ISDA Safe, Efficient Markets

US Public Policy Conference – Virtual Event
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Opening remarks
Scott O'Malia, ISDA Chief Executive

Hello everyone, and welcome to ISDA's US Public Policy Conference. Thank you for joining us today for this virtual event, and particular thanks to our speakers.

As we enter the last few days before the US presidential election, it feels that the stakes have never been higher. With the whole world still in the grip of the coronavirus pandemic and dealing with the economic impact, the next administration will play a critical role in shaping the course of the US recovery over the next four years.

It will also determine the direction of financial regulation, including capital rules, benchmark reform and sustainable finance – all important issues for the derivatives market.

I'm not here to predict whether next Tuesday will result in continuity or change in the US, but I can tell you that ISDA's priorities will remain consistent whatever the outcome.

From the implementation of margin and capital requirements to supporting the transition from LIBOR, we remain focused on maintaining safe and efficient derivatives markets. This will continue to be our goal regardless of who wins the upcoming election.

Now, 2020 will always be remembered as the year of the pandemic, such has been the extraordinary impact of COVID-19 on all aspects of our lives. But this year also marks 10 years since the Dodd-Frank Act was passed into US law in July 2010.

The past decade has seen extraordinary progress in the derivatives market. Increases in capital, margin and clearing requirements have made our market more resilient. The trading and data reporting rules also brought increased transparency and improved oversight.

This was proven in the way the market came through the COVID-19 crisis earlier this year.

When the pandemic escalated in March and forced the switch to remote working around the world, financial markets went into a tailspin. Governments and central banks acted decisively, with emergency monetary, fiscal and regulatory interventions to keep the global economy functioning and markets liquid. Derivatives markets naturally saw rising volumes and high levels of volatility, but the market continued to function.

This is really something that is worth pausing to consider. In the face of a global pandemic, the closure of offices and financial market turmoil, the market infrastructure remained largely unfazed.

Volumes rose, prices see-sawed, and some local markets and systems even chose to halt temporarily. But derivatives contracts continued to execute and settle without interruption.

Clearly, the risk-based reforms, including capital, margin and clearing, contributed to the resilience of markets during this past crisis.

In the first nine months of this year, cleared interest rate derivatives represented 91% of total traded notional in the US. At the end of 2019, the 20 largest dealers held $1.1 trillion of initial margin and variation margin for their non-cleared derivatives trades. Over the next two years, the market will implement phases five and six of the margin rules for non-cleared derivatives, extending coverage to over 1,000 smaller counterparties.

We have also seen a steady increase in the use of electronic trading platforms and trade repositories over the past decade. Nearly 60% of interest rate derivatives traded notional in the US was executed on swap execution facilities during the first nine months of this year. Meanwhile, trade reporting standards have been introduced in 23 of the 24 Financial Stability Board jurisdictions, leading to increased levels of transparency and ensuring that regulators have the necessary tools to identify risk.

As well as these market reforms, Basel III capital and liquidity requirements have strengthened the resilience of the banking system. Since 2011, internationally active banks have doubled their common equity tier-one capital to nearly €3.9 trillion. As the final components of Basel III are implemented over the coming years, ISDA will continue to work with regulators to make sure the rules are both consistent and risk-appropriate.

Facing a landmark election next week, and the knock-on effect on financial markets, this narrative of the past 10 years is a very important one. As I said earlier, we have always sought to build relationships with policy-makers at all levels, and this objective will remain after the election. We are particularly grateful to Securities and Exchange Commission chair Jay Clayton, Federal Reserve vice chair for supervision Randal Quarles, former Commodity Futures Trading Commission (CFTC) chair Chris Giancarlo and current chairman Heath Tarbert for their time and support over recent years. I am very much looking forward to talking with chairman Tarbert in our virtual fireside chat later today.

Now, while recognizing that ISDA will seek to work closely with any administration, there are of course a number of possible outcomes from the election. Our first panel will consider the various different election scenarios that could arise and how these might impact on the derivatives market. This will be moderated by ISDA’s global head of public policy, Steven Kennedy.