

# REF

DOCUMENTATION  
IN RAS  
STRUCTURE  
RISK MANAGEMENT  
ADVOCACY

ISDA® | Safe,  
Efficient  
Markets

International Swaps and Derivatives Association, Inc.

## GLOBAL DERIVATIVES: MORE CHANGE AHEAD

The global derivatives markets are in the midst of momentous change. ISDA is committed to helping our markets and our members respond to this change. Our support for the G20's initiatives to reduce systemic risk, our efforts with policymakers to adopt a prudent, effective regulatory framework, and our work in ensuring the changes are understood and implemented are an essential part of our mission.

Founded in 1985, ISDA fosters safe and efficient derivatives markets to facilitate effective risk management for all users of derivatives

## OTC DERIVATIVES SNAPSHOT

**\$600t+  
x .002**

The notional amount outstanding of derivatives is over \$600t. But notional measures activity, not risk. Gross market value, which measures risk, is about 4% of notional. After netting and collateral, the risk is about .2% (or .002) of notional.

**7,000**

Interest rate derivatives (IRD) are by far the largest segment of the market. About 7,000 IRD contracts trade on average per day globally. That's far less than the average daily trading of financial instruments in other markets.

products. ISDA achieves its mission by representing all market participants globally, promoting high standards of commercial conduct and leading industry action on derivatives issues. This includes being:

- ▶ **The Source for Robust and Trusted Documentation**
- ▶ **The Architect of a Secure and Efficient Infrastructure**
- ▶ **An Advocate for Effective Risk Management and Clearing**
- ▶ **The Voice for the Global Derivatives Marketplace**

**1=41%**

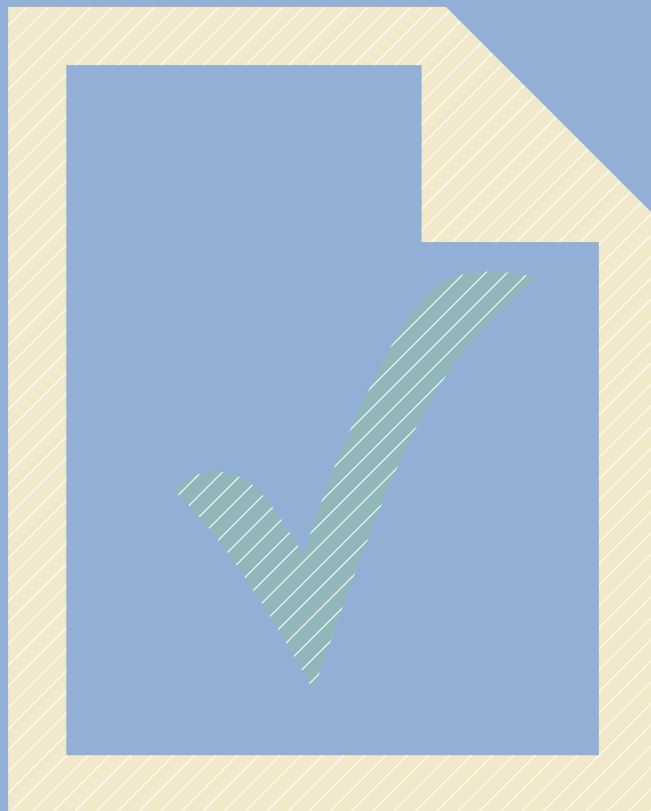
**Liquidity in the derivatives markets is concentrated in a small number of products. Just one of the 85 CDS indices mandated for clearing in the US accounted for 41% of all such trades during a two-week period. 90% of the trades were in just 4 products.**

**2/3**

**Most of the global OTC derivatives markets – up to 2/3 or more – is expected to be cleared. The smaller non-cleared segment will continue to play an important role in managing risk for corporations, investment and pension funds, governments and financial institutions.**

