



ISDA Publishes Survey on Derivatives Use in Emerging Market and Developing Economies

NEW YORK, July 13, 2023 – The International Swaps and Derivatives Association, Inc. (ISDA) has published a new survey that explores the development of capital and derivatives markets in emerging market and developing economies (EMDEs) and recommends possible policy approaches for authorities in those jurisdictions.

This latest study follows an [ISDA paper in May 2022](#) that highlighted key legal, regulatory and risk management issues EMDE authorities should consider when establishing a framework for local derivatives markets. The survey highlights the current situation in each of those areas across 44 EMDEs, which include Ghana, Mexico, Pakistan, Serbia, Vietnam and United Arab Emirates.

For example, the survey shows that 19 out of 44 surveyed EMDEs have restrictions in place limiting the types of participants allowed to use derivatives, while 18 out of 43 EMDEs limit or prohibit use of certain types of derivatives. Around half – 20 out of 43 jurisdictions – require firms to register before they can engage in derivatives activity.

While the 44 surveyed EMDEs are at different stages in terms of economic and financial market development, a number have implemented regulatory reforms in line with Group-of-20 standards. Seventeen out of the 44 jurisdictions have reporting requirements for over-the-counter derivatives transactions in place – an important step to enable monitoring of risk by regulators. Nine out of 44 have introduced margining requirements for non-cleared derivatives and six out of 44 have rolled out clearing mandates for certain standardized derivatives.

“Derivatives play a vital role in managing risk and facilitating robust, liquid capital markets, which, in turn, support economic growth. To help the development of local derivatives markets, policymakers should address certain regulatory, legal and risk issues governing their use. But while some practices, laws and rules, such as the enforceability of close-out netting, are essential in every jurisdiction, not all global regulatory standards are appropriate in all EMDEs. Our survey is intended to shed light on the state of play in 44 emerging market and developing economies, and to recommend steps authorities can take to foster safe and efficient derivatives markets,” said Scott O’Malia, ISDA’s Chief Executive.

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The ISDA recommendations include:

- Legal certainty over the enforceability of close-out netting is an important prerequisite for robust, liquid derivatives markets. Counterparty credit exposures are significantly reduced in jurisdictions where netting is legally enforceable, which enhances capital efficiency and liquidity management and can facilitate additional investment and economic activity. Legislators need to identify in detail the relevant areas of local law that could potentially conflict with the effectiveness of netting agreements, so all relevant issues are adequately addressed in local legislation. Netting legislation should deal not only with close-out netting, but also with financial collateral.
- Given the low level of derivatives activity in EMDEs, registration requirements could have the unintended consequence of reducing liquidity and stability by causing already-regulated derivatives dealers and advisors to withdraw from or substantially limit their exposure to the market. Policymakers may wish to avoid this and should consider aligning their approach with jurisdictions of comparable size and with similar counterparty types.
- Policymakers should allow diverse types of counterparties with different business models and risk exposures to participate in derivatives markets, including foreign counterparties. A wider range of participants will help financial market development and also allow a smoother reallocation of risk in the system between institutions.
- When contemplating the implementation of margin rules in EMDEs, regulators should consider the scope of the rules. Specifically, entities that are not systemically important should be exempt from margin requirements. Any new or revised margin requirements should be aligned with standards developed by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions. Importantly, enforceability of close-out netting is a necessary pre-condition to implement margin rules. Having a liquid and efficient collateral market without undue restrictions and the development of collateral management capabilities within local financial institutions should also be considered.
- Mandatory clearing requirements might not be an appropriate tool in jurisdictions with a relatively small derivatives market or exchange controls, as local derivatives markets might lack sufficient depth and liquidity. As a result, central counterparties may not be able to effectively manage the risk of a portfolio of derivatives if a clearing member defaults. These jurisdictions should focus on enforceability of close-out netting prior to establishing any clearing mandate.
- Regulators in emerging and developing markets should ensure that market participants have appropriate risk management policies and practices in place. This involves developing, implementing and periodically benchmarking risk management policies and practices at a level that is appropriate to the nature, size and complexity of firms and the level of derivatives activity among counterparties.

Read the full survey results and recommendations [here](#).

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About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 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. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on [Twitter](#), [LinkedIn](#), [Facebook](#) and [YouTube](#).

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