ISDA Derivatives Trading Forum Hong Kong
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Opening Remarks
Steven Kennedy
Global Head of Public Policy, ISDA

Good morning, and welcome to the ISDA Derivatives Trading Forum.

It's great to be here in Hong Kong – thanks for joining us, and a special thank you to OSTTRA for sponsoring the event.

It's been another year of very broad – and very deep – engagement for ISDA with policymakers, members and other market participants throughout the Asia-Pacific region and, of course, here in Hong Kong.

We've been focusing on raising awareness of the benefits of derivatives products, advocating for greater access for the buy side, aligning regulatory reforms with international standards, and campaigning for appropriate capital and policy frameworks that are proportionate to local markets.

More specifically, we've drawn attention to how derivatives could help the vast pension sectors in Australia, India and Japan to manage their risks. We've highlighted the role of credit default swaps in the development of corporate bond markets in India and South Korea. We've worked to optimize and standardize reporting rules. And we've pushed for better alignment of margin rules with international standards.

We've also conducted and participated in a number of educational and market events across the region, including collateral training for initial margin (IM) implementation in China, ISDA Standard Initial Margin Model (ISDA SIMM) workshops in India and Australia, digital transformation in financial markets, our Annual Legal Forum in Singapore, and our master classes on documentation and accounting in Hong Kong and Singapore.

Today, of course, is our Derivatives Trading Forum in Hong Kong, which is one of ISDA's flagship events in the region and around the world.

And no wonder given Hong Kong's role in global and regional financial markets.

It goes without saying that Hong Kong is one of the great success stories of modern financial markets – an international financial center with a vibrant local market. It's the gateway to China and it plays a hugely important role in facilitating global access to that market. Since its launch in 2023, Swap Connect has quickly become a valuable component in providing this access, with

steady growth in swap trading volumes and broadening participation from offshore investors. It now represents a meaningful part of the market, accounting for 13% of onshore interest rate swap activity in the first quarter of 2026.

The success of the Connect platforms is a testament to the strong global demand for access to Chinese financial markets. As the world's second-largest economy and home to the world's second-largest bond market, China has taken significant steps to enhance that access for international investors.

But access is only part of the story. Investors also need the ability to manage the risks that come with those investments, which makes the development of a deep and liquid derivatives market critical.

A vital step was the passing of China's Futures and Derivatives Law in 2022, which provided statutory recognition of close-out netting. By allowing counterparties to reduce multiple obligations to a single net amount following a default, close-out netting significantly reduces credit risk and gives firms greater confidence to transact.

That legal framework is continuing to develop. Proposed amendments to China's Enterprise Bankruptcy Law would introduce an explicit bankruptcy safe harbor for close-out netting across financial transactions, building on the protections in the Futures and Derivatives Law. ISDA strongly supports that development and has recommended further clarification to ensure associated collateral arrangements are also explicitly protected.

So, there has been real progress – greater market access, stronger legal foundations and more effective tools for investors to manage their risks. The next challenge is to ensure the regulatory infrastructure continues to develop alongside the market.

There has been important progress here too.

China has introduced margin rules for non-cleared derivatives, with the first phase of IM requirements coming into effect on September 1, 2027 – less than a year away. We know from our experience of supporting implementation in other jurisdictions that early preparation is vital. From identifying in-scope entities, negotiating documentation and establishing custodial and segregation arrangements to putting processes in place to calculate and exchange collateral, the implementation challenge should not be underestimated.

I'm pleased to announced that we recently completed a legal review of China Central Depository & Clearing's IM custodian solution – critical for enabling the use of Chinese government bonds as IM ahead of the compliance deadline. ISDA will also shortly publish documentation to facilitate the posting of Chinese government bonds as collateral in cross-border over-the-counter derivatives transactions under the ISDA Master Agreement.

Elsewhere, China can draw on a decade of international experience. When the largest global market participants started exchanging regulatory IM in 2016, the industry needed a robust and risk-sensitive way to calculate how much margin should be exchanged. Multiple competing

models would have added cost and complexity and increased the potential for disputes. The industry response was the ISDA SIMM. Market participants set aside their competitive differences and worked through ISDA to develop a common methodology that could be used across the market.

