ISDA AGM
Coverage from the 39th Annual General Meeting in Amsterdam

40TH ANNIVERSARY
Reflections on major industry challenges addressed by ISDA

TESTIMONIALS
Global policymakers recognise ISDA's contributions

IQ

ISDA® Quarterly

Vol 11, Issue 2: June 2025 | www.isda.org

* CREATING VALUE

New report shows how derivatives are used by a large universe of firms across the globe to increase predictability and enhance company performance

ISDA SwapsInfo

ISDA SwapsInfo brings greater transparency to the over-the-counter (OTC) derivatives markets. It transforms publicly available data on OTC derivatives trading volumes and exposures into information that is easy to chart, analyze and download. ISDA SwapsInfo covers interest rate derivatives (IRD) and credit derivatives markets.

Interest Rate Derivatives

Transaction Data

Daily, weekly and quarterly traded notional and trade count by product taxonomy.

Notional Outstanding

Notional of all IRD contracts outstanding on the reporting date.

Credit Derivatives

Transaction Data

Daily, weekly and quarterly traded notional and trade count by product taxonomy.

Market Risk Activity

Traded notional and trade count for single-name and index credit default swaps (CDS) that result in a change in market risk position.

Notional Outstanding

Gross and net notional outstanding and trade count for single-name and index CDS.

SwapsInfo.org

ISDA® Safe, Efficient Markets

The Value of Derivatives

Ever since its establishment 40 years ago, ISDA has worked to enhance the safety and efficiency of derivatives markets. That has motivated everything we do – from the development of standard documentation and the rollout of new digital solutions to our responses to regulatory consultations.

In our view, safe and efficient markets are critical prerequisites for liquidity and competition – and that matters. Without deep and liquid markets, it would be more difficult and expensive for corporations, governments, pension funds and insurance companies to use derivatives to transfer unwanted risks, enhance returns and manage their liquidity needs.

The impact of that would be significant. According to a new ISDA report on the value of derivatives, 87.1% of nearly 1,200 major companies in seven major stock indices use over-the-counter derivatives for a variety of reasons, including locking in financing terms, reducing costs and enhancing financial performance. This helps create predictability, which gives companies the confidence to borrow, invest and hire.

In this issue of **IQ**, we spotlight that report and explore how and why different types of firms use derivatives and the value they bring to individual companies and the broader economy.

The report was published to coincide with ISDA's 40th anniversary, and we continue our **IQ** anniversary series by looking at how ISDA and its members have worked to address some of the biggest challenges ever to face derivatives markets – from the rollout of margin requirements for non-cleared derivatives to the transition from LIBOR. The solutions that were developed – the ISDA Standard Initial Margin Model and the IBOR fallbacks – are great examples of ISDA fulfilling its core mission: maintaining the safety and efficiency of derivatives markets.

Nick Sawyer
Global Head of Communications & Strategy
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CONTENTS

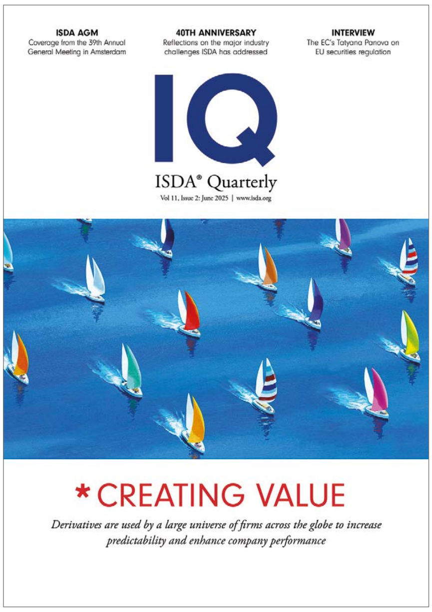
IN THIS ISSUE

* CREATING VALUE

ISDA AGM REVIEW

Volume 11, Issue 2: June 2025

* SOLVING PROBLEMS



Charting ISDA's Fifth Decade

As ISDA marks its 40th anniversary, the association is thinking hard about how developments like artificial intelligence and tokenisation might impact the derivatives markets of the future, writes ***Scott O'Malia***

ISDA's 40th anniversary year is a time to reflect on the association's many achievements since it was first established by a small group of dealers in 1985. At our Annual General Meeting in Amsterdam last month, we had the opportunity to celebrate ISDA's many successes and to hear from some of the early pioneers. But we're not only looking back at the past – we're also thinking hard about the future and the role ISDA will play in the continued evolution of derivatives markets.

The world is changing in ways we might not previously have expected. We've seen a retreat from globalisation and a move towards self-sufficiency and protectionism in many countries. These are big changes, and we need to think carefully about how they might impact financial markets and the regulatory framework.

One thing is clear: recent market volatility, sharp price moves and ongoing uncertainty have drummed home the crucial role that derivatives play in allowing firms to transfer risk, smooth out the impact of volatility and bring a greater degree of certainty to financial planning. As ISDA's recent report on the value of derivatives shows, these instruments help firms stay focused on long-term strategic goals – even when the world around them is anything but predictable (pages 14-20).

However, the structure and composition of the market is undoubtedly changing. The non-bank financial intermediation (NBFI) sector now plays a significant role in providing funding to the real economy, representing nearly half of global financial assets, according to estimates by the Financial Stability Board. Regulators have been looking closely at this sector, with a focus on margin practices, transparency and leverage. It's important to remember that NBFI includes a wide range of entities, from pension funds to private equity firms. Given this diversity, a one-size-fits-all approach to regulatory oversight is unlikely to work.

Take the pensions sector as an example. Demographic shifts mean assets under management have been growing rapidly in some countries, resulting in increased derivatives use – a trend that is likely to continue. In Australia, superannuation funds are adapting to greater regulatory scrutiny as their investment portfolios grow, along with requirements on operational risk management, governance, reporting and margining – issues we explored in a recent ISDA paper (tinyurl.com/zsvjssuu).

> "I'm looking forward to working with our members around the world as we begin to chart ISDA's fifth decade with clarity, determination and focus"

Margining isn't just an issue for pension funds, and it has long been a focus for ISDA. We've taken practical measures to improve the margin process for all our members, including shifting the ISDA Standard Initial Margin Model to semiannual calibration and pushing to make collateral management more automated and less dependent on manual work. We're now thinking about how tokenisation could bring improvements to the management of collateral. This was one of the topics explored by the latest cohort of the ISDA Future Leaders in Derivatives program, which published a paper last month on collateral and liquidity efficiency in the derivatives market (tinyurl.com/454phs4k).

Tokenisation is one area where technology could influence how derivatives markets function. Artificial intelligence (AI) is another, and we're thinking about what role it could play in the derivatives markets of the future.

There's no doubt AI has transformative potential if applied to certain processes, including trading, risk management, regulation and documentation. We recently published a benchmarking study that shows how generative AI can be used to extract, interpret and digitise key clauses from our credit support annexes (tinyurl.com/2hvhvj34). By transforming this information into a standardised format, we can reduce the heavy resource requirements and potential for errors that come with traditional data extraction.

This is just a taste of the opportunities we're considering as we look beyond ISDA's 40th anniversary to the future of the derivatives market. ISDA has come a very long way since 1985, but, in many ways, we're just getting started. I'm looking forward to working with our members around the world as we begin to chart ISDA's fifth decade with clarity, determination and focus.

Scott O'Malia
ISDA Chief Executive Officer

Standards Underpin ISDA's Remarkable Journey, O'Malia Tells AGM

An enduring commitment to robust industry standards has been at the heart of ISDA's remarkable journey since it was first established in 1985 as the International Swap Dealers Association, ISDA chief executive Scott O'Malia said in opening remarks at the ISDA Annual General Meeting (AGM) in Amsterdam on May 14.

"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 recognised 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," said O'Malia.

ISDA was initially established by a small group of dealers who convened to address the document backlog that was constraining the growth of the derivatives market. Their initial solution was the Code of Standard Wording, Assumptions and Provisions for Swaps – the Code of SWAPS – a dictionary of standard terms that introduced a common language to the early swaps market.

Following this, ISDA moved quickly to further the development of the derivatives market through standard documentation, resulting in the first ISDA Master Agreement in 1992. This was a watershed document that enabled market participants to net their exposures and reduce credit risk.

"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," said O'Malia.

Those legal solutions include credit support documentation and a vast range of protocols to enable market participants to navigate key industry transitions – from the rollout of the euro to the removal of LIBOR. As the derivatives market expanded to new asset classes, ISDA worked with market participants to explore the relevant legal issues and develop the necessary documents.

"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," said O'Malia.

Just as ISDA has maintained its commitment to standardisation to support market development, it has also used standards to bring digitisation and automation to key industry processes. Without consistent standards for the way trades are described and documented, it is very difficult to dislodge market inefficiencies, said O'Malia.

It is nearly nine years since ISDA brought its first mutualised industry solution to the market – the ISDA Standard Initial Margin Model, which is used by more than 420 group entities and 63 vendors. ISDA now has a wide-ranging set of industry solutions, including the Digital Regulatory Reporting (DRR) initiative, which dramatically reduces the risk of inaccurate or incomplete reporting.

"Like everything ISDA has achieved over the past 40 years, the success of the DRR derives from common standards. It is 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 analogue to digital, it is the CDM that will drive that transformation," said O'Malia.

ISDA has also developed a new solution that will digitise the delivery of critical termination notices. The ISDA Notices Hub, which will be available on S&P Global Market Intelligence's Counterparty Manager platform, will enable the instantaneous delivery and receipt of notices from anywhere in the world and will also maintain updated address details for those counterparty relationships where physical delivery of notices will continue. The platform is due to launch on July 15.

"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," said O'Malia. IQ

Watch an animation on the ISDA Notices Hub: shorturl.at/sfRIU

For more AGM coverage, see pages 45-53

ISDA® Safe, Efficient Markets
Celebrating 40 Years

Deep and Liquid Markets Critical for End User Access, Says Krens

Derivatives play a vital role in enabling companies all over the world to manage their business, making it crucially important there are no impediments to these users accessing derivatives markets safely and efficiently, according to ISDA's chair, Jeroen Krens.

"Deep and liquid markets mean firms can access derivatives when they want, in the size they want and at a competitive price. Bank intermediaries play a critical role in enabling that. Anything that reduces liquidity – whether it be regulatory changes that go too far in limiting the balance sheet capacity of banks or structural issues that degrade efficiency of access – ultimately hamper the ability of the market to absorb and transfer risk," he said in remarks on the second day of the ISDA Annual General Meeting in Amsterdam on May 15.

According to a recent report by ISDA, 87.1% of 1,187 major companies listed in seven key stock indices use derivatives for a variety of reasons, including locking in financing terms, reducing costs, mitigating the impact of market volatility and enhancing financial performance.

"In each case, derivatives are used to increase certainty, which gives companies and individuals the confidence to borrow and invest. This, in turn, contributes to growth," he added.

As it stands, parts of the Fundamental Review of the Trading Book (FRTB) are inappropriately calibrated and would constrain the capacity of banks to offer intermediation and risk management services, Krens said. This would reduce competition and liquidity and increase costs, hampering the ability of users to seamlessly access derivatives markets. For example, the US Basel III endgame rules and the surcharge for global systemically important banks (G-SIBs), as currently proposed, would increase capital for US G-SIB client clearing businesses by more than 80%, an amount that runs counter to the post-crisis policy objective to promote greater use of central clearing.

"We strongly believe capital rules should be risk sensitive and appropriate. Disproportionate increases in capital will inevitably affect the ability of banks to offer client clearing, risk management and other intermediation services, reducing capacity and increasing costs. Ultimately, this will affect the depth and liquidity of derivatives and capital markets," he added.

"Safety and efficiency and deep, liquid markets matter because all types of companies around the globe rely on derivatives to transfer unwanted risk, enhance returns and manage their liquidity needs"

Jeroen Krens, ISDA

Along with appropriate and risk-sensitive regulation, derivatives markets also need to function efficiently so corporations, pension funds, insurance companies and others can access these markets with as little effort and cost as possible. In response, ISDA has developed a variety of solutions to bring greater standardisation and automation to the derivatives market. These include ISDA Create, an online platform that allows users to negotiate and execute documents digitally on a central platform, with the ability to store the resulting data and pipe it directly into risk, collateral and other systems – a solution that "saves time and resources on the negotiation and allows counterparties to get to the point where they can execute trades much faster", said Krens.

"The drive for standards and safe, efficient markets has been at the centre of everything ISDA has done for the past 40 years. It will continue to be at the centre of everything we do under my chairmanship and well beyond," said Krens.

"But we shouldn't lose sight of why that's important. Safety and efficiency and deep, liquid markets matter because all types of companies around the globe rely on derivatives to transfer unwanted risk, enhance returns and manage their liquidity needs. They help bring greater predictability to earnings and cashflows, which gives firms more confidence to borrow and invest, contributing to economic growth. It's therefore critical these entities can continue to access derivatives markets seamlessly and with as little friction as possible." IQ

Read ISDA's Value of Derivatives report: shorturl.at/KQSQw

Watch ISDA's latest whiteboard animation on the scale and impact of derivatives: shorturl.at/4OYrT

ISDA Extends DRR to Cover Canadian Rules

ISDA has extended its Digital Regulatory Reporting (DRR) solution to cover new reporting rules in Canada and has made it compatible with a trade reporting messaging format used for North America reporting to maximise the benefit of adoption by those firms subject to the rules.

The revisions are being implemented by the Canadian Securities Administrators (CSA) and are scheduled for implementation on July 25, 2025. In advance of implementation, ISDA DRR code for the Canadian amendments is now freely available for market participants to review and test, enabling firms to implement changes to regulatory reporting requirements cost-effectively and accurately and reducing the risk of regulatory penalties for misreported data.

As part of the update, the ISDA DRR will enable firms to comply with the new Canadian reporting rules using Harmonized XML, a trade reporting message format developed by the Depository Trust & Clearing Corporation (DTCC). This adds to the message formats supported by the DRR, which currently includes ISO20022, to appeal to the broadest universe of reporting entities. Once the DRR for the CSA rules is fully rolled out, ISDA will extend the use of Harmonized XML for reporting under the US Commodity Futures Trading Commission's (CFTC) swap data reporting rules.

The Canadian rules will be the seventh set of reporting requirements available on the ISDA DRR following earlier launches to cover amendments in the US by the CFTC, Japan by the Financial Services Agency, the EU under the European Market Infrastructure Regulation (EMIR), the UK under UK EMIR, Australia by the Australian Securities and Investments Commission and Singapore by the Monetary Authority of Singapore.

> "The latest extension of the ISDA DRR to cover rule changes by the CSA establishes a best practice for derivatives trade reporting in Canada"
> **Scott O'Malia, ISDA**

The ISDA DRR will also shortly be extended to cover rule changes in Hong Kong, due to come into effect in September. In addition, ISDA recently announced that the DRR will be expanded to cover reporting requirements under the Markets in Financial Instruments Directive (MIFID) and Markets in Financial Instruments Regulation (MIFIR) in the EU and UK. In total, ISDA has pledged to support 11 reporting rule sets in nine major jurisdictions and to maintain the DRR code as those rules evolve in the future.

"The latest extension of the ISDA DRR to cover rule changes by the CSA establishes a best practice for derivatives trade reporting in Canada. This aligns with our work in six other reporting jurisdictions, creating a global digital reporting solution that significantly increases the accuracy of reporting and reduces the potential for regulatory penalties, estimated at over $285 million globally so far," says Scott O'Malia, ISDA's chief executive.

The ISDA DRR takes as its foundation a common interpretation of each ruleset that has been reviewed and agreed by an industry working group. It uses the Common Domain Model – an open-source data standard for financial products, trades and lifecycle events – to convert the industry interpretation into free, machine-executable code. That code can be used as the basis for implementing the rules or to validate that a firm's interpretation is aligned with the industry reading.

ISDA is working with the DTCC to integrate the DRR into its Global Trade Repository MIFID/MIFIR Approved Reporting Mechanism (ARM). DTCC recently announced it would launch an ARM within its GTR service to support transaction reporting requirements under MIFID/MIFIR in the EU and UK, subject to regulatory approval.

TD Securities Integrates ISDA Create

TD Securities has completed its integration of ISDA Create across its global suite of client trading and regulatory agreements.

Powered by CreateIQ and S&P Global Market Intelligence, ISDA Create allows users to digitally transform the trading and regulatory agreement negotiation process and deliver faster and more seamless outcomes across global markets.

"At TD Securities, delivering an exceptional client experience is our top priority. By digitising and structuring the negotiation of agreements through ISDA Create, we help clients accelerate speed to market, reduce complexity and enhance transparency while offering a high degree of customisation, allowing firms to tailor agreements while maintaining compliance with global regulatory standards," says Debbie Ramkerrysingh, managing director and head of global markets documentation at TD Securities.

ISDA Create, which is available through S&P Global Market Intelligence's Counterparty Manager platform, enables firms to digitally generate and execute documentation and then seamlessly capture, process and store data from those negotiations. The platform now includes CiQ Extract, an artificial intelligence (AI) feature that allows users to negotiate their agreements offline if they want to and then have them re-uploaded and mapped back onto ISDA Create.

"Leveraging CiQ Extract, ISDA Create closes the gap between offline negotiations and digital continuity because users can negotiate off the platform if necessary and then leverage AI to extract and map key details back into the platform," says Katherine Tew Darras, ISDA's general counsel.

ISDA's Future Leaders Set Out Recommendations to Improve Collateral Efficiency

ISDA Future Leaders in Derivatives (IFLD), the professional development programme for emerging leaders in the derivatives market, published its latest whitepaper last month, which examines the growing challenges of collateral efficiency and liquidity resilience in the global derivatives market.

Drawing on industry expertise and research, the whitepaper addresses issues driven by regulatory complexity, market fragmentation and systemic vulnerabilities, and outlines practical strategies to address these issues, balancing the costs of collateral, risk management, regulatory compliance and technological innovations. The paper's recommendations include optimising the use of collateral, expanding and diversifying the pool of eligible collateral and modernising the infrastructure through technology.

"Recent market shocks and liquidity stresses have highlighted the need to explore new opportunities to bring greater efficiency, standardisation and automation to collateral management. We set this talented group of derivatives market professionals the challenge of exploring the topic of collateral efficiency. This is an excellent paper in which the group has addressed the key policy, operational and technology issues that need to be overcome to streamline and automate the collateral ecosystem," says Scott O'Malia, chief executive of ISDA.

The IFLD cohort comprised 31 individuals representing buy- and sell-side institutions, law firms and service providers from around the world. After being selected for the programme last year, they were asked to engage with stakeholders, develop positions and produce a whitepaper considering the policy and operational aspects of collateral management, and what market participants and infrastructure providers need to do to ensure the timely and efficient flow of collateral through the system.

"The topic of collateral and liquidity efficiency in the derivatives market has been particularly pertinent over the past few months, with increasing volatility in financial markets. By bringing together a broad range of expertise from around the world, the IFLD programme has enabled us to harness a diversity of views to develop a paper that examines the growing challenges to collateral efficiency and liquidity resilience," said IFLD participant Claire Warren, special counsel at King & Wood Mallesons in Sydney.

"Collaborating with a cohort of industry professionals who shared extensive knowledge and expertise – from legal to trading and all points in between – has allowed us to develop a forward-thinking, detailed and actionable paper that we believe adds real value to the discussion on how to approach collateral in the era of crypto and generative artificial intelligence," says IFLD participant Jakir Alam, programme manager, new product development, markets and securities services at HSBC. IQ

Read the IFLD paper, *Collateral and Liquidity Efficiency in the Derivatives Market: Navigating Risk in a Fragile Ecosystem*: tinyurl.com/454phs4k

Collateral Composition Changing, ISDA Survey Shows

ISDA's latest annual margin survey shows that initial margin (IM) and variation margin (VM) collected by leading derivatives market participants for their non-cleared derivatives exposures increased by 6.4% to $1.5 trillion at the end of 2024.

The 32 firms that responded to the survey collected $431.2 billion of IM at year-end 2024 versus $430.9 billion the year before. VM collected by survey participants for non-cleared derivatives rose by 9.3% to $1.0 trillion from $939.9 billion collected at the end of 2023. The 32 responding firms included all 20 phase-one firms (the largest derivatives dealers subject to regulatory IM requirements in the first implementation phase), five of the six phase-two entities and seven of the eight phase-three entities.

