



NEWS RELEASE
For Immediate Release

ISDA OTC Derivatives Market Analysis: Industry Meeting Clearing and Compression Goals

NEW YORK, January 29, 2015 – Two key policy goals of increased clearing and portfolio compression are being met by the derivatives industry, with a recent surge in compression volumes contributing to a decline in publicly reported interest rate derivatives notional outstanding figures, according to a new research paper published today by the International Swaps and Derivatives Association, Inc. (ISDA).

The Bank for International Settlements (BIS) reported that interest rate derivatives gross notional outstanding had fallen from \$584.4 trillion in December 2013 to \$563.3 trillion in June 2014, a decrease of 3.6%.

The decline in publicly reported figures can be explained by a recent jump in compression activity, with outstanding compressed notional volume (adjusted for double counting) increasing 37.9% between December 2013 and June 2014. In total, roughly 35.7% of the interest rate derivatives market has now been reduced through portfolio compression. In addition, close to 70% of the total interest rate derivatives market has been cleared.

After factoring out the impact of clearing and compression, ISDA's analysis shows that underlying interest rate derivatives market activity increased by 5.5% between December 2013 and June 2014.

"Clearing and compression are becoming increasingly prevalent, which is a very positive development for the derivatives industry. These two practices can make it difficult to get a clear picture of the underlying market, however. Our research shows activity in interest rate derivatives before clearing and compression has been growing," said Scott O'Malia, ISDA Chief Executive Officer.

The difference emerges because of how clearing and compression affect notional outstanding figures in publicly available data. Clearing can lead observers to overstate the size of the market, as a single bilateral trade is counted twice when it is cleared (one transaction between counterparty A and the clearing house and one between counterparty B and the CCP). Conversely, compression results in the cancelling out of offsetting trades, which can make it seem like the market is shrinking even if underlying trade activity has increased.

Over the longer term, publicly reported BIS notional outstanding volume and ISDA's adjusted figures have increased by similar amounts. BIS-reported notional outstanding rose by 11.7% between December 2011 and June 2014. This increases slightly to 13.3% once adjusted for clearing and compression.

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While compression activity has jumped in recent months, the proportion of cleared trades has been climbing steadily over the past few years. An estimated 69.3% (\$230.6 trillion) of the interest rate derivatives market is now cleared.

This figure is expected to eventually grow as central counterparties enhance their offerings to include different types of products and currencies that are not yet clearable. When non-clearable products and clearing exemptions are taken into account, ISDA estimates 95% of clearable interest rate derivatives products are currently being cleared.

“Increased clearing and compression are important policy goals for regulators, and significant progress has been made in achieving both of them. Close to 70% of the total interest rate derivatives market is now cleared, and compression activity is catching up fast following a big increase in volumes last year. We expect both these trends to continue as clearing services and mandates expand and compression technology continues to develop,” said Mr. O’Malia.

The full *ISDA OTC Derivatives Market Analysis: Interest Rate Derivatives* is available on the [ISDA website’s Research section under ‘Research Notes’](#).

For Press Queries, Please Contact:

Nick Sawyer, ISDA London, +44 203 088 3586, nsawyer@isda.org
Lauren Dobbs, ISDA New York, +1 212 901 6019, ldobbs@isda.org
Donna Chan, ISDA Hong Kong, +852 2200 5906, dchan@isda.org

About ISDA OTC Derivatives Market Analysis: Interest Rate Derivatives

The Market Analysis utilizes data from the BIS, the Depository Trust & Clearing Corporation, LCH.Clearnet’s SwapClear, CME Group and Japan Securities Clearing Corporation.

The report uncovers key trends in the interest rate derivatives market by analyzing the impact of central clearing and portfolio compression. BIS notional outstanding figures are adjusted to arrive at an estimated metric that reflects the underlying state and changes in the size of the interest rate derivatives space before compression and clearing occur.

Previous *OTC Derivatives Market Analysis* reports have coincided with the release of the BIS semiannual statistics in order to obtain a measure of reported gross notional outstanding volume. This analysis combines semiannual BIS survey data with DTCC figures in order to obtain an estimate for non-clearable product dynamics since this information is not available from the BIS.

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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 67 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.

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