CDM Showcase 2024
February 28, 2024

Afternoon Remarks
Scott O'Malia, ISDA Chief Executive

Good afternoon, and thank you for the opportunity to open the next session of this terrific event. I'm delighted to see we have a full house again this year, and I'd like to thank ICMA and ISLA for their continued partnership on the development of the Common Domain Model. We've been working together for several years now, and today's event shows the value of our collaboration – an engaged and enthusiastic community, focused on extracting maximum value from the CDM.

I'd also like to recognize the contribution of FINOS in hosting the CDM, overseeing its maintenance and helping to expand the community. We appointed FINOS in 2022 because all three associations recognized the need for a trusted independent organization to ensure consistency of the standard across the derivatives, repo and securities lending markets. FINOS has proved itself to be more than capable of this mission, helping to drive further development of the model and the open-source community that supports it.

As the CDM community expands and the model is put to work in different markets, it's heartening to see that it continues to reflect the original purpose we had in mind. We wanted to provide a standard, machine-readable representation of events and processes that occur during the trade lifecycle. We believed such a model would have the potential to improve interoperability between systems, reduce the need for reconciliations and pave the way towards greater automation and efficiency.

Today's event brings together a diverse spectrum of stakeholders to explore how the CDM is being applied today. You've already heard about several use cases in this morning's sessions, with more to come this afternoon. In these remarks, I'll bring you up to date on the work we're doing at ISDA to leverage the model's potential in the derivatives market.

During the second half of last year, ISDA brought together all of its mutualized platforms and services under a single digital transformation team, with the aim of aligning our solutions, encouraging innovation and driving greater adoption. This dedicated group within ISDA is now focused on ensuring our digital solutions address industry needs consistently and coherently, prioritizing development in those areas where there is most demand.

Within our digital transformation function, there are two specific initiatives that use the CDM to bring about greater standardization and efficiency – digital regulatory reporting and collateral.

This is a critical year for derivatives regulatory reporting, with five jurisdictions set to introduce revisions to their derivatives reporting requirements in just a few months. This batch of updates will start with Japan on April 1, followed by the EU on April 29, and then the UK, Australia and Singapore later in the year. These changes come just over a year after the US CFTC introduced the first phase of updates to its swap data reporting requirements in December 2022.

All of these rule changes incorporate globally agreed data standards that have been developed with the aim of improving cross-border consistency of what is reported and the format in which it is submitted to trade repositories.

Given the wide variation in reporting practices that has led to inaccuracies and inconsistencies in reported data, these rule changes represent an important step forward. However, variations will continue to exist because every rule set needs to be reviewed, interpreted and implemented by reporting firms. If every institution does this independently, new inconsistencies and inaccuracies will appear. In short, the rule changes are to be welcomed, but there is a danger they could create additional distortions.

That's where the DRR can help. It takes a consensus interpretation of each rule set agreed by an industry working group and converts that into machine-readable code using the CDM. This can either be used directly as the basis for implementation or to check that a firm's own interpretation is in line with the industry consensus.

We launched the DRR initiative in 2022 to support implementation of the CFTC rules and have since been working with our members to adapt the code for EMIR Refit in EU and the other reporting rule changes due this year.

The benefits of the DRR are significant. For one thing, firms can significantly reduce the costs and resources needed to interpret and implement each new rule set. Instead, firms can implement a code that has been validated and tested by industry participants and will be updated as rules are amended, reducing time and effort, and enabling resources to be reassigned to other projects. As the DRR is based on a single industry interpretation of each set of requirements and will be fully accessible to regulators, the potential for regulatory penalties due to misreported data is also reduced.

We're seeing growing interest in this initiative as reporting deadlines approach, and we'll continue to adapt the code as other jurisdictions implement similar changes in the years to come.

The DRR is a great example of how the CDM can be used to address a shared industry challenge, bringing immediate benefits for market participants seeking a more effective way to comply with multiple regulatory changes. Greater consistency and accuracy in reported data will also benefit regulators, helping them to build a more accurate picture of derivatives market activity and to identify emerging systemic risks.

I'll now turn to our work to apply the CDM to various collateral initiatives, with the aim of reducing operational, liquidity and counterparty risks.

Recent market shocks have clearly highlighted the lack of end-to-end automation in collateral management and the effect this can have on the ability of firms to meet their obligations. Think back to the dash for cash in March 2020, the energy market volatility following Russia's invasion of Ukraine in early 2022, and the UK gilt market crisis later that year.

In each episode, an external shock drove a spike in market volatility and an increase in margin calls, which led firms to sell assets or tap repo markets to generate cash to post as collateral.

With rising margin calls and settlement volumes, as well as operational and data challenges, the reliance on manual processing meant firms were unable to meet their obligations in a timely manner or had to deploy extra resources to relieve the strain.

These operational bottlenecks have added momentum to industry efforts to bring greater efficiency and automation to collateral management, which would enable firms to manage a spike in margin calls during times of stress.

We can now digitally represent key documents such as the ISDA Master Agreement and credit support annexes as CDM code. This dramatically improves interoperability between systems, streamlining collateral management onboarding and reducing legal and operational resource costs. When combined with ISDA Create, our contract negotiation platform, this creates the possibility for an entirely digital document lifecycle.

The CDM also allows eligible collateral to be represented in digital form, which reduces operational friction and improves collateral optimization opportunities across all types of collateral, including repo, securities financing transactions and OTC derivatives.

I talked earlier about ISDA's new digital transformation function, and the need to prioritize those areas the industry wants to address. On both the DRR and collateral, we have very active engagement with our members, which leads to better results and broader adoption.

If either initiative is relevant to you or your firm, please do talk to the ISDA team here today, or you can find more details on the ISDA Solutions InfoHub on our website.

Thank you again for joining us at this event. I hope you enjoy the rest of the afternoon.

For our next session, we turn to the repo market to explore how the CDM is being used to improve post-trade processes. Please welcome Gabriel Callsen and Tom Healey from ICMA to run this session.