



**ISDA Derivatives Trading and Treasury Forum
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Opening Remarks
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Good morning, and welcome to the ISDA Derivatives Trading and Treasury Forum. Thanks for joining us today, and a big thank you to our founding sponsor, CME Group, for supporting this event once again.

This forum comes at an opportune time. Ten years ago this month, we launched the ISDA Standard Initial Margin Model (ISDA SIMM) to coincide with the first phase of initial margin requirements for non-cleared derivatives.

It's hard to overstate just how important this was. Realizing that the efficiency of the market was at stake, market participants put competitive rivalries aside and worked with ISDA to develop a single, transparent and risk-sensitive model that everyone could trust and use – enabling margin amounts to be agreed quickly and efficiently and reducing the risk of disputes that could have caused the derivatives market to grind to a halt.

Since then, the ISDA SIMM has become a cornerstone of non-cleared derivatives market infrastructure. It's permitted for use by regulators in more than 40 countries, used by more than 440 groups of entities and supported by 70 vendors. We've never stopped evolving the model, with 17 updates so far to ensure it remains risk appropriate and continues to enable the efficient exchange of margin at scale – even during volatile market conditions.

That relentless pursuit of efficiency is a key focus for ISDA and extends well beyond the calculation of initial margin. We're working with market participants and regulators to ensure existing rules are as efficient as possible, fostering safety and resilience while eliminating undue burdens on counterparties. We're also harnessing new technologies to deliver greater automation to market participants, reducing costs and eliminating operational friction.

In my remarks this morning, I want to highlight three areas where we're striving to bring greater efficiency to derivatives markets – the capital framework, the use of tokenized assets for collateral and the deployment of artificial intelligence (AI) in our mutualized industry solutions.

Let me start with capital.

Earlier this month, ISDA submitted a response to the latest UK Prudential Regulatory Authority (PRA) consultation on the Basel 3.1 package. I'm pleased to say the PRA's proposed adjustments make several important changes that will make it less punitive for banks to use internal models to calculate market risk capital – something we've been calling for over a period of years. We've

always believed that the appropriate use of robust internal models produces greater risk sensitivity, allowing banks to allocate capital more efficiently and avoid herd behavior that can arise from everyone using the same standardized model. Although more fine-tuning is needed, we're glad to see improved incentives for banks to re-invest in internal modelling after years of uncertainty.

However, we do think the PRA needs to keep an open mind when it comes to the implementation date. While it has kept its January 2028 deadline for the implementation of the internal models approach, we don't yet know when the US will go live. As a result, we're recommending flexibility in the timing of implementation to align with other major jurisdictions and avoid fragmentation.

While the US deadline is still uncertain, there has been significant recent progress, with publication of revised proposals in March. Like the UK, US regulators have made vital refinements to improve incentives for the use of internal models, but further calibration changes are needed in certain areas to better align capital requirements with risk.

A key sticking point is the treatment of cross-product netting under the standardized approach for counterparty credit risk (SA-CCR). The latest proposal permits cross-product netting under SA-CCR for certain repo and derivatives trades, including those between clearing members and their clients – an important change that ISDA has been calling for. However, the proposed methodology is overly blunt and would result in excessive capital requirements that don't accurately reflect the economic risk of well-hedged portfolios.

In our response to the US Basel III consultation, we recommended a change to the methodology to better align capital and risk. This is particularly important as we prepare for mandatory clearing of US Treasury cash transactions at the end of this year, with repos following from mid-2027.

In anticipation of this huge structural change, market participants are looking to use cross-margining programs like the one offered by CME Group and the Fixed Income Clearing Corporation to reduce margin requirements across portfolios of Treasury cash, repo and futures transactions. Enabling margin payments to more accurately reflect portfolio risk is a critical step in the efficient implementation of Treasury clearing by helping to reduce liquidity strain and improve market efficiency

But without similar recognition of risk offsets in the capital framework, the efficiencies created through cross-margining can perversely result in banks having to hold more capital, restricting balance sheet capacity and impeding their ability to provide clearing services.

Given the importance of the US Treasury market to the global financial system, we simply have to get this right, and we're liaising closely with US regulators to make the case for change.

