



ISDA Derivatives Trading and Treasury Forum October 10, 2024

Opening Remarks Scott O'Malia, ISDA CEO

Good morning, and welcome to the ISDA Derivatives Trading and Treasury Forum. Thank you for joining us today, and special thanks to our founding sponsor, CME Group, for working with us again.

This event comes at a fascinating time, as an unprecedented number of elections reshape the political landscape across the globe. Already, we have a new Labour government here in the UK, a fresh administration in the EU and, in a few weeks' time, we'll know the identity of the next US president. This new generation of leaders has much to contend with on the world stage, from huge geopolitical tensions to energy security and the transition to net zero.

But while 2024 might be a year defined by elections around the world, it's also been a terrific year in sport. Paris hosted a dazzling Olympic and Paralympic games, with a string of new world records. England's footballers got through to the final of the Euros, even if football didn't quite find its way home this time. And it couldn't have been a better year for the two teams I support – the Michigan Wolverines and Manchester City Football Club. In January, the Wolverines finished top in the College Football National Championship. Then, in May, Manchester City topped the Premier League for the fourth consecutive year. It doesn't get much better than that.

I'm sometimes asked why, as an American, I'm such a passionate supporter of the English Premier League as well as American football. They might both be a form of football, but they're light years apart. Everything is different, from the rules of the game to the pitch and the kit. But there is one big similarity: both have 11 players on each side, and it's the team that counts. You work together and you know your teammates have your back.

There's a parallel here with ISDA. What we do is all about teamwork. We work with our 1,000-plus members across the globe to achieve the best outcomes and ensure safe and efficient markets. When things go wrong – or even when they don't – ISDA has your back. You can see it in everything we do, from developing mutualized industry solutions to advancing standards and responding to consultations. Just like the players on a football pitch, ISDA and the derivatives markets work as a team. It's a partnership.

In these remarks, I'll touch on three areas where ISDA has your back. First, I'll update you on our work to prepare for market disruption. Then, I'll explore Basel III implementation. Last, I'll set out our commitment on digital regulatory reporting.

Managing disruption

As football spectators, we only ever get to see the action on the field. But behind every success, there lies huge complexity and exhaustive planning. Football coaches work with

their teams to map out and rehearse detailed plays that they hope will give them the upper hand against their opponents. It might be tough, relentless and repetitive, but there's no substitute for this preparation.

The same can be said of stress events. Market participants need to be ready for every eventuality – and that includes the default of a counterparty. During the stressful and intense period of managing a close out, it's easy for critical tasks to be overlooked or details to be missed. Firms need a well-rehearsed playbook that maps out every possible scenario and the steps that would need to be taken.

When Silicon Valley Bank and Signature Bank failed last year, the need for this playbook became even clearer. New margining and collateral segregation requirements, coupled with the rollout of bank resolution frameworks and the potential for temporary stays, have added huge complexity to the termination process.

I'm pleased to say we've now taken a big step forward to help firms develop their playbooks. The ISDA Close-out Framework maps the various steps and decisions that need to be taken in a close-out scenario. From default mechanics and collateral enforcement provisions to bank resolution, the framework helps legal, operational and risk management functions to coordinate when managing a close out.

Of course, we can't let this tool gather dust – firms need to understand the framework and be ready to use it. So, we're developing a series of 'tabletop' exercises, in which senior executives from different parts of a firm will work through a hypothetical termination scenario.

We're also addressing another challenging aspect of the close-out process – the delivery and receipt of critical termination-related notices. The industry has relied on physical delivery for far too long. This has caused problems in various scenarios – for example, when firms move offices without updating their documentation, or during the pandemic, when offices were empty due to lockdown restrictions. Delivery delays and lost notices can have serious financial implications, so we need a better way.

The ISDA Notices Hub is an elegant solution to this shared industry problem. Targeted for launch next year, it will facilitate the instantaneous online delivery and receipt of notices from anywhere in the world, as well as maintaining a golden source of updated address details. This will reduce the risks and uncertainties of the termination process. We've found strong support for this new utility and will make it available to market participants via S&P Global Market Intelligence's Counterparty Manager platform.

