals are designed and calibrated carefully, with industry input, and are implemented smoothly with an effective transition.

IQ: The Basel Committee has said it will expedite a review of its prudential standard for banks' crypto-asset exposures, while the Bank of England recently consulted on the regulation of sterling-denominated systemic stablecoins. How should regulators strike a balance between putting appropriate guardrails in place for these instruments and not constraining the potential to realise greater efficiencies and reduce risk in financial markets?

DB: There is great potential here to support new products, greater resilience, competition, innovation and growth. We need to understand and support any innovation to make sure it happens in a responsible and safe way, which means focusing both on the potential they bring – for example, to improve payments and settlement – but also any new risks they present. My team's role is to update the banking framework to help firms manage the risk from any crypto-asset exposures they hold, but I also work closely with colleagues who are developing the systemic stablecoin regime. We need to understand how firms are going to be using crypto assets and what innovations they want to develop so we can support their efforts in a safe way.


The Basel framework for crypto assets was published several years ago and the approach was to allow tokenised versions of traditional assets to be treated pretty much

as the underlying traditional assets, but to take a more conservative approach for new types of crypto assets, both from a prudential and operational perspective. We've been considering how we would go about implementing that standard, but we're also conscious the world has moved on since the standard was drafted. We've actually seen real adoption of the products and we've learned from the experience of those markets developing, so we understand the risk they present a bit better. The targeted review is important, and it will inform our next steps in implementing the crypto framework in the UK. Ultimately, it's important our framework is neutral from a technology perspective, so when assets present the same risk, we should aim to achieve the same regulatory outcome.

IQ: In what areas of financial markets and supervision do you think AI, distributed ledger technology (DLT) and tokenisation could realise the greatest benefits, and what role should regulators play?

DB: These are exciting technologies that have the potential to be really transformative in terms of the efficiency of firms, operations, productivity and the services that are provided. From our surveys and engagement with firms, we can see a growing number are actively experimenting with AI within their own operations, although not necessarily for the highest risk use cases at this stage. We're also actively using AI in some of our internal processes at the PRA and we already see the benefits in terms of the speed it brings to certain tasks. It's really important that we think hard about how we can support increased adoption in a responsible way, both within our own operations and in the industry.

With DLT, there are important opportunities to fundamentally rewire parts of the financial system, and it opens up concepts like 24/7 operations and near-instant settlement. It can effectively make transactions cheaper, faster and much more efficient, while also improving the operational resilience of key processes.

Given the benefits, we need to understand these technologies and help firms experiment with them and develop them. Last year, we launched our AI Consortium to bring industry participants together, and I've also engaged in a series of roundtables with firms to discuss how it sits with our current rulebook and any barriers or frictions that we need to think about in the context of our future work. We can provide safe places for firms to trial technologies, such as our Digital Security Sandbox, which we've had really good engagement with. These are all important ways in which we can understand both the benefits and the risks of new technologies and work out how the benefits can be realised in a resilient and safe way. 

| This interview was conducted in late January, 2026

* Reducing the Burden

Derivatives trade reporting in the EU and the UK has been hampered by duplication of requirements across multiple regulations and the challenge of dual-sided reporting. Following recent consultations, regulators have an opportunity to reduce the burden and complexity of reporting

The requirement for over-the-counter (OTC) derivatives to be reported to designated trade repositories was one of the main components of the G-20 reforms developed in response to the global financial crisis. With a central record of trading activity, regulators should be better equipped to identify and address emerging pockets of risk before they cause system-wide problems. It's a reasonable hypothesis, but while widespread adoption of reporting rules and comprehensive updates over recent years have improved market transparency, the accuracy and timeliness of reported data is not yet at the level that enables regulators to build a complete picture of risk.

That's why two recent consultations – one from the European Securities and Markets Authority (ESMA) and another from the UK Financial Conduct Authority (FCA) – on ways to simplify, streamline and reduce the

burden of transaction reporting have been welcomed as a positive step forward. The consultations vary in scope, but they open the door to significant improvements to the EU and UK reporting frameworks. As ESMA and the FCA weigh their next steps, there is an opportunity to reduce complexity and cost for market participants, while also improving the accuracy, consistency and usability of reported data.

“Market participants have been struggling for far too long with reporting rules that are inconsistent and often duplicative, resulting in data that is riddled with inaccuracies, omissions and repetition. This comes at a significant cost, and it doesn't create the level of market transparency that regulators originally sought. The EU and UK consultations are very promising developments that could pave the way towards meaningful, lasting

“Market participants have been struggling for far too long with reporting rules that are inconsistent and often duplicative, resulting in data that is riddled with inaccuracies, omissions and repetition”

Scott O'Malia, ISDA

improvements to this critical component of the supervisory framework for derivatives markets,” says Scott O’Malia, chief executive of ISDA.

Call for evidence

As part of EU efforts to reduce regulatory burdens for market participants, ESMA launched a call for evidence in June 2025 on a comprehensive approach for the simplification of financial transaction reporting. With a mandate from the European Commission to reduce the reporting burden by 25% for all companies and by 35% for small- and medium-sized enterprises, ESMA sought industry input on a wide-ranging set of possible changes to the EU reporting framework.

As it stands, reporting in the EU is split across three separate rulebooks – the European Market Infrastructure Regulation (EMIR), the Markets in Financial Instruments Regulation (MIFIR) and the Securities Financing Transactions Regulation (SFTR). EMIR covers both OTC and exchange-traded derivatives; MIFIR includes all financial instruments available for trading on a trading venue (TOTV), including equities, bonds and derivatives, as well as financial instruments with a TOTV underlier; and the SFTR covers securities financing transactions (SFTs) such as repos and total return swaps.

The three regulations each serve their own purpose, with reporting under EMIR and the SFTR designed to monitor systemic risk and MIFIR reporting intended to monitor market abuse. The challenge for market participants is that there are many instances of overlap between the three rulebooks, which creates significant burdens for market participants. Between EMIR and MIFIR, for example, firms have been required to duplicate effort by reporting the same trades multiple times, which takes a toll on resources and increases the likelihood of reporting mistakes.

“The ideal end state would be a clear distinction between reportable instruments under each of the three regulations – OTC derivatives reported under EMIR, exchange-traded derivatives under MIFIR and SFTs under the SFTR – so firms can avoid unnecessary duplication and are only required to report each trade once, under a single regime,” says Andrew Bayley, senior director for regulatory reporting transformation in Europe, the Middle East and Africa at ISDA.

An additional burden for EU market participants is the requirement for both parties to report, which is out of step with most other jurisdictions, where trades only need to be reported by one counterparty. Under EMIR, for example, dual-sided reporting means both entities must provide the same unique transaction identifier (UTI), along with the same legal entity identifiers. Once this has been done successfully, the trade is considered ‘paired’, but it must then be ‘matched’ by reconciliation across a set of data fields. A similar pairing and matching process is required under the SFTR.

While dual-sided reporting might have been expected to deliver greater reporting accuracy, it has been a major operational challenge for market participants. “We believe dual-sided reporting is a major driver of excess costs and data inaccuracies. It places a particular burden on smaller buy-side firms that may have to build significant internal infrastructure to manage and deliver the right trade data. The pairing and matching requirements for all participants introduce greater scope for error, rather than guaranteeing better results,” says Bayley.

A switch to single-sided reporting would help to reduce the burden on reporting firms. But it wouldn’t, by



A MATTER OF IDENTITY: ISIN VS UPI

Unlike in other jurisdictions, the Markets in Financial Instruments Regulation and the European Market Infrastructure Regulation (EMIR) require international securities identification numbers (ISINs) rather than unique product identifiers (UPIs) to be used to aggregate over-the-counter (OTC) products – and that requirement spans both UK and EU versions of those rules. Only if a product lacks an OTC ISIN can a UPI be used instead under EMIR.

This causes several challenges for market participants because ISINs are designed to identify securities with fixed tenors, not bespoke OTC contracts with negotiable maturity dates. In the case of an interest rate swap, for example, a UPI can capture all the economically significant features, including notional currencies, reference rates, payment schedules and delivery types.

An OTC ISIN, by contrast, introduces additional fields like expiry date and strike price. The inclusion of these values means economically similar products – for example, two interest rate swaps with a 10-year tenor traded on consecutive days – would each require a distinct ISIN. That means millions of additional ISINs need to be created and verified for economically similar products, generating mountains of additional data. As of December 2024, more than 147 million ISINs had been created.

Proposals for a modified OTC ISIN for public transparency that would have addressed the expiry date issue for interest rate derivatives have been placed on hold by the European Commission’s decision in October to de-prioritise 115 Level 2 measures.

There is also a cost component to consider. Under current arrangements, users of UPIs and OTC ISINs are subject to separate license fees. Focusing the industry on UPIs rather than ISINs would reduce costs for those entities – mainly trading venues – that need to obtain so-called power user licenses for both codes.

“We recognise that changing from the OTC ISIN to the UPI is a significant step for EU and UK reporting rules. However, in the long run, doing so will reduce fragmentation in data collection, lower costs for market participants and improve cross-border harmonisation. We will continue to work with regulators in both jurisdictions to find the best way forward on this,” says Andrew Bayley, senior director for regulatory reporting transformation in Europe, the Middle East and Africa at ISDA.

“Mandating the use of this flood of data fields, some of which don’t add any particularly useful information for regulators or contain data they can access elsewhere, is counterproductive to the overall reporting goal”

Richard Young, Bloomberg

→ itself, be a silver bullet to fix EU trade reporting. The sheer number of data fields that counterparties must complete when reporting a trade also creates significant complexity and increased scope for error. Under EMIR, there are 203 possible data fields to be completed, and 204 under the UK iteration of the regulation. This compares with 128 fields under the US Commodity Futures Trading Commission’s swap data reporting rules.

