NEWS RELEASE
For Immediate Release

ISDA Outlines Path Forward for Centralized Execution of Swaps

NEW YORK, April 1, 2015 – The International Swaps and Derivatives Association, Inc. (ISDA) today published a set of principles aimed at promoting regulatory consistency in the development and application of centralized trading rules for derivatives.

The execution of standardized derivatives on an exchange or electronic trading platform was a key objective from the Group of 20 summit in 2009, and regulations have either been implemented or are being developed in several key jurisdictions. However, ISDA and its members are concerned about the potential for divergences in how these rules are applied in each jurisdiction, which could lead to market fragmentation, low trading liquidity, duplicative compliance requirements and increased risk.

ISDA research has shown that fragmentation of global liquidity pools has already emerged since the US swap execution facility (SEF) rules came into force in October 2013. For instance, European dealers are opting to trade euro interest rate swaps (IRS) with other European dealers rather than be subject to US rules. By December last year, 85% of euro IRS transactions were traded between European dealers, up from 71% in September 2013.

One of ISDA's major concerns is that this market fragmentation will continue and broaden as US, European and other regulators fail to reconcile their rule sets. This could prompt difficult and intractable negotiations as to which rule set should prevail.

"ISDA believes it is critical that trade execution regimes work on a cross-border basis to ensure regulatory consistency across jurisdictions, proper oversight, transparency and continued competition," said Scott O'Malia, ISDA's Chief Executive Officer. "ISDA and its members believe that targeted regulatory corrections in the US can improve the utilization of SEFs and enhance the likelihood of coordination with European transaction rules currently under development."

ISDA's paper, *Path Forward for Centralized Execution of Swaps*, sets out common principles to help ensure regulatory consistency of centralized trading rules, and so facilitate equivalence and substituted compliance determinations. These include:

The trading liquidity of a derivatives contract (and consequently the regulatory obligations to which the contract is subject) should be determined by reference to specific objective criteria. The process should be based on concrete, transparent and objective standards so that market participants have a clear understanding of when swaps will be required to move from the bilateral market to centralized trading venues.

-more-

Derivatives contracts that are subject to the trading obligation should be able to trade on a number of different types of centralized venues. It is important for regulators to achieve a flexible trade execution regime that would allow contracts to be traded across jurisdictions, and not be subject to costly duplicative compliance obligations and regulatory arbitrage.

Trading venues must offer flexible execution mechanisms that take into account the trading liquidity and unique characteristics of a particular category of swap. We believe that regulators will encourage centralized trading by permitting parties to communicate and execute trades freely, so long as the parties comply with the requirement to execute trades on a centralized venue.

ISDA believes certain regulatory changes need to be made to the US SEF rules in order to comply with the ISDA principles and to achieve a harmonized international regulatory regime. The necessary regulatory adjustments would include changing the process for making mandatory trade execution determinations to ensure it is based on objective criteria and supported by data, and to allow greater flexibility in swap execution mechanisms.

A full version of the paper is available on the ‘Functional Areas’ section of the ISDA website, under ‘Public Policy’.

For Press Queries, Please Contact:
Lauren Dobbs, ISDA New York, +1 212 901 6019, ldobbs@isda.org
Nick Sawyer, ISDA London, +44 203 088 3586, nsawyer@isda.org
Donna Chan, ISDA Hong Kong, +852 2200 5906, dchan@isda.org

About ISDA
Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 800 member institutions from 67 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org.