We must have the right tools and infrastructure in place to manage the failure of a counterparty. ISDA has your back – the Close-out Framework and the Notices Hub will be essential components of effective default management, enabling trades to be quickly and efficiently closed out. Both are examples of where exhaustive preparation will ensure better execution on match day.

Basel III

No sooner has one game finished than it's time to get ready for the next. To improve performance, teams will typically conduct detailed tactical analysis of the game, assessing

key metrics like ball possession and player movement. As they get ready to face the next opponent, their preparation must be rigorous and fact-based.

At ISDA, we take a similar approach to capital requirements, which we believe should be appropriate and risk sensitive. As the Basel III reforms are completed, we've consistently analyzed the expected impact of what has been proposed – from the Basel Committee's global standards to the proposed rules in key jurisdictions. Where targeted changes are warranted by the data, we'll make the case to policymakers.

The most recent example of this is the US Basel III endgame rules that were published last year. The proposal sparked strong pushback in many quarters, but our argument centered on the key findings that came from an industry impact study we carried out with eight US global systemically important banks (G-SIBs).

For example, we identified a problem with the combined effect of the proposed Basel III rules and the G-SIB surcharge, which would increase capital for clearing businesses by more than 80%. This tax would be at odds with the post-crisis policy objective to incentivize clearing and would make it more difficult for banks to offer client clearing services. This comes at a time when a large chunk of the US Treasury market is due to transition to mandatory clearing in the coming years.

The impact study also laid bare the huge impact the proposed rules would have on market risk capital requirements, with an increase of up to 101%, depending on the extent to which banks use internal models. We're in no doubt about the effect such a huge increase could have. If capital and risk aren't properly aligned, banks may be forced to scale back or withdraw from certain businesses. Reduced availability of intermediary and risk management services is bad for end users and will inevitably impact economic growth.

Having identified these issues and several others, we took action. In January, we submitted our response to US agencies, in which we set out the findings of our impact analysis and proposed a series of calibration changes designed to improve the risk sensitivity of the rules. But we haven't stopped there – the stakes are too high to leave this to chance. We've continued to engage with policymakers on these important issues and are hopeful they will be addressed in the next iteration of the framework.

Reporting

Now, Michigan played its sixth game of the season last weekend, but there are still another six to come. No one game in the schedule is more important than the next – the team must show up for each one and give it their best shot.

At ISDA, we've made a similar commitment to our Digital Regulatory Reporting (DRR) initiative. Derivatives reporting rules were updated here in the UK at the end of last month – the latest in a string of updates that also includes the US, Japan and the EU, with Singapore and Australia due to follow later this month. These rule changes are essential to improve transparency in the global swaps market. No one set of rules is more important than the next. That's why we've committed to using the DRR to support 11 rule sets in nine major jurisdictions.

Leveraging the Common Domain Model, an open-source data standard for financial products, trades and lifecycle events, the DRR transforms an industry agreed reading of reporting rules into machine-executable code. That code is free to access and can be used as the basis to implement reporting rules or to validate an independent interpretation.

It's no secret that trade reporting has been fiendishly challenging, with differences between the rules leading to inaccuracies, omissions and duplications in reported data. Policymakers sought to address these shortcomings by developing and implementing global data standards. The DRR is the next step, paving the way towards a fully consistent implementation of these rule updates. At a stroke, it reduces costs and improves accuracy, while also bringing down the risk of regulatory penalties for incorrect reporting.

But ISDA doesn't embark on initiatives like these on a short-term basis – we want to provide long-term solutions that deliver lasting benefit. That's why we'll continue to maintain the DRR code as reporting rules evolve in the future.

We're in this for the long haul – ISDA has your back.

Conclusion

Now, I can't finish these remarks without acknowledging that Michigan's performance this season hasn't all been plain sailing. I've only made it to one game so far, and we had to endure a thorough beating at the hands of the Texas Longhorns. That was a bitter pill to swallow, as I was joined by my daughter, a Texas graduate and Longhorns supporter.

That's the nature of sport, of course. There will always be ups and downs. Big successes may be followed by unexpected challenges. But it's the team that counts. At ISDA, we thrive when we work in lockstep with the industry – whether we're navigating industry transitions or embracing new opportunities. Our goal is to work with you to achieve the best outcomes. We have your back.

Thank you.