ISDA Annual General Meeting
May 12, 2022

Chairman Remarks
Eric Litvack, ISDA Chairman

Good morning, everyone. Buenos días. Es un placer estar aquí en Madrid. Espero que estéis bien.

What a pleasure it is to be back with you in the flesh at an ISDA AGM once again. The past two days have really underscored how valuable this event is – and I know many of you agree. Time and again, I've heard conversations about the value of gathering together as a community, collaborating and sharing ideas.

On that note, I'd like to thank our evening event sponsors – LCH for Tuesday night at Casino de Madrid and Linklaters and S&P Global for last night. Networking is a fundamental part of the AGM, and I for one have really missed that aspect of it, so let's give them a round of applause for their support, as well as for all the other sponsors and exhibitors that have supported us this year. We simply would not have been able to hold an in-person event here in Madrid without your encouragement, commitment and steadfast backing. On behalf of the ISDA board, thank you.

When preparing for these remarks, I thought I'd take a look back at the agenda for our last in-person AGM in Hong Kong in 2019. That feels like a lifetime ago now. As might be expected, a lot has changed between then and now – preparing for Brexit was a big preoccupation back then, while environmental, social and governance issues and crypto assets barely got a mention. But those of us who were in Hong Kong may remember benchmark reform was a central part of the agenda – as, indeed, it is this year.

That doesn't mean we're discussing the same issues – far from it, in fact. The focus at the Hong Kong AGM was on how to address the many challenges, from building liquidity in risk-free rates (RFRs) to tackling tough legacy contracts. Fast-forward three years, and we've successfully navigated the shift from 30 LIBOR settings, a move affecting tens of trillions of dollars worth of financial contracts. What's more, it was achieved with remarkably little market disruption.

This is an incredible achievement, and was made possible by the close cooperation and coordination between regulators, central banks, financial institutions and market infrastructures, and their collective resolve to think through every problem and develop solutions.

ISDA's work to develop robust contractual fallbacks for derivatives is a prime example of that collaboration. Achieving broad industry consensus and regulatory support was absolutely pivotal to the wide adoption of the fallbacks, ensuring alternatives rates based on RFRs automatically kicked in for most derivatives that still referenced the affected LIBOR tenors after December 31.

As chairman of the ISDA Board, I'm immensely proud of ISDA's leadership on fallbacks, which went a long way to mitigating the potential systemic risk of the transition. While there is still work to do on US dollar LIBOR, I'm confident we have the solutions we need to successfully meet the next deadline in June 2023, and I'm equally confident that ISDA's fallbacks will provide a similarly critical backstop.

This is one example of how ISDA has been instrumental in tackling a difficult challenge, but there are many others. In some cases, ISDA has had to turn on a dime to respond to immediate industry issues. In others, a longer-term approach has been taken to anticipate future needs and lead the market to solutions. I'd like to use my remarks today to highlight examples of both.

First, I'll describe ISDA's work to help our members cope with the Russian sanctions. Let me start by saying that what is happening in Ukraine is deeply shocking and horrifying. It is a tragedy for the country and its people, and it will have broad repercussions. The sanctions rolled out in response are among the toughest ever implemented, and ISDA has been doing its bit by moving quickly to help firms understand the implications and meet their obligations.

As an immediate response, we convened our industry working groups to identify potential hurdles and published a sanctions page on our website to act as a single repository for sanctions-related information. Fortunately, we weren't starting from scratch – ISDA published a paper back in 2019 that highlighted some of the unique issues faced by derivatives in a sanctions regime, and made some recommendations intended to minimize unintended market disruption without compromising foreign policy goals.

Several of those recommendations ended up being adopted by sanctions authorities, including allowing non-sanctioned entities a period of time to unwind outstanding derivatives trades. But there were still plenty of complicated issues that needed to be thought through.

While much of this has to be worked out by each institution based on its individual circumstances, some common, industry-wide issues emerged that needed quick answers. In each case, ISDA moved rapidly and with agility to provide guidance and solutions to help bring clarity to the market.

As an example, ISDA responded swiftly to allay concerns about the impact on outstanding deliverable FX transactions by publishing a bilateral amendment agreement with the Emerging Markets Trade Association that allows parties to switch to non-deliverable settlement if it becomes impossible to deliver or convert rubles.

Published just a week after the first sanctions were announced, it meant a workable off-the-shelf remedy was quickly available, avoiding the need for each pair of counterparties to thrash out their own solution. The amendment agreement is available on the ISDA Create online negotiation platform free of charge, ensuring the widest possible number of institutions can efficiently access and implement it.

This is on top of other solutions to address specific issues in the commodities, credit and interest rate derivatives markets, as well as guidance related to the Russia equity market closures, helping to bring certainty and encouraging orderly settlement of exposures.

