INTERVIEW
ESMA's Klaus Löber on CCP supervision

DIVERSITY
The path to a diverse derivatives market

CAPITAL
JP Morgan's Debbie Toennies on Basel III progress

IQ

ISDA® Quarterly

Vol 7, Issue 3: December 2021 | www.isda.org

* NEW FRONTIER

Significant progress has been made in the transition to alternative reference rates ahead of the end of LIBOR, but momentum must continue into 2022

ISDA SwapsInfo

ISDA SwapsInfo brings greater transparency to the over-the-counter (OTC) derivatives markets. It transforms publicly available data on OTC derivatives trading volumes and exposures into information that is easy to chart, analyze and download. ISDA SwapsInfo covers interest rate derivatives (IRD) and credit derivatives markets.

Interest Rate Derivatives

Transaction Data

Daily, weekly and quarterly traded notional and trade count by product taxonomy.

Notional Outstanding

Notional of all IRD contracts outstanding on the reporting date.

Credit Derivatives

Transaction Data

Daily, weekly and quarterly traded notional and trade count by product taxonomy.

Market Risk Activity

Traded notional and trade count for single-name and index credit default swaps (CDS) that result in a change in market risk position.

Notional Outstanding

Gross and net notional outstanding and trade count for single-name and index CDS.

SwapsInfo.org

ISDA® Safe, Efficient Markets

Reducing Uncertainty

The financial industry is about to collectively undergo something that's never been tried before – the cancelling of a key benchmark that permeates all sectors of the financial market and has historically underpinned trillions of dollars of transactions. No one can say for sure what will happen on January 4 – the first London banking day after 30 LIBOR settings cease or become non-representative – but uncertainty and risk have been minimised to the extent possible by the years of work by the public and private sectors to create a comprehensive framework for transition.

The introduction of robust contractual fallbacks for derivatives is a case in point. Following implementation of the ISDA 2020 IBOR Fallbacks Supplement and protocol earlier this year, a replacement based on risk-free rates (RFRs) will automatically take effect for most of the non-cleared derivatives that continue to reference those 30 LIBOR settings at the point of cessation/non-representativeness. These fallbacks effectively provide a safety net to catch those firms that haven't completed active transition of their legacy LIBOR trades in time, reducing the risk of market disruption that could otherwise occur.

While the fallbacks were not intended to be a primary means of transition, there are indications that more institutions than anticipated plan to rely on them to transfer from LIBOR – an approach that will still require firms to ensure in advance that their systems can cope with the spread-adjusted RFRs used as fallbacks.

While the end is fast approaching for 30 of the LIBOR settings, transition work won't stop there. Five US dollar LIBOR settings will continue to be published on a representative basis until mid-2023 to allow legacy trades to roll off naturally, although US regulators have made clear that firms should not put on new US dollar LIBOR trades after the end of this year, except in limited circumstances. Fortunately, trading volumes in alternative reference rates have significantly improved in recent months, giving financial institutions viable and liquid alternatives.

This issue of **IQ** looks at the LIBOR transition from several angles. Along with our cover story that explores what to expect at the end of the year (see pages 12-15), we asked a variety of senior regulators and public-/private-sector working group chairs for their views on next steps (see pages 18-21). The message is consistent: a lot has been achieved, but it isn't time to rest yet.

Nick Sawyer
Global Head of Communications & Strategy
ISDA

ISDA® Safe, Efficient Markets
International Swaps and Derivatives Association | www.isda.org
NEW YORK | WASHINGTON | LONDON | BRUSSELS | HONG KONG | SINGAPORE | TOKYO

Global Head of Communications & Strategy, **Nick Sawyer**, nsawyer@isda.org
Global Head of Public Policy, **Steven Kennedy**, skennedy@isda.org
Art Director, **Nick Palmer**, nick@sidelong.co.uk

IQ: ISDA Quarterly is an official publication of ISDA. Statements of fact and opinion expressed are not intended as endorsements.

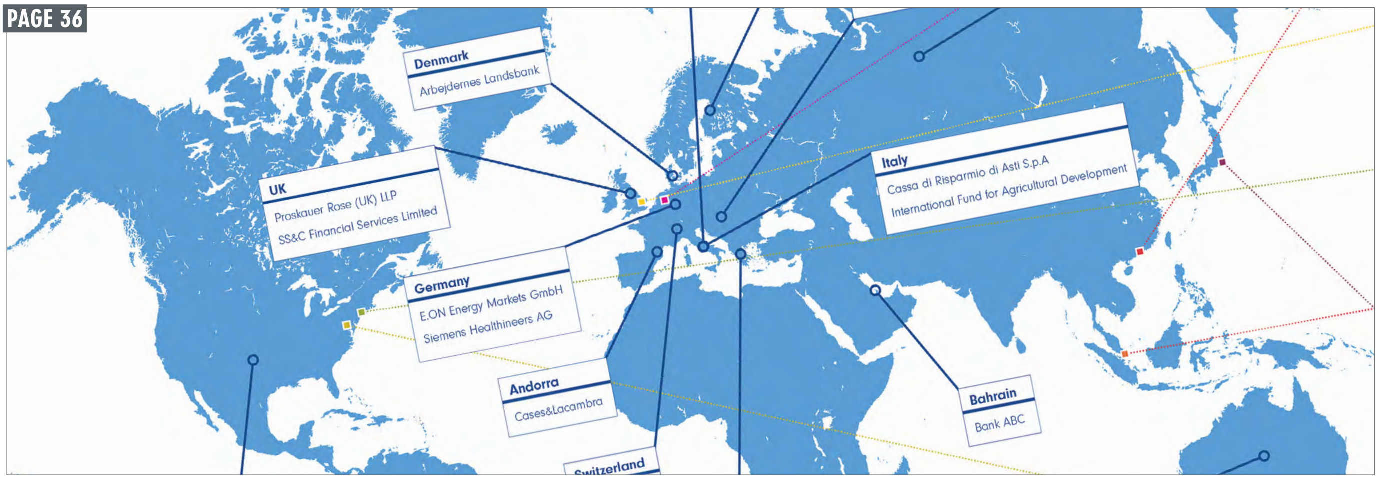
CONTENTS

REGULARS

ALSO IN THIS ISSUE

PAGE 24

PAGE 36

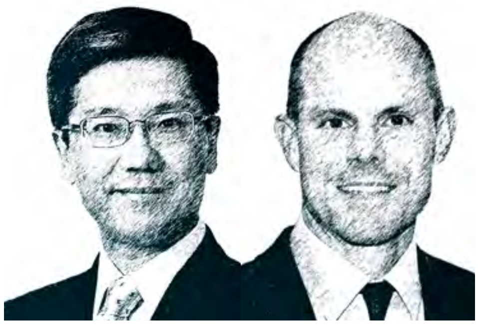


Volume 7, Issue 3: December 2021

THE COVER PACKAGE

NEW FRONTIER

PAGE 18



"Through synthetic LIBOR, we've extended the runway for those firms that might otherwise have struggled to get the whole of their legacy LIBOR fleet down to a smooth landing on solid RFR-based land by the end of 2021. But there's no long-term parking on this runway"

Edwin Schooling Latter, UK Financial Conduct Authority

Facing up to LIBOR's End

*Considerable progress has been made to switch to alternative rates ahead of LIBOR's end, but work must continue in 2022 to support the transition of residual legacy positions, writes **Scott O'Malia***

The start of 2022 will herald a new dawn for financial markets. The cessation or loss of representativeness of the majority of LIBOR settings immediately after December 31 constitutes one of the most significant structural shifts we have ever seen. Such is the pervasiveness of LIBOR as a reference rate for financial transactions that the impact of its removal will be felt far and wide.

Fortunately, there has been plenty of time to get ready, as the end of LIBOR has been on the horizon for several years. In the derivatives market, preparation began in earnest back in 2016, when the Financial Stability Board's Official Sector Steering Group asked ISDA to lead the development of robust contractual fallbacks for derivatives referencing LIBOR and certain other key interbank offered rates (IBORs).

Over the past five years, the industry has undertaken an enormous volume of work, in close collaboration with the official sector, to lay the foundations for a smooth transition away from LIBOR. From the identification of alternative benchmarks to the development of fallbacks referencing risk-free rates (RFRs) and the work to boost proactive transition away from LIBOR, this has been a long-running, multi-faceted project of great technical complexity.

> "The message is clear – the end of 2021 should be considered the death knell for LIBOR"

While five US dollar LIBOR settings will continue publication until mid-2023, and six sterling and yen LIBOR settings will be published on a synthetic, non-representative basis for a certain period, their use will be strictly limited. The message is clear – the end of 2021 should be considered the death knell for LIBOR.

The approach to any major deadline can be fraught, but now is the time to double down on transition efforts and make sure as much business as possible has been moved off LIBOR by year end.

The ISDA IBOR fallbacks have significantly reduced the systemic risk associated with the permanent cessation of LIBOR and other key IBORs, providing a critical safety net to support the transition. To date, more than 14,800 entities around the world have adhered to the ISDA 2020 IBOR Fallbacks Protocol, highlighting the widespread engagement in the benchmark reform process. ISDA will shortly launch a second supplement and protocol for benchmarks in a handful of jurisdictions that were not covered previously.

But fallbacks were never intended to be the primary means of transition away from LIBOR – ultimately, there is no substitute for the proactive adoption of alternative reference rates. Here, the recent uptick in trading referencing RFRs is encouraging. In October, the ISDA-Clarus RFR Adoption Indicator reached an all-time high of 24.5%, as increasing volumes of interest rate derivatives switch to reference RFRs rather than IBORs.

Despite this progress, LIBOR trades are still being struck, albeit to a dwindling extent, so there is further work to be done. I have no doubt that trading referenced to RFRs will continue to grow from here, spurred by milestones such as the conversion of legacy cleared euro, sterling, Swiss franc and yen LIBOR contracts by central counterparties. We must maintain this momentum through into next year and ensure firms continue to increase their use of alternative reference rates.

Of course, the upcoming deadline does not herald the end of LIBOR exposure in legacy portfolios. The decision to continue publication of five US dollar LIBOR settings was taken so existing positions can run off naturally, but regulators have made clear there must be no new use of LIBOR after the end of this year.

In a similar vein, market participants have been urged not to consider the publication of six synthetic LIBOR settings as an extension to the transition process. Synthetic LIBOR will be accessible to all legacy contracts except cleared derivatives, but it will be published on a time-limited and non-representative basis and UK regulated entities will not be allowed to use it for new business.

The availability of synthetic LIBOR will be helpful in safely transitioning tough legacy contracts, but this should not be used as a long-term solution. The UK Financial Conduct Authority has indicated it will review the need for a synthetic sterling LIBOR after the end of 2022, but synthetic yen LIBOR is not expected to continue beyond that date.

Benchmark reform has shown just what can be achieved when the public and private sectors work together to address industry challenges. As we move into a post-LIBOR era and manage residual legacy exposure to the benchmark, we can be confident of a bright future for financial markets, underpinned by robust reference rates.

Scott O'Malia

ISDA Chief Executive Officer

EC Reduces Carbon Risk Weight in CRR III Proposal

The European Commission (EC) has proposed to reduce the risk weight for carbon credits to 40% as part of the third Capital Requirements Regulation (CRR III), in recognition of the conservative treatment of carbon credits under Basel III that would assign a 60% risk weight.

In legislative proposals published on October 27, the EC set out how it plans to transpose the Basel III market risk capital rules, known as the Fundamental Review of the Trading Book (FRTB), into EU regulation. The reduction of the risk weight for carbon credits follows a recent ISDA paper that identified high capital charges for carbon trading under the standardised approach as an issue that could impair the ability of banks to act as intermediaries in carbon trading.

"The EC's proposal to reduce the risk weight for carbon credits from 60% to 40% is an important improvement and better reflects the risk these assets pose. This will help support the transition to a green economy by making it less punitive for banks to participate in both regulated emissions trading systems and voluntary carbon markets, seen as key to enabling the global reduction of emissions," says Panayiotis Dionysopoulos, head of capital at ISDA.

ISDA's analysis, published in July, showed that the FRTB would assign disproportionately high capital requirements to carbon credits, which could constrain the participation of banks in carbon trading. Under the globally agreed standardised approach, the 60% risk weight for carbon credits is twice that of crude oil. ISDA's analysis of volatility during periods of stress suggests it should be 37%.

The analysis also found that the correlation between spot and forward positions should be set at 0.996 rather than 0.99 – a change that could result in a 40% reduction in capital requirements.

"We welcome the EC's decision to create a new risk bucket for carbon trading, which is set at 40%. This less punitive capital treatment will help to ensure banks can continue to participate in the carbon markets, which will be so critical in the drive to reduce emissions. ISDA will continue to work with policy-makers to advocate for appropriate capital treatment of carbon credits," says Scott O'Malia, chief executive of ISDA, speaking at ISDA's recent Trading Book Capital virtual conference series.

"The EC's proposal to reduce the risk weight for carbon credits from 60% to 40% is an important improvement and better reflects the risk these assets pose. This will help support the transition to a green economy"

Panayiotis Dionysopoulos, ISDA

It remains to be seen what approach other jurisdictions will take to the capital treatment of carbon trading when they transpose Basel III, but O'Malia highlighted the need for consistent implementation. "Consistency is critical, both in the way different countries draft the laws and in the way that banks implement them. Even minor deviations from globally agreed standards can lead to bigger distortions in cost and risk management," he said.

During a panel discussion at the European event in the series on November 16, Dale Butler, executive director in the Europe, Middle East and Africa office of regulatory affairs at JP Morgan, emphasised the importance of a risk-appropriate capital framework to support the transition to a green economy.

"With the prudential framework and the regulatory framework, the priority has to be on maintaining an appropriate level of risk sensitivity and a risk-based approach rather than trying to build incentives in via the prudential framework. Ultimately, this is a marathon not a sprint, and a resilient and well-capitalised banking sector is what's going to help finance this transition, rather than inappropriate pricing of risk," said Butler.

The EC proposals mark the start of the process of transposing the final parts of the Basel III framework into law, with other jurisdictions expected to issue proposals over the coming year. While the Basel Committee on Banking Supervision had set a deadline for implementation by January 1, 2023, followed by a five-year phase-in period for certain elements, the EC has proposed to apply the rules from January 1, 2025.

The additional two years are intended to give banks and supervisors sufficient time to properly implement the reforms in their processes, systems and practices, the EC says.

"The EC has mostly stuck closely to the Basel standards, although there are some variations that we are in the process of assessing. While the proposed implementation date is slightly later than the Basel schedule, we think this is important to give sufficient time for banks to comply following the finalisation of the CRR III legislation," says Dionysopoulos. IQ

Read ISDA's analysis on the capital treatment of carbon credits here: bit.ly/3DSnxup

Industry Urged to Prepare Early for Phase Six IM Requirements

Phase five of the initial margin (IM) requirements for non-cleared derivatives was implemented on September 1 without significant market impact, but the process highlighted the challenges smaller entities face when complying with the rules, and these are likely to be amplified during phase six.

"ISDA is actively discussing the challenges from phase five with buy-side parties, swap dealers and custodians to understand lessons learned and discover opportunities for improvement. We know these challenges will be greater in phase six due to the increased number of counterparties and relationships and the decreased level of experience with regulatory IM," says Tara Kruse, global head of infrastructure, data and non-cleared margin at ISDA.

> "ISDA is actively discussing the challenges from phase five with buy-side parties, swap dealers and custodians to understand lessons learned and discover opportunities for improvement"
>
> **Tara Kruse, ISDA**

The global IM requirements have been introduced on a phased basis since 2016, starting with the largest derivatives counterparties. Firms with an average aggregate notional amount (AANA) of non-cleared derivatives of more than €50 billion were required to begin posting IM under phase five on September 1. The AANA threshold will fall to €8 billion under phase six on September 1, 2022.

Phase five brought hundreds of new counterparties into scope of the rules, many more than in previous phases. Many of these firms were smaller entities with less resources to devote to the complex legal, systems and operational changes that are needed to comply.

Analysis by ISDA suggests many phase-five counterparties were unable to complete the relevant credit support documentation and custodial arrangements with all their counterparties by the September 1 deadline. However, market disruption was avoided as firms concentrated their trading with relationships that were operationally ready, or alternatively worked within the €50 million per counterparty group IM threshold, meaning IM did not need to be exchanged.

"Since September 1, progress has been made and the completion rate has increased, but the concern with this tail is that phase-six efforts are delayed as resourcing at dealers and custodians has been focused on phase five. This will have a knock-on effect on how many phase-six relationships will be ready for September 1," says Kruse.

