ISDA Publishes Future of Derivatives Survey at 33rd ISDA Annual General Meeting

MIAMI, April 24, 2018 – Derivatives industry participants are optimistic about the future of derivatives markets, but have flagged a number of important changes that will have an impact on the future of the business, according to a new survey published by ISDA to coincide with the start of the 33rd ISDA Annual General Meeting (AGM) in Miami.

Asked about their expectations for overall derivatives activity, 83% of respondents to the ISDA Future of Derivatives survey thought volumes will increase or remain the same over the next three to five years. The same proportion felt end-user activity will rise or remain unchanged over the same period. When asked to rate their optimism about the future of derivatives on a scale of one to 10, with 10 being the most optimistic, 65% opted for between seven and 10.

Despite this optimism, market participants see challenges ahead. About half of the respondents believe the number of derivatives dealers will decline over the next three to five years, and almost two-thirds expect the cost of using derivatives to increase. Several factors appear to underlie these concerns. Market participants remain wary about the challenges posed by regulatory compliance. On a scale of one to 10, with 10 being the most challenging, 66% of respondents rated this between seven and 10. This was above benchmark reform (53% between seven and 10) and Brexit (44% between seven and 10).

“While significant progress has been made in implementing regulatory reform initiatives, regulatory compliance continues to be a major focus for the industry,” said Scott O’Malia, ISDA Chief Executive. “This underscores the need to calibrate the regulatory framework to ensure it is risk appropriate, while at the same time working to develop industry solutions that bring greater standardization and automation to the derivatives markets.”

“Our survey shows that end-user activity is expected to remain at current levels or even increase in the coming years, emphasizing the value of these products as a means of transferring risk efficiently. These instruments continue to be used by end users because they serve an important economic and social need. It’s therefore vital that firms are able to continue accessing these markets in a cost-effective way,” said Eric Litvack, ISDA’s Chairman.

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Another big trend highlighted in the survey is the emergence of new technologies like distributed ledger, artificial intelligence and cryptocurrencies. Asked to rate their impact on derivatives markets over the next three to five years, 52% of survey respondents scored it between seven and 10. More than 50% believe the potential cost savings from technology will be felt in all areas of a firm’s derivatives operations – from trading to the mid and back office.

“New technologies are likely to bring greater efficiencies and cost reduction to the derivatives market, but we need to ensure we retain and, where necessary, adapt the standards, definitions and documentation that have brought more than 30 years of consistency and legal certainty to the derivatives market. This is critical for the safe, efficient functioning of this market,” said Mr. O’Malia.

The 33rd ISDA AGM takes place in Miami on April 24-26. Focusing on the future of derivatives markets, this year’s AGM will explore how the industry is using new technologies, and how it is planning for benchmark reforms, Brexit, the future of non-cleared derivatives and changes to capital rules. Keynote speakers include Bill Coen, secretary of the Basel Committee on Banking Supervision, J. Christopher Giancarlo, chairman of the Commodity Futures Trading Commission and Craig S. Phillips, counselor to the secretary of the US Treasury.

Highlights of the survey:

- 83.3% of respondents think overall derivatives volumes will increase or remain the same over the next three to five years.
- 83.1% think end-user activity (hedging and trading) will increase or remain the same over the next three to five years.
- 51.8% think liquidity in the interest rate derivatives market will increase over the next three to five years; 53.7% think the same for the FX market. The proportion is much smaller for credit, rates and equities. In fact, 23.6% of respondents think liquidity in the credit derivatives market will decrease.
- Asked how optimistic they are about the future of the derivatives market on a scale of one to 10 (with 10 being most optimistic), 65% of respondents opted for between seven and 10.
- Asked what impact new technologies like distributed ledger, artificial intelligence and cryptocurrencies will have on the derivatives market over the next three to five years, 52% of respondents scored it between seven and 10.
- Asked how big a challenge regulatory compliance, benchmark reform and Brexit will be on a scale of one to 10 (with 10 being the greatest challenge), 66%, 53% and 44% of respondents, respectively, opted for between seven and 10.
- 63.9% of respondents felt the cost of using derivatives would increase over the next three to five years.
- 47.3% think the number of derivatives dealers/market-makers will decrease over the next three to five years.

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The ISDA Future of Derivatives Survey drew more than 900 responses in total. Approximately a third of the responses came from dealers, 43% came from people working at buy-side institutions (including bank end users, pension funds, energy companies, asset managers, insurance companies, non-financial corporates and government/supranational entities). The remaining responses came from infrastructure providers, fintech companies and law firms.

Click here to read the full survey.

For Press Queries, Please Contact:
Nick Sawyer, ISDA London, +44 7921 870892, nsawyer@isda.org
Michael Milner-Watt, ISDA London, +44 7710 967027, mmilner-watt@isda.org
Lauren Dobbs, ISDA New York, +1 646 639 9862, lDOBBS@ISDA.ORG
Amanda Leung, ISDA Hong Kong, +1 646 318 7462, aleung@isda.org

About ISDA
Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 900 member institutions from 68 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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