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For Immediate Release

ISDA Insight Survey: End Users Uncertain about New Margin Requirements

NEW YORK, January 6, 2015 – Derivatives end users are concerned about the impact of new margin requirements for non-cleared derivatives, with a large number unsure whether they will even have to comply with the rules, according to new survey published today by the International Swaps and Derivatives Association, Inc. (ISDA).

The new rules, which will require most derivatives users to post initial and variation margin on non-cleared derivatives transactions, will be phased in from December 2015. But a third of survey respondents said they were unsure whether they would be subject to the rules. And of the 36% that knew they would have to comply, nearly two thirds (65%) said they were concerned or somewhat concerned about their ability to meet the requirements.

The current proposals set a phase-in schedule for the posting of initial margin, starting with the largest derivatives users from December 2015 and extending through to December 2019. Variation margin posting is slated to begin for all eligible counterparties from December this year, requiring firms to make significant changes to systems, processes and documentation. Regulators from the US, Europe and Japan released proposed requirements last year, but final rules have not yet been published.

"The survey results indicate that many market participants may struggle to meet the December 2015 effective date, especially given that a large number of end-user firms still appear unsure whether the rules apply to them," said Scott O'Malia, ISDA Chief Executive Officer.

"Once the margin rules are finalized, it is vital that market participants have sufficient time to allow for the legal, operational and technological enhancements necessary to effectively and safely implement these new requirements. That's why ISDA has recommended a longer, phased implementation schedule to accommodate the adoption of a transparent standard industry model and the necessary documentation to exchange collateral on a global basis. It is also important that there is consistency between the various sets of rules, particularly regarding which market participants must post and collect margin," Mr. O'Malia added.

ISDA's letters to regulators can be found on the ISDA website:
http://www2.isda.org/functional-areas/wgmr-implementation/

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Despite misgivings over the margin rules, derivatives remain important risk management tools for end-user firms. Similar to survey findings in April and September 2014, a resounding majority of respondents (81%) think derivatives are important or very important to their firm's risk management strategy. Seventy-eight per cent expect their use of derivatives to increase or stay the same over the first three months of 2015.

These firms use derivatives for a variety of risk management purposes, with managing exposures to currencies, interest rates, commodities and credit emerging as the most popular use (65%). Hedging exposures to international markets (52%) and reducing financing costs (38%) were also highly ranked.

The top three concerns flagged by end users were increased costs of hedging (59%), regulatory uncertainty (38%) and concerns about the scope of cross-border derivatives regulation (36%). The last of these appears to be having a tangible effect on end users: 53% of respondents thought derivatives markets were fragmenting along geographic lines as a result of new regulation, with more than half of those (55%) claiming this is having a negative or strong negative impact on their ability to manage risk.

Of the 400 respondents who answered some or all of the survey questions, 24% work at non-financial corporates and 57% are employed by financial institutions (insurers, finance companies, asset managers and bank end users). Forty-one per cent of respondents work for firms that are headquartered in Europe, while 47% are headquartered in North America.

The findings are part of the latest ISDA Insight survey, an ongoing initiative to research and assess the views of global OTC derivatives end users. The complete survey results are available on ISDA website's Research section under 'Surveys'.

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About ISDA
Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA has over 800 member institutions from 66 countries. These members include a broad range of OTC 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 including exchanges, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org.