Custodial onboarding proved to be one of the challenging factors during phase-five implementation. While larger firms that had previously complied had used a small number of triparty custody providers with relatively standardised documentation, the firms caught by phase five tended to opt for the third-party model.

The account control agreements (ACAs) for third-party services can be extensively negotiated to incorporate both client and counterparty preferences – a mostly manual process that was time-consuming and resource-draining. Extensive know-your-customer (KYC) requirements added to the challenge, meaning those firms that missed deadlines set by custodians were processed on a best-efforts basis.

"In previous phases, triparty custody agents were the norm, and dealers were generally well equipped to navigate the KYC requirements and ACAs. Most phase-five and phase-six firms will use third-party custodians designed to serve the needs of smaller parties. The ACAs for third-party custodians are heavily negotiated, while KYC requirements can also be extensive," says Kruse.

The number of counterparties caught by phase six is expected to be double that of phase five – estimated at more than 750 entities, equating to more than 5,000 relationships – leading to concerns about bottlenecks and delays in the lead up to the September 2022 deadline.

In November, ISDA and Linklaters announced that Bank of New York Mellon (BNY Mellon) had published its custodial documentation on the ISDA Create online platform, intended to bring greater efficiency to the negotiation of custody agreements. BNY Mellon will negotiate its triparty and third-party account control agreements with market participates on ISDA Create, enabling full digital capture of the resulting legal data.

"BNY Mellon is pleased to publish and negotiate our regulatory initial margin triparty and third-party ACAs on ISDA Create, which gives us and our clients the opportunity to complete the legal documentation required for margin segregation service on a common platform. This places our firm in a better position to service clients during phase six, saves our clients time, simplifies compliance efforts while also giving all participants a complete digital repository of the resulting legal data," says Ted Leveroni, head of margin services, BNY Mellon Markets.

The enhancements to the ISDA Create online negotiation platform come on top of other ISDA services and solutions designed to help firms comply, including the Standard Initial Margin Model, ISDA's standard documentation, eligible collateral templates and bilateral and multilateral disclosure letters.

"Many entities likely to be caught under phase six use multiple asset managers to manage their derivatives portfolios through separately managed accounts. Preparations therefore depend on each phase-six entity calculating its swaps exposures and disclosing to its asset managers if it expects to breach the threshold for compliance. We recommend potential phase-six firms make these calculations and any necessary disclosures as early as possible to reduce the potential for delay," says Kruse. IQ

ISDA 2021 Interest Rate Derivatives Definitions Take Effect

ISDA has implemented new standard definitions for interest rate derivatives, underpinned by its new electronic documentation platform, MyLibrary. The 2021 ISDA Interest Rate Derivatives Definitions represent the first major overhaul of the definitional booklet since 2006 and are the first to be published in purely digital form, creating significant efficiencies in how firms use and interact with the definitions.

The new definitions consolidate approximately 90 supplements to the 2006 ISDA Definitions into a single electronic booklet, reducing complexity and the potential for error. In the future, ISDA will republish a revised digital version of the 2021 Definitions in full each time updates are required, eliminating the need for further PDF or paper supplements.

"The 2006 ISDA Definitions have played a pivotal role in the interest rate derivatives markets for the past 15 years, but wading through a definitional booklet plus over 600 pages of amendments via roughly 90 supplements is no longer sustainable. The 2021 ISDA Interest Rate Derivatives Definitions bring the interest rate derivatives market up to date and into the digital age, enabling firms to easily access and navigate a consolidated set of definitions in electronic form," says Scott O'Malia, chief executive of ISDA.

The digital format allows users to easily compare and highlight changes between different versions of the definitions, with advanced navigation and search functionality. The definitions also introduce several important updates to reflect changes in market convention and regulation. These include adjustments to the methodology used to determine a cash settlement amount for swaptions and trades subject to early termination, and modifications to calculation agent provisions.

"The 2021 ISDA Interest Rate Derivatives Definitions introduce some important changes to reflect current market practices and bring the industry standard documentation up to date. MarkitServ is proud to have worked with ISDA and market participants to ensure our key industry infrastructure was ready to support this critical transition," says Guy Gurden, global head of MarkitServ rates product management at OSTTRA.

The new definitions were first published in June and implemented on October 4. Major central counterparties have reflected the 2021 Definitions in their rules since the implementation date, while the non-cleared derivatives market is increasingly shifting to the new definitional booklet.

"Given the increased electronification of markets since the last major definitional overhaul, we commend ISDA for using the publication of the 2021 Definitions to reinforce standardisation, drive messaging fidelity and efficiency, accommodate flexibility in interest rate derivatives markets and anticipate future market changes," says Susi de Verdelon, group head of SwapClear and listed rates at LCH Ltd. IQ

Common Domain Model Integrated into ISDA Create

ISDA and Linklaters have integrated the Common Domain Model (CDM) with ISDA Create, the digital platform for the electronic negotiation of derivatives documents. This development will bring greater connectivity between legal documentation and operational processing and will support further automation of derivatives markets.

The integration is part of ISDA's broad initiative to standardise and digitise its definitions and legal documentation and follows the publication of the 2021 ISDA Interest Rate Derivatives Definitions, the launch of a new online documentation platform, and the digitisation of the ISDA Master Agreement and ISDA Clause Library on ISDA Create.

The CDM establishes a single, common digital representation of trade events and actions across the lifecycle of financial products. Integrating the CDM conversion service into ISDA Create will allow structured legal data captured during the negotiation process to flow directly through to trading, operational and risk management systems in a consistent way, increasing efficiency and reducing the need for manual intervention.

"The integration of the CDM into ISDA Create enables us to link legal documents to operational processes in a way that hasn't been possible before. Users will now be able to negotiate their documents online, capture and store that data and then distribute it in a uniform way that enables interoperability. This will bring greater automation and efficiency to documentation, operations and risk management processes," says Katherine Tew Darras, general counsel at ISDA.

ISDA Create was originally launched to help firms negotiate initial margin documentation to comply with new margin rules. The platform has since expanded to include the ISDA Master Agreement, generic amendment agreements to ISDA published documents and an interest rate reform bilateral template package to facilitate the transition to risk-free rates. The platform was built by Linklaters' internal technology start-up Nakhoda and is available to ISDA members and non-members.

"The integration of the CDM into ISDA Create brings together two key strategic technology initiatives that ISDA has identified for the industry and further showcases the opportunities that technology unlocks for market participants. Our work is not done, but this is an important step towards realising the industry's goals," says Doug Donahue, partner at Linklaters. IQ

EC to Extend Equivalence for UK CCPs in Early 2022

The European Commission (EC) has said it will propose an extension of equivalence for UK-based central counterparties (CCPs) in early 2022, avoiding the risk of a cliff edge for EU market participants that clear in the UK. A temporary equivalence determination granted in September 2020, prior to the end of the Brexit transition period, is currently due to expire on June 30, 2022.

Earlier this year, the EC established a working group to explore the opportunities and challenges involved in EU participants transferring derivatives clearing from UK to EU CCPs.

"The [EC] learnt from this group that a combination of different measures – to improve the attractiveness of clearing, to encourage infrastructure development, and to reform supervisory arrangements – are needed to build a strong and attractive central clearing capacity in the EU in the years to come. The [EC] also found that the time frame of June 2022 was too short to achieve this," said Mairead McGuinness, the EC's commissioner for financial services, financial stability and capital markets union, in a statement on November 10.

The statement followed a letter sent to McGuinness by ISDA and eight other trade associations on September 16, requesting that the EC grant an extension to the equivalence determination or issue a non-time-limited determination.

"We welcome the fact that the EC has provided early visibility on its plan to propose an extension of equivalence for UK CCPs. We also agree that measures to make the EU more attractive as a competitive clearing hub are the most effective way for the EC to achieve its goals. We look forward to the confirmation of the extension of the equivalence decision for UK CCPs early next year," says Ulrich Karl, head of clearing services at ISDA.

Despite the expected extension, the EC has made clear it is still committed to increasing clearing capacity within the EU and reducing EU firms' reliance on UK CCPs. While the UK was the main financial hub for trading and clearing of derivatives in the EU before Brexit, continued reliance on the UK for clearing poses financial stability risks, McGuinness warned.

"UK-based CCPs now operate outside of the single market and the EU's regulatory framework, and over-reliance on these CCPs implies financial stability risks – notably, in the event of stress. Accordingly, the EU's own clearing capacity must be expanded," said McGuinness.

"We welcome the fact that the EC has provided early visibility on its plan to propose an extension of equivalence for UK CCPs"

Ulrich Karl, ISDA

The European Market Infrastructure Regulation 2.2 (EMIR 2.2), which came into force in January 2020, creates a framework for robust supervision of third-country CCPs. EMIR 2.2 established the CCP Supervisory Committee within the European Securities and Markets Authority, which has the objective of promoting supervisory convergence among EU CCPs and scrutinising and addressing risks related to third-country CCPs (see pages 24-27).

"While the EC says it remains concerned about an over-reliance on a third-country CCP in the medium term, we continue to believe this is something that can be managed with the tools already available in EMIR 2.2, such as enhanced supervisory cooperation," says Karl.

In her statement, McGuinness said she will propose measures next year to make EU-based CCPs more attractive to market participants. These will include measures to make the EU a competitive and cost-efficient clearing hub, and so incentivise an expansion of central clearing in the EU.The EC will also consider strengthening the EU's supervisory framework for CCPs, including a stronger role for EU-level supervision.

"This proposed way forward strikes a balance between safeguarding financial stability in the short term, which requires taking an equivalence decision to avoid a cliff edge for EU market participants, and safeguarding financial stability in the medium term, which requires us to reduce this risky over-reliance on a third country," said McGuinness.

Market participants had previously raised concerns about the possible disruption that could be caused by allowing the equivalence to expire. This could lead to increased risks and rising costs for European market participants, as well as driving fragmentation in derivatives clearing.

"A forced relocation is likely to be very costly, especially for European market participants, and it might increase the overall risk in the system, not to mention the impact on the global level playing field," said Erik Floor, senior regulatory adviser at ABN AMRO Clearing Bank, speaking at the 2021 ISDA Europe Conference on October 21.

Forcing the migration of clearing from the UK to Europe could also diminish the liquidity that is available to European market participants, added Nafisa Yusuf, vice president of market structure for Europe, the Middle East and Africa at BlackRock, speaking at the same conference.

"What we could find is that for certain products that are cleared at UK CCPs today, our European clients would have to access those products at a European CCP and therefore would be accessing a smaller liquidity pool compared to our other clients that are not bound by this derecognition. Having some clients accessing a smaller liquidity pool than others could hinder our ability to achieve best execution," said Yusuf.

THE COVER PACKAGE

New Frontier

Significant progress has been made in the transition to alternative reference rates ahead of the end of LIBOR, but momentum must continue into 2022

Benchmark reform has been high on the financial services sector's agenda for several years, and for good reason. LIBOR underpins trillions of dollars of financial transactions around the world, so its planned removal has required intricate preparation and management.

Immediately after December 31, 2021, 24 LIBOR settings will cease publication, while six will become non-representative and continue to be published on a synthetic, non-representative basis. Five US dollar LIBOR settings will continue publication until mid-2023, but this extension has been designated to support the orderly winding down of legacy positions only.

Market participants are broadly confident that the foundations have been put in place for a smooth transition, while recognising that further work will be needed in 2022 and beyond to ensure legacy contracts are appropriately managed (see pages 12-15)

Fortunately, adoption of risk-free rates (RFRs) has increased significantly in recent months, driven by the implementation of 'RFR First' strategies in several jurisdictions. The ISDA-Clarus RFR Adoption Indicator increased to an all-time high of 24.5% in October 2021, with notable increases in trading linked to SOFR in the US and TONA in Japan (see pages 16-17).

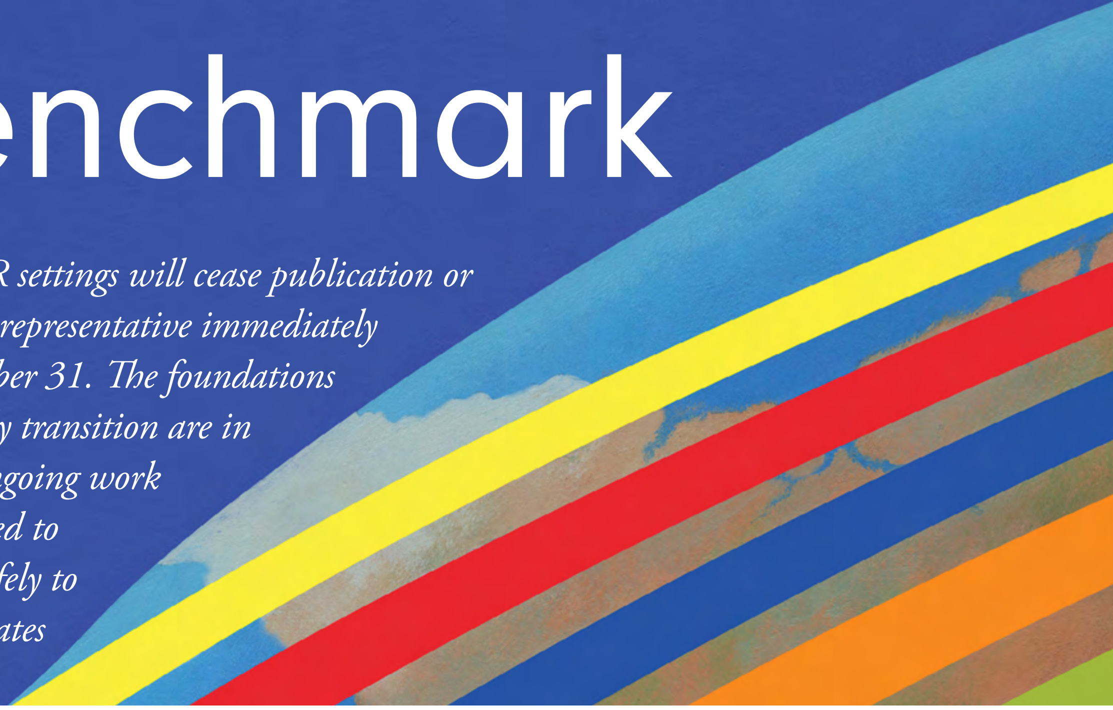
While proactive transition to alternative reference rates has always been the preferred option, the fallbacks developed by ISDA represent a critical safety net for those contracts that continue to reference LIBOR after year end. ISDA will shortly publish a second set of fallbacks for benchmarks in a handful of countries that were not included initially (see pages 22-23).

The message from the official sector couldn't be clearer – this really is the end game for LIBOR. As the end-2021 deadline approaches, all new use of the benchmark needs to stop, and the use of US dollar LIBOR and synthetic LIBOR next year will be reserved for legacy contracts for which there is no alternative (see pages 18-21). IQ

"When approaching a stop sign, every good driver knows to slow down. Waiting until the last moment and then slamming on the brakes risks a major accident. So too does waiting to stop the use of LIBOR in new contracts"

Nathaniel Wuerffel, Federal Reserve Bank of New York

* Death of a Benchmark



Most LIBOR settings will cease publication or become non-representative immediately after December 31. The foundations for an orderly transition are in place, but ongoing work will be needed to transition safely to alternative rates

When Andrew Bailey, then chief executive of the UK Financial Conduct Authority (FCA), declared in 2017 that the regulator would no longer compel or persuade banks to submit to LIBOR after the end of 2021, he put a clear timeline in place for the retirement of the most widely used interest rate benchmark in financial markets. Four-and-a-half years later, following the FCA's confirmation on March 5 of the exact dates when the benchmark will cease or become non-representative, market participants are now facing up to the reality of a world without LIBOR.

Twenty-four LIBOR settings will cease publication and six will become non-representative immediately after December 31, 2021, while five US dollar settings will continue until the end of June 2023 (see box). As with any major deadline, extensive preparation has been undertaken, but there is still work to be done in the final phase to ensure a smooth and effective transition away from LIBOR.

"The collaborative efforts of the industry and the official sector have laid the essential foundations for the end of LIBOR. From the development of the IBOR fallbacks to the various initiatives to boost liquidity in alternative reference rates, we now have a robust transition framework in place. As we move into 2022, we must maintain momentum to transition legacy trades and manage outstanding issues," says Ann Battle, head of benchmark reform at ISDA.