# THE SOURCE FOR ROBUST AND TRUSTED DOCUMENTATION

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**TO ENSURE LEGAL CERTAINTY AND MAXIMUM RISK REDUCTION  
GLOBALLY THROUGH NETTING AND COLLATERALIZATION**

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The ISDA Master Agreement and related documentation materials have helped to significantly reduce credit and legal risk. One important way they do this is through their netting provisions, which enable firms to net their exposures with each other. This means that all transactions done under the ISDA Master between two parties are treated as a single legal whole with a single net value. ISDA works to ensure market participants realize this important risk-reducing benefit by soliciting legal opinions on the enforceability of netting and by working to expand netting in more jurisdictions.



58

#### NETTING OPINIONS

ISDA has obtained legal opinions on the enforceability of the netting provisions of the ISDA Master Agreement in 58 jurisdictions.

ZERO

#### ALWAYS ENFORCEABLE

The close-out netting provisions of the ISDA Master Agreement have **NEVER** been found to be unenforceable after ISDA has published an opinion confirming such enforceability.

0.6%

after netting

#### RISK REDUCTION

Netting reduces OTC derivatives credit exposure to 0.6% of notional outstanding. Collateral reduces it even further. Credit exposure after collateralization and netting is about 0.2% of notional outstanding.



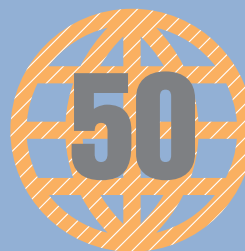
0.2%

after netting and collateral

117,000

#### COLLATERAL AGREEMENTS

Collateralization helps reduce risk. There were about 117,000 ISDA collateral agreements in place between counterparties at year-end 2011.

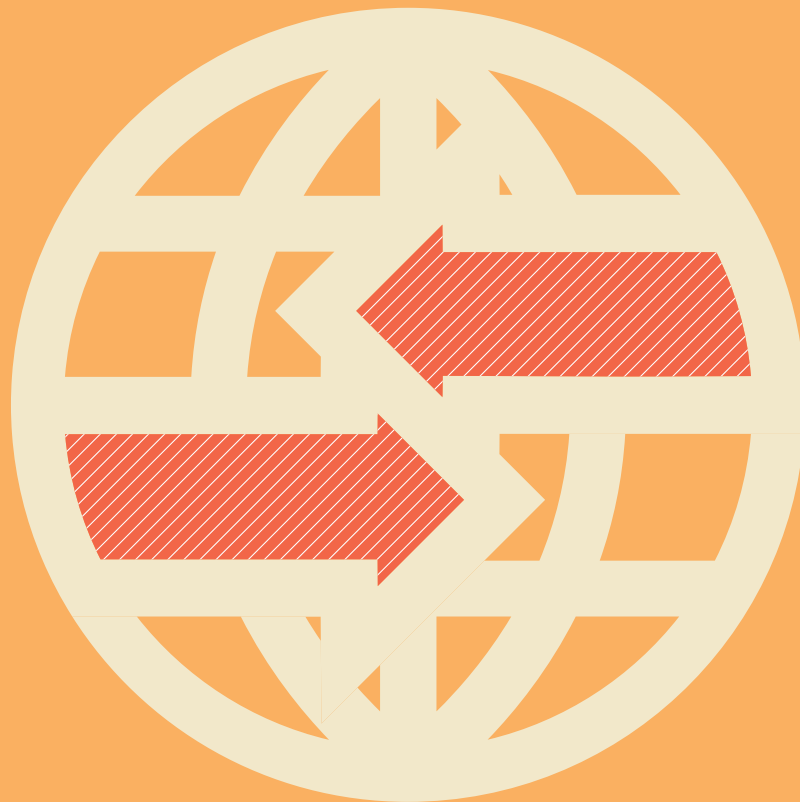


#### COLLATERAL OPINIONS

ISDA has obtained legal opinions on the enforceability of the collateral provisions of ISDA documentation in 50 jurisdictions.