The survey also showed that the composition of collateral is changing. The share of cash as a percentage of total collateral received declined to its lowest level of 51.3% at year-end 2024 versus 53.3% the previous year.

Government securities remained the most common form of collateral received for IM with a 54.5% share at the end of 2024, but that represents a drop from 66.5% in 2018. The proportion of other securities received for IM has increased from 18.4% in 2017 to 34.7% in 2024.

Cash remained the predominant form of collateral for VM, but its share fell to 68.3% in 2024 from a peak of 80.0% in 2020. The proportion of non-government securities grew to 13.8%, the highest level in the six years ISDA has been publishing a breakdown of VM composition.

"I'm very proud of the work to help the derivatives industry implement the margin requirements, including development of the ISDA Standard Initial Margin Model and standard rule-compliant documentation, as well as advocacy for globally consistent rules. ISDA has continued to support implementation as additional jurisdictions have adopted margining requirements, including China, India, Mexico and South Africa," says Scott O'Malia, ISDA's chief executive. IQ

| Read the ISDA Margin Survey Year-end 2024: shorturl.at/Xjp53

GenAI Applied to CSAs in New Study

ISDA has published a whitepaper that shows generative artificial intelligence (AI) can be used to accurately and reliably extract, interpret and digitise key legal clauses from ISDA's credit support annexes (CSAs), showing how the technology could increase efficiency, cut costs and reduce risks in derivatives processes that have traditionally been highly manual and resource intensive.

The study evaluates the performance of eight large language models (LLMs) on their ability to accurately extract and interpret five clauses from a selection of CSAs and digitise them into Common Domain Model (CDM) representations. The CDM is a machine-readable data model that describes financial products, trades and lifecycle events in a standard way, helping to facilitate straight-through processing.

Based on a benchmarking exercise, several LLMs achieved accuracy levels of more than 90% when prompted with CSA-specific information, with the simpler clauses seeing accuracy levels of 100% in some cases.

"Our benchmarking study shows how generative AI can be used to accurately extract relevant contract information and digitise it into a standardised CDM format, reducing resource requirements and the potential for errors versus traditional contract data extraction. ISDA will conduct additional research to determine what steps are needed to further improve accuracy levels," says Scott O'Malia, chief executive of ISDA.

The study shows that providing LLMs with CSA-specific information, such as the ISDA Documentation Taxonomy and ISDA Clause Library, using prompt engineering techniques consistently enhances performance, especially for clauses that exhibit greater linguistic complexity, such as minimum transfer amounts and threshold clauses. Clauses in CSAs that typically use standardised phrasing, such as base and eligible currency, are easier for LLMs to extract accurately, irrespective of whether the LLMs were prompted with CSA-specific information.

The paper also shows that larger proprietary LLMs typically exhibit better baseline performances, but smaller open-source LLMs also benefit from CSA-specific information, offering a viable alternative to financial institutions with stringent data privacy requirements that necessitate on-premises deployment.

Nuanced clauses remain challenging due to inherent variations in legal language, subtle distinctions between similar clauses and complex cross-referencing within documents. Further refinements in prompting and additional CSA-specific information may be needed to address these challenges. IQ

Read the paper, *Benchmarking Generative AI for CSA Clause Extraction and CDM Representation*: tinyurl.com/2hvhvj34

Derivatives Use by Australian Superannuation Funds Rising

ISDA has published a report that explores the increasing use of derivatives among Australian superannuation funds, and looks at how funds can navigate regulatory requirements and effectively manage their use of derivatives.

Funds under management (FUM) of Australian superannuation funds have grown substantially since legislation was introduced in 1992 requiring employer contributions. Over the past five years, total FUM has increased by 78% from approximately A$2.3 trillion ($1.44 trillion) to A$4.1 trillion. It is expected to continue growing for the next 10-20 years, before stabilising around A$9 trillion.

While FUM has increased rapidly, the number of individual funds has fallen from around 280 large and medium entities in 2015 to 135 at the end of 2023. The 10 largest funds now account for about 60% of total superannuation FUM and they continue to grow faster than smaller funds.

The Australian market has limited available investment opportunities and these tend to be concentrated in the banking and mining sectors. As a result, many funds have looked to non- Australian markets for assets to complement and diversify their portfolios.

Superannuation funds have increasingly used derivatives to cost-effectively and efficiently manage their non-Australian-dollar currency and investment exposures. According to the Reserve Bank of Australia (RBA), outstanding derivatives positions held by Australian superannuation funds are estimated to stand at approximately A$900 billion, mainly in FX derivatives.

As a result, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission and the RBA are increasingly focusing on the superannuation sector and have turned their attention to systemic risks and operational capacity relating to derivatives.

In addition to the regulatory requirements, funds need to have appropriate risk management systems, processes and staffing in place. Failure to do so could result in operational and reputational losses. While many of these risks are covered by regulatory requirements, they will depend on the precise nature of the exposures and risk systems within each fund.

The report sets out a series of recommendations, including enhancing systems and processes to manage derivatives exposures, engaging with regulators and market participants, developing long-term strategies for sustainable derivatives use and adopting technology solutions to reduce operational and liquidity risks. IQ

Read the paper, *Australian Superannuation Funds: Current and Future Uses of Derivatives*: tinyurl.com/zsvjssuu

ISDA Safe, Efficient Markets Celebrating 40 Years

ISDA Publishes DC Governance Proposal

ISDA has published a proposal for a new governance committee for the CDS Determinations Committees (DCs), the first in a series of amendments to improve the structure of the DCs and maintain their integrity in changing economic and market conditions.

The governance committee would be responsible for taking market feedback and adopting rule changes affecting the structure and operations of the DCs to ensure their long-term viability and meet market expectations for efficiency and transparency in credit event determinations. It would be prohibited from involvement in DC decisions, ensuring separation between the determinations process and the procedure for setting the structure and framework of the DCs.

Under the proposal, the governance committee would comprise a minimum of 15 and a maximum of 20 senior, business-focused market participants with significant experience in the credit default swap (CDS) market – 10 from the sell side, five from the buy side, three central counterparty or index provider members and two additional infrastructure providers. The governance committee would be prevented from making rule changes that could impact live credit events to avoid the perception of conflicts of interest and any proposed rule change would be open to market consultation before a vote by the governance committee.

> "This is the first step in a series of proposals that ISDA will be making to improve the structure and governance of the DCs. Having a single, industry-wide determination on whether a credit event has occurred is critical to enable the clearing of CDS transactions"
>
> **Scott O'Malia, ISDA**

"This is the first step in a series of proposals that ISDA will be making to improve the structure and governance of the DCs. Having a single, industry-wide determination on whether a credit event has occurred is critical to enable the clearing of CDS transactions, so having a DC process that is strong, robust and transparent is essential to the safe and efficient functioning of this market," says Scott O'Malia, ISDA's chief executive.

The proposal follows publication by ISDA of the results of a consultation on proposed changes to the DCs last year. The consultation, conducted by Boston Consulting Group, was based on recommendations proposed by Linklaters as part of an independent review on the composition, functioning, governance and membership of the DCs. ISDA will publish additional proposals in the coming months, based on the findings of the consultation.

The DCs were introduced in 2009 as a centralised decision-making body to enable a standardised auction settlement process and ensure central clearing could be implemented for CDS. Although ISDA does not control the DC rules and is not involved in the decision-making process or administration of the committees, ISDA has an interest as a global trade association for over-the-counter derivatives in ensuring the DCs continue to function robustly. IQ

Four New Directors Join ISDA Board

Four new directors joined the ISDA board and a further nine were re-elected at ISDA's Annual General Meeting in Amsterdam on May 13.

The new board members are: Harleen Bains, managing director and head of global markets sales for Canada at RBC Capital Markets; Koichiro Funayama, managing director and head of derivatives business strategy at Mitsubishi UFJ Morgan Stanley Securities; Sarah McDowell, chief financial officer for BP Energy Company and vice president of finance and risk for BP's gas and power trading Americas business; and Susi de Verdelon, chief executive of LCH in the markets division at LSEG.

"As we proudly commemorate our 40th anniversary this year, ISDA's unwavering commitment to fostering safe and efficient derivatives markets is more vital than ever. It is with great enthusiasm that I extend a warm welcome to four exceptional new board members, each representing our diverse member constituencies and bringing invaluable expertise to our mission," says Jeroen Krens, chairman of ISDA.

The nine directors elected for a continuing term are: Sebastian Crapanzano II, managing director and global head of fixed income business unit risk management at Morgan Stanley; Yoji Imafuku, chief strategy officer of Mizuho EMEA and deputy president and board member of Mizuho International; Gesa Johannsen, executive platform owner, global collateral platform, at BNY; Eric Litvack, managing director and group director of public affairs at Société Générale; Andrew Ng, group executive and group head of global financial markets at DBS Bank; Jared Noering, managing director and global head of fixed income trading at NatWest Markets; Duncan Rodgers, head of ALM strategy and regional treasury UK and FFT at UBS; Brad Tully, managing director and global head of corporate and private side sales and head of Americas sales at JP Morgan; and Esra Turk, head of CEEMEA institutional client group and chair of the investment bank for Middle East and Africa at Deutsche Bank.

Four directors were also re-appointed: Darcy Bradbury, managing director at DE Shaw & Co; Charlotte Brette, general counsel at AXA Investment Managers; Jack Hattem, managing director, global fixed income, at BlackRock; and Jan Mark van Mill, managing director of multi asset at APG Asset Management. IQ

THE COVER PACKAGE

Creating Value

Derivatives are used by a large universe of firms across the globe to increase predictability and enhance company performance

For many firms, value isn't entirely about raw sales figures – it's also about resilience, predictability and strategic positioning.

That's where derivatives come in. Whether companies are managing risk, optimising returns or navigating uncertainty, derivatives can help them increase stability and create value.

These instruments aren't niche products – they are used by a vast universe of entities all over the world. According to a recent report published by ISDA, 87% of nearly 1,200 companies in seven major stock indices use OTC derivatives. They include blue-chip multinational corporations, agricultural companies, asset managers, pension funds, insurance companies and others.

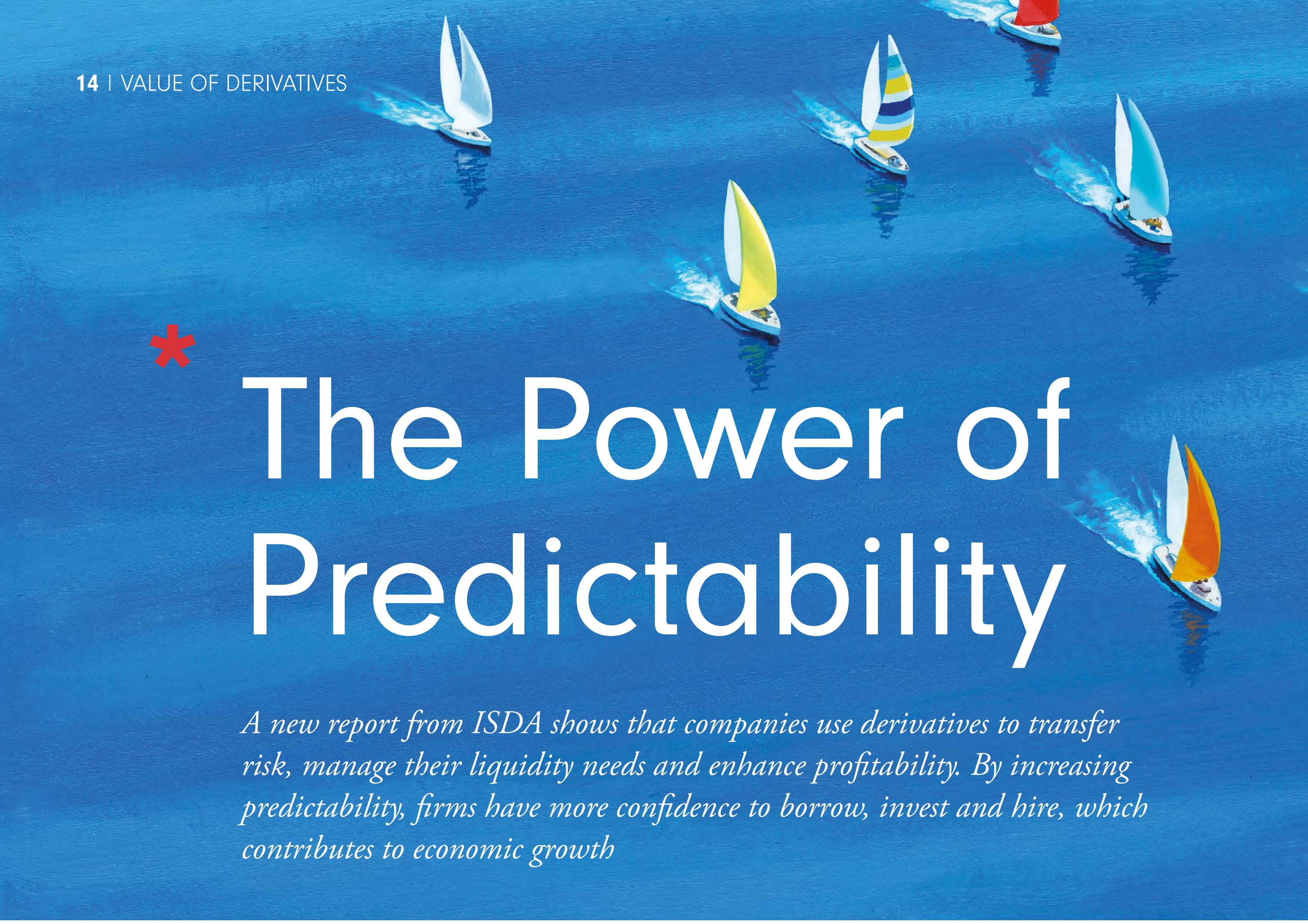
The report notes that these firms use derivatives for a variety of reasons, including locking in financing terms, cutting costs and mitigating the impact of market volatility. This helps companies to plan confidently, make strategic investments and enhance company value, which, in turn, contributes to business expansion and economic growth.

This issue of **IQ** explores how and why derivatives are used and the way in which firms derive value from them, highlighting the key findings from the report (pages 14-20). The value of derivatives was a prominent theme of this year's ISDA Annual General Meeting, and speakers highlighted the important role that derivatives play in hedging and investment strategies – a discussion summarised on page 21.

This issue also includes a selection of comments from derivatives users – from pension funds to corporates – on the benefits that derivatives bring to their businesses (pages 22-24). It drums home the broad use to which derivatives are put by all types of companies around the world. IQ

"At Norges Bank Investment Management, derivatives are important tools to manage risk across our global portfolio. Given our size, liquid derivatives markets are essential for us to adjust risk quickly without moving market prices against us"

Malin Norberg, Norges Bank Investment Management



The Power of Predictability

A new report from ISDA shows that companies use derivatives to transfer risk, manage their liquidity needs and enhance profitability. By increasing predictability, firms have more confidence to borrow, invest and hire, which contributes to economic growth

History enthusiasts may have heard of the Code of Hammurabi, an early legal text from ancient Mesopotamia, carved into a stone slab about 3,700 years ago. The code covers everything from property rights to divorce, but it also recognises the risk and uncertainty that can exist in economic exchanges and sets out a mechanism for that risk to be transferred and shared.

It shows that risk mitigation techniques have been around since the dawn of recorded civilisation. Whenever trade has occurred between groups of people, tools have existed to allow them to alleviate uncertainty, transfer risk and enhance profitability.

Those tools have evolved significantly over the centuries, with the emergence of more sophisticated over-the-counter (OTC) derivatives markets and comprehensive legal and regulatory frameworks. But the basic concepts and intended outcomes remain the same, and companies around the world continue to rely on them.

To explain how and why different types of entities use derivatives, ISDA has published a landmark report that examines the scale of adoption, the strategies adopted, and the value that derivatives bring to individual businesses and the broader economy. The report shows this is far from a niche market – based on analysis of nearly 1,200 companies across seven major stock indices, 87.1% use derivatives to help manage their business.

87.1%

of 1,187 major companies use derivatives to help manage their business

"To mark ISDA's 40th anniversary, this comprehensive report shows how different types of companies around the world use derivatives, from blue-chip multinational corporations to pension funds and insurance companies. Derivatives play a very strategic role in managing risk and in the creation and preservation of wealth. The overwhelming proportion of companies in seven leading stock indices use derivatives because they find them useful and they derive value from them," says Scott O'Malia, ISDA's chief executive.

These companies use derivatives for a variety of reasons, including risk transfer, liquidity management and improving returns. A key objective is to foster greater certainty and predictability by locking in financing terms, reducing costs and mitigating the impact of market volatility. This allows companies to plan

Illustration: James Fryer

and invest with greater confidence, promoting business expansion, the report finds.

"Derivatives can be valuable instruments because they allow companies to transfer market risks – like exposure to currency or interest rate moves – and focus on issues that are core to their business. By helping firms reduce risk, access cheaper funding and improve financial performance, companies can plan for the future with greater confidence, encouraging investment and contributing to economic growth," says Jeroen Krens, chair of ISDA.

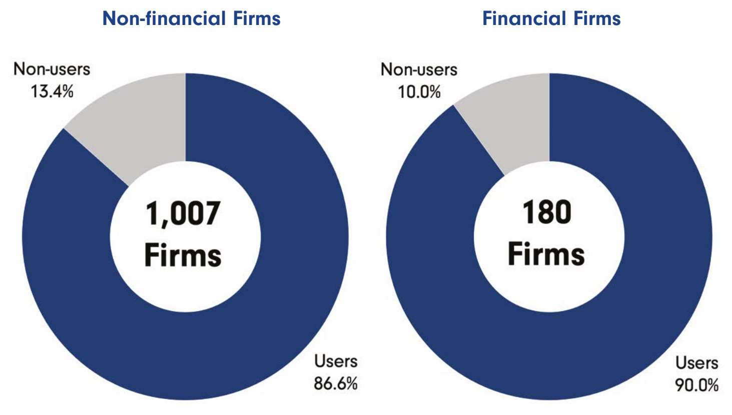
Scale

As part of the report, Expand Research, a firm owned by Boston Consulting Group (BCG), reviewed the annual statements of 1,187 entities listed on seven major equity indices: the S&P 500 (US), Nikkei 225 (Japan), ASX 200 (Australia), Hang Seng Index (Hong Kong), STI (Singapore), FTSE 100 (UK) and Eurostoxx 50 (Europe).

The analysis revealed that 87.1% (1,034 companies) utilise OTC derivatives. This widespread adoption spans both financial and non-financial sectors, with 86.6% of non-financial firms (872 out of 1,007) and 90% of financial institutions (162 out of 180) employing OTC derivatives (see Figure 1).

The proportion of derivatives users is high across all geographies. Approximately 98% of firms included in the Eurostoxx 50 index use derivatives, versus 89% in the S&P 500, 90% in the Nikkei 225 and 88% in the FTSE 100. Companies in the Hang Seng Index have the lowest use of derivatives proportionately, at 70%.

Fig 1: Derivatives Use by 1,187 Companies in Seven Stock Indices



Source: Expand Research analysis

Similarly, derivatives have been adopted widely across sectors. In the US, 100% of utility and energy companies in the S&P 500 index use derivatives, as well as 97% of consumer staples, 96% of materials, 95% of healthcare and 94% of real estate companies. In the Eurostoxx 50, all utility, materials, IT, industrial, healthcare, energy, consumer staple, consumer discretionary and communication services companies employ derivatives (see Figures 2-8).

"It's not just the big banks or specialised institutions. We are talking about non-financial companies, →

▲ Watch a short animation on how derivatives create value for companies and can benefit the global economy: tinyurl.com/yc3rvyn9

→ manufacturers, retailers, energy firms – any firm that wants to protect its profit margins and cashflows against unpredictable swings in interest rates, currency values, commodity prices or any other market instrument is a user of derivatives," says Roy Choudhury, managing director and senior partner at BCG, which worked with ISDA to compile the report.

