INTERVIEW
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Derivatives data hidden in plain sight

DIVERSITY
Megan Hogan of Goldman Sachs on measuring success in DEI

IQ

ISDA® Quarterly

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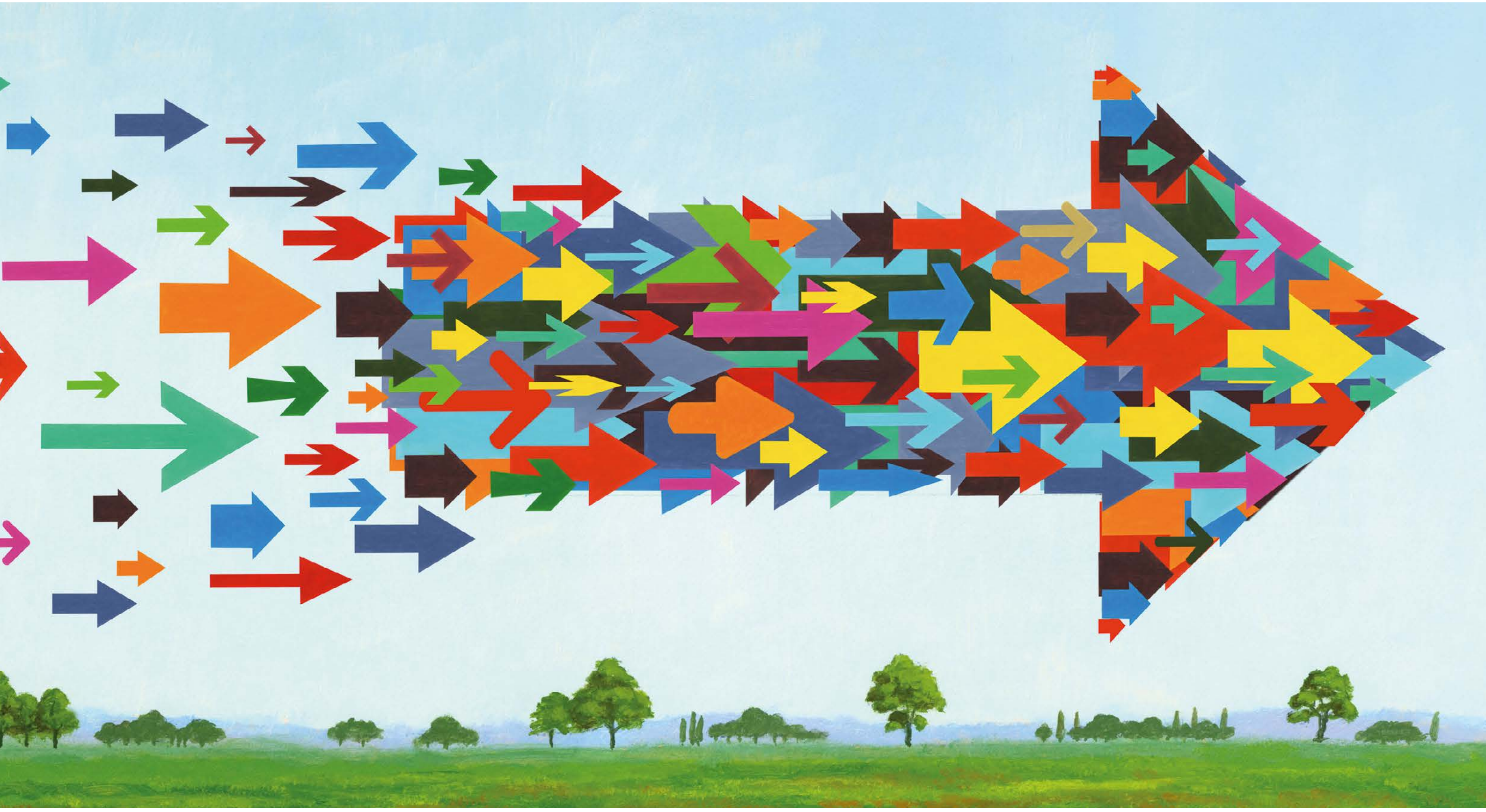

* DIGITAL TRANSFORMATION

ISDA is bringing its mutualised products and services together under a single umbrella to align its teams, advance its offerings and drive adoption

ISDA® SwapsInfo

ISDA SwapsInfo brings greater transparency to the over-the-counter (OTC) derivatives markets. It transforms publicly available data on OTC derivatives trading volumes and exposures into information that is easy to chart, analyze and download. ISDA SwapsInfo covers interest rate derivatives (IRD) and credit derivatives markets.

Interest Rate Derivatives

Transaction Data

Daily, weekly and quarterly traded notional and trade count by product taxonomy.

Notional Outstanding

Notional of all IRD contracts outstanding on the reporting date.

Credit Derivatives

Transaction Data

Daily, weekly and quarterly traded notional and trade count by product taxonomy.

Market Risk Activity

Traded notional and trade count for single-name and index credit default swaps (CDS) that result in a change in market risk position.

Notional Outstanding

Gross and net notional outstanding and trade count for single-name and index CDS.

SwapsInfo.org

ISDA® Safe, Efficient Markets

The Path to Treasury Clearing

As IQ went to press, the US Securities and Exchange Commission (SEC) adopted rules that will increase clearing in the US Treasury market. This represents a massive structural shift for a market that plays such a vital role in keeping the wheels of the global financial system turning.

As demonstrated by the efforts to introduce central clearing in the derivatives market a decade ago, implementing a change of this magnitude will take time and careful thought, particularly given the size and importance of the US Treasury market. With the $26 trillion in outstanding issuance forecast by the US Congressional Budget Office to reach as high as $46 trillion by 2033, any potential impact on liquidity and market capacity needs to be closely considered every step of the way.

Among other things, market participants will need to kick the tyres of existing clearing models and check they remain appropriate. Legal documentation will need to be developed, negotiated and executed, and regulatory-compliant structures for the segregation of client margin will need to be put in place and tested — a massive undertaking that will take time given the number and diversity of Treasury market participants.

This will be a big focus for ISDA in 2024 – but we have plenty of other priorities too. One of those will be advancing our suite of mutualised products and services and encouraging adoption across the industry. This issue of **IQ** takes a close look at those solutions, which are intended to increase efficiencies and reduce costs and risks for market participants. In particular, we focus on a new initiative – a proposed central industry hub that will allow firms to deliver critical termination-related notices instantaneously and efficiently. Check out our new Solutions InfoHub on the ISDA home page for more details (www.isda.org/isda-solutions-infohub/).

Nick Sawyer
Global Head of Communications & Strategy
ISDA

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NEW YORK | WASHINGTON | LONDON | BRUSSELS | HONG KONG | SINGAPORE | TOKYO

Global Head of Communications & Strategy, **Nick Sawyer**, nsawyer@isda.org
Senior Director, Communications, **Joel Clark**, jclark@isda.org
Global Head of Public Policy, **Steven Kennedy**, skennedy@isda.org
Art Director, **Nick Palmer**, nick@sidelong.co.uk

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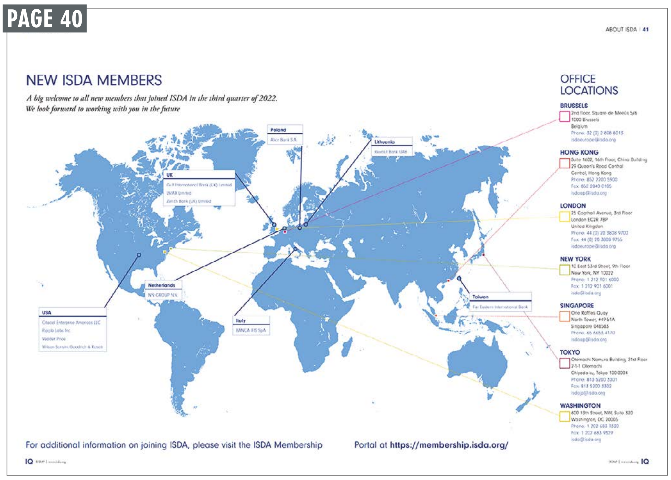
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NEW ISDA MEMBERS

A big welcome to all new members that joined ISDA in the third quarter of 2022. We look forward to working with you in the future

OFFICE LOCATIONS

BRUSSELS

HONG KONG

LONDON

NEW YORK

SINGAPORE

TOKYO

WASHINGTON

For additional information on joining ISDA, please visit the ISDA Membership Portal at **https://membership.isda.org/**

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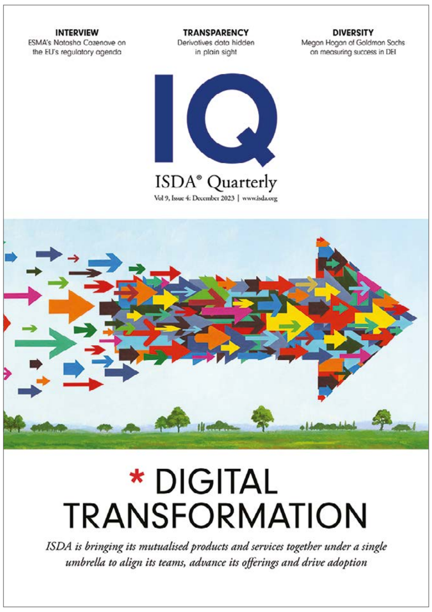

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"We've looked at where inefficiencies exist in derivatives markets and where greater standardisation, digitisation and automation can reduce the potential for errors and risks and ultimately cut costs for market participants"

Scott O'Malia, ISDA

Goodbye 2023, Hello 2024

*Ending LIBOR was one of the biggest challenges the derivatives industry has ever had to face, but there will be plenty of other important issues in 2024, writes **Scott O'Malia***

Finally, after six years of industry and regulatory effort, LIBOR was published on a representative basis for the final time on June 30. The retirement of the remaining five US dollar LIBOR settings occurred with relatively little fuss, thanks to meticulous planning and preparation by the public and private sectors.

A critical part of the solution for the derivatives market was the development by ISDA of robust contractual fallbacks. More than 16,200 entities adhered to the ISDA 2020 IBOR Fallbacks Protocol, which enabled them to incorporate the fallbacks into existing contracts, providing an important safety net for those firms that still had derivatives linked to US dollar LIBOR.

Thankfully, this unprecedented overhaul of industry practices is now behind us, but there are plenty of other big initiatives that ISDA will be focusing on in 2024.

The adoption of rules by the US Securities and Exchange Commission on December 13 to mandate the clearing of certain cash Treasury securities and repos is a case in point. The US Treasury market is the beating heart of the global financial system, and any change will reverberate across markets, including derivatives and collateral management. We'll now engage closely with members and assist with implementation where we can. In particular, ISDA will bring its previous experience in cleared and non-cleared derivatives to bear – both in terms of providing input on client clearing models and drafting appropriate legal documentation.

> "The US Treasury market is the beating heart of the global financial system, and any change will reverberate across markets"

Another big focus will be the work to finalise national rules to implement the remaining Basel III measures. All major jurisdictions have now published proposals following release of the draft Basel III 'endgame' framework by US prudential regulators in July 2023. As we've done in the past with other draft rules, ISDA has undertaken a quantitative impact study to analyse how the US proposals will affect capital requirements and will work with regulators to smooth out the rough edges of the various national rules to ensure we have a framework that is risk appropriate and as globally consistent as possible.

Meanwhile, ISDA's work to ensure the safe and efficient exchange of margin continues apace. We conducted our first ever off-cycle calibration of the ISDA Standard Initial Margin Model (ISDA SIMM) in 2023 in response to interest rate volatility at the end of 2022. We're now working to switch to semiannual calibration from 2025, a change agreed with global policymakers that we think will ensure the ISDA SIMM remains risk appropriate and is updated in a predictable and efficient manner.

Margining of non-cleared derivatives was one of the final 2009 Group-of-20 commitments to be implemented. Regulatory reporting was the first, but changes are now being made to make the rules more consistent across jurisdictions by incorporating globally agreed critical data elements. The US Commodity Futures Trading Commission (CFTC) implemented the first batch of its amendments at the end of 2022, and Australia, the EU, Japan, Singapore and the UK are scheduled to introduce comparable updates in 2024.

To help with the implementation, ISDA is extending its Digital Regulatory Reporting (DRR) initiative. First launched in November 2022 for the CFTC's swap data reporting amendments, the DRR leverages the Common Domain Model to transform a mutualised interpretation of the rules developed by an ISDA working group into human-readable and machine-executable code. The DRR creates significant efficiencies and cost savings, while also delivering more accurate data to regulators, helping them to identify possible sources of systemic risk.

The DRR is one example of an industry solution developed by ISDA to bring greater efficiency and automation to derivatives markets, but there are plenty of others, including ISDA Create, ISDA MyLibrary and ISDA Analytics. In a major change for ISDA, we're now aligning all these solutions under a single digital transformation team. This new dedicated group will focus on identifying key industry needs across our full suite of platforms to ensure we're prioritising our efforts where they are most needed in a consistent and coherent way.

We've had a busy and successful agenda, and it will be equally busy in 2024. We wish all our members the very best for the new year.

Scott O'Malia
ISDA Chief Executive Officer

SEC Adopts US Treasury Clearing Rules

The US Securities and Exchange Commission (SEC) has adopted rule changes that will require increased clearing of certain US Treasury securities and repo transactions, a change it believes will make the market more efficient and resilient.

The rules, which were adopted on December 13, will require Treasury clearing houses to direct their members to clear certain US Treasury securities transactions. The rules also aim to ensure broad access to clearing and require customer margin to be collected and held separately from the margin posted by direct participants for proprietary trades.

"The $26 trillion Treasury market – the deepest, most liquid market in the world – is the base upon which so much of our capital markets are built. Having such a significant portion of the Treasury markets uncleared – 70-80% of the Treasury funding market and at least 80% of the cash markets – increases system-wide risk," says Gary Gensler, chair of the SEC.

"I am pleased to support these rules because they will help to make the Treasury market more efficient, competitive and resilient," Gensler added.

The rules will come into effect in two phases, with changes to the separation of customer and house margin, a broker-dealer customer protection rule and the requirement to ensure access to central clearing to be implemented by March 31, 2025. The requirement to clear specific transactions would take effect in two stages, starting with cash transactions from December 31, 2025, followed by repos from June 30, 2026.

The US Treasury market has experienced exceptional growth in recent years and this trend is expected to continue, with the US Congressional Budget Office projecting that debt held by the public will nearly double over the next decade to $46.7 trillion in 2033.

Despite the size and importance of this sector, there have been increasing concerns about the capacity of the US Treasury market to function effectively during periods of stress – for instance, during the dash for cash in March 2020, when extreme selling pressure in the face of a global pandemic caused the market to seize up.

The Inter-Agency Working Group for Treasury Market Surveillance, which comprises the US Department of the Treasury, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the SEC and the Commodity Futures Trading Commission, published a staff progress report in 2022 that identified five measures to increase the robustness of the market. These include improving the resilience of market intermediation, enhancing data quality and availability, and evaluating expanded central clearing.