New dawn

Given the long lead time, the absence of most LIBOR settings at the start of 2022 should come as no surprise to market participants. As the deadline draws closer, attention is turning to how the market will respond to this change. While it will be impossible to reference new trades to a benchmark setting that no longer exists, it remains to be seen what proportion of legacy business will have transitioned to alternative rates by the end of this year, as opposed to relying on fallback rates or legislative solutions.

The official sector has repeatedly urged market participants to proactively transition as much legacy business as possible to alternative reference rates to reduce exposure to LIBOR. For those trades that have not transitioned by the time LIBOR ceases publication or becomes non-representative, contractual fallbacks have been developed for derivatives that reference certain key interbank offered rates (IBORs).

The work on fallbacks dates back to 2016, when the Financial Stability Board's Official Sector Steering Group asked ISDA to participate in work to enhance the robustness of derivatives contracts referencing key IBORs. The fallbacks, which will switch contracts referenced to certain IBORs to adjusted versions of the relevant risk-free rates (RFRs), took effect on January 25. To date, more than 14,800 entities around the world have adhered to the ISDA 2020 IBOR Fallbacks Protocol, which integrates the new fallbacks into legacy trades (see pages 22-23).

When the majority of LIBOR settings cease publication

Illustration: James Fryer

30

LIBOR settings will either cease or become non-representative at the end of 2021

or become non-representative after December 31, fallbacks will automatically apply to legacy positions if both counterparties have adhered to the protocol. Despite warnings that fallbacks should not be relied upon as the primary means of transition, it remains to be seen how widespread the use of fallbacks will be at the start of January. Based on current levels of preparation, some believe it may be significant.

"At this stage, not all market participants have fully grasped what is involved in operationalising the fallbacks and, as a result, there is not as much urgency to proactively restructure LIBOR trades as we otherwise would have expected. For this reason, I expect there may be more reliance on fallbacks than we would have liked at the start of 2022, but we may still see a pickup in the pace of restructuring of trades over the year-end period and into next year," says Guillaume Helie, head of US rates structuring and solutions at Goldman Sachs.

Others agree that reliance on fallbacks is likely to be greater than originally anticipated, leading to large numbers of LIBOR-linked derivatives contracts switching to replacement rates at the same time. While developed as a safety belt for those LIBOR contracts that haven't transitioned, firms still need to prepare for the changes that will result from the use of the spread-adjusted RFRs chosen as fallbacks.

"It's just really important that firms are really cognisant of this and make sure their systems are well tested and well prepared so we can continue the smooth functioning of the market through that process," said Michael Barron, director of UK insurance and pensions at Deutsche Bank, speaking at the 2021 ISDA Europe Conference on October 21.

The level of continuing exposure to LIBOR after year end will vary from one entity to another and will depend not just on the extent of a particular firm's preparations but also the nature of its business and the degree to which transition of legacy positions is possible.

"In general, the buy side is highly aware of the need to move to alternative rates and most firms have had programmes in place for more than three years. Given the pending cessation of LIBOR, coupled with the market's strong adoption of RFRs, the need for action is well understood. Varying levels of readiness are likely to be a reflection of a firm's legacy portfolio rather than lax engagement – more complex products are more difficult to transition," says Ronan Farrell, investment management specialist in the RFR programme at Fidelity International.

Industry catalysts

Given the prolific use of LIBOR across the global financial system, regulators have been closely monitoring the use of the benchmark over recent years and working with →

"From a derivatives market perspective, we have a robust plan in place for cleared and non-cleared trades and for resolving legacy issues, so I think we are in a strong position to achieve a smooth transition"

Phil Lloyd, NatWest Markets

the industry to ensure transition to alternative rates stays on track. A recent uptick in trading linked to RFRs has given cause for optimism, but there is still some way to go.

"Moving financial markets from LIBOR has been a complex challenge, but, fortunately, market participants have all the tools they need to transition in a way that is safe and smooth for their institutions and for markets overall, and in a manner that ensures we never have to repeat such a transition again. As we approach the end of LIBOR, the responsibility lies with you to act now to make this transition successful," said Nathaniel Wuerffel, head of domestic markets in the markets group at the Federal Reserve Bank of New York, speaking at the 2021 ISDA North America Conference on October 27.

While trading linked to RFRs in some currencies has developed at a slower pace than regulators might have hoped, industry and public-sector transition initiatives have helped to boost activity. The ISDA-Clarus RFR Adoption Indicator reached an all-time high of 24.5% in October, up from 20.3% in September, highlighting the growing momentum in RFR trading (see pages 16-17).

24.5%

The ISDA-Clarus RFR Adoption Indicator reached an all-time high in October 2021

Recent increases in trading volume linked to SOFR and TONA have been particularly notable, but trading volumes don't tell the whole story. When the FCA confirmed the timetable for the cessation and loss of representativeness of all LIBOR settings on March 5, it constituted a trigger event that fixed the spread adjustment for the fallbacks. This in itself created the potential for deeper liquidity, says Helie.

"Sometimes, there is too much focus on volumes and not enough on liquidity. To me, real liquidity is the ability of a market participant to do a SOFR trade in size and at transaction costs that are not greater than for the equivalent LIBOR trade. Even when SOFR volumes were lower earlier this year, it was still possible to trade SOFR in size and at fairly tight bid-offer spreads. This is because the fallback spread has been known since March 5 and dealers have been able to manage most risk acquired from a SOFR trade using LIBOR, because the two curves have been essentially pegged to each other for the post-June 2023 fixings since then," Helie explains.

Just as recent developments have driven greater use of RFRs, it is likely that upcoming milestones will have a similar effect. The biggest of these will be the year-end deadline itself, but, before that, central counterparties are due to convert legacy cleared LIBOR contracts to RFRs in two stages in December.

"We have always positioned this planned conversion as a backstop mechanism, which would sweep up cleared trades that had not been proactively converted from LIBOR, but it looks like it may be used for more significant volumes. This changes nothing for those firms that moved to RFR-based instruments early, which we commend. And for firms that still have significant outstanding LIBOR exposure and may be using this as an active conversion device, they are also in safe hands. The conversion has been planned to be scalable, so we will be able to manage a large volume of legacy trades if required," says Philip Whitehurst, head of service development for the rates business at LCH.

Tough legacy

Despite comprehensive efforts to transition new and legacy business away from LIBOR prior to its cessation, it has long been recognised that it would be impossible to eliminate all exposure to the benchmark by the end of 2021. For so-called 'tough legacy' contracts that cannot be easily converted or amended to include fallbacks, alternative solutions have been developed.

On September 29, the FCA announced that it will require the publication of one-, three- and six-month sterling and yen LIBOR under a 'synthetic' methodology, based on term RFRs plus the spread applicable to contractual fallbacks for derivatives. These six LIBOR tenors will not be available for new business by UK-regulated firms, but the FCA proposed that all outstanding transactions other than cleared derivatives will be considered tough legacy and therefore will be permitted to use synthetic LIBOR in those settings.

The FCA confirmed these rules for legacy use of synthetic LIBOR on November 16, but the regulator has reminded market participants that synthetic LIBOR should not be considered a long-term solution and better options may be available (see page 18). Market participants agree that while the availability of synthetic LIBOR will help with the management of more challenging positions, this must not be allowed to delay the transition.

"The broader scope for tough legacy that the FCA has proposed will be helpful in maintaining the safety and soundness of the market as we move into 2022, but we need to make sure this doesn't derail active transition. We certainly wouldn't want the broad scope of synthetic LIBOR to be seen as an extension that would lead to a similar volume of legacy LIBOR exposure in a year's time," says Phil Lloyd, head of customer sales delivery at NatWest Markets.

While synthetic LIBOR will be published on a non-representative basis and will only be available for a temporary period, its existence raises certain technical questions. For example, if a cash product is referenced to synthetic LIBOR but a linked derivative is referenced to the relevant RFR that is compounded in arrears, this difference in conventions will require careful management.

"If you have engaged with your counterparty to transition a loan, hedged the instrument with a derivative elsewhere and signed up to the IBOR Fallbacks Protocol, then you may be left with a mismatch. The emergence of term SOFR as a replacement rate for US dollar LIBOR-linked loans and related hedge products (such as derivatives and securitisations) means that while the transition of these instruments to term SOFR may be a logistical challenge for the market to work through, there is a mechanism to address the potential mismatch between the two trades," says Farrell.

On July 29, the Alternative Reference Rates Committee formally recommended CME Group's forward-looking SOFR term rates for use in certain circumstances. The term rates are specifically recommended for US loan market activity, where adapting to an overnight rate may be more difficult.

There is no doubt that the end of 2021 will be a seminal milestone in the history of financial markets. Preparing for the removal of the benchmark has consumed industry attention since 2017, and adapting to the new world without LIBOR is likely to be a defining theme of 2022.

"Despite all the challenges of the pandemic and Brexit that have arisen over the past two years, LIBOR transition has been a great example of the official sector and the private sector working collaboratively for the greater good of the market. From a derivatives market perspective, we have a robust plan in place for cleared and non-cleared trades and for resolving legacy issues, so I think we are in a strong position to achieve a smooth transition," says Lloyd of NatWest Markets. IQ

US DOLLAR LIBOR: DON'T LET UP ON TRANSITION

One of the more complicated features of the LIBOR transition is the continued publication of overnight, one-, three-, six- and 12-month US dollar LIBOR until June 30, 2023. Despite this extension, regulators have repeatedly made clear that firms will not be able to use US dollar LIBOR for new trades after year end, except in limited circumstances.

The extra 18 months is designed to allow existing US dollar LIBOR contracts to mature and run off naturally, rather than enabling market participants to continue using the benchmark for new trades. This has required constant reinforcing of the central message that all new use of LIBOR must cease at the end of this year.

In October, US prudential regulators clarified that a new US dollar LIBOR contract would include an agreement that creates additional LIBOR exposure for a supervised institution or extends the term of an existing LIBOR trade.

"Most market intermediaries have some connection with a bank, and market participants therefore should broadly expect that the guidance will impact them either directly or indirectly. In other words, all market participants should feel a sense of urgency around the deadline," said Nathaniel Wuerffel, head of domestic markets in the markets group at the Federal Reserve Bank of New York, speaking at the 2021 ISDA North America Conference on October 27.

However, firms should not wait until the last minute to wind back their LIBOR use and adopt alternative rates. Some banks have established internal dates to slow their use of US dollar LIBOR in the lead up to end-2021, potentially resulting in a decline in liquidity, while year-end code freezes may make it difficult to implement significant process changes in December, explained Wuerffel.

"Delaying your transition from US dollar LIBOR could risk financial, operational and reputational consequences to your firm, and result in you not being well positioned at year end to meet the supervisory deadline. For those firms still entering new US dollar LIBOR contracts, my strong recommendation is this: act now to prepare for the end of LIBOR," said Wuerffel.

While relatively limited trading activity in SOFR has been a source of some concern to policy-makers, this has started to change in recent months, largely driven by SOFR First, a phased programme driven by the Commodity Futures Trading Commission's Market Risk Advisory Committee to switch interdealer trading conventions from LIBOR to SOFR. The first phase focused on LIBOR linear swaps and took effect on July 26, while subsequent phases involved cross-currency swaps and non-linear derivatives. Exchange-traded derivatives will be added at a future date.

The impact of SOFR First on the use of SOFR as a reference rate has been clear, as the percentage of trading activity in SOFR reached 15.8% of total US dollar interest rate derivatives DV01 in October, up from 6% in June, according to the ISDA-Clarus RFR Adoption Indicator. This percentage is expected to rise further in the run-up to the end-2021 supervisory deadline for no new LIBOR.

"Given the vast majority of US dollar market liquidity lies in those five LIBOR tenors that have been extended to mid-2023, this 18-month window should help to ensure the smooth evolution of the market. The SOFR First initiative has helped to build liquidity in the interdealer swaps market, and we are now also seeing an uptick in client activity. The market must prioritise further progress across products to make the transition away from US dollar LIBOR in good time," says Sonali Theisen, head of fixed income electronic trading and market structure at Bank of America.

* Riding the RFR First Wave

*Trading volumes in derivatives linked to risk-free rates have increased in recent months, helped by 'RFR First' strategies in several jurisdictions. Further increases are expected as the end of 2021 approaches, writes **Olga Roman***

The transition from interbank offered rates (IBORs) to alternative reference rates has been one of the top priorities for policy-makers and market participants in 2021. The UK Financial Conduct Authority's (FCA) announcement on March 5, 2021 on the timing for the cessation or loss of representativeness of all 35 LIBOR settings gave market participants a clear set of deadlines across all currencies and tenors.

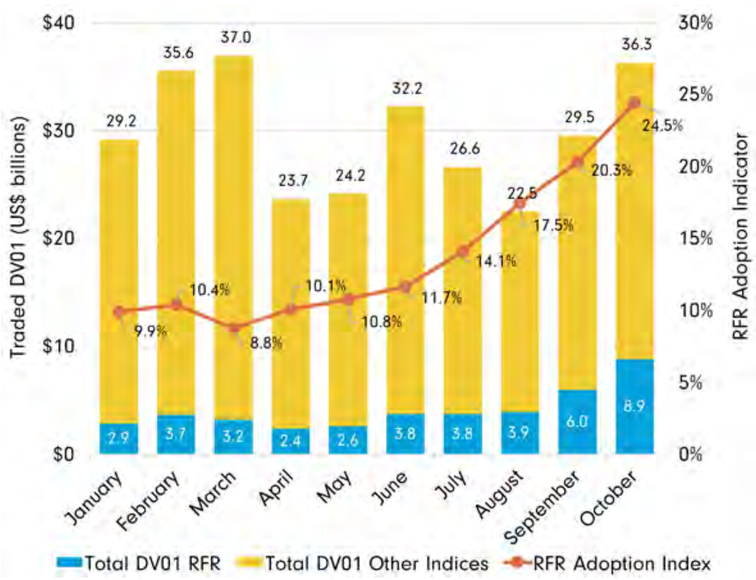
While five US dollar LIBOR settings will continue to be published until mid-2023, various regulators, including the US Federal Reserve Board, have specified that firms should stop entering into new US dollar LIBOR contracts from the end of 2021, except in limited circumstances.

These developments have accelerated LIBOR transition efforts. While there is still noteworthy volume in LIBOR, trading activity in risk-free rates (RFRs) has picked up significantly in recent months. This has been helped by 'RFR First' initiatives in several jurisdictions, which have changed quoting conventions for certain interest rate derivatives from LIBOR to RFRs.

The ISDA-Clarus RFR Adoption Indicator increased to an all-time high of 24.5% in October 2021 versus 9.9% in January 2021. The indicator tracks how much global trading activity (as measured by DV01) is conducted in cleared over-the-counter and exchange-traded interest rate derivatives (IRD) that reference RFRs in six major currencies.

RFR-linked IRD DV01 increased to $8.9 billion in October 2021 compared to $2.9 billion in January 2021. Total IRD DV01 increased to $36.3 billion from $29.2 billion over the same period (see Chart 1).

Chart 1: ISDA-Clarus RFR Adoption Indicator



Source: ISDA-Clarus RFR Adoption Indicator

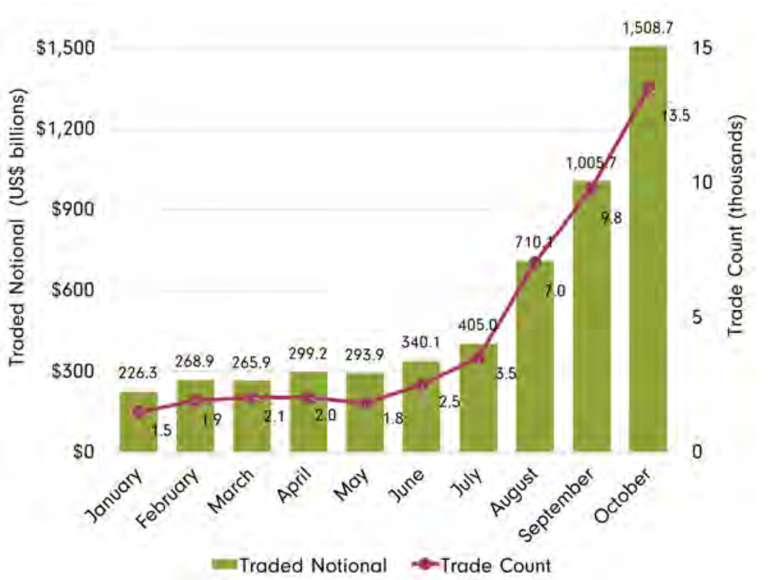
SOFR First

Trading activity in SOFR increased significantly in the third quarter of 2021 following the introduction of SOFR First in the US. Introduced by the Commodity Futures Trading Commission's Market Risk Advisory Committee, the initiative is meant to incrementally switch interdealer trading conventions for IRD from US dollar LIBOR to SOFR.