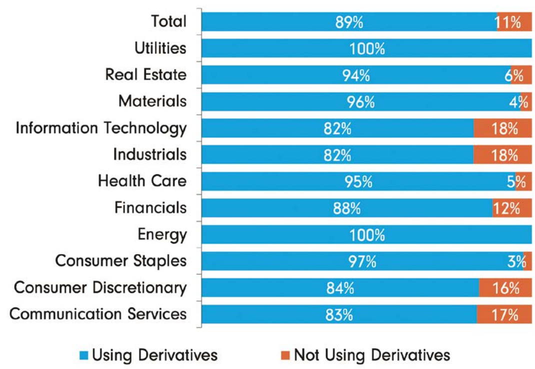
Risk transfer

The report explores the key reasons for using derivatives, referencing academic literature and research on the value that derivatives bring to individual companies or specific sectors and the economy more broadly.

For example, governments and private-sector firms face risks from fluctuations in interest rates that can impact cashflows, earnings and asset values. Actively managing this risk is essential to maintaining financial stability and supporting strategic, long-term planning. As a result, interest rate derivatives are widely used to lock in fixed interest rates, mitigate against sudden spikes in interest costs and maintain consistent and predictable cashflows.

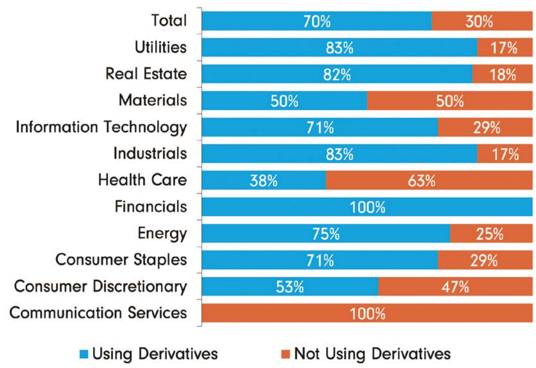
According to a study by the Bank for International Settlements (BIS) that analysed over 80,000 financial statements from more than 14,000 companies in the euro area, US and UK between 2007 and 2022, approximately half of firms with variable-rate debt hedged their interest rate risk. Those that hedged tended to be larger firms with lower cash reserves and higher variable-rate debt, and they maintained stable interest coverage ratios and experienced less decline in equity value during interest rate hikes compared to non-hedged firms (a 2% decline in equity

Fig 2: S&P 500 (US)



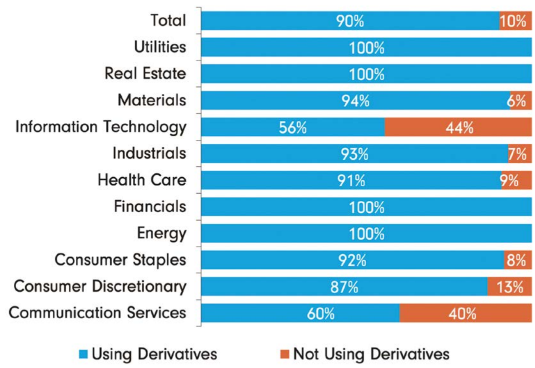
Source: Expand Research analysis

Fig 3: Hang Sang Index (Hong Kong)



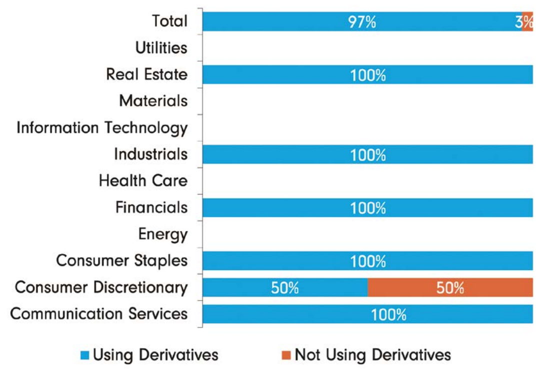
Source: Expand Research analysis

Fig 5: Nikkei 225 (Japan)



Source: Expand Research analysis

Fig 6: STI (Singapore)



Source: Expand Research analysis

"Any firm that wants to protect its profit margins and cashflows against unpredictable swings in interest rates, currency values, commodity prices or any other market instrument is a user of derivatives"

Roy Choudhury, Boston Consulting Group

value versus a 6% decline for unhedged firms).

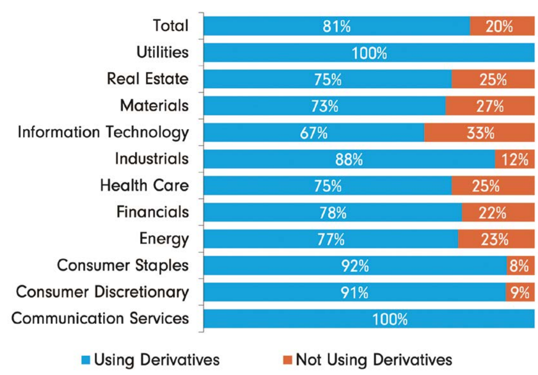
Companies with global operations are also exposed to currency fluctuations, affecting cashflows and asset values. The report finds that hedging foreign exchange (FX) risk stabilises financial results by managing the impact of currency fluctuations on profit margins and overall earnings, preserving the value of foreign-currency-denominated assets and liabilities and enhancing planning accuracy. This helps create certainty and stability in company earnings.

A study of 2,339 companies in East Asia-Pacific economies between 2011 and 2021 by the Hong Kong Monetary Authority found that 80% had foreign currency debt and 30% used FX derivatives. Derivatives users faced lower FX losses during depreciations, losing 0.48% of their earnings before interest and tax on average, compared to 1.87% for non-users.

Meanwhile, price volatility in raw materials and energy can have a significant impact on a company's bottom line. Hedging these risks stabilises revenues, shields firms and consumers against price spikes and ensures operational stability by managing input costs, helping to reduce volatility for consumers.

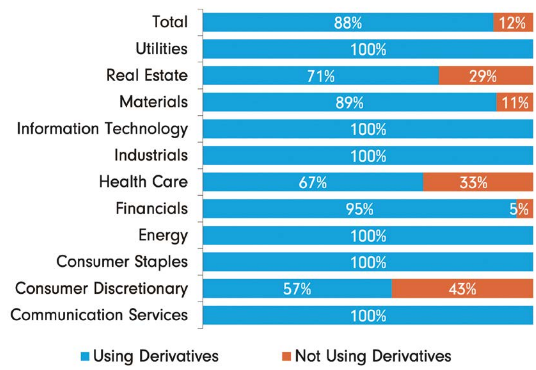
For example, the airline industry faces significant fuel price volatility. Effective risk management ensures financial stability and helps to mitigate sudden spikes in ticket prices. A 2023 study aggregated fuel hedging strategies by non-US airlines, with Air France hedging 72% of fuel needs in early 2022, later reducing coverage to 63%. Cathay Pacific hedged 100% of fuel consumption in the first quarter of 2022, dropping to 50% in the following three-month

Fig 4: ASX 200 (Australia)



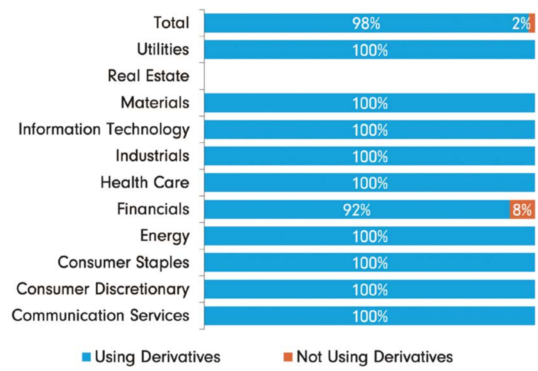
Source: Expand Research analysis

Fig 7: FTSE 100 (UK)



Source: Expand Research analysis

Fig 8: Eurostoxx 50 (Europe)



Source: Expand Research analysis

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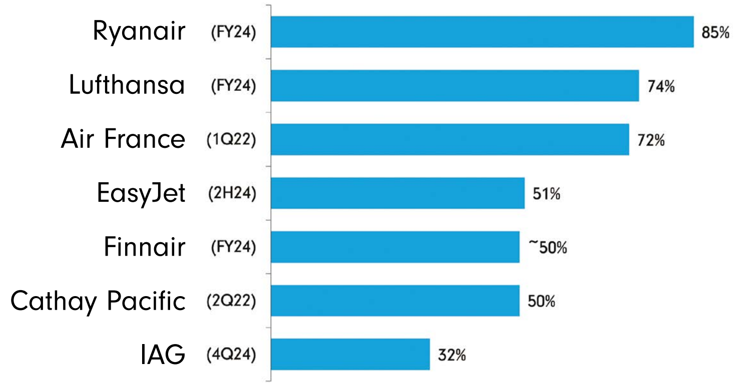
period, demonstrating varying approaches to managing fuel costs. Similarly, airlines like Ryanair (85%), Lufthansa (74%) and Finnair (50%) used derivatives to hedge 2024 fuel needs against price volatility (see Figure 9).

Derivatives markets are also essential for managing energy sector risks, particularly during extreme price volatility. Derivatives help to stabilise operations for traders, ensure critical service continuity and support price stability. In electricity markets, derivatives help align supply and demand, enabling distribution operators to plan and avoid short-term market risks. For natural gas, derivatives optimise storage, balancing electricity markets during supply-demand fluctuations.

In Europe, participation in energy derivatives markets rose by 30% in 2022. Of 1,700 participating firms, 25% were from the oil, gas and energy sectors and 75% were from energy-intensive industries like transport and manufacturing (see Figure 10).

Fig 9: Hedging of Fuel Needs by Airlines



Source: Reuters and research report

Liquidity management

Another key reason for using derivatives is liquidity management – the process of optimising cashflows, managing funding needs and maintaining adequate liquidity levels. By using derivatives, entities can align inflows and outflows, access funding in different currencies and hedge volatility. For example, a company might decide to issue debt in foreign currency to access a new investor base or tap into other funding opportunities, then use a cross-currency swap to eliminate interest rate and currency mismatches.

Derivatives can play a crucial role in supporting commercial trade by mitigating risks associated with currency fluctuations and providing access to currencies. They allow companies engaged in international trade to manage short-term exchange rate volatility, ensuring more predictable costs and revenues, as well as access currencies to manage liquidity in day-to-day operations.

In 2016, non-financial firms accounted for $7.5 trillion of the $58 trillion in total outstanding payment obligations of FX swaps, forwards and currency swaps, according to the BIS. Of this, $5.1 trillion was used to access or manage currencies within the $21 trillion in annual global trade. An additional $2.4 trillion in cross-currency swaps was used to hedge risks from foreign-currency-denominated bonds, enabling firms to decouple funding needs from currency exposure.

"Derivatives help fuel GDP growth because companies can hedge unpredictable variables like rates, currencies and commodity prices and focus on expansion instead. Without that safety net, a volatile market could make them hesitant to borrow and invest. Stable hedging encourages them to move ahead with new projects, hire more employees and ultimately boost economic output because that uncertainty broadly from the economic system is mitigated," says BCG's Choudhury.

WHICH FIRMS USE DERIVATIVES AND WHY?

Manufacturers: Use interest rate and currency swaps to lock in predictable debt costs, safeguarding profitability against rate hikes and giving firms the confidence to borrow and invest.

Exporters: Manage foreign exchange (FX) swings with forwards and options, ensuring stable conversion rates when receiving overseas revenues and preserving value even during unpredictable FX markets.

Food Producers: Smooth out volatile crop prices through futures and forwards, which can help sustain farmer incomes and bring value to consumers by helping to control prices.

Energy Producers/Distributors: Hedge oil, gas or electricity price risks, protecting consumers from severe price spikes and stabilising operating budgets.

Asset Managers: Use swaps, options and other derivatives to balance portfolio exposures, enhance returns and protect against market downturns, creating value for investors by preserving and creating wealth.

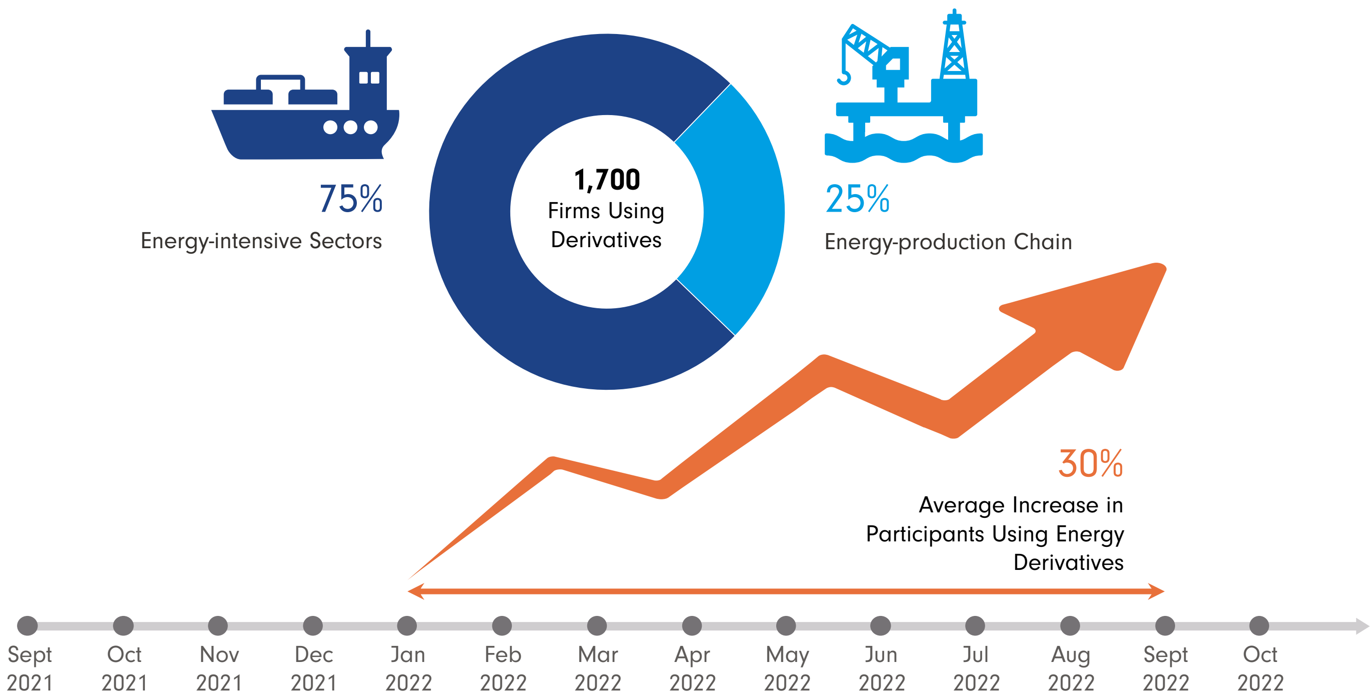
Pension Funds: Employ swaps and other derivatives to shield retirement assets from shifts in interest rates, inflation and equity markets and to augment returns, bringing value to retirees by preserving long-term pension payouts.

Insurance Companies: Use a variety of derivatives to mitigate interest rate, inflation and equity risks, and efficiently adjust and optimise their risk profile, ensuring sufficient reserves to pay out future claims and maintain solvency.

Banks: Hedge interest rate mismatches between deposits and loans, maintaining lending capacity and strengthening balance sheets, enabling them to continue to lend and provide value to the real economy.

Mortgage Providers: Manage interest rate and prepayment risks to keep home financing widely accessible, supporting efficient and stable housing markets and allowing individuals to borrow cost-effectively.

Fig 10: Number of Firms Using Energy Derivatives in Europe



Source: European Central Bank

Investment positions

As well as risk transfer and liquidity management, OTC derivatives are extensively used by asset managers, pension funds and hedge funds to gain and preserve wealth, enabling their clients to confidently invest for the future.

Specifically, derivatives allow investors to efficiently target and fine-tune their market exposure, allowing them to capitalise on specific market dynamics that align closely with their investment goals. By focusing on certain market characteristics – such as harnessing price fluctuations independent of dividend effects or isolating credit spreads without liquidity risks – investors can construct customised portfolios aligned with their objectives, as well as protect their portfolios from adverse market movements. Derivatives also allow investors to gain exposure to markets that may be difficult to trade directly.

Macroeconomic implications

Derivatives can help companies transfer risks and enhance financial performance, but they also play an important societal and economic role by enabling pension funds to pay retirees, insurance companies to pay policyholders and banks to support the housing market by providing mortgages.

Pension funds face the challenge of growing their assets to meet the future needs of retirees, while guarding against market downturns and volatility that could erode value and affect their ability to pay out to retirees. Many pension funds use derivatives to mitigate risks from changes in interest rates, inflation, FX values and equity prices and adjust investments due to changing market conditions. Derivatives can also be used to gain exposure to a market characteristic, market or asset class that is difficult to access because of transaction costs, liquidity or other considerations and achieve a dynamic asset allocation as part of a pension plan's liability-driven investment strategy.

In the US, public defined benefit pension funds manage $5.1 trillion in assets for 30 million employees, with 43 out of 153 funds using interest rate swaps to hedge duration risk. In Europe, 88,800 occupational pension funds manage €2.9 trillion for 58 million members, with 275 out of 625 pension funds using derivatives. According to a 2024 study, it was estimated that Dutch occupational pension funds held about 27.6% of non-centrally cleared swap positions in Europe as of 2020.

By effectively managing potential risks, pension funds help ensure that retirees receive the income they depend on, regardless of market volatility. Furthermore, the use of derivatives can contribute to overall economic stability by reducing the likelihood of significant pension shortfalls. This mitigation of risk lessens the chance of economic shocks that could arise from underfunded pension schemes.

Similarly, life insurance companies offer annuities, which guarantee a minimum level of income in retirement, regardless of market performance. Insurance companies must therefore manage a range of investment risks so they can meet their obligations to annuity owners to provide a steady income stream during retirement. Insurers in the property and casualty sector, meanwhile, must maintain

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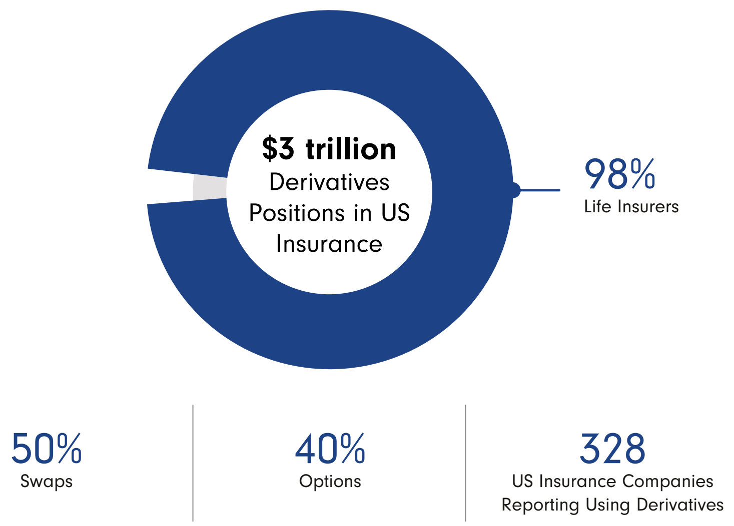
Fig 11: Degree of Usage of Derivatives by US Insurance Companies



Source: National Association of Insurance Commissioners

a sufficient level of reserves to pay claims to their clients for insured losses.

Insurance companies adopt investment strategies to ensure they have sufficient assets available to meet their future obligations while maintaining adequate liquidity for paying claims promptly. Many use derivatives to hedge contractual protections associated with annuity guarantees and manage interest rate exposures on fixed maturity investments, long-term debt and guaranteed interest rates on insurance contracts. They are also used to protect against a decline in equity market prices, reduce foreign currency exposures on foreign-currency-denominated investments and liabilities, limit credit risk on investments in corporate debt instruments and manage liquidity positions, including the ability to pay benefits and claims when due.

As of 2021, the US insurance industry held derivatives positions totalling $3 trillion in notional value, with 95% dedicated to hedging. Life insurers accounted for 98% of this exposure, primarily using swaps and options (see Figure 11). In Europe, insurers extensively use OTC derivatives, focusing on macro hedging (59%), efficient portfolio management (25%) and micro hedging (24%).