Of the EMIR fields, 87 are currently mandatory matching fields, which must align for a trade to be correctly reconciled. This number increases by another 61 fields from April 2026 under new requirements from ESMA. Although these additions are intended to improve data quality, each field creates an additional burden for reporting entities.

Reducing the number of reporting fields is a delicate process that requires sound judgement over the necessity of certain information. Some market participants would like to see the removal of fields that appear to add little to a regulator’s understanding of systemic risk or market abuse, such as which form of legal master agreement a trade was executed under. Other fields might appear to convey critical information, but merely duplicate details found elsewhere. For example, the unique product identifier (UPI) contains important trade details, such as product type, currency type and tenor, but many of these details are also assigned a separate data field in their own right. There is also widespread industry concern over the preference for international securities identification numbers rather than UPIs in UK and EU reporting rules (see box on page 25, A Matter of Identity: ISIN vs UPI).

“Mandating the use of this flood of data fields, some of which don’t add any particularly useful information for regulators or contain data they can access elsewhere, is counterproductive to the overall reporting goal. This is definitely a case of less is more – fewer fields, better accuracy, less time and effort wasted,” says Richard Young, senior data strategist at Bloomberg.

Targeted changes

At a technical level, there are other pitfalls that market participants would like to see rectified, some of which weren’t explicitly mentioned in ESMA’s call for evidence. For example, if a trade is executed on a trading venue, both EMIR and MIFIR require counterparties to submit a trading venue transaction identification code (TVTIC) to the trade repository. However, there is no specific format for this code in either rulebook. Each trading venue generates its own code structure, introducing additional complexity.

“Counterparties must manage different TVTIC versions from different venues, and monitor and adopt potential changes, introducing significant scope for discrepancies, inaccuracies and higher costs. This isn’t the fault of the trading venues – we just need a bit more guidance from regulators on this. A standardised code wouldn’t require changes to regulatory text and would be incredibly helpful,” says one reporting expert at a large international bank.

It is technical issues like these that the FCA sought to address in its consultation paper on improving the transaction reporting regime under UK MIFIR, which was published in November. Unlike ESMA’s wide-ranging call for evidence, the FCA has taken a more targeted approach to improve MIFIR reporting rules for UK entities in the near term, while taking steps to begin a more holistic review of reporting under EMIR, MIFIR and the SFTR, in conjunction with the Bank of England.

Many of the FCA’s proposed changes have been welcomed. For example, the proposals include a reduction in transaction reporting fields from 65 to 52, fewer required fields in trading venue transaction reports and a slimming down of instrument reference data fields from 48 to 37. While not addressed in the consultation, ISDA’s response recommended that an exemption from MIFIR reporting for portfolio compression trades should be extended to all post-trade risk-reduction services, arguing that the purpose

of those trades is purely for risk management and they are not relevant for the monitoring of market abuse.

Unlike ESMA, the FCA is not considering the removal of OTC derivatives from MIFIR reporting at this stage, but it has proposed the removal of FX derivatives, on the basis that the data needed for monitoring and to detect FX market abuse is already reported under EMIR. This change would reduce costs for more than 400 UK entities, according to the FCA, while the full set of changes it has proposed could lead to cost savings of £100 million across all in-scope firms.

The FCA consultation also includes a proposal for ‘conditional’ single-sided reporting, which is already an option under MIFIR but is rarely used, in part due to the detailed information the sell-side counterparty must share on behalf of its buy-side client. The FCA proposes reducing the current 10 data points to four, with buy-side firms still legally responsible for the quality of data provided to the reporting party. However, the industry is lukewarm on the idea.

“Overall, the proposals in the FCA consultation are a positive step forward in reducing the cost and complexity of transaction reporting for UK market participants. However, we do not believe conditional single-sided reporting would be an effective change to the current system. Although these changes may make conditional single-sided reporting simpler in some cases, firms will likely want to use it across all OTC transactions or not at all. Using it just for a subset of trades in MIFIR will only add further operational burden for little benefit,” says Bayley.

Prioritising fixes

This isn’t the first time EU and UK regulators have tried to revise reporting rules. Under EMIR Refit, which came

into effect in 2024, several small tweaks were introduced to data formats, identifiers and validation processes. During that process, the number of data fields rose from 129 to 203. Matching and pairing rates did improve as a result, according to ESMA. By December 2024, a little over 20% of reported derivatives were missing a corresponding UTI compared to more than 40% before the changes were introduced.

However, the costs of running the existing reporting system are still very high. An ISDA survey of 13 sell-side and four buy-side firms in October 2025 found that annual reporting budgets are running to millions of euros, with several firms spending more than €10 million each year. That’s on top of hefty implementation costs, which added up to nearly €20 million across EMIR and MIFIR for the sample of 17 firms.

The broad nature of ESMA’s call for evidence is seen as a genuine willingness to tackle thorny problems, even if it takes years to make the necessary changes. Any attempt to go back to basics and create a ‘report once’ approach across MIFIR and EMIR will require revisions to the original legislative texts, which will take time. Although welcome, any such efforts should not distract from the use of technology to achieve efficiencies (see box, *Adopting the ISDA DRR*) and making more immediate technical fixes, says Bayley.

“There is a clear industry consensus on the need to rationalise reporting instruments under EMIR and MIFIR and switch to single-sided reporting. However, ESMA could materially improve data accuracy over the next 12 to 18 months by removing unnecessary data fields and focusing on the core economic data that is central for monitoring systemic risk. Even a 10-15% reduction of data fields could make a big difference,” Bayley explains. ¹⁰

ADOPTING THE ISDA DRR

ISDA’s Digital Regulatory Reporting (DRR) initiative offers users the ability to increase the accuracy and consistency of the data reported to regulators, while significantly increasing efficiency and reducing the costs of implementation.

The ISDA DRR takes as its foundation a common interpretation of each ruleset that has been reviewed and agreed by an industry working group. It uses the Common Domain Model – an open-source data standard for financial products, trades and lifecycle events – to convert the industry interpretation into machine-executable code. That code can

be used as the basis for implementing the rules or to validate that a firm’s interpretation is aligned with the industry reading.

This cuts the cost and effort of each firm having to interpret each set of rules individually and reduces the risk of regulatory penalties for misreported data.

The ISDA DRR is currently available for reporting requirements set by the Australian Securities and Investments Commission, the Canadian Securities Administrators, the Hong Kong Monetary Authority, Japan’s Financial Services

Agency, the Monetary Authority of Singapore and the US Commodity Futures Trading Commission. The ISDA DRR is also available for reporting requirements under the European Market Infrastructure Regulation in the EU and UK. Ultimately, the ISDA DRR will support 14 reporting rule sets in nine major jurisdictions and ISDA will maintain the DRR code as those rules evolve in future.

More information on the ISDA DRR is available on the ISDA Solutions InfoHub: www.isda.org/isda-solutions-infohub

Clear Target

Mandatory clearing of US Treasury securities is due to begin at the end of this year under rules finalised by the Securities and Exchange Commission in 2023. SEC commissioner Mark Uyeda talks to IQ about the benefits of clearing and the path to implementation

IQ: You've been a commissioner at the US Securities and Exchange Commission (SEC) for nearly four years, including a short stint as acting chairman at the start of 2025. What have been your main achievements and how did you support the transition to chairman Atkins?

Mark Uyeda (MU): Starting from day one of the second Trump administration, it was critical to address regulatory overreach from the previous administration. For instance, SEC guidance – called Staff Accounting Bulletin No. 121 – effectively limited any financial institution from providing custody for crypto assets, and that guidance was withdrawn. Another initiative was to reinvigorate stalled efforts to permit mutual funds to offer separate share classes in the form of an exchange-traded fund.

One significant action that the SEC undertook while I served as acting chairman was to revisit the compliance dates for the large number of rules issued by the prior

administration, which were often set with little thought about the burden on market participants having to comply with multiple rule changes at the same time. After receiving feedback, the SEC extended compliance dates for a number of rules. Importantly, the commission provided an additional year to implement the Treasury clearing mandate, moving the deadlines to December 31, 2026 for eligible cash market transactions and June 30, 2027 for eligible repo market transactions.

Each of these actions was intended to facilitate the transition to the incoming chairman in an orderly manner.

IQ: You were tasked by chairman Atkins to oversee the implementation of US Treasury clearing. How will clearing improve the resilience of the Treasury market?

MU: The US Treasury market is the deepest and most liquid government securities market

in the world – over \$1 trillion in Treasuries trade on average every single day, with over \$30 trillion outstanding. It is a market that underpins financial activity across domestic and global economies. However, it has experienced periods of disruption from time to time. One example occurred in early April 2025, when liquidity conditions deteriorated alongside an abrupt increase in market volatility. While this episode was short lived, such occurrences underscore this market's importance and how critical it is to bolster its resilience to future shocks.

The Department of the Treasury first recommended studying clearing and settlement arrangements as one means of improving resilience during President Trump's first term in office. A central counterparty can benefit the market by potentially improving transparency and reducing bilateral exposures. Additionally, the ability to use netting could free up additional cash for market participants, which, in turn, could help reduce liquidity strains. The SEC noted these

“A central counterparty can benefit the market by potentially improving transparency and reducing bilateral exposures. Additionally, the ability to use netting could free up additional cash for market participants, which, in turn, could help reduce liquidity strains”



benefits when it proposed rules requiring that certain secondary market transactions in Treasuries be cleared.

Today, we are in an implementation period. Chairman Atkins has asked me to take on the role of overseeing that process. It is a priority issue for the SEC and for me.