Speaking at the Derivatives Trading Forum in New York in September, Michelle Neal, head of the markets group at the Federal Reserve Bank of New York, cited analysis by the Treasury Market Practices Group (TMPG), a market participants group it sponsors.

"Most recently, a 2022 whitepaper summarised the fragmented nature of settlement and associated risks in repo and securities lending markets, following up on the TMPG work related to the cash market. While noting that under normal market conditions, the credit, liquidity and counterparty risks may be small, gaps in risk management may present themselves in times of market stress, testing risk management frameworks. As noted in the whitepaper, this could be an exceptionally acute issue for non-centrally cleared bilateral trades, where opaque risk management practices may create uncertainty about the levels of exposure across market participants," said Neal.

But while proponents say broader clearing of US Treasury transactions will help reduce settlement risk, enhance liquidity and increase balance sheet capacity, it also comes with costs due to clearing fees, margin requirements, documentation and potential systems development. Some participants warn the costs associated with a clearing mandate could lead certain entities to reduce activity or withdraw from the market altogether.

"Given the pivotal role US Treasuries play in the derivatives and financial markets, it's critical we think hard about the various implications and consequences of the SEC and other rules in combination to ensure we don't negatively impact liquidity and market capacity," says Scott O'Malia, ISDA's chief executive.

> "Given the pivotal role US Treasuries play in the derivatives and financial markets, it's critical we think hard about the various implications"
> **Scott O'Malia, ISDA**

With the SEC rules now final, ISDA will work with market participants to address certain operational issues – for example, exploring the most appropriate clearing models. Robust legal documentation and processes and structures for the segregation of client margin will also need to be put in place and tested.

"We'll engage closely with members and assist with implementation where we can. In particular, we think we can bring our previous experience in cleared and non-cleared derivatives to bear – both in terms of providing input on client clearing models and drafting appropriate documentation," says O'Malia. IQ

Standardisation and Transparency Critical for Carbon Markets, Says O'Malia

The voluntary carbon market could help companies around the world to meet their sustainability objectives by offsetting those carbon emissions they can't cut immediately, but concern over greenwashing is a "fly in the ointment" and greater standardisation and transparency is critical, according to ISDA chief executive Scott O'Malia.

"Doubts over credit quality and environmental value, as well as concerns over a lack of transparency, have undoubtedly affected trust in this market and could hamper its growth. For this market to reach its full potential and make a real difference, we need greater standardisation and transparency, so market participants can be confident the projects they are supporting when they buy carbon credits have a genuine and verifiable impact on carbon reduction," said O'Malia, speaking at the Voluntary Carbon Markets Forum in London on November 14, hosted by ISDA and carbon credits rating agency BeZero.

> "Doubts over credit quality and environmental value, as well as concerns over a lack of transparency, have undoubtedly affected trust in this market and could hamper its growth"
> **Scott O'Malia, ISDA**

According to research from BNEF, the amount invested in the global energy transition – which was the same as the amount invested in fossil fuels for the first time in 2022 – would need to triple by 2030 and increase by seven times between 2041 and 2050 to reach net zero. BNEF predicts the voluntary carbon market could grow from $2 billion to $1 trillion by 2037, but the number of offsets purchased fell by 4% last year because of concerns over the reputational risk from buying low-quality credits.

Progress is being made to address these issues. For example, the Integrity Council for the Voluntary Carbon Market (ICVCM) has developed a set of core carbon principles (CCPs) that establish standards for firms to identify high-quality credits that have a permanent, additional and verifiable impact on emissions. The ICVCM has now started assessing carbon credit programmes and will issue CCP-labelled credits to those that meet its criteria.

"We believe initiatives like these are critical to the future success of the voluntary carbon market. This needs to go hand in hand with a robust legal and regulatory framework, and this is an area that ISDA has been working to address," said O'Malia.

ISDA published two whitepapers in 2021 and 2022 that explored the key legal issues associated with the voluntary carbon market and recommended steps to create greater legal certainty. In parallel, it developed the 2022 ISDA Verified Carbon Credit Transactions Definitions, which bring greater consistency to the trading of carbon credits.

"Having a single contractual framework that can be used for any carbon standard or registry will allow firms to trade carbon credits more easily and on a global basis – in turn, enhancing liquidity. Of course, we recognise the voluntary carbon market is not the only channel available to firms to meet their sustainability objectives and support the green transition. But we do think it has a valuable role to play, which is why it's so important that we all work together to ensure this market has the transparency, integrity and legal certainty it needs to function safely and efficiently," said O'Malia. IQ

ISDA Scores Double Win for Industry Association of the Year

ISDA has been named industry association of the year in both the GlobalCapital Global Derivatives Awards 2023 and Regulation Asia's sixth annual Awards for Excellence 2023.

A panel of judges for Regulation Asia highlighted several key ISDA projects intended to improve derivatives market efficiency, including the Digital Regulatory Reporting initiative, efforts to smooth the transition from LIBOR, work to prepare the industry for initial margin requirements for non-cleared derivatives and support for banks in their implementation of Basel III through benchmark exercises, research and policy advocacy.

"ISDA continues to provide robust support to the industry and plays a crucial role in mitigating risk and reducing costs for market participants," said one judge.

The judges also pointed to several initiatives to foster industry best practices and standards, including the development of the Common Domain Model and the ISDA Create online documentation negotiation platform.

"We are delighted that ISDA's contribution to the global derivatives market has been recognised in these industry awards. By developing standards and mutualised solutions to address common industry challenges and deliver lasting efficiencies, we continue to advance our mission to foster safe and efficient derivatives markets to facilitate effective risk management. Together with our 1,000-plus member firms, we will maintain our focus on making critical processes more effective and more efficient," says Scott O'Malia, chief executive of ISDA. IQ

Industry Preps for 2024 Reporting Rule Updates

Derivatives market participants are preparing for a new round of updates to reporting rules in 2024, with Japan and the EU scheduled to amend their regulatory reporting frameworks in April, followed by the UK and Singapore later in the year.

The revisions follow implementation of the first phase of amendments to the US Commodity Futures Trading Commission's (CFTC) swap data reporting rules in December 2022. The updates incorporate globally harmonised data standards developed by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions, aimed at making global regulatory reporting requirements more consistent. These include a unique product identifier, a unique transaction identifier and critical data elements.

In the EU, revised reporting rules will come into force on April 29 under the European Market Infrastructure Regulation Refit, while Japan's Financial Services Agency will implement changes to its reporting requirements from April 1.

"The revisions represent a big step towards a more harmonised reporting framework that will provide regulators with more useful data, but it's not the end of the journey. Once rules are amended, market participants need to implement them in a consistent way. If every entity interprets the rules independently and develops its own reporting logic, discrepancies will still emerge. That's why ISDA developed its Digital Regulatory Reporting (DRR) initiative," says Tara Kruse, global head of infrastructure, data and non-cleared margin at ISDA.

The DRR uses the Common Domain Model to transform a mutualised, industry-agreed interpretation of the reporting rules into human-readable, machine-executable code. This can either be used as the basis for implementation of the rule changes or to verify that an independent interpretation is in line with the industry consensus. Having launched the DRR in November 2022, ahead of the first phase of revisions to the CFTC's swap data reporting rules, ISDA is now working to extend the DRR to cover rule changes in other jurisdictions, starting with the EU and Japan.

> "The DRR represents a step change in the way regulation is implemented, giving market participants a powerful way to reduce inconsistencies and inefficiencies in their reporting to trade repositories, while also helping to reduce the burden and cost of implementation"
>
> **Tara Kruse, ISDA**

"The DRR represents a step change in the way regulation is implemented, giving market participants a powerful way to reduce inconsistencies and inefficiencies in their reporting to trade repositories, while also helping to reduce the burden and cost of implementation. As derivatives reporting takes centre stage in 2024, ISDA will continue to work with market participants to maximise the benefits of the DRR," says Kruse. IQ

More information on the DRR is available here: tinyurl.com/3r34ujkk

ISDA Launches Solutions InfoHub

ISDA has launched a new information hub on its website to showcase all its legal, data and risk and capital solutions on a single portal. The launch follows the recent establishment of a new digital transformation function within ISDA, intended to create greater alignment in its digital solutions, further advance new and existing products and services, and drive adoption across the industry.

Following the development of the ISDA Standard Initial Margin Model to support the introduction of initial margin requirements for non-cleared derivatives, ISDA has built a range of mutualised solutions to address common industry problems and bring greater efficiency, standardisation and automation to derivatives markets. These include the Common Domain Model (CDM), a free-to-use data standard for financial products, trades and lifecycle events, the ISDA Create contract negotiation platform and the ISDA Analytics offering that underpins the benchmarking of standardised approach capital models.

"Up until now, we've had separate teams looking at legal standards and documents, trade reporting and collateral solutions tied to the CDM and risk and capital solutions. Recognising the progress that has been made, we realised we can advance our solutions in parallel and accelerate adoption in a more focused manner by reorganising these groups into a single digital transformation team," says Scott O'Malia, chief executive of ISDA.

The ISDA Solutions InfoHub contains information on 11 individual products and services, including key features and benefits and contact information, as well as details of how to book demos where relevant. IQ

Visit the ISDA Solutions InfoHub: www.isda.org/isda-solutions-infohub

For more on ISDA's digital transformation strategy, see pages 16-18

For a full listing of ISDA's legal, data and risk and capital solutions, see pages 20-22

Basel III Time Frames Diverge as Some Banks Prepare to Implement

The final parts of the Basel III capital framework are due to be applied by some banks in Canada, China and Japan in early 2024, while banks in the EU, UK and US will implement the rules the following year, raising concerns over the impact of diverging deadlines.

The EU published its legislative proposals in October 2021, targeting implementation from January 1, 2025 – a deadline that was originally adopted by the UK Prudential Regulation Authority (PRA) when it published its own proposals in November 2022.

Following publication of the US notice of proposed rulemaking (NPR) in July 2023, which targets implementation from July 1, 2025, the PRA announced its intention to delay the deadline for UK banks by six months. This decision was confirmed when the PRA published the first of two near-final policy statements on the implementation of its Basel 3.1 standards on December 12.

"As rules are finalised ahead of implementation, we need to work with policymakers to achieve an appropriate, risk-sensitive capital framework that is as globally consistent as possible. Of course, there will always be some level of regional variation, but excess deviation from global standards risks market fragmentation, which creates additional complexity, particularly for internationally active banks," said Mark Gheerbrant, global head of risk and capital at ISDA, speaking at the Trading Book Capital event in London on November 30.

"We welcome the recent PRA decision to push its implementation date back by six months, bringing it in line with the US. In the EU, proposed legislation would allow changes to align implementation deadlines with other jurisdictions, so we hope there will be further harmonisation of timelines," Gheerbrant added.

Market participants have until January 16 to submit comments on the NPR, after US regulators extended the consultation period to allow more time to analyse the issues. The proposed rules would make some substantial changes to the existing capital framework in the US, including replacing advanced approaches with a new expanded risk-based approach. This eliminates the option for sophisticated banks to use internal models for credit risk, counterparty credit risk and the default risk charge under the Fundamental Review of the Trading Book.

US regulators have estimated that the proposals will result in an aggregate 16% increase in common equity tier-one capital requirements, with the largest and most complex banks being hardest hit. The trading book stands to be particularly heavily affected, with US agencies estimating a 157% increase in risk-weighted assets associated with trading activity. During the consultation period, regulators have been collecting data to refine their understanding of the impact of the proposals and ISDA has been working with the industry to run its own quantitative impact study.

"Whatever the outcome, the bottom line remains the same. Disproportionate increases in capital could result in banks stepping back from certain trading and intermediary businesses, which would lead to capacity constraints and raise financing and hedging costs for end users," said Gheerbrant.

> "Disproportionate increases in capital could result in banks stepping back from certain trading and intermediary businesses, which would lead to capacity constraints and raise financing and hedging costs for end users"
> **Mark Gheerbrant, ISDA**

One of the key features of Basel III is the introduction of more stringent eligibility tests for the use of internal models and an increase in the risk sensitivity of standardised approaches, which will become a more significant driver of bank capital requirements. ISDA's benchmarking initiative, which was originally developed in 2018, enables banks to ensure their interpretation and implementation of standardised approaches is accurate, while regulators have used it to monitor the application of standardised capital models. Since 2018, it has been used by 77 banks and 20 regulators across 21 countries, while 17 technology vendors have licensed the unit tests for use in their own products.

"One of the pitfalls of previous attempts at benchmarking capital models has been a failure to properly identify and explain variations in the outputs. This is where our approach is different. We leverage ISDA's Common Risk Interchange Format – a risk data standard that enables users to closely analyse specific data. Our web-based ISDA Analytics platform automates and accelerates the identification of patterns and trends, quickly categorising any sources of capital divergence," said Gheerbrant.

Beyond Basel III, ISDA is also working with market participants on climate risk management. Following the publication of a conceptual framework for climate scenario analysis in the trading book in July 2023, ISDA has been developing short-term scenarios that can be used for regulatory stress testing and internal risk management purposes, as well as to inform strategy.

"From extreme weather events to changes in climate policy, it's clear that these shocks can drive sudden changes in the value of assets. Scenario analysis is a valuable tool, but it has typically focused on long-term assets such as loans. When we surveyed a group of banks last year, we found that trading book scenario analysis was viewed as a priority, but there was little consensus on methodology and concern over a lack of reliable data," said Gheerbrant. IQ

THE COVER PACKAGE

Digital Transformation

ISDA is bringing its mutualised products and services together under a single umbrella to align its teams, advance its offerings and drive adoption

One of the hallmarks of the digital age is the replacement of clunky manual processes with innovative new technologies. Smartphones, streaming services and online communication have enabled advances and efficiencies that could barely have been imagined when there was no alternative to fixed landlines, DVDs and the postal service.

A similar transformation is taking hold across many critical processes in the derivatives market. From the negotiation of documentation to the reporting of trade details, digital solutions are creating efficiencies, reducing risk and cutting costs. This edition of **IQ** shines a light on ISDA's new digital transformation function, which has been established to align its mutualised products and services, advance and innovate both new and existing solutions, and drive adoption.

The ISDA solutions are wide ranging and span legal, risk and data (see pages 20-22). All these products will now be maintained by ISDA's digital transformation team, which has been structured with the resources to ensure it has the firepower to succeed, as chief executive Scott O'Malia explains (see pages 16-18).

