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Eric Litvack, ISDA Chairman

Good morning everyone, welcome back from the coffee break.

Some of you may not be aware of this, but we're a few days away from an important anniversary. September 24 marks 10 years since the start of the Group-of-20 (G-20) Pittsburgh summit, which resulted in a series of commitments that have transformed derivatives markets.

Just think about the changes that have occurred since then. The derivatives market has moved from being almost entirely bilaterally negotiated and non-cleared to being predominantly cleared. Trading venues now account for more than 50% of interest rate derivatives trading volumes in the US. There's more transparency following the introduction of reporting requirements. Bank capital rules have been overhauled, and the amount of high-quality collateral backing non-cleared derivatives trades has increased markedly as a result of regulatory margin requirements.

As well as improving the overall resilience and safety of the financial system, all this has profoundly altered how derivatives market participants price and trade derivatives, the processes and systems they have in place, how they are set up, and – in some cases – their business models.

Throw in benchmark reform and geopolitical events such as Brexit, and it's been a decade of astonishing change. Very little of that – perhaps none – would have been predicted before 2009. But then again, accurately forecasting future events is famously difficult. It's therefore with some trepidation that I accepted ISDA's request to address the future of the derivatives market.

Look back into the past, and the pages of books and magazines are littered with incorrect predictions about the future.

A good example is 'flying saucers for everybody' from a 1954 edition of Mechanix Illustrated. In case you can't read the accompanying article, it sketches out a future scenario where an imaginary commuter of tomorrow, Joe Lees, travels 75 miles into work each day in his "jaunty new plastic saucer".

Joe was also going to have his post delivered by jetpack and his dinner served by a robot. Disappointingly, though, that dinner was going to be a self-heating can of beef stew.

What I find most interesting about these predictions isn't the deliberately provocative image of commuting by individual flying saucer, but the unprovocative and unquestioning assumption that Joe would always have postal delivery. The evolution from posted letters to

instant electronic messaging is probably more socially impactful than the expected changes in transportation.

Nonetheless, there is a kernel of accuracy in some of these predictions. I still have a postman, and he still comes on bicycle rather than a jetpack, but a man on a hover board flew over the Bastille Day celebrations this year and recently crossed the Channel. I haven't seen beef stew that heats up in its tin, but microwave meals have been popular for years, and it's not uncommon today to reach for the supercomputer in our back pocket to order a restaurant meal to be couriered to our doors. We don't have flying saucers, but self-driving cars would have been equally as far out in the 1950s.

All of which gives me slight comfort in making a few modest predictions of my own for the near-term future of banks and derivatives markets.

Sixty years ago, John F Kennedy tried to channel the pioneer drive by describing the future as the new frontier. It is in that spirit that I offer my predictions, counting on the pioneering spirit of derivatives practitioners to push back the frontiers.

So, my first prediction. The regulatory environment will continue to play a defining role in shaping behavior and business models. In this respect, the capital rules will be a major focus as national regulators implement the Basel III standards.

So far, large globally active banks have added about €2 trillion of Tier 1 capital to their balance sheets since 2011, and that will increase further as a result of Basel III. A recent study by the European Banking Authority (EBA) estimates full implementation of Basel III in the EU will result in an aggregate shortfall of €91.1 billion in common equity Tier 1.

The overwhelming bulk of this impact will fall on large European banks with a global reach in investment banking. Given the UK's withdrawal from the European Union (EU) and EU plans to build a robust capital markets and financing union, this should give legislators pause.

As national rules are developed, there will therefore be very close analysis of how the standards are implemented and the impact on individual business lines. At ISDA, we believe it's essential that regulatory requirements are appropriate and risk sensitive. In other words, capital should be proportionate to the risk posed by a given activity.

If capital requirements are inappropriately high and not aligned with risk, then firms must make a choice. They can absorb the higher costs themselves or, where possible, increase prices to maintain their return on equity. Or they can choose to retreat from that business. If that happens, then it reduces the available options for end users to access cost-efficient financing and to manage risk. Recent restructurings announced by European banks underline that this is not simply a theoretical consideration – this is an ongoing reality.

Fortunately, the Basel Committee has taken action recently in several key areas where industry quantitative impact studies have shown capital requirements are or would be inappropriately high.