IQ: Introducing mandatory clearing in such a systemically important market will be a huge transition and the broader regulatory framework requires some adjustments to support and enable Treasury clearing – including crucial changes to the capital rules. What has the SEC done to ensure its

regulatory framework supports efficient clearing of Treasury transactions and what further changes may be needed?

MU: That is precisely why it was important for the SEC to extend the implementation period to have a smooth transition. The rules generally require that secondary market cash transactions in Treasuries, as well as repo and reverse repo transactions that have Treasury securities as collateral, be submitted for clearing. There are exceptions – such as for transactions in which one counterparty is a central bank, a sovereign entity, an international financial institution or a natural person – that are specified in the scope of the rules. But the rules have a broad reach, and questions began to emerge almost

immediately about how these rules would be implemented.

After I became acting SEC chairman in January 2025, it became apparent that the original compliance deadlines were unworkable. The SEC approved a one-year extension of the compliance deadlines for both cash and repo transactions, with the goal of providing time to resolve the questions that had been surfacing about implementation and enhancing market participants' ability to comply with the rules.

Market participants have been engaging with the SEC about areas where they believe clarity is needed. For example, one of these areas is extraterritoriality – the commission recently published a request for exemptive relief that proposes to limit the applicability of the trade submission requirement for transactions that occur entirely outside the US. Additionally, SEC staff have been providing guidance on issues like the scope of the clearing requirement in triparty repo transactions, the interplay with Exchange Act customer protection rules and accounting matters.

Our goal is to be transparent about what areas we are addressing. Regular updates in public statements and speeches are being provided, and the SEC website has a Treasury clearing dashboard page so the public can access the rules, staff guidance, updates and staff contact information in one place.

IQ: Ahead of implementation of the Treasury clearing mandate, the Fixed Income Clearing Corporation (FICC) and CME Group have developed a client portfolio margining solution to supplement their existing solution for clearing members. What did you consider when approving this additional service and what role will it play in delivering effective client clearing for this market?

MU: Historically, the SEC has supported and approved cross-margining at clearing agencies and recognised the potential benefits of cross-margining systems. These benefits include freeing up capital through reduced margin requirements, cutting clearing costs by integrating clearing functions, reducing clearing agency risk by centralising asset management and harmonising liquidation procedures. In addition, we understand →

→ that certain market participants view an expansion of cross-margining between Treasury cash and futures positions to be an important component of the transition to increased central clearing of US Treasury securities. With respect to the current proposal from FICC and CME Group, the commission has not concluded its consideration of the proposal.

IQ: Forthcoming crypto market structure regulation is likely to bring some crypto assets into clearing. Given the differences in the way crypto assets are traded and settled, how will the clearing infrastructure need to evolve? Where will you be focusing as this regulation is finalised and implemented?

MU: There are interesting possibilities in how tokenisation and new technologies can make our markets more efficient, including with respect to the clearing functions. The SEC's crypto task force and other staff have been working with market participants to develop paths forward that allow for crypto, tokenisation and other innovations to proliferate through thoughtfully regulated environments.

For the time being, our mandate to implement the Treasury clearing rule is distinct from these workstreams. The market for US Treasuries stands on its own in its importance to financial systems across the globe. Our clearing experts in the Division of Trading and Markets are working through questions from market participants to make sure that – as the compliance dates for clearing cash and repo Treasury transactions approach – market participants have what they need to keep these markets liquid and functioning smoothly.

IQ: Despite huge advances in technology, some parts of the derivatives market are still beset by inefficient, manually intensive processes. Where do you see the biggest opportunities for tokenisation and distributed ledger technology (DLT) to improve these processes?

MU: There is promise in how tokenisation and DLT might transform financial markets generally – and the derivatives market, in particular – by reducing inefficiencies.

Collateral management is one area of opportunity. Today, margin calls and asset transfers often involve multiple intermediaries and batch processing, which can delay settlement and tie up capital. Tokenising collateral could enable real-time, automated movement of assets, even outside traditional market hours, streamlining workflows and optimising capital allocation under stricter regulatory requirements.

Trade reporting is another example. Current reporting frameworks often require duplicative submissions and manual reconciliation. DLT could allow for standardised data collection and reporting across institutions, establishing a common language for market participants. This type of development would eliminate duplicative, inconsistent reporting and reduce manual reconciliation.

Realising these benefits will require broad industry adoption – across the sell side, buy side and custodians – with interoperability among networks. That is a significant coordination challenge, but it is worth pursuing. Chairman Atkins has indicated harmonisation efforts with the Commodity Futures Trading Commission are a priority for the SEC, so I'm optimistic we will see positive change in this area.

IQ: Where do you see the most compelling use cases for artificial intelligence (AI) in financial markets and supervision, and how do you expect this to evolve? What guardrails do you think are needed to make sure AI doesn't compromise the safety and stability of market functioning?

MU: The use of AI in financial markets is not a sudden, radical change – it's the latest iteration in a long history of technological transformation of our markets, from ticker tape to electronic networks. These innovations have consistently lowered capital costs and boosted market depth and liquidity.

Recent breakthroughs certainly expand the potential impact of AI, and we can see market participants applying it in various forms in areas like internal task automation, investor outreach and risk management, which has the potential to improve decision-making and operational efficiency. At the SEC, our AI task force has been exploring how we can leverage

AI capabilities to enhance our supervision of markets and other work.


The commission has long maintained a technology-neutral approach: our rules are designed to apply consistently regardless of the tools or systems firms choose to use. Guardrails are important, but they need to be dependent on context. No one wants regulation that quickly becomes outdated, with costs outweighing benefits. The particular technology, use case and deployment matter as we consider potential limitations that could be imposed on market participants. Right now, the focus should be on gathering relevant data and evidence to guide potential paths forward.

IQ: Finally, your term as a commissioner runs until 2028. What do you believe should be the SEC's main priorities during that time?

MU: The next few years will be incredibly exciting for this agency and our markets. We will have the chance to revitalise capital formation. This includes making public markets more attractive – streamlining initial public offering processes, reducing disclosure burdens and modernising reporting requirements, as well as exploring semiannual reporting and reduced compliance burdens for smaller issuers.

We also have an opportunity to benefit retail investors' retirement accounts by allowing them to have exposure to private market investments from which they've been historically locked out. Registered investment vehicles, such as target-date funds, which are designed for longer-term holding periods, can be a great way to do that. We can only enable that to happen, however, if we work with the Department of Labor to make lasting changes to our regulatory regime.

Of course, there are the innovations coming out of the digital assets space, which hold promise as well. We need to develop a clear, principles-based regulatory framework for digital assets. Having moved beyond the regulation-by-enforcement approach of the prior administration, we now have the chance to develop rulemaking that supports crypto, tokenisation and other innovations within regulated environments.

With all these opportunities ahead of us, I am honoured to serve as commissioner at this point in the SEC's history. 

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“We believe that in the next five years we will see more change to the financial market infrastructure than we've seen in the last 50... we are very optimistic that the financial infrastructure five years from today will really look so significantly different than where we are today”

Sandy Kaul, Franklin Templeton

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A Legal Perspective

Tokenisation could make financial markets faster, cheaper and more accessible, but certain legal issues should be considered when using tokenised assets as collateral, writes ISDA's Marcus Hunter

The pitch for tokenisation is compelling. By representing real-world assets like bonds, equities and money market funds as digital tokens on a blockchain, markets could settle in seconds rather than days, collateral could move around the clock and assets that were previously difficult to mobilise could be put to work. Estimates of the market's potential size run to trillions of dollars. But one important question can be skimmed over: when you hold a token, what do you actually own?

This is not an abstract issue. As ISDA's work on tokenised assets has shown, the legal framework governing token ownership has important implications for market participants. That is true whether tokenised assets are being considered as investments or as collateral for derivatives transactions. Several ISDA members are actively developing solutions in this space, and the legal infrastructure is being built in parallel. For market participants, there are four key legal issues that need to be considered when using tokenised assets.

Defining ownership

The most fundamental question is what legal rights a token confers on its holder. The answer has significant practical consequences, particularly on the insolvency of the token issuer.

A token backed by an enforceable legal claim on an underlying asset gives the holder recourse to that asset if the issuer fails. A token that does not carry such a claim leaves the holder as an unsecured creditor of the issuer, ranking alongside other general creditors in an insolvency. The legal and economic difference between those two positions is substantial. The key question for any market participant

is which category applies to a given token, and whether that is clearly established in the relevant legal documentation.

Assuming a token is an enforceable legal claim against an underlying asset, the next question is how that claim is legally transferred. In some models, the blockchain may be the legally authoritative record of ownership. In others, an off-chain registry may also be maintained and act as the ultimate source of truth – in which case, the transfer of a token may not result in a change in ownership until that registry is updated. Which record takes precedence in a dispute could be relevant to determine the applicable jurisdiction and governing insolvency regime.

The position is complicated further if tokens are held through intermediaries, such as platforms or custodians. In that case, the legal analysis must address an additional question: whether customer tokens are properly separated from the intermediary's own assets and whether that separation is enforceable in the event of the intermediary's insolvency.

Documentation

The legal rights attached to a token are only as strong as the documentation that underpins them. In traditional financial markets, standardised documents provide a well-tested legal framework that courts and practitioners across multiple jurisdictions understand. While equivalent standards for tokenised assets are still developing, market participants investing in tokenised assets should review available documentation to understand their rights as token holders.

ISDA has long been a proponent of comprehensive documentation covering a

variety of asset classes. The ISDA Digital Asset Derivatives Definitions, published in January 2023, brought standardised documentation to derivatives transactions referencing digital assets for the first time. While the definitions initially covered Bitcoin and Ether, the framework provides a model for how documentation standards in this space can be built incrementally as the market develops. ISDA is now considering adding coverage for additional assets, including Solana and Ripple.

