

HOW HAS THE DERIVATIVES MARKET CHANGED?

Clearing

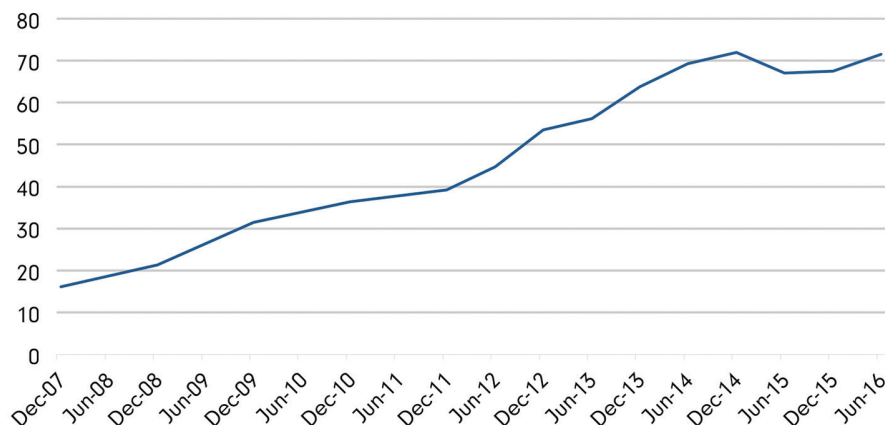
Most of the derivatives market is now cleared, helping to mitigate bilateral counterparty credit risk.

71.5% Total interest rate derivatives (IRD) notional outstanding that was cleared at end-June 2016¹

87.5% Average daily IRD notional trading volume that was cleared in Q1 2017²

80.5% The IRD market as a proportion of total derivatives notional outstanding

Cleared IRD Total Notional Outstanding (%)



Source: Bank for International Settlements, ISDA

¹ <http://isda.link/marketanalysisdec2016>

² As reported to US swap data repositories and compiled by ISDA SwapsInfo.org

³ TriOptima, <http://isda.link/marketanalysisdec2016>

Reporting

All major financial centers have mandates in place requiring trade reporting, ensuring regulators have transparency on trading activity and exposures.

