Chairman's Address
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Thank you, Bob, and good morning to all.

It's been about six months since I was elected to be the Chairman of the Board of ISDA.

And as you know, it's been a busy time for all of us in the financial markets.

We've been focused on matters such as:
- The Greek debt crisis
- The US debt ceiling impasse, and
- Fears of global financial contagion

Amidst all of the tumult, one positive note: OTC derivatives have not factored much into any of these problems.

Yes, there have been flurries of news stories here and there. But not a lot, at least by the standards of the past few years.

I would like to think that this reflects in part the hard work of ISDA and market participants. We've increased transparency and reduced risk. I'll be discussing this in more detail.

Our work has enabled policymakers and others to have a more accurate, in-depth view of exposures. And I hope it's leading to a more informed debate on the derivatives markets.

And that's what I would like to speak to you about today…our work to build Safe, Efficient Markets. Safe, Efficient Markets …and how we can drive further progress now and in the years ahead.

This progress depends in large part on two critical factors. First, the continued commitment of market participants around the world. And second, a consistent, global regulatory framework -- and a framework focused on systemic risk reduction.

Let me address each of these points in more detail.

Consider this: Is there another market that has moved as swiftly and as broadly to address its challenges as the OTC derivatives markets?

Think of the financial crises of the past. Think of the Great Depression, 1970's stagflation and more recently:

- The Asian financial crisis
- Long-Term Capital Management
- the dot.com bubble
- the '87 crash and the Flash Crash

Now think of the solutions to these events.

Glass Steagal and more recently Sarbanes Oxley spring to mind – and we can debate the effectiveness there.

Where were the private sector solutions?

Think now about what the derivatives markets have achieved over the last few years….

A massive amount of work has been done by the industry:

- We're clearing over 50% of interest rate swaps.
- The vast majority of derivatives activity between market professionals is fully collateralized
- Trillions of dollars of transaction volume has been eliminated by trade compression. And
- Swap data repositories have been built to report transaction data to regulators

In short, we really are working to build Safe, Efficient Markets. We are reducing the risks of interconnectivity and increasing the transparency of risks to global regulators.

This is right out of the G20 playbook. And there's much more progress to come.

Much of this potential lies in our ability to involve more types of market participants in our activities. So, when I referred earlier to continued commitment of market participants I meant all types of participants.

This is important.

It's my view, and it's ISDA's view, that our efforts in

- Clearing
- Collateral
- Trading infrastructure
- Documentation, and
- Risk management

are much stronger if we have all types of market participants at the table when we develop strategy and execute on that strategy.

It's the approach we took when we developed the Big Bang and Small Bang Protocols – which have had an enormously positive effect on CDS market liquidity and transparency.

Broader, cross-market participation has also been a goal of the ISDA board, where we've added several buy-side firms as directors.

Greater inclusion, greater representation across market participant types and geographical regions is absolutely necessary…and we'll be doing more of it as we move forward.

This brings me to my second point: the need to build a consistent global regulatory framework focused on systemic risk reduction.

Needless to say, this is a huge challenge. But we must rise to meet it.

As I noted, we absolutely support the G20's goals.

Mitigation of systemic risk by increased transparency to regulators and increased focus on counterparty credit risk are essential components of a more stable system.

The key focus of the developing regulatory framework is in these areas; but ISDA does have a number of concerns with regard to certain regulatory developments.

Two areas of concern that I want to cover today are:

First, extraterritoriality, which refers to the inconsistency of rules between key regulatory jurisdictions, and the reach of one jurisdiction's rules into activities in another.

And second, the fact that certain regulatory initiatives are focused on market structure, not systemic risk reduction.

The costs and benefits of some proposals are not clear and have yet to be fully examined.

With regard to Extra-Territoriality, or ET, there are today large and growing concerns regarding the applicability of Dodd-Frank outside the US. I know that these concerns are strongly felt by regulators and market participants in Japan.

And, these concerns have been raised by Japanese and non-Japanese entities.

One example of an ET issue that has already arisen under Dodd-Frank is in relation to collateralisation requirements for non-U.S. counterparties, including not just banks and corporations, but also central banks and sovereign wealth funds.

We are encouraged that efforts that are clearly being made in the EU and US to achieve convergence towards appropriate rules that address risks. But we also recognise the systemic benefits of a global market in risk transfer and Japan is also participating in these dialogues.

We see great potential in extending mutual recognition of regulation wherever that is viable. It is vital to the real economy that we do not see “artificial” barriers to financial services…financial services that are -- safely and efficiently -- contributing to the ability of market “users” to trade into or out of risk positions.

As I mentioned we see great value in international supervisory co-operation, including the many supervisory working groups that operate on a cross-border basis to put the G20 principles into practice.

But Extra-territoriality has not been properly addressed and remains a very real concern. Steps must be taken now to ensure that these concerns are properly resolved.