Standardising documentation for tokenised assets raises particular challenges in the context of collateral. As ISDA's 2024 guidance note on tokenised collateral explained, the legal analysis varies depending on how a token is structured. Whether it functions more like a bearer security, a registered security or a claim against a custodian determines how collateral arrangements should be documented and what legal opinions are required on enforceability. Well-established legal opinion frameworks for traditional collateral will need to be extended to accommodate those tokenisation structures that are adopted for collateral usage, and they will need to address the key legal enforceability questions across a broad range of jurisdictions.

Collateral

Questions of ownership and documentation become especially significant when tokenised assets are used as collateral in the derivatives market, which is where much of the industry's near-term focus lies. Calibrating documentation to ensure appropriate treatment of tokenised assets is crucial when considering a collateral arrangement.

Derivatives markets depend on collateral. Under the margin rules for non-cleared derivatives, parties are required to post initial and variation margin to manage counterparty credit risk. Eligible collateral has historically been limited to a small group of highly liquid assets, including cash and government securities. Market stress events, including the 2020 dash for cash and the UK gilt market crisis of 2022, highlighted the importance of collateral liquidity and raised questions about whether the current framework makes the best use of available assets.

Tokenisation has the potential to expand the pool of assets that can be used as collateral and make collateral transfers faster and more efficient. In December 2023, ISDA published model provisions for the inclusion of tokenised assets in the 2016 ISDA credit support annexes for variation margin, allowing parties to designate items of eligible collateral as ‘DLT cash’ or ‘DLT securities’ and setting out how transfers of those assets should be treated and documented.

Using tokenised assets as collateral means it is essential to have clear answers to ownership and documentation questions. A firm accepting a tokenised asset as collateral needs to understand what rights the token confers and whether those rights are enforceable. ISDA’s January 2023 whitepaper on netting and collateral enforceability identified several legal considerations, including establishing a valid and enforceable security interest, understanding enforcement mechanisms and confirming that close-out netting provisions are effective in the relevant jurisdiction.

There is also a regulatory dimension. Firms need clarity that tokenised assets will be recognised as eligible collateral under the margin rules for non-cleared derivatives. In 2025, ISDA responded to the US Commodity Futures Trading Commission’s

FOUR QUESTIONS TO ASK ABOUT ANY TOKENISED ASSET

- What rights does the token confer and what happens to those rights if the issuer or platform becomes insolvent?
- Is the blockchain the authoritative legal record of ownership or is there an off-chain registry that takes precedence? How do the two interact?
- Which jurisdiction’s rules apply to determine the effectiveness of a collateral arrangement involving a tokenised asset and what needs to be done to perfect a security interest in, or provide effective title transfer of, tokenised collateral?
- How are custody arrangements structured and what protections exist in the event of a custodian’s insolvency?

initiative on tokenised collateral and stablecoins, calling for consistent regulatory treatment across markets and highlighting the importance of maintaining sound liquidity and credit risk frameworks.

Custodian risk

Even when legal ownership is established, complications can arise when a tokenised or digital asset is held via an intermediary or custodian. Custodian risk is inherent in any arrangement where assets are held by an intermediary.

A May 2023 ISDA whitepaper on digital asset intermediaries examined how custody arrangements for digital assets should be structured under New York and English law to provide effective customer protection. Its core finding was that contractual and operational frameworks for digital assets should be designed to replicate the protections customers would expect for traditional assets held in custody. The key considerations are whether client assets are properly segregated, what happens to the private key if the custodian becomes insolvent and whether the legal basis for a customer’s claim on its assets is clearly established.

Next steps

Tokenisation encompasses a wide range of technologies and structures, each with different legal characteristics. The work of mapping those characteristics onto existing legal frameworks, identifying where gaps exist and developing documentation and market practices to address them is well under way, and ISDA members are actively contributing to it.

Through its whitepapers on digital asset custody and netting enforceability, its model provisions for tokenised collateral and its ongoing engagement with regulators, ISDA has been contributing to that work and helping to build a legal infrastructure that is fit for purpose. The goal is a tokenised asset market that delivers on its potential while operating on legally sound foundations.

For market participants, the practical implication is straightforward. They need to understand the legal position of any tokenised asset – what rights it confers, how ownership is established and recorded and how it behaves in custody and as collateral. This is as important as understanding the technology itself. ¹⁰

Marcus Hunter is counsel, digital transformation, at ISDA.

ISDA’S LEGAL WORK ON TOKENISATION: FURTHER READING

- ISDA Launches Standard Definitions for Digital Asset Derivatives, January 26, 2023: tinyurl.com/ycxtcerr
- Navigating Bankruptcy in Digital Asset Markets: Netting and Collateral Enforceability, January 26, 2023: tinyurl.com/mrfd6a4f
- Navigating Bankruptcy in Digital Asset Markets: Digital Asset Intermediaries and Customer Asset Protection, May 3, 2023: tinyurl.com/mrxbyzm8
- Tokenized Collateral Model Provisions for Inclusion in ISDA 2016 Credit Support Annexes for Variation Margin (VM): tinyurl.com/y5y9jppjh
- Guidance for Memorandum of Law Examining the Validity and Enforceability of Collateral Arrangements Using the ISDA Model Provisions for Tokenized Collateral, May 21, 2024: tinyurl.com/yjt8jzsd

40TH ISDA ANNUAL GENERAL MEETING

BOSTON

APRIL 28-30, 2026 | OMNI HOTEL BOSTON AT THE SEAPORT

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*Times in Eastern Daylight Time

TUESDAY, APRIL 28

8:30 AM	Board of Directors Election/Financial Report **MEMBERS ONLY**
10:00 AM	ISDA Accounting Symposium Derivatives, Hedge Accounting, Digital Assets, ESG, and More Sponsored by EY
11:45 AM	The Trilogy of Derivatives Lifecycle Automation Three-part Symposium: Legal, Regulatory Reporting and Collateral
2:00 PM	Managing Assets in an Uncertain World This exclusive event will explore how asset owners are responding to uncertainties in the economic, market and geopolitical outlook, and how they are using derivatives to achieve their objectives. **This event is invitation only**
4:00 PM	Early Registration & Arrival Hospitality Lounge Sponsored by Haynes Boone
7:30 PM	ISDA AGM Welcome Reception Sponsored by AWS and LSEG

WEDNESDAY, APRIL 29

8:00 AM	Registration, Networking Breakfast & Exhibition Opens
8:45 AM	Opening Remarks Scott O'Malia, Chief Executive Officer, ISDA
9:00 AM	Keynote Fireside Chat Mandy DeFilippo, CEO, US, EA, MEA and Pakistan, Standard Chartered
9:20 AM	Basel III Endgame – Worth the Wait? US regulators published the long-awaited and significantly revised Basel III endgame proposals in March 2026. Do the changes achieve the desired modern, risk-sensitive market risk capital framework that will reinvigorate internal models and preserve deep, liquid markets? How will other jurisdictions react to preserve competitiveness, and will the dormant Basel Committee awaken to address fragmentation?
10:05 AM	Keynote Fireside Chat Marco Argenti, Chief Information Officer, Goldman Sachs
10:30 AM	Networking Break
11:00 AM	Keynote Fireside Chat Dan Gallagher, Chief Legal, Compliance and Corporate Affairs Officer, Robinhood Markets
11:20 AM	Navigating the Clarity and Genius Acts The Clarity and Genius Acts look set to rewire US capital markets, including derivatives, by encouraging use of stablecoins, tokenised securities and other digital assets in core workflows like collateral exchange, settlement and cross-border payments. In addition, the Commodity Futures Trading Commission recently launched guidance for tokenised collateral in derivatives markets. What will this mean for financial institutions, existing infrastructure and the financial system as a whole? What regulatory guardrails need to be in place to allow the digital assets market to grow safely and at scale? As we move to 24/7 trading, what needs to be in place to ensure 24/7 risk management?
12:05 PM	Keynote Fireside Chat Heath Tarbert, President, Circle
12:25 PM	Ready for Tokenisation Tokenisation could help transform derivatives markets. In particular, it could help improve collateral management by broadening the potential universe of eligible collateral, improving liquidity management, reducing the cost of funding and cutting operational errors. What progress has been made and what legal, regulatory and operational issues need to be addressed to ensure widespread adoption?
1:10 PM	Lunch
2:15 PM	NBFI: What's the Target – and What's the Remedy? The growth of private credit and non-bank financial intermediation (NBFI) has raised concerns among policymakers that the potential build-up of leverage and interconnectedness across borders and economic sectors may become a source of systemic risk. What specifically is the threat regulators are responding to, which institutions pose the greatest perceived risk and what is the appropriate remedy? Is more information needed by regulators on exposures or, given the vast amounts of derivatives and financial data already reported, could and should regulators make better use of the information that is currently available?
3:00 PM	Modernising the Regulatory Framework The pace of change in derivatives markets is accelerating, with the rapid emergence of new products, participants and processes. What adjustments to the regulatory framework might be needed to fully support and enable the modernisation of markets and open a path to greater innovation, competition and efficiency?
3:45 PM	Networking Break
4:15 PM	View from the Trading Floor In conjunction with Women in Financial Markets How have derivatives trading desks navigated the challenges of 2026 so far, and what strategies are they adopting? What do traders see as the main risks and opportunities ahead this year?
5:00 PM	Promise and Precaution – AI in Financial Markets Panel and Reception Artificial intelligence has the potential to completely reshape trading and risk management, eliminating cumbersome manual processes, but robust guardrails are needed to ensure the technology doesn't compromise safe and efficient market functioning. How is AI already being used among financial institutions, and what does the future hold? Sponsored by GenerativeX
7:30 PM	ISDA AGM Reception Sponsored by Intercontinental Exchange, Inc.

