

**ISDA Annual General Meeting  
April 17, 2024**

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

Good morning, and welcome to the ISDA Annual General Meeting (AGM). Welcome to Tokyo.

It's great to be here in Japan – a country I've always loved visiting, dating back to my very first trip nearly 40 years ago as a gap year student. That was 1985 and I was fresh out of high school to work on a dinner boat just outside Kyoto.

The boat was called the Michigan, but it couldn't have been further from the Michigan where I grew up. Swapping the Great Lakes for Lake Biwa and getting a taste of Japanese culture was quite something for a young American in the mid-80s. I've never forgotten that year.

Japan was really booming and had become the second largest economy in the world. Japanese cars and products were being sold far and wide. And Japan's asset bubble was growing fast, driven by the growth of the housing and stock markets. Just a few years later, the bubble would burst, leading to the 'lost decade' of economic stagnation. Things are looking up again now, but I doubt any of the tourists I served on that dinner boat back then would have predicted a deep recession was just around the corner.

That's the nature of disruption. We can never know what lies ahead. Just think about what we've lived through in the past four years – a global pandemic, the outbreak of war in Europe, and the collapse of a series of regional US banks. None of these shocks were predictable, but each had far-reaching consequences – for financial markets, the economy, businesses and every one of us.

While we can't know what the future will hold, we all have a part to play in making sure we're prepared. One of the benefits of derivatives is that they can create certainty in an uncertain world. They enable companies to plan and invest in future growth. Nevertheless, every disruption event brings new challenges that can test legal and operational resilience. ISDA is committed to addressing these challenges by continuing to develop mutualized solutions so we're better prepared to navigate bumps in the road. This will be the focus of my remarks today.

First, I'll talk about how we're working with our members to prepare for future disruption. Then, I'll bring you up to date on our digital transformation strategy. Last, I'll touch on the importance of a joined-up approach to regulation.

**Disruption**

As we lived through recent disruption events, it was common to hear the word 'unprecedented' – and not without reason. Never before have entire workforces suddenly

switched to remote working due to a global health crisis, as they did in 2020. It's been a long time since one major country invaded another, with sanctions applied to a group of entities and uncertainty over currency conversion. Those episodes informed two key initiatives we're working on right now – a review of the 1998 FX and Currency Option Definitions and the development of the ISDA Notices Hub.

The FX definitions review is a critical project for ISDA. FX is the world's largest financial market, with a daily turnover of \$7.5 trillion at last count. For such a global, liquid market, we need an ironclad legal framework tailored to the modern world, with all its challenges and uncertainties.

The FX definitions have done a good job for 25 years. Now it's time to review and update the framework. This was reinforced by the sanctions on Russia after its invasion of Ukraine, which had implications for the deliverability of the ruble that were not contemplated by the existing definitions. We surveyed market participants last year to determine the scope of the project and a review of disruption events and fallbacks emerged as a top priority. Working closely with our members and key FX stakeholders, we aim to complete the drafting next year.

We all have a part to play in future proofing the FX derivatives market for disruption. I urge everyone to get involved as this project advances.

There is another issue relating to market disruption that we've been working to address. That's the process of closing out derivatives trades, which requires termination notices to be physically delivered to the counterparty's office address listed in its ISDA Master Agreement. This becomes problematic when companies relocate but the documentation is not updated. It was particularly challenging during the pandemic and after the Russian invasion, when offices were empty or located in a hostile environment.

Delays in the delivery and receipt of notices can have serious economic consequences, creating uncertainty over the time at which trades can legally be valued prior to close out. Our analysis has shown that delays in the delivery of a termination notice can result in losses running to millions of dollars.

There has to be a better way. That's why we're proposing to develop an industry notices hub, which would enable the immediate delivery and receipt of notices from anywhere in the world via an online platform. We've tested market demand and received positive feedback on this facility, which would eliminate the problems of physical delivery. We're now seeking support from dealers and buy-side firms before we move to the development phase.

We all have a part to play in addressing the proven flaws in the termination process, so I urge everyone to get onboard and help us bring this project to fruition.

## **Digital Transformation**

The ISDA Notices Hub will be our latest mutualized industry solution, joining an illustrious family of products and services that includes the ISDA Standard Initial Margin Model, ISDA Create and ISDA MyLibrary. I've talked about the value of these offerings at previous AGMs, but today I want to explain why we all have a part to play by adopting these platforms – and how this will unlock new benefits and opportunities for everyone.

