INTERVIEW
SEC's Gary Gensler on US Treasury reforms

DIGITAL TRANSFORMATION
The CDM brings efficiencies to reporting and collateral

COMPLIANCE
ASIC's Joseph Longo on domestic and global priorities

ISDA® Quarterly

Vol 10, Issue 3: November 2024 | www.isda.org

* RETOUCHING REFORMS

Policymakers are working to complete the implementation of Basel III, but some components of the framework may need to be recalibrated

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

Capital Questions

On September 10, the Federal Reserve's vice chair for supervision, Michael Barr, gave a speech in which he acknowledged the new US capital rules would be re-proposed with broad and material changes. He went on to describe specific modifications to the Basel III endgame and capital surcharge for US global systemically important banks that he would recommend to the Federal Reserve Board, which included adjustments to the capital treatment of client-cleared derivatives and alterations to improve the incentives for banks to use internal models.

Since then – nothing. And it seems unlikely anything will be released before the US election. This has once again underlined how differently individual jurisdictions are implementing the final parts of the Basel III framework, which includes the Fundamental Review of the Trading Book (FRTB). While market participants continue to wait for the US re-proposal, some jurisdictions – for example, Canada and Japan – have already gone live with parts of the framework, while regulators in the EU and UK have adjusted their start dates to January 2026, in an attempt to align with the US.

It's not just timing – differences in how national regulators have implemented certain parts of the Basel III framework have also emerged, from the treatment of sovereign exposures under the FRTB to the implementation of the standardised approach for counterparty credit risk.

This issue of **IQ** looks at the differences between jurisdictions and asks whether it's time for the Basel Committee on Banking Supervision to relook at those requirements where there is significant divergence in implementation (pages 12-15). We also look at the role of internal models (pages 16-18). ISDA research suggests the cost and complexity of using internal models under the FRTB will cause most banks to switch to the standardised approach. In his speech, Michael Barr suggested US regulators would improve the incentives to use internal models. The question is whether others – or the Basel Committee itself – will follow.

Nick Sawyer
Global Head of Communications & Strategy
ISDA

International Swaps and Derivatives Association | www.isda.org
NEW YORK | WASHINGTON | LONDON | BRUSSELS | HONG KONG | SINGAPORE | TOKYO

Global Head of Communications & Strategy, **Nick Sawyer**, nsawyer@isda.org
Senior Director, Communications, **Joel Clark**, jclark@isda.org
Global Head of Public Policy, **Steven Kennedy**, skennedy@isda.org
Art Director, **Nick Palmer**, nick@sidelong.co.uk

IQ: ISDA Quarterly is an official publication of ISDA. Statements of fact and opinion expressed are not intended as endorsements.
Copyright 2024 by ISDA with all rights reserved. Published October 2024

CONTENTS

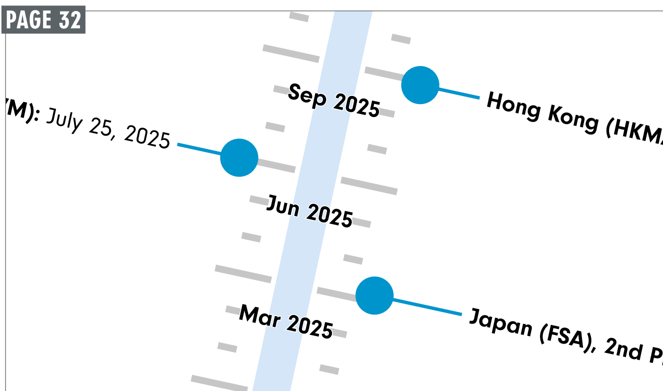
REGULARS

03 Foreword

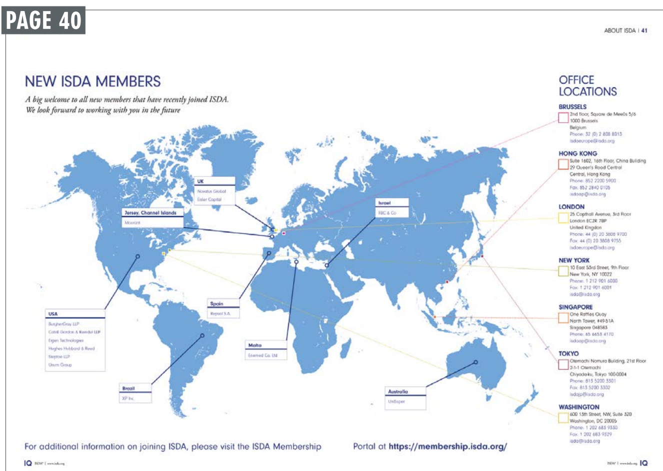
06 Letter from the CEO
A commitment to risk-sensitive regulation underpins ISDA's advocacy across key policy areas, writes Scott O'Malia

07 In Brief
- ISDA Publishes Results of DC Review Consultation
- Green Light for ISDA Notices Hub
- ISDA Publishes Close-out Framework
- Climate Collaboration Needed, Says O'Malia
- ISDA Retains GlobalCapital Award
- CDM Deployed to Extract CSA Clauses
- Greater Automation Needed in Document Negotiation, Survey Shows

PAGE 32



PAGE 40



ALSO IN THIS ISSUE

24 Full Disclosure

Since taking the helm at the Securities and Exchange Commission, Gary Gensler has initiated a wide-ranging set of rules, including landmark Treasury market reforms. A commitment to transparency lies at the heart of the agency's mission, he tells **IQ**

28 Compliance Culture
As chair of the Australian Securities and Investments Commission and a member of the IOSCO board, Joseph Longo is focused on the effective functioning of domestic and international markets. He talks to **IQ** about key priorities, including data and digital transformation

32 A Commitment to Reporting
ISDA's Digital Regulatory Reporting initiative has shown it can be used by firms to implement changes to regulatory reporting requirements cost-effectively and accurately, reducing the risk of regulatory penalties. What's next for the initiative?

35 Paradigm Shift
With a renewed focus on bringing greater standardisation and automation to collateral management processes, market participants are applying the Common Domain Model to yield efficiencies

38 ISDA Mission Statement

39 ISDA Membership

40 ISDA Office Locations

42 ISDA Board

Volume 10, Issue 3: November 2024

* THE COVER PACKAGE

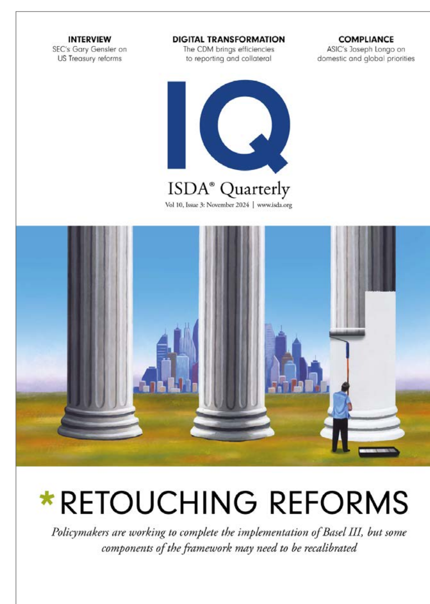
RETOUCHING REFORMS

11 Introduction
Policymakers are working to complete the implementation of Basel III, but some components of the framework may need to be recalibrated

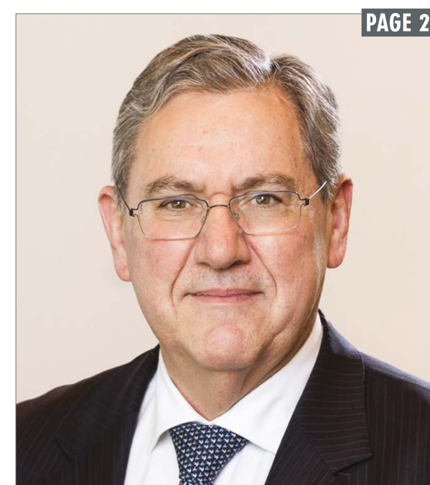
12 Revisit Required
As banks around the world prepare to implement the final parts of the Basel III framework, there is mounting pressure on the Basel Committee to review those standards that have been inconsistently interpreted and may require recalibration

16 Model Matters
The cost and complexity of the internal models approach under the Basel III market risk capital framework is leading many banks to opt for the standardised approach. How could the rules be modified to incentivise the use of internal models?

