ISDA. Safe, Efficient Markets
Celebrating 40 Years

ISDA Annual General Meeting
May 15, 2025

Chairman Remarks
Jeroen Krens, ISDA Chair

Goedemorgen dames en heren.

Wat een plezier om als nederlander in Amsterdam de 39ste algemene ledenvergadering van ISDA to mogen toespreken en de 40ste verjaardag van te mogen vieren.

For those of you who don't know, I'm Dutch, so I'm absolutely delighted to be giving my first remarks as ISDA chair at an Annual General Meeting (AGM) in Amsterdam. I'm even more pleased to be doing so during ISDA's 40th year, which is the perfect opportunity to celebrate ISDA's many successes over the past four decades, as well as look forward to the opportunities ahead of us.

Before I start, I'd like to thank Eric Litvack, my predecessor as chair, for everything he did to navigate ISDA through an incredibly busy and transformative 10 years for the derivatives industry. Please join me in giving Eric a round of applause.

Now, in his chairman's remarks, Eric was fond of flagging the role of the host city or country in the development of derivatives. So, last year in Tokyo, Eric highlighted the emergence of rice futures trading, which led to the creation of the Dojima Rice Exchange in 1730, one of the earliest commodities futures trading bourses. The year before, he talked about the role played by the Chicago exchanges and the introduction of the first standardized futures contracts by the Chicago Board of Trade in 1865.

I'd like to start my remarks by doing the same thing. While Amsterdam is perhaps best known now for its wonderful galleries, museums and canals, skip back 400 years and it was a bustling trading center, with goods arriving from all over the world. Keen to manage their risk and enhance returns, Dutch merchants were enthusiastic users of futures-like contracts on a variety of commodities – including, famously, tulips in the 17th century. But Amsterdam is also credited with the first issuance of shares to the public and the first instances of derivatives on stocks, following the founding of the Dutch East India Company and the Dutch West India Company in the early 17th century, both of which issued shares as a source of funding.

It's a clear reminder that derivatives are not new-fangled inventions dreamed up by Wall Street. While the instruments we use today, as well as the legal and regulatory frameworks, are far removed from the basic contracts of 17th century Amsterdam, the underlying concepts, techniques and intended outcomes remain the same. And those outcomes – alleviating uncertainty, transferring risk and enhancing profitability – continue to be as important today as they were 400 years ago. That's why companies all over the world use derivatives – they are useful, and they can help to enhance value. In short, this industry matters, and we should celebrate that fact.

I think all of us are guilty of forgetting that sometimes. We get caught up picking apart legal contracts line by line or wrestling with budgets or trying to secure balance sheet capacity for new business. We can forget the fundamental power of this product, the reasons why the underlying techniques have endured, and the value derivatives can bring. We forget that these instruments play an important economic role, are fundamental building blocks for vibrant and competitive capital markets and ultimately help to facilitate borrowing, investment and growth.

These are very much priorities for politicians and policymakers around the globe. Here in the EU, a landmark report last September from former Italian prime minister and European Central Bank president Mario Draghi set out a framework for improving Europe's growth and competitiveness. The report identifies several key priorities, which include establishing coordinated industrial and decarbonization strategies, removing regulatory barriers, advancing skills and closing the innovation gap – changes that will require a minimum annual additional investment of between €750 billion and €800 billion.

Investment of that size cannot be achieved by the public sector alone, and it cannot be raised entirely through bank financing – unlocking private-sector investment via capital markets will be essential. The EU savings and investments union is intended to go some way to enhance investment capacity, but derivatives will also play an important role.

That's because derivatives help create certainty by enabling firms to lock in financing terms, potentially reduce costs, mitigate the impact of market volatility and enhance financial performance. This allows companies to plan confidently and make strategic investments, contributing to business expansion and economic growth. They are, in short, an essential part of deep, liquid and efficient capital markets.