Since then, the ISDA SIMM has become a cornerstone of the non-cleared derivatives market infrastructure. It is permitted for use by regulators in more than 40 countries, used by more than 440 groups of entities and supported by 70 vendors. We've never stopped evolving the model to ensure it remains appropriately risk sensitive and can support the efficient exchange of margin at scale.

We're now working to ensure it can also support implementation in China. Specifically, we recently published an updated version of the ISDA SIMM that uses a more data-driven method for assessing currency volatility, assigning renminbi to the regular-volatility bucket.

But calculating the amount of margin is only one part of the equation. Firms also need to be able to move that collateral efficiently – a challenge that isn't unique to China.

Globally, $1.6 trillion of IM and variation margin was collected by leading derivatives market participants at the end of 2025. As margin amounts have grown, there's been increasing global focus on getting collateral from point A to point B at the time it's needed – something that's particularly important in Asia, where time zone differences and overseas settlement windows mean market participants often have to post more collateral than is required.

A study by Nasdaq and ValueExchange estimates that as much as $50 billion of collateral is either posted in excess or not remunerated. Imagine the economic benefits that could be realized if counterparties could post the right amount at the right time for every trade.

We think tokenization could help. By enabling near-instantaneous settlement, tokenized assets could reduce counterparty risk, enable intraday liquidity management and increase the mobility of collateral – all of which will improve market efficiency.

It will also unlock a broader pool of assets that can be used as collateral, easing liquidity strains during periods of stress. This includes money market funds, which are currently all but impossible to use as margin due to operational complexities.

As with any innovation, there are legal, regulatory and operational hurdles to be overcome to realize the potential efficiencies. ISDA is hard at work to help address some of these questions. In July, we published a report with Global Digital Finance looking at the legal, regulatory and operational viability of tokenized money market funds in the US. We also released a paper last month examining how our own documentation can support tokenized money market funds as derivatives collateral.

Tokenization is one example of how advanced technology can help to create efficiencies in market processes. Another is artificial intelligence (AI).

You don't need me to tell you that AI has been developing at breathtaking speed. The question now is not whether this technology could find a use case in financial markets, but rather where it will have the biggest impact and what guardrails are needed to make sure it doesn't jeopardize the orderly functioning of markets.

It's great to see regulators around the world considering this question. That includes the Hong Kong Monetary Authority, which is establishing a framework to support the responsible adoption of AI, based on accountability, resilience and trust. The success of AI in financial markets will depend on striking a balance between responsible innovation and appropriate supervision and oversight.

For ISDA's part, we've been taking the first steps by integrating AI into our services where it makes sense to do so, starting with our Digital Regulatory Reporting (DRR) solution. By using the Common Domain Model to convert a golden-source industry interpretation of the rules into machine-executable code, the ISDA DRR improves the accuracy and consistency of regulatory reporting. So far, we've delivered the ISDA DRR to support nine sets of reporting rules around the world, including Hong Kong, but we're now taking this initiative a step further.

Last month, we launched the ISDA DRR Tracer Agent, which uses AI to look back at the history of DRR decision-making, providing an audit trail of when and why coding decisions were made. This means users can track every reporting outcome back to the original reporting rule and the working group consensus interpretation.

We're also developing a number of other AI agents to enhance the DRR, including a translator agent that will interpret new or updated reporting requirements and support the conversion into code, reducing the time, effort and cost of keeping pace with evolving rules.

These DRR agents are an exciting development that will enhance the user experience and improve regulatory outcomes, highlighting the huge potential of AI to deliver greater efficiency and transparency.

Developing markets that are efficient – and safe – is the lifeblood of ISDA. Whether we're supporting the implementation of margin rules with the ISDA SIMM, bringing greater efficiency to collateral management through tokenization or rolling out AI agents to enhance our regulatory reporting initiative, our approach is always consistent.

We spot the challenges and opportunities, convene the best minds in the industry to develop mutualized solutions and then make them available on a global scale. That's how we have helped to deliver safer, more efficient derivatives markets, and it's the exact approach we'll be taking in the future.

Thank you again for being with us today, and I hope you enjoy the event.