Having started with interdealer linear interest rate swaps on July 26, SOFR First was extended to cross-currency swaps on September 21 and non-linear derivatives on November 8. Timing for the last phase, which will cover exchange-traded derivatives, had not been set at time of press.

US data collected from the Depository Trust & Clearing Corporation's swap data repository shows a significant jump in SOFR trading from August 2021 as a result. Traded notional of IRD referencing SOFR increased to $1.5 trillion in October 2021 from $226.3 billion in January 2021. The number of SOFR-linked IRD transactions jumped to 13.5 thousand from 1.5 thousand over the same period (see Chart 2).

Chart 2: SOFR Traded Notional & Trade Count, Year-to-October 30, 2021



Source: ISDA analysis based on Depository Trust & Clearing Corporation swap data repository data

TONA First

An RFR First strategy has also been adopted in Japan, following an announcement by the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks that the quoting convention for linear interest rate swaps should switch from yen LIBOR to TONA from July 26. The working group subsequently recommended that new trading in linear and non-linear IRD linked to yen LIBOR due to mature after the end of 2021 should cease from the end of September 2021, unless those transactions are for risk management purposes.

Based on ISDA-Clarus Adoption Indicator data, 63.4% of trading activity (as measured by DV01) in yen-denominated cleared OTC and exchange-traded IRD referenced TONA in October 2021 versus just 3.5% in January 2021.

Of all the currencies, sterling has the largest percentage of RFR-linked IRD trading activity. This is no surprise, as SONIA has been and is currently used as the reference rate for sterling overnight index swaps. According to ISDA-Clarus Adoption Indicator data, 75.3% of trading activity in sterling-denominated IRD was referenced to SONIA in October 2021 compared with 45.9% in January 2021.

Trading activity in other RFRs has also increased, with 53.8% of cleared IRD in Swiss franc referencing SARON in October versus 7.7% in January 2021. €STR accounted for 9.2% of cleared euro-denominated IRD trading in October compared with 0.8% at the start of the year. €STR swaps started trading in the fourth quarter of 2019, which explains the lower percentage of trading activity compared to other RFRs. Additionally, EURIBOR is used widely in euro-denominated swaps and, unlike LIBOR, is not scheduled to cease or become non-representative in the near term.

LIBOR activity

While activity in LIBOR has been gradually declining, trading volumes still remain significant. US-reported OTC IRD traded notional referencing US dollar LIBOR totaled $7.1 trillion in October 2021, accounting for 31% of total IRD traded notional. In comparison, US dollar LIBOR-linked IRD traded notional totaled $11.2 trillion and represented 45.8% of total IRD traded notional in January 2021 (See Chart 3).

As **IQ** went to press in early December, major central counterparties were due to convert all existing cleared swaps linked to euro, sterling, Swiss franc and yen LIBOR to RFR overnight index swaps. This conversion represents a big step in reducing the volume of legacy LIBOR exposures.

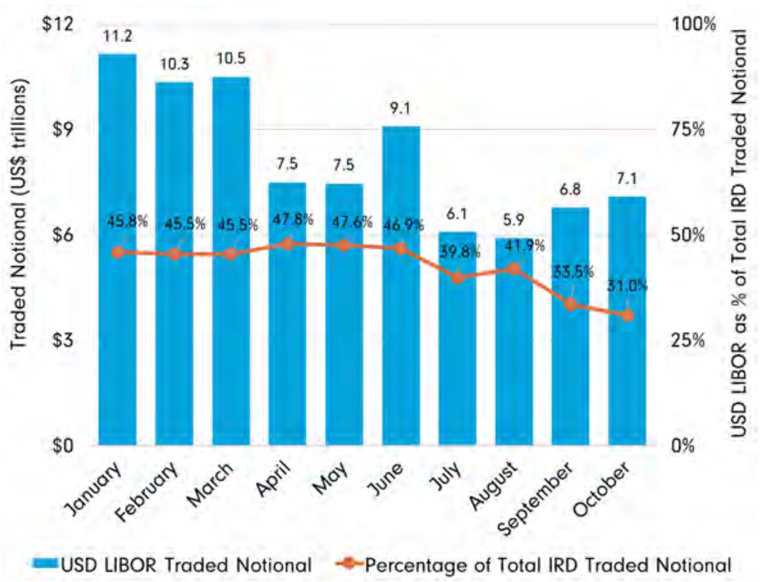
For those firms that have adhered to the ISDA 2020 IBOR Fallbacks Protocol, non-cleared derivatives that continue to reference euro, sterling, Swiss franc and yen LIBOR after the end of 2021 will automatically switch to an adjusted version of the relevant RFR, so long as their counterparties have also adhered to the protocol.

There's still much to do as the end of 2021 approaches, but with trading activity in alternative reference rates increasing and plans in place to reduce legacy LIBOR exposures, the derivatives industry seems to be moving in the right direction. IQ

Olga Roman is ISDA's head of research

Read ISDA's latest full analysis on the transition to RFRs: bit.ly/3qN5Zfw
ISDA-Clarus RFR Adoption Indicator, October 2021: bit.ly/3C54f3c
For more analysis on swaps trading activity, visit swapsinfo.org

Chart 3: US Dollar LIBOR Traded Notional, Year-to-October 30, 2021



Source: ISDA analysis based on DTCC SDR data

* Maintaining Momentum

The cessation of most LIBOR settings at the end of 2021 has been on the horizon for a long time, but this does not mark the end of benchmark reform. **IQ** *asked senior policy-makers and market participants what challenges lie ahead as LIBOR is retired*

Q: What will the UK interest rate derivatives market look like on January 4, 2022? What role will synthetic LIBOR play?

Edwin Schooling Latter
Director of markets and wholesale policy, UK Financial Conduct Authority

December 31, 2021 will be the very last day for four of the five LIBOR panels.

For those firms with counterparties that have joined them in signing up to ISDA's IBOR Fallbacks Protocol, their non-cleared sterling, yen, euro and Swiss franc LIBOR swaps, along with all cleared swaps and futures, will have safely transitioned to compounded risk-free rates (RFRs) as the new year begins. That accounts for around 97% of sterling LIBOR interest rate derivatives.

For those that haven't yet signed up but want their legacy derivatives books to benefit from the transition to compounded RFRs – chosen by market participants as the new central point of interest rate market liquidity – it's not too late to sign the ISDA protocol.

But any firms that have not signed the protocol (or have counterparties that have not signed) will still have one-, three-, and six-month sterling and yen LIBOR screen rates to refer to throughout 2022. This continued LIBOR screen rate will be what markets have come to know as synthetic LIBOR. It will be based on term RFRs plus the relevant fixed adjustment spreads used in ISDA's fallbacks.

As we announced on September 29 this year, our proposal is that all legacy contracts, except cleared derivatives, will be able to use these synthetic LIBOR rates. But to be clear: synthetic LIBOR is not for new business, and it is not going to be available indefinitely.

Publication of yen synthetic rates is scheduled to cease at the end of 2022. Each of the synthetic sterling LIBOR settings will also end in due course. Moreover, in many cases, counterparties will be able to find better options than remaining on synthetic LIBOR. Staying on synthetic LIBOR could, for example, make updating hedges more expensive.

Through synthetic LIBOR, we've extended the runway for those firms that might otherwise have struggled to get the whole of their legacy LIBOR fleet down to a smooth landing on solid RFR-based land by the end of 2021. But there's no long-term parking on this runway. Market participants still need a plan to get all these old LIBOR contracts off their books. Synthetic LIBOR does not mean market participants can down tools on their programmes to convert these books.

Q: How important is a legislative solution to enable tough legacy trades to switch from EONIA to €STR?

James von Moltke
Chief financial officer at Deutsche Bank and chair of the Working Group on Euro Risk-free Rates

As an industry, we have been making good progress in our efforts to transition actively from EONIA to €STR in a way that ensures continuity and economic certainty on those contracts for market participants.

However, regulators and market participants alike have recognised that a material number of harder-to-transition – or tough legacy – contracts remain. These are at risk of not being transitioned before the discontinuation of EONIA, which is expected on January 3, 2022. Despite the industry's best efforts, progress on the renegotiation of these contracts has inevitably been affected by the simultaneous and unprecedented challenges of the global pandemic and Brexit.

Non-binding regulatory milestones have been helpful in encouraging active transition. However, these alone will not solve the challenge of dealing with these tough legacy contracts. That is why a legislative solution is needed. A legislative solution has additional benefits as it creates a greater expectation of market acceptance and reduces the risk of disputes between market participants.

In the EU, the framework for this legislative solution already exists in the form of new designation powers accorded to the European Commission (EC) through recent amendments to the Benchmarks Regulation.

As chair of the Working Group on Euro Risk-free Rates, I have welcomed these new powers and requested that the EC consider designating €STR plus 8.5 basis points as the replacement rate for EONIA. I am pleased the EC has since confirmed this through the publication of an implementing act, which designates this rate as the statutory replacement rate for EONIA, due to take effect from January 3, 2022.

The EC's decision is a positive move. It reduces the risk of undue disruption to the economy, provides legal certainty, and assures market participants that the proposed replacement rate is appropriate and does not disadvantage end users.

This designation, combined with industry initiatives already under way, will play an important role in achieving a successful transition to €STR and mark a key milestone in interest rate benchmark reform.

Q: How will the US Federal Reserve Board drive increased adoption of SOFR in 2022 as five US dollar LIBOR settings continue publication? What other benchmarks might be expected to be significant?

Nathaniel Wuerffel
Head of domestic markets, markets group, Federal Reserve Bank of New York*

Following nearly a decade of efforts to support the transition from LIBOR to alternative reference rates, the end is in plain sight. At the end of this year, new use of US dollar LIBOR will come to a stop.

When approaching a stop sign, every good driver knows to slow down. Waiting until the last moment and then slamming on the brakes risks a major accident. So too does waiting to stop the use of LIBOR in new contracts. US bank regulators have provided a bright and clear stop sign: new use of US dollar LIBOR should cease at the end of December.

It's time to brake. I strongly encourage firms to slow their new use of LIBOR now in order to safely stop by year-end. Waiting until December not only puts markets overall at risk of a disorderly transition, but also risks operational and financial disruptions to the individual firms that hold off.

As you consider where to head after LIBOR, I encourage you to choose the safe road. The official sector has long emphasised the importance of anchoring the transition on rates that are robust enough to uphold the trillions of dollars in contracts that will reference them.

Fortunately, for many years now, the Alternative Reference Rates Committee (ARRC) has been developing the roadmap for the future. After extensive public consultation, it recommended SOFR as US dollar LIBOR's replacement. SOFR is a robust rate built on a durable base of around $1 trillion in transactions each day in the Treasury financing market, and is produced by the Federal Reserve Bank of New York in accordance with the International Organization of →

"As an industry, we have been making good progress in our efforts to transition actively from EONIA to €STR in a way that ensures continuity and economic certainty on those contracts for market participants"

James von Moltke, Deutsche Bank

"When approaching a stop sign, every good driver knows to slow down. Waiting until the last moment and then slamming on the brakes risks a major accident. So too does waiting to stop the use of LIBOR in new contracts"

Nathaniel Wuerffel, Federal Reserve Bank of New York

→ Securities Commissions' (IOSCO) standards for financial benchmarks. It can be used in any number of contracts, and policy-makers have emphasised that it will be the dominant reference rate in derivatives and capital markets products.

When considering alternative reference rates to LIBOR – whether that's SOFR or another rate – market participants should carefully examine their underlying markets and construction. IOSCO recently highlighted regulators' concerns that LIBOR's shortcomings may be replicated by credit-sensitive rates that lack sufficient underlying transaction volumes.

Looking to year-end and into 2022, the Federal Reserve and official-sector partners will continue encouraging market participants to take timely action to bring LIBOR to a full stop and to choose the road of robust alternative reference rates like SOFR. Drive safely!

*The views expressed are those of the author and not necessarily those of the Federal Reserve Bank of New York or the Federal Reserve System.

Q: How effective has SOFR First been in driving increased adoption of SOFR? What else needs to happen? What does the US benchmark landscape look like in 2022?

Tom Wipf
Vice chairman of institutional securities at Morgan Stanley and chair of the Alternative Reference Rates Committee

The SOFR First initiative was a key step toward supercharging growth in SOFR derivatives trading, and we continue to see strong progress on that front. Liquidity in SOFR has increased to the point where it is as good or better than liquidity in LIBOR, and this trend in turn is incentivising clients to move to SOFR. The UK gave us the blueprint for SOFR First through the success of the SONIA First initiative and, as we saw there, injecting liquidity into the interdealer markets has proved critical to bringing in the buy side.

We anticipate that these trends will only increase as we approach the year-end deadline for no new LIBOR. Following the ARRC's formal recommendation of forward-looking SOFR term rates in July, market participants now have all the tools they need to transition safely and smoothly, in a way that ensures we never have to repeat this reference rate transition. All that remains now is for market participants with LIBOR exposures to take immediate action – that means writing new contracts based on forms of SOFR, using effective fallback language or renegotiating existing contracts where needed, and supporting the federal legislative solution for contracts without effective fallbacks.

Those priorities will remain as we head into the new year. We will continue to encourage the adoption of robust, transaction-based, IOSCO-compliant rates like SOFR, the use of ARRC-recommended fallback language, and the progress and passage of the legislation now making its way through Congress.

Importantly, with LIBOR no longer available for use in new contracts after 2021, the ARRC will continue to advise that market participants 'know' the reference rates they choose as LIBOR alternatives – a recommendation consistent with the best practices of the Treasury Market Practices Group. Understanding the construction, vulnerabilities, design and suitability of various reference rates can help market participants avoid navigating yet another costly and risky transition.

Q: Given the widespread exposure to US dollar LIBOR across Asia, how much progress has been made on transition in the region and what does 2022 hold?

Arthur Yuen
Deputy chief executive, Hong Kong Monetary Authority

By now, there are less than 50 days before end-2021, when 30 out of 35 LIBOR settings will cease to exist. Financial authorities and institutions globally should be busy with the transition. In Hong Kong, the Hong Kong Monetary Authority set out transition milestones in July 2020 for financial institutions and has closely monitored their LIBOR exposures.

In Asia, however, the pace of transition varies across jurisdictions. Surveys by the Financial Stability Board (FSB) early this year found that supervisors of the more-ready markets have monitored exposures and provided regulatory guidance to financial firms on transition planning, while those of the less-ready markets have just started to engage financial institutions.

This relative lack of awareness and preparedness for transition could be because most Asia jurisdictions have smaller LIBOR exposures, and over two thirds were concentrated in US dollar LIBOR. The FSB survey estimates that the share of LIBOR exposures in assets with adequate fallbacks amounted to only 10% of total LIBOR exposures in assets for Asian financial institutions in 2020.

In March 2021, the UK Financial Conduct Authority and ICE Benchmark Administration confirmed the cessation dates for all LIBOR settings after end-2021. So, we should act quickly and collectively. We should stop the new use of US dollar LIBOR-linked contracts as soon as possible and no later than end-2021. In the meantime, if there is a need to enter into LIBOR contracts, make sure hardwired fallbacks are in place. And regardless of their level of LIBOR exposures, financial institutions should make sure their IT systems are ready and legal documents are available for new RFR products. Any lack of preparation would only lead to severe disruption in the performance of LIBOR contracts, models and infrastructures as we approach end-2021.

Many supervisors cited the lack of a term structure for RFRs and liquidity in these markets as challenges in the loan markets. On this, the ARRC recommended SOFR term rates in July this year, which will provide market participants with the tools they need for the transition. Recently, the Asia Pacific Loan Markets Association and Treasury Market Association in Hong Kong also issued a joint note, setting out the options available to utilise SOFR in loan transactions.

In Asia, the EMEAP network of central banks and monetary authorities has served as a useful platform for regional central banks to monitor international developments and share experiences on best practices in preparing for the transition. These efforts, along with ISDA's IBOR Fallbacks Supplement and protocol, which have contributed to an orderly transition of the derivatives market, will help expedite the transition process towards end-2021.

The end of 2021 is, however, not the end of the journey. The transition of legacy contracts that reference US dollar LIBOR – of which a majority of settings will cease only after end-June 2023 – will be another challenge as we enter 2022.