20 A Sense of Proportion
Following the completion of a Basel Committee consultation on proposed guidance for counterparty credit risk management, market participants have called for flexibility and proportionality to reflect the diverse nature of banks and their counterparties



PAGE 28



"Our goal is to create a culture of compliance across Australia's financial system, and the corporate sector more generally, by applying the right mix of education, enforcement and litigation"

Joseph Longo, Australian Securities and Investments Commission

Risk Sensitivity is Vital

*A commitment to risk-sensitive regulation underpins ISDA's advocacy across key policy areas, writes **Scott O'Malia***

The principle of risk sensitivity is fundamental to effective regulation. Rules must be appropriately calibrated to capture relevant risks without inflicting adverse consequences on markets, businesses and the real economy. This is particularly important as we consider the current policy agenda, which includes completion of the Basel III reforms, the rollout of US Treasury clearing and work to address perceived vulnerabilities in non-bank financial intermediation (NBFI).

The final Basel III measures, which include revised market risk capital requirements, have been characterised by staggered implementation and inconsistent application. Parts of the framework have already been rolled out in a couple of jurisdictions, while the US still hasn't finalised the rules it proposed last year.

Based on rigorous analysis and testing of the US rules, which we undertook with eight global systemically important banks (G-SIBs), ISDA has recommended a series of calibration changes to improve the risk sensitivity of the framework. It is now widely anticipated that US regulators will issue a re-proposal to address some of the key flaws, but this is not expected until after the presidential election.

"Rules must be appropriately calibrated to capture relevant risks without inflicting adverse consequences on markets, businesses and the real economy"

One of the problems we identified was the combined effect of the proposed Basel III rules and the capital surcharge for G-SIBs, which would increase capital for clearing businesses by more than 80%. To impose such a punitive tax on clearing would be inconsistent with the post-financial crisis policy objective to incentivise clearing, making it more difficult for banks to offer client clearing services.

Another problem lies in the lack of recognition of cross-margining services, such as the one offered by the Fixed Income Clearing Corporation and CME Group for transactions based on US Treasury securities and interest rate futures. Cross margining allows firms to obtain initial margin efficiencies from offsetting trades in a portfolio of transactions, but there is no commensurate benefit from a capital perspective under the standardised approach for counterparty credit risk – something that will constrain bank balance sheets and limit their ability to offer client clearing.

These two issues are particularly relevant as a large chunk of the US Treasury market is due to transition to mandatory clearing over the coming years. This edition of **IQ** features an interview with my former colleague Gary Gensler, chair of the US Securities and Exchange Commission and the architect of the Treasury market reforms, which will require clearing of certain cash Treasury securities by the end of 2025, with repos following in mid-2026.

The introduction of clearing in this systemically important market will capture market participants across the globe and will be a huge operational lift. Among other things, firms need to assess future and existing clearing models to determine which best suits their needs.

Leveraging our deep experience in clearing and margining of derivatives, ISDA is helping the industry navigate this transition. For example, we've developed detailed educational materials, such as a comparison of the various clearing models for US Treasury transactions and derivatives that will be updated as new models emerge.

ISDA's commitment to risk sensitivity extends to other policy areas, including NBFI. Following recent market stress events, such as the dash for cash in March 2020, policymakers have been reviewing market practices in several key areas, including margin practices, transparency, liquidity readiness and leverage. For example, the Financial Stability Board has set out recommendations to enhance the liquidity preparedness of non-banks for margin calls.

In developing policy responses, it's important to recognise that the NBFI sector is extremely diverse, encapsulating everything from money market funds, pension funds and insurance companies to hedge funds, family offices and private equity firms. Each type of entity has its own unique type of trading and investment strategies, so it's important that any policy measure is proportionate to the size, business model and risk profile of the firm.

This is an argument we will continue to make as policymakers move forward with this work. NBFI entities have an important role to play in providing liquidity to the global financial system, so we must never lose our focus on appropriate, risk-sensitive regulation.

Scott O'Malia
ISDA Chief Executive Officer

ISDA Publishes Results of DC Review Consultation

ISDA has published the results of a market-wide consultation on proposed changes to the structure and governance of the Credit Derivatives Determinations Committees (DCs).

The consultation, conducted by Boston Consulting Group, was based on recommendations proposed by Linklaters as part of an independent review of the composition, functioning, governance and membership of the DCs. This is the latest in a series of steps to identify amendments that could be made to improve the structure of the DCs and maintain their integrity in changing economic and market conditions.

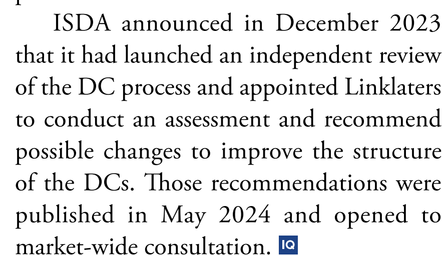
The survey results indicate there is broad market support to implement many of the recommendations, including establishing a separate governance body, implementing certain transparency proposals relating to the publication of DC decisions and appointing up to three independent members of the DCs (see box). Some of the proposals received a significant minority of objections, indicating that more industry input would be required to address the concerns raised.

ISDA will now work with its members to identify a package of practical changes that can be made to the DC rules and will present them to the DCs, which are solely responsible for agreeing and implementing any amendments.

"The consultation showed there is broad market support for key changes that will improve the governance, efficiency and transparency of the DC process. The DCs are a critical part of the credit default swap (CDS) markets and making these changes will ensure they continue to function robustly. ISDA will now work with industry participants and policymakers over the next year to put flesh on the bones of these proposals to show how they can be implemented in practice, before presenting these solutions to the DCs," says Scott O'Malia, chief executive of ISDA.

The DCs are industry committees that currently consist of up to 10 sell-side and five buy-side voting firms, alongside central counterparty observer members. They 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. ISDA does not control the DC rules and is not involved in the decision-making process or administration of the committee.

ISDA announced in December 2023 that it had launched an independent review of the DC process and appointed Linklaters to conduct an assessment and recommend possible changes to improve the structure of the DCs. Those recommendations were published in May 2024 and opened to market-wide consultation. IQ



RECOMMENDATIONS UNDER CONSULTATION

As part of the consultation, market participants were asked to give their views on several proposed changes to the Credit Derivatives Determinations Committees (DCs). These included:

- Establishing a separate governance body, with responsibility for overseeing the operation of the DCs (including reporting to market participants and obtaining feedback from them) and making changes to the DC rules from time to time (in lieu of the DCs).
- Allowing the governance body to appoint independent auditors to audit DC members' compliance procedures.
- Reducing the number of dealer members of the DCs to eight and the number of non-dealer members to four (in addition to central counterparties and any independent members).
- Reducing the eligibility threshold to serve as a non-dealer DC member from the current $1 billion in CDS notional outstanding referencing a single reference entity.
- Allowing non-dealers to volunteer for membership of individual DCs, rather than having to join all the DCs.
- Removing the provisions relating to consultative dealer and non-dealer members.
- Allowing eligible market participants to present statements of case within certain parameters.
- Requiring the DCs and the DC secretary to provide adequate reasons (stated on the DC website) for all material decisions.
- Disclosing any material step taken in the DC process (including any request to convene a DC, any statement of case submitted, and any public information provided or obtained by the DC in connection with a DC question) on the DC website as soon as is reasonably practical.
- Appointing up to three independent members of the DCs (with one acting as DC chairperson).
- Enhancing the minimum requirements on DC members' compliance procedures.
- Enabling the DCs, by a simple majority, to refer DC questions to an independent panel for a decision.
- Developing a new model to adequately fund the operations of the DCs and the other solutions for addressing the other recommended changes.

| Read the results of the consultation here: tinyurl.com/yns5zabn

Green Light for ISDA Notices Hub

> "We're delighted that so many financial institutions recognise the benefit of having a secure digital platform that allows termination notices to be delivered and received in the blink of an eye"
> **Scott O'Malia, ISDA**

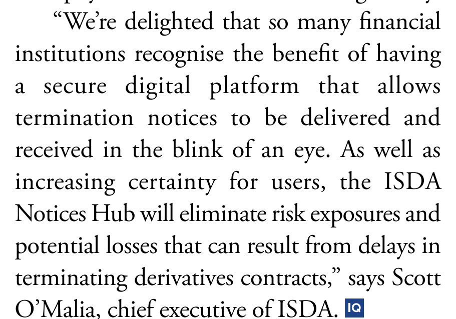
ISDA is pushing ahead with the development of an industry-wide notices hub, following strong support from buy- and sell-side institutions globally. The new online platform will allow instantaneous delivery and receipt of critical termination-related notices and help to ensure address details for physical delivery are kept up to date, reducing the risk of uncertainty and potential losses for senders and recipients of these notices.