Supporting mortgages

Derivatives play a critical role in supporting mortgage providers by enabling banks to hedge the risks posed by fixed-rate mortgages and free up capacity to continue lending. Many lenders look to transfer risk, reduce capital requirements and raise funding by issuing mortgage-backed securities (MBSs).

The US MBS market is one of the largest and most liquid global fixed-income markets, with more than $12 trillion of securities outstanding. In Europe, covered bonds – debt securities where investors have recourse to the issuer and a pool of assets that typically remain on the issuer's balance sheet – have also become an important source of long-term financing for mortgage lenders.

Both securitisation vehicles and covered bond issuers typically use derivatives to manage interest rate and currency risks in the mortgage pool. Specifically, interest rate and currency swaps are used to ensure the disparate fixed and floating cashflows from the underlying mortgages are sufficient to meet fixed coupon payments on asset-backed securities or covered bonds. Without that certainty, these securities would typically receive lower ratings from rating agencies and would be less attractive to investors – making it more expensive for mortgage lenders to raise financing for new loans.

"The report clearly shows that OTC derivatives are extensively used by a wide variety of entities around the globe to transfer risks, create certainty and stability and enhance returns. Derivatives markets contribute to vibrant, competitive, robust and liquid financial markets, ultimately promoting economic growth," says ISDA's O'Malia. IQ

Read the Value of OTC Derivatives report: tinyurl.com/3hwnmbfj

THE VALUE OF DERIVATIVES

Risk Mitigation and Certainty: Derivatives can reduce earnings volatility and lock in financing terms, enhancing company value and enabling entities to plan confidently and make strategic investments.
Enhanced Capital Allocation: By transferring or offsetting specific risks, firms can redeploy savings into new projects, fostering investment and business expansion.
Support for Economic Growth: Stable corporate operations and improved access to funding lead to increased hiring, stronger investment pipelines and broader market development, contributing to economic value.
Efficient Market Functioning: Hedgers and investors collectively contribute to deeper liquidity, tighter spreads and more accurate price discovery, benefiting all market participants.
Derivatives help firms mitigate risk, enhance certainty and stability, reduce costs, dampen the impact of market volatility and enhance financial performance and company value. This ultimately contributes to investment, job creation and economic growth.

* The Value Proposition

At the ISDA Annual General Meeting in Amsterdam last month, panellists talked about the role derivatives play in transferring risk, creating stability and enhancing returns

Derivatives play a vital role in enabling different types of companies to transfer risk, mitigate volatility and enhance financial performance, and are a lynchpin of hedging and investment strategies, according to participants on a panel that explored the value of derivatives at ISDA's Annual General Meeting in Amsterdam in May.

"Derivatives have become one of the cornerstones of our investment strategy. We're very aware of interest rate risks, so hedging that is very important. Our pension liabilities are valued based on market interest rates, so we hedge that volatility out of the balance sheet. The same goes for currency risks, and we hedge substantial percentages," said Ido de Geus, head of fixed income at PGGM Investments. "It's not only for the comfort of the board to keep the volatility of the fund down – it actually frees up risk budget. So, if you think about the value of derivatives, it also makes it possible to invest more money into equity and the real economy, either private markets or public markets. So, it's a really important part of our toolkit nowadays."

Panellists discussed a recent report by ISDA on the value of derivatives, which found that 87.1% of 1,187 major companies across seven major stock indices use derivatives for a variety of purposes. That includes blue-chip multinational corporations, agricultural companies, asset managers, pension funds and banks.

"A very, very broad range of market participants use derivatives, and they are doing so for a variety of reasons – to efficiently allocate capital, manage risk and manage earnings volatility," said Roy Choudhury, managing director and senior partner at Boston Consulting Group, which worked with ISDA to develop the report. "There's also a broad range of macro benefits that are conferred. For example, it promotes the mortgage market. It makes home ownership affordable by managing interest rate risk. It helps manage the retirement savings through pension and insurance companies. So, there are micro benefits to individual companies that are engaging in derivatives, but there's also a broad range of macro advantages."

For many companies, derivatives allow risks that are not part of their core business to be stripped out, creating more certainty and predictability in financial performance – a key requirement for chief financial officers (CFOs), explained Chris Lipscomb, managing director and global head of rates in the corporate derivatives group at Morgan Stanley.

"For corporates, the key thing around valuation is stability of earnings, and derivatives are a central part of that. If you're a multinational corporate and you've got earnings in euros, dollars and Latin American currencies, you've got all sorts of risks and volatility to manage that are not related to your business. And these risks are unremunerated risks. So, if you've decided not to hedge your Brazilian real exposure and the real depreciates significantly, you're going to see a big hit to your earnings. And all CFOs will know that earnings guidance and being able to deliver on that earnings guidance is critical to the valuation and the credibility of your company," he said. IQ

WATCH

ISDA's latest whiteboard animation on the scale and impact of derivatives: shorturl.at/4OYrT

ISDA. Safe, Efficient Markets
Celebrating 40 Years

* Derivatives Views

Derivatives are used by companies for a variety of risk management and investment purposes. **IQ** *asked a selection of senior market participants to explain why their firms use derivatives and the value they bring*

ASSET MANAGERS

"The use of derivatives allows us to achieve efficient portfolio diversification and cost-effective exposure to various asset classes without significant capital outlays. Additionally, derivatives provide tools for hedging risks, such as market volatility, interest rate fluctuations and currency risks, among others, to ensure more stable and predictable outcomes for retirees."

Julio Florian, Regional Head of Investments, Sura Asset Management

ASSET MANAGERS

"At L&G, derivatives form an important part of our investment toolkit. Our experienced portfolio management and trading teams routinely utilise listed and OTC derivatives (both cleared and bilateral) to manage exposures and risks effectively, on behalf of our clients."

Ed Wicks, Global Head of Trading & Liquidity Management, Asset Management, L&G

PENSION FUNDS

"Derivatives are key tools in the most modern implementations of strategic asset allocation for public pension funds. We constantly scan the markets for sources of liquidity, and derivatives are often the most efficient access method. Derivatives support rebalancing, portfolio transitions and bespoke alpha strategies for us. Finally, our risk parity allocation would not be implementable without the derivatives markets."

Jase Auby, CIO, Teacher Retirement System of Texas

PENSION FUNDS

"PIC's purpose is to pay the pensions of our current and future policyholders and to secure the investments that allow us to do this. To do this effectively, we need to manage various market risks, such as inflation, foreign exchange, interest rates and credit. Derivatives are a vital part of our toolkit to manage these market exposures. They are integral to our business model, as the assets we source cannot match all these exposures on their own."

Rob Groves, CIO, Pension Insurance Corporation Plc

PENSION FUNDS

"Elo has over €32 billion in assets under management, and we invest in different asset classes globally. The most significant investment risk in our portfolio is equity risk. Nowadays, currency risks also have a substantial impact on overall returns. Our return target is challenging, and, at the same time, we have strict solvency rules. Effective risk management would not be possible without a functioning derivatives market."

Jonna Ryhänen, CIO, Elo Mutual Pension Insurance Company

DEVELOPMENT BANKS

"Derivatives play a crucial role in CABEI's financial strategy by enabling effective risk management and enhancing funding efficiency. By hedging interest rate and foreign exchange risks, we have issued bonds in 27 currencies across 24 markets, while maintaining a stable funding cost and net interest income. Additionally, derivatives help optimise our balance sheet by aligning asset and liability exposures, ultimately strengthening our ability to mobilise resources and support sustainable development in the region."

Humberto Rodriguez, CFO, Central American Bank for Economic Integration (CABEI)

DEVELOPMENT BANKS

"As a leading global bond issuer with a funding target of €65 billion-€70 billion this year, Germany's KfW is not only one of the largest end users of cross-currency swaps globally but also manages a significant notional volume of interest rate and FX swaps. Derivatives are essential for our operations – they enable us to effectively manage interest rate and currency risks, while ensuring optimal alignment of our assets and liabilities. More importantly, they provide the flexibility to meet our investors' needs regarding maturity, coupon and currency."

Tim Armbruster, Group Treasurer, KfW

DEVELOPMENT BANKS

"Derivatives are key instruments for the implementation of CEB's market risk hedging strategy on both sides of the balance sheet."

Arturo Seco Presencio, Treasurer and Deputy CFO, Council of Europe Development Bank

DEVELOPMENT BANKS

"Derivatives are a critical tool that the African Development Bank uses to help manage various types of risk, thereby enabling the institution to efficiently provide cost-competitive funding for critical development projects across the continent of Africa."

Keith Werner, Division Manager, Capital Markets and Financial Operations, African Development Bank Group

CORPORATES

"As Airbus intends to generate profits only from its operations and not through speculation on foreign currency exchange rate movements, we use hedging strategies solely to manage the impact on EBIT from the volatility of the US dollar. To maintain EU competitiveness, a dynamic financial derivatives market is crucial for EU companies. Corporate treasurers need a secure and stable EU regulatory framework to build their risk management system."

Jean-Baptiste Pons, Group Executive, Head of Treasury, Airbus

CORPORATES

"OTC derivatives have been fundamental to large-scale global financial risk management at Volkswagen for decades. Bridging the gap between standardisation requirements of a multinational business operation and tailor-made solutions across products and jurisdictions, they continue to be key to overcoming challenges around new and sustainable business endeavours in an increasingly volatile and complex market environment."

Jan Rücker, Head of Global Financial Risk Management, Volkswagen

COMMODITIES

"Derivatives enable us to execute mid- to long-term hedging strategies for our generation assets, as well as proper risk management and standardised settlement of proprietary trading."

Robert Wadura, Manager, Trading Operations, CEZ

COMMODITIES

"Olam Agri uses derivatives extensively for financial optimisation and risk management. These instruments help us stabilise cashflow and hedge against commodities prices, interest rates and currencies volatility. Olam Agri Risk Management Solutions' counterparties under ISDA agreements benefit from flexible and efficient access to tailored OTC hedging solutions within a strong, mutual risk mitigation framework."

Clement Lefevre, OTC Sales Leader, VP Hedging Solutions, Olam Agri

SOVEREIGN WEALTH FUNDS

"At Norges Bank Investment Management, derivatives are important tools to manage risk across our global portfolio. Given our size, liquid derivatives markets are essential for us to adjust risk quickly without moving market prices against us. With derivatives, we can implement investment decisions efficiently and take advantage of market inefficiencies and mispricing, especially during uncertain times. As a long-term investor, this approach allows us to weather volatile markets, while growing and protecting financial wealth for future generations of Norwegians."

Malin Norberg, CIO Market Strategies, Norges Bank Investment Management

40th ANNIVERSARY PACKAGE

Solving Problems

From building cross-border resolution frameworks to the removal of LIBOR and the implementation of margin rules for non-cleared derivatives, ISDA's solutions have consistently helped to overcome shared industry challenges

Last month marked 40 years since the establishment of ISDA by a small group of dealers who had got together to address the backlog of documentation that was proving to be a problem for derivatives market participants. Not only did the development of standard-form documents help to alleviate the backlog, but their collaboration set a framework for the solving of shared industry problems that would endure for four decades.

This edition of **IQ** continues ISDA's 40th anniversary coverage by shining a light on some of the thorniest problems that ISDA has addressed in the years since the financial crisis.

For policymakers, one of the immediate challenges after the crisis was to build an effective resolution framework that would avoid further bank bailouts. The imposition of mandatory stays on termination rights was a constructive step forward, but it needed to work effectively on a cross-border basis. The ISDA 2014 Resolution Stay Protocol and subsequent versions provided the solution that was needed (pages 30-31).

As the post-crisis derivatives market reforms were rolled out, the addition of margin requirements for non-centrally cleared derivatives demanded a robust, industry-standard methodology for the calculation of margin. ISDA stepped forward to develop that methodology, and the ISDA Standard Initial Margin Model continues to evolve to support effective margin frameworks around the world (pages 32-33).

Financial market transitions don't come much bigger than the removal of LIBOR, which previously underpinned hundreds of trillions of dollars of contracts across derivatives, bonds, loans and other instruments. The development of the ISDA 2020 IBOR Fallbacks Protocol was an unprecedented industry undertaking, providing a critical safety net that enabled the smooth transition from LIBOR (pages 34-35).

As the Basel III capital framework is completed and new market risk rules are adopted, many banks are switching to greater use of standardised capital models, which must be implemented accurately and consistently. The ISDA Analytics platform has provided a unique benchmarking service that has allowed banks to achieve an unmatched level of detail, accuracy and speed (pages 36-37).

In all of these cases and many others, ISDA worked closely with policymakers to develop solutions that met their expectations, as well as those of market participants (pages 38-39). For the senior ISDA staff and board members who were closely involved in addressing these challenges, they exemplify ISDA's capacity to bring relevant and effective solutions at the right time (pages 40-44). IQ

"We're always looking for ways to help implement regulations in a mutualised, cost-effective way, which saves the industry from having to do it individually"

Scott O'Malia, ISDA

ISDA Safe, Efficient Markets
Celebrating 40 Years

* Markets in Motion

The second part of a timeline of ISDA's history looks at events between 2001 and 2014, a period that saw the global financial crisis and efforts by regulators and market participants to strengthen the resilience of derivatives markets with a series of reforms

2001

ISDA FACTS AND MILESTONES

- Financial products Markup Language (FpML) – an open-source standard for the electronic dealing and processing of derivatives transactions – is integrated into the ISDA organisational structure.
- ISDA publishes the 2001 ISDA Margin Provisions, a single document in which parties can select jurisdiction-specific provisions to apply to their margin arrangements, including New York law, English law and Japanese law.

ISDA Chair: Keith Bailey
ISDA CEO: Richard Grove / Robert Pickel
Member Count: 547 **Member Countries:** 42
ISDA AGM: Washington, DC, Omni Shoreham Hotel

FINANCIAL MARKET DEVELOPMENTS

- US energy giant Enron collapses following revelations of accounting malpractice to mask losses at the firm.

2002

ISDA FACTS AND MILESTONES

- ISDA publishes the 2002 ISDA Master Agreement, updating the 1992 agreement with several new provisions.
- The 2002 ISDA Equity Derivatives Definitions are published, which expand product coverage and include several other updates to the 1996 definitions.
- ISDA publishes the 2002 Novation Agreement, intended to be used when one party to a trade transfers its rights, liabilities, duties and obligations to a new counterparty.
- ISDA updates the 1996 Model Netting Act.

ISDA Chair: Keith Bailey **ISDA CEO:** Robert Pickel
Member Count: 599 **Member Countries:** 46
ISDA AGM: Berlin, Hotel InterContinental

FINANCIAL MARKET DEVELOPMENTS

- On January 1, euro coins and notes are introduced in 12 EU countries with a total population of 308 million.

2003

ISDA FACTS AND MILESTONES

- The 2003 ISDA Credit Derivatives Definitions are published, updating various provisions, including successor events and sovereign credit default swaps.
- ISDA opens an office in Washington, DC.

ISDA Chair: Keith Bailey **ISDA CEO:** Robert Pickel
Member Count: 619 **Member Countries:** 46
ISDA AGM: Tokyo, Four Seasons Hotel Tokyo at Chinzan-so

2004

ISDA FACTS AND MILESTONES

ISDA Chairs: Keith Bailey / Jonathan Moulds **ISDA CEO:** Robert Pickel
Member Count: 628 **Member Countries:** 47
ISDA AGM: Chicago, The Fairmont Hotel

FINANCIAL MARKET DEVELOPMENTS

- Basel II is finalised in June, which allows sophisticated banks to use internal models and introduces an operational risk charge.

2005

ISDA FACTS AND MILESTONES

- ISDA publishes the 2005 CDS Index Protocol, which enables firms to settle certain index trades via an auction process for the first time.
- The 2005 ISDA Commodity Definitions are published, expanding the scope of the 1993 definitions and incorporating the 1997 ISDA Bullion Definitions.
- ISDA publishes the 2005 Inflation Derivatives Definitions.
- The ISDA Novation Protocol is published to simplify the process of transferring trades, with the aim of helping to resolve confirmation backlogs.

ISDA Chair: Jonathan Moulds **ISDA CEO:** Robert Pickel
Member Count: 674 **Member Countries:** 50
ISDA AGM: Barcelona, Hotel Arts Barcelona

2006

ISDA FACTS AND MILESTONES

- The 2006 ISDA Definitions are published for interest rate derivatives transactions, updating the 2000 ISDA Definitions.
- ISDA updates the 2002 Model Netting Act.
- The 2006 ISDA Fund Derivatives Definitions are published, intended for use in confirmations of derivatives transactions linked to various types of pooled investment vehicles, such as hedge funds and mutual funds.

ISDA Chair: Jonathan Moulds **ISDA CEO:** Robert Pickel
Member Count: 755 **Member Countries:** 52
ISDA AGM: Singapore, Shangri-La Hotel

2007

ISDA FACTS AND MILESTONES

- ISDA opens an office in Hong Kong.
- ISDA publishes the 2007 European Master Equity Derivatives Confirmation Agreement, streamlining the confirmation process for certain derivatives transactions on European indices and shares.

ISDA Chair: Jonathan Moulds **ISDA CEO:** Robert Pickel
Member Count: 746 **Member Countries:** 55
ISDA AGM: Boston, Seaport Hotel & Seaport World Trade Center

FINANCIAL MARKET DEVELOPMENTS

- The first signs of the global financial crisis emerge, with the collapse of two Bear Stearns hedge funds due to subprime exposures and the freezing of withdrawals from certain funds exposed to subprime by BNP Paribas.
- Central banks, including the Federal Reserve, the Bank of England and the European Central Bank, coordinate to inject liquidity into markets.
- The UK's Northern Rock experiences a run on deposits due to concerns about its exposure to subprime mortgages and its reliance on short-term financing.

ISDA Safe, Efficient Markets
Celebrating 40 Years

2008

ISDA FACTS AND MILESTONES

- ISDA publishes the 2008 ISDA Inflation Derivatives Definitions.

ISDA Chair: Eraj Shirvani **ISDA CEO:** Robert Pickel **Member Count:** 815 **Member Countries:** 57 **ISDA AGM:** Vienna, Hilton Vienna

FINANCIAL MARKET DEVELOPMENTS

- Bear Stearns collapses and is acquired by JP Morgan Chase.
- Fannie Mae and Freddie Mac are placed into conservatorship.
- Lehman Brothers files for bankruptcy, the largest in US history.
- Merrill Lynch is sold to Bank of America.
- AIG is bailed out by the Federal Reserve Bank of New York following escalating margin calls on its credit derivatives transactions.
- The US Congress passes the Troubled Asset Relief Program, authorising $700 billion to purchase distressed assets and inject capital into banks.
- Banks in Europe and the UK receive government support, including Royal Bank of Scotland, Fortis and Anglo Irish Bank.
- The S&P 500 declines by 38.5% over the year.

2009

ISDA FACTS AND MILESTONES

- ISDA introduces the big bang and small bang protocols, which incorporate an auction settlement process into existing credit derivatives agreements and introduce provisions for decisions to be made by new Determinations Committees.

ISDA Chair: Eraj Shirvani **ISDA CEO:** Conrad Voldstad
Member Count: 837 **Member Countries:** 58
ISDA AGM: Beijing, China World Hotel

FINANCIAL MARKET DEVELOPMENTS

- The Group-of-20 (G-20) nations agree a series of reforms for derivatives markets at their Pittsburgh meeting in September, including a requirement for all standardised over-the-counter (OTC) derivatives to be cleared, all OTC derivatives to be reported to trade repositories, standardised contracts to be traded on exchanges or electronic trading platforms where appropriate, and higher capital requirements for non-cleared derivatives.

2010

ISDA FACTS AND MILESTONES

- The ISDA/IIFM Tahawwut Master Agreement is published, the first standard document for cross-border transactions in Shariah-compliant derivatives.

ISDA Chair: Eraj Shirvani **ISDA CEO:** Conrad Voldstad
Member Count: 830 **Member Countries:** 59
ISDA AGM: San Francisco, Fairmont San Francisco

FINANCIAL MARKET DEVELOPMENTS

- The Dodd-Frank Act is signed into law in the US in July, intended to implement many of the reforms agreed by the G-20 in 2009.
- The Basel III framework is finalised in December, introducing stricter capital and liquidity standards for banks, capital conservation buffers and a new leverage ratio.
- The eurozone sovereign debt crisis escalates, following concerns about Greece's fiscal health, with the International Monetary Fund and EU approving a €110 billion bailout.

