



**ISDA Annual General Meeting
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**Opening Remarks: Our Remarkable Journey
Scott O'Malia, ISDA CEO**

Good morning, and welcome to ISDA's Annual General Meeting (AGM). Welcome to Amsterdam.

Let's go back to 1985. *Back to the Future* was the highest grossing film of that year. It follows Marty McFly, who's accidentally catapulted back in time in a modified DeLorean, meets his parents as teenagers and needs to find a way home without changing the course of history.

Marty wasn't the only one to embark on a remarkable journey in 1985. In May of that year, the International Swap Dealers Association was born when a small group of dealers got together to address the document backlog that was constraining the growth of the derivatives market. Their initial solution was the Code of SWAPS, a dictionary of standard terms that introduced a common language to the swaps market.

From the initial 10 dealers, our membership now spans 76 countries and 1,000-plus entities, including many end users and service providers. From a single dictionary of terms, we've never stopped evolving our documentation and have published thousands of standard agreements, definitions, confirmation templates and protocols.

ISDA's anniversary is an opportunity to reflect on our remarkable journey.

The pace of change since 1985 has been unrelenting, but some things have stayed the same. Above all, ISDA has remained fully committed to standards. That was the motivation for the pioneers of ISDA in the 1980s. They recognized it wouldn't be sustainable to cling to their own contractual norms and bespoke agreements. So, they set aside their competitive differences and worked together to develop the standard-form documentation that would allow the market to scale.

Forty years on, robust standards remain at the heart of how we solve industry problems – from building the foundations of well-functioning derivatives markets, to bringing clunky manual processes into the digital age.

ISDA's remarkable journey has shown that with an unwavering commitment to the highest standards, we can effect change.

This will be the focus of my remarks today. Let's talk about three key areas where we're committed to robust standards. First, the continuing importance of a strong legal framework. Second, how standardization can transform manual processes to bring lasting efficiencies. And finally, how the need for consistent standards extends to the regulatory framework.

Legal standards

I'll start with legal standards.

Following publication of the Code of SWAPS in 1985, ISDA moved quickly to further the development of the derivatives market through standard documentation, resulting in the first ISDA Master Agreement in 1992.

This has been rightly recognized as one of the most important standard-form agreements in the financial world, enabling market participants to net their exposures and reduce credit risk. Recognition of the benefits of netting in the capital rules and the development of netting legislation around the globe allowed the derivatives market to scale and thrive.

Consequential as it was, the ISDA Master Agreement was only the beginning. Time and again over the past four decades, ISDA has responded to changes in the market by delivering effective legal solutions at the right time.

We delivered credit support documentation in the 1990s to provide legal certainty as market participants started exchanging collateral to reduce credit risk.

And we delivered a vast range of protocols so market participants could safely navigate key industry transitions – from the rollout of the euro to the removal of LIBOR.

Throughout these and many other market developments, ISDA never lost sight of the need for a robust legal framework. As we expanded to other asset classes, we worked with market participants to explore the relevant legal issues and develop the necessary documents – from equity and credit derivatives to the power and environmental markets.

ISDA's legal standards have also helped boost derivatives activity in emerging markets. We've pushed hard for the legal recognition of netting, which is essential for a well-functioning derivatives market. Earlier this year, authorities in Saudi Arabia became the latest to publish netting legislation, which means all Group-of-20 countries have now recognized netting in law. ISDA has published 90 netting opinions in total, and we continue to make the case for netting enforceability in those jurisdictions where it is not yet recognized.

As we reflect on ISDA's remarkable journey over the past 40 years, the diverse range of legal solutions we've brought to the market is a reminder of the exceptional power of standards. From contract templates to protocols and netting opinions, our success has always derived from the strength of our legal standards.

Digital transformation

Just as ISDA has maintained its commitment to standardization to support market development, we've also used standards to bring digitization and automation to key industry processes. The reality is that derivatives markets have developed with a heavy reliance on manual processing, creating pockets of inefficiency, inconsistency and risk. Without consistent standards for the way trades are described and documented, it's very difficult to dislodge those inefficiencies.

ISDA is now well advanced in addressing this problem with a wide-ranging set of mutualized industry solutions.

It's nearly nine years since we brought our first solution to market – the ISDA Standard Initial Margin Model (ISDA SIMM) – which is now used by more than 420 group entities and licensed by 63 vendors. As the Basel III capital reforms are implemented, our ISDA Analytics platform has enabled 80 firms across major jurisdictions to achieve a high level of accuracy and consistency in the use of standardized models.

Let's be absolutely clear about the benefits of mutualized industry solutions – they reduce risk and deliver cost efficiencies.

Take regulatory reporting as an example. No one needs to be reminded of the huge challenges that have come with reporting requirements over the past decade. While regulators have struggled to make sense of reported data, firms in the US, UK and EU have paid more than \$285 million in fines for misreported data. This is a complete waste of resources that could otherwise be channeled towards investment and growth. It's also \$75 million more than *Back to the Future* made in the box office in 1985.

ISDA's Digital Regulatory Reporting (DRR) initiative dramatically reduces the risk of inaccurate or incomplete reporting. By transforming an industry standard interpretation of each set of requirements into unambiguous code, the DRR limits the scope for misreported data and reduces the time, resources and costs involved in implementing reporting requirements.