At the start this year, it published revised standards for the Fundamental Review of the Trading Book (FRTB), which made several important adjustments to non-modellable risk

factor and the P&L attribution test requirements. This went some way to tackling key shortcomings in the previous rules, but further study is necessary to assess the final impact.

More recently, the Basel Committee revealed changes to the leverage ratio in response to concerns about its impact on the economic viability of client clearing and indications that clearing members were withdrawing from the business as a result. Specifically, it announced a targeted change to allow margin from a client to offset the exposure amount of client-cleared derivatives.

These are important changes, and we welcome the Basel Committee's willingness to recalibrate where necessary to ensure the rules meet their objectives without imposing unnecessary burdens on industry participants.

However, concerns remain in other areas – for instance, credit valuation adjustment (CVA) capital. A recent industry impact study showed the rules as they stand would lead to an inappropriately sharp increase in capital requirements for derivatives businesses. This could result in higher costs for derivatives users, and could impede their ability to access derivatives to hedge their risks.

In response, ISDA has proposed some targeted changes to the calibrations – specifically, to ensure adequate recognition of counterparty credit spread hedges, enhance the granularity of the framework and better align accounting CVA and regulatory CVA.

We'll watch to see how this plays out, and how national regulators decide to implement the rules. Ongoing monitoring to determine the impact on individual business lines, sectors and geographies will continue to be important. Ultimately, how these rules end up will go some way to deciding which markets and businesses banks will be active in for the next 10 years.

My second prediction is connected to this. Even before the next round of capital requirements is implemented, the operational environment for derivatives market participants and banks in particular has become much more challenging, with tougher trading conditions, increased regulatory compliance costs and lower returns on equity.

Faced with this, banks have been cutting headcount, reducing the universe of products and services they offer, and shrinking their geographic footprint.

These cost pressures are unlikely to reverse any time soon, which means firms will have to adapt. Technology is likely to be a large part of the answer.

Now, the application of technological solutions to inefficient processes in the derivatives market is nothing new. But – as we at ISDA have said in the past – this has resulted in piecemeal evolution of the landscape without fundamental change materializing. There are several factors that make this more likely now.

First, a number of new, exciting technologies have emerged that could make a genuine difference to how organizations run their businesses. It's not hard to imagine how technologies like cloud computing, artificial intelligence and potentially distributed ledgers could transform many aspects of the derivatives business, from trading and hedging to legal documentation, collateral exchange and settlements. These technologies are being deployed

now by some institutions for certain, specific functions, but we're still on the cusp of what is possible. The potential for greater efficiency is considerable.

Second, I'm not sure there's even a choice anymore. The current infrastructure is too messy, too expensive to run and too prone to error. Because each firm has developed its own systems and its own nomenclature for products and trade events, every action or payment on every trade has to be crosschecked and reconciled with the counterparty to reduce the potential for disputes. That's incredibly inefficient and a huge drain on resources.

This has got progressively more complicated and unwieldy over time. New regulations mean trading venues, trade repositories and central counterparties (CCPs) have been added to the mix, introducing new steps, processes and checks to already creaking legacy systems. This is neither scalable nor sustainable and, in the face of cost and capital pressures, will be a leading driver for evolution.

Technology on its own can only offer a partial fix. Individual processes and functions can be automated, but the lack of common representations for actions and events means the need for translation and reconciliation would still exist.

As Bill Gates has said: "The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency. The second is that automation applied to an inefficient operation will magnify the inefficiency."

In that spirit, ISDA earlier this year launched a full, deployable version of the ISDA Common Domain Model (CDM), a standard set of representations for events and processes that occur through the lifecycle of a derivatives trade. By creating a common blueprint for derivatives trade events that everyone can follow, the ISDA CDM reduces the need for crosschecking, meaning technologies will be able to operate seamlessly across all businesses, firms and platforms. The use of common representations will allow institutions to harness the potential of new technologies more fully.

A number of financial institutions have already embarked on comprehensive programs to overhaul legacy infrastructure. Others are still weighing up the upfront costs with the possible benefits. This will not be an overnight change – it will be gradual, and success will require a critical mass of adopters. But I think the move to automation and new technologies is inevitable. Sticking with the status quo is no longer a viable long-term option. We'll hear more about that from this afternoon's panels on efficiency and technology.

My final prediction touches on something that has long been taken for granted: the global nature of derivatives markets.

Derivatives markets have always been global, which has allowed companies to raise financing and manage their exposures efficiently and at the best possible price.

