



**ISDA Derivatives Trading Forum Hong Kong
September 27, 2023**

**Welcome Remarks
Scott O'Malia, CEO, ISDA**

Good afternoon everyone and welcome to the Derivatives Trading Forum. Let me start by thanking Hong Kong Exchanges and Clearing (HKEx) for sponsoring and hosting today's event. We really appreciate your support.

This is the second in a series of events that started in New York last week and will move on to Tokyo and London. It's a valuable opportunity to meet with market participants and policymakers in these four centers to consider both local and global market issues.

Hong Kong is a great example of a bustling international financial center with a deep and liquid local market. As the gateway to China, this city has a major role to play in opening access to Chinese markets for international investors. We've seen tremendous progress, including the recent launch of the Swap Connect northbound trading channel. This new service allows overseas firms to trade and clear onshore renminbi (RMB) interest rate swaps via Hong Kong, without changing their existing trading and settlement practices.

A safe and efficient derivatives market will be critical to the further growth of China's capital markets. By enabling firms to effectively manage their risks and create greater stability and certainty in their businesses, derivatives contribute to capital markets liquidity and boost economic growth.

In these remarks, I'll briefly touch on ISDA's efforts to ensure strong foundations for an efficient derivatives market in China. I'll then turn to another area where we're helping to bring greater efficiency for derivatives users – by developing and innovating a suite of mutualized digital solutions.

China

China's rapid economic growth has been one of the defining global themes of the past decade. As the second largest economy in the world, China has made a comprehensive effort to liberalize its capital markets and remove barriers to entry for international investors. Recent milestones include the drafting and passing of legislation that removed major hurdles to the growth of the country's derivatives market.

China's Futures and Derivatives Law of 2022 was a watershed moment, enshrining the enforceability of close-out netting in law. ISDA had long advocated for this as an important stepping stone to an effective derivatives market. Around the world, the enforceability of netting has been proven to create greater efficiencies, deepen liquidity and increase credit capacity. But netting enforceability by itself isn't the end of the journey – other important steps need to follow.

In 2021, ISDA published a paper that outlined a series of possible further policy measures to support the development of mature, liquid and well-functioning derivatives markets in China. These include strengthening risk governance, increasing the diversity of market participants and enhancing the regulatory framework. That paper was based on interviews with domestic and overseas firms, and ISDA will continue to work with policymakers and market participants to support the further expansion and development of China's derivatives market.

Collaboration between central banks, regulators and market infrastructures is absolutely critical to enabling offshore access to China. That's why initiatives such as Swap Connect are so encouraging – a venture developed by HKEx, China Foreign Exchange Trade System and Shanghai Clearing House, with support from the People's Bank of China, the Securities and Futures Commission and the Hong Kong Monetary Authority.

Building on the success of previous Connect initiatives, Swap Connect creates a vital new trading channel through Hong Kong to access the onshore RMB derivatives market, with Shanghai Clearing House and OTC Clear providing the important clearing infrastructure. Just as international players have been able to trade Chinese equities on Stock Connect and bonds on Bond Connect, they can now hedge their RMB exposures through Swap Connect.

It's still early days for Swap Connect, which launched in May this year, but this initiative is the kind of market-based innovation that is so important in driving efficiencies and creating opportunities for market participants. ISDA will continue to closely track the development of China's derivatives market, and will work with regulators and market participants to maintain momentum.

Digitization

I'll now turn to ISDA's efforts to drive efficiencies and cost savings in derivatives markets through our digitization initiatives.

Financial markets have relied increasingly heavily on technology in recent years, but when it comes to the nuts and bolts of how this market works, we persist in making it more complex than it needs to be. In an age of smart phones, smart TVs and even smart fridges, we continue to use paper documents, manual processes and non-standard practices when managing and processing derivatives trades.

ISDA has been working to address this by developing industry solutions designed to bring greater efficiency, standardization and automation to derivatives markets. We're now taking this effort to the next level by bringing all our digital solutions and team members who handle digital transformation under a single umbrella – a change designed to not only align our solutions, but to encourage innovation and ensure we're prioritizing the issues the industry wants solved.

Our reason for doing this is simple: there are certain processes that we think benefit from having automated, standardized industry solutions, eliminating needless inconsistencies, errors and risks.

