ISDA Publishes Whitepaper on Developing Safe, Robust and Efficient Derivatives Markets in China

NEW YORK, December 15, 2021 – The International Swaps and Derivatives Association, Inc. (ISDA) has today published a whitepaper that explores the development of China’s derivatives market and recommends policy measures to promote the safety, robustness and efficiency of the market.

The report comes as the Chinese government continues to support the development of a mature onshore derivatives market through regulatory and legislative reforms. A well-functioning derivatives market in China will lead to more efficient allocation of resources, more productive investments and stronger economic growth.

The draft Futures and Derivatives Law, which was introduced for second reading at the Standing Committee of the National People’s Congress in October 2021, represents China’s first step to recognize the enforceability of close-out netting in national law. The recognition of netting will remove a major barrier to international participation in China’s derivatives markets.

Once netting has been achieved, policy-makers and market participants will need to consider the further developments that are necessary to promote a robust and efficient derivatives market. The ISDA paper, which was commissioned from the Boston Consulting Group, provides insights and recommendations to support this objective.

“Close-out netting is the single most important credit risk mitigant in the derivatives market, minimizing disruption in the event of a default, as well as increasing liquidity and credit capacity. We have seen extraordinary progress in China this year with the draft Futures and Derivatives Law, but we now need to think about the next steps. This paper will be a critical resource to help market participants and policy-makers develop a robust and efficient onshore derivatives market,” said Scott O’Malia, ISDA’s Chief Executive.

The whitepaper is based on more than 50 interviews with over 40 domestic and foreign market participants in China, including banks, asset managers, insurance companies, corporates, law firms, market infrastructures and policy experts. It aims to articulate how the derivatives market will contribute to China’s financial system and capital markets, and support continued economic growth. It also provides an overview of different types of derivatives, their role in capital markets, the current state of play and the types of market participants.

The paper recommends policy measures and actions to support the development of a safe and efficient derivatives market for all participants in the following areas:
• Government and regulatory policies;
• Trading practices;
• Risk management practices and risk governance; and
• Market infrastructure.

If implemented, these policy recommendations would broaden the range of market participants and available derivatives products in China by enhancing legal and regulatory certainty, increasing market liquidity and improving market infrastructure.

“An enforceable rule-based close-out netting regime is probably one of the most important improvements that can be made in the Chinese market. Implementing such a regime before the market enters a rough patch would help all market participants to navigate through difficult times. The recommendations in this report will be very helpful in determining the next steps that are necessary for the Chinese derivatives market, once close-out netting has been achieved,” said Thijs Aaten, Chief Finance and Risk Officer at APG Asset Management Asia and a Board Director at ISDA.

ISDA will work closely with policy-makers and market participants to discuss the findings of the paper and consider next steps. A virtual conference will be held on January 20 to explore the key themes in the paper, including the Futures and Derivatives Law and future development of China’s derivatives market. To register for the event, click here.

To read the paper, visit the ISDA website.

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**About ISDA**
Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 960 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.

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