Make haste, everyone: there's no time to waste. IQ

"We should stop the new use of US dollar LIBOR-linked contracts as soon as possible and no later than end-2021. In the meantime, if there is a need to enter into LIBOR contracts, make sure that hardwired fallbacks are in place"

Arthur Yuen, Hong Kong Monetary Authority

FIND OUT MORE

- IOSCO statement on credit-sensitive rates, September 8: bit.ly/3lYC2qg
- UK Financial Conduct Authority announcement on further arrangements for the orderly wind-down of LIBOR at end-2021, September 29: bit.ly/3n92ooN
- ISDA-Clarus RFR Adoption Indicator, October 2021: bit.ly/3C54f3c
- Understanding IBOR Benchmark Fallbacks: bit.ly/3Habpa7

* Extending the Safety Net

Following the implementation of the IBOR Fallbacks Supplement and protocol earlier this year, ISDA is about to publish a second set of fallbacks for derivatives referencing benchmarks in India, Malaysia, New Zealand, Norway, the Philippines and Sweden

MORE THAN 14,800

entities have signed up to the ISDA 2020 IBOR Fallbacks Protocol

One of the most significant developments in the preparation for LIBOR's demise has been the launch of robust contractual fallbacks for derivatives referencing certain key interbank offered rates (IBORs). The ISDA 2020 IBOR Fallbacks Supplement and protocol came into effect in January 2021 and have been widely adopted by market participants around the world. ISDA is now preparing to publish an update to its standard definitions for interest rate derivatives plus a new protocol that will cover a second set of benchmarks not included in the first phase.

Fallbacks are an essential mechanism to reduce the systemic risk that would arise if a widely used benchmark ceases publication while market participants still have exposure to that rate – essentially, creating a safety net for those firms that haven't completed active transition to alternative rates. Given the end-2021 deadline for the cessation or loss of representativeness of most LIBOR settings, the original fallbacks focused on LIBOR and a handful of other benchmarks, but the second set will cover benchmarks in India, Malaysia, New Zealand, Norway, the Philippines and Sweden.

"Through our work with the official sector to determine which rates would be covered by the first protocol, we were aware that some jurisdictions had not yet identified alternative reference rates at that time, so we agreed we would continue to update the fallbacks in the future. This is part of our ongoing commitment to making sure IBORs trade with robust fallbacks and their cessation does not pose systemic risk," says Ann Battle, head of benchmark reform at ISDA.

Widespread adoption

The original fallbacks were several years in the making, after the Financial Stability Board's Official Sector Steering Group called on ISDA in 2016 to take the lead in work to improve the contractual robustness of derivatives referencing key IBORs.

In the event an IBOR permanently ceases publication or, in the case of LIBOR, becomes non-representative, the fallbacks will ensure contracts referencing the IBOR automatically switch to a spread-adjusted version of the relevant risk-free rate (RFR). The adjustment reflects a portion of the structural differences between IBORs and RFRs – IBORs are published in multiple tenors and incorporate a credit risk premium and other factors, while RFRs are overnight rates that are risk free or nearly risk free.

The ISDA 2020 IBOR Fallbacks Supplement incorporates the fallbacks into new IBOR derivatives referencing ISDA's standard definitions entered into from the January 25, 2021 effective date. Meanwhile, the ISDA 2020 IBOR Fallbacks Protocol enables entities to include the fallbacks in all their legacy non-cleared derivatives trades with counterparties that also adopt the protocol.

So far, more than 14,800 entities around the globe have adhered to the protocol, with widespread adoption even in jurisdictions where previous protocols haven't typically been broadly used, including Asia-Pacific.

"Prior to the ISDA IBOR Fallbacks Protocol, there was a perception that bilateral negotiation was preferred in the region, but a large number of Asian market participants have signed up to the protocol. Some Asia-Pacific regulators have requested that banks should adhere, emphasising the operational efficiency the protocol delivers," says Jing Gu, head of Asia, legal, at ISDA.

Extending fallbacks

Following the wide take up of the first protocol, the second set of fallbacks picks up the baton for a new set of IBORs. While all LIBOR settings were covered by the first round of fallbacks, reducing the systemic risk directly associated with their cessation or non-representativeness, there is still some urgency for this second set, as two of the benchmarks – MIFOR in India and PHIREF in the Philippines – use US dollar LIBOR as an input. Unlike other settings, five of the US dollar LIBOR tenors are set to continue publication until the end of June 2023, but market participants need to implement fallbacks as soon as possible as part of their efforts to ensure an orderly transition.

In India, the fallback will be an adjusted version of the incumbent MIFOR, while the Philippines will use adjusted PHIREF, calculated using the US dollar/Indian rupee or US dollar/Philippine peso spot rate and forward points in FX markets, as applicable, and the adjusted version of SOFR published by Bloomberg as the fallback to US dollar LIBOR.

A similar approach has been taken in Singapore and Thailand, which also have an FX-swap-implied interest rate benchmark linked to US dollar LIBOR. Following industry consultation in Singapore, adjusted SOR was chosen as the fallback to reduce the risk of value transfer, as it is closer to SOR than SORA, the local RFR.

"PHIREF being an FX-linked rate is similar to other rates in Singapore, Thailand and India. For the PHIREF fallback, we used the same formula, but instead of using US dollar LIBOR as an input, we use the US dollar LIBOR fallback rate. As to the future of these FX-linked rates, some countries have decided to transition from LIBOR-linked rates to more robust local alternative benchmarks. LIBOR cessation has allowed these jurisdictions to see whether FX-linked rates are still the way to go," says Johnson Sia, head of financial markets at ING Manila and chair of the benchmark committee at the Bankers Association of the Philippines.

> "This initiative will definitely bring huge benefits, because when you have the fallbacks built in, you can remove the uncertainty"
>
> **Henning Nilsen, SpareBank 1 Boligkreditt**

Calculation methodology

For the other four benchmarks – Malaysia's KLIBOR, New Zealand's BKBM, Norway's NIBOR and Sweden's STIBOR – the same adjustment methodology will be followed as in the first set of fallbacks. This means that, in the event one of these IBORs ceases publication, contracts referenced to those rates will switch to an adjusted version of the relevant RFR – MYOR, NZIONA, NOWA and SWESTR, respectively.

The adjustments that would be made to the RFRs are based on multiple market-wide consultations that ISDA undertook during the development of the first set of fallbacks, intended to enable an IBOR to be replaced as a reference rate without materially changing the original objectives of the transaction. That process led to the use of a compounded in arrears calculation to account for the difference in tenors between IBORs and RFRs, with a historical median approach over a five-year lookback period to address the difference in risk premia.

While these four jurisdictions may not currently be subject to the same time pressure as India and the Philippines, which are exposed to US dollar LIBOR, extending the fallback methodology in this way will create certainty that a viable alternative will take effect if the local IBOR ceases.

"This initiative will definitely bring huge benefits, because when you have the fallbacks built in, you can remove the uncertainty. You don't need to go through the process of bilaterally negotiating with your counterparties to switch to NOWA if NIBOR ceases to exist in the future – you can simply adopt the fallbacks. The fallbacks will benefit the whole market because the spread adjustments will be available on screen as a reference point in the transition to NOWA," says Henning Nilsen, director and chief operating officer at Norwegian covered bond issuer SpareBank 1 Boligkreditt.

As **IQ** went to press, final drafts of the updates to ISDA's standard definitions and protocol were being reviewed, with the aim of publishing the documents in December. Specifically, ISDA will publish a supplement to the 2006 ISDA Definitions and a new version of the 2021 ISDA Interest Rate Derivatives Definitions that incorporates the substance of the supplement. The related protocol will also become available for adherence for legacy non-cleared trades, in the same way the original protocol was implemented.

"Just as we did for the first protocol and supplement, we will be speaking with the relevant central banks to ask them to encourage regulated entities to adhere to the new protocol. We will also run educational seminars with local trade associations to promote awareness. The common provisions are structurally similar to the first set of fallbacks, so there is already fairly strong awareness among market participants and we expect them to be up to speed," says ISDA's Gu. IQ

Promoting Supervisory Convergence

The European Securities and Markets Authority's CCP Supervisory Committee was established in 2020 under EMIR 2.2 to enhance supervisory convergence and ensure a resilient CCP landscape. Committee chair ***Klaus Löber*** *explains how the new body has set about this task*

IQ: You were appointed chair of the European Securities and Markets Authority's (ESMA) Central Counterparty Supervisory Committee (CCP SC) in September 2020. What have been your main areas of focus since you took up the role last December?

Klaus Löber (KL): The ESMA CCP SC was established in January 2020 with the entry into force of the review of the European Market Infrastructure Regulation (EMIR 2.2). It is a new type of governance structure within the European supervisory framework, composed of national supervisors of EU CCPs and, for certain topics, the central banks of relevant EU currencies, as well as a full-time chair and two independent members. In accordance with its mandate outlined in EMIR 2.2, the CCP SC has focused from the start on the dual objective of promoting supervisory convergence among EU CCPs and scrutinising and addressing risks related to third-country CCPs.

Working with ESMA staff, we have engaged in strengthening our resources and expertise in a dedicated ESMA CCP directorate – in particular, in the domain of CCP risk management and direct supervisory experience. This was instrumental in ensuring EU CCP supervisory functions are dealt with in a timely way, with the aim of enhancing supervisory convergence. For instance, we launched an annual peer review of national competent authorities' (NCAs) supervisory practices on CCP operational resilience, as well as the fourth round of CCP stress tests and several consultations to implement the EU CCP Recovery and Resolution Regulation.

On the third-country issue, the CCP SC is currently undertaking a mandatory review of 33 third-country CCPs that were recognised before EMIR 2.2 was adopted against the new tiering criteria and, of course, a matter subject to significant public interest, the review of the UK CCPs that were temporarily recognised

> "The review period granted by the EC for UK CCPs until June 2022 provides ESMA with the time necessary to assess whether the services provided by the tier 2 CCPs, or some of them, are of too substantial systemic importance for the EU"

as tier 2 CCPs, in order to determine if any of them or some of their services are of too substantial systemic importance to continue to be recognised. This is all work in progress, but I am impressed by the work that has been conducted so far and by the commitment of the committee members and ESMA staff.

IQ: What role has the CCP SC taken in respect of EU CCPs and how might this oversight be improved in future?

KL: The CCP SC is based on an original set up with the involvement of representatives of NCAs supervising CCPs in the EU and, for certain topics, the central banks of issue for the relevant currencies. The CCP SC is in a unique position to leverage the expertise collected on the ground and promote a common supervisory culture for CCPs in the EU. To achieve the enhanced supervisory convergence envisaged under EMIR 2.2, the CCP SC has been tasked with preparing opinions on a wide range of NCA decisions, including CCP authorisations, extensions of services and outsourcing.

The CCP SC is also responsible for validating significant changes to CCP risk models and parameters. Based on the outcome of these opinions and the annual peer reviews, it may also propose guidelines and recommendations to the ESMA board where necessary to further foster supervisory convergence. Before considering potential future improvements, we first need to test our enhanced toolkit to the fullest extent possible.

IQ: ESMA has been directly supervising UK tier 2 CCPs for more than six months now. How has this supervision been conducted and how well is it working?

KL: Indeed, two CCPs based in the UK – LCH Ltd and ICE Clear Europe Ltd – have been identified as being systemically important for the EU and temporarily recognised. These CCPs are known under EMIR as tier 2 CCPs. This tier 2 CCP status means that, despite being established in the UK, these two CCPs are subject to the direct supervision of ESMA in view of their impact on EU financial stability.ESMA is assessing on an ongoing basis their compliance with EMIR requirements.

The objective is to identify emerging risks, as well as potential breaches or infringements that should be addressed as they arise. ESMA receives regular information on the activities of the two UK CCPs, as well as notifications of changes and new initiatives for review and, where needed, prior validation or approval. Moreover, ESMA has established a specific cooperation arrangement with the Bank of England to support this new supervisory role and ensure smooth cooperation between both supervisors. It should also be noted that tier 2 CCPs are part of our regular stress-testing exercises.

IQ: The European Commission (EC) has said that EU market participants should reduce their exposure to UK CCPs, even though it intends to extend the temporary equivalence determination in early 2022. How does this relate to ESMA's mandate?

KL: ESMA will recognise UK CCPs like any other third-country CCP when they meet the criteria for recognition under EMIR. There have been some questions about the potential degree of financial stability risks stemming from the market positions of the tier 2 CCPs for certain types of derivatives services. The review period granted by the EC for UK CCPs until June 2022 provides ESMA with the time necessary to assess whether the services provided by the tier 2 CCPs, or some of them, are of too substantial systemic importance for the EU or one of its member states to be safely provided from outside the EU.

Our mandate, as outlined in EMIR 2.2, is to make a technical assessment of the risks to financial stability of the EU or one or more of its member states posed by any of a CCP's services and determine whether any may be of substantial systemic importance, analyse whether compliance with the existing regulatory and supervisory framework ⟶

→ may not sufficiently address such risks, and identify the costs, risks, benefits and consequences of a potential decision not to recognise the CCP's provision of certain services.

On the basis of such assessment, after consulting the European Systemic Risk Board (ESRB) and in agreement with the relevant central banks of issue, ESMA may recommend to the EC that the CCP should not be recognised to provide certain or all clearing services or activities. The EC will then make its own determination in view of extending or not adopting an implementing act addressing the ESMA recommendation, if any.

IQ: Can you describe how ESMA will approach the task of assessing whether a third-country CCP or some of its clearing services are of such systemic importance that they should not be recognised to provide these clearing services in the EU? What are the key factors that will be considered? When will this analysis be complete?

KL: On July 13, ESMA published a methodology for this assessment. It builds on the methodology applied for the tiering of third-country CCPs, with the addition of new indicators for substantial systemic importance, and the elements that should be assessed with reference to the costs, benefits and potential consequences of non-recognition.

In the current phase, the CCP SC is conducting a comprehensive assessment against these indicators, based on data and information collected from a variety of sources and stakeholders. In particular, a range of scenarios will be considered, testing the limits of the existing framework to regulate, supervise, recover or resolve a tier 2 CCP in a manner that does not endanger the financial stability of the EU or one or more of its member states.

The cost-benefit analysis covers, among other things, the readiness of EU CCPs to provide certain services, the costs of transfers and maintaining separate pools of liquidity, and the potential treatment of outstanding contracts. Based on the outcome of the comprehensive assessment and the cost-benefit analysis, and on the decision of the CCP SC, the ESMA board of supervisors will agree whether or not to issue a recommendation to the EC.

"On average, EU CCPs experienced milder margin increases compared to CCPs in other jurisdictions in similar asset classes, which showed the benefits of the EMIR anti-procyclical measures"

IQ: CCPs continued to function during the coronavirus crisis, but there was a sharp increase in initial margin (IM) and variation margin during this period, sparking debate about whether margin requirements are too procyclical. What is your view?

KL: Real-life events are the most telling stress tests. After COVID-19 triggered significant market volatility in March and April last year, it is certainly time to assess what lessons can be learned. Overall, EU CCPs performed well during the crisis, while facing the added challenge of operating in a truly remote working environment. On average, EU CCPs experienced milder margin increases compared to CCPs in other jurisdictions in similar asset classes, which showed the benefits of the EMIR anti-procyclical measures. However, questions remain as to whether some IM increases (beyond those linked to increased volumes and portfolio changes) acted in a procyclical manner. This is being analysed both by the CCP SC and at the international level, with a view to considering whether there is a need to review existing regulatory requirements or take supervisory actions.

IQ: What steps is ESMA taking to investigate this issue and determine the 'right' level of procyclicality, and will the analysis and data be shared with the industry?

KL: ESMA is currently considering whether targeted changes to the related regulatory technical standards (RTSs) and guidelines may be needed in the EU. We are also contributing at the international level to the activities of the Financial Stability Board and the dedicated working group on anti-procyclicality of the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions, as well as on other measures that may be necessary to enhance the overall resilience of the clearing ecosystem. Beyond the size of margin increases, the predictability of margin models, as well as clearing member and client preparedness, seemed to have played a key role in limiting the potentially destabilising effect of margin calls. ESMA has hosted two well-attended public events on procyclicality and will continue to engage closely with the industry.

IQ: In terms of CCP resilience, do you think further changes to EMIR will be needed in future and, if so, in which areas?

KL: The COVID-19 measures taken – in particular, the lockdowns – have tested the contingency plans of CCPs and their members as, in a matter of days, entire teams were asked to leave their office premises and work from home. While these impressive efforts have enabled markets to continue functioning remotely for months, operational risks have become a particular concern as a result, given the high degree of interconnectedness of CCPs with the rest of the financial sector.

