



ISDA/AFMA Sydney Derivatives Trading Forum
October 26, 2026
Opening Remarks
Scott O'Malia
ISDA Chief Executive

Good morning, and welcome to the ISDA and AFMA Derivatives Trading Forum. Thanks for joining us today, and a big thank you to our sponsors ASX and OSTTRA for their support.

This forum comes at an opportune time. Ten years ago last month, we launched the ISDA Standard Initial Margin Model (ISDA SIMM) to coincide with the first phase of initial margin requirements for non-cleared derivatives.

It's hard to overstate just how important this was. Realizing that the efficiency of the market was at stake, market participants put competitive rivalries aside and worked with ISDA to develop a single, transparent and risk-sensitive model that everyone could trust and use – enabling margin amounts to be agreed quickly and efficiently and reducing the risk of disputes that could have caused the derivatives market to grind to a halt.

Since then, the ISDA SIMM has become a cornerstone of non-cleared derivatives market infrastructure. It's permitted for use by regulators in more than 40 countries, used by more than 440 groups of entities and supported by 70 vendors. We've never stopped evolving the model, with 17 updates so far to ensure it remains risk appropriate and continues to enable the efficient exchange of margin at scale – even during volatile market conditions.

That relentless pursuit of efficiency is a key focus for ISDA and extends well beyond the calculation of initial margin. We're working with market participants and regulators to ensure existing rules are as efficient as possible, fostering safety and resilience while eliminating undue burdens on counterparties. We're also harnessing new technologies to deliver greater automation, reducing costs and eliminating operational friction for market participants.

In my remarks this morning, I want to highlight three areas where we're striving to bring greater efficiency to derivatives markets. First, our work to spot liquidity management challenges in the superannuation sector and make margin calculations more efficient. Second, how we're helping prepare the ground for the use of tokenized assets for collateral around the globe. And, finally, how we're deploying artificial intelligence (AI) in our mutualized industry solutions.

Let me start with superannuation funds.

This sector is a huge success story for Australia's financial industry. At over \$4.8 trillion in assets as of June 2026 – equivalent to around 165% of Australia's annual GDP – the Australian retirement system is the fourth largest in the world. And it's expected to get even bigger. Within a

decade, it's forecast to become the second largest in the world, with assets rising to approximately 180% of GDP.

This growth means funds have had to seek investment opportunities outside Australia's borders, with roughly half of their assets now invested offshore. As a result, their use of derivatives to hedge these overseas exposures has increased. The Reserve Bank of Australia estimated that FX hedges alone had grown to around A\$500 billion in September 2025 and said this could double over the following decade.

The expanding use of derivatives brings real risk management benefits, but it also means funds need to closely monitor and manage the liquidity implications. For funds subject to regulatory margin requirements on non-cleared derivatives, both initial and variation margin can create significant and sometimes sudden calls on liquid resources, especially during periods of stress.

While FX swaps and forwards – used extensively by superannuation funds – are exempt from regulatory margin requirements, banks may start to ask their superannuation fund counterparties to provide margin on a discretionary basis to reduce credit and capital charges as FX hedge books grow. Even if FX swaps and forwards remain unmargined, these short-dated instruments require regular rollover and settlement, concentrating liquidity needs at specific points in time.

The result is a more complex and dynamic liquidity profile – one that requires robust planning, governance and risk management.

Earlier this year, ISDA published a paper with Mallesons that explores these dynamics and recommends a series of actions that funds could take in response. This includes strengthening stress testing, early warning indicators and contingency planning, broadening eligible collateral for non-cleared derivatives where possible, improving operational readiness for margin calls across time zones, and diversifying counterparties and clearing relationships.

Pre-arranging repo and other contingent liquidity facilities in advance of any market stress is also recommended. Repo markets can be incredibly valuable by helping firms transform assets into cash to meet margin requirements and other liquidity needs, but there is some uncertainty over whether use of repo by superannuation funds would breach borrowing restrictions under the SIS Act.

Our view is that use of these instruments is allowed if they are structured appropriately, but we would suggest the Australian government and Australian Prudential Regulation Authority (APRA) publicly confirm that repos do not constitute borrowing under the SIS Act to increase the comfort of using this critical liquidity management tool.

Another key recommendation is ensuring that margin requirements accurately reflect risk – which brings me back to the ISDA SIMM. As a risk-sensitive model, the calculated margin amounts better reflect the actual risk of a portfolio than the standard regulatory schedule, helping to avoid over-margining and reduce unnecessary liquidity drains. There are important risk management benefits too. A common, transparent model reduces the scope for disputes and

allows margin to be agreed and exchanged more quickly – a critical advantage in volatile conditions.