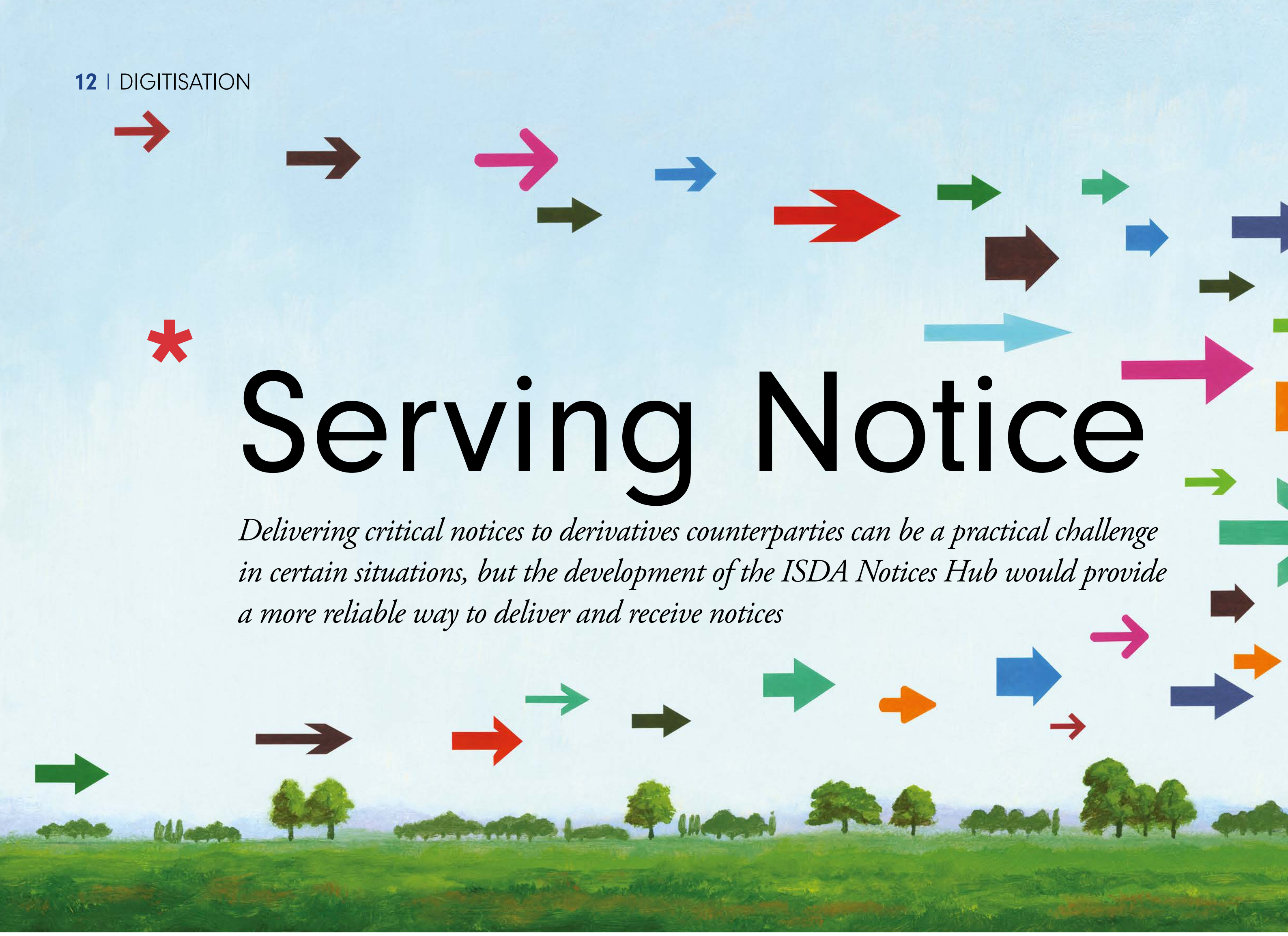
One of the defining features of the digital strategy is a commitment to further advance existing solutions while testing and developing innovative new concepts to meet the demands of market participants. During the second half of 2023, ISDA has been active on both fronts.

The recent integration of the ISDA Create document negotiation platform with S&P Global Market Intelligence's Counterparty Manager application takes ISDA Create to the next level and will ultimately enable users to access a complete digital record of all relationship and contractual data entered on either platform (see page 19).

ISDA is also engaging closely with market participants to explore a possible digital solution to an age-old problem – the physical delivery of critical termination-related notices to counterparties. Recent experiences have underscored the problems that can arise when such notices are delayed or delivered to the wrong address. The ISDA Notices Hub, which could launch in 2024, would address this problem by enabling the immediate electronic delivery of notices via a central industry platform (see pages 12-15). IQ

"We know there's a strong appetite for efficiency and cost reduction across the industry. We want to maximise the potential to achieve that by making the most of what we already offer and identifying new areas where digital solutions can create efficiencies"

Scott O'Malia, ISDA



Serving Notice

Delivering critical notices to derivatives counterparties can be a practical challenge in certain situations, but the development of the ISDA Notices Hub would provide a more reliable way to deliver and receive notices

In the age of digital communication, there is diminishing call for envelopes, delivery services or post rooms, but in the derivatives market, critical termination-related notices are still largely delivered by hand, courier or registered post. These notices play a key role in the process of valuing and closing out trades, but the time required to effect physical delivery, along with other practical challenges that often arise, can put both the sender and the receiver at risk of heavy losses.

Technology could provide a way to eliminate the risks and costs of physical delivery. Working with its members, ISDA has been exploring the development of a central hub that would allow notices to be delivered electronically and instantaneously. It's a solution that would address some of the challenges of physical delivery, creating greater certainty and efficiency for market participants. With sufficient industry backing, the ISDA Notices Hub could become a reality in 2024.

"Closing out trades can be a stressful process in any situation, with many stakeholders coordinating to undertake valuations and get notices finalised, signed and delivered in a tight time frame. If the whole process is scuppered by the fact that you haven't effectively served your notice, that's a lot of effort to no avail, with potentially significant adverse economic consequences. Efficiency and certainty are key to the process of delivering notices in all circumstances, not just a

> "Closing out trades can be a stressful process in any situation, with many stakeholders coordinating to undertake valuations and get notices finalised, signed and delivered in a tight time frame"
>
> **Robert Stalford, ING Bank France**

Illustration: James Fryer

close-out scenario – that's why a central notices hub would be such a valuable industry initiative," says Robert Stalford, senior legal counsel (financial markets) at ING Bank France.

Physical delivery

Ever since it was first drafted in the 1980s, the ISDA Master Agreement was designed to provide legal certainty in the event of a counterparty's failure. Over three-and-a-half decades, it has lived up to that promise, providing a common contractual template for derivatives transactions and a robust mechanism for parties to legally close out their transactions and reduce their obligations to a single net payment.

The serving of notices is a critical part of this framework. In the event a payment is not made by one counterparty on a derivatives trade, the other party can deliver a notice of that non-payment, which triggers the start of a short grace period. If the payment is not made during the grace period, a second notice can be delivered to specify an early termination date. On that date, all outstanding transactions can be terminated and valued to determine a net close-out amount to be paid from one party to the other.

"The ISDA Master Agreement was deliberately drafted to strike a balance between the interests of the party serving notice and the party receiving notice. The critical thing for both parties is that there is certainty about the receipt of the notice because the time of receipt dictates the timing of the grace period and the earliest point at which valuation for close out can occur. Market participants therefore place a very high premium on control and reliability when it comes to delivery and receipt of notices," says Rick Sandilands, senior counsel, Europe, at ISDA.

Given the need for certainty on delivery and timing, the standard terms of the ISDA Master Agreement only permit notices to be delivered by hand or courier, registered or certified post, telex or fax. To further reduce the chances that a party may receive a notice without realising it, the standard terms specify that notices should be delivered using the counterparty's contact details listed in the agreement.

"As the receiving party, you really don't want to find yourself in a situation where you received a notice 72 hours ago saying you failed to pay on a trade, but it went to the wrong person within the institution," says Sandilands.

However, problems can arise when a company moves to a new office but doesn't update the agreement. In this scenario, parties may opt to deliver the notice to both the listed address and the address the company moved to. This approach may reduce the risk of a party arguing the notice was not effectively delivered, but it could lead to disputes over which notice is effective and, by extension, the timing of the grace period or the valuation and close out of transactions.

"Notices are often delivered through multiple channels and to multiple addresses, which inevitably entails different delivery times. There can be situations where regular checks of the reception desk, post room and other areas must be maintained to ensure notices are received promptly. Practical challenges can create legal uncertainty over the delivery of notices, and we would welcome an industry

$1 MILLION

Possible uncollateralised loss on a single medium-sized derivatives portfolio resulting from a small delay in the delivery of a termination notice

> "The critical thing for both parties is that there is certainty about the receipt of the notice because the time of receipt dictates the timing of the grace period and the earliest point at which valuation for close out can occur"
>
> **Rick Sandilands, ISDA**

→ solution to address this," says Janet Wood, managing director and associate general counsel at Bank of America.

Past events highlight the nature of this problem and the need for a solution. When Lehman Brothers International (Europe) (LBIE) filed for bankruptcy in September 2008, many termination notices were delivered to an office building at One Broadgate in London that LBIE had vacated in 2004. While most of LBIE's counterparties would have been aware of its move to Canary Wharf, many appear to have delivered notices to the old address, suggesting LBIE might not have updated its address details in the related ISDA Master Agreements.

The COVID-19 pandemic created a new set of problems for market participants. With delivery services and employees suddenly unable to access office buildings due to lockdowns, the physical delivery of notices became impossible and market participants were unable to monitor receipt. Russia's invasion of Ukraine in 2022 highlighted a further problem – a hostile environment can make the physical delivery of notices a dangerous business.

"When handling potential defaults, there may be scenarios where there are practical difficulties in effecting delivery by hand. For instance, there may be situations where a counterparty's office is closed and personnel are not available to accept delivery," says Wood.

The economic consequences of delayed delivery can be significant. ISDA analysis has shown that just a small delay in the delivery of a termination notice – for example, from Friday afternoon until Monday morning – on a single medium-sized derivatives portfolio could result in an uncollateralised loss of $1 million. This is based on a 99% value-at-risk calculation assuming a non-cleared derivatives portfolio with $10 million of initial margin. That's on top of the additional resource costs associated with conventional delivery methods, which would typically include paying a law firm to deliver the notice.

ISDA has published provisions to allow the use of email as an alternative method for the delivery of notices. But problems can still arise if the email address is not kept up to date in the documentation or if there is uncertainty about the time and date of delivery and receipt, which can be dependent on the IT setup of the entities concerned. While some market participants have been willing to serve notice by email, it has not been a universal solution.

"Effective delivery of notices being critical to any close-out process, an efficient and legally robust process is key, whatever the circumstances. If a notice cannot be effectively delivered, or if the method used is open to legal challenge, this undermines the whole commercial purpose of the contractual notice," says ING's Stalford.

Central solution

The concept of a central notices hub is already gaining traction and would be an elegant solution to the challenges of delivering and receiving notices. With a centrally maintained electronic platform, firms would be able to deliver notices instantaneously and securely, with automatic alerts sent immediately to the receiving entity. Designated parties at each firm would be able to access the hub from anywhere in the world, and every notice would be clearly time and date stamped to ensure legal certainty.

As an additional benefit, a bulk update facility could be used to ensure address details for notices are kept up to date in ISDA Master Agreements. This would enable physical delivery of notices to the correct address as an alternative to using the hub if, for example, electronic delivery is not permitted in a counterparty's jurisdiction.

Given the importance of ensuring the receipt of a notice is instantly communicated to the relevant parties, the hub would include an escalation tree, enabling entities to specify employees who would receive alerts by email and potentially text message. Periodic checks would also be put in place to make sure staff and contact details within the escalation tree are fully up to date. An application programming interface would allow institutions to draw information directly from the Notices Hub into their internal systems, enabling risk management dashboards to be used to communicate receipt of notices internally.

"If a notices hub would mean effective delivery by virtual means, regardless of subsequent changes in circumstances or unforeseen events that would make physical delivery unreliable, impractical or impossible, this would be a solution to the legal and practical problems commonly encountered in the current contractual framework," says Stalford.

ISDA has already discussed the concept of a notices hub with members of its working groups and seen strong support. For staff that have had to manage the legal uncertainty associated with physical delivery of notices for a long time, there is a clear rationale to the development of a central platform to facilitate more efficient delivery and receipt of notices.

"One of the key benefits of the Notices Hub would be to create certainty about the date and time of the service of notices. It would be incredibly useful for parties to be able to bulk update notice details without having to effect that through bilateral notices to each counterparty. Having accurate details held centrally will help to ensure parties can deliver notices to the correct recipients in a timely manner," says Wood.

The Notices Hub will be available via S&P Global Market Intelligence's Counterparty Manager platform, which already offers access to services including Request for Amendment and ISDA Amend and is used by more than 200,000 market participants to manage and share documentation and entity data in a secure environment.

ISDA will develop a protocol that would allow adhering entities to use the hub to deliver notices, as well as having their data automatically populated onto the platform to reduce the burden of onboarding. Use of the hub is expected to be free for buy-side firms, but dealers will pay an annual fee on a group basis. This is anticipated to be between $10,000 and $50,000, depending on the size of the entity. ISDA will also update its e-contract opinions to cover the use of the Notices Hub in roughly 70 jurisdictions.

"Legal certainty around the use of the hub in the jurisdiction of each counterparty is, of course, critical and opinions commissioned by ISDA would help market participants gain confidence in the hub. Achieving counterparty agreement to the use of the hub would be a major work item for users and that can be facilitated through a protocol that would amend existing Master Agreements. A bilateral standard amendment template would also be useful, reducing the resource required to negotiate bespoke agreements," says Wood.

To ensure the project has sufficient backing, ISDA will seek commitments of support from dealers and large buy-side entities in early 2024 before deciding whether to proceed. A full specification of the platform will be published to set out its features and support those commitments. If sufficient commitments are received, ISDA will move forward with the development of the platform, with the aim of launching in the fourth quarter of 2024.

"The support shown for the ISDA Notices Hub by our members so far has been very encouraging, but we're also mindful that it will only work if it's widely adopted. That's why we're spending a lot of time and resource upfront to make sure we fully test the idea in the market, clearly address the demands of practitioners and secure sufficient commitments of support before we embark on the development process," says Sandilands. IQ

"There can be situations where regular checks of the reception desk, post room and other areas must be maintained to ensure notices are received promptly. Practical challenges can create legal uncertainty over the delivery of notices, and we would welcome an industry solution to address this"

Janet Wood, Bank of America

* Digital Development

ISDA has established a new digital transformation function to align its teams, advance its digital offerings and drive adoption across the industry. Chief executive ***Scott O'Malia*** *explains the strategy that has driven this change*

IQ: ISDA has already developed and launched several industry solutions, such as ISDA Create and MyLibrary. Can you describe the drivers behind these developments?

Scott O'Malia (SOM): That's right – we've developed a variety of mutualised industry solutions, all aimed at increasing standardisation, automation and efficiency in the derivatives market.

I think everyone knows the important role ISDA plays in developing standard legal definitions and documentation, including the flagship ISDA Master Agreement, which set the foundations for the derivatives market to grow. What some may not appreciate is that ISDA also sets operational best practices and develops solutions to reduce costs for the industry, free up resources and automate post-trade processes.

ISDA's first foray into developing a standard industry solution was the ISDA Standard Initial Margin Model, which was prompted by the looming introduction of initial margin requirements for non-cleared derivatives. We realised there was simply no benefit in each firm spending time and money building its own unique model, as counterparties would ultimately have to agree on the margin amounts that need to be exchanged.

