ISDA Annual General Meeting
May 11, 2023

Welcoming Remarks
Scott O'Malia, ISDA CEO

Good morning, and welcome back to day two.

I hope you enjoyed last night's reception at the Field Museum as much as I did. It was quite something to catch up with colleagues and discuss industry issues alongside Máximo, the largest dinosaur ever discovered. Or to pay a visit to Sue, the giant T-Rex up on the first floor. The Field Museum really gives you a sense of the evolution of our planet, from the earliest dinosaurs to life in ancient Egypt and the arrival of the first kings of Europe.

Today, I want to talk about the evolution of ISDA, and how we're constantly advancing to make sure our standards, documentation and definitions are ready for the future of the derivatives market. ISDA evolves in lockstep with the global markets we serve – that's why we're as relevant to our members today as we have always been.

Nowhere is this more evident than in our documentation. Back in the 1980s, ISDA laid the foundations of a robust derivatives market with the development of the ISDA Master Agreement. This brought standardization and efficiency to the market for the first time by providing a common contractual template for the trading relationship between two parties, massively speeding up the time it took to negotiate a trade. Over the years, we've added a succession of new documents as the market has evolved. Most recently, we launched standard definitions for digital asset derivatives and verified carbon credits.

ISDA's work to develop standards for crypto assets coincided with a period of huge turmoil in that market, with the collapse of FTX and several other crypto entities last year. This led us to explore some fundamental questions relating to insolvency and the rights of investors. Alongside the ISDA Digital Asset Derivatives Definitions, we developed two whitepapers that consider these questions. The first focuses on close-out netting and collateral arrangements, while the second – which we published last week – looks at customer protection issues relating to digital assets held with intermediaries.

The digital asset definitions currently cover non-deliverable forwards and options referencing Bitcoin and Ether. This is the first step in providing a clear and robust contractual framework for this asset class, and we're now working to expand coverage of our netting opinions to include these products. But we're not stopping there. We're also exploring what changes may be needed to allow certain types of digital assets to be used as collateral.

Just as we've evolved our documentation to support digital asset derivatives, we're doing the same for sustainable finance. I talked yesterday about the important role our new carbon credit definitions will play in providing greater consistency and efficiency as the voluntary carbon market grows.

We’ve also been working to support the development of sustainability-linked derivatives (SLDs), in which otherwise standard cashflows are adjusted so that performance is measured against specific key performance indicators. Following a survey last year, we’re now developing standardized terms and clauses to document bespoke SLDs using components of the ISDA Clause Library. Establishing best practices and encouraging standardization will promote legal certainty and enhance the integrity of this nascent market.

Of course, we can’t ignore the impact of recent volatility in energy markets, which has underscored the vital importance of global energy security and the need for a more sustainable energy mix. On Tuesday, we published a timely paper from the ISDA Future Leaders in Derivatives that explores how the derivatives market can help to protect energy security while also facilitating the drive to net zero.

The volatility in European energy markets following Russia’s invasion of Ukraine has reminded us of the need for robust risk management to address price volatility. In both cleared and non-cleared markets, we need a risk-appropriate margining framework that ensures there is always sufficient collateral on hand. We will continue to work with policymakers to make sure the ISDA Standard Initial Margin Model is appropriately calibrated, and market participants have access to sufficient liquidity to meet margin requirements.

I’ll finish with a few words on close-out netting.

When seeking to develop a safe and efficient derivatives market, there really is no more important step a country can take than to enshrine netting enforceability in law. Netting drastically reduces credit risk by allowing parties to reduce their obligations to a single net payment in the event of a default. ISDA has worked tirelessly over the years to explain the benefits of netting and to support governments in drafting the relevant legislation.

I’m pleased to say we have clean netting opinions in place for more than 80 jurisdictions around the world, including a growing number of emerging markets. Netting regulations are currently being drafted in Saudi Arabia. Once passed, this will represent another breakthrough, with close-out netting recognized in all of the G-20 nations.

The passage of netting legislation might not make the headlines, but with every country that takes this important step, we improve the safety and efficiency of the market.

Having talked yesterday about how we get better results when we work together, I’ve set out today how we adapt as markets develop. You can count on ISDA to continue to evolve to make sure we’re ready for the future. It’s what we’ve always done, and it’s what we’ll continue to do.

Thank you.