The decision to move ahead with the ISDA Notices Hub followed an industry outreach initiative that began in April 2024, in which ISDA sought indications of support for the proposed platform from dealers and buy-side institutions. Of those firms indicating they would use the platform in principle, 57% were from the buy side, including asset managers, insurance companies and hedge funds. Furthermore, two thirds of ISDA's global primary dealer membership category confirmed their intent to adopt the platform in principle. Support was received from around the world, with 39% of positive responses from the US, 47% from Europe and 14% from Asia Pacific.

ISDA is now working with S&P Global Market Intelligence and Linklaters to build the platform, draft the necessary documentation and commission legal opinions in priority jurisdictions to confirm the validity of delivering notices via a central hub. The ISDA Notices Hub will be free for buy-side users and available via S&P Global Market Intelligence's Counterparty Manager platform. Implementation is targeted for 2025.

Under the ISDA Master Agreement, termination-related notices must be delivered by certain prescribed methods, including physical delivery using company address details listed in the agreement. However, delays can occur if a company has moved offices and the documentation hasn't been updated with the new details or delivery to a physical location is not possible due to geopolitical shocks. Even a small holdup in the delivery of a termination notice – for example, from Friday afternoon to Monday morning – could result in millions of dollars in losses.

The ISDA Notices Hub would act as a secure central platform for firms to deliver notices, with automatic alerts sent to the receiving entity. Multiple designated people at each firm would be able to access the hub from anywhere in the world, regardless of the situation at its physical location. The platform would also allow market participants to update their physical address details via a single entry.



"We're delighted that so many financial institutions recognise the benefit of having a secure digital platform that allows termination notices to be delivered and received in the blink of an eye. As well as increasing certainty for users, the ISDA Notices Hub will eliminate risk exposures and potential losses that can result from delays in terminating derivatives contracts," says Scott O'Malia, chief executive of ISDA. IQ

| Find out more about the ISDA Notices Hub: shorturl.at/iPaF6

ISDA Publishes Close-out Framework

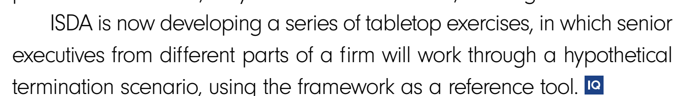
ISDA has published a new interactive digital framework that market participants can use to help prepare for potential terminations of collateralised derivatives contracts.

The launch of the ISDA Close-out Framework comes in response to the March 2023 failure of Signature Bank and Silicon Valley Bank in the US, which highlighted the complexities of potentially terminating over-the-counter derivatives trading relationships following various post-crisis regulatory reforms. Specifically, in-scope entities are now required to post margin for non-cleared derivatives transactions, while various jurisdictions have introduced mandatory stays on termination rights and remedies as part of bank resolution regimes.

The ISDA Close-out Framework is intended to be used as a preparatory resource to help firms coordinate internal business functions and stakeholders and internal and external legal, operational, risk management, infrastructure and other relevant service providers to ensure they are adequately prepared for any potential future stress events.

The framework includes high-level analysis of the default mechanics and collateral enforcement provisions in ISDA documentation, along with additional commentary on bank resolution legislation in the US and Europe.

"Recent stress events have drummed home that terminating a portfolio of derivatives trades is now much more complex as a result of regulatory reforms. The introduction of mandatory margining and segregation requirements, alongside the implementation of bank resolution regimes, means firms need to be able to quickly respond to complex legal and operational issues that will require input from different teams across the organisation. The ISDA Close-out Framework provides an essential interactive tool that firms can use to prepare ahead of any potential stress event," says Katherine Tew Darras, ISDA's general counsel.



ISDA is now developing a series of tabletop exercises, in which senior executives from different parts of a firm will work through a hypothetical termination scenario, using the framework as a reference tool. IQ

| The ISDA Close-out Framework is available here: close-out.isda.org

Climate Collaboration Needed, Says O'Malia

Collaboration between the public and private sectors will be vital to the development of sophisticated climate risk management techniques and the setting of robust, consistent standards for the voluntary carbon market, ISDA chief executive Scott O'Malia has said.

In a speech to the Sustainable Finance Task Force of the International Organization of Securities Commissions (IOSCO), given in Singapore on September 27, O'Malia updated policymakers on ISDA's work on climate scenario analysis for the trading book and set out a series of recommendations for the development of a vibrant, liquid carbon market.

"Fortunately, the objectives of the official and private sectors are largely aligned. Just as governments have committed to the goals of the Kyoto Protocol and Paris Agreement, thousands of corporates have now adopted net-zero strategies that have the potential to bring those commitments within reach. But shared objectives are not sufficient to meet this challenge. We need continuous collaboration and dialogue between the official and private sectors to move the needle on climate change. It must be a partnership," said O'Malia.

> "Shared objectives are not sufficient to meet this challenge. We need continuous collaboration and dialogue between the official and private sectors to move the needle on climate change. It must be a partnership"
> **Scott O'Malia, ISDA**

While acknowledging the progress that has been made to raise standards and ensure voluntary carbon credits (VCCs) are consistently defined and managed, O'Malia highlighted five key areas where further action is needed to enable the voluntary carbon market to reach its full potential.

First, a globally consistent definition of a ton of carbon should be adopted by all market participants. This would go hand-in-hand with an independent, science-based system to verify and audit the soundness and integrity of VCCs.

"Without broad agreement on this, it is impossible to make progress. A globally consistent, widely adopted definition of a ton of carbon will be the foundation on which we can build and grow an effective voluntary carbon market," O'Malia said.

Second, a sound legal framework is needed to create greater certainty and confidence. This includes standard documentation and consistent definitions of products.

"As we've seen in other asset classes, investors will be drawn to those jurisdictions that have done the groundwork to create legal certainty for the trading of carbon credits," he said.

Clarity is also needed on the accounting treatment for VCCs, while a liquid forward market should be developed to provide valuable price signals as the market evolves. This should be built on standardised, common units of larger carbon projects that are fungible and benefit from market pricing.

Finally, continued engagement with the official sector will be needed to develop a globally consistent regulatory framework for the voluntary carbon market.

"It is vital that the official sector focuses its efforts urgently and appropriately. There is no need to reinvent the wheel. Before developing a new regulatory framework, policymakers should be mindful of existing rules for trading in the secondary market, which are sufficiently robust and fit for purpose," O'Malia explained.

Collaboration with the public sector will also be required to bring greater sophistication and consistency to the management of climate risk, O'Malia told the IOSCO task force. ISDA has worked with banks to develop a conceptual framework for climate scenario analysis for short-dated traded assets and modelled three specific scenarios. It is now working to expand the scenarios to include more regions and sectors.

"This is entirely new territory that has given market participants a glimpse of how climate shocks and repricing could affect their traded assets, with time horizons running from one year to a single day," said O'Malia. IQ

Read the speech, *Act Now: The Need for Public-Private Sector Collaboration on Climate Risk and Carbon Markets:* tinyurl.com/ymaxw8kj

ISDA Retains GlobalCapital Award

ISDA has been named Industry Association of the Year for the second consecutive year in the GlobalCapital Global Derivatives Awards 2024.

ISDA was recognised for its commitment to solving industry issues, supporting its 1,000-plus members across the globe through fact-based advocacy and driving greater standardisation and efficiency in the derivatives market.

Examples include the expansion of ISDA's Digital Regulatory Reporting initiative for derivatives, work to develop climate scenario analysis for the trading book and close engagement with regulators on the calibration of bank capital requirements.

"We're very proud that ISDA's contribution to the global derivatives market has been recognised by GlobalCapital for the second year in a row. Our ultimate objective remains the same – to support our members by developing solutions to common industry problems that increase efficiency and reduce risk and costs," says Scott O'Malia, chief executive of ISDA.