For market participants, it's far cheaper and more efficient to use a mutualized solution for those tasks where there's no competitive advantage from going it alone. This is what drove the development of our first industry solution – the ISDA Standard Initial Margin Model.

Given counterparties must ultimately agree on the margin amounts that need to be exchanged, there was simply no benefit for each firm to spend time and money building its own unique model.

Since then, we've developed other mutualized platforms and services that digitize critical processes in the derivatives market. From ISDA Create, which enables the online negotiation and execution of flagship derivatives documents, to the Perun quantitative analysis platform that underpins our capital benchmarking initiative, ISDA's digital solutions have been developed in close collaboration with our membership to reduce risk and create efficiencies.

We also developed the Common Domain Model (CDM), a free-to-use data standard for financial products, trades and lifecycle events, which has been effectively deployed in the derivatives market to digitize regulatory reporting and key collateral management processes.

For regulatory reporting, the first phase of our digital initiative was launched last year, ahead of reporting rule changes introduced by the US Commodity Futures Trading Commission on December 5. By using the CDM to transform a mutualized interpretation of the requirements agreed by an ISDA working group into machine-executable code that anyone can use, firms can avoid the need to dedicate time and resources to interpreting the rules themselves. This creates significant efficiencies and cost savings while delivering more accurate and consistent data to regulators.

We're now planning to extend the digital regulatory reporting initiative to cover rule amendments in Europe and Asia-Pacific, beginning in April 2024 with the EU and Japan.

A key part of our effort has been to digitize our legal documentation. Our MyLibrary platform now hosts around 90 derivatives documents in digital form, meaning firms can quickly pinpoint crucial contractual terms rather than trawling through hundreds of pages of legal documents.

New documents are being added to MyLibrary all the time, and we're exploring the use of artificial intelligence to make that process quicker.

Having developed these services and solutions, we're now aligning them under a single digital transformation team. This new dedicated group will focus on identifying key industry needs across our full suite of platforms to ensure we're prioritizing our efforts where they are most needed in a consistent and coherent way.

I'd like to briefly highlight two new developments, which have come as a result of industry feedback. First, I'm delighted to say that ISDA Create is now available through S&P Global Market Intelligence's Counterparty Manager service.

Counterparty Manager includes ISDA Amend, an online tool that enables users to make changes to their ISDA documents and exchange information to comply with regulations. By linking Counterparty Manager with ISDA Create, users will be able to access a complete digital record of all relationship and contractual data entered on either platform.

Having all of this data available in one place, at the click of a few buttons, will save firms huge amounts of time and effort, avoiding the need to scan through multiple systems to locate critical information they need about their trading relationships.

We're really excited about this initiative, as it brings us one step closer to having a single golden source for all contractual information.

The other initiative will be a key focus for our new integrated digital transformation team over the coming year – the development of an industry notices hub.

As it stands, the ISDA Master Agreement prescribes certain methods for delivering critical notices to counterparties using the company address listed in the agreement. But problems can occur if the company has moved and the ISDA Master Agreement hasn't been updated with the new details.

Issues related to the delivery and receipt of notices were particularly acute during the pandemic, when offices were subject to lockdown requirements. This created challenges for firms when delivering notices, and made it difficult for their counterparties to know they had received them.

An industry notices hub would act as a central platform for firms to load notices, with automatic alerts sent to the receiving entity. Designated people at each firm would be able to access the hub from anywhere in the world, regardless of the situation at its physical location.

This idea is still in the early stages, and there are some legal and technological issues that need to be considered. But the idea has received strong initial support from our members and indications of interest from some resolution authorities.

We'll keep you updated as this important initiative develops, but please let us know if you want more details or would like to be involved in the working group.

We know there's a strong appetite for efficiency and cost reduction across the industry. We want to maximize the potential to achieve that by making the most of what we already offer – by advancing and innovating existing solutions – and identifying new areas where digital solutions can create efficiencies. Of course, those efficiencies will increase as more and more firms implement the same mutualized solutions, so a key focus for us will be on raising awareness and encouraging adoption.

These three prongs – align, advance and adopt – will be at the center of our digitization initiatives, led by our new digital transformation team. We believe this will contribute to a more standardized, automated and efficient derivatives market.

Thank you.