ISDA Annual General Meeting
April 18, 2024

Welcoming Remarks
Scott O'Malia, ISDA CEO

Good morning, and welcome to day two of the ISDA Annual General Meeting.

What a fantastic reception that was at Happo-en last night. Thank you to our evening event sponsors – Mizuho, MUFG and Nomura – for making that possible.

Dating back to the 17th century, Happo-en is one of Tokyo's great gardens, providing an oasis of calm and natural beauty in the busiest city on the planet. Like many Japanese gardens, its appearance changes dramatically with the seasons, from the spectacular cherry blossom of spring to the orange leaves of the fall. As the world evolves at an ever-faster pace, being able to enjoy gardens that have endured for centuries is quite something.

This morning, I'll briefly reflect on the evolution of the derivatives market since the global financial crisis. Fifteen years may seem like the blink of an eye in the context of a Japanese garden, but 2008 feels like a lifetime ago. That's partly because of how much the market has changed since then. As of the end of June last year, 78% of interest rate derivatives notional outstanding was cleared, while margin collected by leading market participants reached $1.4 trillion at the end of 2023. Combined with higher capital requirements, as well as trading and transparency rules, the post-crisis reforms have improved the market's resilience beyond measure.

Nevertheless, we must continually review the framework to make sure it functions effectively, especially as regulations change and new challenges emerge.

For example, EU legislators recently came to a political agreement on the European Market Infrastructure Regulation 3 package, marking an important step in their efforts to improve the attractiveness of clearing within the region. I'm pleased to say the final package included a less punitive version of the active account requirement than originally proposed, but we will continue to urge regulators to avoid any changes that would inflict additional costs on EU savers and investors.

Meanwhile, policymakers have been developing a program of work to improve market resilience following a series of stress events, including the dash for cash in March 2020. As part of that, the US Securities and Exchange Commission (SEC) has finalized rules that will require increased clearing of US Treasury securities and repo transactions. This is a huge, systemically important market, so we certainly support the SEC's goal to make it more efficient, competitive and resilient.

However, this represents a major transition that will require time and a collective industry effort to implement. ISDA will engage closely with members on this issue and assist with implementation where we can – for instance, by providing input on client clearing models and appropriate documentation.

Margining practices have also come under the spotlight, as policymakers look to improve the transparency and responsiveness of margin models in cleared and non-cleared markets.

For example, a recent paper from the Basel Committee and the International Organization of Securities Commissions set out various recommendations to encourage good margin practices in non-cleared derivatives markets. I'm pleased to say it also recognized the improvements that have been made to the ISDA Standard Initial Margin Model (ISDA SIMM) to enhance its responsiveness to market volatility.

During the eight years since its launch in 2016, the ISDA SIMM has become a critical pillar of the non-cleared market. It played a vital part in the rollout of the margin rules, providing an industry standard methodology for the calculation of initial margin.

The model remained robust during the recent stress events, and we've worked closely with regulators to ensure its continued resilience. As part of that review process, we're preparing to move to semiannual calibration next year to make sure the model continues to be predictable and risk appropriate in all market conditions. These issues will be explored in more depth in a panel just before lunch on clearing and margin practices and another session in the afternoon on the ISDA SIMM.

When I talked yesterday about our digital solutions, I said that the work is never finished, and we never stop moving forward. The same can be said of the regulatory framework. With the bulk of the post-crisis reforms now behind us, we can observe the remarkable transformation of the market, but the work is never finished. As markets evolve, you can count on ISDA to work with policymakers and market participants to identify any issues and propose improvements where necessary.

Thank you.