Agenda is subject to change

*Times in Eastern Daylight Time

THURSDAY, APRIL 30

8:00 AM	Registration, Networking Breakfast & Exhibition Continues
9:05 AM	Welcoming Remarks Scott O'Malia, Chief Executive Officer, ISDA
9:15 AM	Chairman's Remarks Amy Hong, ISDA Chair, Head of Strategy, Investments and Partnerships, Global Banking & Markets, Goldman Sachs & Co. LLC
9:30 AM	Keynote Fireside Chat David Bailey, Executive Director, Prudential Policy, Bank of England
9:50 AM	Fireside Chat
10:10 AM	Aligning Derivatives and SFTs Securities financing transactions – especially repo – are essential for market liquidity and efficient collateral management, but misalignment between derivatives and SFTs and fragmented regulatory treatment can reduce efficiency, increase costs and amplify disruption during periods of stress. What steps have been taken to create a more holistic legal, regulatory and capital environment for derivatives and SFTs and what more needs to be done? How important are changes to the capital framework to recognise cross-product netting arrangements under a legally enforceable master netting agreement?
10:55 AM	Networking Break
11:25 AM	Enhancing Operational Resilience Stress events can leave legal departments scrambling to understand how a specific counterparty failure should be managed, while operations departments may be stalled by workflow friction and a lack of interoperability with third- and fourth-party providers. What business needs and regulatory requirements are driving the need for improved workflow management? What are financial institutions doing to make these processes more robust, how can firms better manage resiliency risks, and what are the consequences of getting it wrong?
12:10 PM	Keynote Address Michael Selig, Chairman, US Commodity Futures Trading Commission
12:25 PM	Dealing with Liquidity Shocks Market disruption can lead to spikes in margin calls and redemptions, putting pressure on firms to quickly source cash or other high-quality collateral, potentially leading to liquidity squeezes. Various policy responses have been developed to improve market resilience and enhance bank intermediation capacity, including recommendations on margin preparedness and the clearing of government bonds and repos. Meanwhile, some firms have taken steps to broaden their eligible collateral options, improve operational efficiencies and interoperability within the collateral management ecosystem and set up credit facilities with a wider universe of counterparties. Are these steps collectively enough to prevent future liquidity stress events? Sponsored by RBC Capital Markets
1:10 PM	Lunch
2:15 PM	POLICY SPOTLIGHT SESSION A Navigating a Decade of the ISDA SIMM This year marks the 10th anniversary of the ISDA Standard Initial Margin Model (ISDA SIMM). Over the past decade, the ISDA SIMM has become one of the most widely implemented and rigorously governed industry models – continuously reviewed, assessed and validated by a global community of firms and regulators. As regulatory frameworks evolve – such as the EU's EMIR 3.0 reform – and additional jurisdictions like China introduce initial margin requirements, the implications for both existing and new SIMM users continue to grow. This session will explore the ISDA SIMM's role in a rapidly shifting regulatory environment and highlight what firms must do to remain compliant, operationally prepared and strategically positioned for the next decade of the ISDA SIMM's evolution. POLICY SPOTLIGHT SESSION B Renovating the FX Market Drafting of revisions to the 1998 FX and Currency Option Definitions are now complete, incorporating important updates to how FX derivatives are traded and managed. What are the key amendments, what will they mean in practice and what do market participants need to know about implementation?
3:05 PM	POLICY SPOTLIGHT SESSION A Building Derivatives Capacity Most derivatives trading continues to be concentrated in the major financial centres, led by London and New York, but average daily turnover in certain emerging markets is rising as their economies grow, with local firms increasingly using derivatives to manage risk and create certainty and stability. What steps can be taken to further nurture and encourage this growth, from legal and regulatory reforms to infrastructure developments? POLICY SPOTLIGHT SESSION B Global Policy Priorities This session will delve into the weeds of current US, EU and UK public policy priorities and ISDA's advocacy work, with the aim of reducing redundancies and unnecessary costs in regulatory requirements and mitigating the negative effect of cross-border inconsistencies.
3:55 PM	POLICY SPOTLIGHT SESSION A Digital Assets and Derivatives Digital assets will undoubtedly have an impact on derivatives markets, but several potentially important matters need to be clarified, including custody, legal, capital and market structure issues. In this session, members of the latest ISDA Future Leaders in Derivatives cohort present the findings of a new whitepaper that explores the intersection of digital assets and derivatives markets and makes recommendations on the path forward. POLICY SPOTLIGHT SESSION B Evolution of the DCs The process to strengthen the structure and governance of the Credit Derivatives Determinations Committees (DCs) is continuing, with the appointment of a governance committee and an invitation to tender for a third-party regulated entity to act as DC administrator. This session will consider what further changes are planned and why, as well as discuss the circumstances behind recent DC credit determinations.
4:40 PM	ISDA AGM Concludes

Agenda is subject to change

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An Evolving FX Market

The FX derivatives market has experienced significant growth in recent years, prompting ISDA and EMTA to publish updated FX definitions to reflect changes that have occurred in the market. But while trading volumes and market practices have evolved, the underlying benefit of FX derivatives remains the same

The foreign exchange (FX) derivatives market has seen significant growth in recent years. According to the latest triennial survey by the Bank for International Settlements (BIS), average daily turnover of FX derivatives reached \$6.6 trillion in April 2025 – roughly double its level in April 2013, reflecting increased market volatility and geopolitical risk. The UK continued to account for the largest portion of reported turnover in April 2025, but the Asia-Pacific region represented a growing share, illustrating the global nature of this market.

The rise in trading activity, combined with changes in regulations, market practices and technology, prompted ISDA and EMTA

to publish new definitions for trading FX derivatives in March 2026, updating the previous set of definitions published in 1998.

But while the underlying market, and the definitions that govern trading, have evolved, the purpose of FX derivatives – to manage foreign currency risk to create greater certainty, reduce costs, protect against losses and dampen the impact of volatility on earnings – remains unchanged.

Size of the market

Global FX derivatives average daily turnover increased to \$6.6 trillion in April 2025, up by 21.4% from \$5.4 trillion in April

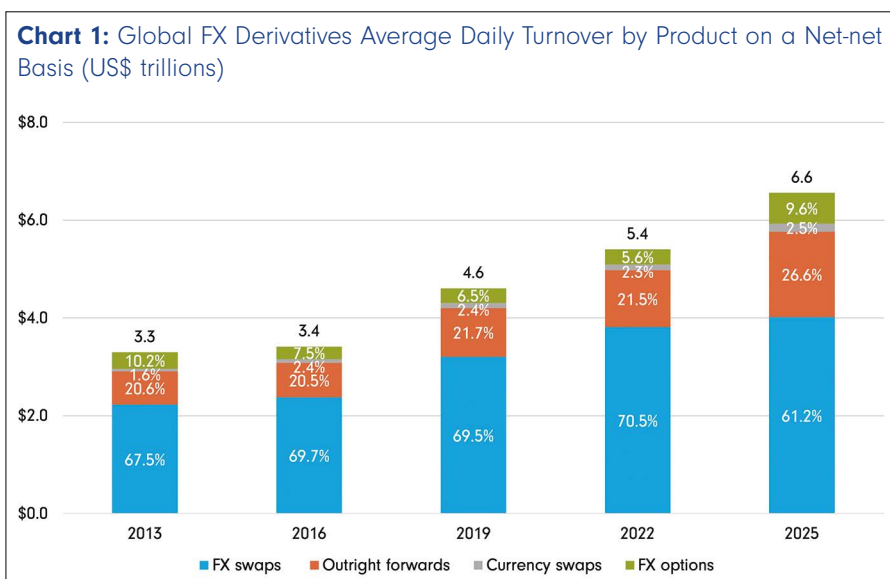
2022 and roughly double compared to \$3.3 trillion in April 2013 (see Chart 1). The BIS notes that elevated FX derivatives activity in April 2025 occurred alongside sharp US dollar movements linked to US tariff announcements and broader policy uncertainty.

The increase in turnover was concentrated in outright forwards and FX options, as investors re-hedged currency exposures amid heightened volatility and an unexpected depreciation of the US dollar. In particular, forwards allowed investors to lock in exchange rates and adjust hedge ratios on existing positions, while options trading increased as investors hedged future FX risk under elevated uncertainty.

FX swaps were the most actively traded product in April 2025, with average daily turnover rising to \$4.0 trillion from \$3.8 trillion in April 2022. Despite this increase, their share relative to total FX derivatives activity declined to 61.2% in April 2025 from 70.5% in April 2022.