Like everything ISDA has achieved over the past 40 years, the success of the DRR derives from common standards. It's underpinned by the Common Domain Model (CDM), an open-source data standard for financial products, trades and lifecycle events. Without that standard model, it would have been impossible to do something of this scale and complexity.

The DRR is just a taste of what the CDM has to offer.

As the industry shifts from analog to digital, it is the CDM that will help drive that transformation. With ISDA Create, we can negotiate and store legal documents online, but having a common data framework takes it to the next level. Using the CDM allows us to extract structured data from key documents in a consistent way and feed it seamlessly to other systems.

From contract negotiation through to trading and post-trade solutions, we're working to replace paper documents and manual processes with an end-to-end digital solution.

Just as the flux capacitor turbo charged the DeLorean into the past, the CDM will accelerate derivatives markets into the future.

It will facilitate the transformation to a fully digital trade lifecycle and enable firms to apply the benefits of artificial intelligence (AI) and tokenization to key processes such as document analysis and collateral delivery.

We're also launching a new ISDA solution that will finally shift the delivery of termination notices into the digital world, as our latest [animation shows](#).

The delivery of notices is a great example of a vital industry process where a digital solution will reduce inefficiencies, risks and costs. I'm delighted to confirm that the ISDA Notices Hub is set for launch in July, and I'd urge dealers and buy-side firms to adopt this powerful solution. Like ISDA Create, it will be available on S&P Global's Counterparty Manager platform, giving users a single portal for client onboarding, document negotiation and the serving of notices.

If we could travel back to 1985, we'd be struck by the dominance of paper, faxes and phones. Forty years on, we're continuing ISDA's remarkable journey by leveraging common standards as the basis for digital transformation.

Basel III

Before finishing, I'll explore how the need for consistent standards extends to the regulatory framework.

Over the years, we've always made the case for risk-sensitive capital requirements, and this is critical as the Basel III reforms are completed. Just think about the consequences of disproportionate capital requirements. Banks would have to make difficult choices about their participation in certain critical business lines, which would reduce the depth and liquidity of markets. This would negatively affect the thousands of companies that rely on banks for intermediation and risk management services. They'd be faced with diminished access to funding, a lack of hedging solutions and increased vulnerability to external shocks.

Risk sensitivity remains a priority. We must also make sure regulations don't conflict with one another. Unfortunately, this hasn't always been the case.

For example, the US Securities and Exchange Commission (SEC) will require mandatory clearing of certain US Treasury securities and repo transactions, starting from the end of next year. This will be a seismic change in a market that underpins the global financial system. But flaws in the US capital framework could reduce the capacity for banks to offer client clearing at precisely the time when the volume of cleared transactions will surge.

There are three shortcomings that need to be addressed.

First, we need cross-product netting to be recognized in the standardized approach, so that capital requirements properly reflect risk.

Second, the supplementary leverage ratio should be revised to prevent capacity constraints from hindering bank participation in the Treasury market.

Finally, the 80% increase in capital for client clearing due to the proposed Basel III endgame and capital surcharge for global systemically important banks must be addressed.

Given the huge operational challenge of introducing clearing in the US Treasury market, we welcome the SEC's decision to extend the original deadlines by one year. This will give market participants and clearing houses the minimum amount of time needed to lay the groundwork. But policymakers must also use this time to address faults in the capital rules to ensure they support – rather than impair – liquidity and resilience in the US Treasury market.

Conclusion

I talked at the start of these remarks about ISDA's vision to bring standardization to the early swaps market. If I could channel my inner Marty and teleport myself to the early ISDA meetings in 1985, I'd commend those traders and lawyers for their vision and urge them to keep their eye on the prize. We're grateful to the early pioneers for everything they did to set the development of ISDA in motion.

The first ISDA documents sowed the seeds of a strong and vibrant derivatives market. They showed the exceptional power of standardization to bring efficiencies and to build liquidity. They set the foundations of an industry association that would realize change through an enduring commitment to common standards.

Just look at the vast breadth of documentation to which we've put our name. From the ISDA Master Agreement to the succession of industry protocols. In each case, ISDA stepped forward to address an industry challenge with a tailored solution. Standards have enabled change.

Just look at the powerful collection of mutualized solutions we've assembled, from the ISDA SIMM to the ISDA Notices Hub. In each case, ISDA recognized where common solutions to shared problems were needed, and we stepped forward to build those solutions. Now, we're looking to the future to make sure we're ready to reap the benefits of advanced technologies like AI and tokenization.

And look at the evolution of the regulatory framework. It's still a work in progress, but ISDA never lost sight of the need for risk sensitivity and a joined-up approach. It underpins every analysis of proposed rules, every comment letter and every engagement with regulators. It's the drum we will continue to bang in our commitment to deep and liquid markets.

This has truly been a remarkable journey. A belief in the power of common standards brought 10 dealers together in 1985 and it continues to push us forward today. But we can't stop here. There's much more to be done to ensure derivatives markets continue to deliver cost-effective risk management solutions. So, let's get to work.

We have a great AGM ahead of us – as ever, a stellar lineup of speakers and panels. We'll also have the opportunity to reflect and celebrate our 40th anniversary at a special reception later today.

I'd like to close by thanking our sponsors and speakers – we really appreciate your support. I hope you enjoy the AGM, and I look forward to catching up with you between sessions.

Thank you.