We've seen strong interest from the superannuation community in using the ISDA SIMM, with our recent training session in Sydney generating strong interest and very positive feedback.

However, to actually use the ISDA SIMM, superannuation funds must get authorization from APRA – and we know there is some uncertainty over what the application process involves and what exactly is needed to obtain approval.

In our view, there are clear benefits to using the ISDA SIMM. The model is widely used, rigorously tested and governed through an industry forum, and is subject to ongoing scrutiny by a community of global regulators. In response to regulatory feedback, it is also now calibrated on a semiannual basis, ensuring the model is updated in a predictable and efficient manner. In contrast, the standard regulatory schedule is a blunt and static methodology that does not evolve with market conditions.

We believe use of the ISDA SIMM results in better risk management, more risk-sensitive margin calculations and greater consistency with international norms, so we'll continue to work with the industry – through training, and engagement and advocacy with APRA – to help provide greater clarity and facilitate adoption.

Now, I mentioned the need to improve operational readiness to meet margin calls across time zones a moment ago. That leads me to my second topic: tokenization.

It's no secret that the existing collateral system is overly complicated, slow, expensive to maintain and prone to errors. We're stuck trying to meet the challenges of the future with yesterday's technologies.

That means firms are forced to post excess collateral to counterbalance these operational weaknesses, which locks away assets that could be put to better use elsewhere. A study by Nasdaq and ValueExchange estimates that as much as \$50 billion of collateral is either posted in excess or not remunerated.

Imagine the economic benefits that could be realized if counterparties could post the right amount at the right time for every trade – a particularly important point in Australia, where time zone differences and overseas settlement windows mean market participants often have to post more collateral than is required.

By enabling near-instantaneous settlement, tokenized assets could reduce counterparty risk, enable intraday liquidity management and increase the mobility of collateral – all of which will improve market efficiency. It will also unlock a broader pool of assets that can be used as collateral, easing liquidity strains during periods of stress. This includes money market funds, which are currently all but impossible to use as margin due to operational complexities.

As with any innovation, there are legal, regulatory and operational hurdles to be overcome to realize the potential efficiencies that tokenization offers. Questions relating to custody and segregation frameworks, capital and margin treatment, cross-border recognition and legal certainty must be addressed with industry standards and regulatory clarity.

ISDA is hard at work to help address some of these questions. In July, we published a report with Global Digital Finance looking at the legal, regulatory and operational viability of tokenized money market funds in the US. We also released a paper earlier this month examining how our own documentation can support tokenized money market funds as derivatives collateral.

Market participants and clearing houses need to be able to move collateral on a continuous basis, without the bottlenecks and inefficiencies that exist today. The prospect of tokenized collateral could provide a way to achieve continuous margin movement, reducing risk and increasing efficiency.

Finally, I'll turn briefly to AI.

I'm not going to make any predictions about exactly how AI will change our markets. From the current headlines, it's clear there's huge debate among the people at the very cutting-edge of this technology about the pace of development.

What is clear is its potential to bring efficiencies to the way our market functions.

We're already taking the first steps by integrating AI into our services, starting with our Digital Regulatory Reporting (ISDA DRR) solution.

The ISDA DRR improves the accuracy and consistency of regulatory reporting by using the Common Domain Model to convert a golden-source industry interpretation of the rules into machine-executable code. So far, we've delivered the ISDA DRR to support nine sets of reporting rules around the world, but we're now taking this initiative a step further.

We're using AI to build a tracer agent that looks back at the history of ISDA DRR decision-making to provide an audit trail of when and why decisions were made, enabling users to track every reporting outcome back to the rule that drove it and the working group consensus interpretation. We're also developing a translator agent to interpret new or updated reporting requirements and support the conversion into code, reducing the time, effort and cost of keeping pace with evolving rules.

This is exciting stuff and shows the power of AI to bring greater efficiencies to our market.

Let me close by going back once again to the ISDA SIMM.

Development of this model didn't just solve a pressing industry problem – its success has led to other examples of the industry coming together through ISDA to tackle other big market structure challenges. This includes the transition from LIBOR, as well as the development of other mutualized solutions for shared industry challenges, like the ISDA DRR.

These solutions are a perfect demonstration of what ISDA does best – we help spot the challenges and opportunities, convene the best minds in the industry to develop mutualized solutions and then make them available at a global scale.

That is how we have helped to deliver safer, more efficient derivatives markets, and it's the exact approach we'll be taking in the future.

Thank you again for being with us today. Thanks to AFMA for partnering with us on this event, and to ASX and OSTTRA for their support.