Since then, we've looked more broadly at where inefficiencies exist in derivatives markets and where greater standardisation, digitisation and automation can reduce the potential for errors and risks and ultimately cut costs for market participants. That's been the driver for developments like the Common Domain Model (CDM) and our Digital Regulatory Reporting (DRR) initiative.

The DRR uses the CDM to convert a mutualised interpretation of new reporting rule amendments into human-readable and machine-executable code. Firms can then either use this directly as the basis of their implementation or to check their own understanding of the rules is in line with the industry consensus, creating significant efficiencies and cost savings. It also delivers more accurate data to regulators, helping them to identify possible sources of systemic risk.

Another big focus has been enabling the digital negotiation of documentation, which led to the launch of the ISDA Create online negotiation platform. This was originally developed to support the execution of mountains of documentation in a relatively short time to comply with the margin rules for non-cleared derivatives but has since been extended to cover a variety of other documents.

We've also been working to digitise our new and legacy documentation and launched the ISDA MyLibrary digital documentation platform, which improves the searchability of documents and makes it much easier for firms to quickly locate key clauses and provisions.

Finally, I should mention our ISDA Analytics platform, which enables us to offer comprehensive benchmarking of banks' standardised approach capital models. This leverages ISDA's Common Risk Interchange Format, a risk data standard, enabling users to closely analyse specific data. This allows banks to identify the source of any variation in their model outputs and ensure they're in compliance and not holding more capital than they need to.

IQ: This digital transformation didn't happen overnight. How has ISDA evolved to support these new digital solutions?

SOM: Correct, it didn't happen overnight. Up until now, we've had separate teams looking at legal standards and documents, trade reporting and collateral solutions tied to the CDM and risk and capital solutions. Recognising the progress that has been made, we realised we can advance our solutions in parallel and accelerate adoption in a more focused manner by reorganising these groups into a single digital transformation team.

We know there's a strong appetite for efficiency and cost reduction across the industry. We want to maximise the potential to achieve that by making the most of what

"We've looked at where inefficiencies exist in derivatives markets and where greater standardisation, digitisation and automation can reduce the potential for errors and risks and ultimately cut costs for market participants"

we already offer – by advancing existing solutions – and identifying new areas where innovative digital solutions can create efficiencies. Of course, those efficiencies will increase as more and more firms implement the same mutualised solutions, so a key focus for us will be on raising awareness and encouraging adoption.

Our digital transformation team will be dedicated to achieving that, taking us one step closer to a more standardised, automated and efficient derivatives market.

IQ: How is the new team structured and what is its mandate?

SOM: We've made a significant change to the organisational structure of ISDA to ensure the digital transformation effort has the firepower it needs to succeed. Leading the team as co-heads are Olivier Miart and Mark New. Olivier was our head of analytics and Mark is senior counsel, Americas, so it's kind of like the left and right side of the brain together – Mark has the deep legal and documentation knowledge and Olivier has the analytical, data and technical expertise.

Reporting into them is a team of subject matter experts pulled from groups across ISDA, including legal, risk and capital, derivatives products and infrastructure and IT. We wanted to make sure the digital transformation team is fully resourced and has all the support it needs, and we think we've achieved that.

Their mandate will be threefold. First, to ensure our various products and services are fully aligned and there's a clear, consistent strategy in terms of prioritisation and

"Where there's industry demand for new products and services that help firms increase revenues, reduce costs or mitigate risk, we'll look to help with new industry solutions"

→ development. That existed previously at the strategic level, but we want to make sure that consistency and alignment covers every single aspect of every single product in future.

Second, to advance our existing solutions by developing new functionality and features where necessary, based on feedback from industry participants. We want to make certain our current products don't just stand still, but continually evolve in response to industry needs and changing market conditions to maximise operational efficiency and cost reduction.

Finally, the team will focus on adoption. This is a critical piece of the puzzle. The greater the take-up across the industry, the better the efficiencies and cost reductions for everyone, so there will be a big focus on raising awareness, explaining the benefits and encouraging implementation.

Many of our solutions are actually free, but we recognise there are often significant costs associated with implementation, which can be a barrier to adoption. We believe those costs are more than offset by the benefits, so we'll be focused on making that case.

These three components – align, advance and adopt – will inform everything the team does.

IQ: You've talked about developing and enhancing existing products. Will the digital transformation function be developing new products as well?

SOM: Absolutely. Where there's industry demand for new products and services that help firms increase revenues, reduce costs or mitigate risk, we'll look to help with new industry solutions.

In fact, we're currently exploring the potential for a new industry notices hub, which we hope to develop and launch in 2024.

As it stands, the ISDA Master Agreement sets out certain methods for delivering critical notices to counterparties using the company address listed in the agreement. But problems can occur if the company has moved and the ISDA Master Agreement hasn't been updated with the new details.

Issues related to the delivery and receipt of notices were particularly acute during the pandemic, when offices were subject to lockdown requirements. This created challenges for firms when delivering notices and made it difficult for their counterparties to know they had received them.

Even short delays in delivering notices related to terminations can be problematic, potentially increasing risk exposure and resulting in losses, so this is far from ideal.

The proposed ISDA Notices Hub would act as a central platform for firms to instantaneously deliver notices, with automatic alerts sent to the receiving entity. Designated people at each firm would be able to access the hub from anywhere in the world, regardless of the situation at its physical location.

We're currently discussing the idea with market participants, regulators and resolution authorities and, in early 2024, we'll seek commitments from dealers and large buy-side entities to adopt the ISDA Notices Hub. This will be a feature of our new product development going forward – unless we have strong indications that a new solution will be widely adopted from day one, we probably won't proceed and will instead focus our resources on projects that do have strong support.

IQ: What progress do you think will have been made by this time next year?

SOM: The digital transformation has an ambitious set of goals for 2024 based on those three prongs I mentioned earlier – align, advance, adopt – so I'd anticipate progress in each of those areas. We're already making headway. We recently launched a solutions information hub on our website, enabling firms to gather details about all our products from a single location. We're also in the process of hiring a head of solutions adoption, who will spearhead our implementation drive.

As I said earlier, there's strong demand across the industry for solutions that will help firms cut costs, mitigate risk and free up risk-weighted assets. Many of our members are already using our various products and solutions to realise those efficiencies. I'm confident we can broaden adoption even further over the coming year. IQ

* Integration Boost

The integration of ISDA Create with S&P Global Market Intelligence's Counterparty Manager is moving the derivatives market a step closer to having a single golden source for all contractual information

The ISDA Create contract negotiation platform has been integrated with S&P Global Market Intelligence's Counterparty Manager application in a landmark step that will pave the way towards the end-to-end negotiation of key derivatives contracts on a single platform. The integration was announced in late September by ISDA, S&P Global Market Intelligence and Linklaters | CreateiQ.

"We're excited about the potential of this tool and where it will take the industry. In today's digital age, it was only a matter of time before trade documentation became part of that. The partnership of these three organisations is bound to produce a deliberate, strategic and well-executed platform," says Lindsay Gurbacki, vice president, Europe, Middle East and Africa regulatory reporting and derivative compliance manager at AllianceBernstein.

Counterparty Manager includes Request for Amendment, an online tool that enables market participants to make certain adjustments to ISDA documents, such as adding counterparties to an umbrella ISDA Master Agreement. The linking of Counterparty Manager with ISDA Create will enable users to make more complex amendments to their agreements from a unified platform. ISDA Create will eventually be integrated with other modules of Counterparty Manager, ultimately enabling users to easily access a complete digital record of all relationship and contractual data entered on either platform.

The integration follows a successful trial phase involving select banks and asset managers that leveraged ISDA Create via Counterparty Manager to amend documentation. ISDA Create is a module of CreateiQ, a contract negotiation platform developed by Linklaters. The integration with Counterparty Manager covers all modules on the CreateiQ platform, incorporating other capital markets contracts.

"This integration will enable users to quickly access a digital record of their contractual and relationship data in a single place, creating significant operational efficiencies for firms, as well as reducing risk. We're delighted to take this next important step on the journey to automated derivatives markets," says Katherine Tew Darras, ISDA's general counsel.

An ISDA paper published earlier this year set out a series of case studies that highlight the efficiencies and savings that can be achieved by using ISDA Create. For example, HSBC started using ISDA Create during phase four of the regulatory initial margin (IM) implementation, which enabled it to redeploy IM resources to other projects, even though the number of IM relationships had increased. IQ

Read the paper, *ISDA Create: Unlocking Efficiencies and Savings: Digitized Legal Documentation Negotiation*: tinyurl.com/2s3tzdyy

ISDA CREATE IN NUMBERS

390+ firms around the world using ISDA Create to generate, negotiate and execute derivatives documentation, and digitally capture, process and store data from those documents and negotiations

2019 – the year ISDA Create was first launched by ISDA and Linklaters

500% increase in the number of document negotiations completed on ISDA Create in 2022

150+ firms testing ISDA Create

16 legal advisers now live on the ISDA Create certified partnership programme, a new accreditation initiative that provides training and product support to ease the transition to electronic document negotiation

2,519 account control agreements fully negotiated on ISDA Create as entities prepared for phase six of the regulatory initial margin requirements in 2022

32 initial margin related documents now available on ISDA Create, covering multiple jurisdictions

54 hours saved by HSBC by using ISDA Create to draft variation margin credit support annex agreements with 900 counterparties

50 of the Fortune 500 companies using ISDA Create for the drafting and management of contracts

* Mutualised Solutions

ISDA's digital transformation function encompasses all the mutualised products and services that have been developed to bring greater efficiency, lower costs and risk reduction to vital industry processes

ISDA LEGAL SOLUTIONS

AOSPHERE

ISDA has teamed up with aosphere to provide three online legal analysis tools for ISDA members: netalytics, CSAnalytics and diligence – ISDA e-contracts.

netalytics provides key information on ISDA netting opinions spanning more than 80 jurisdictions across the globe.

CSAnalytics provides information on the exchange of collateral with a counterparty based on analysis in ISDA's collateral opinions.

diligence - ISDA e-contracts helps users quickly assess whether electronically executed contracts are enforceable in multiple jurisdictions based on analysis in ISDA's e-contract opinions.

Key Benefits

Having legal certainty on the enforceability of close-out netting, credit support documentation and/or electronically executed agreements can be a pre-requisite for firms to trade with counterparties in a particular jurisdiction. ISDA's netting, collateral and e-contract opinions provide that certainty, but it can take time to find key information, potentially slowing the approval to trade with a new counterparty.

The netalytics, CSAnalytics and diligence - ISDA e-contracts online platforms extract core information from the relevant ISDA opinions and present it in an easy-to-read, standard format.

Contact

To set up a trial for each product, visit *tinyurl.com/mr27jwdb*. Alternatively, contact the ISDA legal team at *ISDALegal@isda.org*.

ISDA AMEND

ISDA Amend is an online tool from ISDA and S&P Global Market Intelligence that centralises the sharing and matching of key regulatory and contract information with multiple counterparties, reducing the time and cost to complete documentation remediation exercises.

Key Benefits

Automating the process of delivering regulatory representations and contractual amendments to a firm's counterparties and then matching that information significantly reduces the time it takes to establish new trading relationships, change the terms of existing relationships or comply with regulatory requirements.

By connecting a firm to multiple counterparties at the click of a mouse, the simple-to-use online platform uses benefits of scale to create significant efficiencies in document management processes, helping to reduce costs.

Contact

ISDA Amend is available through S&P Global Market Intelligence's Counterparty Manager service. For more information, visit *tinyurl.com/4f2x5s49*, or contact the ISDA team at *ISDALegal@isda.org*.

ISDA CREATE

ISDA Create is an online solution that allows financial institutions to extract key structured legal and commercial data while automating the creation, negotiation and execution of key derivatives documentation, including ISDA Master Agreements, variation margin credit support annexes, amendments to legacy contracts, regulatory initial margin documentation and account control agreements for certain custodians.

Key Benefits

ISDA Create dramatically reduces the time to draft and agree derivatives documents, enabling firms to trade with new counterparties far quicker than with legacy manual processes, providing faster access to new revenue opportunities.

Increasing the speed of the negotiation process boosts efficiency, cuts costs and reduces the potential for error and risk.

Read a paper on the efficiencies and cost savings that can be achieved using ISDA Create, including case studies: *tinyurl.com/2s3tzdyy*.

Contact

Book a demo and join the more than 390 firms currently using ISDA Create: *tinyurl.com/4ccsk5k9*

For more information, contact the ISDA Create team: *ISDACreate@isda.org*.

ISDA MYLIBRARY

ISDA MyLibrary is a state-of-the-art user platform that allows market participants to access ISDA documentation in electronic form with enhanced navigation and easy-to-use comparability tools.

The MyLibrary platform can be accessed here: *tinyurl.com/msej587u*.

Key Benefits

Each new market event can cause firms to sift through hundreds of pages of paper or PDF agreements, definitions and supplements to determine the terms of their derivatives trades and ascertain the impact. That's a slow, operationally intensive process at a time when speed is usually of the essence to minimise risk and potential losses.

ISDA MyLibrary allows users to read and navigate ISDA documentation in a digital format with search functionality and comparability tools, enabling firms to quickly identify the key provisions, rights and obligations associated with their trades.

Contact

For more information or to set up a subscription, contact the ISDA MyLibrary team: *OnlineLibrary@isda.org*.

ISDA NOTICES HUB

The proposed ISDA Notices Hub is an online platform designed to provide market participants with a faster, safer and more efficient method for delivering and receiving critical notices under ISDA and other master agreements.

Key Benefits

Just a small delay in the delivery of a termination notice – for example, from Friday afternoon to Monday morning – on a single medium-size derivatives portfolio with $10 million of initial margin could result in an uncollateralised loss of $1 million*. That's on top of the additional resource costs associated with conventional delivery methods, including paying a law firm to deliver the notice.

The ISDA Notices Hub will allow the instantaneous delivery and receipt of these notices, reducing the risk exposure and potential losses arising from a delay.

*Based on a 99% value-at-risk calculation assuming an outright non-cleared derivatives portfolio with $10 million of initial margin.

Contact

For further information on the ISDA Notices Hub, contact: *NoticesHub@isda.org*.

ISDA RISK AND CAPITAL SOLUTIONS

ISDA ANALYTICS

ISDA Analytics is a sophisticated benchmarking solution that enables banks to implement standardised approach regulatory capital models for market risk, counterparty credit risk and credit valuation adjustment risk consistently and accurately.

Key Benefits

The ISDA Analytics solution enables banks to analyse their implementation of standardised approach capital models, helping to identify and explain anomalies in model outputs. This allows banks to correct any irregularities before they fall foul of regulatory requirements, as well as ensure they are not holding more capital than required.

Regulators can also use the data to monitor implementation in their jurisdictions and better understand the drivers of any divergence.

ISDA provides analysis of standardised approaches to a level of detail, accuracy and speed that no other institution, association or regulatory agency has achieved.

ISDA Analytics is also used as a basis for the ISDA Standard Initial Margin Model (ISDA SIMM) backtesting and benchmarking exercises.