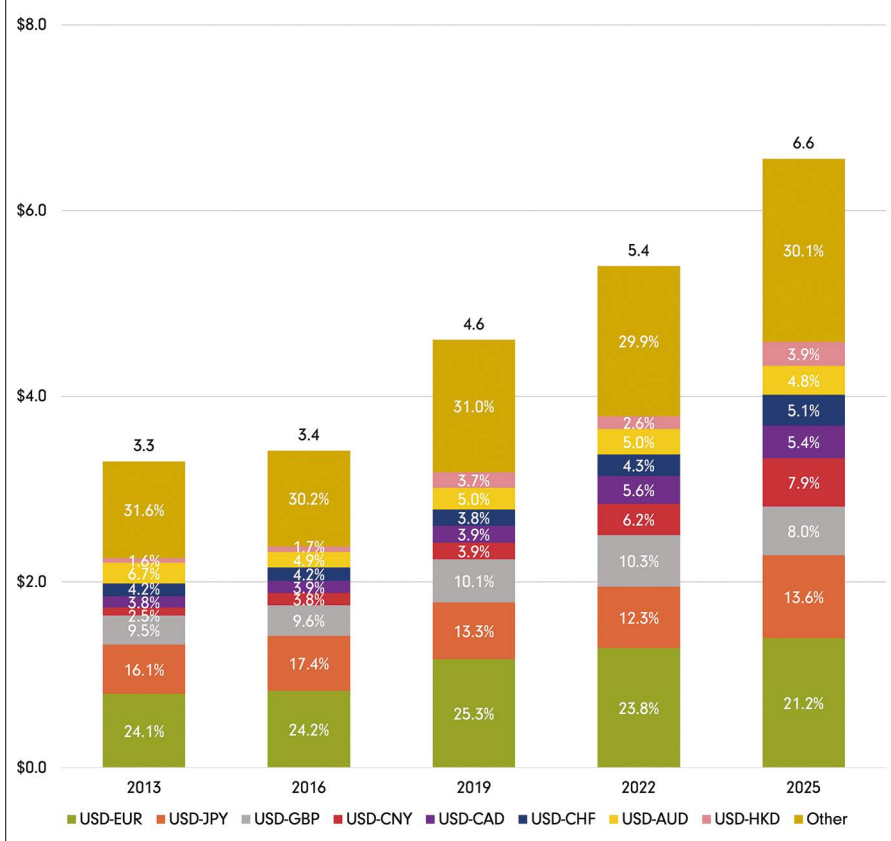
Outright forwards were the largest contributor to overall growth, with average daily turnover rising to \$1.7 trillion from \$1.2 trillion. As a result, their share of total activity rose to 26.6% in April 2025 from 21.5% in April 2022. Average daily turnover in non-deliverable forwards (NDFs) – which are reported within the outright forwards category in the BIS survey – increased by 28.6% to \$333.2 billion from \$259.1 billion in April 2022.

FX options experienced the fastest



Source: BIS Triennial Central Bank Survey

Chart 2: Global FX Derivatives Average Daily Turnover by Currency Pairs on a Net-net Basis (US\$ trillions)



Source: BIS Triennial Central Bank Survey

growth on a percentage basis. Average daily turnover increased by 107.6% to \$631.7 billion from \$304.3 billion, with their share of the market rising to 9.6% from 5.6%. Turnover in currency swaps grew by 32.4% to \$164.1 billion from \$123.9 billion in 2022, with their share of overall activity remaining broadly stable at around 2.5%.

The most actively traded currency pair in April 2025 was USD/EUR, representing 21.2% of global FX derivatives turnover, followed by USD/JPY at 13.6% and USD/GBP at 8.0% (see Chart 2). However, activity in several other currency pairs has grown strongly in recent years. In particular, USD/CNY rose to 7.9% of global turnover in 2025 from 2.5% in 2013. USD/CAD and USD/CHF also recorded steady gains in share. These changes likely reflect broader diversification in global trade and investment across currencies, alongside greater hedging activity by institutional investors.

Within the NDF market segment, 99.6% of turnover in April 2025 involved the US dollar on one side of the trade. Four currencies

paired with the US dollar – Indian rupee, South Korean won, Taiwanese dollar and Brazilian real – accounted for 75.2% of NDF trading volume, up from 67.7% in April 2022.

Trading location

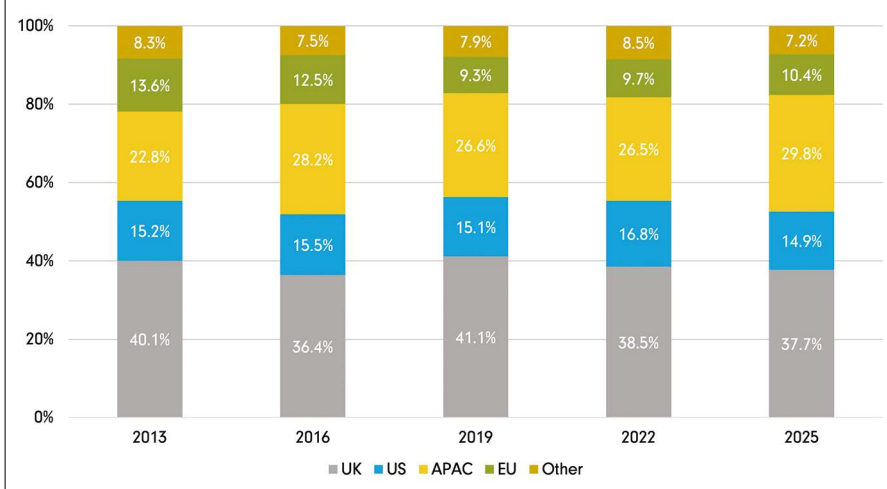
FX derivatives trading is concentrated in a small number of global financial centres. In April 2025, turnover reported by sales desks located in the UK accounted for 37.7% of global FX derivatives turnover, making it the largest reporting location. The US captured 14.9% of global turnover, slightly lower than its share in prior years. The EU accounted for 10.4% of turnover in April 2025, while other locations represented 7.2% of global activity (see Chart 3).

The most notable shift has been the increasing share of activity reported in Asia Pacific. The region accounted for 29.8% of global FX derivatives turnover in 2025, up from 22.8% in 2013, reflecting the growing role of Asian financial centres in intermediating cross-border currency flows. This increase has been driven primarily by Singapore and Hong Kong, which remain the largest regional hubs, alongside sustained activity in Japan and Australia. Turnover has also risen steadily in China, South Korea and India, pointing to a gradual broadening of FX derivatives activity across the region beyond the main financial centres.

Maturity profile

The BIS triennial survey provides a maturity breakdown for FX swaps and outright forwards, which have together historically represented over 85% of total FX derivatives turnover on a net-net basis. In April 2025, 57.5% of turnover in these instruments

Chart 3: Share of Global FX Derivatives Average Daily Turnover by Location of Sales Desks on a Net-gross Basis



Source: BIS Triennial Central Bank Survey

→ matured within seven days – 24.6% of total turnover matured in a single day and 32.9% matured between one and seven days. A further 17.7% of activity matured between seven days and one month, bringing the share of turnover with a maturity of one month or less to 75.2%. Extending the horizon, 92.7% of turnover matured within three months and 97.3% matured within six months. Only 2.7% of activity had a maturity longer than six months (see Chart 4).

This reflects the central role of FX swaps in short-term liquidity management and funding, as well as the use of outright forwards for near-term hedging and cashflow management.

FX definitions

To reflect changes in the FX derivatives market, ISDA and EMTA published the 2026 FX Definitions in March 2026, which will replace the 1998 FX and Currency Option Definitions as the market standard definition book for FX transactions from November 2027.

The updated FX definitions include revisions to disruption events and fallbacks for deliverable transactions, incorporate the EMTA template terms and market practices for non-deliverable FX transactions, contain provisions for calendar adjustment events and align the calculation agent standards with those in the 2021 ISDA Interest Rate Derivatives Definitions.

The 2026 FX Definitions also consolidate

the various supplements and provisions published by ISDA and EMTA since 1998 into an integrated document and eliminate the need for separate master confirmation agreements. Available in digital form on the ISDA MyLibrary platform, a revised version of the definitions will be published in full each time a future update is required.

Uses of FX derivatives

While the FX derivatives market has evolved, and the standards governing the trading of these instruments have been updated, the underlying reasons for using FX derivatives remain the same – to hedge risks arising from currency exposures.

FX risk commonly arises from operating, investing and financing activities in a global economy whenever cashflows, assets or liabilities are denominated in different currencies. These exposures typically fall into three broad categories.

Operational (cashflow) FX risk arises when revenues are earned in one currency and costs are incurred in another – for example, when foreign sales are supported by a domestic cost base, through foreign currency input costs or via cross-border capital expenditures. Exchange rate movements between pricing, invoicing and settlement can alter realised margins and cashflows.

Investment (valuation) FX risk reflects changes in the home currency value of foreign assets, including subsidiaries,

equities, bonds, loans and real assets, even when underlying local currency performance is unchanged.

Funding (liability) FX risk arises when borrowing in foreign currency lowers financing costs or broadens the investor base but introduces uncertainty in the domestic currency cost of servicing and repaying debt.

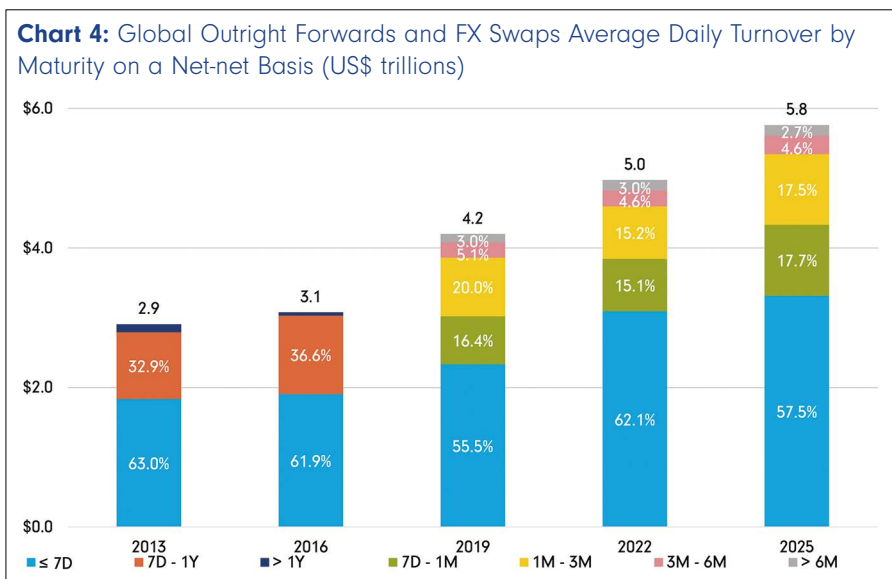
For sovereigns and public-sector borrowers, FX risk is often more acute because foreign currency liabilities create direct currency mismatches on public balance sheets. Exchange rate depreciation can raise debt-service burdens and weaken fiscal positions, particularly when combined with external shocks, such as terms-of-trade swings, sudden stops in capital flows or natural disasters.