The need to consider derivatives and repos holistically extends across jurisdictions. With the expansion of central clearing and margin requirements for non-cleared derivatives, market participants rely on unhindered access to repo and other securities financing transactions (SFTs)

to quickly generate cash and high-quality liquid assets to meet their derivatives margin calls. In short, SFT markets play a vital role in fostering liquidity, mobilizing collateral and supporting the smooth functioning of derivatives.

Along with our advocacy on cross-product netting, we also successfully pushed for changes to the US enhanced supplementary leverage ratio to ensure it primarily serves as a backstop rather than a binding constraint that can impede the ability of banks to act as intermediaries. We also advocated the removal of an SFT minimum haircut floor in the Basel III endgame proposal, which would have made it more expensive for market participants to raise funding to meet margin requirements. We're now working with the Bank of England on their plans for the haircutting of gilt repo transaction to ensure these are appropriately calibrated and introduced smoothly.

Given the vital role SFTs now play in the provision of liquidity, financing and collateral in the derivatives market, we'll continue to work to tackle regulatory and capital issues that impact efficiency.

I'll now turn to tokenization.

It's no secret that critical market functions – clearing and margining for non-cleared derivatives – depend on a collateral system that is overly complicated, slow, expensive to maintain and prone to errors. We're stuck trying to meet the challenges of the future with yesterday's technologies.

That means firms are forced to post excess collateral to counterbalance these operational weaknesses, which locks away assets that could be put to better use elsewhere. A study by Nasdaq and ValueExchange, in which ISDA participated, estimates that as much as \$50 billion of collateral is either posted in excess or not remunerated. Imagine the economic benefits that could be realized if counterparties could post the right amount at the right time for every trade.

By enabling near-instantaneous settlement, tokenized assets could reduce counterparty risk, enable intraday liquidity management and increase the mobility of collateral – all of which will improve market efficiency. It will also unlock a broader pool of assets that can be used as collateral, easing liquidity strains during periods of stress. This includes money market funds, which are currently all but impossible to use as margin due to operational complexities.

ISDA is hard at work addressing the outstanding questions related to tokenization, and we're focused on building the business use case for delivering a faster, more accurate and risk-appropriate collateral infrastructure. In July, we published a report with Global Digital Finance looking at the legal, regulatory and operational viability of tokenized money market funds in the US. We'll also soon release a paper examining how our own documentation can support tokenized money market funds as derivatives collateral.

Market participants and clearing houses need to be able to move collateral on a continuous basis, without the bottlenecks and inefficiencies that exist today. The prospect of tokenized collateral could provide a near-term way to achieve continuous margin movement, supporting the transition to 24/7 trading.

Finally, I'll turn briefly to AI.

I'm not going to make any predictions about exactly how AI will change our markets. From the current headlines, it's clear there's huge debate among the people at the very cutting-edge of this technology about the pace of development.

What is clear is its potential to bring efficiencies to the way our market functions. We're already taking the first steps by integrating AI into our services, starting with our Digital Regulatory Reporting (ISDA DRR) solution. The ISDA DRR improves the accuracy and consistency of regulatory reporting by using the Common Domain Model to convert a golden-source industry interpretation of the rules into machine-executable code. So far, we've delivered the ISDA DRR to support nine sets of reporting rules around the world, but we're now taking this initiative a step further.

We're using AI to build a tracer agent that looks back at the history of ISDA DRR decision-making to provide an audit trail of when and why decisions were made, enabling users to track every reporting outcome back to the rule that drove it and the working group consensus interpretation. We're also developing a translator agent to interpret new or updated reporting requirements and support the conversion into code, reducing the time, effort and cost of keeping pace with evolving rules.

This is exciting stuff and shows the power of AI to bring greater efficiencies to our market.

Let me close by going back to the ISDA SIMM. Development of this model didn't just solve a pressing industry problem – its success has led to other examples of the industry coming together through ISDA to tackle other big market structure challenges. This includes the transition from LIBOR, as well as the development of other mutualized solutions for shared industry challenges, like the ISDA DRR.

These solutions are a perfect demonstration of what ISDA does best – we help spot the challenges and opportunities, convene the best minds in the industry to develop mutualized solutions and then make them available at a global scale. That is how we have helped to deliver safer, more efficient derivatives markets, and it's the exact approach we'll be taking in the future.

Thank you again for being with us today and thanks to CME Group for its support.