Contact

For more information or to set up a demo, contact the ISDA Analytics team: *Analytics@isda.org*.

ISDA SIMM

The ISDA SIMM is an industry standard methodology for calculating regulatory initial margin for non-cleared derivatives.

Key Benefits

Under new margin rules for non-cleared derivatives, in-scope entities need to exchange initial margin on most non-cleared derivatives, but delays and disputes can occur if the two parties to a trade don't agree on the margin amount.

The ISDA SIMM sets a common methodology that all market participants can use for their initial margin calculations, reducing the costs that would be incurred if each firm developed its own model from scratch and cutting the potential for disputes. The ISDA SIMM governance framework establishes common practices →

→ to ensure margin sufficiency, in line with global margin requirements for non-cleared derivatives.

Contact

To license the ISDA SIMM, visit *tinyurl.com/9djt67f4*. Parties that became subject to non-cleared margin requirements on or after September 1, 2021 can adopt a streamlined licensing agreement (*tinyurl.com/bd4nuata*) for no fee. For questions about ISDA SIMM licensing, contact *IsdaLegal@isda.org*.

ISDA DATA SOLUTIONS

COMMON DOMAIN MODEL

The Common Domain Model (CDM) is a standardised, machine-readable and machine-executable model that represents financial products, trades in those products and the lifecycle events of those trades.

Key Benefits

The CDM is a standardised data and process model for how financial products are traded and managed across the transaction lifecycle. This creates transparency and consistency, encouraging automation and interoperability and reducing the errors and costs associated with manual processes.

Contact

For more information about the CDM or to access the model, visit *www.finos.org/common-domain-model* or *cdm.finos.org*.

To find out more about how the CDM is being applied in derivatives markets, including ISDA's Digital Regulatory Reporting (DRR) and collateral management initiatives, email *MarketInfrastructureandTechnology@isda.org* or visit *tinyurl.com/3r34ujkk* (for the DRR) and *tinyurl.com/2uv9krbu* for collateral.

ISDA CRIF

The ISDA Common Risk Interchange Format (ISDA CRIF) is an industry standard for the exchange of risk data that was initially developed to support the ISDA SIMM and has evolved to enable benchmarking of standardised approach capital models for market risk, credit valuation adjustment risk and counterparty credit risk.

Key Benefits

The ISDA CRIF provides a standardised format for the exchange and reporting of risk data, which avoids every firm and regulator having to address the common challenge of capturing and organising complex risk data independently. This reduces duplication of effort and improves efficiency. Standardisation also improves the comparability of risk data, enabling regulators to interpret and analyse this information on a global basis more easily.

Contact

For more information about the ISDA SIMM, which uses the CRIF to facilitate initial margin reconciliations, visit *tinyurl.com/y7wj2h3y*.

For more information about ISDA Analytics, which uses the CRIF for benchmarking of standardised approach capital models, contact: *Analytics@isda.org*.

FpML

Financial products Markup Language (FpML) is an open-source standard for the electronic dealing and processing of derivatives transactions. It establishes a protocol for electronic communication and dealing in swaps, derivatives and structured products.

Key Benefits

FpML automates the flow of information in the derivatives market across asset classes and business processes in the pre-trade, trade and post-trade space. Financial instruments are specified in a format that is readable to both computers and humans. This standard reduces implementation costs for integrating systems internally and with business partners. Using FpML reduces operational risks while increasing business opportunities.

Contact

FpML is an open-source standard, so it is accessible to everyone. For more information or to join one of the working groups, visit the FpML website – *fpml.org* – or contact *info@fpml.org*.

ISDA REFERENCE DATA

ISDA Reference Data provides key business terms used in ISDA documentation as fully machine-readable electronic codes, values and lists to enable efficient straight-through processing.

Key Benefits

ISDA Reference Data reduces the time and effort it takes for firms to obtain key business terms and descriptions used in ISDA documentation and adapt it for their systems by providing a set of electronic files that capture both the codes and the descriptive metadata in a combined, electronically readable format. This removes the need for users to read and interpret the description of the data and determine where to source it.

It also allows firms to support new business information with much less effort and with more consistency, enabling the market to evolve more quickly and smoothly.

Contact

ISDA Reference Data is open access so is available to everyone. To access ISDA Reference Data, visit the ISDA Bookstore (*www.isda.org/books*). For more information or to join one of the working groups, contact *info@fpml.org*.

A Busy Agenda

The European Securities and Markets Authority has a wide-ranging agenda that includes sustainable finance, digital assets, data and transparency. Executive director ***Natasha Cazenave*** *sets out ESMA's priorities for the year ahead*

IQ: The European Securities and Markets Authority (ESMA) recently published its work programme for 2024. What are the priorities?

Natasha Cazenave (NC): We have a busy agenda for 2024, as part of our five-year strategy for 2023-2028. The 2024 work programme includes three key priorities: fostering effective and orderly markets, strengthening supervision across the EU and enhancing retail investor protection; and two thematic drivers: enabling sustainable finance and facilitating technological innovation and the effective use of data.

On sustainable finance, one of our priorities is to combat greenwashing. We will work with national authorities, fostering greater convergence to apply to the existing framework and publishing our final report on greenwashing.

ESMA previously published a Sustainable Finance Roadmap for 2022-2024 and we will continue to align with its priorities, which include fostering capacity building with national authorities, providing practical supervisory guidance and continuing to monitor risks and developments in this area. We will work to make sure we have a regulatory framework for sustainable finance that is fit for purpose.

On the digital side, ESMA will be active in three key areas in 2024 – implementation of the Markets in Crypto-Assets Regulation (MiCA), a distributed ledger technology (DLT) pilot regime and the Digital Operational Resilience Act (DORA).

On MiCA, in cooperation with the European Banking Authority (EBA), we will finalise a significant number of regulatory technical standards (RTS) and guidelines, including rules on authorisation, governance and operation of crypto-asset service providers and market integrity requirements applicable to crypto-asset markets. We will issue our third consultation on this, which will cover some important pieces of work we have to deliver, including the qualification of crypto assets as financial instruments and reverse solicitation.

The DLT pilot regime kicked off in March 2023 and we will continue to look at how this is being rolled out, working with national authorities to assess what projects are coming forward. We're really interested in seeing what kind of business models will emerge in relation to market infrastructures and the efficiency of the post-trade environment.

Finally, DORA is a major project for the EU. We're working jointly with our colleagues from the EBA and the European Insurance and Occupational Pensions Authority and we will deliver on three aspects in 2024. The first is the significant policy mandate – the risk management framework, incident reporting, threat penetration and so on. Second, we will make sure firms are ready for implementation. And finally, we will prepare for our new responsibilities in relation to the oversight framework.

"In recent years, we've experienced heightened volatility, huge uncertainties and multiple crises. It is important we engage in the international arena and provide global responses to some of these challenges, specifically on risk monitoring and understanding trends"

IQ: One of the key objectives within the work programme is to "promote global standards and enhance cooperation and dialogue with international regulatory counterparts". Are there particular areas where you're looking to improve cooperation and dialogue?

NC: Financial markets are global and a lot of market participants are global, so it's important for us to have a good understanding of the challenges in other jurisdictions and bring the EU voice to the table so we can share our own experiences and challenges. We actively contribute to standard-setting bodies such as the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO), where many of the global standards are developed.

In recent years, we've experienced heightened volatility, huge uncertainties and multiple crises. It is important we engage in the international arena and provide global responses to some of these challenges, specifically on risk monitoring and understanding trends. Beyond that, there are a number of longstanding issues – for example, in the area of clearing and central counterparties and in the area of asset management.

We touched on sustainability and digital, and that's clearly a high priority internationally as well. One specific aspect is sustainability reporting, which is high on everyone's agenda. We want to make sure we end up with a workable international outcome and we are very supportive of the critical work in relation to climate-related disclosures. The endorsement of IOSCO of the International Sustainability Standards Board (ISSB) standards has set the tone for this to be used as the global standard.

At the European level, the European Sustainability Reporting Standards are the result of an enormous effort to make sure we are equipped with proper standards that can then be used by corporates and provide comparable information to the market. We are very pleased that both the ISSB and the European Financial Reporting Advisory Group have confirmed a high level of interoperability between those standards. We'll continue to work with them to make sure any outstanding differences are explained and understood by the market. This remains an area where we will engage internationally to make sure we have a workable, interoperable set of standards. ⟶

"New technologies can enhance the automation of reporting and reduce the cost. In addition, it can improve the quality and consistency of the information that is used by supervisors because there will be fewer errors and more precise reporting instructions"

→ On crypto assets, there are very different approaches around the world. So it is positive that we have reached agreement on a first set of international recommendations that has been published by the FSB and there's more to come from IOSCO. We actively participated in discussions to help shape these recommendations, which are the result of a great amount of collaboration on the different approaches to regulate crypto assets while still allowing digital innovation.

IQ: Global policymakers have a wide-ranging programme of work to address vulnerabilities associated with non-bank financial intermediation, covering liquidity, leverage and margin. How is ESMA contributing to this work, and how might it drive future changes in EU regulation?

NC: For a number of years, there have been discussions about whether risks are shifting in the system and how we can appropriately address that shift. Some key steps have been taken, both at the EU and international level, but we still have challenges that we need to overcome collectively.

In the asset management space, we now have political agreement in the EU on the review of both the Alternative Investment Fund Managers Directive and the Undertakings for Collective Investment in Transferable Securities Directive. These reviews constitute the EU response to concerns over liquidity mismatches in open-ended funds.

There has also been a lot of discussion on derivatives and margin practices and the potential increase in liquidity demand as a result of the transition to central clearing. Increased clearing has reduced counterparty credit risk, but it has triggered some liquidity risk through large margin requests from clearing members and clients during recent episodes of volatility.

In July 2023, ESMA adopted changes to our RTS on anti-procyclicality with the aim of increasing the resilience of the EU financial system. We are also deeply committed to the international work in this area and look forward to the publication of the phase-two report on margining practices by the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures and IOSCO. We hope that meaningful guidance can be adopted in 2024 to mitigate the spread of liquidity stress to other parts of the financial system.

It is also important that we focus on excessive use of leverage because it can amplify other risks. Our preliminary analysis and close monitoring suggest more work needs to be done from a regulatory perspective, so that's what we are doing now in the context of work by the FSB and the European Systemic Risk Board.

Another important area for ESMA is money market funds. The European Commission has indicated there is no need for any immediate change but pointed to some areas where the system could be strengthened. ESMA published an opinion on this matter in which we advocate for improvements to the EU regulation. We will continue to advocate for this to happen sooner rather than later to further strengthen the EU financial system.

IQ: EU entities have less than six months to go until revised reporting requirements will be implemented under the European Market Infrastructure Regulation (EMIR) Refit in April 2024. To what extent will these rule changes resolve some of the challenges associated with reporting of derivatives trades?

NC: EMIR Refit should facilitate improvements in the reporting process for reporting entities and it should also maximise the benefits of the reported data for regulators. We see that as a positive development in three practical ways.

First, increased standardisation and alignment with international standards, including the unique transaction identifier, unique product identifier and critical data elements, should help facilitate compliance for reporting entities. Second, end-to-end reporting using common ISO20022 XML messages will reduce the number of errors and inconsistencies and improve the quality of data that is being reported. Third, ESMA has released technical standards, guidelines and validation rules to ensure we set the conditions for better quality of reported data from the outset.

We also believe machine-readable and executable reporting could be beneficial. New technologies can enhance the automation of reporting and reduce the cost. In addition, it can improve the quality and consistency of the information that is used by supervisors because there will be fewer errors and more precise reporting instructions.

At ESMA, we've been following with interest what ISDA has been doing in this area and we know some market participants have already started to use machine-readable and executable reporting for the US Commodity Futures Trading Commission swap data reporting obligations. One of our priorities is to consider how new technologies could help us to improve the system, make it more efficient, reduce compliance costs and make sure the data that is received is properly used.

IQ: Following the recently completed review of the Markets in Financial Instruments Directive and Regulation (MIFID/MIFIR), what will be the most significant changes in derivatives markets?

NC: The most prominent change in the derivatives markets is the scope of transparency requirements. We are a strong supporter of transparency and we have always considered this to be a powerful tool to increase the efficiency and effectiveness of capital markets.

An important element of the review is the question of the appropriate instrument identifier for derivatives. From ESMA's perspective, the choice of the standard identifier for use across reporting and disclosure obligations should take into consideration the interdependencies between the various data flows and the purpose and use of the data. The more granular the identifier, the easier it is to reuse for other purposes because it's always possible to derive the less granular one from the more granular one.

Since the scope of the derivatives subject to transparency under the MIFIR framework has been significantly revised, we would support a proper assessment to make sure the appropriate identifier is used, taking into account the new scope and specific trading behaviours of derivatives instruments covered. It's also important that we consult with the market and understand the policy objective we're trying to achieve to find the most appropriate identifier.

One change in MIFID II and MIFIR that may be overlooked but may well affect the derivatives markets in a positive way is the transfer of the definition of multilateral system from MIFID II to MIFIR. This will mean national interpretations will no longer be possible and a common definition of multilateral will apply across the EU. Taken together with the opinion on the trading venue perimeter published by ESMA earlier this year, this will further level the playing field for providers and users of systems facilitating trading.

IQ: The introduction of consolidated tapes in equities, bonds, exchange-traded funds and derivatives will be a major change. How confident are you that this will add value, and what will be the main considerations for ESMA when selecting consolidated tape providers?

NC: The consolidated tape is a major element of this review. It has been discussed extensively and ESMA has long been a supporter of the introduction of consolidated tapes in the EU. We believe well-functioning consolidated tapes for different asset classes will improve the transparency of European markets and ultimately contribute to enhancing the effectiveness and attractiveness of European capital markets. Having a golden source of vital information on prices and volumes of trades in the EU will improve functioning, provide more comparable information and reduce asymmetries. So it's a really positive development.

That being said, from ESMA's perspective, it's quite a challenge and having to select consolidated tape providers will be a new responsibility. There are strict rules on how this must be done. We will be as rigorous and transparent as possible and we welcome the fact that there are clear criteria in the legislation for us to consider. This is a challenging project, and we are already preparing to make sure we're ready.

IQ: The threat of cyberattack in financial markets is on the rise, and we've seen the potential to destabilise market functioning. How significant is the threat in the EU, and what role is ESMA playing in addressing this?

NC: Clearly, the threat of cyberattacks on European financial markets and the financial system more generally is a serious one. The pandemic acted as a catalyst for increased digitisation of financial services, which is a very positive development in general. But it has also increased the level of risk and the possibility of penetrations and breaches.

There is an ever-present risk of attack from cyber criminals, and we also face a heightened risk of malicious actions by state actors. From the perspective of a single firm or investor, the consequences of a cyberattack can be severe, including the risk that valuable data or personal information could be lost, damaged or compromised. Financial entities might face the risk of operational systems not being able to function for a certain period of time. In both cases, there could be substantial financial losses for firms or individuals.