The award was presented to ISDA at an event in London on September 26. IQ

CDM Deployed to Extract CSA Clauses

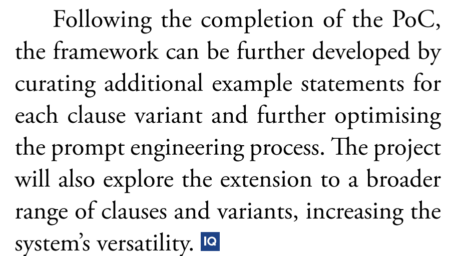
Arizona State University's Artificial Intelligence Cloud Innovation Center (AI CIC), powered by Amazon Web Services (AWS), has collaborated with ISDA to demonstrate how clauses in an ISDA credit support annex (CSA) can be extracted and classified using the Common Domain Model (CDM), an open-source data standard for financial products, trades and lifecycle events.

The AI CIC team used artificial intelligence and cloud technologies to develop a proof of concept (PoC) for extracting clauses from CSAs, identifying variants and presenting the information in a structured JavaScript Object Notation (JSON) format. When carried out manually, this process can be time-consuming and prone to errors.

"This PoC represents a significant step forward in the application of the CDM to yield greater standardisation and efficiency in the derivatives market. By proving how the model can be combined with AI to standardise terms from complex legal documents and transform them into a modern, structured format, the AI CIC team has paved the way towards streamlining of processes and improved efficiency in the management of CSAs and other legal documents," says Olivier Miart, co-head of digital transformation at ISDA.

Hosted by FINOS, the CDM establishes standard representations for how financial products are traded and managed throughout the transaction lifecycle, enhancing consistency and facilitating interoperability across firms and platforms. In the derivatives market, the model has been used as the basis of ISDA's Digital Regulatory Reporting initiative (see pages 32-34) and to improve the efficiency of key collateral management processes (see pages 35-37).

The development of the PoC involved creating a scalable AI framework that leverages a multi-agent architecture to accurately extract and classify clauses from documents. The solution used Amazon Bedrock, AWS Lambda and AWS S3 to manage document uploads, trigger clause extraction processes and store the resulting CDM JSON structures. The team developed specialised prompts for each clause, testing various large language models (LLMs) to determine the best fit, and integrated Amazon Bedrock Agents that could handle the extraction and classification tasks. The Claude 3 Opus LLM was chosen for its superior performance in reasoning, classification and handling complex prompt instructions.



Following the completion of the PoC, the framework can be further developed by curating additional example statements for each clause variant and further optimising the prompt engineering process. The project will also explore the extension to a broader range of clauses and variants, increasing the system's versatility. IQ

Find out more about the Common Domain Model: tinyurl.com/3f97cfjn

Greater Automation Needed in Document Negotiation, Survey Shows

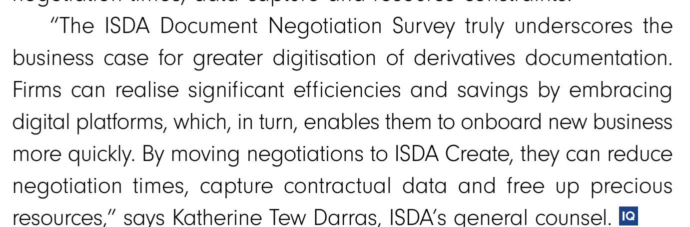
ISDA has published the results of a survey on document negotiation, which shows the average time taken to negotiate key derivatives documents hasn't fallen since 2006, with some negotiations taking longer due to resource constraints, regulatory pressures and operational challenges.

The ISDA Document Negotiation Survey collects and reports data on the composition, negotiation and digital automation of ISDA documentation. The results, which are based on responses from 42 institutions, most of which are banks or broker-dealers, suggest there has been no improvement in negotiation times for ISDA Master Agreements and related credit support documentation since 2006.

The survey highlights delays in the negotiation of initial margin (IM) credit support annexes (CSAs) that have been caused by the requirement to segregate IM with a third-party custodian. Practical challenges in setting up custodial arrangements were cited by 25 respondents as a cause of delays in negotiating IM CSAs, account control agreements and eligible collateral schedules. Other factors causing delays include provisions governing the relationship with custodial documents and eligible collateral.

The survey also asked participants about their use of digital automation tools to identify progress in transitioning contract lifecycle management systems and processes to new technologies and automated data solutions. While 30 respondents – more than 70% – reported using some form of digital automation, with data capture being the most frequently cited use case, nearly half of respondents said they still exclusively use manual processes for data capture. Many other firms use manual intervention in combination with digital automation.

Respondents were also asked about their use of certain ISDA platforms, with 20 firms stating that they use the MyLibrary digital documentation platform during negotiations, and 13 confirming they use the ISDA Clause Library. However, the survey found that manual intervention continues in many documentation processes. The ISDA Create contract negotiation platform can address key issues such as negotiation times, data capture and resource constraints.



"The ISDA Document Negotiation Survey truly underscores the business case for greater digitisation of derivatives documentation. Firms can realise significant efficiencies and savings by embracing digital platforms, which, in turn, enables them to onboard new business more quickly. By moving negotiations to ISDA Create, they can reduce negotiation times, capture contractual data and free up precious resources," says Katherine Tew Darras, ISDA's general counsel. IQ

Read the ISDA Document Negotiation Survey: tinyurl.com/4hzsrk5f

Retouching Reforms

Policymakers are working to complete the implementation of Basel III, but some components of the framework may need to be recalibrated

In an increasingly diverse and complex financial system, the process of implementing new regulations can take a long time and involve many stages.

Basel III is a fitting example. In response to the global financial crisis, the Basel Committee on Banking Supervision set about raising standards for banks around the world with a wide-ranging package of reforms. More than 16 years on, the financial system is more resilient, thanks in part to higher levels of capital held by banks, but the final parts of the Basel III framework have still to be fully implemented.

While adoption of the final Basel III measures is at varying stages around the world – with the US still to issue final rules – national regulators have taken different approaches to certain parts of the framework. Some degree of variation is to be expected to account for the specificities of individual countries, but there is mounting pressure on the Basel Committee to revisit those areas where there is more significant and widespread divergence and correct any flaws in the original calibration (pages 12-15).

One of the hallmarks of Basel III is a more stringent approach to the use of internal models to calculate capital requirements. In response to perceived failings in banks' models, policymakers have set higher standards that would need to be satisfied for the use of internal models, while also increasing the risk sensitivity of standardised models. But recent analysis by ISDA has shown the use of internal models for market risk could decline more significantly than expected, suggesting the framework should be revised to ensure sufficient incentives are in place for banks to continue using internal models where appropriate (pages 16-18).

Much now rests on the Basel Committee's willingness to review standards it finalised years ago, at a time when it is already focusing on other projects. One example is a new set of proposed guidelines for counterparty credit risk management, published for consultation earlier this year. These guidelines span a range of areas and could be beneficial in setting best practices, but market participants have called for flexibility in the application of the guidelines, taking into account the different levels of counterparty risk generated by specific entities and businesses (pages 20-23). IQ

"Significant deviations in the implementation of Basel III undermine the concept of a globally aligned framework, which only works if everybody adheres to it"

Eric Litvack, ISDA

* Revisit Required

As banks around the world prepare to implement the final parts of the Basel III framework, there is mounting pressure on the Basel Committee to review those standards that have been inconsistently interpreted and may require recalibration

"Cooperation does not mean full harmonisation." So said Pablo Hernández de Cos, outgoing chair of the Basel Committee on Banking Supervision and governor of the Bank of Spain, in a speech earlier this year to mark the 50th anniversary of the committee's inception in 1974. The Basel Committee has always retained its commitment to cooperation to set minimum standards, he said, but individual jurisdictions "can and should go beyond this to reflect additional risk features of their banking systems and their own risk tolerance".

The argument is a prescient one. Completion of the Basel III reforms has been characterised by significant divergence between jurisdictions, both in the timing of implementation and the extent to which certain countries intend to adhere to global standards. While the rules are already in force in some countries, others have delayed implementation of parts of the framework and the US has yet to finalise its rules. Despite the Basel Committee's position that its standards should be seen as the baseline, there is concern that inconsistent, staggered implementation will create challenging distortions and complexities for internationally active banks.

"Significant deviations in the implementation of Basel III undermines the concept of a globally aligned framework, which only works if everybody adheres to it. Certain minor deviations are inevitable, but when there is widespread inconsistency in the implementation of a standard, this can be taken as a strong indicator that the standard itself was improperly calibrated and should be reviewed. It is up to the Basel Committee to take stock and revisit those standards that might require recalibration at the global level," says Eric Litvack, chairman of ISDA.

