

Chris Hayward
Policy Chairman
City of London Corporation, Guildhall
London
EC2P 2EJ

25th October 2023

Dear Chris,

On behalf of the International Swaps and Derivatives Association (ISDA) and its members, I would like to commend the City of London Corporation and Oliver Wyman on the publication of Vision for Economic Growth – a roadmap to prosperity. The UK plays a leading role in several specialist areas of financial services – including derivatives trading – and a responsible and targeted plan for growth will help to support the prosperity of the global economy.

We must not stop here. The report highlights five critical objectives to strengthen UK-based financial services. ISDA is working to support the delivery of two of these objectives, but we cannot make progress on our own. We need collective leadership from the UK government, regulators and market participants, and I'd like to use this letter to set out further detail.

First, on the report's third objective – becoming a digital first economy and giving organizations and individuals the capacity to innovate and drive growth. The City of London Corporation, the UK Government, and market participants need to agree common data and digital standards that will serve as the digital foundation required to build the fully automated and cost-efficient 21st century digital economy envisioned in your report.

The derivatives market plays a very important role in helping businesses around the world to manage their risks and create greater certainty and stability, but market participants continue to rely too heavily on paper documents, manual processes and non-standard practices. ISDA has worked to address this by developing a variety of mutualized digital solutions to bring greater efficiency, standardization and automation to derivatives markets, underpinned by data standards to support regulatory compliance and operational efficiency.

London has the potential to become the leading financial centre globally in leveraging technology to digitize the post-trade lifecycle. But effective digitization isn't possible without standardization. Together with our partners at ICMA and ISLA, ISDA has developed the Common Domain Model (CDM), a free-to-use data standard for financial products, trades and lifecycle events: meaning it covers not only OTC and ETD derivatives but a wide range of financial products, including securities and bonds. ISDA has successfully used the CDM to digitize regulatory reporting, key collateral management processes, and other post-trade lifecycle processes.

The UK government has embarked on its own effort to transform data collection, led by the Bank of England. While this program currently has only a relatively minor application to the derivatives market, we think it has a truly transformative potential. To achieve this potential, the government will need to take a standardized approach to data collection.

ISDA can support this effort. Through our Digital Regulatory Reporting initiative, we have shown how the CDM can be effectively used to transform a mutualized industry interpretation of regulatory requirements into human-readable, machine-executable code. This can save firms time, costs and other resources that would otherwise be spent on compliance, creating significant efficiencies while delivering more accurate and consistent data to regulators.

English law is the dominant legal standard in the derivatives market across the world. At ISDA, we strongly believe we can transition the derivatives market's legal contracts, definitions, templates, products and operations to a fully digital ecosystem that is automated, cheaper and more accurate. It is our goal to transition the industry away from a reliance on paper to create a fully digital trade lifecycle. This would include the distribution of products and contracts on online platforms that offer bilateral and multilateral negotiation. This digital transformation will require steady, long-term support and encouragement from policymakers.

The City of London Corporation can play a vital role by:

1. **Championing a common, open-source data standard** by which we can build automated solutions that are consistent across multiple products and business lines. This could be built off the success of the CDM, developed by ISDA, ICMA and ISLA to digitize regulatory reporting, key collateral management processes, and other post-trade lifecycle processes.
2. **Supporting the development of robust legal foundations for emerging technologies, such as smart contracts and digital/tokenized assets.** Established legal frameworks may need to adapt to clarify how legal ownership of digital assets can be established and to ensure that digital assets are afforded the same protections in insolvency as traditional assets. ISDA has undertaken several initiatives to address these issues, by producing contractual standards for trading digital assets and a series of whitepapers on the application of English insolvency law to digital assets.¹
3. **Providing leadership and holding the UK authorities accountable** for timely investment in machine-readable and machine-executable regulation. Authorities must be clear regarding specific standards, after full consultation with the market, to ensure timely and broad adoption.

The benefits for UK policymakers in getting this done are simple. Digitization will create a more attractive investment environment for internationally active firms seeking more efficient and cost-effective solutions to regulatory compliance. It will also reap major improvements in managing risks across financial markets.

¹ <https://www.isda.org/a/CrLgE/Navigating-Bankruptcy-in-Digital-Asset-Markets-Digital-Asset-Intermediaries-and-Customer-Asset-Protection.pdf>; <https://www.isda.org/a/mlxgE/Navigating-Bankruptcy-in-Digital-Asset-Markets-Netting-and-Collateral-Enforceability.pdf>

The second area where we believe ISDA can support your efforts is in the report's fourth objective – anchoring the UK as a leader in sustainable finance.

We believe the City of London is well positioned to become the global leader in the trading of voluntary carbon credits. ISDA has worked with its members to explore the key legal issues related to voluntary carbon markets (VCM). In December 2021, we published a whitepaper that explored the key legal issues and led to proposals to intergovernmental organisations for globally consistent standards on the legal treatment of carbon credits.²

Progress is being made. In July, the Law Commission of England and Wales reported on the English law treatment of voluntary carbon credits. The UK VCM Forum is reviewing the role of regulated market infrastructure in scaling VCMs. And HM Treasury has confirmed it will publish a consultation on the steps needed to support the growth of high-integrity voluntary markets before year-end. These should aim to support the development, where necessary, of the legal, tax and accounting treatment of voluntary carbon credits under UK rules, as well as to clarify how financial market infrastructure in the UK will handle environmental transactions such as carbon.

But speed is of the essence. The race to become the global hub for voluntary carbon credits is a competitive one. The UK needs to show agility and purpose if it is to seize the opportunities ahead. The City of London Corporation can play a vital role by:

1. **Clarifying how financial market infrastructure in the UK can facilitate the scaling of carbon credit transactions**, including supporting the development of new products and services (e.g, clearing, settlement);
2. **Communicating the benefits of a high-integrity voluntary carbon market** in helping the UK to reach its net-zero target, aligned with global efforts to mitigate the threat of greenwashing; and
3. **Helping to drive decisions relating to the legal characterization** of environmental products across all jurisdictions, which the UK can do by leveraging its membership of relevant intergovernmental organisations.

Thank you for taking the time to consider our recommendations for the City of London to engage directly with the marketplace to actively support digitization in the derivatives industry and the expansion of the voluntary carbon markets. Together with my colleagues at ISDA, I would be delighted to discuss the details of this letter further with you.

Yours sincerely,



Scott O'Malia
CEO
International Swaps and Derivatives Association

² <https://www.isda.org/a/38ngE/Legal-Implications-of-Voluntary-Carbon-Credits.pdf>