

NEWS RELEASE
For Immediate Release

ISDA Publishes Asia Derivatives Survey

HONG KONG, April 9, 2019 – Trading volumes in Asia’s derivatives markets are expected to increase, but achieving certainty on close-out netting is identified as an important factor in driving further development of local markets, according to a new survey of derivatives market participants active in Asia-Pacific, published by ISDA to coincide with the start of the 34th ISDA Annual General Meeting (AGM) in Hong Kong.

Nearly three quarters of survey respondents expect the proportion of foreign exchange derivatives trading executed in Asia ex-Japan to increase over the next three to five years, while 63% predict an increase in the share of interest rate derivatives traded in the region.

Singapore and Hong Kong are expected to be the most important centers for derivatives trading in the region, followed by Tokyo, Shanghai and Sydney. Among the factors determining the location of their trading activities, market participants point to a sound legal and regulatory framework, the depth and breadth of market infrastructure, access to customers and counterparties, and netting certainty.

In fact, achieving certainty on close-out netting is considered essential to the further development of robust, liquid and efficient derivatives markets in Asia, with 47% of survey respondents citing this as very important. More than half pointed to the enforceability of close-out netting as having the greatest impact on their firm’s derivatives and risk management activities in Asia.

“Close-out netting is the single most important tool for reducing credit risk between counterparties. While good progress has been made in parts of the region, there is still ambiguity over how close-out netting will be treated in China, India and Indonesia – three of the biggest economies in the region. As these economies continue to grow and demand for financing and hedging increases, having strong, liquid and robust derivatives markets will become even more important,” said Scott O’Malia, ISDA Chief Executive.

ISDA has worked with authorities across the globe to help draft legislation on the enforceability of close-out netting. ISDA netting opinions are currently available in more than 70 countries. Last October, ISDA published the 2018 update to its [Model Netting Act](#), which is designed to provide a template that can be used by jurisdictions considering close-out netting legislation.

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“Without close-out netting, firms need to manage their credit risk on a gross basis, significantly reducing liquidity and credit capacity. We believe having certainty on the enforceability of close-out netting encourages more participation from globally active firms, which adds to liquidity and creates the conditions for local derivatives markets to prosper,” said Eric Litvack, ISDA Chairman.

Highlights of the survey include:

- Seventy four percent of respondents expect the percentage of global FX derivatives trading that takes place on trading desks in Asia ex-Japan to continue to grow over the next three to five years, while 63% expect the percentage of interest rate derivatives trading to increase.
- Seventy four percent of survey participants expect derivatives trading activity by Asian banks to increase over the next three to five years, while only 35% expect growth in derivatives trading by US and European banks in Asia.
- Singapore was ranked the highest in terms of importance for derivatives trading in Asia over the next three to five years, followed by Hong Kong and Tokyo.
- Achieving certainty on close-out netting enforceability, legal certainty on the validity and enforceability of local collateral and the ability to use the ISDA Master Agreement in more local jurisdictions will have the greatest impact on firms’ derivatives and risk management activities in Asia.
- Certainty on close-out netting was also seen as essential to the further development of robust, liquid and efficient derivatives markets in Asia. Resolving legal and regulatory uncertainty was ranked next in importance, followed by cross-border harmonization of rule sets.
- Despite the importance of close-out netting, just 11% of survey participants believe it is very likely that legal certainty on close-out netting is achievable in China over the next three years, and 12% think it is very likely in India. Expectations for Indonesia and Vietnam remain lower at 3% in both countries.

The 34th ISDA AGM takes place in Hong Kong on April 9-11. This year’s event will focus on derivatives markets in 2020 and beyond, and will explore how the industry is preparing for benchmark reform, Brexit and initial margin requirements, as well as the current focus by the Group-of-20 nations on addressing market fragmentation.

Keynote speakers include Rostin Behnam, Commissioner, US Commodity Futures Trading Commission, Guy Debelle, Deputy Governor, Reserve Bank of Australia, the Honourable James Lau, Acting Financial Secretary of Hong Kong, Charles Li, Chief Executive, Hong Kong Exchanges and Clearing Limited, James Shipton, Chair, Australian Securities and Investments Commission, and Eddie Yue, Deputy Chief Executive, Hong Kong Monetary Authority.

The AGM agenda is available here: agm.isda.org/agenda/
The [Asia-Pacific Derivatives Survey](#) is available here.

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About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has more than 900 member institutions from 70 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 @ISDA.

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