Staggered implementation

For the Basel Committee's membership, which comprises 45 institutions across 28 jurisdictions, Basel III has long been a matter they must confront in their roles as national or regional regulators. A chunk of the standards was finalised by the Basel Committee some time ago – 2014 for the standardised approach for counterparty credit risk (SA-CCR), 2017 for the revised credit risk framework and output floor, 2019 for the Fundamental Review of the Trading Book (FRTB) and 2020 for the credit valuation adjustment risk framework. Since then, the baton has passed to domestic policymakers to transpose this wide-ranging package of standards into regional and national law.

The fact that many of the standards have yet to be widely implemented is an indicator of just how complex and challenging they are, with the process of rulemaking and implementation spanning many years. The Basel Committee itself deferred implementation until the start of 2023 during the COVID-19 pandemic but, with that deadline now long passed, timelines have diverged significantly around the world. In Canada, China and Japan, parts of the framework have already been implemented. In the UK, the Prudential Regulation Authority announced in September that it would delay

Illustration: James Fryer

implementation by six months to January 1, 2026 – the date at which the FRTB is currently due to be implemented in the EU.

At this stage, the greatest uncertainty relates to how the standards will be implemented in the US. Proposed rules were published by US agencies in July 2023, with implementation to begin from July 1, 2025. Following widespread concerns about the possible impact, which were raised as part of a consultation that closed in January 2024, it is expected the rules will now be significantly amended and re-proposed. In a speech on September 10, Michael Barr, vice chair for supervision at the Federal Reserve Board, set out a number of areas where changes to the proposed rules had been recommended, but nothing has yet been published.

The staggered implementation is particularly challenging for internationally active banks that might need to comply with the Basel III requirements in certain jurisdictions but not yet in others. The uncertainty over how the US agencies might amend their proposed rules also makes it difficult for banks to progress on implementation, particularly for those parts of the framework that require them to choose between the standardised approach and the internal models approach (IMA).

"There is still a lot of uncertainty. At this stage, we're focused on managing a global implementation programme as efficiently as possible and also on providing ongoing updates to our regulators, including on issues we're seeing that could still be addressed in final rules. Clarity on timing would be very helpful – if a target implementation date needs to be moved back, that should be publicly acknowledged as soon as possible to support efficient planning. It is also critical that we have an adequate implementation period between the final rule and go live," says Benny Crapanzano, managing director and global head of fixed income business unit risk management at Morgan Stanley.

One of the reasons why banks need sufficient time to implement the rules is the stringent new approval framework for the use of the IMA. Under the FRTB, individual trading desks must pass a profit-and-loss attribution test (PLAT) to enable the use of internal models. Under a new non-modellable risk factor framework, a certain number of real price observations is also required to avoid additional capital.

Given the challenges in meeting these requirements, banks need sufficient time between finalisation and implementation of the rules. ISDA's response to US regulators, which was submitted jointly with the Securities Industry and Financial Markets Association in January 2024, recommends the standards should become effective no earlier than 18 months from the publication of the final rule. But with no final rule at this point – and with a further consultation expected – a July 2025 implementation deadline in the US appears unrealistic.

Michael Barr's September 10 speech set out "broad and material" changes to the original proposals that the Fed had concluded are warranted. These mooted revisions

would include a multiyear implementation period for the PLAT to enable banks to gain experience with the test and provide time for them to develop their systems and processes and address any potential data gaps in model performance. Barr also suggested the re-proposal would contain additional adjustments to improve incentives for firms to model their exposures.

While market participants have welcomed the apparent willingness to recast the US rules and address some of the concerns that had been raised, there has not been any confirmation of the changes set out in Barr's speech. Until the proposed rules are reissued, banks have little clarity on when and how they will need to implement.

"With some jurisdictions having implemented these standards, and with the UK and EU having deferred some or all the requirements until the start of 2026, a lot now rides on the US. ISDA continues to advocate for the calibration changes we recommended in January, and we are encouraged by the willingness to adapt the rules that was expressed in the speech. It is important the key issues are addressed and the rules are finalised as soon as possible so banks have greater certainty to move forward with implementation," says Panayiotis Dionysopoulos, head of capital at ISDA.

Back to Basel

All eyes will remain focused on US prudential regulators in the coming weeks and months, but there is also mounting pressure on the Basel Committee to take a more active role in addressing those implementation issues that have arisen. While the committee's leadership has argued that jurisdictions are entitled to go further than its baseline standards to reflect the specificities of their banking systems, some market participants feel a very divergent implementation of any standard indicates a fault with the original that should be addressed.

"We should be very clear about the problematic aspects of the Basel III package because, when you aggregate everything together, there is a case for revisiting the standards at the international level to amend those parts that are not working as intended. The objective of these reforms was never to significantly raise risk-weighted assets, but this has turned out to be the reality. By correcting these issues, the Basel Committee can ensure the application of the standards is more manageable and the overall impact is less," says Jacques Vigner, chief strategic oversight officer for global markets at BNP Paribas.

A complete review of Basel III implementation will only be possible once rules have been finalised in the US and a date is set for implementation. However, based on rules that have been implemented, finalised or proposed, there is an extensive list of areas of significant divergence. In some cases, the differences may be relatively minor; in others, there is a clearer case to be made for the standard to be revisited at the Basel Committee level.

One example is the treatment of exposures to sovereigns under the FRTB. Under the original Basel standards, if banks use the standardised approach, they have the option to apply a zero risk weight for exposures to certain highly-rated sovereigns, subject to supervisory approval. Under the IMA, however, banks would need to apply a floor of 3 basis points (bp) to the default risk charge to account for the probability of default of any entity, including sovereigns.

With little evidence to support the calibration of the floor, domestic policymakers have sought to address the misalignment between the treatment of sovereigns under the standardised approach and the IMA. In Japan and the UK, for example, sovereigns were removed altogether from the IMA default risk charge, while the EU reduced the floor to 1bp for highly-rated sovereigns and covered bonds. Meanwhile, regulators in the US have proposed removing the possibility for banks to model default risk under the IMA. Market participants argue there is a strong rationale for the Basel Committee to assess what has led to such a divergent approach and consider how it might address the issue.

"This is a clear example of a legacy issue with the FRTB standards that has forced jurisdictions to take a different course of action to address the same issue and

"Clarity on timing would be very helpful – if a target implementation date needs to be moved back, that should be publicly acknowledged as soon as possible to support efficient planning"

Benny Crapanzano, Morgan Stanley

"When you aggregate everything together, there is a case for revisiting the standards at the international level to amend those parts that are not working as intended. The objective of these reforms was never to significantly raise risk-weighted assets, but this has turned out to be the reality"

Jacques Vigner, BNP Paribas

avoid penalising exposures to highly-rated sovereigns with an additional capital charge. The challenge is that we don't have much historical data, but it's clear that the 3bp floor would be a disproportionate, non-risk-based measure that would disincentivise the use of internal models and distort capital requirements," says Dionysopoulos.

Another example is the residual risk add-on (RRAO) under the standardised approach. This must be calculated separately for all instruments bearing residual risk, such as those with an exotic underlying, but US regulators have proposed not to apply the RRAO to constant maturity swaps. This has raised concerns it will distort competition and make it more difficult for banks in other jurisdictions to offer those products.

Beyond the FRTB, key jurisdictions have taken their own approach to SA-CCR. Under the original Basel standards, SA-CCR is calculated by adding the replacement cost to potential future exposure and multiplying this by an alpha factor of 1.4. ISDA raised concerns in 2017 that the calibration of the alpha factor is based on historical studies and does not reflect the current market environment, larger portfolio diversification effects and wider clearing and margining practices. It was also never designed to apply to a standardised methodology but to account for model risk and severe market moves that could affect the use of an internal model to calculate exposures.

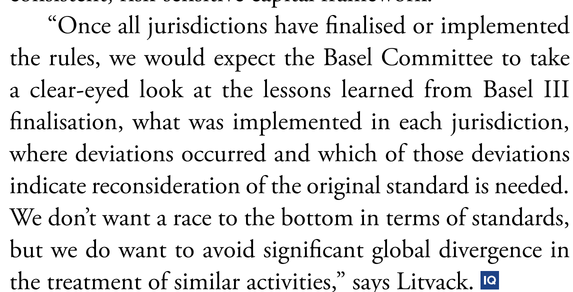
In transposing the Basel standards, policymakers have found their own ways to deflate the impact of SA-CCR. In the US, it was proposed that the alpha factor should be reduced to 1 for commercial end users – similar to the approach taken in the UK, where an alpha factor of 1 would apply to non-financial counterparties and pension scheme arrangements. In the EU, there is no reduction in the alpha factor for the calculation of risk-weighted assets, but it is removed for the calculation of the output floor for some banks.