# THE ARCHITECT OF A SECURE AND EFFICIENT INFRASTRUCTURE

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**THAT SUPPORTS AN ORDERLY AND RELIABLE MARKETPLACE  
AS WELL AS TRANSPARENCY TO GLOBAL REGULATORS**

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UTIs. FpML. GTRs. They are not just indecipherable acronyms. They are some of the important ways in which ISDA and market participants are working to build a safer, more efficient OTC derivatives marketplace in conjunction with new regulatory requirements. Unique Trade Identifiers (UTI) are the unique identities given to specific transactions to more easily track a trade. FpML is an e-business language based on industry standards that is streamlining the process supporting trading activities in the financial derivatives domain. Global swap trade repositories (GTRs) are central trade warehouses to which all derivatives trades are being reported, greatly enhancing regulatory transparency.

# 4,670,608

## TRANSPARENT MARKETS

Regulatory transparency continues to grow as a result of derivatives trade reporting. The number of interest rate derivatives contracts in the DTCC Global Interest Rate Swap Trade Repository totals over 4.6 million (as of March 1, 2013).



## UNIQUE TRADE IDENTIFIERS

Identifiers and taxonomies (such as UTIs) are being developed to provide a classification for each of the OTC derivative asset classes, with a primary goal to facilitate regulatory reporting. The ultimate goal: greater regulatory transparency.

## STANDARDIZATION

Market participants, in partnership with ISDA and regulators, are committed to a high level of product, processing and legal standardization in each asset class to enhance operational efficiency, mitigate operational risk and increase the netting and clearing potential for appropriate products.



## FINANCIAL PRODUCTS MARKUP LANGUAGE

FpML® is the freely licensed standard, developed under the auspices of ISDA, to help automate the flow of information within and across firms, increasing the efficiency of trading, operations and risk management processes and systems.



## ...AND COUNTING

The number of counterparties adhering to ISDA's 2012 Dodd-Frank Protocol continues to rise. ISDA protocols are an efficient way of implementing industry-standard contractual changes over a broad number of counterparties. The 2012 Dodd-Frank Protocol helps firms comply with key elements of the new derivatives regulations.

# AN ADVOCATE FOR EFFECTIVE RISK MANAGEMENT AND CLEARING

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# RISK

## **TO ENHANCE COUNTERPARTY AND MARKET RISK PRACTICES AND ADVANCE THE EFFECTIVE USE OF CENTRAL CLEARING AND TRADE REPOSITORIES**

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Most OTC derivatives transactions will be cleared in the future: it's a key regulatory commitment and a key industry initiative to reduce counterparty credit risk. It's also a trend that ISDA actively encourages by: helping to standardize the legal and operational aspects of OTC transactions; developing documentation that facilitates moving bilateral trades to clearinghouses; and working to ensure CCP risk governance standards are appropriate. ISDA also supports a robust variation margin framework to mitigate credit risk. In addition, portfolio compression, which reduces notional outstanding by eliminating economically offsetting trades, is significantly reducing the market's size.



# 84%

## REDUCING EXPOSURES

Most trades – 84% – executed by large derivatives dealers are subject to collateral agreements that reduce risk. Transactions with sovereigns are the major exceptions. 85% of these agreements are in the form of an ISDA Credit Support Annex.