One driver of ET problems is that - in the US as in the EU and as in Asia – the starting point these discussions is too often that markets can operate in regional silos.

We think that this is sub-optimal. It is important to note that the cross-border OTC derivatives transactions conducted across regions account for a significant share particularly in Japanese market. Major financial institutions in Europe and the US as well as Japanese financial institutions are dealing actively as a market maker or user in derivative transactions in the Japanese markets.

Should the regulations in each country or region be introduced without consistency, such institutions could be prevented from engaging in cross-border transactions and executing their global risk management strategies efficiently. This could potentially lead to regulatory arbitrage, segmented markets, reduction in liquidity, resulting in reduced market efficiency and increased systemic risk.

We acknowledge that Japan has decided to move towards onshore CCPs for certain markets. However, it is ISDA’s view that too much jurisdictional fragmentation will reduce the scope and scale of benefits from clearing and increase systemic risk.

With too many CCPs, if and when there is another crisis, banks – as the equity providers to CCPs - will face multiple contingent capital calls at times of extreme market stress.

In addition, there may also be a race between CCPs to aggressively close out near-defaulting banks to be the first one to get any cash in the door.

Clearly these are pro-cyclical dynamics. Dynamics that will put strain on the banking system at the worst possible time.

That’s in times of defaults.

In more peaceful times, fragmentation of CCPs could cause the market for risk hedging tools to become more expensive as costs are transferred to end users and consequentially deter those end users from making appropriate risk management decisions.

We realise that there are differing views, and that there is no easy answer here. Local regulators want control. And, international CCPs also have their challenges, we recognise that.

But I hope those challenges can be overcome. And ISDA certainly stands ready to play role in overcoming those challenges.

Turning to the regulatory focus in the area of market structure.

ISDA's view is that too much time, resources and attention is being spent discussing, debating and formulating rules that don't center on meaningful risk reduction.

Why make changes unless we know what the benefits will be?

Or perhaps more importantly, what will be the unintended consequences in terms of increased risks and other costs?

Greater focus instead needs to be placed on ensuring a globally coordinated, properly phased regulatory approach…an approach that is centered on reducing systemic risks.

So what are we doing about all this?

How is ISDA trying to address all of the regulatory challenges that the OTC derivatives markets face?

Let me summarize our approach in two words. Constructive. Factual.

By constructive, I mean that we continue to be engaged with policymakers working with a pro-active, positive approach aimed at addressing the key systemic risk issues that have been raised.

Clearing, compression, collateral, data repositories: these are the tools for reducing counterparty credit risk and we are hard at work on all of them.

This work is being conducted in partnership with global regulators.

An example of great progress lies in the date repository area.

With the CDS trade warehouse up and running, risks such as those related to AIG as a counterparty will no longer be allowed to build up unnoticed in the financial system.

AIG simply should not happen in the future. This is very real and constructive progress.

By factual, I mean that we are undertaking research that explores and quantifies the impact of proposed regulations and changes.

This ranges from the basic, such as comparing the structure and trading volumes of OTC versus exchange traded markets, to more in-depth analysis.

The OTC and exchange traded markets are very different. The listed market is a high volume market with many small trades executed by thousands of counterparties. The OTC market, by contrast, has much smaller volumes, with many fewer market participants, but much larger trade sizes.

The facts serve to inform and educate the debate – there is no one-size-fits-all set of regulations that can be applied to both OTC and Listed Derivatives.

At the opposite end of the research spectrum is the paper on clearing developed for ISDA by Professor Craig Pirrong. It's a thorough and thoughtful exposition that examines the key issues related to central clearing. You can access that via the ISDA website or Google "Pirrong ISDA".

Our constructive, factual approach marks a new phase in ISDA's support for the derivatives markets.

With this approach, I believe it's time for the industry to begin to look past the financial crisis to the future of our markets.

We should, and indeed we do, understand and accept the role that derivatives played in the financial crisis.

It was a fairly limited role, one marked by too much interconnectivity of risk and a lack of transparency about exposures.

And as I have stated clearly, we are well on the way to mitigating these risks.

Let me conclude:

Today, we are in the midst of a very complicated effort that may vastly change the financial markets.

It is, in a way, similar to the task that our predecessors faced some 25 years ago when ISDA was formed and the industry was in its infancy.

We, like they, have an opportunity to shape a market that is one of the most dynamic the financial world has ever seen.

We, like they, have a decision to make about whether we should engage each other and policymakers in this effort, or whether we should leave that work to others.

We, like they, have to achieve all of this in a difficult environment, one in which there is a significant level of misunderstanding about our markets.

We know what their decision was 25 years ago.

They took up the task at hand and helped build a market that changed the face of finance.

And I know what our decision will be today.

It will be to join together, once again, to work towards Safer, More Efficient markets.

Your attendance here today – and your continuing support of ISDA – underscores this commitment.

And I thank you very much for your support.

Thank you.