2011

ISDA FACTS AND MILESTONES

- ISDA publishes the 2011 Equity Derivatives Definitions, updating the 2002 version.
- The first version of the FIA-ISDA Cleared Derivatives Execution Agreement is published for use by cleared swaps market participants in negotiating execution-related agreements with counterparties to swaps that are intended to be cleared.

ISDA Chairs: Eraj Shirvani / Stephen O'Connor
ISDA CEO: Conrad Voldstad / Robert Pickel
Member Count: 835 **Member Countries:** 58
ISDA AGM: Prague, Hilton Prague

FINANCIAL MARKET DEVELOPMENTS

- The G-20 agrees to introduce margin requirements for non-cleared derivatives as part of broader reforms to the OTC derivatives market.
- Europe's sovereign debt crisis intensifies, with concerns about Greece, Italy, Portugal and Spain intensifying.

2012

ISDA FACTS AND MILESTONES

- The ISDA August 2012 DF Protocol is introduced to help firms comply with certain requirements under the Dodd-Frank Act, including external business conduct rules.
- ISDA launches the ISDA Amend platform to automate the process of modifying ISDA Master Agreements and sharing regulatory representations.

ISDA Chair: Stephen O'Connor **ISDA CEO:** Robert Pickel
Member Count: 851 **Member Countries:** 59
ISDA AGM: Chicago, Fairmont Chicago, Millennium Park

FINANCIAL MARKET DEVELOPMENTS

- The European Market Infrastructure Regulation (EMIR) comes into force in August, which includes requirements for mandatory central clearing and reporting to trade repositories.
- The LIBOR scandal breaks, with revelations of bank manipulation of the rate-setting process for profit.
- A restructuring of Greek debt results in a decision by the Determinations Committee that a credit event has occurred.
- JP Morgan Chase suffers $6.2 billion in losses on credit derivatives trades made by a trader nicknamed the London Whale.

2013

ISDA FACTS AND MILESTONES

- The ISDA March 2013 DF Protocol is introduced, enabling market participants to comply with further requirements under the Dodd-Frank Act.
- The 2013 ISDA EMIR Portfolio Reconciliation, Dispute Resolution and Disclosure Protocol is published, helping firms amend the terms of their agreements to reflect portfolio reconciliation and dispute resolution requirements under EMIR.

ISDA Chair: Stephen O'Connor **ISDA CEO:** Robert Pickel **Member Count:** 848 **Member Countries:** 60
ISDA AGM: Singapore, Shangri-La Hotel

FINANCIAL MARKET DEVELOPMENTS

- Mandatory central clearing for certain interest rate swaps and credit default swaps begins in the US in March under Commodity Futures Trading Commission rules.
- Global policymakers finalise margin requirements for non-cleared derivatives in September.

2014

ISDA FACTS AND MILESTONES

- ISDA launches the 2014 ISDA Credit Derivatives Definitions, updating the 2003 version by incorporating supplements covering auction settlement, the Determinations Committees process and other provisions.
- ISDA publishes the 2014 ISDA Resolution Stay Protocol, allowing parties to contractually recognise the cross-border application of special resolution regimes.
- The 2014 ISDA Collateral Agreement Negative Interest Protocol is published, allowing firms to modify certain collateral agreements to account for negative interest amounts on cash collateral.

ISDA Chair: Stephen O'Connor / Eric Litvack
ISDA CEO: Robert Pickel / Scott O'Malia **Member Count:** 858
Member Countries: 62 **ISDA AGM:** Munich, The Westin Grand München

FINANCIAL MARKET DEVELOPMENTS

- Mandatory swap execution facility trading begins in the US in February.
- The Volcker Rule officially comes into force in April, with full compliance set for July 2015.

2015-2025: The latest phase of ISDA's history will be documented in the next edition of **IQ**

* Short Stay

When regulators sought to address the too-big-to-fail conundrum after the financial crisis, ISDA was tasked with developing a contractual solution to enable the cross-border recognition of statutory stays on certain termination rights, leading to a landmark protocol

For policymakers, it was a critical part of addressing the problem of banks that had been deemed too big to fail during the global financial crisis. For ISDA, it was a thorny industry challenge that was addressed by bringing the public and private sectors together to thrash out an elegant legal solution. The ISDA 2014 Resolution Stay Protocol, which enabled adhering parties to change the terms of their derivatives agreements to opt into foreign resolution regimes, is acknowledged to be one of ISDA's most notable achievements in the post-crisis era.

In response to the failure and bailing out of multiple banks during the crisis, statutory resolution regimes were introduced in key jurisdictions to suspend certain rights that allow derivatives counterparties to terminate outstanding transactions with a bank under resolution. This temporary 'stay' would give national authorities the time needed to deal with a troubled bank in an orderly way and avoid the market instability that might result from multiple counterparties closing out their derivatives trades simultaneously.

"The temporary suspension of the right to terminate outstanding derivatives transactions with a bank under resolution was a necessary step to address the too-big-to-fail problem and minimise market disruption in the event of a default, which is why special resolution regimes were introduced. For trades between counterparties in different jurisdictions, the ISDA 2014 Resolution Stay Protocol and subsequent versions provided the mechanism to ensure the temporary suspensions applied in a cross-border context," says Katherine Tew Darras, ISDA's general counsel.

Restoring stability

The collapse of Lehman Brothers in September 2008, with assets of $639 billion, was the pivotal moment of the financial crisis and remains by far the largest bankruptcy in US history. But it was by no means the only entity to stumble. A string of other banks were bailed out by the US and UK governments, including Washington Mutual, Royal Bank of Scotland, Lloyds Banking Group and Halifax Bank of Scotland, at a cost of billions of dollars to taxpayers.

As policymakers set about reshaping the regulatory framework in the wake of the crisis, one of their main objectives was to avoid a situation in which large banks would need to be bailed out or nationalised in the future. One option could have been to break up the largest banks into smaller entities that would be less likely to fail, or whose failure would be less disruptive to the financial system. The alternative was to develop a robust framework that would allow troubled banks to be resolved in a safe and timely fashion.

"In the years that followed the crisis, the narrative quickly shifted from a need to break up the largest banks to finding a way to make them safer and easier to resolve. To make that possible, there needed to be a way to address the derivatives book of a failing bank without triggering a wave of cross defaults that would immediately render the bank non-viable. This led to the innovation of a short temporary stay – a weekend or a couple of days – during which regulators could recapitalise the bank and make other changes necessary to ensure its credit quality and ongoing viability," explains Knox Mcilwain, head of regulatory and licensing at Airwallex and former counsel at Cleary Gottlieb Steen & Hamilton.

Under the ISDA Master Agreement, the insolvency of a derivatives counterparty, or the start of resolution proceedings, can trigger certain close-out rights, including termination of the swap, foreclosure on collateral or claim for payments. Other default provisions also mean that if a party fails to meet its obligations under one agreement, this can trigger a default under other agreements as well, including agreements with affiliated entities that have not defaulted. The concern for regulators was that the simultaneous close-out of numerous derivatives contracts during the resolution of a large, cross-border banking group could hamper resolution efforts and destabilise markets.

By freezing certain default rights through a mandatory stay, regulators would be able to minimise the risk that resolution efforts might trigger a wave of terminations across multiple agreements and entities at the same time. Statutory resolution regimes were developed to impose this stay on termination rights in the event a bank is subject to resolution action in its jurisdiction. If the resolution is successful, then counterparties would face a creditworthy institution and no longer have the right to terminate their transactions. These regimes were introduced in the US through Title II of the Dodd-Frank Act, which was signed into law in 2010, and in the EU through the Bank Recovery and Resolution Directive, which came into force in July 2014.

The challenge was that these statutory resolution regimes didn't contain provisions that would recognise the resolution frameworks of other jurisdictions. So, for cross-border trades, it wasn't certain that a statutory stay would be enforceable if the contract was governed by the laws of a different jurisdiction. For a globally active bank with multiple overseas subsidiaries and cross-border derivatives transactions, there was a risk that stays on termination rights under a particular resolution regime would not be enforceable against all swap counterparties of the banking group, which would likely be located in different jurisdictions and transacting under the laws of multiple jurisdictions.

"Qualified financial contracts like derivatives have a privileged status in insolvency that allows parties to exercise cross-default rights, which can cause cascading defaults through multiple entities. But even after this issue had been addressed with local legislation to enforce a statutory stay on these rights, there was concern over whether a foreign jurisdiction's stay would be enforceable. It wasn't clear, for example, if a mandatory stay under a contract governed by German or English law would be recognised by a court in New York," says Regan Rowan, managing director and associate general counsel at JP Morgan.

Towards a protocol

In 2013, the Group-of-20 (G-20) nations tasked the Financial Stability Board (FSB) to develop policy proposals to enhance legal certainty in cross-border resolution. The FSB subsequently consulted on several policy measures, including the cross-border recognition of temporary stays on early termination and cross-default rights. ISDA was asked to explore a contractual solution to support existing statutory regimes and work alongside longer-term regulatory efforts to develop cross-border recognition of resolution frameworks.

With policymakers around the world working to enhance resolution regimes in their own legal frameworks, developing a robust contractual solution would not be straightforward, but ISDA's protocol structure was a tried-and-tested mechanism to multilaterally update contracts in an efficient, uniform way. Fifteen years earlier, ISDA had blazed a trail with the EMU Protocol in 1998, the very first legal document of its kind in the financial world, which enabled parties to update their derivatives contracts ahead of the introduction of the euro.

"The FSB had made clear there needed to be greater legal certainty that these statutory stays would be fully recognised and enforceable, whatever the governing law of the contract. Legal experts had concluded that stays applied by an overseas resolution regime might not always be enforceable, and the objective of this exercise was to bring this certainty as close to 100% as possible. Policymakers worked closely with market participants on this and it was evident that a protocol would be the most effective way for everyone to agree to the same terms to amend their contracts," says Ann Battle, senior counsel, market transitions at ISDA.

By October 2014, the ISDA Resolution Stay Protocol had been drafted in close coordination with the FSB, contractually opting adhering parties into provisions within certain qualifying special resolution regimes that would limit the exercise of termination rights. In November of that year, 18 major global banks adhered to the protocol, which came into effect on January 1, 2015. With this landmark step, more than 90% of the over-the-counter bilateral trading of those banks was covered by stays of either a contractual or statutory nature, the FSB said at the time.

While the largest banks had been able to adhere to the protocol at launch, bringing the buy side onboard was more challenging due to the fiduciary responsibilities firms have to their clients – voluntarily giving up advantageous contractual rights could leave them open to lawsuits. This was an issue the FSB recognised, and its members committed to address this by developing regulations that would require counterparties to agree to the imposition of a mandatory stay.

For any entities that had been reluctant to accept the stay, a regulatory requirement would be the most effective way forward. In the US, the contractual terms parties would need to agree to were set out in regulation and it also permitted agreement to substantively similar terms by adherence to the ISDA Resolution Stay Protocol.

"The recognition in US law that adherence to the ISDA Resolution Stay Protocol would satisfy the requirements really validated the intensive work that had been done on this project. Reaching agreement between the many different parties involved – from the regulators, the sell side and the buy side – was extremely challenging and meant balancing multiple competing priorities. Ultimately, it led us to an effective solution that achieved widespread support and gave regulators the opportunity to resolve a failing bank without creating additional systemic risk or imposing unmanageable credit risk on counterparties. I think that's a testament to the ISDA process and the power of the protocol," says Seth Grosshandler, former partner at Cleary Gottlieb Steen & Hamilton, which acted as counsel to ISDA on the project. IQ

"For trades between counterparties in different jurisdictions, the ISDA 2014 Resolution Stay Protocol and subsequent versions provided the mechanism to ensure the temporary suspensions applied in a cross-border context"

Katherine Tew Darras, ISDA

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*A Standard Model

As initial margin requirements were introduced for non-cleared derivatives, the ISDA SIMM established itself as a critical component of the market infrastructure that continues to evolve in line with the expectations of users and policymakers

In September 2013, the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO) published the final policy framework to introduce margin requirements for non-centrally cleared derivatives. Those global standards set in motion a seminal industry transition that would lead to $1.5 trillion of initial margin (IM) and variation margin being exchanged between leading derivatives market participants by the end of 2024. The ISDA Standard Initial Margin Model (ISDA SIMM) quickly became a central part of the industry infrastructure and continues to evolve to meet the requirements of market participants and policymakers.

By providing a common methodology to calculate IM requirements, the ISDA SIMM reduces the costs that would be incurred if all firms had to build their own quantitative models from scratch and replicate the outputs of their counterparties in order to agree the IM amounts that should be exchanged. The model also cuts the potential for disputes and, for most diversified portfolios, produces an IM figure that is lower than the amount under the standard regulatory schedule.

In September 2022, the initial rollout was successfully completed after six phases of implementation, with the rules applicable to all entities with an average aggregate notional amount (AANA) of non-cleared derivatives exceeding €8 billion. With new jurisdictions introducing margin requirements and regulatory expectations of the model having evolved, the ISDA SIMM has proven its versatility in adapting to those changes.

"Building the ISDA SIMM and establishing it at the heart of the non-cleared margin world has been a huge transition in the derivatives market over the past decade, but it is really only the beginning of the journey. We continue to work with those entities within scope of the rules to facilitate access to the model, and we've been working proactively with a group of regulators to demonstrate how the model performed during recent periods of volatility and make sure it continues to be appropriately calibrated," says Tara Kruse, global head of derivative products and infrastructure at ISDA.

Ambitious goal

While the requirement to exchange margin for non-centrally cleared derivatives wasn't included in the original Group-of-20 commitments for derivatives market reforms, it was added to the programme in 2011 with the formation of the Working Group on Margining Requirements, jointly established by the Basel Committee and IOSCO. As the group set to work on drawing up a framework and consulting the market, it became clear that an industry standard model for the calculation of margin requirements would be essential to achieve consistency and manage costs.

"There was significant operational and legal complexity to implementing the margin framework and the industry understood there would be a real risk of disputes if all firms used their own models, or a prohibitively high cost if they relied on the standard schedule set out in the regulations. The concept of a standard methodology gained support at the ISDA board in 2013, and we then needed to convene the necessary quantitative and modelling expertise to bring it to reality in time for the first implementation deadline," says Jeroen Krens, chairman of ISDA.

The first iteration of the ISDA SIMM was launched in 2016 as the largest derivatives users came into scope of the non-cleared margin rules. On September 1 of that year, those firms with an AANA of non-cleared derivatives of more than €3 trillion were required to exchange IM, effectively capturing the largest dealers. The threshold was then reduced in five subsequent phases to widen the pool of in-scope entities, dropping to €2.25 trillion in 2017, €1.5 trillion in 2018, €750 billion in 2019, €50 billion in 2021 and €8 billion in 2022.

When it first launched, the ISDA SIMM played an important role in enabling the largest dealers to implement the non-cleared margin rules, just as it did in 2022 when hundreds of smaller entities came into scope with the last reduction in the AANA threshold. The model was made available to ISDA members and non-members, subject to a license agreement, and technology vendors have also licensed the model for services such as IM calculation and optimisation. As it stands, the model is used by more than 420 groups – many of which comprise multiple legal entities – across 13 jurisdictions that have implemented 17 different regulatory non-cleared margin rulesets. It has also been licensed by 63 technology vendors.

The ISDA SIMM is overseen by an industry governance committee and subject to a robust, transparent governance framework. Educating market participants about the benefits of a standard calculation methodology and facilitating access to the model has enabled widespread adoption over the years. This has remained a priority even following the phase-six deadline in 2022, as additional jurisdictions have introduced non-cleared margin rules. These include South Africa, Mexico and India, where IM requirements were rolled out on September 1, 2024, December 31, 2024 and April 1, 2025, respectively. Meanwhile, China's rules are currently scheduled for 2027. ISDA has actively engaged with policymakers and market participants in all these jurisdictions, offering training on the ISDA SIMM to make the model as accessible as possible.

"We always understood that maintaining the ISDA SIMM and supporting adoption would continue long after the initial phases of implementation and so it has proved. Every jurisdiction is different, both in the way the non-cleared margin rules are implemented and the expectations for model validation and approval. We've engaged closely with stakeholders in South Africa, Mexico, India and China as the rules were drafted and implemented, and we will continue to monitor other jurisdictions to make sure the benefits of the model are well understood and it is accessible to all in-scope entities that want to use it," says Kruse.

Calibration change

The integration of the ISDA SIMM into the heart of the derivatives market has been achieved through widespread adoption, but it is also the result of the way the model is calibrated to ensure it remains robust in all market conditions. Originally, this involved an annual calibration and backtesting exercise, which had been endorsed by regulators, but recent periods of volatility have led to changes in the way the model is updated.

In 2022, the original process was changed to allow for off-cycle recalibrations, the first of which took place the following year with an update to the main interest rate delta risk weights to account for a period of volatility the previous year. But while off-cycle recalibrations allow the model to be updated when required and reduce the potential for under-margining of portfolios, they also create additional complexity for users of the model and reduce its predictability.

Working with market participants and policymakers, ISDA is now changing to semiannual calibrations, starting this year. A primary calibration led to a new version of the model methodology that was published on May 22 and will take effect on July 12. This calibration assessed all ISDA SIMM parameters, while a secondary calibration will evaluate the main delta risk weights and will take effect in December.

> "We recognise the benefits of a more frequent process to update the model. Moving to semiannual calibration has required us to speed up both the calibration itself and the testing, so that has been our focus in preparing for the change"
>
> **Nnamdi Okaeme, ISDA**

"Policymakers had observed that the annual calibration cycle was taking more time than expected to incorporate updated information into the calibration. The calibration had always been informed in part by a period of stress dating back to the financial crisis, which has ensured a robust methodology over time, but we recognise the benefits of a more frequent process to update the model. Moving to semiannual calibration has required us to speed up both the calibration itself and the testing, so that has been our focus in preparing for the change," says Nnamdi Okaeme, head of SIMM at ISDA.

As the switch to semiannual calibration becomes a reality, ISDA has also been working through a change to the model approval process in the EU. Under the latest iteration of the European Market Infrastructure Regulation (EMIR 3.0), which came into force in December 2024, an approval requirement to use a 'pro forma' IM model like the ISDA SIMM has been introduced, and the European Banking Authority (EBA) has been established as the central validator.

The EBA published a no-action letter before the new rules came into effect so existing use of IM models would not be disrupted as the new validation framework is developed. But with a new version of the ISDA SIMM about to come into effect, EU entities need to submit an initial application to their national regulator, while 'significant institutions' also need to apply to the European Central Bank. Once the initial application is submitted, firms will need to update their applications annually until the more detailed EBA rules are published.

"Introducing a model validation framework under EMIR 3.0 has certainly been a challenge, but the EBA and other EU authorities have tried to avoid any interruption to the use of existing models such as the ISDA SIMM. Given this is the first time the application requirement is effective, we urge EU firms to act now and have developed practical guidance and educational materials to clarify the application process," says Kruse. IQ

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*The LIBOR Hurdle

Removing LIBOR from financial markets without causing disruption was a scenario many believed impossible to achieve, but the development of ISDA fallbacks contributed to the orderly transition to alternative reference rates

On June 30, 2023, the last five US dollar LIBOR settings were published on a representative basis for the final time, marking a huge milestone in the history of financial markets. A benchmark that had once been referenced in financial contracts running to hundreds of trillions of dollars was gracefully and permanently retired from service without disrupting market functioning. Nikhil Rathi, chief executive of the UK Financial Conduct Authority (FCA), would later describe the transition as "one of the most significant events in markets in a generation", while acknowledging the task had "at times seemed Herculean".

ISDA played a vital role in pulling off this Herculean feat, having been tasked by the Financial Stability Board (FSB) to take the lead in improving the contractual robustness of derivatives referencing LIBOR and other interbank offered rates (IBORs). The fallbacks it developed in collaboration with policymakers and market participants provided a critical safety net that ultimately enabled the benchmark to be safely removed – a result many had believed would be exceptionally difficult or even impossible to achieve. The LIBOR transition is now entrenched in ISDA's recent history and ranks as one of its greatest achievements in overcoming industry challenges.