In April 2022, ISDA, the Institute of International Finance and the Global Financial Markets Association wrote to the Basel Committee to ask for a holistic review of SA-CCR across all jurisdictions to minimise the risk of fragmentation, recognise the structural changes in markets since the standard was finalised in 2014 and lessen the impact on derivatives markets. While more than two years have passed since the letter was submitted, the argument remains as relevant today.

"As we progress towards completion of the Basel III reforms, it is clear that the calibration of SA-CCR is not sufficiently risk sensitive and should be recalibrated – this is apparent from the modifications that have been made to the standard in each jurisdiction. These changes reflect inherent flaws rather than local specificities," says ISDA's Dionysopoulos.

It remains to be seen what path prudential policymakers will take. But, as market participants await clarity from US agencies, the Basel Committee is under increasing pressure to undertake a holistic review of Basel III implementation. Such a review would identify those standards that may need to be revisited at a global level to achieve a more consistent, risk-sensitive capital framework.

"Once all jurisdictions have finalised or implemented the rules, we would expect the Basel Committee to take a clear-eyed look at the lessons learned from Basel III finalisation, what was implemented in each jurisdiction, where deviations occurred and which of those deviations indicate reconsideration of the original standard is needed. We don't want a race to the bottom in terms of standards, but we do want to avoid significant global divergence in the treatment of similar activities," says Litvack. IQ



* Model Matters

The cost and complexity of the internal models approach under the Basel III market risk capital framework is leading many banks to opt for the standardised approach. How could the rules be modified to incentivise the use of internal models?

Internal models have a long history within the Basel capital framework. As far back as 1996, the Basel Committee on Banking Supervision issued the so-called Market Risk Amendment, which would allow banks that met certain standards to use their own models to calculate market risk capital requirements. Fast forward 28 years and the use of internal models for market risk looks likely to dwindle as a demanding new approval process is rolled out, driving many banks to opt instead for the off-the-shelf standardised approach (SA).

The Fundamental Review of the Trading Book (FRTB) is a cornerstone of the Basel III package, seeking to address shortcomings in how banks manage their market risk capital. Central to this new framework is a stringent set of tests banks must pass at the trading desk level to obtain supervisory approval for the use of internal models. Although many banks had originally planned to retain the use of internal models, ISDA analysis has shown this is no longer the case – many are now concluding there is insufficient benefit for them to implement and maintain the internal models approach (IMA), given the costs and resources required to do so.

"As the implementation of Basel III progresses, it is becoming clear that a growing number of banks are opting for the SA under the FRTB rather than the IMA. The new framework certainly delivers a more sophisticated SA for market risk, but it is still more simplistic and less risk sensitive than the IMA. While the SA plays an important role in risk management, a sharp decline in the use of internal models would mean less alignment between risk and capital, which will add complexity to the management of trading businesses and result in less diversity in models and behaviour," says Mark Gheerbrant, global head of risk and capital at ISDA.

Shifting intentions

The FRTB, which was finalised by the Basel Committee in 2019, overhauls the previous Basel 2.5 market risk framework, with the aim of ensuring banks are appropriately capitalised and reducing the variability of risk-weighted assets. The new rules include a new IMA that focuses on tail risks and reflects constrained market liquidity during periods of stress, stringent trading-desk-

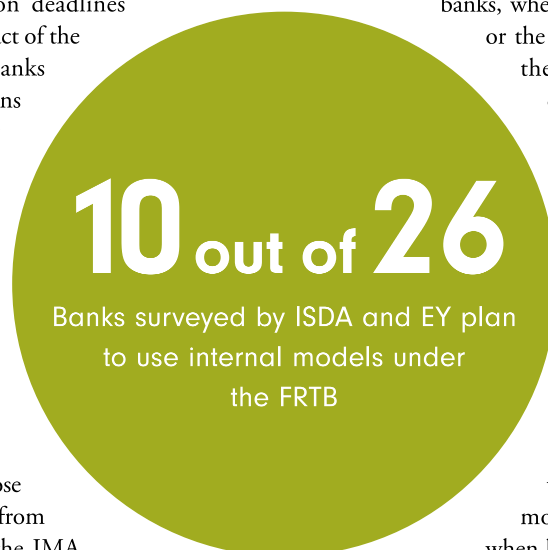
"While the SA plays an important role in risk management, a sharp decline in the use of internal models would mean less alignment between risk and capital, which will add complexity to the management of trading businesses and result in less diversity in models and behaviour"

Mark Gheerbrant, ISDA

level internal model approval processes, including a profit-and-loss attribution test (PLAT), and a stressed capital add-on for non-modellable risk factors (NMRFs).

For those trading desks that either elect not to seek IMA approval or do not pass the approval tests, banks will have to rely on a new SA that seeks to balance simplicity with risk sensitivity and explicitly captures default and other residual risks, and is intended to serve as a credible fallback for the IMA. While the new SA is more risk sensitive than previous iterations, most banks that had been using the IMA under Basel 2.5 originally intended to transition to the IMA under the FRTB on a like-for-like basis in terms of trading book coverage. That's now changing as national regulators transpose the Basel standards and implementation deadlines approach. As the cost and impact of the IMA become clearer, many banks have scaled back their ambitions and opted to shift completely to the SA.

Earlier this year, ISDA and Ernst & Young (EY) engaged with FRTB executive sponsors from 26 global banks with trading operations across the world. Of those 26 banks, 24 use the IMA under the Basel 2.5 framework, but this is set to fall to 10 under the FRTB. Those banks that plan to transition from the IMA under Basel 2.5 to the IMA under the FRTB only plan to do so for a limited portion of the trading book – 15-40% under the FRTB compared to an average of 85% under Basel 2.5. The most widely cited reason for the change was the PLAT and the risk factor eligibility test (RFET), which was highlighted by 18 of the banks.



"There was always an expectation that the number of banks applying internal models for market risk would fall under the FRTB, but this study suggests a much sharper decline than had been anticipated. It's clear that the complexity and operational challenges of implementing and maintaining the IMA is playing on banks' decision making and has driven many to shift to the SA," says Panayiotis Dionysopoulos, head of capital at ISDA.

The expected decline in the use of internal models has raised concerns among some market participants about the lack of incentives to use internal models in the new framework, which will result in a less risk-sensitive approach to capitalising market risk.

"By definition, internal models are designed to be more risk sensitive than standardised approaches. If banks rely solely on standardised models, they might miss certain risks, or some risks could be improperly capitalised. Internal models have always been an inherent part of the Basel framework for larger institutions, enabling them to go beyond standard approaches to assess how risks are evolving in real portfolios. It's important that the incentives for banks to use internal models are not lost as the FRTB is implemented – that's still an objective that is worth fighting for," says Eric Litvack, chairman of ISDA.

While not appropriate for all banks or portfolios, internal models bring a variety of benefits, proponents say – not least, the ability to derive a more granular, detailed view of risk, which is then reflected in the amount of capital held. It also ensures the models used for calculating market risk capital are more aligned with the models sophisticated banks use for monitoring and managing risk internally.

For example, the ISDA/EY study showed that all banks, whether they expect to use the IMA or the SA for calculating capital under the FRTB, plan to use certain components of the IMA as part of their risk management practices. Moreover, use of a diverse array of internal models limits the potential for herd behaviour that could occur if all banks use the same standardised model and have a uniform view of risk.

"By its nature, the SA is more formulaic and does not fully reflect the reality of risk, whereas internal models drive more risk-based decision making when banks consider moving into new activities or taking on large transactions. Aligning risk and capital through the use of internal models, where appropriate, is ultimately better for those banks that have the necessary capabilities, which is why I think we should continue to make the case for internal models," says Jacques Vigner, chief strategic oversight officer for global markets at BNP Paribas.

One of the findings of the ISDA/EY study is that once banks stop using advanced internal models for calculating capital, it is likely to be difficult to easily adopt them again in future. That's because it will be harder to attract and retain experienced personnel with quantitative skills, which could be lost to other parts of a bank or move outside the banking sector.

"When you aggregate all of the components of the FRTB, the burden to implement internal models is exceptionally heavy, which is why only a small number of banks have committed to the continued use of the IMA. The fact that banks previously on internal models are now opting for the SA undermines the future viability of the IMA because fewer banks will have the expertise to maintain their own models. There is also a question over whether it will be worthwhile for supervisors to maintain the significant expertise they need to validate those models.