## REDUCING NOTIONAL OUTSTANDING

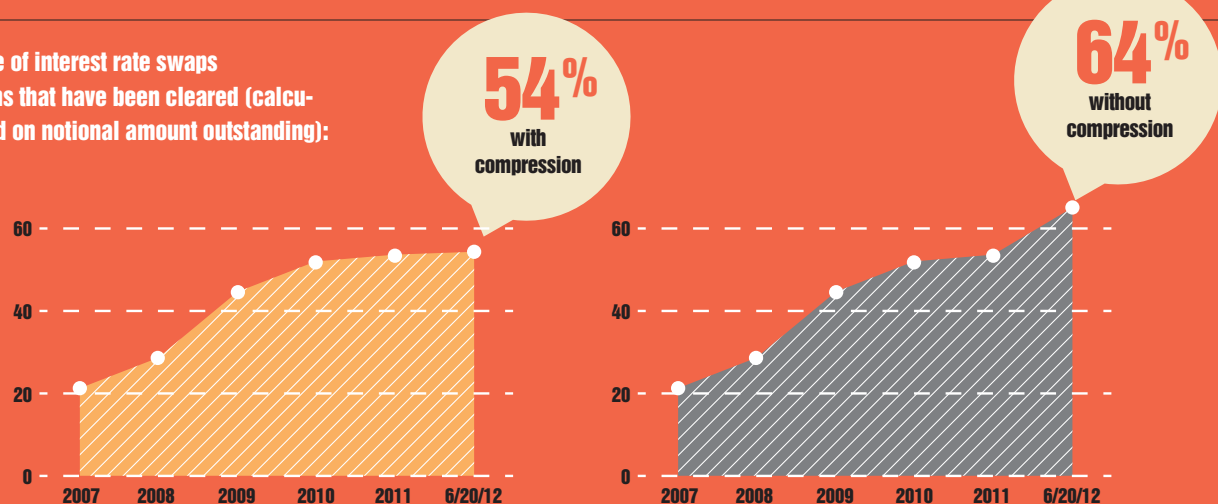
Compression in the IRS and CDS markets has reduced the notional amount outstanding by about \$300 trillion. Compression, which involves “tearing up” trades that economically offset each other, decreases risk and improves efficiency.



## THREE-PILLAR FRAMEWORK

ISDA believes that a three-pillar framework is appropriate for ensuring systemic resiliency. The framework includes: (1) a robust variation margin framework for OTC derivatives transactions that involves daily valuations and daily collateral exchanges; (2) mandatory and properly supervised clearing of sufficiently liquid and standardized products; and (3) an appropriate capital regime.

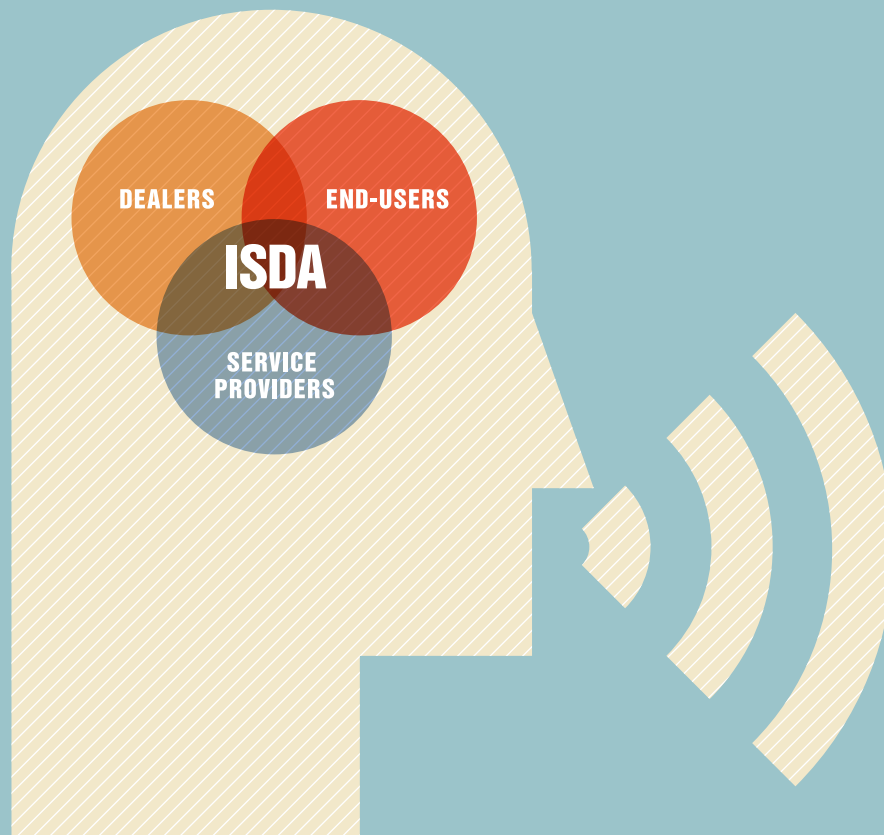
Percentage of interest rate swaps transactions that have been cleared (calculated based on notional amount outstanding):