FX derivatives are used to transfer and manage these risks in four primary ways – hedging foreign currency exposures, funding and liquidity management across currencies, managing balance sheet, investment and event-driven exposures, and enabling currency positioning.

Hedging foreign currency exposures

Hedging is the primary use of FX derivatives. Corporates, investors and public-sector borrowers use these instruments to reduce the sensitivity of cashflows, earnings and balance sheet values to exchange rate movements arising from cross-border revenues and costs, foreign asset holdings and foreign currency funding. By locking in future exchange rates or shaping the timing of currency conversion, market participants can plan with greater certainty and limit the impact of adverse currency movements on financial outcomes.

FX hedging strategies typically respond to three types of exposure. Transaction exposure arises from contracted or highly probable foreign currency cashflows, such as export revenues, import costs, dividends, coupon payments or capital expenditures, when exchange rate movements between commitment and settlement affect realised outcomes. Translation exposure reflects the accounting conversion of a foreign subsidiary’s revenues, earnings, assets and liabilities into the reporting currency, which can introduce volatility even when local currency performance is stable. Economic exposure captures longer-term competitiveness effects, including changes



Source: BIS Triennial Central Bank Survey

in pricing power, demand and cost position as exchange rates shift.

For governments and firms with multi-year projects or foreign currency debt, managing FX risk serves a broader purpose than stabilising near-term cashflows. By limiting exposure to large exchange rate moves, hedging can help preserve funding capacity, support credit profiles and provide greater certainty on long-term financing and investment plans.

Funding and liquidity management

FX derivatives are widely used to manage funding and liquidity across currencies. For banks, sovereigns, supnationals and corporates that borrow or invest internationally, the lowest all-in funding cost is not always available in the currency required. FX swaps and cross-currency swaps allow entities to raise or deploy funds in one currency and convert them into another, while neutralising exchange rate risk. In practice, FX swaps are commonly used for short-term funding needs, while cross-currency swaps are used for longer-term funding and balance sheet management.

This use of FX derivatives is closely linked to balance sheet structure. Institutions that operate with persistent currency mismatches between assets and liabilities use FX derivatives to align the timing and currency denomination of cash inflows and outflows. However, reliance on short-dated FX swaps introduces rollover and liquidity risk, as positions must be renewed frequently and funding conditions can change quickly.

For example, a European bank requires short-term euro funding to support client lending but can raise US dollars more cheaply in the US commercial paper market. Instead of borrowing euros directly, the bank issues short-term US dollar paper and enters into an FX swap to exchange US dollars for euros today, while agreeing to reverse

the transaction at maturity at a pre-agreed exchange rate. This allows the bank to obtain euro funding at a lower all-in cost, while eliminating exchange rate risk over the life of the swap.

If the funding need persists, the swap must be rolled at maturity. Changes in funding conditions or market liquidity can affect rollover costs and availability, exposing the bank to refinancing and liquidity risk even though currency risk remains hedged.

By locking in future exchange rates or shaping the timing of currency conversion, market participants can plan with greater certainty and limit the impact of adverse currency movements on financial outcomes

Managing balance sheet, investment and event-driven exposures

FX derivatives are often used to manage currency risk when there is an existing asset or liability that cannot be changed quickly or efficiently. This applies to both corporates and investors with foreign subsidiaries, foreign investments or foreign currency debt. Selling those assets, refinancing obligations or altering long-term allocations may be costly, impractical or inconsistent with broader objectives. FX derivatives allow the currency impact of these positions to be managed, while


keeping the underlying exposures in place.

FX derivatives are particularly important in event-driven situations. Corporates involved in mergers, acquisitions, divestitures or large cross-border contracts often face a period between signing and closing when exchange rate movements can materially change the effective purchase price or proceeds. In these cases, FX derivatives are used to lock in the economics of the transaction and manage currency risk during the execution window.

Currency positioning

FX derivatives are also used by financial investors and market participants to take currency exposure based on market views, relative-value opportunities and changing macroeconomic conditions. In these cases, the exposure is not linked to an existing asset, liability or transaction, but is established intentionally for a defined period.

This use is common among asset managers, hedge funds and institutional investors. It may involve expressing views on expected currency movements, implementing relative-value trades across currencies, or adjusting exposures during periods of heightened volatility. Because derivatives allow currency positions to be established without requiring cash market transactions, they provide an efficient way to implement these views.

For example, an asset manager expects the Japanese yen to strengthen due to anticipated monetary policy divergence. Rather than purchasing yen-denominated assets, the manager enters into FX forwards or options to take yen exposure for a defined period. If market expectations change, the position can be adjusted or closed without affecting other portfolio holdings. 

This article is based on an ISDA research paper, *Global FX Derivatives Market Overview: Size, Structure and Uses*. Read the full report here: tinyurl.com/4trxe8e

MISSION STATEMENT

ISDA fosters safe and efficient derivatives markets to facilitate effective risk management for all users of derivative products



STRATEGY STATEMENT

ISDA achieves its mission by representing all market participants globally, promoting high standards of commercial conduct that enhance market integrity, and leading industry action on derivatives issues.



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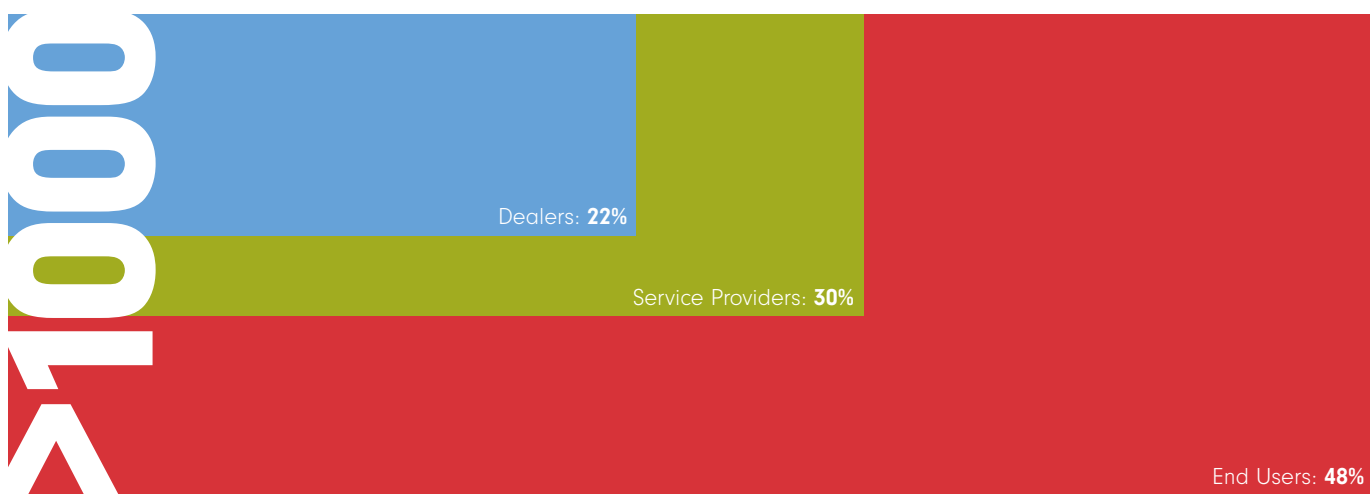
Advancing practices related to trading, clearing, reporting and processing of transactions in order to enhance the safety, liquidity and transparency of global derivatives markets

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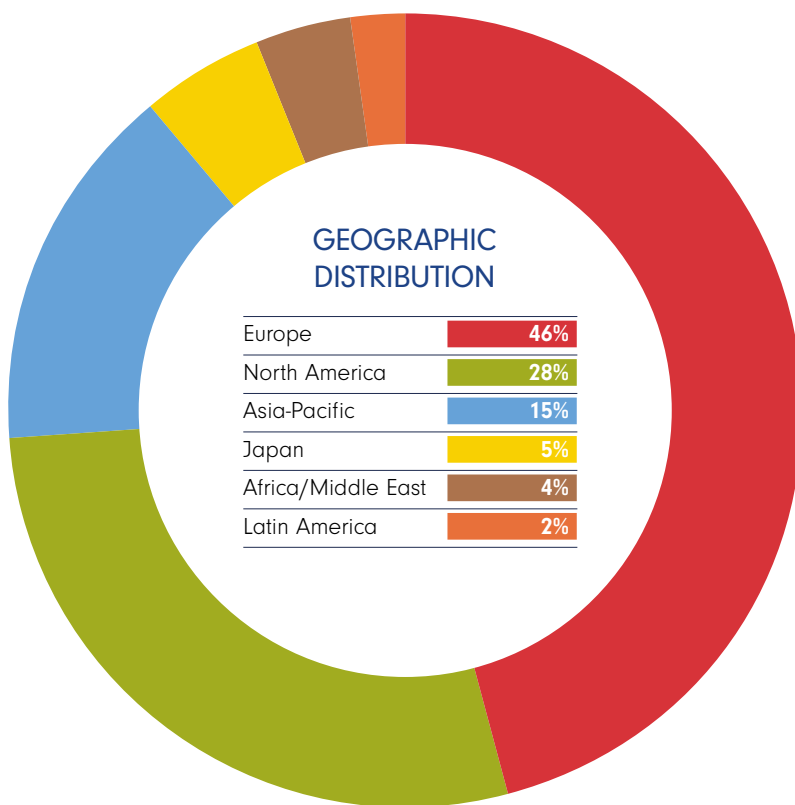
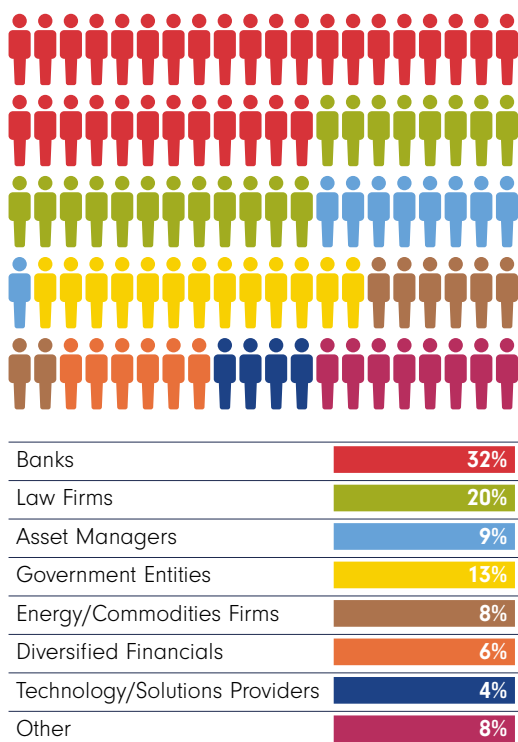
MEMBERSHIP INFORMATION

ISDA has over 1,000 members from 78 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.