"Internal models have always been an inherent part of the Basel framework for larger institutions, enabling them to go beyond standard approaches to assess how risks are evolving in real portfolios. It's important that the incentives for banks to use internal models are not lost as the FRTB is implemented – that's still an objective that is worth fighting for"

Eric Litvack, ISDA

→ The net result is that shrinking the IMA pool under the FRTB poses a longer-term threat to the continuity of the IMA," says Litvack.

Raising incentives

A variety of factors may influence a bank's decision to switch from the IMA to the SA, ranging from the uncertain timelines for implementation to the inherent complexity of the IMA framework, which increases the cost of implementation and maintenance. For the majority of banks that have considered the IMA, it is the PLAT, the RFET and NMRFs that are the most problematic components.

The concept of the PLAT, which is designed to identify misalignment of profit and loss (P&L) between a bank's front office and risk function, might sound reasonable, but it is difficult to pass and operationally complex to manage. As an example of this complexity, banks would need to ensure P&L adjustments, risk and front-office calculation engines and timings are closely aligned to maximise the probability of passing the test.

The RFET, which is designed to assess whether a risk factor within the IMA framework is deemed modellable, is also onerous, challenging and costly to maintain, given the need for banks to obtain sufficient real-time price observations as evidence. Those risk factors that are deemed non-modellable would be subject to additional capital. While some banks had expected data vendors to provide solutions based on data pooling, this has not materialised. For an individual bank, large-scale investment would be required to collect real price data, standardise it and feed the outputs into capital calculations. Many have concluded the required investment is not justified.

A further challenge lies outside the FRTB in the application of the Basel III output floor, which reduces the incentives for banks to invest in the IMA in some jurisdictions. While the output floor will be phased in over a period of several years in most jurisdictions, there is a case to be made to revisit the floor as it relates to market risk.

The ISDA/EY paper calls for several framework modifications that could simplify the requirements and materially enhance the business case for internal models. For example, one option would be to convert the PLAT to an entirely qualitative standard used for monitoring, allowing supervisors to assess whether the proposed tests are fit for purpose and whether it is possible to calibrate reasonable and meaningful thresholds.

"Our engagement with the banks highlighted a number of areas where the FRTB could be revised to incentivise IMA adoption, and there is a clear case to be made for recalibration of certain components to align the framework more closely with risk management practices. The PLAT, RFET and NMRFs are new concepts that depend on a deep pool of data to operationalise. We would encourage policymakers to consider how they could be amended so the IMA does not remain too costly and operationally complex for banks to implement," says Dionysopoulos. IQ

Read the ISDA paper, *Fundamental Review of the Trading Book: Internal Models Adoption:* shorturl.at/tjvsl

ISDA

Analytics™

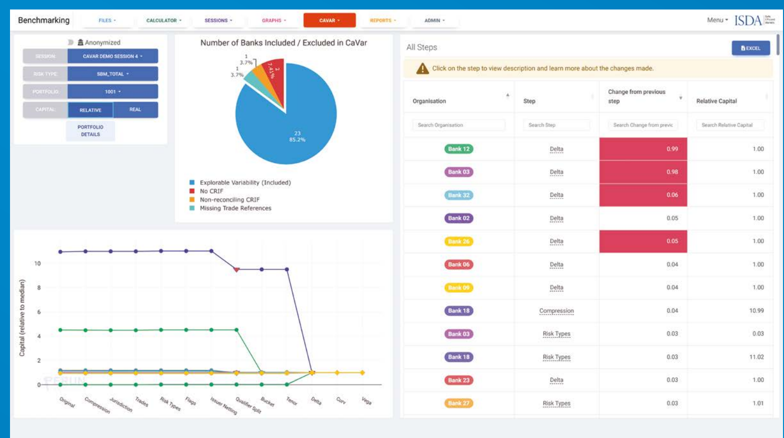
ISDA Analytics™ is a sophisticated benchmarking solution that enables banks to consistently and accurately implement standardised approach (SA) regulatory capital models under the Fundamental Review of the Trading Book (FRTB) market risk framework, the credit valuation adjustment framework and the standardised approach to counterparty credit risk.

Key Benefits

The ISDA Analytics™ solution enables banks to analyse their implementations of standardised approach capital models, helping to identify and explain anomalies in model outputs. This allows banks to correct any irregularities before regulatory requirements go live, as well as ensure they are not holding more capital than required.

Regulators can also use the data to monitor implementation in their jurisdictions and better understand the drivers of any divergence.

ISDA provides analysis of standardised approaches to a level of detail, accuracy and speed that no other institution, association or regulatory agency has achieved.



ISDA Analytics™ is also used as a basis for the ISDA Standard Initial Margin Model backtesting and benchmarking exercises.

New API

ISDA has now developed its own FRTB-SA capital calculation application programming interface (API). Firms will be able to access this 'golden source' calculator to rapidly compute capital on any set of inputs in Common Risk Interchange Format and generate results that are accurate and guaranteed to reflect up-to-date FRTB-SA regulations.

The seamless interaction with the API will allow firms to easily integrate its results into their internal processes, which could range from replacing manual calculations with an automated process to validating their own internal implementation or running what-if analysis, significantly reducing costs. The API will be free to access for all ISDA members.

For more information or to set up a demo, please contact the ISDA Analytics™ team at

isda-analytics-FRTB@isda.org

* A Sense of Proportion

Following the completion of a Basel Committee consultation on proposed guidance for counterparty credit risk management, market participants have called for flexibility and proportionality to reflect the diverse nature of banks and their counterparties

The implementation of Basel III will continue to dominate the agenda of prudential regulators for some time, but the Basel Committee on Banking Supervision is not standing still. Following perceived failings in counterparty credit risk (CCR) management, it has developed a wide-ranging new set of guidelines, with a particular focus on exposures to non-bank financial intermediaries (NBFIs). As the guidelines are finalised and eventually implemented, however, market participants warn that national supervisors must take a flexible approach – one that strikes a balance between improving risk management standards and making sure industry practices reflect the diversity of banks and their counterparties.

The proposed guidelines, published for consultation on April 30, comprise a set of best practices ranging from counterparty due diligence and exposure management to governance arrangements. In a joint response to the Basel Committee submitted on August 28, ISDA and the Institute of International Finance (IIF) encouraged ongoing engagement between the Basel Committee, central banks and supervisors and proposed certain amendments to maintain a risk-based and proportionate approach.

"CCR management is a critical function for banks and recent events have raised concerns over perceived failings, so the proposed guidelines are both timely and relevant. The Basel Committee has delivered a wide-ranging proposal that would apply to all types of counterparties. We think this one-size-fits-all approach will be particularly challenging and our feedback reflects the need to promote robust but flexible risk monitoring and management," says Panayiotis Dionysopoulos, head of capital at ISDA.

Time to update

The Basel Committee guidelines update a set of sound practices for bank interactions with highly leveraged institutions that it published in 1999, following the collapse of Long-Term Capital Management the previous year. The new guidelines are driven not just by the need to update those best practices to reflect the evolution of the market over the past 25 years, but also by more

"It will certainly be valuable to have a common set of principles that banks would be expected to adhere to, but we need sufficient flexibility to allow those principles to be applied appropriately"

Eduardo Epperlein, Nomura

> "There is a benefit to keeping things simple with a suite of measurements that pick up on the right signals, and when you bring them together, you have greater insight into your exposures. That would be better than trying to capture everything with very prescriptive rules within a given model"
>
> **Seth Schrager, Société Générale**

recent events, which the committee believes highlighted areas of weakness in CCR management practices.

The most significant of these was the failure of US family office Archegos Capital Management in March 2021. Archegos had exposures to certain stocks through total return swaps with multiple dealers, building a large, concentrated exposure. It subsequently defaulted on margin calls as stock prices fell, causing dealers to terminate the positions and sell the underlying stocks they held as hedges, which led to more than $10 billion in losses for counterparty banks.

Combined with the commodity market volatility following Russia's invasion of Ukraine and disruption in the UK gilt market in 2022, the Basel Committee observes that certain fundamental CCR practices have been shown to be inadequate relative to supervisory expectations. It identifies weaknesses in several key areas, including due diligence, both at initial onboarding and on an ongoing basis, credit risk mitigation practices such as margining, risk measurement practices relating to potential future exposure and stress testing, and the governance and senior management oversight of CCR (see box, pages 22-23).