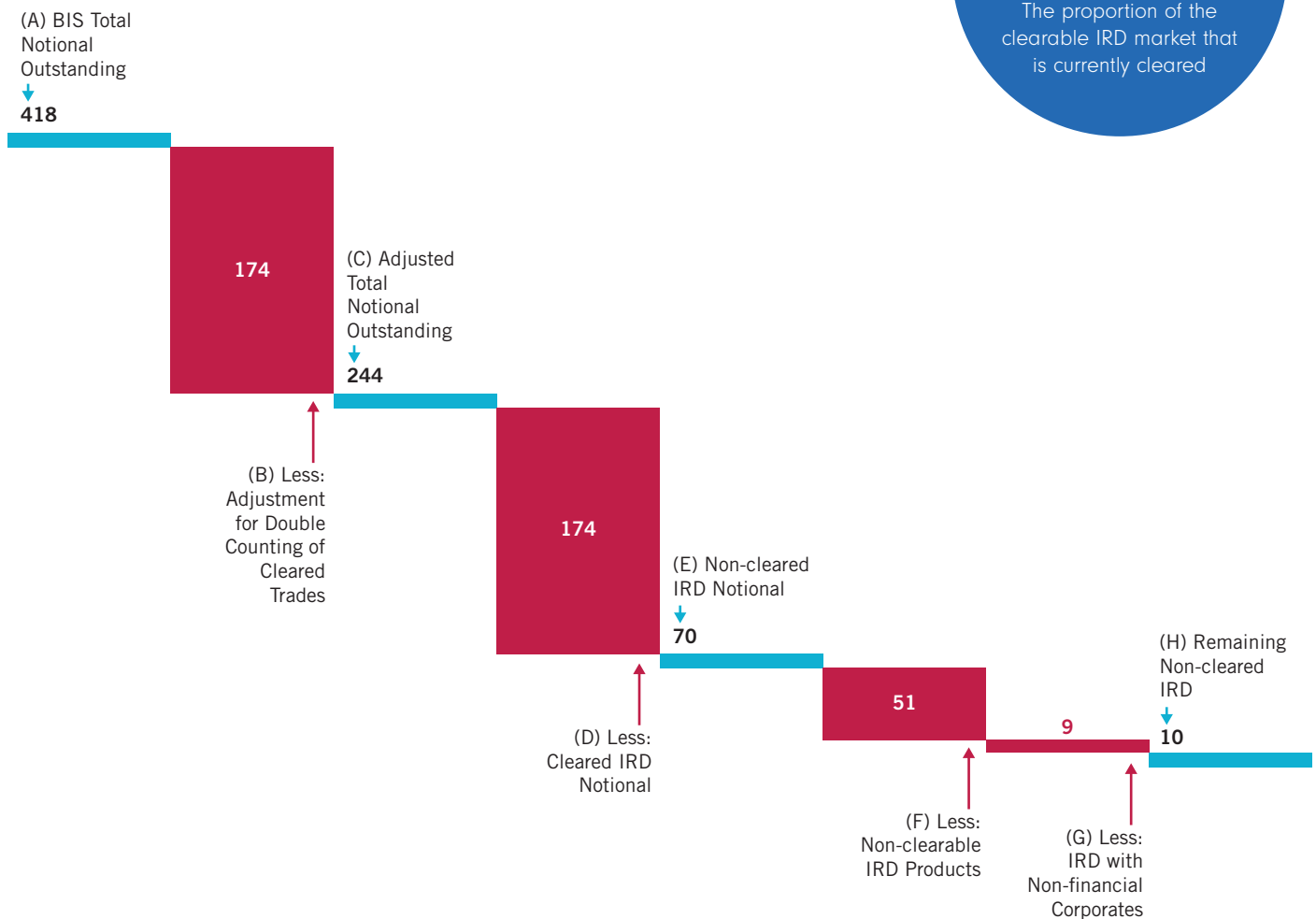
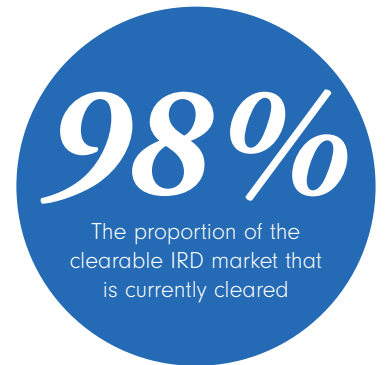
Collateral

New collateral rules have gone into effect and the largest derivatives users are now required to post initial and variation margin on their non-cleared derivatives – a requirement that will extend to other derivatives users over time. This reduces exposure to losses following a default.

Compression

Compression involves the cancelling, or tearing up, of offsetting trades. This acts to decrease the size of the market, creating greater efficiencies and reducing operational risks. Total compressed IRD notional volume stood at an estimated \$492.4 trillion at end-June 2016³.

Interest Rate Derivatives Waterfall: June 30, 2016 (US\$ Trillions)



Source: BIS, CME Group, DTCC, JSCC, SwapClear

(B): Clearing increases notional outstanding, as a single bilateral trade is reported as two separate cleared transactions within the BIS figures. To adjust for this double counting, total cleared volume – estimated at \$174 trillion at the end of the first half of 2016 – is subtracted from reported BIS notional outstanding

(F) This comprises products that were not accepted for clearing in mid-2016. The \$51 trillion figure consists of swaptions (\$24.0 trillion), cross-currency swaps (\$15.3 trillion), options including callable swaps (\$9.2 trillion), and ‘other’ derivatives (\$2.6 trillion)

(G): A certain proportion of trading activity is conducted with entities that qualify for an exemption to the clearing mandate – for instance, non-financial counterparties. ISDA estimates this portion to be approximately \$9 trillion at the end of June 2016