I'd like to pause here and show you our latest animation on the value of derivatives.

One of those statistics bears repeating: 87% of nearly 1,200 major companies listed in seven key stock indices use derivatives for a variety of reasons. In other words, this is not a niche product used exclusively by banks and hedge funds. Derivatives are used by a vast universe of companies all over the world because they create value by enhancing predictability and protecting against losses. We all play a role in enabling that and our 40th anniversary is a great opportunity to applaud that fact.

Every day, manufacturers use interest rate swaps to lock in predictable debt costs. Exporters use FX forwards to secure stable conversion rates when receiving overseas revenues. Pension funds employ various derivatives to shield retirement assets from shifts in market prices. And mortgage providers use swaps and options to manage interest rate and prepayment risks, keeping home financing widely accessible. In each case, derivatives are used to increase certainty, which gives companies and individuals the confidence to borrow and invest. This, in turn, contributes to growth.

To mark our 40th anniversary, we recently published a new report that highlights the importance of derivatives markets. If you haven't already read it, I'd strongly encourage you to do so, as it sets out a comprehensive picture of why different types of firms use derivatives and the benefits they can bring, both to company value and the broader economy.

So, why am I telling you this? First, it's important to celebrate the critical role this industry plays in ISDA's 40th year. Second, we at ISDA are constantly highlighting the importance of safe, efficient markets. We think it's valuable to take a step back and remind everyone – even those who work in this industry – why this matters. The answer is because corporations, pension funds, insurance companies and others rely on efficient and frictionless access to derivatives to help manage their businesses.

Deep and liquid markets mean firms can access derivatives when they want, in the size they want and at a competitive price. Bank intermediaries play a critical role in enabling that. Anything that reduces liquidity – whether it be regulatory changes that go too far in limiting the balance sheet capacity of banks or structural issues that degrade efficiency of access – ultimately hamper the ability of the market to absorb and transfer risk.

The Basel III market risk rules are a case in point. We've long argued that parts of the Fundamental Review of the Trading Book (FRTB) are inappropriately calibrated and would constrain the capacity of banks to offer vital intermediation and risk management services. This would reduce competition and liquidity and increase costs, hampering the ability of users to seamlessly access derivatives markets.

To give an example, the US Basel III endgame rules and the surcharge for global systemically important banks (G-SIBs), as currently proposed, would increase capital for US G-SIB client clearing businesses by more than 80%. That's a mammoth amount that runs counter to the post-crisis policy objective to promote greater use of central clearing.

Such a high level of capital is not aligned with risk and would bring the economic viability of client clearing into question, at a time when certain US Treasury securities will have to be cleared from next year.

Other parts of the US capital framework can also limit balance sheet capacity in some circumstances. This includes the supplementary leverage ratio (SLR), which acts as a non-risk-sensitive binding constraint on banks that can impede their ability to act as intermediaries, particularly during times of stress.

We strongly believe capital rules should be risk-sensitive and appropriate. Disproportionate increases in capital will inevitably affect the ability of banks to offer client clearing, risk management and other intermediation services, reducing capacity and increasing costs. Ultimately, this will affect the depth and liquidity of derivatives and capital markets.

We’ve proposed several calibration changes to the US Basel III and G-SIB proposals to better reflect actual levels of risk, as well as modifications to the SLR to reduce the constraints on banks.

It’s currently unclear when prudential regulators will publish a revised proposal for the US Basel III endgame, but we urge them to recalibrate those aspects of the framework that are most out of line with risk to avoid constraining the ability of banks to support deep and liquid markets.

The uncertainty over the timing and substance of the rules in the US has prompted other jurisdictions to rethink their requirements to avoid an unlevel playing field. Most recently, the European Commission (EC) published a consultation in March proposing three possible options – implement the FRTB as currently planned in January 2026, delay by a year until the start of 2027, or apply a set of targeted amendments for a three-year period.