OTC derivatives clearing continues to grow. Over half of the interest rate swap market is cleared. And after adjusting for the impact of portfolio compression, the percentage increases to 64%.

# THE VOICE FOR THE GLOBAL DERIVATIVES MARKETPLACE

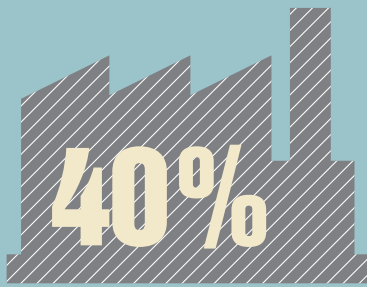
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**REPRESENTING ALL MARKET PARTICIPANTS THROUGH OUR PUBLIC POLICY,  
EDUCATION AND COMMUNICATIONS INITIATIVES**

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ISDA today ranks as one of the largest global financial trade associations, with more than 840 members from 60 countries. The Association represents, and our 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. Members also include key components of the derivatives market infrastructure, as well as law firms, accounting firms and other service providers. The ability to draw on the experience and expertise of this diverse membership base is at the core of ISDA's strength and success.



### **BROAD MEMBERSHIP**

ISDA members are 40% derivatives end-users (making this the largest of ISDA's three membership categories); 35% service providers and infrastructure vendors and 25% banks and other dealers.

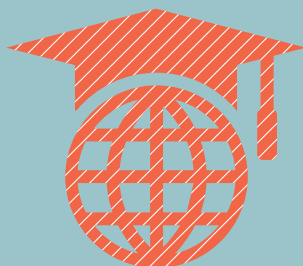
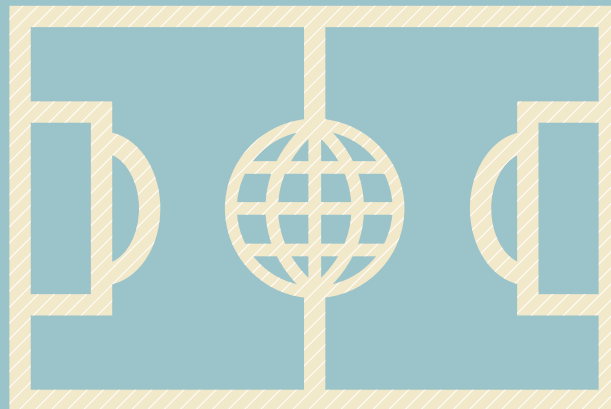
# G20

### **SAFE, EFFICIENT MARKETS**

ISDA supports the G20 commitments to build a more robust global financial system and is actively working to reduce counterparty credit risk and improve regulatory transparency.

### **A GLOBAL PLAYING FIELD**

ISDA's presence in key financial and regulatory centers – New York, Washington, London, Brussels, Hong Kong, Singapore and Tokyo – mirrors the global nature of the derivatives markets.



### **GLOBAL EDUCATION**

ISDA holds more than 120 conferences around the world on documentation, clearing, collateral, data and reporting, risk management and related topics. Last year over 5,000 market participants attended an ISDA event.



### **DRIVING CHANGE**

In order to help members understand and respond to derivatives regulatory requirements, ISDA has established regulatory implementation committees (RICs) for four key areas: Risk & Margin; Organized Trade Execution; Conduct of Business; and Data & Reporting.



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