This requires the heightened attention of regulators and supervisors. We have therefore decided to launch a peer review focusing on CCP operational resilience under remote working arrangements and to include operational risk as part of the framework for the fourth ESMA CCP stress-test exercise. We also welcome the proposition by the EC to strengthen the digital operational resilience of the financial sector as a whole and hope the co-legislators will come to a speedy agreement. Looking forward, we expect that financial technology and climate risks will become increasingly relevant for CCPs and may need to be further considered in future regulatory and supervisory cycles.

IQ: ESMA has so far run three rounds of supervisory CCP stress testing and is now embarking on a fourth – what has been learned from these stress tests and what will be the focus for future rounds?

KL: The stress-test exercises conducted by ESMA were the first EU-wide multi-CCP stress tests and they have continued to evolve throughout the years – first, focusing on counterparty credit risk and progressively expanding to liquidity and concentration risks. Thanks to close cooperation with the ESRB, market stress scenarios have also been enhanced over time, and the third stress-test exercise completed last year considered market shocks of a similar magnitude to the ones that occurred during the COVID-19 crisis.

The current fourth stress test uses further improved methodologies based on lessons learned from previous exercises and also assesses the combination of concentration costs and credit losses when liquidating defaulting portfolios. As mentioned previously, operational risk will also be addressed for the first time. For instance, third-party entities may be critical service providers of multiple CCPs, and the exercise aims to reveal hidden risks and concentration issues derived from interconnections through these operational dependencies. Publication of the final report is scheduled for the second half of 2022.

IQ: What will be the main items on your agenda over the next year?

KL: We have an extremely busy agenda for the next 12 months. Certainly, the coming months will be devoted to completing the topics already discussed, including reviewing the systemic importance of UK CCPs and reviewing the recognition of the other already-recognised CCPs by March 2022. A further major piece of activity is the preparation of the 19 RTSs and guidelines to implement the EU CCP Recovery and Resolution Regulation, 15 of which are due by February 2022.

Besides this, a key priority for next year is to build capacity at ESMA for the effective supervision of systemic CCPs and continue delivering on supervisory convergence for EU CCPs. ESMA will also consider issuing guidelines or reviewing RTSs under EMIR if we see the need from a policy or supervisory convergence perspective. We also stand ready to assess recognition requests from CCPs following the adoption of any new equivalence decisions by the EC. Certainly, these will be challenging but also exciting times. IQ

ABOUT THE ESMA CCP SUPERVISORY COMMITTEE

The Central Counterparty Supervisory Committee (CCP SC) was established under the European Market Infrastructure Regulation 2.2 (EMIR 2.2) as a permanent internal committee of the European Securities and Markets Authority (ESMA), reporting to the ESMA board of supervisors, which is the final decision-making body for all draft decisions prepared by the CCP SC.

The CCP SC is responsible for a number of tasks relating to EU CCPs, in order to enhance supervisory convergence and ensure a resilient CCP landscape. These include the preparation of opinions on draft decisions by a competent authority concerning the compliance of an EU CCP with certain EMIR requirements; the annual peer review on the supervision of EU CCPs; the annual ESMA CCP stress test; and the preparation of decisions on the validation of significant changes to CCP risk models.

The CCP SC is also responsible for certain tasks in relation to CCPs established in third countries, with the objective of ensuring adequate monitoring and management of the risk they may pose to the EU. This relates, in particular, to the preparation of decisions on the recognition of third-country CCPs and the supervision of tier 2 CCPs, including the tiering and comparable compliance assessments, as well as the review of recognitions.

The CCP SC is composed of the chair, two independent members and the competent authorities of EU member states with an authorised CCP. It also includes certain central banks of issue as non-voting members when the committee discusses certain topics in relation to third-country CCPs, or when it discusses the ESMA CCP stress test.

Klaus Löber is the first chair of the CCP SC. He took up the role on December 1, 2020 and is serving a five-year term. He also chairs the ESMA CCP Policy Committee, contributing to the EU Single Rule Book in the area of CCPs. Prior to taking up this role, Löber was head of oversight at the European Central Bank, responsible for overseeing financial market infrastructures, payments instruments and schemes. From 2012 until 2016, he was head of the secretariat of the Committee on Payments and Market Infrastructures, the global standard setting body for payments, clearing and settlement. He has also worked at the European Commission, Deutsche Bundesbank and in private practice.

Diversity in Derivatives

The balance of gender representation at senior levels of the derivatives market has improved significantly over the years, but there is more progress to be made to promote and maintain diversity and inclusion of all minorities

The derivatives market has changed in all sorts of ways over the past decade, from the way trades are executed and processed to the types of products that are traded. The make-up of the industry is also changing, with a higher level of diversity among market participants, senior managers and supervisors than ever before. Promoting and maintaining this diversity has become an imperative for every organisation around the world.

For many companies, the first priority has been to set targets to improve the gender balance, from training programmes to senior positions. Progress has certainly been made on this front – at ISDA, for example, the proportion of women occupying senior management and board positions has risen markedly over the past two years. But this is only the beginning, and there is still a long way to go to improve all types of diversity across the market.

"Gender diversity is really the lower hanging fruit, but once firms get into the mindset of considering the challenges faced by a minority in the workplace, they then have a template to focus on other groups. Ultimately, tackling diversity comes down to accountability and making sure senior leaders are held accountable for the diversity of their talent pool. Lack of diversity leads to group think, which is a risk for any organisation," says Tuvia Borok, global head of policy and documentation in the global markets division at Goldman Sachs.

High priority

While the make-up of the derivatives market has gradually evolved over the years, there has been a growing recognition across the business world that improving diversity is more than just an optional objective that might make a company a more appealing place to work. Rather, diversity and inclusion are moral imperatives that lead to improved business performance.

Numerous academic studies and surveys have shown that better business decisions are generated by diverse talent pools rather than homogenous groups. Faced with this research, business leaders increasingly recognise that diversity in the workforce can lead to increased talent, enhanced employee engagement and more innovative businesses.

"The world is not seen or lived through just one lens. We come from different backgrounds and therefore different viewpoints. When you have a diverse set of people, you draw upon their unique experiences and wide range of knowledge. As a result, you are more likely to be more innovative, creative and think more strategically. Engaging in diverse perspectives allows businesses to deliver better outcomes, not only for their clients but their employees as well," says Tracey Jordal, executive vice president and head of Europe, the Middle East and Africa operations and trade support at PIMCO.

Meeting robust diversity objectives is increasingly not just a matter of business strategy, but also risk management and compliance. As the risks of group think and homogenous management teams become better understood, regulators are paying closer attention to diversity and, in some cases, setting binding requirements.

"Within the derivatives sector, we need to find ways to recruit and retain a workforce with diverse views and experiences. This helps ensure we have more ideas on the table for those who seek to fulfil governance and performance objectives for this very technical and heavily regulated industry. Diversity in thinking can help take the industry to its next level of innovating in a responsible way," says Dawn Stump, commissioner at the Commodity Futures Trading Commission.

Gender progress

While recognising the need to address all types of diversity, the most significant progress has been made in improving the gender balance in the derivatives market. This has been achieved through a combination of quantitative targets, industry initiatives and a general change in culture. Women working in senior roles across the industry broadly agree that female representation has greatly improved since they started out.

"Twenty years ago, the vast proportion of the industry was male, and I was frequently the only woman in the room during meetings. It is striking how much that has changed and you do see many more women at all levels now, from our working group members right up to senior management and on our board," says Katherine Tew Darras, general counsel at ISDA.

"The fact that more than half of students in some law schools are female has created a natural flow of women into the industry. There is also much more support than there used to be for women who choose to have a family and want to continue in the workforce," Darras adds.

Every institution has pursued diversity in its own way, but some recent initiatives have pushed organisations to set specific targets and time frames. In 2016, following a review of female representation in financial services, the UK Treasury initiated the Women in Finance Charter. The charter requires financial services firms to allocate gender diversity and inclusion to a member of their senior executive team, set internal targets for gender diversity in senior management, publish annual updates on progress and have an intention to link executive compensation to delivery against the targets.

More than 330 financial services firms have committed to the charter, including banks, insurers, supervisors, financial technology companies and industry associations. ISDA signed the charter in 2019, assigning chief executive Scott O'Malia to be accountable for gender diversity and inclusion. In line with the targets that were set, the proportion of total senior management roles occupied by women has risen from 32% in 2019 to 41% in 2021. For the ISDA board of directors, the proportion has risen from 11% to 20% over the same period.

"We are proud to have joined many of our member firms in committing to the objectives of the Women in Finance Charter and have made good progress in increasing the number of women in senior management and on our board. Having a healthy gender balance is important and enables better business decisions. Better representation at a senior level also brings a number of benefits across our organisation in terms of performance, culture and engagement," says O'Malia.

Improving gender diversity at senior levels must, of course, be balanced with the need to ensure the right candidate is recruited to every role. But without actively setting and pursuing targets, it can be easy to neglect diversity.

"The value of gender diversity has become a regular part of the dialogue across the industry, regardless of the size or type of institution. That is filtering down through organisations and creating more opportunities for female candidates to pursue new positions. For any senior or board position, we still need to recruit someone whose skills and expertise fit the requirements, but there has been a concerted effort to seek out more female candidates and it has been great to see that develop over the years," says Tara Kruse, global head of infrastructure, data and non-cleared margin at ISDA.

> "Ultimately, tackling diversity comes down to accountability and making sure senior leaders are held accountable for the diversity of their talent pool. Lack of diversity leads to group think, which is a risk for any organisation"
>
> **Tuvia Borok, Goldman Sachs**

Industry networks

Promoting and maintaining sustainable levels of diversity in the industry is about more than just setting and meeting quantitative targets, however. Many companies recognise the need to build a culture that respects difference and embraces diversity, while also actively working to identify and nurture a generation of future leaders (see box).

While every organisation will have its own unique approach, it is also critical that diversity is not promoted only within the confines of an organisation. Industry networks and events help to foster greater inclusivity and sharing of experiences, best practices and advice between market participants.

Women in Derivatives (WIND) is one such organisation. Established in 2007, WIND is a not-for-profit organisation with a mission to attract, retain, educate and develop female leaders in the industry. With nearly 6,000 participants from a range of backgrounds, positions and levels of seniority, WIND has provided a vital network for female practitioners in the derivatives market.

"The ability to create a network when I first started, especially across women in my industry, was a challenge. It was something I had to try to figure out myself and, at times, I struggled. In some ways, it still takes some effort, but it is a lot easier when you have an organisation such as WIND that helps create connections and opportunities for its members," says PIMCO's Jordal, who is also chief executive of WIND.

"In addition to many other things, WIND is about creating networks across all our members to help further support our mission. We need organisations such as WIND because we are not always lucky enough to find the right connections – colleagues, mentors or sponsors – that will help guide, support and advocate for us," Jordal explains.

Institutional strategies

As important as voluntary charters and cross-industry initiatives may be in →

→ driving change, the diversity and inclusivity of an organisation's workforce ultimately depends more than anything else on the commitment and strategy of its management. Practitioners from any workplace minority may make their career choices based on a company's track record on this front.

Borok, who sponsored the launch of the LGBTQ+ Student Possibility Programme, which aims to prepare students for an internship with Goldman Sachs, applauds the bank for its approach to diversity and inclusion. Rather than devising a holistic strategy and delivering it top down, he believes the management of any firm needs to engage with minorities to determine the best approach.

"One of the great things Goldman Sachs has done is actually talk to its people and ask questions – the lived experience piece has been huge, because otherwise it just becomes a corporate hymn sheet and people disengage. The bank has always made clear to its staff that whatever your adversity is, it doesn't matter and it's not an impediment to being successful," explains Borok.

Actively promoting diversity in all jurisdictions where the bank operates, rather than just the major centres, has also sent a valuable signal that staff are valued for who they are, wherever they happen to live or work, Borok adds. An LGBTQ+ insight day in Poland last year was a good example of this willingness to "drive the needle" in all locations, he says.

Many practitioners have unique stories to tell about how their own professional journey has been supported or enabled by the decisions and strategy of management, and this ranges from company policies to more ad hoc flexibility to accommodate different working patterns and requirements.

Tina Hasenpusch, global head of clearing house operations for CME Group and an ISDA board member, believes the derivatives market has become much more inclusive over the years and is full of positive role models. At CME, women make up 30% of overall staff, 43% of senior managing directors and 26% of the board.

"I personally consider myself lucky, as I have worked with many inspiring and diverse leaders who also served as role models throughout my career. I have been part of CME's Diversity and Inclusion Council since its inception and together with members of our management team and employees from across our organisation, we represent a wide variety of backgrounds and perspectives," says Hasenpusch.

CME runs multiple initiatives to ensure diversity and inclusion is embedded in the culture and recruitment practices, as well as offering support for those in under-represented minorities. From the perspective of running a global clearing business, diversity of thought is also critical. "Bringing teams together across time zones, geographies and cultural backgrounds and uniting them behind a common purpose to create a shared value system has been a huge driver and learning experience for me personally," says Hasenpusch.

> "When you have a diverse set of people, you draw upon their unique experiences and wide range of knowledge. As a result, you are more likely to be more innovative, creative and think more strategically"
>
> **Tracey Jordal, PIMCO**

Flexible culture

Notwithstanding the importance of dedicated corporate strategies and initiatives, having an inclusive culture and supportive management that allows for flexible working and other concessions to normal working practices where warranted is also seen as critical. This flexibility may appear to be most important in supporting women in returning to work after having children, but it extends beyond this.

"It's important to remember there is no one-size-fits-all model for diversity and one can't run a dedicated programme to support women without recognising that not all women have the same lived experience or that being a woman might not be their biggest challenge. As an example, people often assume my diversity challenge is being gay, but being a single parent and doing what I do has actually been a bigger challenge than my sexuality," says Borok.

For any parent, juggling the demands of a busy professional life with family commitments can be difficult. Support and flexibility for working parents may be critical in determining an individual's longevity with a particular company. This has been key to Jordal's 20-year span at PIMCO.

"We are cognisant of being aware of unconscious biases, and we have programmes to support employees professionally as well as personally, so they don't have to choose between their job and their other obligations and responsibilities. Throughout my career at PIMCO, I have been fortunate to have managers and people I work with who have

> "Within the derivatives sector, we need to find ways to recruit and retain a workforce with diverse views and experiences. This helps ensure we have more ideas on the table for those who seek to fulfil governance and performance objectives for this very technical and heavily regulated industry"
>
> **Dawn Stump, Commodity Futures Trading Commission**

been extremely supportive of my career. They have been both mentors and sponsors and have helped guide, advise and most importantly advocate for me along the way," says Jordal.

There is no doubt that the experience of remote working during the coronavirus pandemic has driven a new realisation that success and results do not depend on being physically located in an office environment. As companies around the world return to their offices, with many adopting some form of hybrid working, it remains to be seen to what extent the pandemic will drive lasting change in the flexibility that is granted to employees.

The pandemic has also allowed some companies to reach a broader talent pool when recruiting because virtual interviews are not constrained by the physical location of candidates. Jordal believes companies need to capitalise on lessons learned from the pandemic and build on the progress that has been made.

"The world has changed a lot in the past 18 months, and it has allowed us to create more diversity in thought. We are no longer hampered by the restrictions of hiring someone in a certain location. As long as companies are willing to continue to have an open mind about work arrangements, and as long as it makes sense for that particular position, you can have someone who is excellent at what they do with a different way of thinking located halfway around the world," says Jordal. IQ

PROMOTING DIVERSITY IN FUTURE DERIVATIVES LEADERS

In October 2021, ISDA launched a new professional development programme for emerging leaders in the derivatives market to support their career progression and enable them to gain experience of working alongside other practitioners from all parts of the derivatives industry. Promoting a diverse generation of future leaders is a key objective of the initiative.

For the first phase of the ISDA Future Leaders in Derivatives (IFLD) programme, ISDA has enrolled a diverse group of nearly 50 derivatives professionals who have already demonstrated leadership potential within their own firms. They are drawn from buy- and sell-side institutions, law firms and service providers around the world.

Over the coming year, the IFLD participants will work on developing thought-leadership materials in two key areas – environmental, social and governance (ESG), and technology and innovation. They will also have access to ISDA training resources and conferences, giving them the opportunity to network and engage with their peers.

