



Managing Assets in an Uncertain World
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Opening Remarks: The Shift to Digital – Steps to Tokenization
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Good afternoon – thanks for joining us for our exclusive *Managing Assets in an Uncertain World* event.

To state the obvious, the world is currently a very uncertain place – in fact, uncertainty seems to be the new default setting. Markets in recent months have been extremely volatile, cutting across regions, sectors and asset classes.

For asset managers and asset owners, periods like this pose a fundamental challenge: how to stay invested, how to manage risk, and how to keep portfolios aligned with long-term objectives when short-term conditions are anything but stable.

This is where derivatives matter. They allow investors to hedge unwanted exposures, manage interest rate, currency and equity risks, and enhance returns. By reducing the impact of market swings on portfolio values, they create certainty and allow firms to stay focused on long-term goals, even when markets are volatile. In today’s environment, that’s not a nice-to-have – it’s a necessity.

For more than 40 years, ISDA has been focused on building safe and efficient derivatives markets – markets that support effective risk management and investment across the financial system. We’ve done this through robust legal standards and documentation, through fact-based advocacy on global policy issues, and through our growing suite of services and solutions designed to improve efficiency in derivatives processes.

This is our bread and butter, and it’s why ISDA has more than 1,000 member firms from around the globe. Our membership includes many of the world’s largest asset managers and asset owners – a number of which are represented here today – and we continue to expand our engagement with the asset management community as we work to address some of the most pressing challenges facing financial markets.

Over the past 15 years, ISDA has reviewed current practices and proposed a variety of solutions in response to regulatory reforms. These include delivery of the ISDA resolution stay protocols as part of global bank resolution reforms, launch of the ISDA Standard Initial Margin Model (ISDA SIMM) to support implementation of the margin rules for non-cleared derivatives, and development of ISDA fallbacks to aid the transition from LIBOR.

We’re now focused on two key areas – enabling innovation and driving greater margin and capital efficiency.

The integration of digital assets and tokenization into core derivatives infrastructure and processes offer the potential for greater efficiencies and streamlined operational practices. There's no doubt these technologies will play a big role in financial markets, and the evolution is happening very, very quickly.

Take the exchange of collateral in derivatives markets as an example. Recent periods of stress have shown how even small operational frictions – manual processes, settlement delays and rigid cut-off times – can become destabilizing when markets are under pressure.

Tokenization offers the potential to broaden the pool of usable collateral to include assets that have historically been operationally difficult to mobilize, such as money market funds. It also enables collateral to move faster, with greater certainty and far less friction, eliminating the blockages and holdups.

This is not a theoretical future state – it's already becoming market reality. The Commodity Futures Trading Commission has clarified that tokenized versions of eligible collateral retain their regulatory status when used for derivatives margin, provided existing requirements are met. And a recent survey by Nasdaq and ValueExchange found that more than half of participating institutions expect to be managing tokenized collateral by the end of this year.

There's no doubt we are on the cusp of a fundamental shift in how derivatives markets operate, and it's critical that the industry understands what that means in practice. That includes grappling with complex but essential legal questions. What rights does a token confer? How are those rights affected if an issuer, platform or custodian becomes insolvent? Which jurisdiction's laws apply? These are not questions you want to be wrestling with in the middle of a default.

ISDA has a long track record of providing clarity on these sorts of issues in derivatives markets, and we're now bringing that experience directly into the digital asset space. We've published the ISDA Digital Asset Derivatives Definitions, whitepapers on navigating bankruptcy in digital asset markets, and model provisions and guidance that adapt existing ISDA collateral documentation so tokenized assets can be used in a legally robust way.

Innovation does not remove the need for strong legal and regulatory foundations – it makes them more important than ever. That's where ISDA is focused, and it's central to preserving what we all depend on – safe and efficient derivatives markets.

Our second area of focus – capital and margin efficiency – is particularly important in the context of forthcoming US Treasury clearing requirements.

ISDA is working from a legal, margin and capital perspective to enable firms to efficiently recognize synergies and offsets in a portfolio of derivatives and securities financing transactions (SFTs). This includes advocating for regulators to recognize cross-product netting under US capital rules to avoid strains on bank balance sheets that might affect their ability to provide liquidity.

ISDA also recently published a paper that recommends action to support safe and resilient SFT markets – so important to the smooth functioning of derivatives.

Without a doubt, the clearing mandate will increase costs, but ISDA is working to minimize the impact from a margin and capital perspective.

Thank you.