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Celebrating 40 Years

ISDA Annual General Meeting
A Period of Change: Derivatives in the Pensions Sector
May 13, 2025

Welcoming Remarks
Scott O'Malia, ISDA CEO

Good morning, and welcome to our pre-AGM event on derivatives in the pensions sector. A big thank you to all of today's speakers – and, of course, to all of you for taking the time to join us.

The title of this event is 'A Period of Change', which couldn't be more fitting given recent events. So far this year, we've witnessed some major shifts in the global landscape. Around the world – and particularly in the US – we've seen an acceleration in the shift to protectionism and economic self-sufficiency, with higher tariffs being introduced as a key tool of trade policy.

The impact of those decisions on financial markets has been dramatic. The S&P 500, for instance, fell around 12% in April after sweeping tariffs were announced in the US, only to recover virtually all those losses by the end of the month, following a temporary pause in implementation. US Treasury yields and currency markets have been just as unsettled.

Episodes like this underscore the critical role of derivatives markets. For many pension schemes and other long-term investors, derivatives are crucial tools that allow firms to transfer risk, smooth out the impact of volatility and bring a greater degree of certainty to financial planning. They play a vital role in helping firms stay focused on long-term goals – even when the world around them is anything but predictable.

Earlier this year, ISDA published a new report that explores how and why different types of firms use derivatives and the value they bring to their business. The findings were clear – 87% of nearly 1,200 companies in seven major stock indices use derivatives, including pension funds around the world. These funds use derivatives to protect retirement assets from shifts in interest rates, inflation and equity markets and to boost returns, helping to deliver stable, reliable income for future retirees.

At ISDA, supporting the pension sector is an important part of our work to keep markets safe and efficient. Our membership includes some of the largest pension funds globally, and we're actively working to expand our membership within the pensions space even further.

This comes at a time when the pension industry faces some significant regulatory changes. Take the Netherlands, for example. The Dutch pension sector is adapting to new rules that will require them to switch from a defined benefit to defined contribution model by 2028. This could have an impact on how they use swaps in the short, medium and long term – for instance, as funds decide when and to what extent to hedge coverage ratios ahead of the transition.

Meanwhile, Australian superannuation funds are adapting to greater regulatory scrutiny as their investment portfolios grow, along with requirements on operational risk management, governance, reporting and margining – issues we will explore in a forthcoming ISDA paper.

Regulators and market participants are also continuing to weigh the lessons from the liability-driven investment crisis in the UK in 2022. Back then, extreme volatility in the gilt market forced pension schemes to sell assets to meet margin calls – ultimately, causing the Bank of England to step in to restore stability.

That event, along with other recent episodes of market stress, has triggered a program of work to enhance resilience in the broader non-bank financial intermediation sector. This includes recommendations by the Financial Stability Board for better liquidity risk management, more effective stress testing and more robust operational processes.

ISDA has actively responded to regulatory consultations on margin practices, always representing the views and needs of our members. We'll continue to work closely with policymakers as they refine their approach in this area.

In the meantime, we've taken practical steps to improve the margin process. That includes shifting the ISDA Standard Initial Margin Model to semiannual calibration to ensure it remains risk appropriate and any changes happen in a predictable and efficient way.

In addition, we're pushing to make collateral management more automated and less dependent on manual work. This will help firms meet large, sudden margin calls more smoothly during times of market stress. As part of this effort, we've worked with the industry to develop suggested operational practices and used the Common Domain Model to digitize key documents, standardize collateral terms, and automate calculations and payments for cash collateral.

You can find more information about these initiatives at the ISDA exhibitor stand or on the ISDA website.

Our event today is intended to bring all these various threads together. We're very fortunate to have two speakers from the official sector, who will give perspectives on the current regulatory issues affecting the pensions sector.

We'll also have a panel featuring senior participants from across the pensions industry, who will discuss how they are looking at the investment environment, as well as the regulatory, geopolitical and market trends affecting their investment decisions.

I'm very much looking forward to hearing what they have to say, so let's get started.