"Given the pervasive nature of LIBOR across financial markets, the transition was always going to be exceptionally challenging, but ISDA is one of the great problem-solving entities in the financial world. Throughout its 40 years, it has consistently brought practical solutions to shared industry challenges at key moments. LIBOR was no different – the scale was unprecedented and the timeline was tight, but by bringing market participants together, leveraging wide-ranging expertise and collaborating closely with the public sector, ISDA was able to provide the implementation pathway that enabled the transition to be achieved," says Jeroen Krens, chairman of ISDA.

Seminal speech

For most market participants, the key moment of realisation about the end of LIBOR came in July 2017, when Andrew Bailey, then chief executive of the FCA, put a clear time frame in place for the first time. Having consulted with the panel banks that were sustaining LIBOR by contributing daily inputs, the regulator had concluded that the benchmark was sustainable until the end of 2021. After that time, Bailey said in a speech in London, "it would no longer be necessary for the FCA to persuade, or compel, banks to submit to LIBOR".

Bailey's carefully chosen language remains etched in time because it set in motion one of the most profound structural transitions financial markets have ever had to navigate. At the time, total exposure to LIBOR and other IBORs was estimated at more than $370 trillion across derivatives, bonds, loans and other instruments, with derivatives making up the biggest proportion of that exposure. Many market participants balked at the challenge of replacing a reference rate that was so deeply entrenched in the fabric of financial markets within a four-and-a-half-year period.

"The initial reaction was one of incredulity and a strong sense of disbelief. It was an immense task with a very tight timeline. A lot of market participants thought it was an impossible task – moving not just the derivatives market, but also the bond and loan markets. We were talking about a multi-currency, multi-governing-law, multi-jurisdiction, multi-product transition, so this was a challenge of a scale and level of complexity not seen before," says Deepak Sitlani, derivatives and financial markets partner at Linklaters.

Bailey's speech might have set the end-2021 deadline in place – and the FCA would hold the industry to it in the years that followed – but benchmark reform efforts were already well underway. Working groups comprising public- and private-sector entities such as the US Alternative Reference Rates Committee and the UK Working Group on Sterling Risk-Free Reference Rates had been established to identify alternatives to LIBOR, and, in 2016, the FSB's Official Sector Steering Group had tasked ISDA to lead the development of fallbacks. The 2021 deadline was the catalyst that began to bring the broader industry into the reform process.

"The speech was important and necessary because it got people's attention. The various public-/private-sector groups had been looking at alternatives and taking this seriously, but very little consideration was being given to the problem elsewhere. The sheer volume of contracts referenced to LIBOR was a significant challenge, but the bigger issue was the diversity of contract types and counterparties. This wasn't an issue that the major players could resolve and expect the effects to trickle down – a market-wide solution was needed," says Ann Battle, senior counsel at ISDA.

The public-/private-sector working groups began to develop consensus on the overnight risk-free rates (RFRs) that would replace LIBOR, including SOFR in the US and SONIA in the UK. In time, regulators would play their part in accelerating the transition to those rates, with initiatives such as SOFR First – launched by the US Commodity Futures Trading Commission in July 2021 – helping to incrementally switch interdealer trading conventions from US dollar LIBOR to SOFR.

Framing fallbacks

Alongside the efforts to incentivise proactive transition to the RFRs, ISDA's role was to develop a safety net for those derivatives contracts that would not be able to make the switch to RFRs ahead of time and continued to reference LIBOR or other IBORs at the point at which the relevant benchmark ceased publication or became non-representative. That safety net would take the form of strengthened contractual fallbacks.

Simply put, the fallbacks would enable derivatives contracts referenced to LIBOR to automatically switch to an adjusted version of the relevant RFR at the point the LIBOR setting ceased publication on a representative basis. Given the inherent differences between RFRs and IBORs, which are available in multiple tenors and include a bank credit risk premium, the fallbacks contained certain adjustments. Specifically, they used a compounded-in-arrears calculation to account for the difference in tenors, and a spread adjustment based on a historical median over a five-year lookback period to address the difference in risk premia.

The IBOR Fallbacks Supplement, which amended ISDA's standard definitions for interest rate derivatives, and the IBOR Fallbacks Protocol, which enabled market participants to amend their legacy non-cleared derivatives trades with other adhering entities, were launched in October 2020 and came into effect on January 25, 2021.

Just over five weeks later, on March 5, 2021, the FCA announced the final timeline for the cessation and loss of representativeness of all LIBOR settings. For most settings, the deadline would be, as planned, December 31, 2021, while five US dollar settings would continue to be published on a representative basis until June 30, 2023. The FCA announcement constituted an index cessation event that enabled the fallback spread adjustments to be fixed, providing market participants with greater certainty about the future terms of their contracts as the end-2021 deadline approached.

> "The fallbacks were critical in avoiding the market disruption that had at one point seemed almost inevitable"
>
> **Deepak Sitlani, Linklaters**

"Having the fallbacks in place was fundamental to the smooth transition. Reaching a global consensus required extensive effort, and we had to bridge significant gaps between a diverse range of stakeholders and perspectives. Once we achieved that consensus and a significant number of market participants adhered to the IBOR Fallbacks Protocol, market participants had a higher level of confidence the derivatives market was ready for the transition," says Battle.

In total, more than 16,300 entities adhered to the IBOR Fallbacks Protocol, which makes it one of ISDA's most widely adopted protocols and gives a sense of the widespread use of the fallbacks to facilitate a smooth transition. The protocol garnered support from around world, with adhering entities spanning more than 90 countries. Without robust fallbacks, the risk of a disorderly transition would have been much greater, but when most LIBOR settings ceased representative publication at the end of 2021, followed by the last five US dollar settings in mid-2023, there was barely any impact on market functioning.

"The fallbacks came after years of careful planning under intense scrutiny from both industry and regulators, but when we saw the overwhelming adherence data, it became clear we had succeeded. In a remarkably short time period, thousands of firms signed up as they realised this was the way to ensure stability and certainty during the LIBOR endgame period," says Sitlani.

"The fallbacks were critical in avoiding the market disruption that had at one point seemed almost inevitable," he adds. "Several other markets adopted ISDA's IBOR fallback provisions, either directly or by aligning their transition strategies with ISDA's approach. I think that's because ISDA was uniquely positioned to handle a complex transition like this."

The removal of LIBOR has been widely recognised as a monumental challenge that required an unprecedented level of collaboration between the public and private sectors. In some ways, the best evidence of its success is the lack of fanfare that accompanied the removal of the benchmark.

"The LIBOR transition really shows that with the right level of expertise and collaboration, it becomes possible to achieve what might previously have appeared unrealistic. As ISDA looks ahead to future industry challenges and opportunities, such as Treasury clearing and our ongoing work to bring greater efficiency through digitisation, the LIBOR era serves as an important reminder of what can be achieved," says Krens. IQ

* Driving Consistency

With Basel III putting greater emphasis on more risk-sensitive standardised approaches, banks need to ensure their implementation of standardised models is accurate and consistent with others. The ISDA Analytics platform provides the answer

Much is still up in the air when it comes to the timing of implementation of the revised market risk capital framework in the EU, UK and US. But regulators have been keen to ensure that the new standardised approach, when eventually rolled out, is implemented by banks as accurately as possible and in a way that is consistent with others. That's easier said than done. One of the key changes of the new framework, known as the Fundamental Review of the Trading Book (FRTB), is greater reliance on a more sophisticated and risk-sensitive standardised approach. The idea is that the standardised approach would result in capital requirements that are more aligned with risk, but the added complexity makes it more difficult for banks to implement in a way that is consistent with their peers and with regulatory expectations.

For many regulators, the answer has been to run benchmarking exercises to spot anomalies in implementation by banks under their oversight. The question is how to do it in a way that is meaningful, comprehensive and allows risk data to be exchanged and analysed in a consistent format. In response, ISDA developed a benchmarking solution through its ISDA Analytics platform that provides analysis of regulatory capital calculations under standardised approaches to a level of detail, accuracy and speed that no other institution, association or regulatory agency has achieved.

"With the new regulatory framework, being able to effectively assess how your implementation approach compares with other firms and being able to flag inconsistencies and understand them is extremely valuable," says Giorgio Donadei, head of risk analytics governance for the UK at Citi.

Launched in 2018 with 15 UK-supervised banks and support from the Bank of England, ISDA's standardised approach benchmarking initiative has grown to cover 80 participating banks – including 24 global systemically important institutions. It has also been used to support regulators around the globe as part of their own national benchmarking exercises.

"Supervisors are paying closer attention to how banks implement the standardised approach and calculate market risk capital. Ultimately, regulators want assurance that the FRTB standardised approach (FRTB-SA) is applied consistently and accurately across institutions, without significant divergence or fragmentation," says Panayiotis Dionysopoulos, ISDA's head of capital. "For regulators,

> "Being able to effectively assess how your implementation approach compares with other firms and being able to flag inconsistencies and understand them is extremely valuable"
>
> **Giorgio Donadei, Citi**

using the ISDA Analytics platform means better data quality, superior insights and fewer internal resource demands – effectively outsourcing key analysis to enhance efficiency."

The benchmarking process comprises two components: an aggregation test and a hypothetical portfolio exercise. The aggregation test gives banks a prescribed set of input sensitivities and reference data that they run through their standardised approach engine and the results are then compared to ISDA's golden source results, with any differences flagged for further investigation.

Under the hypothetical portfolio exercise, banks conduct the end-to-end capital calculations with a set of hypothetical trades and then submit capital results and input sensitivities into ISDA Analytics. The platform dynamically processes the data, presents the results and explains any variance against the median benchmark capital for each portfolio.

Crucially, the ISDA Analytics platform not only flags when discrepancies occur – it allows banks and regulators to identify the specific causes and drill down to individual portfolios and risk types. This allows banks to pinpoint and correct any irregularities and inconsistencies before regulatory requirements go live.

Having started with an initial focus on the FRTB-SA, ISDA Analytics has expanded to cover the standardised approaches to counterparty credit risk and the revised credit valuation adjustment framework. A pilot initiative has also begun with the Bank of England to use ISDA Analytics to benchmark implementation of the internal models method for counterparty credit risk.

Meanwhile, ISDA has made its aggregation tests available for licensing by technology vendors, enabling smaller entities that rely on third-party systems for capital calculations to access the same benchmarking tools. ISDA's aggregation tests have been adopted by 17 licensed vendors, including Bloomberg, ICE, Acadia and MSCI, further driving industry-wide adoption.

The success of ISDA Analytics rests on ISDA's vast network of banking members, meaning the platform contains a broad universe of risk data. This data is underpinned by ISDA's Common Risk Interchange Format (CRIF), a standard originally developed to support the ISDA Standard Initial Margin Model, which has been extended to support ISDA's benchmarking solution.

"The CRIF is the foundation of the ISDA Analytics platform. Ensuring risk data is submitted in a consistent format increases consistency, accuracy and helps to encourage automation," says Dionysopoulos.

As well as providing benchmarking of capital models, ISDA has also developed its own FRTB-SA capital calculation application programming interface. This enables firms to rapidly compute capital based on any set of inputs in CRIF and generate results that are accurate and guaranteed to reflect up-to-date FRTB-SA regulations.

By expanding access through the licensing programme and promoting data standards like CRIF, the ISDA Analytics platform has helped ensure banks are implementing the standardised approaches accurately and in line with their peers. In an environment where precision matters, ISDA is helping firms navigate complexity, ensure comparability and meet the rising bar for regulatory compliance.

"ISDA's detailed review and clarification of trade details were invaluable in ensuring consistency across our portfolio. The standardised approach is designed to deliver comparable results for identical trades, and, thanks to ISDA's input, our capital and sensitivity figures aligned closely with expectations. Where discrepancies did emerge, ISDA's analysis helped us quickly identify and understand the root causes, giving us the insights needed to refine and strengthen our implementation," says Citi's Donadei. IQ

* Leading the Way

Policymakers from around the world share their reflections on ISDA's 40th anniversary

"I congratulate ISDA on its 40th anniversary. Swaps contracts help end users effectively manage risk and ISDA has played an important role in paving the way for resilient global markets. This is a historic milestone for an industry association that has always been a trusted partner in promoting and maintaining safe and efficient derivatives markets."

Senator John Boozman, chairman, US Senate Committee on Agriculture, Nutrition, and Forestry

"The FSA wishes to congratulate ISDA on celebrating its 40th anniversary. We extend our sincere appreciation for ISDA's longstanding commitment to enhance the global regulatory framework for derivatives markets. We particularly highlight the pivotal role that ISDA played in advancing the over-the-counter derivatives market reforms that were launched at the Pittsburgh summit in 2009. ISDA's efforts have significantly contributed to our journey in ensuring a more robust and efficient derivatives market. We hope that ISDA continues to thrive as an organisation that aims to foster derivatives markets, including through supporting members and market participants, as we face an evolving and challenging environment."

Shigeru Ariizumi, vice minister for international affairs, Japan Financial Services Agency

"In a global marketplace, promoting industry standards and solutions has never been more important to reducing risk and enhancing market integrity. For 40 years, ISDA has been leading the way in bringing together policymakers, industry leaders and market participants from across the globe to foster safe and efficient derivatives markets. Congratulations on this important milestone, and I look forward to many more years of meaningful collaboration."

Caroline Pham, acting chair, US Commodity Futures Trading Commission

"ISDA has been fundamental to the development of modern derivatives markets. The creation of standard documentation templates has enabled derivatives to grow far more rapidly, with increased liquidity founded on higher levels of investor confidence. ISDA has also played a key role coordinating and marshalling its broad membership to adopt important changes in response to new issues.

In this way, ISDA does much more than represent its members as a trade association – it also functions as a sort of standard setter. From the 'Big Bang' credit derivatives reforms after the global financial crisis to the creation of the ISDA Standard Initial Margin Model and the multi-year transition away from LIBOR, ISDA has led the development of vital industry mechanisms and processes that have provided invaluable support to the global regulatory agenda."

Ashley Alder, chair, UK Financial Conduct Authority

"I would like to extend my heartfelt congratulations to ISDA on its 40th anniversary. Over the years, ISDA has played a pivotal role in shaping the landscape of the OTC derivatives market, particularly in the Asia-Pacific region. The association has been instrumental in driving reforms that have enhanced transparency and efficiency in the OTC derivatives space. Notably, the implementation of the international standards on identifying transactions and products and data format in Hong Kong's OTC derivatives reporting regime will significantly improve the SFC's ability to monitor and manage systemic risks. Moreover, ISDA's development of the Common Domain Model and the Digital Regulatory Reporting initiatives exemplify its commitment to fostering innovation and regulatory compliance in derivatives markets globally. We particularly appreciate ISDA's role as an effective communication bridge between its members and regulators, and we look forward to continuing our collaboration in the future."

Rico Leung, executive director, supervision of markets, Hong Kong Securities and Futures Commission

"My interaction with ISDA dates back to the era of the International Swap Dealers Association. Over the past four decades, in crisis and peace, there have been many occasions of working together, including, most recently, in the efforts to combat market fragmentation. The world appears to be entering an era of greater volatility and uncertainty, and the role of ISDA will only keep on growing. I look forward to continuing our constructive dialogue."

Ryozo Himino, deputy governor, Bank of Japan

* Fostering Industry Solutions

The derivatives industry has faced several big challenges in recent years, from the transition from LIBOR to the implementation of margin rules for non-cleared derivatives and the rollout of bank resolution frameworks. **IQ** *convened a group of people who had front-row seats at these events to discuss how ISDA played a part in developing solutions*

IQ: Let's start with the LIBOR transition. When Andrew Bailey told the industry in 2017 that the UK Financial Conduct Authority would no longer compel or persuade banks to submit to LIBOR after the end of 2021, it was estimated that there was around $370 trillion in notional exposure to interbank offered rates across financial markets. What was the industry's reaction? Did it seem realistic at that point that such a widely used reference rate could be removed in such a short time frame?

Tom Wipf (TW): The Andrew Bailey comments were the moment that participants began to believe that the end of LIBOR was even in the realms of possibility. You can go further back to 2014, with the original recommendations from the Financial Stability Board (FSB) and the Financial Stability Oversight Council. Pre-2017, the market still viewed it as a remote possibility that LIBOR could be replaced. It was viewed as almost too big to get rid of, and I think the market struggled to envision a world without LIBOR. The Andrew Bailey announcement was the first time that people said, 'Oh my God, there's really a deadline out there and we may have to actually start looking at this'. But even then, there was still a lot of scepticism until we got a little further down the road.

Eric Litvack (EL): You can't just think of the transition as a 2017-2021 window. This was really a 10-year process that got underway in 2014, with the formation of the Alternative Reference Rates Committee (ARRC), and then continued until 2024, when the last of the synthetic LIBORs were phased out and ceased publication. Between those dates, there was a massive mobilisation of private-sector and public-sector actors to execute a roadmap for the transition. However, 2017 was in some ways the point of no return. The ARRC had selected SOFR as its recommended alternative to LIBOR, and then Andrew Bailey put the world on notice. Suddenly, the clock was starting to count down to 2021. At that point, transitioning from LIBOR still seemed pretty much insurmountable – it seemed like this enormous mountain. And you had to

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Scott O'Malia
ISDA chief executive

Katherine Tew Darras
ISDA general counsel

suspend disbelief that this impossible task could be carried out. That was the point when doubt or denial wasn't an option anymore, and the project really went mainstream.

IQ: How did a path towards the removal of LIBOR – and ISDA's role in the transition – become clearer in the months and years that followed?

TW: Very early on, ISDA established the leadership on this, which ultimately led to publication of the ISDA 2020 IBOR Fallbacks Protocol. That was the single most important document, and it cleared the path and dealt with the massive legacy LIBOR book, which was something that seemed insurmountable. ISDA understood that the path forward was to work with the public and private sectors, and it created a central point of information, because there were a lot of opinions and there needed to be a central place for that to happen. ISDA filled that vacuum very quickly, and it culminated with the ISDA protocol, which was the big derisking initiative.

EL: I remember this board meeting quite distinctly – an awareness that this was us, we owned it. You couldn't do LIBOR without over-the-counter (OTC) derivatives, and you couldn't do OTC derivatives without ISDA. So, ISDA had a central role to play in convening the actors in the process, to identify the different stepping stones and to articulate collective solutions, such as the IBOR Fallbacks Protocol. A critical part was facilitating the emergence of solutions in a way that would mitigate the risk of contravening competition law. We tend not to think about it so much now but, at the time, there was a great deal of concern about how to fix this without potentially being liable for fines. So, that was a critical part of ISDA's approach. This was a multi-jurisdictional and multi-dimensional effort – it affected legislation, documentation and market practices across multiple asset classes, so it mobilised a very significant proportion of ISDA's resources for several years.

Scott O'Malia (SOM): Developing the fallback rate methodology was critical. As Eric mentioned, we had to work with antitrust authorities to make sure there were no issues with a trade association developing a methodology that would allow derivatives contracts linked to LIBOR to switch to fallbacks based on risk-free rates if LIBOR stopped being published. So, that was important and resulted in us receiving a Business Review Letter from the US Department of Justice, which confirmed the fallbacks methodology would be unlikely to produce anticompetitive effects. There was also a lengthy market review process to get buy-in from industry participants, which was also critical to adoption. Then we have this unique tool – the ISDA protocol mechanism – that allows us to amend all the existing contracts of the firms that adhere. Some sectors could just allow their outstanding LIBOR contracts to run off, because they were short duration instruments, but derivatives can run to 20 or 30 years, so we needed a way to shift those existing contracts to fallback rates and the protocol allowed us to do that at scale.

Ultimately, 16,000 entities signed this protocol, which shows how many firms use derivatives to manage risk. I don't think any of us – and I was a regulator previously – anticipated how big a lift this was going to be. It took an enormous amount of work to get to the successful outcome that we achieved.

IQ: From a contractual perspective, what would have happened had robust fallbacks based on risk-free rates not been introduced into contracts before LIBOR disappeared?