A major cyberattack can also pose a risk to financial stability. If you have simultaneous outages among firms that prevent proper market functioning, or if the cyberattack is widespread, then it may damage overall confidence in the financial system and amplify the risk to stability.

It is important that authorities coordinate effectively, and the new DORA legislation should bring enhanced cooperation in the EU. We already have some structures in place, but they will be reinforced with this legislation. DORA will require enhanced incident reporting that will give us a better understanding of the risk that is there. In line with recommendations from the European Systemic Risk Board, we will also put in place a cyber incident coordination framework in the EU, which will enable the timely sharing of information and make the system more resilient. IQ

This is a shortened version of Natasha Cazenave's recent interview on *The Swap* podcast. Listen to the full interview here: shorturl.at/rsFUX

Hidden in Plain Sight

Recent market turbulence has raised concerns about the ability of policymakers to monitor risk exposures from derivatives transactions. Key data is available, but it is not as functional or useful as it should be

From Archegos in the US to the energy crisis in the EU to the problems faced by liability-driven investment strategies in the UK, recent events have meant derivatives transparency is once again becoming a public policy agenda priority. Some regulators have voiced concerns about whether they can see and monitor risk exposures at counterparties in their jurisdictions and even whether some relevant counterparties are beyond their regulatory reporting perimeter.

These concerns come amid – and despite – prescriptive requirements to report derivatives transactions to regulators via trade repositories in major jurisdictions, which has been accomplished through significant investment in time and money by market participants and the official sector.

ISDA believes much of the information required to see and identify the build-up of derivatives exposures and risks is available in the trade repository data that is reported to regulators. But it may well be hidden in plain sight – not easily understood, not readily functional, not easily shared among regulators and therefore not as useful as it might otherwise be.

Regulatory transparency

Key data about derivatives activity and exposures is available due to mandated derivatives trade reporting requirements – via derivatives trade repositories – that have been established over the past decade.

This article covers derivatives reporting and trade repositories in the US, EU and UK. Four key information sets are of particular relevance in those jurisdictions: counterparty identification, notional amounts, valuations and risk metrics (including, for example, deltas and DV01s).

Counterparty Identification: Counterparties to derivatives trades are required to report legal entity identifiers (LEIs) for each transaction to trade repositories. Each LEI links to key counterparty reference data (eg, the official name of the legal entity, registered address, country of formation, etc).

This means LEIs can be used to search for and to aggregate trades and exposures for each individual legal entity. As a result, they can be an important tool for regulators to spot and assess increases in trading activity and market risk.

There are, however, limits to monitoring activity and exposures using LEIs for individual entities. For example, many firms have multiple subsidiaries and operating entities, each of which has its own unique LEI. Policymakers may want to identify increases in and absolute levels of exposure on an aggregated basis across complex corporate structures and hierarchies. In other words, they need to know not just 'who is who', but also 'who owns whom'.

Fortunately, solutions exist for mapping entities in a common structure. As stated by the Global Legal Identifier Foundation, legal entities that have or acquire an LEI report their direct accounting consolidating parent, as well as their ultimate accounting consolidating parent. In addition, there are several solutions available to regulators that map LEIs required in derivatives trade reporting with third-party reference databases. Use and integration of these mapping solutions can significantly enhance the ability of policymakers to flag increased activity and exposures across a firm.

Notional Outstanding: Notional measures the size of a transaction (not its risk) and is required to be reported for each trade. Regulators can aggregate notionals on each LEI/counterparty and monitor large increases or decreases on any frequency they choose, including daily or weekly. The value of this type of analysis is evidenced by a European Securities and Markets Authority (ESMA) report on Archegos, which identified Archegos's exposures via trade repository data.

Some firms may have multiple LEIs, and policymakers will likely find it valuable to look at notionals across all related counterparties. While mapping notional exposures in this way requires an investment in resources (eg, the use of a third-party service and data staff to implement and integrate it into regulatory operations), it can provide additional insights to assist regulators with their supervisory responsibilities.

Mark-to-market Valuation: A key metric of market risk exposure – the mark-to-market (MtM) value of a trade – is also available to regulators through trade repositories.

The MtM value is the present value of the trade (for example, in fixed-to-floating interest rate swaps, it is the difference between the present value of the fixed payments and the present value of the floating payments). It indicates a counterparty's gain or loss on a trade at a given point in time. The MtM value of a transaction is updated in reporting to repositories on a daily basis.

With this data, regulators can see the sizes of and changes in the values of swaps contracts (in other words, whether they are in the money or out of the money) and how these values have moved because of market conditions. They can do so on an individual LEI basis or across related LEIs (assuming the appropriate mapping has been conducted).

Delta: Delta is a gauge of risk sensitivity that measures the ratio of the change in the value of a derivatives contract to a change in the price or rate of the underlying. It is required to be reported for options and swaptions transactions in the US (as of December 2022) and the EU and UK (effective from April 2024). Regulators can use the data to see how the valuation of derivatives portfolios might evolve as the underlying changes in value (such as changes in interest rates).

DV01: The DV01 of a swap measures its interest rate sensitivity – the change in value of the swap for a 1 basis point change in market interest rates. It is an important risk metric that can be constructed using position data reported to regulators and easily obtainable external market data. The former includes the fixed rate on the swap and the transaction's maturity and payment dates (to calculate cashflows); the latter includes the swap curve, which is available from various market sources.

DV01 can be used for a variety of purposes. One would be to simulate how swaps might change in value in response to an external market shock. Doing so would require policymakers to build the analytics to run simulation exercises on counterparty portfolios to measure those potential exposures.

Data curation and analytics

The derivatives trade repository data received by regulators offers several important opportunities: to identify individual derivatives counterparties and all counterparties within a single corporate structure; to see and monitor levels of, and changes in, trading activity by those counterparties (whether individual or aggregated); and to see and track changes in the value of derivatives contracts.

All of these opportunities provide significant levels of transparency on derivatives activity and exposures, but they also require an investment in technical resources to capitalise on them. The role of data curation and analytics – the ability to 'cleanse', standardise, map and analyse a tremendous volume of information – is essential.

Take, for example, the challenge of 'curating' or 'cleaning' trade databases to correct for information that is inaccurately or inconsistently reported (which could include mistakenly reporting notionals for a trade in thousands and not millions). Or the effort required to integrate third-party software for entity identification with the LEIs reported for each transaction. Or the task of consolidating notionals across a corporate entity's multiple LEIs. Or building a management dashboard with preset parameters that automate the identification of large increases in notionals or valuations. Or aggregating and then performing all of this work on data from different trade repositories within a jurisdiction (which is a particular issue in the EU, where there are a number of trade repositories).

These and other analytical activities provide an important foundation for ensuring regulators achieve and maintain transparency over the markets they supervise.

> ISDA believes much of the information required to see and identify the build-up of derivatives exposures and risks is available in the trade repository data that is reported to regulators. But it may well be hidden in plain sight

Regulatory silos

One of the concerns raised about derivatives transparency in recent years (and about risks faced by market participants across asset classes and borders) stems from the fact that regulators have limited views of market activity and risks because they can only see what occurs in their jurisdictions and in connection with firms over which they have regulatory responsibility. This is an issue not only across geographic boundaries but also potentially within them (for example, with market regulators and prudential supervisors in the same jurisdiction).

Two important points are relevant here. First, there's no question that it would be beneficial for regulators to have a more holistic view of market activity consistent →

There's no question that it would be beneficial for regulators to have a more holistic view of market activity consistent with their regulatory responsibilities for prudential soundness and/or financial stability. The issue really isn't whether it *should* happen; rather, the challenge is the path forward for *how* it can happen

→ with their regulatory responsibilities for prudential soundness and/or financial stability. The issue really isn't whether it should happen; rather, the challenge is the path forward for *how* it can happen.

Many discussions and proposals have been offered to address this challenge. For example, a significant data harmonisation effort would be required for such an undertaking in order to share data from multiple repositories in multiple jurisdictions. The more immediate issue, however, is less about the need for systems work (which definitely exists but can be achieved) and more about enabling regulators (either within the home jurisdiction or in other locations) to access data they are not directly authorised by law or regulation to receive.

One potential solution is for regulators in derivatives markets to sign memorandums of understanding (MoUs) with each other that would enable them to share information, and set forth the terms and conditions under which this information will be shared. There are, of course, legal, privacy, cyber security and operational issues that would need to be addressed, and there may be restrictions in some jurisdictions on the ability of regulators to enter into MoUs.

But all solutions to this challenge require work. The MoU approach is not novel but has been used by financial regulators for decades to share data related to the cross-border oversight of derivatives. Indeed, the approach leverages existing frameworks and infrastructures and allows regulators the flexibility to define parameters. While it would require data harmonisation and integration efforts, it may be a more practical near-term approach than overhauling the existing regime of global derivatives regulatory reporting.

The second important point on the challenge of siloed data is that it does not mean current reporting information is of limited use or functionality to policymakers. Consider, for example, the case of failed hedge fund Archegos, which was a relatively large user of security-based swaps in its investment strategies. As a 'US person', Archegos fell within the parameters of regulations affecting US and non-US security-based swaps dealers. But at the time of Archegos's failure, the US Securities and Exchange Commission regulations were not live – meaning Archegos did not have an obligation to report security-based swaps at that time (but would be required to do so now).

Interestingly, however, ESMA determined in an ex-post analysis of Archegos that regulatory reporting data it receives under the European Market Infrastructure Regulation (EMIR) made it "possible to track the steep increase in concentrated exposures that [Archegos] undertook in February and March 2021" and that such data can "be used to monitor leverage and concentration risk in derivatives markets". Archegos's counterparties that were based in the EU (and UK) were required to report their trades under EMIR, allowing regulators to build a picture of Archegos's exposures.

Credit default swaps

Even as public and regulatory transparency for derivatives markets overall has increased, credit default swaps (CDS) continue to be a source of concern to some in the regulatory community. In considering these issues, it is important to keep in mind the different types of reporting that exist for derivatives generally, and also the unique reporting framework for CDS specifically.

With regard to the types of reporting, there are both regulatory and public reporting requirements for derivatives, and they have different purposes and content. Regulatory reporting is typically more detailed and, as per the ESMA analysis on Archegos, is focused on providing transparency to policymakers on risk exposures and build-up.

In addition to the regulatory reporting requirements that currently exist for CDS, one key aspect of regulatory transparency that is important to keep in mind for this specific market is the Depository Trust & Clearing Corporation's Trade Information Warehouse (TIW). The TIW is a centralised electronic database that holds the most current information for virtually all cleared and bilateral CDS contracts globally. The warehouse contains approximately

70,000 accounts representing derivatives counterparties across 95 countries. The TIW has been in operation since before the post-crisis reforms that led to the extensive rollout of additional public and regulatory transparency for other derivatives markets.

Data in the TIW includes the identity of counterparties for each trade and the identity of the reference entity on which the CDS CDS trade is based. The information can be sorted to reveal levels of, and changes in, CDS notionals by counterparty or reference entity. TIW data can be accessed by market regulators and prudential supervisors after agreement of certain terms and conditions. It enables a jurisdiction's regulators to see all trading activity where either counterparty to a trade is domiciled in that location, and where the underlying reference entity is based in that jurisdiction.

In contrast to regulatory reporting, public reporting is designed to provide price transparency. CDS pricing information is available on a global basis from several vendors, as well as central counterparties. Real-time public reporting of single-name CDS and CDS index transactions is available in the US, with the data available across multiple jurisdictions.

> In the long term, there is a path forward to a more efficient global regulatory system. ISDA believes this can be achieved by deploying data standards, shared open-source software solutions and emerging technologies that will simplify reporting and allow even more effective regulatory oversight to emerge

Future state

It may at first seem contradictory: the current derivatives regulatory reporting framework offers important information for regulators on derivatives trading activity and exposures, which can be analysed for major trends and risks. But, at the same time, it is not by any means ideal.

ISDA believes that steps can and should be taken now to enhance the functionality and utility of the current framework. That said, the many different requirements in this framework, and the resulting complexity that has emerged globally, are a burden on both firms and regulators. Institutions find the interpretation of, and compliance with, so many rule sets a technical and resources challenge.

Regulators also need to have dedicated resources to answer questions about the minutiae of how market participants should comply with very specific technical requirements. This has an impact on the quality and integrity of the data at granular levels that regulators want access to. Spending so much effort on how to report the data reduces the opportunity to use the data on more valuable risk analysis.

In the long term, there is a path forward to a more efficient global regulatory system. ISDA believes this can be achieved by deploying data standards, shared open-source software solutions and emerging technologies (eg, distributed ledger technologies, complex data analytics and artificial intelligence) that will simplify reporting and allow even more effective regulatory oversight to emerge.

Machine-readable and executable reporting (MRER) is the first step in the deployment of data standards and shared software solutions that increase efficiency. Broadly defined, MRER refers to the publication of reporting rules and/or the implementation of reporting requirements by market participants via machine-readable, machine-executable code.

Concerns about derivatives exposures and transparency are rising on the public policy agenda. A significant level of information – counterparty identification, notional volumes, mark-to-market values and risk metrics – is currently available to policymakers through trade repositories. But realising the potential of the current reporting framework – ensuring that key information does not remain hidden in plain sight – is challenging and requires investments in data curation and analytics. In addition, the challenge of data being siloed in jurisdictions continues to merit attention. MoUs could provide regulators with a solution to this challenge. IQ

This article is a shortened version of an ISDA paper, *Hidden in Plain Sight? Derivatives Exposures, Regulatory Transparency and Trade Repositories.* Read the full paper: shorturl.at/djHV8

Areas of Opportunity

In the latest in a series of interviews on diversity, equity and inclusion, **IQ** *talks to* ***Megan Hogan****, chief diversity officer and global head of talent at Goldman Sachs, about the DEI programmes that have been most effective and how success can be measured*

IQ: How has the approach to diversity, equity and inclusion (DEI) shifted within the financial services sector and what are the future areas of opportunity?

Megan Hogan (MH): The financial services industry has been through a transformation over the past five years. As an industry, we have collectively accepted the undeniable benefits of diverse businesses, teams and supply chains, which led to more public commitments to advance diversity and ensure inclusive workplaces.

At Goldman Sachs, we believe diversity is a business imperative that drives outperformance and ultimately leads to us unlocking better outcomes for the firm and our clients. To hold ourselves accountable and measure our progress, the firm's leadership set forth aspirational goals in 2019 for entry-level hiring. We have transparently reported on our progress towards these goals since then and expanded upon them the following year, with representation goals at the vice-president level.

We have also aimed to expand the definition of diversity to include identities such as neurodiversity, non-traditional educational backgrounds, social mobility status and caregiver status, which has led to us implementing innovative programmes across the industry. It is imperative for companies to continue addressing employee needs while staying true to their core values and driving positive business outcomes.

In terms of future opportunities, an increased focus on DEI from regulators globally has required DEI professionals to upskill on legal acumen, analytics and risk management to meet changing demands. We are also seeing an evolution in the needs and expectations of our talent pool due to generational, technological and geopolitical shifts within the workforce. Top talent today expects more transparency and accountability from companies related to DEI investment, experience and outcomes.

