

ISDA AGM Hong Kong 2019
April 11, 2019, 8.45am-9.00am

Day 2 Welcoming Remarks
Scott O'Malia, ISDA Chief Executive

Good morning, everyone. Welcome back to Day 2. I hope you enjoyed the members' reception last night. Thanks to Clifford Chance and Thomson Reuters Legal Managed Services for co-sponsoring the event. I'd also like to take this opportunity to thank our other gold sponsors for their support – DTCC, King & Wood Mallesons and Linklaters – and our first evening event sponsor, LCH.

Early on last night, I decided to have a look round the HKEx museum of finance, and I know many of you decided to do the same thing. If you didn't, you missed out. For me, the museum really underscored the long history of Hong Kong as a key financial market, and the importance of ensuring the right infrastructure is in place to support safe and efficient trading of derivatives.

Many of you agree. In our Asia-Pacific survey, respondents highlighted Singapore and Hong Kong as the two most important cities in Asia for derivatives trading over the next three to five years. When asked why, you cited strong financial market infrastructure and the sound legal and regulatory framework in those cities.

Both of these factors are critical, and they are both big areas of focus for ISDA. When it comes to the legal framework, it doesn't get much more important than enforceability of close-out netting. In fact, participants to our survey highlighted this as a critical factor for the development of robust, liquid and efficient derivatives markets.

Close-out netting is the single most important risk-mitigation tool in derivatives markets. We believe the enforceability of close-out netting creates more certainty for financial institutions and encourages more participation in local markets.

Before I explore this issue in a little more depth, I'd like to show you ISDA's latest whiteboard animation, which explains why netting is so important.

[- Video plays -](#)

As the animation shows, netting is a vital ingredient for safe, efficient derivatives markets. By allowing parties to combine their obligations into a single payment, netting mitigates credit risk, promotes financial stability, supports economic growth and allows local markets to thrive.

ISDA has more than 30 years of experience working with authorities all around the world to support the drafting of close-out netting legislation. So far, we've published netting opinions

on more than 70 countries, and others are in the pipeline, including Argentina, UAE and Serbia.

Last October, we published an update of the [Model Netting Act](#), which is designed to provide a template for jurisdictions considering legislation to ensure the enforceability of close-out netting. We continue to advocate for netting in key jurisdictions where it is not yet recognized, providing translations and support for the act wherever it is needed.

You have clearly told us that close-out netting is critical to unlocking the growth potential of emerging markets. So let me now tell you what has been achieved most recently on this front, and where we see signs of progress.

In China, we had positive signals from the CBIRC in 2017 that close-out netting does not conflict with the country's Enterprise Bankruptcy Law, and a pledge to work with legislators to promote close-out netting. While this doesn't represent a legal change that would confirm the enforceability of close-out netting, it's a big step in the right direction.

We continue to work closely with Chinese authorities at all levels on this issue. Once achieved, we believe the conditions will be in place for China's derivatives markets to further develop and flourish.

There are also signs of progress in two other major markets in the region – India and Indonesia. In India, a bill was introduced in 2017 that included provisions on netting. While it was ultimately withdrawn last year, the Ministry of Finance has indicated it plans to introduce a standalone netting bill or amend existing legislation to provide clarity on netting.

In Indonesia, the central bank began to review the country's bankruptcy framework last year, and has signaled its support for clarifying the netting position. In both cases, we're working hard to advocate on the benefits of netting, and to propose language that is consistent with ISDA's Model Netting Act.

I referred yesterday to the forecast that seven emerging markets will be in the top 10 global economies by nominal GDP by 2030. Well, China, India and Indonesia are expected to be in the top five. If these countries' derivatives markets are to keep pace with their economies, they will need netting certainty. We are encouraged by the progress we have seen, but more needs to be done.

ISDA will remain as proactive as ever on this critical issue. Our work on netting extends to frontier markets including Brunei, Myanmar, Sri Lanka and Vietnam. Outside of Asia, netting legislation is pending in Nigeria, Ghana, Bahrain, Panama and Latvia. We recognize how important this is to the future of the entire market, and I look forward to updating you further on the recognition of netting in the months and years ahead.

Yesterday, I mentioned that 71% of the world is covered by water and ISDA covers the rest. Given our existing legal coverage and strategy for the future – this isn't far off.

But now, let's get our second day under way. We have a packed program and some excellent keynotes and panels to look forward to.

To kick things off, I am delighted to welcome ISDA's chairman, Eric Litvack, to give his perspective on the changes facing the industry.