ISDA Annual General Meeting
May 10, 2023

Opening Remarks
Scott O'Malia, Chief Executive Officer

Good morning, and a very warm welcome to Chicago.

This city is my backyard. I'm a native son of the Midwest. I was born 95 miles from here, in South Bend, Indiana, and I grew up just a little further Northeast – in Williamston, Michigan. It's great to be back on the shores of Lake Michigan, and I hope you enjoy your time here this week. We have a saying about the Great Lakes – No salt. No sharks. No worries.

Now, this is ISDA's 37th Annual General Meeting (AGM). We were last here in Chicago in 2012 – that was AGM number 27. My colleague Gary Gensler was our keynote speaker back then when he was chair of the US Commodity Futures Trading Commission (CFTC). I know Gary made some waves by telling the industry to hurry up and implement the post-crisis derivatives reforms.

Well, 11 years have passed, and Gary is still making waves – this time as chair of the Securities and Exchange Commission. He'll be with us again later today and I'm very much looking forward to hearing what he has to say.

Of course, 2012 was a very different time. We were living in the shadow of the 2008 financial crisis, and our focus was almost entirely on the implementation of the Group-of-20 (G-20) reforms.

The call for the industry to get a move on was understandable, but this was a formidable challenge. The rollout of clearing, trade reporting and margining requirements was highly complex, requiring a fundamental shift in how derivatives are traded and managed.

Those changes are now in place, alongside higher capital requirements for banks. As a result, the derivatives market is safer and more resilient than it was in 2008. Our agenda this week is very different from 2012. We've moved on. With the post-crisis reforms largely behind us, we're turning to new challenges and fresh opportunities.

A top priority for the industry is driving the huge investment that is needed to transition to a carbon-neutral economy. We must also continue to digitize the derivatives market to remove costs and inefficiencies. I'll explore both topics today. But first I want to set out how we deliver meaningful change when we collaborate closely with market participants and policymakers. And why we are better together.

Better Together

Despite the rapid evolution of the industry over the past decade, ISDA's mission is the same. It has remained constant. Working with our members, ISDA fosters safe and efficient derivatives markets to facilitate effective risk management. One of the ways we do this is by developing mutualized solutions to industry problems that deliver lasting efficiencies. We did this for regulatory reform; we're doing the same for the new challenges that confront us today.

Firms recognize the value of this mission and ISDA's membership continues to grow. In September, we passed 1,000 members for the first time – an increase of 19% since the last time we were in Chicago in 2012.

Let me share some other big numbers. ISDA's membership spans 79 countries. Our board represents a diverse range of 29 companies from across the market. We have 140 staff working out of seven offices around the world. Across ISDA's 1,000 member firms, nearly 13,000 practitioners regularly participate in our 94 working groups.

Just think of the collective power of 13,000 people working together to address common industry challenges. Whether it's new regulations, changes in market practice or technological advances, that's an army of talent, deployed on a global scale. As individuals and institutions, we can achieve a great deal. But when we work together in pursuit of a common goal, we can hit the ball right out of the park.

It's our collective capabilities that have allowed us to achieve so much over the years. And it's why regulators keep coming back to us to help tackle the tough challenges.

They asked us to develop a contractual solution to manage the end of LIBOR, which underpinned a vast chunk of the interest rate derivatives market. And we delivered. More than 15,800 parties have adhered to the ISDA 2020 IBOR Fallbacks Protocol, and this will be critical as we prepare for the end of US dollar LIBOR next month.

They asked us to work on the implementation of margin requirements for non-cleared derivatives, a major component of the post-crisis reform package. And we delivered. About 375 firms use the ISDA Standard Initial Margin Model (ISDA SIMM), and regulators have recognized the value of having a common, consistent, and conservative model across the industry.

But the work doesn't stop there. We need to maintain our focus on making critical processes more effective and more efficient.

The message couldn't be clearer. Together, we can solve problems and get better results.

Voluntary Carbon Market

One important area of focus is the transition to a sustainable economy. Specifically, we need to find efficient and effective ways to channel trillions of dollars of financing to the green projects and technologies that need this investment.

We think the voluntary carbon market can play an important role here. Buying carbon credits allows those companies that can't entirely eliminate their use of fossil fuels to offset their emissions while also boosting the flow of investment to sustainable infrastructure and technology. Efforts to scale this market have been underway for several years, and it's estimated that it could reach $1 trillion within 15 years.