This is one example of ISDA having to move with speed and dexterity to solve a sudden and urgent industry problem. I'd now like to highlight other areas of work that have involved longer-term vision and planning.

The 2021 ISDA Interest Rate Derivatives Definitions are a case in point. The new definitional booklet includes a number of important modifications to provide greater resilience in the face of unanticipated events, and to reflect current market practices, conventions and regulatory requirements.

Arguably the biggest transformation, though, is in how people access the definitions. At a time when technology is revolutionizing how we live and work, the 2021 Definitions are the first to be published in purely digital form via our MyLibrary platform, making it much easier and quicker for firms to determine the terms of their trades.

Now, whenever an update is necessary, a new consolidated version of the definitions can be republished digitally with marked-up changes, rather than issuing supplements to make the amendments. Given the 91 supplements to the 2006 Definitions tot up to about 600 pages on top of the 158 pages of the main booklet, this makes interacting with the definitions much more manageable, less daunting and more efficient.

The 2021 Definitions are an example of ISDA leading the industry and designing a solution fit for a changing market. Of course, change is never easy, but adoption is fast gathering pace. All cleared interest rate derivatives and about two thirds of electronically confirmed trades in the non-cleared market now reference the new definitions. It has essentially become the de facto standard for interest rate derivatives.

We aren't stopping here. We have already added our FX Definitions to the MyLibrary platform and plan to make more of our documents available electronically over time. Combined with ISDA Create, we're paving the way to greater efficiency and automation of legal agreements.

Documentation isn't the only area we're bringing into the digital age – we're also using technology to help the industry comply with amendments to derivatives reporting rules.

Rather than describe it myself, I'd like to play a short animation to explain how ISDA's digital regulatory reporting initiative will help create efficiencies and cost savings for firms.

As the animation states, we're focusing on the Commodity Futures Trading Commission's amended swap data rules first to meet the December 5 implementation deadline. But we're also working to digitize revised reporting requirements under the European Market Infrastructure Regulation, expected to come into force in 2024. Additional reporting rule sets will be added over time as amendments are made in other jurisdictions, including those in Asia-Pacific.

This is a major global initiative for ISDA, and we think it's a win-win for both the industry and regulators. Having a single accepted code for each rule set will avoid the need for firms to devote resources to interpreting the requirements and building their own reporting logic, enhancing efficiency and reducing costs. For their part, regulators will have full transparency into how the rules are being applied. Critically, they will also receive better quality data that is more accurate and consistent, helping them to monitor potential sources of risk.

I'd like to finish by briefly highlighting another solution that brings significant benefits to both market participants and regulators – ISDA's Standardized Approach (SA) Benchmarking initiative.

Developed by ISDA's analytics team, SA Benchmarking is intended to help banks implement the new, more complex standardized models within the Basel III framework accurately and consistently. Specifically, ISDA is able to work with individual firms to analyze their models and identify and explain any variations versus an industry standard, enabling them to fine-tune their implementation.

For banks, this has important benefits: they can avoid divergences in how they interpret the requirements, bringing greater efficiency to the implementation process. For regulators, it means they can be sure that banks in their jurisdiction are implementing the rules accurately and consistently.

So far, 71 banks have participated in ISDA's benchmarking exercises, while 16 supervisors have used the data to monitor implementation in their jurisdictions. Having started with an initial focus on the Fundamental Review of the Trading Book, ISDA has now extended the program to cover the standardized approach to counterparty credit risk and the revised credit valuation adjustment framework. We're also exploring how benchmarking can be applied to internal models, so watch this space.

I'm proud to say ISDA's benchmarking work was recognized in the recent Risk.net awards, winning the innovation in technology gong for Perun, the quantitative engine that underpins the SA Benchmarking initiative.

As individual jurisdictions publish draft rules to implement the final Basel III measures and banks gear up to meet the requirements, ISDA's focus will be on bringing as much efficiency as possible to the implementation process. ISDA's Standardized Approach Benchmarking initiative will be a key part of that effort.

At the start of my remarks, I talked about the value of collaboration and used this as a springboard to describe ISDA's work to develop mutualized industry solutions. As ISDA members, you are a critical part of that collaboration process. Your input, your ideas and your feedback on the various working groups are absolutely critical to ISDA's success. On behalf of the ISDA Board, thank you.

I'd also like to thank the ISDA staff for corralling that feedback and providing the critical leadership and vision. And, of course, to the ISDA conference team for making it possible for us to meet together in Madrid this week.

It just remains for me to thank you all for attending the AGM. Thank you to our speakers, our sponsors and exhibitors. As I said at the start, it wouldn't be possible to hold an event like this without your support.

I hope you enjoy the rest of the conference and enjoy your time in Madrid.