ISDA/AFMA Derivatives Forum Sydney
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Introduction
Nick Sawyer, ISDA Global Head of Communications

Good morning, and thanks for joining us today at the Derivatives Forum Sydney. Special thanks to the Australian Financial Markets Association for partnering with us, and to Macquarie University Business School, Australian Securities Exchange and Depository Trust & Clearing Corporation for sponsoring the event.

I'd like to begin today by acknowledging the Gadigal people of the Eora Nation, the traditional custodians of the land on which we gather today, and pay my respects to their elders past and present. I extend that respect to Aboriginal and Torres Strait Islander peoples here today.

It's great to be back in Sydney for this event, which gives us a valuable opportunity to discuss both global and local market issues. From the series of liquidity shocks in recent years to the market outlook here in Australia, there's no shortage of topics on the agenda.

Earlier this year, global markets were shaken by the collapse of several US banks and the acquisition of Credit Suisse by UBS. Lessons are still being learned, but, in the case of Silicon Valley Bank (SVB), it's clear that risk management and governance failures played a big role. The Federal Reserve has described this as a "textbook case of mismanagement by the bank". This included a failure to properly manage interest rate risk and liquidity risk, exacerbated by withdrawals of customer deposits at an unprecedented pace, fueled by social media and aided by technology.

The collapse of SVB reminds us of the tremendous value of derivatives in delivering greater stability and certainty. With the ongoing challenge of high interest rates and inflation, it's critical that market participants around the world have access to safe and efficient derivatives markets to manage their risks.

Regulators and market participants are also looking closely at the recent liquidity crises in key markets – something that was discussed at last week's International Organization of Securities Commissions annual conference in Bangkok. Recent examples include the dash for cash in March 2020, the energy market volatility following Russia's invasion of Ukraine and the UK gilt crisis last year. In each case, an initial shock was followed by widespread selling of assets to meet margin calls and other liquidity requirements, disrupting the functioning of key markets.

In response, global policymakers have initiated a program of work focused on liquidity, leverage and margin. For example, six workstreams have been established to explore different aspects of margining practices, including liquidity readiness of market participants and the responsiveness of cleared and non-cleared initial margin models to market stress.

We will engage with policymakers as proposals are developed, but we've also been working proactively with market participants and regulators to reduce risk and create efficiencies.

For example, we've taken quick action to review the methodology and governance framework for the ISDA Standard Initial Margin Model (ISDA SIMM). The model proved to be robust during the various shocks, thanks to its intentionally conservative design. Nonetheless, we've made a variety of enhancements, including reducing the thresholds at which firms need to report and remediate margin coverage shortfalls. We'll continue to work closely with regulators and ISDA SIMM users to ensure the model remains effective and resilient.

Our work in this area doesn't stop with the ISDA SIMM. When margin calls mushroomed during the recent periods of stress, it was clear that some firms were not able to get collateral to where it was needed in a timely manner. Up until now, automation has been piecemeal and collateral management is still beset by manual intervention and pockets of inefficiency. This is challenging in normal market conditions, but can become a source of risk when volatility spikes.

Working with our members, we're taking action to address this. Using the Common Domain Model (CDM), a data standard for financial products, trades and lifecycle events, we're bringing greater standardization and automation to collateral management processes. This is important work that will improve counterparty onboarding, interoperability and cash collateral calculations. The net result will be increased efficiency and lower operational risk, which should help to reduce the amplifying effects of future shocks.

Before finishing, I'll touch briefly on another way we've been using the CDM to create efficiencies. As derivatives reporting rules are updated around the world to incorporate international data standards, we've used the CDM to develop our Digital Regulatory Reporting (DRR) initiative. This allows rule updates to be implemented with greater consistency and accuracy than ever before.

The DRR transforms an industry-agreed interpretation of the rules into code, which firms can either use as the basis for their implementation or as a benchmark to validate their own independent reading of the rules. The DRR launched in November 2022, just before the US Commodity Futures Trading Commission implemented the first phase of changes to its swap data reporting rules.

We're now adapting the DRR code for equivalent rules that will come into effect in the EU next April, and we will also extend it to other jurisdictions. That includes Australia, where changes to the Australian Securities and Investments Commission's (ASIC) reporting rules will come into effect in October 2024.

The DRR is a great way for firms to reap the huge benefits of digitization, with the confidence they have implemented the rules in line with industry consensus. With just over a year to go until the ASIC deadline, now is the time to step up and get involved. We have a panel later today that will explore this topic in greater detail.

I've talked this morning about the various ways in which we're working with market participants and regulators to respond to recent stress events and prepare for future regulatory requirements. You can count on ISDA to continue to work tirelessly for safe and efficient derivatives markets that will withstand market shocks.

Thank you.