"As we bring together this diverse network of emerging leaders, we are looking forward to hearing their perspectives on issues of strategic importance to the future of the derivatives market. By engaging with their peers, exchanging views within working groups and participating in the IFLD training programme, they will gain valuable experience of ISDA's work that will support their professional development," says Ciarán McGonagle, assistant general counsel at ISDA and chair of the IFLD staff committee.

The initial cohort has been split into two working groups, each chaired by an ISDA staff member who will work with the group to agree objectives and provide guidance. IFLD working groups will be expected to develop papers on their topic of focus and deliver their output to an industry audience next year.

During the second part of the programme, a series of training sessions will be delivered, covering technical topics such as the fundamentals of derivatives, media training and leadership skills. Most participants will graduate from the programme after one year of participation, at which point a new group will be enrolled.

"The derivatives market faces some exciting opportunities in the years ahead and it is more important than ever that we identify and nurture potential leaders across a diverse range of functions, business lines and geographies. The IFLD programme will give participants the opportunity to develop their careers and professional networks, providing a platform to take on future leadership positions. This programme will be critical to ensure the market continues to flourish for years to come," says Scott O'Malia, chief executive of ISDA.

Capital Concerns

As countries around the world draft legislation to transpose the final parts of the Basel III framework into law, Panayiotis Dionysopoulos, head of capital at ISDA, talks to ***Debbie Toennies****, head of regulatory affairs for the corporate and investment bank at JP Morgan*

The high volatility in the early days of the pandemic last year provided a test of the regulatory framework that was put in place after the 2008 financial crisis. For the most part, the financial system proved resilient, thanks to decisive public-sector support and the higher levels of capital banks were holding to absorb market shocks.

There were, however, some lessons. For example, risk-weighted assets (RWAs) for trading book capital under the existing Basel 2.5 rules rose sharply at the start of the pandemic, giving rise to concerns about the procyclicality of capital requirements – an issue that prompted regulators to quickly step in to provide relief. In contrast, the incoming Basel III market risk capital framework, known as the Fundamental Review of the Trading Book (FRTB), is intended to result in more stable RWAs during periods of market stress.

On October 27, the European Commission (EC) fired the starting gun in the process of transposing the final parts of the Basel III framework when it published legislative proposals to implement the package in the EU. The EC proposed that the new rules would apply from January 1, 2025, giving banks and supervisors just over three years to fully implement the reforms.

Over the coming year, legislative proposals can be expected from other major jurisdictions, including the US, Japan and the UK. This will be a critical phase in the Basel III process, as jurisdictions need to be aligned on both the timing and content of their rules. Even minor deviations from globally agreed standards can lead to distortions in cost and risk management, particularly for internationally active banks.

While Basel III will be a priority for banks around the world for years to come, other emerging trends will also demand the attention of risk and capital professionals. These include the growth of environmental, social and governance investments, as well as crypto assets. The Basel Committee on Banking Supervision recently consulted on the prudential treatment of crypto-asset exposures, and ISDA made a series of proposals in its response that would enable banks to participate in this rapidly growing market.

Debbie Toennies, head of regulatory affairs for the corporate and investment bank at JP Morgan, shares her perspectives on the lessons learned from the pandemic, the priorities for Basel III implementation and the importance of ensuring appropriate regulatory treatment of crypto assets.

Panayiotis Dionysopoulos (PD): How did capital models perform during the COVID-19 pandemic, and what lessons have been learned?

Debbie Toennies (DT): We saw Basel 2.5 capital models experience significant increases during the COVID-19 crisis. This was not surprising, as it was anticipated that value-at-risk (VAR) models would immediately be procyclical when markets became volatile and, in particular, stress VAR as the stress period came into the model. This was one of the reasons why global regulators pursued a new framework that we now know as the FRTB. This new framework has both a standardised approach (SA) and an internal models-based approach (IMA).

Certainly, the SA was expected to be and proved to be more stable. The proposed IMA was similarly less of a change relative to business-as-usual capital when compared to Basel 2.5, although banks did not have the full ability during the crisis to capture so-called non-modellable risk factors (NMRFs), nor did they have the capacity to do profit-and-loss attribution testing (PLAT) and back-testing. Had these calculations been fully functioning, it is likely that the IMA would have been significantly higher. In addition, while less volatile, both the SA and IMA calculations were significantly higher than the current standard. Higher capital that is less volatile is still problematic, as it is the higher capital that could potentially have the broker-dealers reducing exposures when their market support is needed most.

> "Higher capital that is less volatile is still problematic, as it is the higher capital that could potentially have the broker-dealers reducing exposures when their market support is needed most"

PD: With Basel III rules expected in all key jurisdictions over the coming year, what are the key issues for JP Morgan when it comes to trading book regulation?

DT: The first issue that is of concern to us is the relative assessment of the FRTB IMA versus the SA. All banks are required to calculate the SA for their desks, but the development of the IMA is optional. The build out required for IMA use is substantial and the problem is that the results of these two approaches are too close, so it may not be worth banks investing in the substantial build out that would be required to do IMA. An overall recalibration would seem to make sense and it could be accomplished via the diversification levers in the calculation, which may be set too conservatively.

One other issue that became even more evident during the recent crisis is that regulators may need to consider pausing IMA testing – specifically, PLAT, back-testing and NMRF eligibility – during times of stress to avoid procyclical volatility and allow broker-dealers to better serve the markets with intermediation when it is most needed. Consistency in the rules is also important as these are global capital markets and material differences between jurisdictions can make pricing transactions across borders especially challenging. As a global bank, we would need to build systems to allow us to calculate capital in different jurisdictions according to their specific rule sets. The more these rules differ across borders, the more challenging the process becomes.

PD: At this stage, consistency in the timing and content of the remaining Basel III reforms is going to be critical for large international banks. Do you think we will achieve a globally consistent capital framework? Where are your main concerns?

DT: The Basel process was designed to have one standard that could be applied consistently across the globe, which is great in concept. However, it is one minimum standard with the caveat that jurisdictions can make changes for specific circumstances unique to their markets. This caveat is used by various national authorities to make modifications they deem necessary to serve the interests of their jurisdiction. We think there are still issues with the FRTB international standard as finalised, so having jurisdictions use this latitude to improve the global standard is important. But, as a global bank, it is highly preferable that any changes be made in a globally consistent way.

PD: While regulators generally recognise the need to balance risk sensitivity and comparability in the capital framework, there has been a general trend towards standardised approaches rather than risk-sensitive internal models. What are the implications of this?

DT: Standardised approaches are, by design, less risk sensitive as they are intended to backstop models-based approaches and provide comparability across jurisdictions. However, over reliance on standardised and/or size-based requirements without the models-based approaches risks affecting the degree to which banks continue offering certain products and services. The complementary relationship between models and non-risk-based requirements is important to maintain, both in structure and calibration, as it creates more balance between regulatory objectives and banks' ability to safely extend credit and intermediate through the economic cycle.

PD: In June 2021, the Basel Committee published a consultation on the prudential treatment of crypto-asset exposures. As this market continues to evolve, what should be the priorities for the industry? Where are the greatest uncertainties?

DT: The Basel Committee consultation on bank exposures to crypto assets was an extremely conservative proposal that, as drafted, would result in all or nearly all transactions with banks requiring dollar-for-dollar capital. This would have meant that banks would not have been able to →

engage in this asset class for their clients, as the exposures would not be economical. If banks could not engage in this asset class, this activity would be entirely conducted by entities that are, at least currently, largely outside the regulatory perimeter. As the interest in this market has significantly expanded recently – in particular, with institutional accounts – banks have been asked to engage on behalf of their clients.

The Basel Committee seems willing to further consult on this issue and that is strongly encouraged by the industry – although I would note that future consultations will take time and client demand is current, which causes a bit of an issue for those banks that are being asked to serve the needs of their clients but currently have no framework to undertake this activity. It is therefore important that regulators develop an interim treatment while working on a longer-term solution.

As this market continues to evolve, the regulatory framework should keep pace. While capital treatment for these exposures will understandably be initially conservative, modifications may be needed as this market develops to reflect the current risks in the system. The existing framework at Basel makes an agile process like this very difficult, but I am hopeful that regulators will devise ways of dealing with what is a rapidly evolving sector of the market by reproposing at least portions of the capital rules as needed.

> "We think there are still issues with the FRTB international standard as finalised, so having jurisdictions use this latitude to improve the global standard is important. But, as a global bank, it is highly preferable that any changes be made in a globally consistent way"

As it stands today, there is a great deal of uncertainty about how regulations in this market will develop and whether regulated banks will be able to engage on behalf of their customers in this sector. For example, lots of questions remain about which entities will be covered by regulation, as well as the specific regulations that will apply to those that are covered. Lots of regulations – not only the prudential capital ones – are yet to be developed, so further evolution of this market is highly uncertain in terms of direction, and the question of divergence across borders is still a very real risk. IQ

Listen to THE SWAP

ISDA's podcast series, The Swap, features senior market practitioners and policy-makers who share their views on key issues in financial markets and derivatives

LATEST EPISODE!

Monitoring Financial Stability

Episode 16 – November 22, 2021 – Listen in full: **bit.ly/3rl3LV4**

It's the job of financial stability authorities to ensure the financial system is resilient and to identify any potential vulnerabilities. The Bank of England's deputy governor for financial stability, Sir John Cunliffe, discusses the current areas of focus.

"The banking system was made markedly more resilient by the capital and liquidity reforms that were brought in after the financial crisis, but the reason why markets remained stable during the pandemic was because central banks intervened"

Sir John Cunliffe, Bank of England

Crypto and Derivatives

Episode 15 – October 27, 2021 – Listen in full: **bit.ly/3EjiFPv**

Crypto assets are growing at a rapid pace, with increasing interest from institutional investors, which is driving renewed focus on developing robust standards and legal foundations. Former CFTC chairman J. Christopher Giancarlo talks to ISDA CEO Scott O'Malia.

The EC's Regulatory Agenda

Episode 14 – October 13, 2021 – Listen in full: **bit.ly/3o2NceB**

The European Commission recently published new capital measures and is continuing to work on the transition to a climate-neutral economy while reviewing its flagship markets legislation. The EC's Sean Berrigan discusses the regulatory priorities.

The Future of Investment Banking

Episode 13 – September 23, 2021 – Listen in full: **bit.ly/3FX7fRL**

What's in store for investment banking in the future? What will it take to be a leading investment bank, and to what extent will technology be the differentiating factor? JP Morgan analyst Kian Abouhossein shares his views.

Capital and the Pandemic

Episode 12 – July 23, 2021 – Listen in full: **bit.ly/3d13jTu**

Higher capital and liquidity requirements are widely thought to have helped banks weather the COVID-19 crisis, but do parts of the Basel III framework need to be reconsidered in light of the pandemic? Deutsche Bank group treasurer Dixit Joshi talks to ISDA CEO Scott O'Malia.

Resilience by Margin

Episode 11 – June 30, 2021 – Listen in full: **bit.ly/3qC92oV**

The requirement to post initial margin for non-cleared derivatives was one of the main post-financial crisis reforms. ISDA CEO Scott O'Malia reflects on the impact and challenges of the requirements, with insights from the Ontario Teachers' Pension Plan and BNP Paribas Securities Services.

Adapting to Change

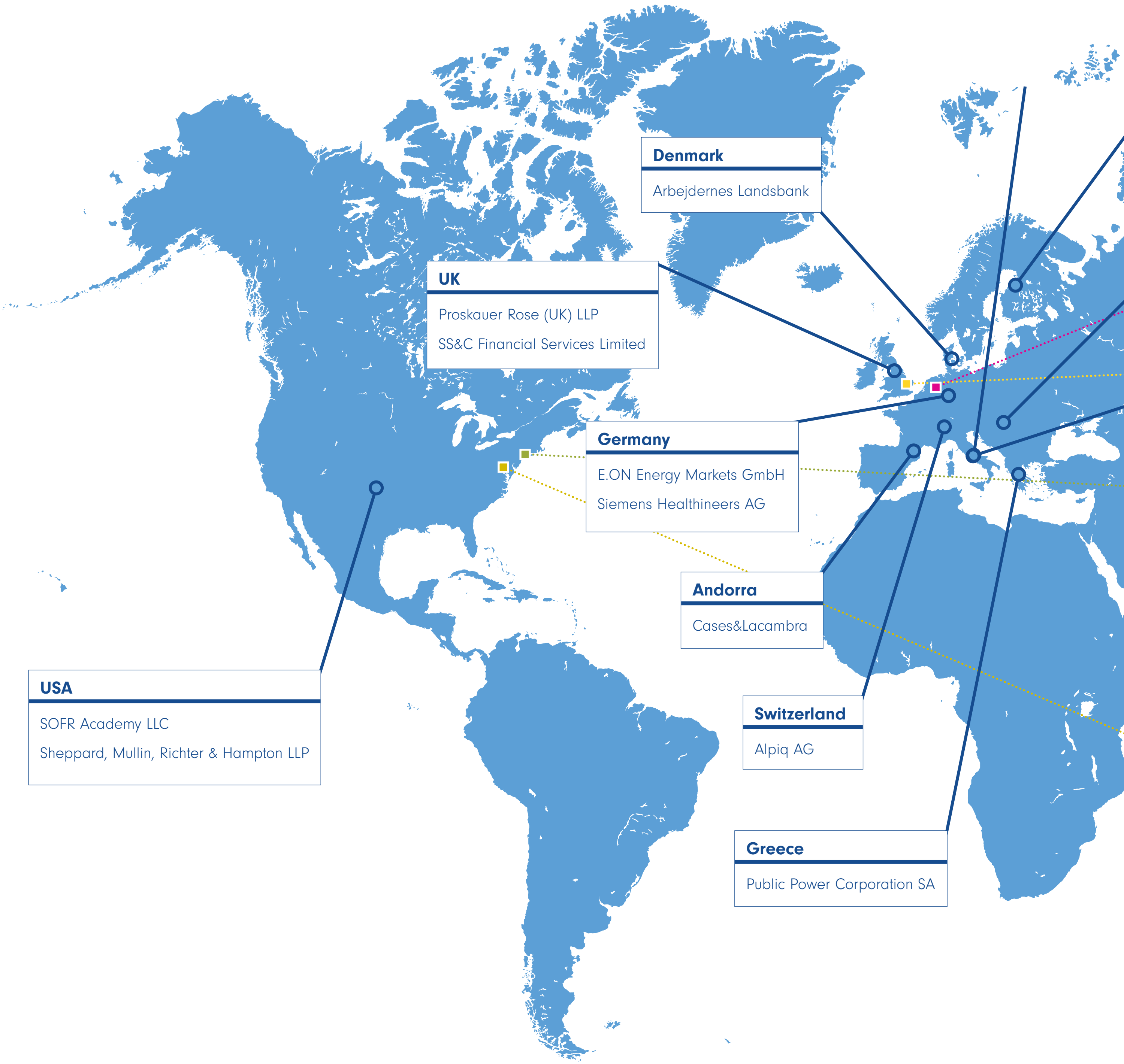
Episode 10 – May 27, 2021 – Listen in full: **bit.ly/3dysFZx**

Market participants face a huge number of changes, from the death of LIBOR to adapting to the post-Brexit landscape. Sian Hurrell, head of global sales and relationship management at RBC Capital Markets, gives her views.