Katherine Tew Darras (KTD): If a price source disappears without a clear successor, there could be contractual frustration issues and, depending on the governing law of the contract, there may be different answers that would apply. So, no one wanted to be in the position where they had to explore that. There were existing fallbacks in the interest rate derivatives documentation, but they wouldn't have provided viable long-term successors. The answer was to work together with regulators and the industry to develop a robust fallback methodology based on risk-free rates. The critical part was developing a spread adjustment, which was intended to ensure existing LIBOR contracts function as closely as possible to what the counterparties originally intended after a fallback kicks in. That methodology was broadly accepted and incorporated into new and existing contracts via the protocol, creating certainty ahead of the transition.

IQ: To wrap up this part of the discussion, how vital a component was the protocol to a successful transition?

TW: It was the cornerstone that set the tone for everything. The focus was the derivatives market – that was where the volume was, that was where the overwhelming amount of risk was. And having a protocol that was overwhelmingly adopted by the community was a very powerful statement. It allowed the ARRC to focus on the most problematic part of the market – the cash market – which didn't have the option of a protocol. So, I think it did several things. It allowed the market to voluntarily derisk legacy derivatives books. It was another way of letting people know that this was happening and getting the remaining scepticism out of the market. And it set a tone for other parts of the market that were more challenging.

EL: Had there been no method to fall back to, the economic outcome would have been all over the place. Some contracts would have gone to the last rate and effectively become a fixed rate. Some contracts would have defaulted to a completely different rate. There would have been massive transfers of value in every direction and there would have been a huge dislocation. What protocols do is →

"The ISDA 2020 IBOR Fallbacks Protocol was the single most important document, and it cleared the path and dealt with the massive legacy LIBOR book, which was something that seemed insurmountable"

Tom Wipf, UBS

they provide a safe harbour. With one standard, they take the whole of the market, all the people who adhere to the protocol, and they transition them to a new safe space. So, by adhering, you migrate all your contracts to the new standard. Saying it like that sounds incredibly simple, but that was the fundamental magic – of getting from A to B.

IQ: Let's move on to margin. The margining of non-cleared derivatives was added to the Group-of-20 post-crisis reform programme in 2011 – a set of rules that would eventually pull thousands of counterparty relationships into scope and require them to post initial margin (IM) and variation margin (VM) on their derivatives exposures. Just how big an operational challenge was this?

SOM: Quite big, actually. Policymakers phased in the implementation over several years, starting in 2016. Very early on, ISDA started to develop the Standard Initial Margin Model (ISDA SIMM) – the idea being that we'd develop a single, transparent model that meets regulatory requirements and everyone could use, which would avoid disputes over the amount of IM that needed to be exchanged. We successfully rolled that out ahead of the first phase of implementation in 2016. But that's just one part of it. The other part was the legal documentation. Everybody had to repaper their agreements, which was quite complicated. We started with the top 20 dealers in 2016, but each implementation date brought more firms into scope. Each of those phases involved a larger number of firms negotiating the legal documentation, applying new operational processes and implementing the ISDA SIMM. And for each step, the consequences were larger because the pool of participants was larger.

IQ: When regulators first declared that non-cleared derivatives would have to be margined, what was your perspective? Did you see this being quite the challenge that it ended up being?

TW: A lot of people knew it was coming, but a big part of it was how do you do it. Once people understood this was the direction of travel, the question was how, and ISDA provided the prominent leadership position on this.

IQ: Scott mentioned the ISDA SIMM. Eric, you were on the ISDA board when the decision was taken to move forward with its development. This effectively marked the first time ISDA developed a standard model to solve a common industry-wide problem. Can you give some context on that decision?

EL: It was a fairly consensual decision. Early on, the board collectively concluded that if we wanted to ensure that the non-cleared bilateral derivatives market could continue to function efficiently, then there would need to be a universally accepted standard model for IM calculations. How we would get there and what form it would take wasn't obvious, and that probably took the better part of two years of gathering industry views from different firms, all of which had very strong views on what it should look like – views that generally didn't overlap. So, there was a process of herding cats to come to a solution. In the end, we agreed a simple methodology that avoided the cost of each institution developing its own model and reduced the potential for disputes, because everyone would use a single, consistent methodology. In retrospect, it was an obvious decision, but, at the time, it felt like a huge mountain, and we had no idea how we were going to do it.

IQ: As well as the ISDA SIMM, there was also a huge amount of work on the legal side to develop the appropriate documentation that allowed people to repaper their trades. Can you give some perspective on the scale of that task?

KTD: At the time, the sentiment was 'this isn't possible, it's a mountain too high'. But there was the necessity of doing it. So, alongside our work on the ISDA SIMM, we brought everyone together to draft new documentation, and we ended up publishing new forms of VM documentation and specific documentation for IM. We've subsequently published over 20 versions of IM documents to reflect different governing laws and segregation requirements. We also took the decision to launch ISDA Create, which helped to automate the task of negotiating new documentation at scale. As with LIBOR, it initially looked impossible and then the industry got to work and achieved it.

IQ: Scott mentioned that the margin requirements were phased in over six years, between 2016 to 2022. How important was this?

EL: That was critical. If you go back to the beginning of the bilateral non-cleared derivatives market, these instruments were initially treated like loans, so the whole thinking process around counterparty credit risk was kind of loan-based. You had counterparty credit limits and, if you get close to your credit limits, then you'd think about what you do. That eventually evolved, and we developed credit support annexes to mitigate credit risk, but it tended to be with more active counterparties, and it wasn't universal. There were still plenty of counterparties that were modestly active but didn't exchange margin. Then, suddenly, we were required to put absolutely everyone on standardised documentation to post margin. It's kind of like a Formula One race where everybody has to do a pit stop at the exact same moment, but you're not allowed to stop.

The phasing of implementation made it possible. It allowed the overhaul to be spaced out by prioritising implementation in terms of exposure size, which is a fairly reasonable proxy, not just for risk, but also for operational sophistication. So, by the time we got to the last waves, we'd had a lot of practice bringing firms on board. When we did the first waves, there was a lot of volume going through, but it was a small number of big participants that knew what they were doing and had prepared intensely. By the time we got to the last waves, there were many participants, and we had to spend a lot of time educating them and talking them through the process. You had to identify your in-scope entities. You had to make your disclosures. You had to prepare your internal procedures and your custodial arrangements. You had to negotiate all the appropriate documentation and execute it. And you had to have operational training and practice runs. It really wasn't trivial. So, having the long tail at the end after we had several years of preparation and practice ensured this ended up being a smooth transition.

IQ: Let's switch topics. As part of efforts to address concerns that banks were too big to fail, global regulators led by the FSB pushed to introduce temporary stays on the exercise of default rights in derivatives and other financial contracts when a bank enters into resolution. What was the reaction?

TW: The idea of slowing things down, getting orderly outcomes in a post-Lehman world, was certainly an appealing objective. But when firms have massive legacy books and have based their credit assessments, their lending practices and their counterparty risk management on the idea that there is a way to exit these trades very quickly if something goes wrong, this is a fundamental change. It fundamentally changes the risk profile of all those contracts and creates different outcomes that had to be looked at.

EL: When a bank gets too critical to fail, then you need to have some way of dealing with it. I don't think →

> "Implementing a short two-day hold on close-outs was complex because everything in the risk management and monitoring process is built on the ability to close out transactions promptly when things go wrong, so you can minimise post-failure variation, which is when your risk of loss increases significantly"
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> **Eric Litvack, Société Générale**

anybody can argue with that. And that means being able to identify what's critical and maintaining those critical functions. To do that, you probably need a period of a few days when resolution authorities can step in and sort out what needs to be preserved. You can't easily do that if close-out notices are flying in from every direction. So, the idea of saying 'let's put a brief hold on things so the examination and transition can result in a better outcome' makes sense in theory. So, we went along with it and ISDA put in place a series of protocols to facilitate it. But implementing a short two-day hold on close-outs was complex because, as Tom said, everything in the risk management and monitoring process is built on the ability to close out transactions promptly when things go wrong, so you can minimise post-failure variation, which is when your risk of loss increases significantly. So, market participants were being asked to temporarily take on additional risk in the hope there will be a better outcome collectively.

IQ: Eric mentioned the protocols. ISDA worked with global regulators to develop the ISDA 2014 Resolution Stay Protocol and the ISDA 2015 Universal Resolution Stay Protocol in which adhering parties opted into certain existing special resolution regimes, such as the Bank Recovery and Resolution Directive (BRRD) in Europe and the Dodd-Frank Orderly Liquidation Authority in the US. Why were protocols the answer?

KTD: The protocols closed a gap that the statutory resolution regimes couldn't cover. The concern was whether a stay under a statutory regime would be recognised if the contract had a different governing law. So, if there was a stay under the EU BRRD, would it work if you had a New-York-law-governed ISDA Master Agreement? While certain statutory stays may have applied in these contexts, the uncertainty was too large for the regulators, and they wanted to bring additional certainty by adding contractual language via a protocol. So, the protocols opted adhering parties into certain special resolution regimes to ensure cross-border derivatives trades were captured by statutory stays in the event a bank counterparty entered into resolution. The 2014 protocol covered derivatives and the 2015 protocol was extended to securities financing transactions.

IQ: What was the significance of these protocols?

SOM: The derivatives market is a global market, so no single jurisdiction can affect the outcome because of the cross-border implications. The protocol provided a contractual solution to align jurisdictions, so it was an essential part of the effort to develop a global resolution framework.

IQ: Generally, only dealers adhered to the 2014 and 2015 protocols. What was ultimately required for their buy-side counterparties to adhere and why was this the case?

EL: You're absolutely correct – adherence to the 2014 and 2015 protocols were essentially dealer firms under what is euphemistically referred to as very strong encouragement from their supervisors. There was a lot of resistance at that stage from buy-side firms. They essentially felt they couldn't voluntarily give up their termination rights because that would be inconsistent with their fiduciary duty to act in the best interests of their clients – which was to be able to close out as soon as possible after the point of failure.

I remember quite clearly certain buy-side firms saying, 'Look, if this is important to you, then make it the law. You make it the law, we'll do it. But until it's the law, we can't do it'. And that's ultimately what happened. National resolution regimes were introduced that included requirements preventing banks from trading with counterparties that didn't opt into the resolution regime of their jurisdiction, irrespective of the law of the contract – that was critical for the cross-border aspect.

And that's when we developed the ISDA Resolution Stay Jurisdictional Modular Protocol, which allowed firms to only opt into those regimes they needed to, rather than giving away their close-out rights on a blanket basis. So, it was a long-winded process – it required national laws as a preliminary step, then we used the protocol process to get everybody from an undesirable point A to a desired point B.

KTD: It was mostly dealers that adhered to the 2014 or 2015 protocols. As the regulatory community was able to promulgate regulations, we developed the Jurisdictional Modular Protocol, which helped buy-side firms opt in only to required and limited jurisdictions, depending on their counterparties. It also allowed us to add new modules as additional jurisdictions came online, and we continue to do that as new regimes are introduced.

IQ: Scott, can you sum up?

SOM: Each of these challenges presented different opportunities and problems. In each case, ISDA stepped into a role that supervisors and the market needed us to step into. We're always looking for ways to help implement regulations in a mutualised, cost-effective way, which saves the industry from having to do it individually. We're continuing to develop these solutions, whether it's the ISDA Digital Regulatory Reporting initiative or the ISDA Notices Hub, with the aim of increasing efficiencies and reducing costs for the industry. IQ

ISDA Annual General Meeting

AMSTERDAM

May 13-15, 2025

ISDA's 39th Annual General Meeting took place in Amsterdam last month, with nearly 800 delegates from around the world.

Keynote speakers included: **Sarah Breeden**, deputy governor for financial stability at the Bank of England; **José Manuel Campa**, chairperson of the European Banking Authority; **Luis de Guindos**, vice-president of the European Central Bank; **Steven Maijoor**, executive board member and chair of supervision at De Nederlandsche Bank; **Martin Moloney**, deputy secretary general at the Financial Stability Board; and **Caroline Pham**, acting chair of the US Commodity Futures Trading Commission.

IQ presents the highlights of ISDA's flagship annual event

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Financial Institutions at Risk of Nation-state Cyber Attacks, Warns DNB's Maijoor

With rising geopolitical tensions, financial institutions should be prepared for nation-state cyberattacks with the aim of disrupting the economy rather than being driven by financial motives, according to Steven Maijoor, executive board member and chair of supervision at De Nederlandsche Bank (DNB).

"With the changing geopolitical climate, nation-state cyberattacks on financial institutions have become a realistic possibility. The aim of nation-state actors is usually not financial gain but disruption. For them, the financial sector is an attractive target," said Maijoor, speaking in a keynote address on May 14.

Banks are not the only targets – central counterparties (CCPs) may be attractive to cyber attackers because there are relatively few of them, making it difficult for others to step in if one is unable to function. Markets are also dependent on them for the clearing and settlement of financial transactions, meaning the impact of a successful cyberattack could be very high.

"All of these features make them an attractive target for nation-state actors that want to cause maximum disruption. This does not mean that market infrastructure parties are currently being attacked. But given the geopolitical situation, tomorrow's reality could be different," said Maijoor.

Many CCPs outsource parts of their cybersecurity, which provides access to expertise and higher standards, but also makes cyber defence more complicated and means they are dependent on external parties, Maijoor added. "All this means CCPs need to stay alert. Cyber resilience is at least as important for CCPs as it is for other financials."

Cyber resilience within the financial industry has become an important focus for supervisors, he said. The EU's Digital Operational Resilience Act, which came into effect at the start of the year, makes threat-led penetration tests mandatory for the largest financial institutions and imposes stricter requirements for managing cyber risks in outsourcing chains.

▲ Steven Maijoor

"To keep financial institutions and the financial system safe, resilience against cyberattacks has become just as important as holding sufficient capital and liquidity. So, we need to do whatever we can to further boost it," Maijoor said. IQ

FSB Weighing Policy Measures on NBFI Leverage, Says Moloney

The Financial Stability Board (FSB) is carefully analysing responses to its consultation on leverage in the non-bank financial intermediation (NBFI) sector before deciding what policy recommendations would be appropriate, according to Martin Moloney, deputy secretary general at the FSB.

"The nub of the problem is very simple and has been well recognised for hundreds of years: when leverage is used to construct market positions, the forced unwinding of those leveraged positions can significantly amplify the harm financial markets in freefall can do to the real economy. Over the past 30 years, as financial markets have grown in size relative to the size of the real economy, that threat looms larger and larger," said Moloney in a keynote address on May 14.

In December 2024, the FSB published a consultation paper that set out nine policy recommendations to enhance the ability of authorities and market participants to monitor perceived vulnerabilities from NBFI leverage, contain leverage where it may create risks to financial stability and mitigate the impact of those risks.

In its response, submitted on February 28, ISDA suggested overly prescriptive regulatory recommendations for all NBFI firms across all geographies and market sectors would be inappropriate given the diverse nature of the NBFI sector. Rather than immediately imposing entity- or activity-based measures, ISDA encouraged authorities to analyse system-wide dynamics to improve awareness of risks and vulnerabilities.

The FSB has been working through the 36 consultation responses and still has a couple of months of work to do before reaching its final recommendations, but Moloney highlighted common themes that had emerged from the feedback, including the need to recognise trade-offs associated with any new requirements.

"Leverage is very widely used for risk management and for arbitraging away the differences between markets in a way that contributes to the very constitution of the global financial system. It's a point well made. This is not a costless area for policymakers to get into. For every benefit we might use policy to construct, there is also a cost," said Moloney.

"If we can get to the point of allowing leverage to provide its benefits to markets within guardrails that mean the financial system remains safe enough, even as it continues to grow in size, we will have done financial markets a great service," he added. IQ

Bank of England Eyes Gilt Market Reforms

The Bank of England plans to consult later this year on possible reforms to improve the resilience of the gilt market, including increased clearing, according to Sarah Breeden, the central bank's deputy governor for financial stability. The decision comes in response to the gilt market crisis in September 2022, when a sudden sell-off led the Bank of England to intervene.

"Our experience in September 2022 and our system-wide exploratory scenario have underscored vulnerabilities in the gilt repo market and the potential for dysfunction to threaten financial stability and the real economy. In November 2024, the Financial Policy Committee – the UK's macroprudential authority – welcomed further work to consider how to improve resilience in gilt repo markets," said Breeden in a keynote address on May 14.

The decision to launch a discussion paper comes as the Securities and Exchange Commission introduces mandatory clearing of certain cash US Treasury securities and repo transactions, starting from the end of 2026. The discussion paper will "aim to gather views from market participants on potential options to help mitigate vulnerabilities, including greater central clearing of gilt repo and minimum haircuts on non-centrally cleared repos", she said.


▲ Sarah Breeden

Breeden also highlighted the value of a macro-prudential approach to the supervision of central counterparties (CCPs) – an approach that considers risks to UK and global financial stability and the need to make sure CCPs set appropriate margin requirements that do not spike excessively when markets become volatile.

"It is something we expect the CCPs to think very carefully about when calibrating their models. Indeed, it is part of their duty to be aware of the impact of their margin calls on their membership, and to take seriously the feedback from their members," she said.

In addition, CCPs should consider the systemic risks that can arise from portfolio margining given the experience of market volatility in April, when the correlation between US equity markets and interest rates broke down. A portfolio approach to margining might make sense for an individual firm, but it can increase leverage in the broader financial system, she warned.

"It is essential, therefore, that participants, including CCPs, apply conservative assumptions around correlation breaks and unexpected shocks," said Breeden.

Level Playing Field Needed for Trading Book Capital, Says Campa

Preserving an international level playing field is critical when it comes to implementing the Fundamental Review of the Trading Book (FRTB), meaning regulators should monitor developments in other jurisdictions with the aim of maximising the potential for convergence, according to José Manuel Campa, chairperson of the European Banking Authority (EBA).

"Finance is borderless, and prudential standards must reflect that reality. A patchwork of divergent rules would push activity into the cracks between frameworks, amplifying rather than mitigating systemic risk. While Europe is committed to faithful Basel adherence, keeping an eye on international developments and recognising the merit of dialogue when rules encounter empirical friction is essential to a successful operationalisation," said Campa in a keynote address on May 15.

> "A patchwork of divergent rules would push activity into the cracks between frameworks, amplifying rather than mitigating systemic risk"
>
> **José Manuel Campa, European Banking Authority**

Earlier this year, the European Commission (EC) undertook a targeted consultation on possible changes to the EU's FRTB rules, which are set out in the third Capital Requirements Regulation. This could lead to an additional one-year delay in implementation until the start of 2027, which would align with the UK timeline. The EC consultation also sought feedback on a set of temporary and targeted amendments that would apply for a three-year period.

"Overall, effective FRTB implementation is not only about timing, but also about avoiding deepening regulatory friction, so that risks are measured the same way and priced the same way. We need to continue to push for that," said Campa.

Following the completion of the consultation on April 22, the EC is expected to confirm its policy proposals imminently, although no announcement had been made as **IQ** went to press.

Meanwhile, it is unclear when revised rules will be published in the US, following an initial set of Basel III 'endgame' proposals that were published for consultation in July 2023.

"There is broad support at the Board of Governors of the Federal Reserve to proceed. Once the vice chair for supervision is confirmed and sworn in, what will likely happen is staff at the various agencies will begin the process of bringing their principals up to speed on the details of the rules they need to decide on. Then, those principals will have to hash out the differences among the banking agencies in the US, and eventually they will arrive at a conclusion on how they want to move forward," said David Lynch, deputy associate director for policy research and analytics in supervision and regulation at the Board of Governors of the Federal Reserve System, speaking on an AGM panel on May 14.

"It's a long process. We aren't completely starting from scratch, but there is a little bit of going back to the drawing board with this and a long path ahead of us," Lynch added.

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NBFI Vulnerabilities Could Threaten Financial Stability, Warns ECB's De Guindos

Financial markets are at risk of disorderly price swings due to liquidity and leverage vulnerabilities posed by the non-bank financial intermediation (NBFI) sector, and policymakers should continue to craft a comprehensive response to this risk, Luis de Guindos, vice-president of the European Central Bank (ECB), has warned.

In keynote remarks on May 15, De Guindos acknowledged that financial markets had functioned smoothly during recent volatility in April, but said there is no room for complacency.

"In an environment of heightened geopolitical and trade policy uncertainty, non-banks may face higher valuation losses and more frequent margin calls as trade tensions increase market volatility and weigh on asset quality. Significant exposures to US-dollar-denominated assets may also increase the risk of additional spillovers from potential US market shocks and exchange rate fluctuations," he said.

