

05/07/2022

Swiss Financial Market Supervisory
Authority FINMA
Attn: Rico von Allmen
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CH-3003 Bern
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**FINMA Financial Market Infrastructure Ordinance – partial revision
Clearing obligation only**

Dear Herr von Allmen

Members and staff of the International Swaps and Derivatives Association (ISDA) have been very active in the transition to risk free reference rates. In this response, we cover the changes to the clearing obligation only.

ISDA members are very supportive of central clearing

Clearing, one of the key pillars of derivatives regulatory reform in the 2009 Pittsburgh G20 Communique, has several benefits for derivatives business that include: the risk reduction achieved by multilateral netting; tight operational processes; and ultimately reduction of counterparty risk. On top of these benefits, other regulations now provide powerful incentives to clear centrally, such as uncleared margin requirements (UMR). Our members already support clearing of swaps referencing risk free rates (RFR).

This is evidenced by current clearing rates for new RFR products, which are currently largely outside the scope of clearing obligations but are already voluntarily cleared by market participants in large proportions.

There should be a sufficient notice period for clearing participants (clearing members and their clients)

ISDA members require sufficient notice for participants to adapt systems, create and run internal training, develop and implement control frameworks, internal governance and jurisdictional requirements like worker relation arrangements and issue client communications so they are not forced to adopt tactical solutions or create unnecessary

strain on resources to meet short deadlines. Members request a minimum of three months' notice to implement new CR.

Transactions stemming from PTRR exercises should be exempt from the clearing obligation

Given the incentives, most market participants are clearing voluntarily. This allows for some degree of flexibility in clearing requirements. We ask FINMA to contemplate an exemption from the clearing mandate applying to RFR swaps in the case of trades resulting from PTRR exercises (such as multilateral risk rebalancing cycles, which reduce uncleared counterparty credit risk and/or shift existing risk from the uncleared space to CCPs). With the extension of the clearing requirements to RFR swaps, such risk management practices, currently undertaken by many large dealer banks, could be impaired, as overnight index swaps (OIS) (swaps that currently can be booked into the cleared and the uncleared portfolio as they are currently not fully covered by the clearing obligation) would no longer be available.

Reducing risk in uncleared portfolios is very beneficial in volatile markets such as those experienced in March 2020. Large market moves will cause large liquidity requirements for market participants if they are not able to manage the risk in their bilateral portfolios.

ISDA members welcome the Swiss clearing obligations

We welcome that FINMA has coordinated with other authorities and enact clearing obligations which are aligned with those of the EU. We fully support the proposed clearing obligations.

Should you have any questions, or if ISDA can be of any help in this process, please do not hesitate to contact me at ukarl@isda.org.

Best Regards



Ulrich Karl
Head of Clearing Services

About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 980 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.