As a result of these two internal and external shifts, embedding DEI across talent strategy more seamlessly – ensuring it is a common thread across all functions of the firm's talent management, from recruitment to succession planning – is an area of opportunity.

IQ: Within your own organisation, can you give examples of DEI initiatives that have been particularly effective? How do you measure the success of such initiatives, both qualitatively and quantitatively?

MH: DEI is at the heart of our people strategy and embedded in our culture at the firm, which is reflected across our various talent initiatives.

Goldman Sachs launched the Black and Hispanic/Latinx analyst and associate initiatives in 2014 and 2017, respectively, which currently engage more than 2,600 participants annually across the firm and focus on growing and retaining a diverse talent pipeline, while empowering managers to develop and retain talent.

Career development coaches work closely with participants and their managers to develop short- and long-term career goals and consider mobility and networking opportunities.

To continue to make progress towards our aspirational goals, we are focused on attracting diverse, extraordinary talent to consider opportunities at the firm. One of our flagship initiatives is our Market Madness: HBCU Possibilities Program, which started in 2021 and is a core component of the firm's $25 million, five-year commitment to Historically Black Colleges and Universities (HBCUs).

In addition to supporting these institutions, the programme provides a semester-long crash course in finance for HBCU students, introducing them to key concepts and what a career in the industry looks like. Students' experiences are enriched through mentorship, networking, a financial stipend, and the chance to compete in a case study competition for grants for their institutions.

The talent from this programme has been outstanding. Many participants have applied for roles as part of our broad recruitment process, and we welcomed 24 students from the programme to join the firm in the 2023 new and summer analyst classes. The life-changing impact of this initiative is measured not only from these results but from the feedback we get from participants.

Additionally, we launched the Neurodiversity Hiring Initiative in 2019 – a paid internship programme for people who identify as neurodivergent. The programme aims to empower and integrate neurodiverse people into our workplace through robust training, coaching and mentoring. As the mother of a child with learning differences, I personally recognised the importance of creating professional opportunities for those who navigate the world differently and was excited by the firm's commitment.

We partner with Specialisterne, a non-profit organisation that focuses on integrating neurodiverse people into the workplace, to help us shape an effective programme for all phases – from updating job descriptions to be more accessible, to sourcing candidates, to training and preparing them for Goldman Sachs internships. I am very proud that the four cohorts of the Neurodiversity Hiring Initiative resulted in a number of full-time offers, and we converted 100% of our most recent class into full-time roles at the firm.

IQ: How have you seen the commerciality of DEI evolve? How does Goldman Sachs engage with clients on DEI?

MH: At Goldman Sachs, experience has shown us that we can best service our clients by tapping into the insights, talents and judgements of a diverse workforce. Cultivating and sustaining a diverse work environment is critical to meeting the unique needs of our diverse client base and we have also been able to leverage our DEI efforts to bolster our value proposition to win business and provide more holistic support to our clients.

We are all facing the same challenges and our clients seek us out for guidance and best practices within the DEI space. I personally have met with numerous clients and investors to serve as an adviser and share insights about Goldman Sachs's own diversity practices, with the goal of further advancing efforts across the industry more broadly. We have also seen a large uptick in clients and prospective clients setting diversity charters for organisations they work with, so we have had to think strategically about how to impactfully communicate about our own DEI initiatives externally.

In 2022, we hosted our inaugural Advancing Allyship conference in New York. A first on Wall Street, the conference convened hundreds of renowned leaders in DEI for a robust half-day programme to collectively advance our commitments toward allyship.

> "An increased focus on DEI from regulators globally has required DEI professionals to upskill on legal acumen, analytics and risk management to meet changing demands"

→ The convening promoted three critical goals: advance commitments towards allyship and create a more inclusive workforce; renew a sense of accountability among clients and peers; and equip senior leaders with key resources on allyship. Alongside these goals, the conference focused on three key thematic pillars: everyone deserves an ally; everyone can be an ally; and allyship is a core tenet of being a great leader and colleague. We were able to create a space for thought leadership for many of our clients and partners and the dialogue has continued beyond the conference with events across the globe.

> "Experience has shown us that we can best service our clients by tapping into the insights, talents and judgements of a diverse workforce. Cultivating and sustaining a diverse work environment is critical to meeting the unique needs of our diverse client base "

IQ: What capabilities do organisations need to develop to better support their DEI and talent goals?

MH: A consistent challenge within the DEI and talent space is measuring impact. Since stepping into my expanded role as head of talent in addition to chief diversity officer, we have seen the benefits of having a dedicated talent insight and analytics team provide crucial data to define and assess our broader talent strategy.

We are building on our predictive analytics capabilities to define our strategy. Within the DEI space, organisations often find themselves in catch-up mode, needing to address challenges through programming once they have already presented themselves – whether it is employee attrition or a weakened leadership pipeline.

At Goldman Sachs, we have pivoted our thinking from addressing challenges to identifying them earlier by trying to predict them in advance. Using several years of employee survey data, we are conducting longitudinal analyses based on employee sentiment to predict pockets of anticipated attrition. We are using this intelligence to dictate our overall talent strategy and areas of focus for learning and DEI initiatives.

Another area all organisations should be thinking about is intersectionality, especially the complexity that comes with generational and regional nuances. As DEI professionals, we need to focus on how we can bridge communities and how allyship can be used to unite all groups rather than creating additional silos.

At Goldman Sachs, we have seen positive outcomes this year as our inclusion networks have collaborated to deliver programming that addresses the experiences of multiple diverse groups. There has been great engagement from our inclusion networks and employee forums, which are open to all professionals at the firm and offer training and educational programmes, create networking forums and host leadership events.

So far, we have developed and supported more than 80 inclusion networks for groups including women, veterans, working parents, employees with disabilities and caregivers, and Black, Asian, Hispanic/Latinx and LGBTQ+ employees. These groups provide an opportunity for our people to connect with each other, as well as develop professional relationships with others across the firm, ultimately helping our people identify opportunities to achieve their full potential. IQ

GLOBAL REMIT

Megan Hogan is global head of talent, chief diversity officer and head of the diversity, equity and inclusion team at Goldman Sachs.

In this role, she is responsible for driving the firm's development, retention and growth strategies, strengthening the leadership pipeline and ensuring the firm's workforce reflects the diversity of its clients and communities. She also serves as a member of the Goldman Sachs' One Million Black Women steering committee.

Previously, Hogan was head of diversity recruiting. She joined Goldman Sachs in 2014 from Willkie Farr & Gallagher LLP, where she was a litigation associate covering white collar, insurance, and complex commercial cases and trials.

Further reading

- Goldman Sachs 2022 People Strategy Report: shorturl.at/eoBMP
- Inside Goldman Sachs' Exclusive Training Program for HBCU Students, Business Insider, November 8, 2023: shorturl.at/fCSW1

ISDA Safe, Efficient Markets

Fundamentals of Derivatives

ISDA has produced a series of short educational videos on the functioning and key features of derivatives markets. The full series is available on the ISDA website, via the links below

How do Derivatives Benefit the Global Economy?

Derivatives play a critical role in helping to reduce the uncertainty that comes from changing interest rates and exchange rates, as well as credit, commodity and equity prices

bit.ly/3PiiB7N

How Big is the Derivatives Market?

This animation sets out the size of the market and describes some of the changes that have taken place in recent years to make the derivatives market safer and more resilient

bit.ly/3cgVb4d

How is Collateral Used in the Derivatives Market?

Collateral acts as a backstop that protects market participants and the economy as a whole. The requirement to post collateral makes the derivatives market more transparent, resilient and safe

bit.ly/3PfjSwz

How do Derivatives Help Firms Access Global Markets?

This animation shows how the global nature of the derivatives market allows companies to borrow outside their domestic market and hedge that risk efficiently

bit.ly/3INjKlr

What are the Benefits of Close-out Netting?

Close-out netting occurs when two counterparties agree to combine their various obligations into a single net payment following a default, drastically reducing credit exposure

bit.ly/2K1KJf1

Who Uses Derivatives and Why?

Thousands of companies around the world, including mortgage providers, retirement funds, asset managers, food and beverage companies and airlines, use derivatives to reduce risks and increase certainty for their customers

bit.ly/3PgU0Aq

What Role will Derivatives Play in Tackling Global Climate Change?

Countries across the globe have pledged to reduce the amount of carbon dioxide they release into the atmosphere, and derivatives will play a critical role in the transition to a greener world

bit.ly/3yQI8hI

The Resilience of Financial Markets

The global pandemic significantly disrupted economic activity, but derivatives markets and the financial system in general remained robust, allowing firms to continue to borrow and manage risk

bit.ly/3Pyv4E5

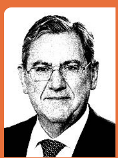
Understanding the ISDA Master Agreement

For 35 years, the ISDA Master Agreement has helped create standardisation in the derivatives market by providing a common contractual template for the trading relationship between two derivatives counterparties

bit.ly/3AYWuiG

Global Markets, Local Issues

Between June and November, ISDA's series of Derivatives Trading Forum events provided an opportunity to hear from policymakers on a range of key issues, including Treasury market resilience, transparency and renminbi derivatives



"Transparency isn't half-silvered. We don't sit behind a one-way mirror like a detective watching an interrogation, seeing everything you do, while the market sees only its own reflection. No, true transparency must go both ways. Looking at our engagement model with industry, we are committed to being more open and consultative. We will offer more information on context and the why. To put it simply, we're keen to learn from you what the industry is focusing on, and where risks or issues are that we should be prioritising."

Joe Longo, chair, Australian Securities and Investments Commission

ISDA/AFMA Derivatives Forum, Sydney, June 20 | shorturl.at/asLRS

"To achieve the establishment of an internationally open financial centre, it is important to increase interactions and communications with overseas financial institutions and understand their needs and challenges in entering Japan. Additionally, detailed information dissemination about the attractiveness of Japan's market and government support measures is essential."

Shigeru Ariizumi, vice minister for international affairs, Japan Financial Services Agency

ISDA Derivatives Trading Forum, Japan, September 29

"We believe buybacks can help improve the liquidity of the Treasury market by providing a regular opportunity for market participants to sell back to Treasury off-the-run securities across the yield curve. This should improve the willingness of investors and intermediaries to trade and provide liquidity in these securities, all else equal, knowing there is a potential outlet to sell some of their off-the-run holdings."

Josh Frost, assistant secretary for financial markets, US Department of the Treasury

ISDA/SIFMA AMG Derivatives Trading Forum, New York, September 21
shorturl.at/gkoN0

"China's equity and bond markets have become the world's second largest. Foreign participation, however, stands at a relatively low level of 4% for the equity market, and below 3% for the bond market in terms of holdings. Foreign participation in the derivatives market also has room for growth. For decades, Hong Kong has been the gateway connecting mainland China and international markets. We are pleased to see the continued opening up of the onshore market for direct access by global investors."

Darryl Chan, deputy chief executive, Hong Kong Monetary Authority

ISDA Derivatives Trading Forum, Hong Kong, September 27 | shorturl.at/chluX

"Although yield volatility explains most of the variation in Treasury market liquidity over time, when dealer balance sheet utilisation reaches sufficiently high levels, liquidity is much worse than predicted by yield volatility alone. This aligns with prior research and suggests that increased central clearing could have a positive impact on market liquidity. It indicates that, as more trades are centrally cleared, strains related to spikes in settlement fails could be avoided or reduced, easing a constraint on dealer intermediation capacity."

Michelle Neal, head of the markets group, Federal Reserve Bank of New York

ISDA/SIFMA AMG Derivatives Trading Forum, New York, September 21 | shorturl.at/luDM6

"For me, the experience of the last decade reinforces the point that to protect financial stability in any one location, a globally responsible regulator must be cognisant of the impacts of their actions on other countries. As such, any changes to our regime will be considered against this new statutory responsibility, and we will assess how any rule changes could impact the financial stability of third countries. It is absolutely right that our new regime enshrines this principle in statute so that all jurisdictions can have full confidence in our approach."

Sasha Mills, executive director, financial market infrastructure, Bank of England

ISDA Derivatives Trading Forum, London, November 7 | shorturl.at/otwJY

"This year, the Connect train has moved into new territory – that is, the derivatives market. We launched Swap Connect in May to enable global investors to trade onshore renminbi (RMB) interest rate swaps. Offshore investors holding mainland bonds can use this to hedge renminbi interest rate risks. As of end-June, 540 mainland interbank interest rate swap contracts were traded under Swap Connect, with a gross notional amount of RMB129 billion, or a daily average of RMB3.9 billion. With this new milestone, we believe Hong Kong has further evolved as a one-stop shop for RMB investment and risk management."

Rico Leung, executive director, supervision of markets division, Securities and Futures Commission of Hong Kong

ISDA Derivatives Trading Forum, Hong Kong, September 27 | shorturl.at/dgvAC

MISSION STATEMENT

ISDA fosters safe and efficient derivatives markets to facilitate effective risk management for all users of derivative products

STRATEGY STATEMENT

ISDA achieves its mission by representing all market participants globally, promoting high standards of commercial conduct that enhance market integrity, and leading industry action on derivatives issues.

