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## **ISDA Publishes Year-End 2012 Market Analysis: Portfolio Compression and Central Clearing Continue to Impact Size of OTC Derivatives Market**

**NEW YORK, June 20, 2013** – The International Swaps and Derivatives Association, Inc. (ISDA) published today its analysis of the over-the-counter (OTC) derivatives market based on year-end 2012 statistics.

The analysis underscores the significant impact that portfolio compression and central clearing have had on the size of the OTC derivatives market in recent years:

- During 2012, \$48.7 trillion in notional amount of OTC derivatives were eliminated via portfolio compression, including \$44.6 trillion of interest rate derivatives (IRD). A total of \$214.3 trillion of OTC derivatives has been eliminated in the past five years via portfolio compression. Portfolio compression reduces notional outstanding by eliminating matched trades or trades that do not contribute risk to a dealer's portfolio.
- While portfolio compression reduces the size of the market, the continued growth in central clearing of OTC derivatives has the opposite effect because of the double-counting of cleared trades (in a cleared transaction one bilateral trade becomes two centrally cleared trades, which doubles the notional amount). At year-end 2012, approximately \$173.2 trillion of OTC derivatives were centrally cleared, including 53.5 percent of all IRD.

### **2012 Market Trends**

The impact of these two factors can be seen in OTC derivatives market statistics. At December 31, 2012:

- The notional amount outstanding of OTC derivatives (excluding FX transactions) declined 3.3 percent over the past year and declined 1.3 percent compared to June 30, 2012.
- After eliminating double-counting of cleared transactions, the notional amount outstanding of OTC derivatives (excluding FX transactions) declined 10.9 percent compared to year-end 2011 and declined 6.1 percent compared to June 30, 2012.

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- If the volume of compressed transactions were added back in, the notional amount outstanding of OTC derivatives (excluding FX transactions) was roughly flat over the most recent 12-month and six-month periods.

Similar trends can be seen in the IRD market. At December 31, 2012:

- The notional amount outstanding of IRD declined 2.9 percent over the past year and declined 1.0 percent compared to June 30, 2012.
- After eliminating double-counting of cleared transactions, the notional amount outstanding of IRD declined 12.0 percent compared to year-end 2011 and declined 6.5 percent compared to June 30, 2012.
- If the volume of compressed IRD transactions were added back in, the notional amount outstanding of IRD was roughly flat over the most recent 12-month period.

### **2007-2012 Five-Year Market Trends**

- Over the past five years, the notional amount outstanding of OTC derivatives (excluding FX transactions) rose 6.7 percent, to \$565.2 trillion from \$529.7 trillion at December 31, 2007. After eliminating double-counting of cleared transactions, the notional amount outstanding of OTC derivatives (excluding FX transactions) declined from \$475.3 trillion to \$392.0 trillion, or 17.5 percent. If the volume of compressed transactions was added back in, the notional amount outstanding of OTC derivatives (excluding FX transactions) increased by 23.0 percent from \$492.9 trillion to \$606.3 trillion over the five-year period ending December 31, 2012.
- Over the past five years, the notional amount outstanding of IRD rose 24.6 percent, from \$393.7 trillion to \$489.7 trillion. After eliminating double-counting of cleared transactions, the notional amount outstanding of IRD decreased from \$338.7 trillion to \$319.0 trillion, or 5.8 percent. If the volume of compressed IRD transactions were added back in, the notional amount outstanding of IRD rose 33.6 percent from \$346.3 trillion to \$462.7 trillion.

The analysis also shows the risk mitigation benefits of netting and collateral. Gross Market Value, a BIS measure of credit exposure in the OTC derivatives market, was \$24.7 trillion, or 3.9 percent of notional at year-end 2012. Gross Credit Exposure, which reflects the impact of netting, was \$3.6 trillion, or 0.6 percent of notional value. Netting and collateral reduce credit exposures to 4.2 percent of the Gross Market Value and to 0.2 percent of the notional amount.

“The industry has made great strides to reduce counterparty credit risk and help make the derivatives markets safe and efficient through netting, collateralization, portfolio compression and central clearing,” said Robert Pickel, ISDA Chief Executive Officer. “While the increase in compression continues to impact adjusted OTC derivatives volumes, underlying market activity remains robust.”

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The full ISDA OTC Derivatives Market Analysis is available on the [ISDA website's Research section under Studies](#).

**For Media Enquiries, Please Contact:**

Lauren Dobbs, ISDA New York, +1 212 901 6019, [ldobbs@isda.org](mailto:ldobbs@isda.org)

Rebecca O'Neill, ISDA London, +44 203 088 3586, [roneill@isda.org](mailto:roneill@isda.org)

Donna Chan, ISDA Hong Kong, +852 2200 5906, [dchan@isda.org](mailto:dchan@isda.org)

**About ISDA OTC Derivatives Market Analysis**

ISDA produces its Market Analysis to correspond with the release of the Bank for International Settlement's (BIS) semi-annual statistical release. The BIS's most recent release covered the period ending December 31, 2012.

ISDA's reporting aims to integrate market data to show the impact of netting, collateralization, portfolio compression and central clearing on notional amounts and risk exposures in the over-the-counter (OTC) derivatives markets.

The Market Analysis draws on information sources including LCH.Clearnet's SwapClear, TriOptima, the DTCC Trade Information Warehouse, Markit, ICE, CME, ISDA's 2012 Margin Survey and other clearinghouses and trade vendors.

**About ISDA**

Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA has over 800 member institutions from 60 countries. These members include a broad range of OTC 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 including exchanges, clearinghouses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: [www.isda.org](http://www.isda.org).

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