MEMBERSHIP BREAKDOWN



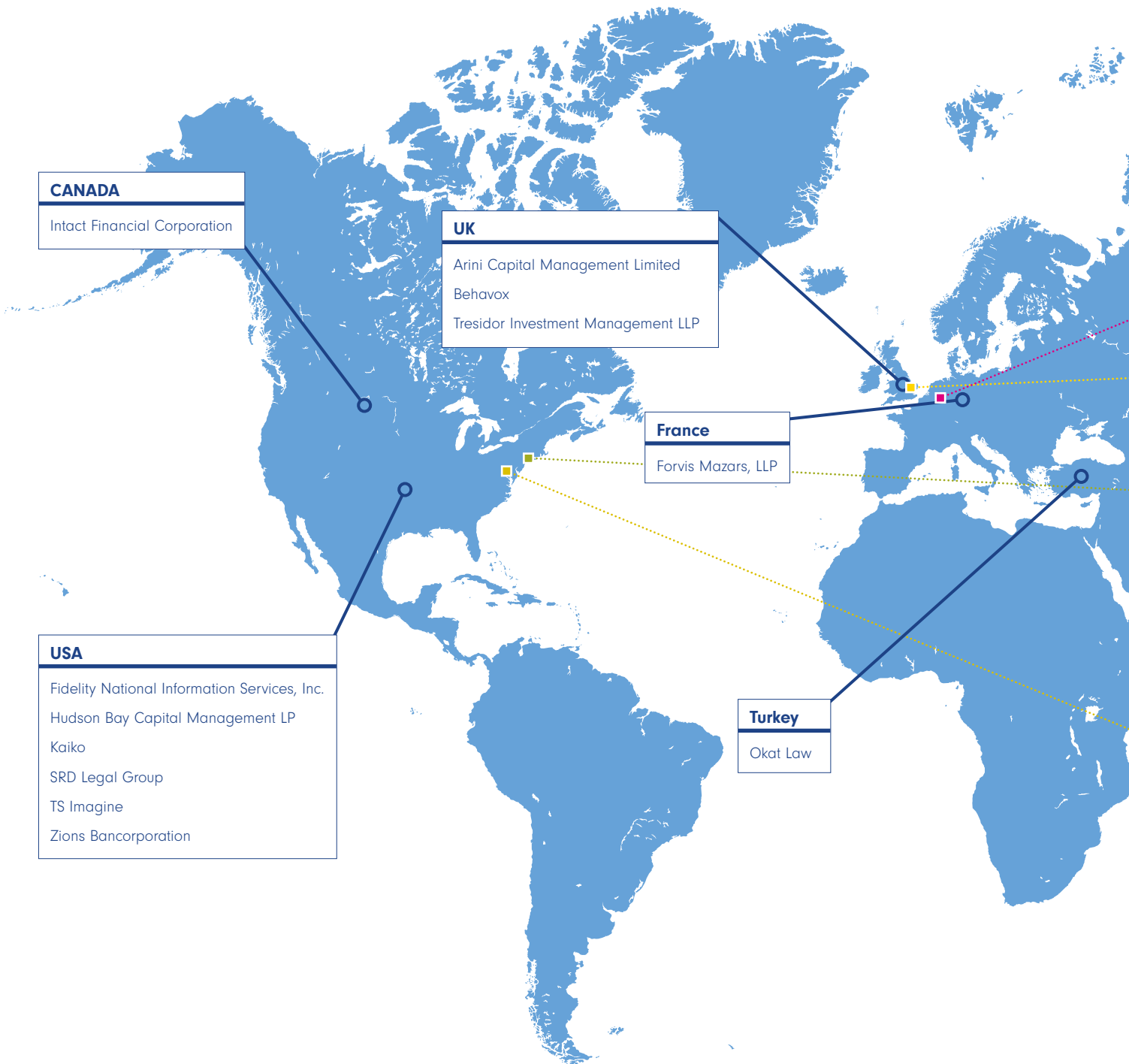
TYPES OF MEMBERS



Additional information regarding ISDA’s member types and benefits, as well as a complete ISDA membership list, is available on the ISDA Membership Portal: <https://membership.isda.org/>

NEW ISDA MEMBERS

*A big welcome to all new members that have recently joined ISDA.
We look forward to working with you in the future*



For additional information on joining ISDA, please visit the ISDA Membership

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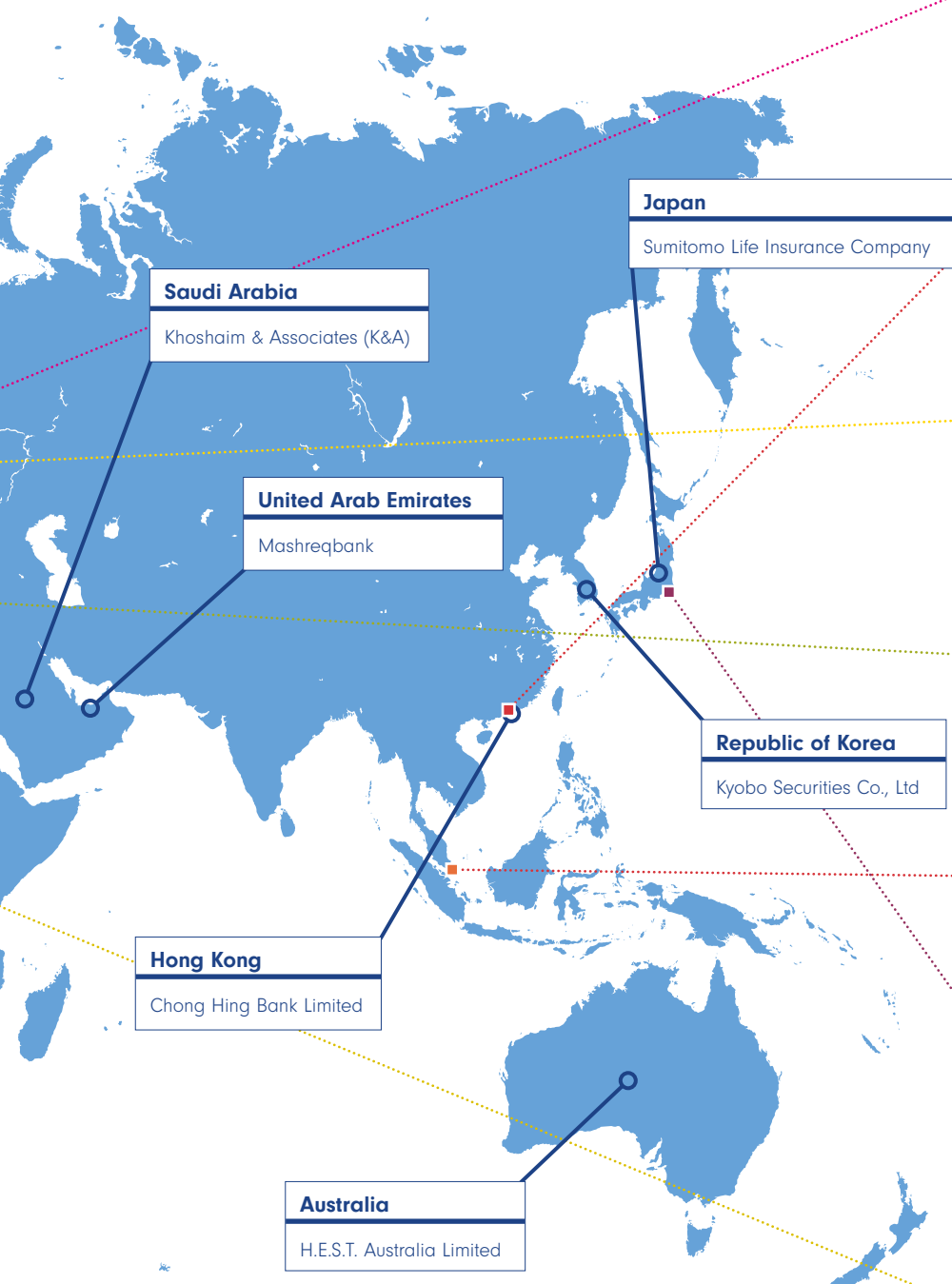
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“We are in a particularly fast-moving external environment, whether that’s the risk environment or the level of technological change we’re seeing. Regulation needs to keep up to ensure the right level of resilience while also being responsive to external developments”

David Bailey, Bank of England