THE PREEMINENT VOICE OF THE GLOBAL DERIVATIVES MARKETPLACE

Representing the industry through public policy engagement, education and communication

AN ADVOCATE FOR EFFECTIVE RISK AND CAPITAL MANAGEMENT

Enhancing counterparty and market risk practices and ensuring a prudent and consistent regulatory capital and margin framework

THE SOURCE FOR GLOBAL INDUSTRY STANDARDS IN DOCUMENTATION

Developing standardized documentation globally to promote legal certainty and maximize risk reduction

A STRONG PROPONENT FOR A SAFE, EFFICIENT MARKET INFRASTRUCTURE FOR DERIVATIVES TRADING, CLEARING AND REPORTING

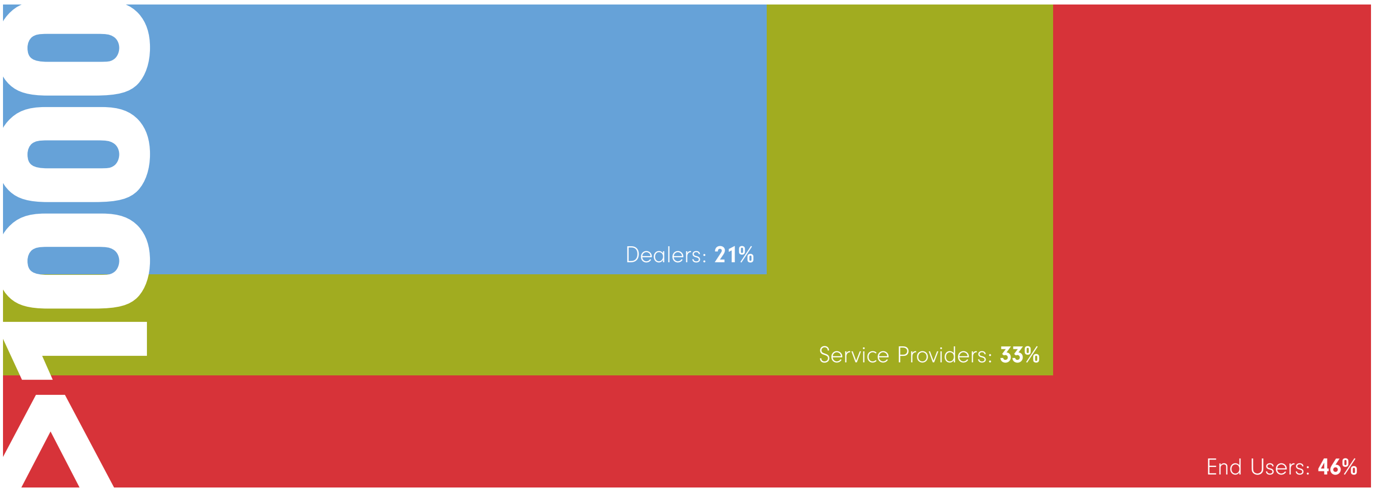
Advancing practices related to trading, clearing, reporting and processing of transactions in order to enhance the safety, liquidity and transparency of global derivatives markets

www.isda.org

MEMBERSHIP INFORMATION

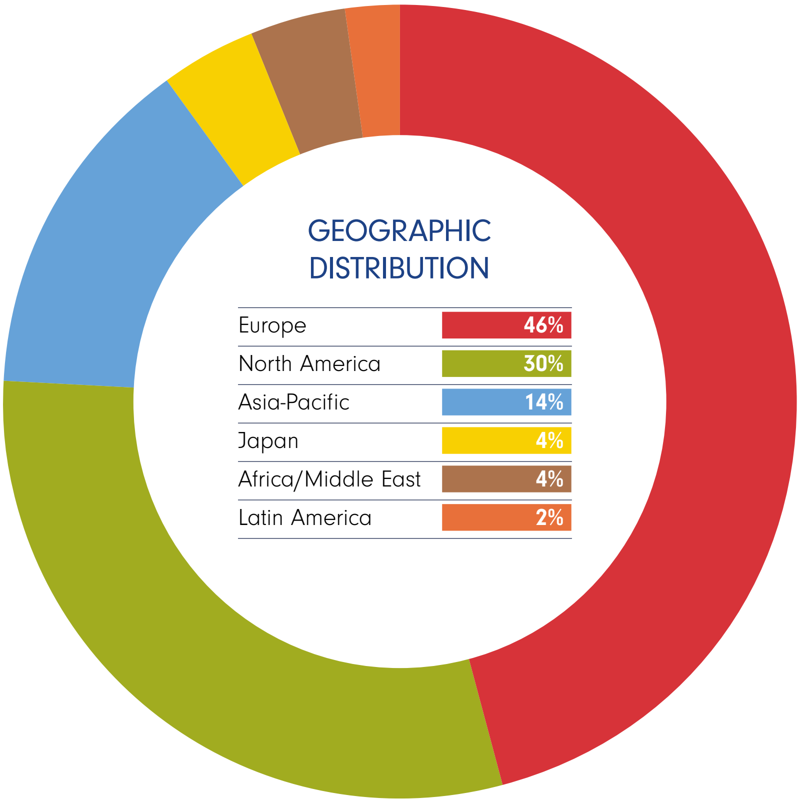
ISDA has over 1,000 members from 77 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition 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.

MEMBERSHIP BREAKDOWN



TYPES OF MEMBERS

Banks	30%
Law Firms	21%
Asset Managers	9%
Government Entities	13%
Energy/Commodities Firms	7%
Diversified Financials	6%
Technology/Solutions Providers	5%
Other	9%



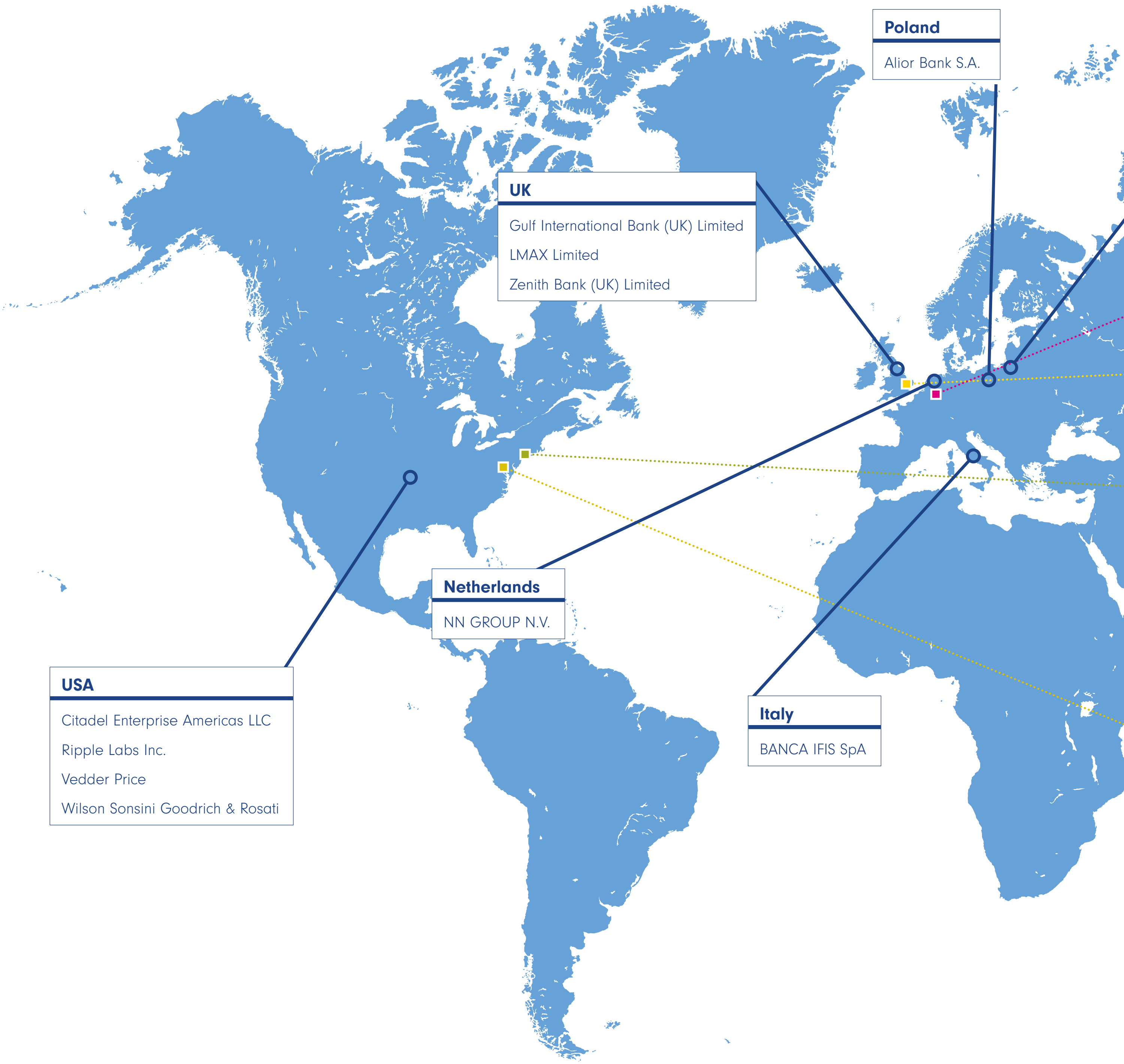
GEOGRAPHIC DISTRIBUTION

Europe	46%
North America	30%
Asia-Pacific	14%
Japan	4%
Africa/Middle East	4%
Latin America	2%

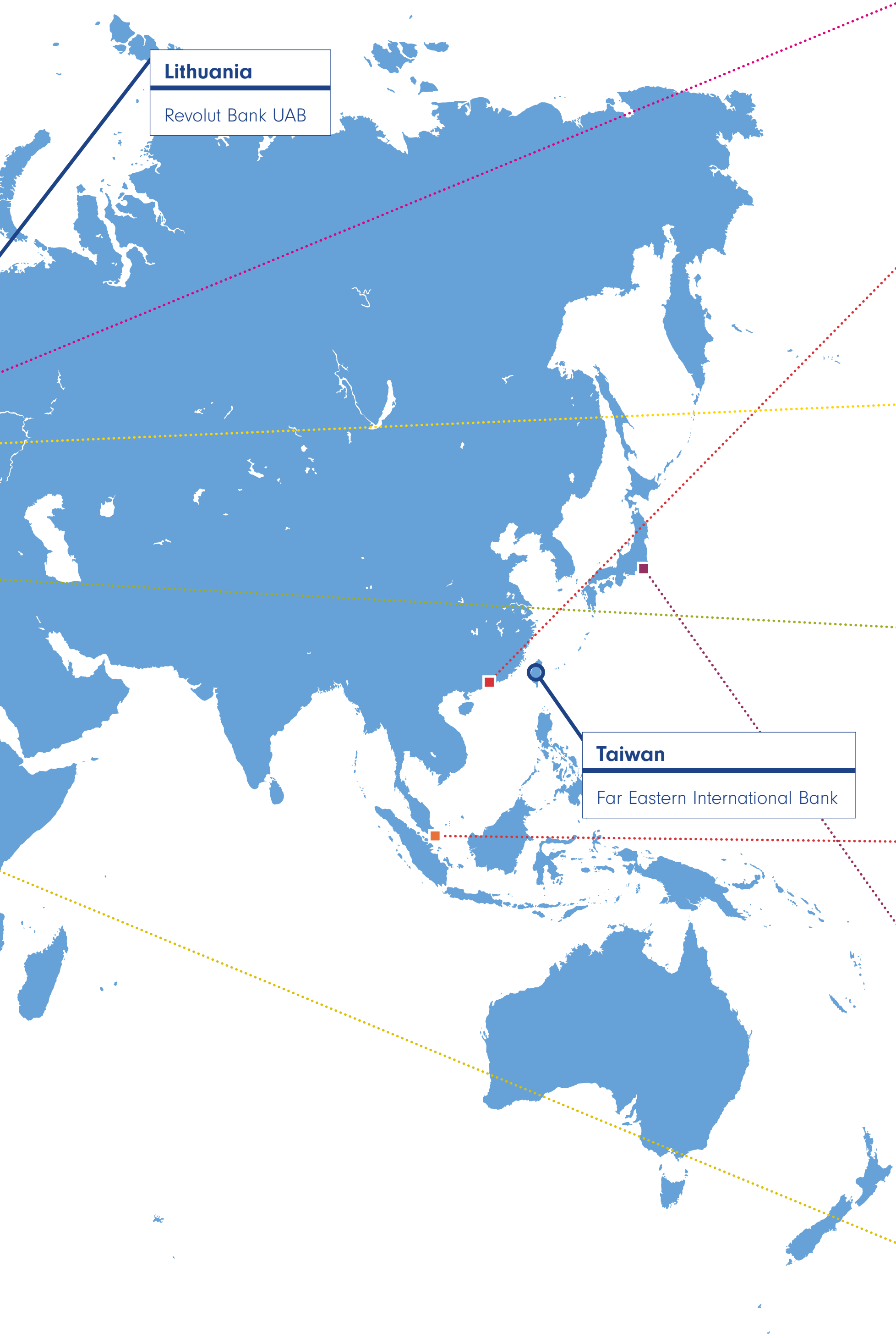
Additional information regarding ISDA's member types and benefits, as well as a complete ISDA membership list, is available on the ISDA Membership Portal: https://membership.isda.org/

NEW ISDA MEMBERS

A big welcome to all new members that have recently joined ISDA. We look forward to working with you in the future



For additional information on joining ISDA, please visit the ISDA Membership



OFFICE LOCATIONS

BRUSSELS

2nd floor, Square de Meeûs 5/6
1000 Brussels
Belgium
Phone: 32 (0) 2 808 8013
isdaeurope@isda.org

HONG KONG

Suite 1602, 16th Floor, China Building
29 Queen's Road Central
Central, Hong Kong
Phone: 852 2200 5900
Fax: 852 2840 0105
isdaap@isda.org

LONDON

25 Copthall Avenue, 3rd Floor
London EC2R 7BP
United Kingdon
Phone: 44 (0) 20 3808 9700
Fax: 44 (0) 20 3808 9755
isdaeurope@isda.org

NEW YORK

10 East 53rd Street, 9th Floor
New York, NY 10022
Phone: 1 212 901 6000
Fax: 1 212 901 6001
isda@isda.org

SINGAPORE

One Raffles Quay
North Tower, #49-51A
Singapore 048583
Phone: 65 6653 4170
isdaap@isda.org

TOKYO

Otemachi Nomura Building, 21st Floor
2-1-1 Otemachi
Chiyoda-ku, Tokyo 100-0004
Phone: 813 5200 3301
Fax: 813 5200 3302
isdajp@isda.org

WASHINGTON

600 13th Street, NW, Suite 320
Washington, DC 20005
Phone: 1 202 683 9330
Fax: 1 202 683 9329
isda@isda.org

Portal at **https://membership.isda.org/**

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Monica Chiu
Senior Counsel, Asia Pacific

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Head of European Public Policy

Panayiotis Dionysopoulos
Head of Capital

Lisa Galletta
Head of US Prudential Risk

Benoît Gourisse
Head of Public Policy, Asia Pacific

Jing Gu
Head of Asia, Legal

Seslee Howell
Head of Conference Operations & Technology

Daniel Maguire
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London Stock Exchange Group (LSEG)

Andrew Ng
Group Executive & Head of Treasury and Markets
DBS Bank

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Managing Director, Global Markets Japan
Nomura Securities Co., Ltd.

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ISDA

Emmanuel Ramambason
Global Head of Resource Management and Optimization (RMO), Financial Markets at Standard Chartered Bank and Financial Markets Head of Standard Chartered Bank AG
Standard Chartered Bank

Duncan Rodgers
Head of ALM Strategy and Regional Treasury UK & FFT
UBS AG

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Intercontinental Exchange, Inc.

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Managing Director, Chief Investment Officer
PIMCO

Michael Stanley
Co-head of Global Rates & Counterparty Portfolio Management
Bank of America

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SVP Treasury
bp plc

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Deutsche Bank AG, London

Jacques Vigner
Chief Strategic Oversight Officer for Global Markets
BNP Paribas

Tyler Wellensiek
Managing Director, Global Head of Rates Market Structure and Business Strategy
Barclays

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Head of Data and Digital Solutions

Tomoko Morita
Senior Director and Head of Tokyo Office

Mark New
Co-Head of Digital Transformation and Senior Counsel

Nnamdi Okaeme
Head of SIMM

Olga Roman
Head of Research

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Senior Counsel, Europe

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Head of US Public Policy

Liz Zazzera
Head of Membership

*

"In recent years, we've experienced heightened volatility, huge uncertainties and multiple crises. It is important we engage in the international arena and provide global responses to some of those challenges, specifically on risk monitoring and understanding trends"

Natasha Cazenave
European Securities and Markets Authority