Based on feedback from our members, the clear majority believe a delay that provides time for targeted fixes is the best way to achieve a coherent and appropriate market risk framework in the EU. That said, a minority of firms want the proposed amendments but with a January 2026 implementation date due to the operational complexity of running two frameworks in parallel.

Many of the EC’s proposed fixes, including changing the profit and loss attribution test so it serves as a monitoring tool for an initial period, are changes we’ve been recommending on a global basis for some time.

Ideally, these kinds of calibration fixes would be performed at the global level by the Basel Committee on Banking Supervision. In the absence of that, we’ll work with national regulators to ensure the rules are aligned with risk and as globally consistent as possible.

Appropriate regulation is clearly important, but we also need to ensure derivatives markets function efficiently so corporations, pension funds and insurance companies can access these markets with as little friction as possible. That’s where our suite of digital solutions comes in.

ISDA Create is one example. Firms can’t access derivatives markets quickly or efficiently if they have to painstakingly negotiate a paper or PDF contract via an endless back and forth of different email chains, mark-ups and comments, all performed manually. ISDA Create allows users to negotiate and execute documents digitally on a central platform, with the ability to store the resulting data and pipe it directly into risk, collateral and other systems. It saves time and resources on the negotiation and allows counterparties get to the point where they can execute trades much faster.

The ISDA Standard Initial Margin Model (ISDA SIMM) is another example. Efficient trading is impossible if counterparties can’t agree on the amount of initial margin that needs to be exchanged. The ISDA SIMM sets a common methodology for the calculation of regulatory initial margin requirements, cutting costs for market participants and mitigating the potential for disputes. The model is widely used around the world to support the efficient exchange of initial margin and has strong support from the official sector.

The need for efficiency runs to critical processes like reporting. Banks and other entities need to divert resources and budget to interpret multiple sets of reporting rules and then build the necessary processes to comply. But there's no guarantee their interpretation will be in line with others or even with the intentions of regulators, possibly leading to penalties for misreported data.

ISDA's Digital Regulatory Reporting (DRR) initiative provides an answer. The DRR is based on a single industry-agreed interpretation of six rule sets – eventually to be extended to 11. This is transformed into machine-executable code using the Common Domain Model, which cuts ambiguity, increases the accuracy of data and makes implementation of reporting requirements simpler and more cost effective. That, in turn, contributes to more efficient markets.

The drive for standards and safe, efficient markets has been at the center of everything ISDA has done for the past 40 years. It will continue to be at the center of everything we do under my chairmanship and well beyond.

But we shouldn't lose sight of why that's important. Safety and efficiency and deep, liquid markets matter because all types of companies around the globe rely on derivatives to transfer unwanted risk, enhance returns and manage their liquidity needs. They help bring greater predictability to earnings and cashflows, which gives firms more confidence to borrow and invest, contributing to economic growth. It's therefore critical these entities can continue to access derivatives markets seamlessly and with as little friction as possible.

On the 40th anniversary of ISDA, I hope you'll join me in celebrating the critical role of derivatives in the global economy and the part that ISDA has played in shaping this industry over the past four decades.

I'd like to finish by thanking all of you – both for attending the AGM but also for your participation in our working groups over the year. We could not do what we do without your time, participation and input. Thank you.

I'd also like to thank the ISDA staff for contributing to a dynamic and efficient organization that works on behalf of all of us. They play the role of conductor, driving consensus on how to approach shared industry challenges, and they do so with dedication and tenacity. Thank you.

Finally, I'd like to thank my colleagues on the ISDA Board for all their support in the first few months of my chairmanship. We have a very busy and exciting agenda, and I'm looking forward to working with the Board as we continue to make markets safer and more efficient.

I hope you enjoy the rest of the AGM, and I hope you take the opportunity to see something of this beautiful city. Next year, we'll be holding the AGM in Boston, so pencil in the date – April 28–30. I hope to see all of you there.

Thank you.