As you may know, ISDA recently created a new digital transformation function. It brings together staff from across our legal, data reporting, collateral, and capital groups. We now have a diverse and talented digital transformation team driving further development, alignment and adoption of these platforms. They've hit the ground running in 2024, and we're already seeing the benefits of their combined firepower.

Each one of our mutualized products and services addresses a unique issue, but they have the common goal of improving efficiency and reducing the costs and risks associated with vital processes. They enable firms to reduce their operational costs, allowing precious resources to be focused on revenue generation.

Here in Japan, ISDA has worked with market participants to implement updates to reporting rules that came into effect on April 1. Our Digital Regulatory Reporting (DRR) initiative enabled this to be achieved with an unparalleled degree of accuracy and consistency, rooted in industry best practice. We're taking the same approach to apply the DRR to imminent rule changes in the EU, UK, Singapore and Australia. Our goal is to cut the cost of compliance through scale and efficiency, while reducing the risk of regulatory penalties for inaccurate reporting.

In your conference tote bag, you'll find a flyer with a QR code that will take you to the ISDA Solutions InfoHub for more information on all our solutions, including the DRR. We have a booth in the exhibition hall, and I encourage you to visit – not only to engage with our digital team, but also for the chance to win a prize.

Another area where ISDA has been working to bring the benefits of a digital approach is in document creation and negotiation, and I'm pleased to say we've made great progress. Just look at ISDA Create, launched in 2019 to help firms negotiate the documents needed for initial margin regulations. We've never stopped developing that service. We've added new modules and documents, as well as integrating with S&P Global Market Intelligence's Counterparty Manager platform and launching the certified partner program last year. All our platforms are held to the same standard – the work is never finished, and we never stop innovating.

Critically, we can boost the value of our platforms by driving greater adoption. Users benefit from the network effect of more and more firms using the same mutualized solutions. It means everyone has a part to play in delivering the benefits of mutualized solutions.

As our [new animation](#) shows, by taking a digital approach to documentation, firms can realize huge efficiencies and savings. This allows them to onboard new business more quickly and be better placed to manage disruption. Similar benefits are gained from our other platforms, and helping firms realize those benefits is the mission of our digital transformation team.

### **Basel III**

I talked earlier about how ISDA is working to prepare for future disruption, but this is also a priority for policymakers. Since the financial crisis, a wide-ranging package of regulations has made markets and firms far more resilient to stress events. From increased derivatives

clearing to heightened capital requirements, the new regulatory framework has been a force for good and there's little doubt we're in a much better spot than in 2008.

But the work is not yet finished. The final parts of the Basel III framework will be implemented around the world over the coming years, so it's important we think carefully about how the various rules will work in combination.

Unfortunately, the US Basel III proposal would make it more difficult for banks to offer intermediary and risk management services to their clients. Nowhere is this more evident than central clearing. According to an industry impact study, the proposed US Basel III rules and the surcharge for global systemically important banks would increase capital for clearing businesses by more than 80%.

To impose such a burdensome tax on the low-margin clearing business would be inconsistent with the post-financial crisis policy objective to promote and incentivize clearing. It would inevitably impact banks' capacity to support client clearing. That would be a retrograde step for the entire market and comes at a time when the US Securities and Exchange Commission has finalized rules to require increased clearing of certain US Treasury securities.

We've set out our concerns to US prudential regulators and will continue to warn that these regulations risk inhibiting the ability of banks to provide vital intermediation services, including clearing. Market participants have an important part to play in reducing risk and preparing for disruption, but so do policymakers. The smooth functioning of markets hinges on collaboration and coordination between regulators to avoid unintended consequences.

## **Conclusion**

I started these remarks by reflecting on my time on the Michigan dinner boat, back in 1985. It really is incredible to think how things have changed since then – not just in Japan, but the world over. For one thing, my pride and joy back then was my Sony Walkman and collection of mix tapes. Technology has completely transformed the way we live and work. Breathtaking innovations and opportunities have come hand in hand with destabilizing geopolitical changes.

We can't predict what the next 40 years will bring, but we all have a part to play in making sure we're prepared – as market participants, as policymakers and as individuals. That's our focus at ISDA, and we'll continue to advance our core mission of fostering safe and efficient markets to facilitate effective risk management.

I'm delighted to open ISDA's 38<sup>th</sup> Annual General Meeting. We have a great agenda for the next two days, with terrific speakers and panels. I hope to catch up with you all in the exhibition hall between sessions. Thank you to our sponsors and speakers for supporting the event. We absolutely could not do it without you.

Thank you.