> "In an environment of heightened geopolitical and trade policy uncertainty, non-banks may face higher valuation losses and more frequent margin calls as trade tensions increase market volatility and weigh on asset quality"
>
> **Luis De Guindos, European Central Bank**

As examples, he pointed to structural liquidity mismatches in open-ended funds, which could leave insufficient liquid asset holdings to cover redemption shocks, and potential liquidity pressures faced by pension funds and insurance companies due to increasing margin calls during periods of high volatility.

Global policymakers have been working to address perceived vulnerabilities in the NBFI sector, with workstreams focused on margin practices, transparency and leverage. Given the rising market footprint and interconnectedness of non-banks, there is a risk that NBFI vulnerabilities could amplify adverse market developments across the entire financial system, De Guindos said.

"This is why we need an effective macroprudential policy framework for non-banks that improves the sector's resilience. The policy response should focus on addressing key structural vulnerabilities in the NBFI sector, including monitoring and tackling risks from non-bank leverage, enhancing the liquidity preparedness of non-banks to meet margin and collateral calls, and mitigating liquidity mismatches in the investment fund sector," he said.

The ECB has identified three key financial stability vulnerabilities in the euro area that could lead to further stress – uncertainty over US trade policy, which has led to significant volatility in financial markets, escalating trade tensions that could affect euro area firms and households, with potential credit risks for banks and non-banks, and the weak fiscal position of some euro area countries.

"All in all, financial stability in the euro area has remained sound throughout the market turbulence and major uncertainty. But despite broad resilience in both the financial and non-financial sectors, there is no room for complacency," De Guindos said. IQ

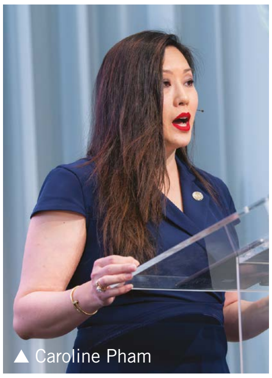
CFTC's Pham to Step Down Following Quintenz Confirmation

After serving as acting chair of the US Commodity Futures Trading Commission (CFTC) since January, and as a commissioner since April 2022, Caroline Pham will step down from the agency when Brian Quintenz is confirmed as its new chair, she said in a keynote address on May 15.

"It has been the honour of a lifetime to serve as a commissioner and now acting chairman, and I will leave with deep pride in what we've accomplished and great confidence in what the CFTC will continue to achieve in the years ahead," said Pham.

Pham plans to return to the private sector, having worked previously at Citi before becoming a commissioner. Her departure will mean a complete change under Quintenz's leadership as the other three commissioners – Kristin Johnson, Christy Goldsmith Romero and Summer Mersinger – are also stepping down.

"When we look forward to what's to come, I said at the beginning of this year that the CFTC was going to get back to basics and ensure our markets are liquid, deep and serve the real economy – not just dealers and traders, but also end users. And I think you can all say the CFTC delivered," said Pham.


▲ Caroline Pham

Pham set out the main achievements during her first 100 days as acting chair and paid tribute to ISDA's successes on its 40th anniversary.

"I want to thank each of you for the countless hours and wealth of expertise that you contribute to making our markets safer and more efficient. You create the standard for industry best practices, and then you keep raising that standard and innovating," said Pham. IQ

ISDA Notices Hub Ready for Launch in Mid-July

The ISDA Notices Hub will launch on July 15, providing market participants with a faster, safer and more efficient method for delivering and receiving critical termination notices – a shared industry challenge that has long needed a digital solution, panellists at the ISDA AGM agreed.

"Obviously, there are multiple issues that we look at in a close out and it's a fairly stressed environment, but I think the issue that has come up again and again is how do you deliver your termination notice? And that's been an issue the market has struggled with for a very long time," said Janet Wood, managing director and associate general counsel at Bank of America.

The ISDA Master Agreement stipulates that termination-related notices must be delivered by certain prescribed methods, using the company address details listed in the agreement. But challenges and delays can arise if a counterparty moves offices without updating the documentation.

Difficulties also occurred during the pandemic, when lockdown restrictions led to many offices being vacated, and following Russia's invasion of Ukraine, when it became challenging to deliver notices to an office located in a hostile environment. Delivery delays and uncertainties can have serious economic consequences, with losses running to millions of dollars.

"When you think about what the industry has done over the past 15 years following the financial crisis, and then we're talking about delivery of paper notices, we have to do better than that and up our game on notices," said Doug Donahue, partner at Linklaters.

The ISDA Notices Hub will enable the instantaneous online delivery and receipt of notices, with automatic alerts sent to the receiving entity. Multiple designated people at each firm will be able to access the hub from anywhere in the world, and it will also maintain updated address details for those counterparty relationships where physical delivery will continue. The Notices Hub will be available on S&P Global Market Intelligence's Counterparty Manager platform.


▲ Janet Wood

"Simplicity is key for the Notices Hub – you're going to go into this platform under some very stressful situations, so you want to be able to get in there, get the notice done and get yourself out. The ultimate goal was to create a secure, intuitive and resilient platform and I think we've nailed this pretty well. So, July 15 is the date the world changes in how you deliver notices," said Oliver Maxwell, head of global regulatory and document solutions at S&P Global Market Intelligence. IQ

ISDA DRR Brings Relief Amid Multiple Reporting Rule Updates

ISDA's Digital Regulatory Reporting (DRR) initiative has enabled market participants to implement derivatives reporting rule updates more efficiently and accurately, at a time when the pace of those updates has been accelerating, according to DRR users who spoke at the ISDA AGM. Last year, reporting rule amendments came into effect in Japan, the EU, the UK, Singapore and Australia, with Canada and Hong Kong set to follow in the coming months.

"We had an extremely busy year – 2024 has really been the pinnacle of changes that we had to implement. It was every few months that we had a big go-live, so the amount of building, testing and monitoring we had to do across the globe was the biggest it's ever been, which put a big strain on firms large and small to be able to comply with so many changes simultaneously," said Eleanor Kelly, managing director, global markets regulatory reporting at JP Morgan.

The ISDA DRR converts an industry-agreed interpretation of each reporting ruleset into machine-executable code. That code can be used as the basis for implementing the rules or to validate that a firm's interpretation is in line with the industry reading.

"With the reporting rewrites coming quickly one after the other, this was a real issue for us – we didn't have the resources to interpret all those regulations. So, when we first heard about the DRR initiative, we jumped on it because it was the solution to our problem. It has permitted us to be ready on time, with the same interpretation as the industry," said Emmanuel Geinoz, market infrastructure and derivatives expert at Pictet Group.

"I think a lot of firms understand this is a solution that is strategic and can bring benefits in reducing regulatory risk and costs," said Kelly. "Now there is a proven group of adopters, it does give comfort that it can work for any market participant. The more people that join, the stronger we become and then eventually, from the regulators' standpoint, this becomes something they will get a lot of benefit from." IQ

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ISDA fosters safe and efficient derivatives markets to facilitate effective risk management for all users of derivative products

STRATEGY STATEMENT

ISDA achieves its mission by representing all market participants globally, promoting high standards of commercial conduct that enhance market integrity, and leading industry action on derivatives issues.

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Representing the industry through public policy engagement, education and communication

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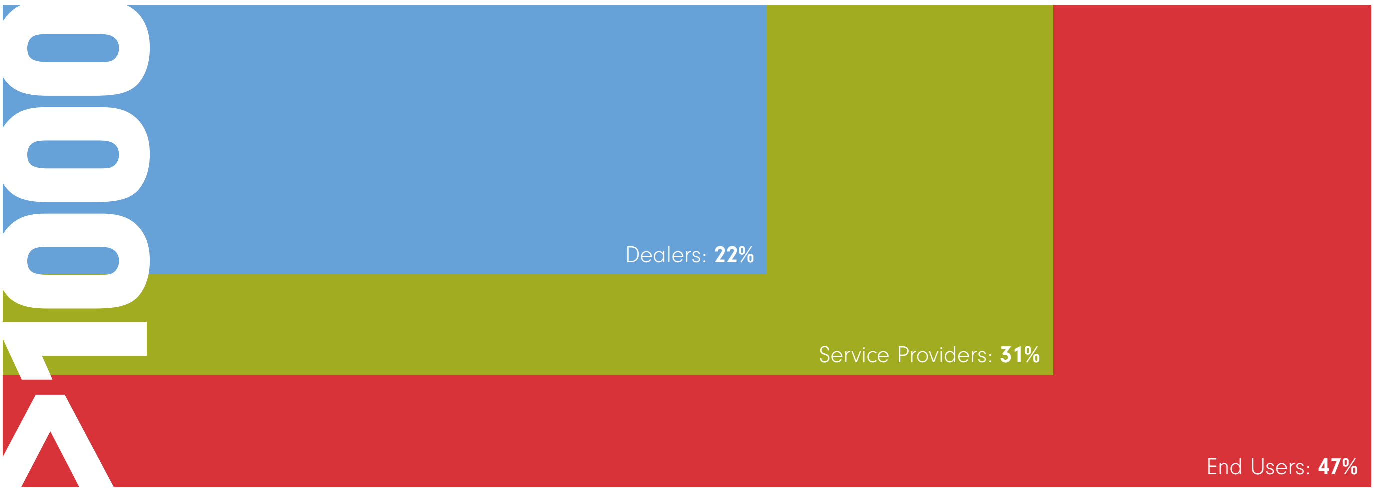
Advancing practices related to trading, clearing, reporting and processing of transactions in order to enhance the safety, liquidity and transparency of global derivatives markets

www.isda.org

MEMBERSHIP INFORMATION

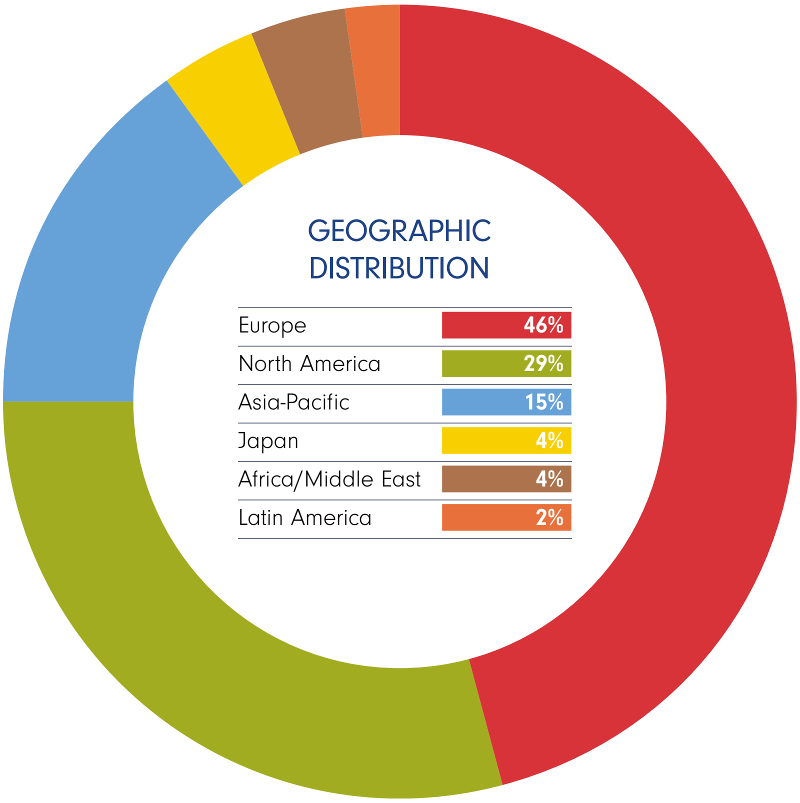
ISDA has over 1,000 members from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers.

MEMBERSHIP BREAKDOWN



TYPES OF MEMBERS

Banks	31%
Law Firms	21%
Asset Managers	9%
Government Entities	13%
Energy/Commodities Firms	8%
Diversified Financials	6%
Technology/Solutions Providers	4%
Other	8%



GEOGRAPHIC DISTRIBUTION

Europe	46%
North America	29%
Asia-Pacific	15%
Japan	4%
Africa/Middle East	4%
Latin America	2%

Additional information regarding ISDA's member types and benefits, as well as a complete ISDA membership list, is available on the ISDA Membership Portal: https://membership.isda.org/

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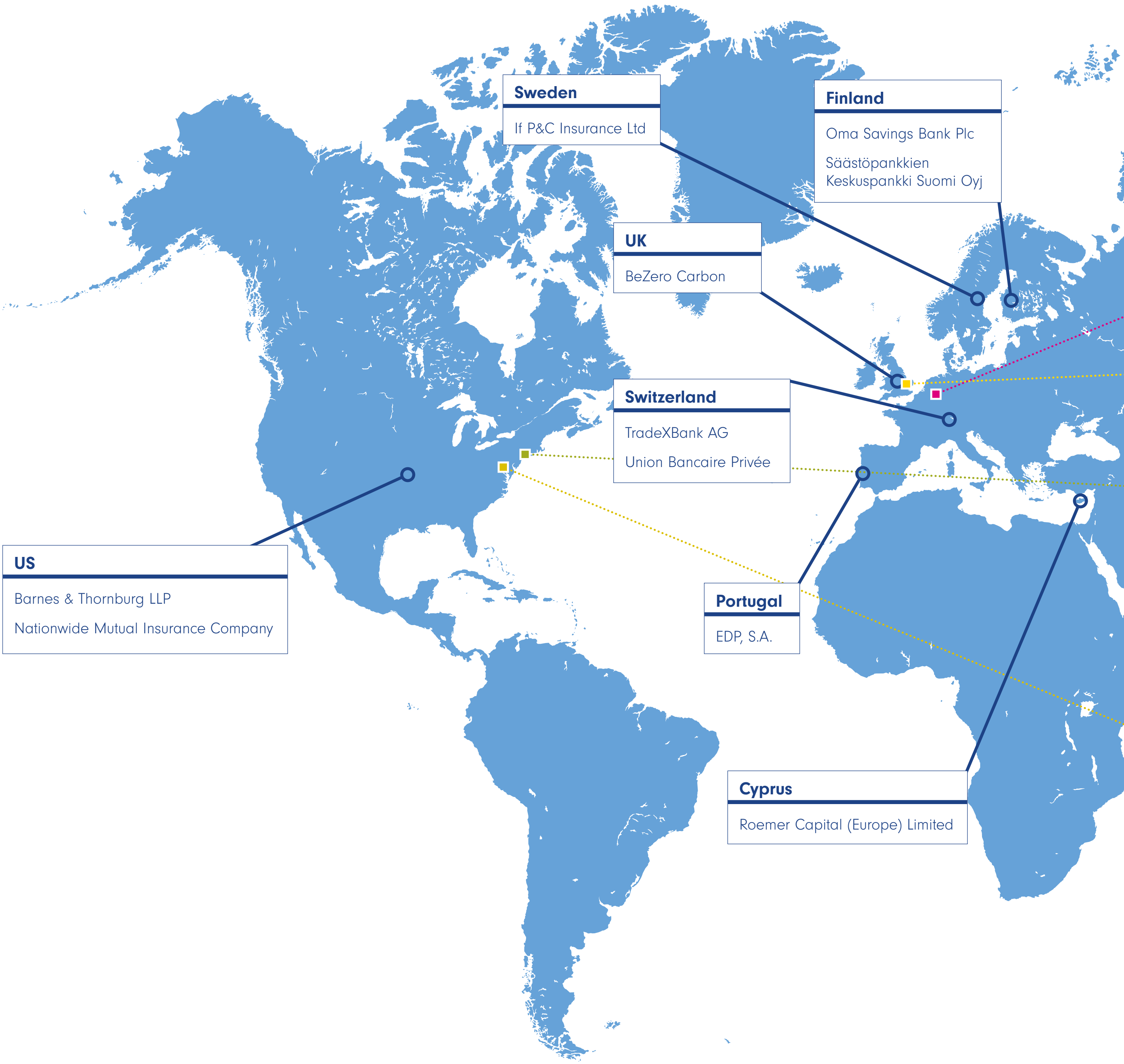
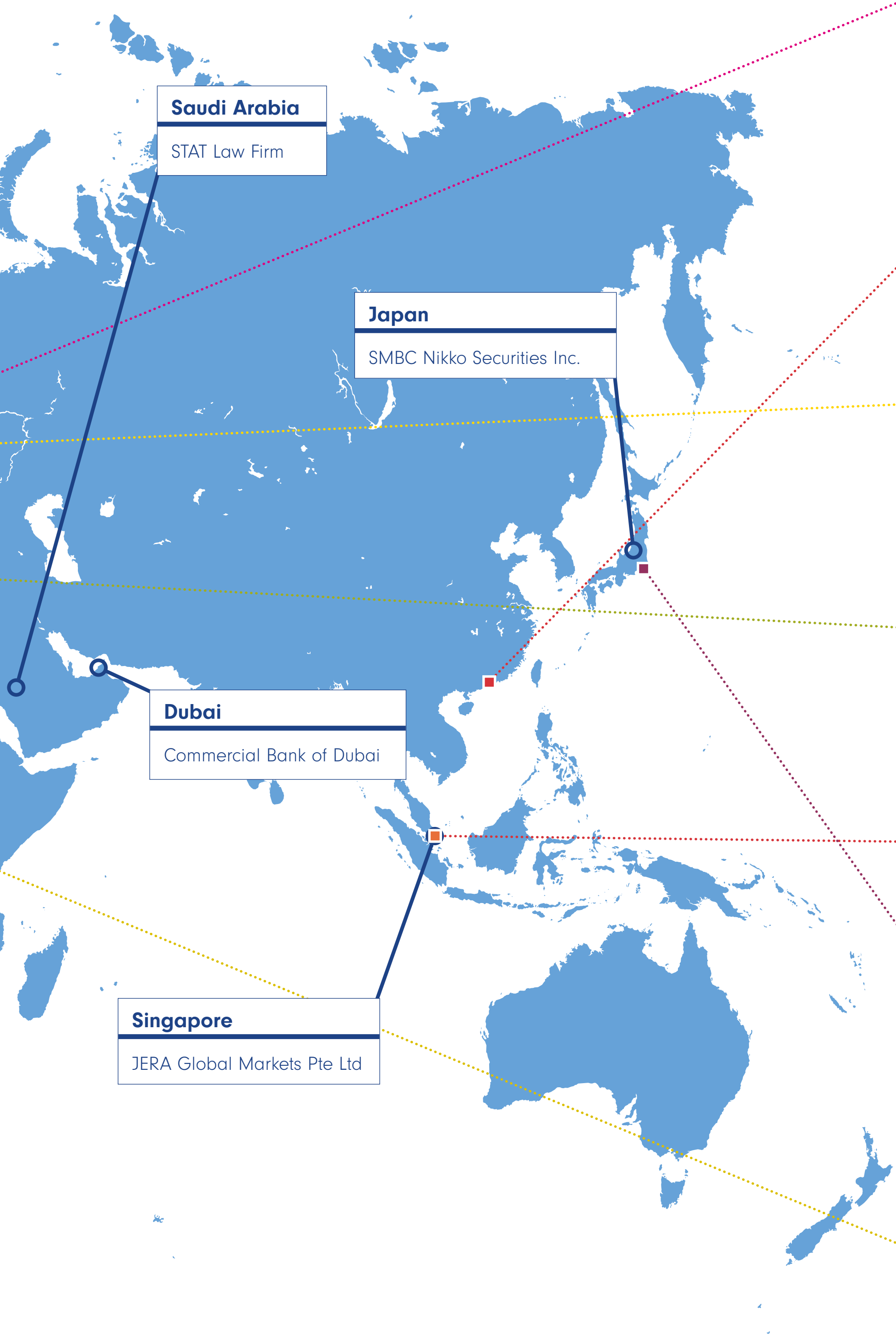
NEW ISDA MEMBERS

A big welcome to all new members that have recently joined ISDA. We look forward to working with you in the future



For additional information on joining ISDA, please visit the ISDA Membership



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Head of Membership

*

"The world appears to be entering an era of greater volatility and uncertainty, and the role of ISDA will only keep on growing"

Ryozo Himino, Bank of Japan