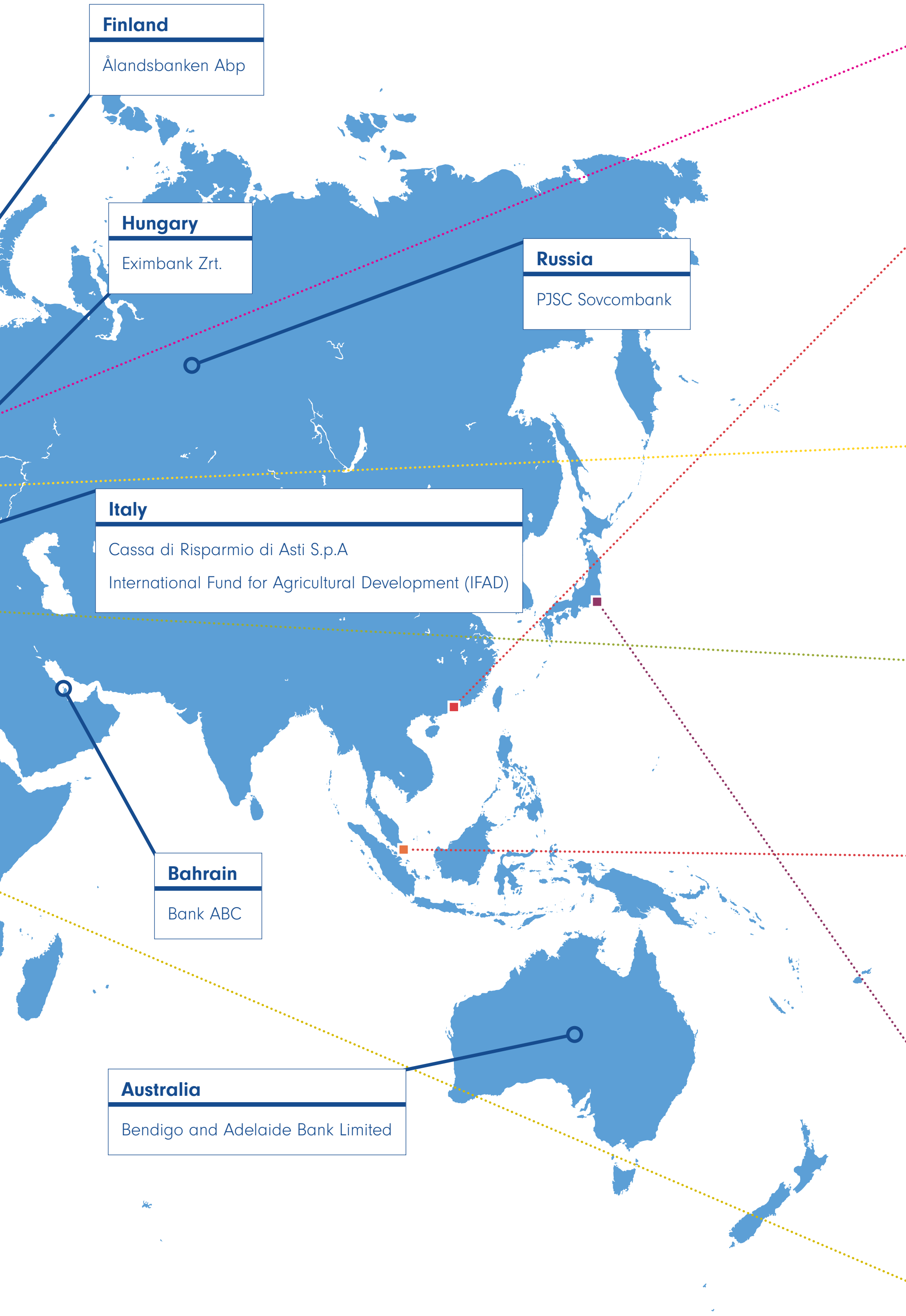
All episodes of **The Swap** are available on the ISDA website, Apple Podcasts, Spotify and other podcast platforms

NEW ISDA MEMBERS

A big welcome to all new members that joined ISDA in the third and fourth quarters of 2021. We look forward to working with you in future



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



Portal at **https://membership.isda.org/**

OFFICE LOCATIONS

BRUSSELS

2nd floor, Square de Meeûs 5/6
1000 Brussels
Belgium
Phone: 32 (0) 2 808 8013
isdaeurope@isda.org

HONG KONG

Suite 1602, 16th Floor, China Building
29 Queen's Road Central
Central, Hong Kong
Phone: 852 2200 5900
Fax: 852 2840 0105
isdaap@isda.org

LONDON

25 Copthall Avenue, 3rd Floor
London EC2R 7BP
United Kingdon
Phone: 44 (0) 20 3808 9700
Fax: 44 (0) 20 3808 9755
isdaeurope@isda.org

NEW YORK

10 East 53rd Street, 9th Floor
New York, NY 10022
Phone: 1 212 901 6000
Fax: 1 212 901 6001
isda@isda.org

SINGAPORE

Marina Bay Financial Centre
Tower 1, Level 11
8 Marina Boulevard
Singapore 018981
Phone: 65 6653 4170
isdaap@isda.org

TOKYO

Otemachi Nomura Building, 21st Floor
2-1-1 Otemachi
Chiyoda-ku, Tokyo 100-0004
Phone: 813 5200 3301
Fax: 813 5200 3302
isdajp@isda.org

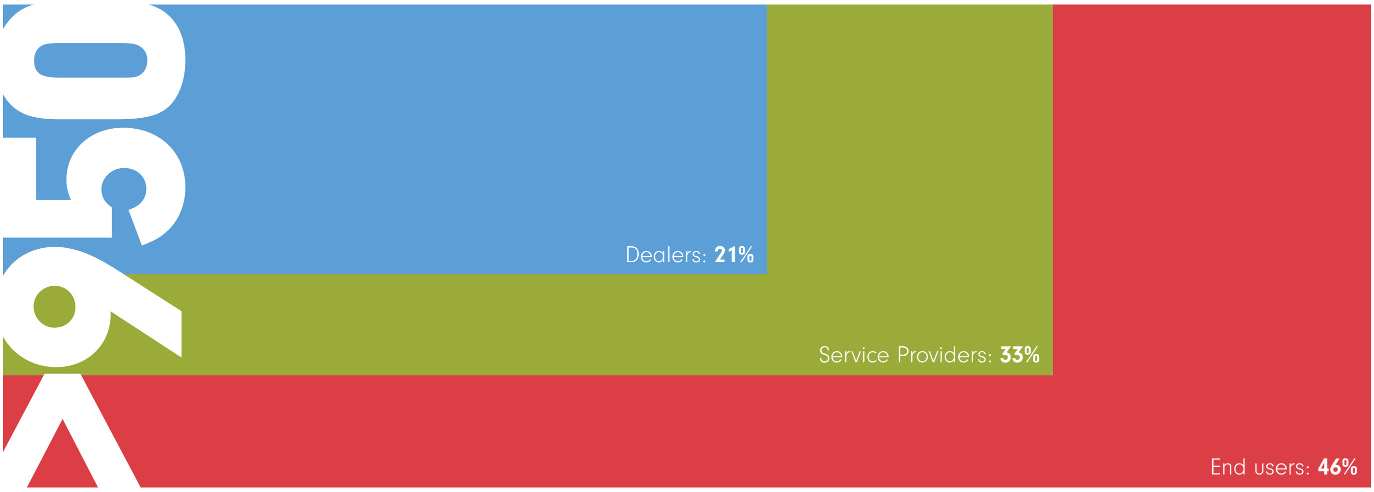
WASHINGTON

600 13th Street, NW, Suite 320
Washington, DC 20005
Phone: 1 202 683 9330
Fax: 1 202 683 9329
isda@isda.org

MEMBERSHIP INFORMATION

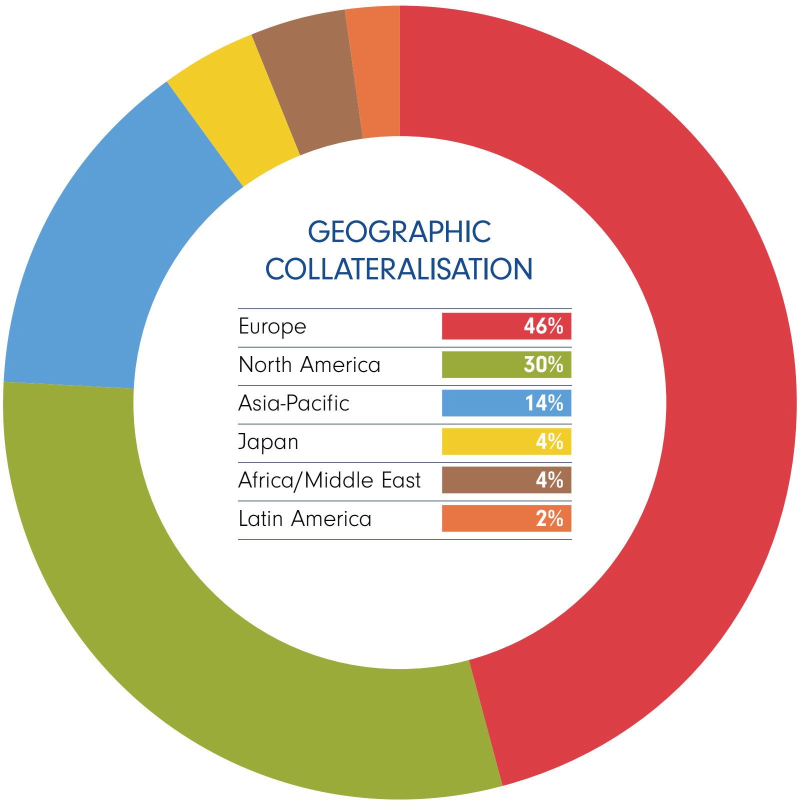
ISDA has over 960 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. 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

Banks	30%
Law Firms	22%
Asset Managers	9%
Government Entities	13%
Energy/Commodities Firms	7%
Diversified Financials	5%
Other	14%



GEOGRAPHIC COLLATERALISATION

Europe	46%
North America	30%
Asia-Pacific	14%
Japan	4%
Africa/Middle East	4%
Latin America	2%

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/

BOARD OF DIRECTORS

OFFICERS

Eric Litvack, Chairman
Managing Director, Group Director of Public Affairs
Société Générale

Axel van Nederveen, Vice Chairman
Managing Director, Treasurer
European Bank for Reconstruction and Development (EBRD)

Jack Hattem, Secretary
Managing Director, Global Fixed Income
BlackRock

Darcy Bradbury, Treasurer
Managing Director
D. E. Shaw & Co., L.P.

DIRECTORS

Thijs Aaten
Chief Finance and Risk Officer
APG Asset Management Asia

Marc Badrichani
Head of Global Sales & Research
J.P. Morgan

Gesa Benda
EMEA Head of CCM and Global Head of Product Strategy - Clearance and Collateral Management (CCM)
BNY Mellon

William Black
Managing Director and Global Head of OTC Clearing
Credit Suisse

Biswarup Chatterjee
Managing Director, Head of Innovation, Global Markets
Citigroup

Christine Cremel
Managing Director, Head of Onboarding, Transaction Management & Clearing
Credit Agricole CIB

Tina Hasenpusch
Managing Director, Global Head of Clearing House Operations
CME Group

Amy Hong
Head of Market Structure and Strategic Partnerships
Goldman Sachs & Co. LLC

Sian Hurrell
Head of Global Sales and Relationship Management & Head of FICC Europe
RBC Capital Markets

Dixit Joshi
Group Treasurer
Deutsche Bank AG

ISDA EXECUTIVES

OFFICE OF THE CEO

Scott O'Malia
Chief Executive Officer

Katherine Tew Darras
General Counsel

Steven Kennedy
Global Head of Public Policy

Mark Gheerbrant
Global Head of Risk and Capital

Tara Kruse
Global Head of Infrastructure, Data and Non-cleared Margin

SENIOR EXECUTIVES

Clive Ansell
Head of Market Infrastructure and Technology

Ann Battle
Assistant General Counsel & Head of Benchmark Reform

Amy Caruso
Head of Collateral Initiatives

Roger Cogan
Head of European Public Policy

Huzefa Deesawala
Chief Financial Officer

Panayiotis Dionysopoulos
Head of Capital

Benoît Gourisse
Head of Public Policy, Asia Pacific

Jing Gu
Head of Asia, Legal

Marisa Irurre Bauer
Head of Conferences

Ulrich Karl
Head of Clearing Services

Olivier Miart
Head of Analytics

Dillon Miller
Chief Technology Officer

Alan Milligan
Head of Data and Digital Solutions

Tomoko Morita
Senior Director and Head of Tokyo Office

Mark New
Senior Counsel, Americas

Olga Roman
Head of Research

Bella Rozenberg
Senior Counsel & Head of Regulatory and Legal Practice Group

Rick Sandilands
Senior Counsel, Europe

Nick Sawyer
Global Head of Communications & Strategy

Lorraine Sneddon
Acting Global Head of Human Resources

Peter Werner
Senior Counsel (Legal Infrastructure and Law Reform)

Chris Young
Head of US Public Policy

Liz Zazzera
Head of Membership

ISDA Safe, Efficient Markets

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.

THE PREEMINENT VOICE OF THE GLOBAL DERIVATIVES MARKETPLACE

Representing the industry through public policy engagement, education and communication

AN ADVOCATE FOR EFFECTIVE RISK AND CAPITAL MANAGEMENT

Enhancing counterparty and market risk practices and ensuring a prudent and consistent regulatory capital and margin framework

THE SOURCE FOR GLOBAL INDUSTRY STANDARDS IN DOCUMENTATION

Developing standardized documentation globally to promote legal certainty and maximize risk reduction

A STRONG PROPONENT FOR A SAFE, EFFICIENT MARKET INFRASTRUCTURE FOR DERIVATIVES TRADING, CLEARING AND REPORTING

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

www.isda.org

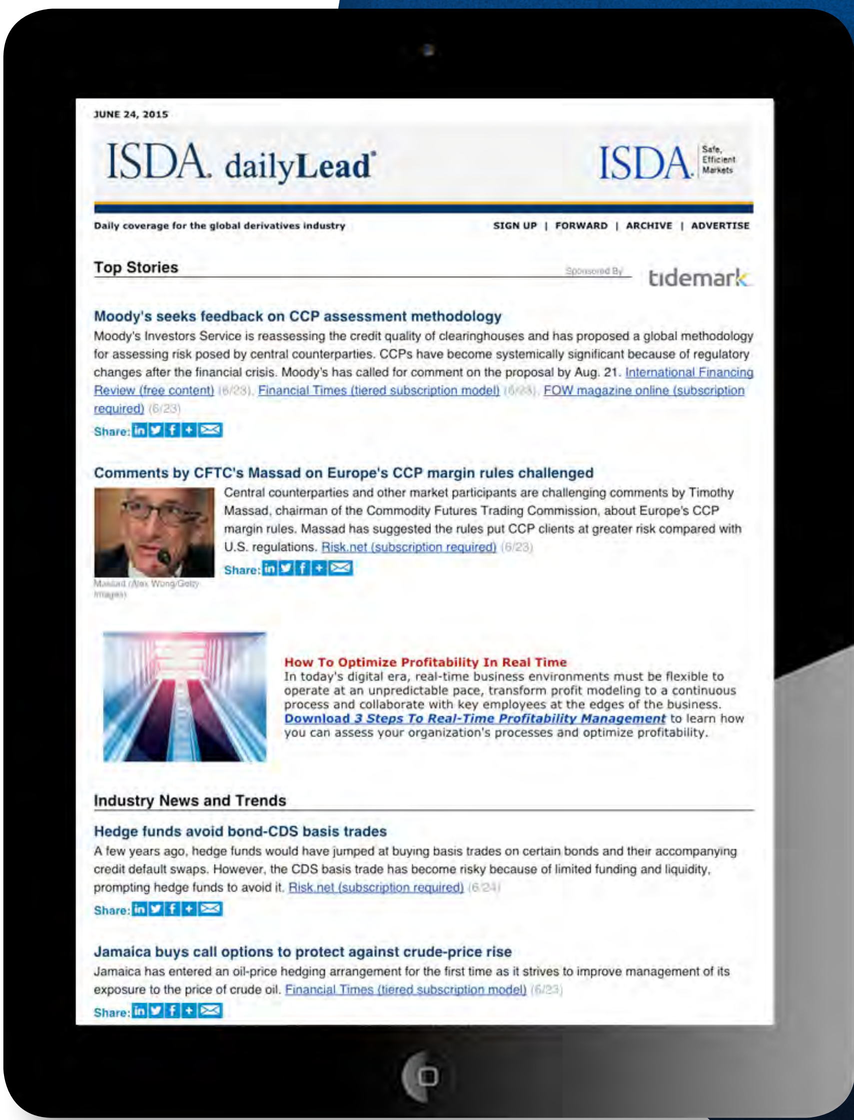
SIGN UP FOR

ISDA dailyLead®

The smarter way to stay on top of the global derivatives industry

ISDA dailyLead is a free daily email newsletter specifically designed for derivatives markets professionals. Over 20,000 of your peers rely on ISDA dailyLead to stay informed.

- Bringing you a quick, two-minute read that will help keep you up to date with the latest news and trends in the industry, key regulatory issues and ISDA news, straight to your inbox.
- A daily snapshot of the global swaps and derivatives industry with news from the Financial Times, Wall Street Journal and other leading sources.



Sign up today so you don't miss another issue:

smartbrief.com/ISDA

*

"The end of 2021 is not the end of the journey. The transition of legacy contracts that reference US dollar LIBOR – of which a majority of settings will cease only after end-June 2023 – will be another challenge as we enter 2022"

Arthur Yuen, Hong Kong Monetary Authority