That has come under challenge in recent years, as globally agreed regulatory reforms have been implemented in different ways by national authorities. While broadly consistent with those 2009 G-20 commitments, national implementations have often differed in scope, substance and timing. This has resulted in an overlapping and duplicative regulatory structure that has led to inefficiencies, complexity and higher costs for derivatives users. Ultimately, it has contributed to market fragmentation and increased risk.

Other, broader trends also indicate a shift away from global markets – from declining trust in international institutions, to emerging trade disputes to Brexit.

It's difficult to see this trend entirely reversing. The Financial Stability Board's (FSB) recent report on market fragmentation clearly identified that many sources of fragmentation are intentional. It's understandable that regulators would want their rules to reflect the idiosyncrasies of local banking and lending markets. And it's reasonable they would require appropriate oversight over investor protection and infrastructures that could affect the functioning of their markets.

On the other hand, there's a trade-off. More localization means more fragmentation. That means more friction and more cost for end users.

It's therefore important that a balance is achieved. In some cases, there may be legitimate reasons to deviate in certain areas to suit local market characteristics and the pace of development. In other instances, deviation and localization may be counterproductive.

Regulatory reporting is an example of the latter. I struggle to see how it's in anyone's interest for each jurisdiction to set its own data fields and reporting formats. It creates unnecessary expense for derivatives users, and makes it impossible for regulators to monitor risk on a global basis.

But on the assumption that we'll never have identical rules across jurisdictions, we need to ensure the process for substituted compliance and equivalence determinations is fit for purpose.

For our part, ISDA has proposed a risk-based framework for the evaluation and recognition of the comparability of derivatives regulatory regimes in foreign jurisdictions. Ultimately, these are sovereign decisions and there is no one-size-fits-all fix, but we believe a framework should be agreed that would enable national regulators to implement equivalence and substituted compliance determinations where possible in a predictable, consistent and timely manner.

This process should aim to provide clarity and predictability to market participants with respect to achieving and maintaining equivalence in G-20-aligned jurisdictions.

Together, this would bring more certainty to the substituted compliance and equivalence process, and facilitate cross-border trading where possible, even when rules differ in their detail.

When it comes to Brexit, we have to accept there will be change in the way we do business – markets will be less seamless, and we will have to adapt to that. ISDA will continue to do its part to identify the issues and mitigate the impact on the derivatives market to the extent we can. As well as continuing to advocate for continuity in clearing and trading between cross-border counterparties, we've also worked to ensure market participants have the tools they need.

As an example, we published French and Irish law Master Agreements last year to provide options for those institutions that would prefer to continue trading under an EU member-state

law with EU court jurisdiction clauses once the UK leaves the EU. We'll continue to monitor the situation and update our members in the run-up to October 31 and beyond.

So, there you have it – my three predictions. Capital rules will be a driver of behavior and bank business models, the derivatives market will increasingly shift to new technologies, and there will be a continued shift from global to local.

I suspect these predictions won't be as much a source of mirth in years to come as flying saucers and jet-packing postmen.

Even so, the future is uncertain. We can't be sure which path derivatives markets will take, just as no one would have predicted how markets today would look before the G-20 commitments 10 years ago.

But while the future is uncertain, we don't have to be victims of that uncertainty.

As the noted computer scientist Alan Kay once said, "The best way to predict the future is to invent it."

We try to do just that at ISDA. Following the G-20 commitments in 2009, ISDA worked to drive solutions to help the industry adapt to the new environment through revised documentation, various protocols and the ISDA SIMM, to name just a few. We will continue to do that.

I've mentioned our work to advocate for appropriate, risk-sensitive rules and to run industry impact studies; to develop industry standards that help facilitate automation and interoperability; and to establish new documentation to ensure continuity of trading. Earlier, Scott described our work on FRTB-SA implementation, our efforts to drive post-trade efficiency, and our benchmark reform initiatives. Later today, you'll hear more examples of what we're doing.

Wherever you look, ISDA is creating solutions to allow markets participants to adapt to the future – pushing back the new frontier, whatever shape it takes.

In closing, I'll bring it back to jetpacks by quoting Tony Stark. In adapting the derivatives market to the future, all of you in the ISDA membership community are a part of that creative process. So, my closing message to you is: "Get out there and break some eggs."

Thank you.