But to scale effectively, we need a robust legal and regulatory framework. At ISDA, we've worked with market participants to explore the key legal issues associated with the voluntary carbon market. We published a series of whitepapers on the topic, and we followed up in December with the publication of the 2022 ISDA Verified Carbon Credit Transactions Definitions.

As our latest animation shows, the new documentation for carbon credits will increase consistency and efficiency, and we've been pleased to see the definitions put to immediate use.

But let's be crystal clear that this market will never reach its true potential if we don't take decisive action to eliminate greenwashing. Unless we act – and fast – this market could wither on the vine.

Efforts are underway to address this. The Integrity Council for the Voluntary Carbon Market has developed a set of core carbon principles, which will establish standards for firms to identify high-quality credits. The principles should help buyers to identify those credits that have a permanent, additional and verifiable impact on emissions.

But there's no time to waste. The development of the carbon credit definitions was a major milestone. Now we need to move quickly and decisively – alongside regulators – to stamp out greenwashing.

Together, we can solve problems and get better results.

Digital Initiatives

I'll now turn to ISDA's digital initiatives.

As I mentioned earlier, implementing the G-20 financial reforms had a huge impact on the derivatives market structure, with extensive new requirements for clearing, reporting and margining. ISDA has worked closely with the industry to support the implementation of these requirements in a cost-effective and scalable way. This has been greatly enhanced by the development of a powerful set of mutualized digital solutions.

The rollcall of our technological solutions speaks for itself.

The ISDA SIMM, which has become the industry standard for calculating initial margin.

ISDA Create, which is used by more than 300 firms around the world to negotiate key documentation online.

Perun, our award-winning quantitative analysis platform that helps ensure consistent and accurate implementation of standardized capital models.

MyLibrary, our digital documentation platform that now hosts more than 85 flagship documents.

And the Common Domain Model (CDM), a free-to-use data standard for financial products, trades and lifecycle events. The CDM has been put to work in the derivatives market in two key areas.

As regulatory reporting rules are revised to incorporate international data standards, we've used the CDM to transform requirements into code, paving the way towards more consistent and effective compliance. We launched our digital regulatory reporting initiative for the first phase of the CFTC's reporting rule changes last year, and we're now adapting the code for other markets.

We've also applied the CDM to collateral management processes to improve levels of standardization and automation and cut down on the potential for errors.

On top of these important developments, I'm delighted to announce the launch of the ISDA Create certified partnership program. This new accreditation initiative has been developed to give partners access to valuable training and product support to help transition to electronic negotiation. We've now onboarded our first cohort of firms and look forward to working with them to further boost the impact of ISDA Create.

Each of our platforms has been designed with the fundamental objective of making vital processes as efficient and effective as possible. For example, a recent paper on ISDA Create showed that automated negotiation can be 70% faster than manual negotiation. The products are unique, but the objective never wavers.

Risk.net praised ISDA last year for assembling "an impressive arsenal of technology solutions, without which the derivatives industry would struggle to comply with the increased regulatory demands laid down since the financial crisis". I couldn't have put that better myself.

Together, we can solve problems and get better results.

Before wrapping up, we must acknowledge the effect of recent events, including the collapse of Silicon Valley Bank and Signature Bank, and the acquisition of Credit Suisse by UBS. Combined with rising interest rates, high inflation and falling revenue, these events have driven the return to a 'risk-on' environment.

The shocks to the banking sector come in the wake of a series of liquidity shortfalls in recent years, including the dash for cash in March 2020, the energy market turmoil following the Russian invasion of Ukraine, and the UK gilt market crisis last year. The International Monetary Fund recently warned that the impact of monetary tightening could be amplified by financial leverage, mismatches in asset and liability liquidity, and interconnectedness within the non-bank sector.

These market stresses come as a stark reminder of the vital need for appropriate risk management. Whether hedging against rising interest rates or counterparty exposure, the derivatives market exists so that risks can be properly managed. ISDA will continue to remind market participants of the important role derivatives play in providing greater stability during uncertain times.

Conclusion

I've talked in these remarks about some of the ways in which ISDA is working with its 1,000 members to make key processes more effective and more efficient. Whether by drafting documentation for new markets, developing digital solutions to common industry problems or advocating for appropriate policy outcomes, we never lose sight of our vision of safe and efficient derivatives markets.

That's our North Star, and it gives me huge confidence that our board, our staff and our growing membership continue to move together in the same direction.

Together, we can solve problems and get better results.

Ultimately, we're better together.