While banks stress it is important the guidelines are implemented in a way that reflects the business type and risk profile of the counterparty, they generally recognise the need to update and improve industry standards for CCR management.

"We agree the time is right to reevaluate and upgrade counterparty risk management practices to protect not just our own firms but the market structure at large. The challenge is that banks deal with thousands of clients every day – it's a diverse group of entities across different segments and geographies. Some are publicly traded companies, so a lot of information is already in the public domain. But for NBFIs, where data is not readily available, there is only certain information we are contracted to receive. These are the sorts of details we will need to work through," says Seth Schrager, managing director for counterparty credit risk at Société Générale.

In the case of Nomura, the bank had already embarked on a programme of work to enhance its CCR management before the Basel Committee consultation was published, so the development of common guidelines would be helpful, says Eduardo Epperlein, global head of risk methodology at Nomura.

"A lot of the material is familiar territory, and we'd agree with the need to use a variety of complementary metrics to manage counterparty risk, as well as the addition of new tools to manage tail risks. It will certainly be valuable to have a common set of principles that banks would be expected to adhere to, but we need sufficient flexibility to allow those principles to be applied appropriately, depending on a bank's circumstances and risk profile," says Epperlein.

Due diligence

According to the Basel Committee, the starting point for a bank's relationship with its clients is thorough counterparty credit due diligence and ongoing monitoring. The guidelines suggest banks should obtain granular information on a continuing basis about their counterparties' activities and exposures, with a single disclosure framework to be used across all counterparties.

The Basel Committee sets out a checklist of information that banks should gather from their counterparties. As part of their ongoing credit assessment, for example, banks should obtain details about material counterparty developments (such as changes in the direction of trading activities and performance), profit and loss developments, significant changes to leverage, alterations to their risk management procedures or risk measurement processes, and changes in key personnel.

→ In their response to the consultation, ISDA and the IIF point out that the information a bank needs to manage its CCR will inevitably vary, depending on the type of entity it is dealing with, and this should be reflected in the disclosure requirements.

They also highlight the limitations banks may face in obtaining information from certain counterparties. Publicly listed companies, for example, might have legal or regulatory constraints relating to the provision of certain data, while it may not be appropriate for some counterparties to disclose their exposures to other market participants, depending on the nature of their trading relationships.

"It would clearly be difficult for banks to obtain the kind of non-financial information that is suggested in the guidelines, as some of it is proprietary to the counterparties. This is why our feedback makes the case for greater recognition of the limitations banks face in sourcing some of this data," says Lisa Galletta, head of US prudential risk at ISDA.

It will be down to the Basel Committee to determine how best to approach expected counterparty disclosures in the final guidelines, but banks are clear they can't reasonably be expected to request information from non-bank counterparties that isn't legally required to be disclosed.

"The availability of counterparty data is the key issue because, in many cases, it just doesn't exist at the moment, and it can't be up to the banks to enforce a certain standard of disclosure among NBFIs. The availability and standardisation of disclosure of data inputs is critical to systemically capture the impact in exposure calculations and modelling," says Epperlein.

Measuring exposure

Among the other components of the Basel Committee guidelines, the provisions on exposure measurement are particularly relevant in the context of recent market shocks. Recognising that CCR default losses are often driven by tail events, such as large and sudden asset moves or unusual market scenarios, the committee suggests banks should rely on "a variety of non-equivalent risk metrics that assess all the material dimensions of CCR". These metrics should provide "a complementary and comprehensive view of risk, covering for both business-as-usual and stressed market conditions, as well as for any material vulnerability to specific idiosyncratic risks".

While the industry largely supports the requirements for a suite of complementary risk-appropriate metrics to provide a proper understanding of a counterparty's exposure, there is a call for banks to be granted the flexibility to choose the relevant metrics to monitor CCR without excessive prescription.

"Prescriptive requirements might create greater clarity on

THE INDUSTRY POSITION ON COUNTERPARTY CREDIT RISK

ISDA and the Institute of International Finance (IIF) submitted their joint response to the Basel Committee on Banking Supervision's proposed guidelines for counterparty credit risk (CCR) management on August 28. The response sets out the industry position on the six key areas in the guidelines.

1. Due Diligence and Monitoring

Basel Committee guidelines include:

- Firms should obtain granular information on an ongoing basis about their counterparty's activities and exposures.
- A single disclosure framework should be employed across all counterparties.

ISDA/IIF response:

"Before including any provisions in the guidelines that could have the effect of imposing additional data collection or disclosure requirements on market participants for ultimate use by bank regulators for market monitoring or other supervisory activities, the associations would urge authorities to perform analysis to assess the significant amount of relevant data that is already available to authorities and to better understand the legal and/or regulatory constraints that some counterparties face in providing such data to banks."

2. Credit Risk Mitigation

Basel Committee guidelines include:

- As a minimum, the margin framework should adequately capture both the market and liquidity risks associated with the portfolio (including valuation risks), the quality of collateral received, as well as the credit risk associated with the counterparties.

ISDA/IIF response:

"The associations agree with the importance of initial margin (IM), which is foundational to CCR management, and support the idea of IM arrangements tailored to the counterparty's risk profile and underlying risks. However, in the event that risk-sensitive margining arrangements are not achievable, firms should ensure adequate IM through an appropriate margin framework, which may include additional margin requirements such as independent amount or further haircuts on eligible collateral."

3. Exposure Measurement

Basel Committee guidelines include:

- Banks should quantify CCR exposure daily, using potential future exposure to measure the future exposure against a given counterparty conditional upon its default.
- Banks should have a dedicated CCR stress testing framework for an assessment of counterparties' exposures in a stressed market environment.

ISDA/IIF response:

"We ask that the guidelines allow banks the flexibility to select the types of metrics

what is expected, but the more risk dimensions you try to pile into one measurement to capture everything, the more complex the model becomes. There is a benefit to keeping things simple with a suite of measurements that pick up on the right signals, and when you bring them together, you have greater insight into your exposures. That would be better than trying to capture everything with very prescriptive rules within a given model," says Société Générale's Schrager.

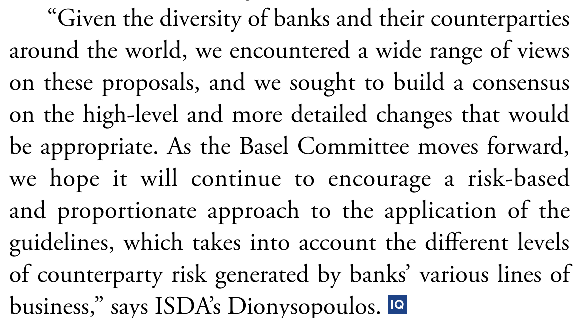
The principles of proportionality and flexibility also extend to the industry's feedback on other components of the guidelines, including governance. The Basel Committee's proposals in this area span people and risk culture, risk framework, management reporting and limit governance. As part of a robust risk culture, it suggests that banks should foster strong collaboration between their market and credit risk departments to encourage the exchange of knowledge and information and prevent siloed thinking.

While collaboration and information sharing between risk departments is clearly important, market participants believe there should be some flexibility, rather than having a one-size-fits-all approach. In a similar vein, the guidance encourages banks to have a framework in place to monitor counterparty credit exposures against established risk limits on an intraday basis, with clear processes for escalating limit breaches. Banks believe a risk-based approach to intraday exposure monitoring would be more appropriate than a mandatory requirement.

"Governance is an important component of risk management, and the guidance clearly implies there should be more hands-on engagement with senior management, which is something we would welcome. It is important that we achieve the right level of engagement between risk and senior management without the expectation being so granular that it becomes unworkable," says Epperlein.

Following the completion of the consultation, it will now be up to the Basel Committee to determine the way forward. As the implementation of Basel III continues in the years ahead, the development and implementation of the CCR guidelines can also be expected to become a policy priority. At this stage, however, market participants are keen to reinforce the message that flexibility and proportionality will be critical when the guidance is applied.

"Given the diversity of banks and their counterparties around the world, we encountered a wide range of views on these proposals, and we sought to build a consensus on the high-level and more detailed changes that would be appropriate. As the Basel Committee moves forward, we hope it will continue to encourage a risk-based and proportionate approach to the application of the guidelines, which takes into account the different levels of counterparty risk generated by banks' various lines of business," says ISDA's Dionysopoulos. IQ



they use to monitor CCR without prescriptive requirements regarding the metrics themselves or their level of granularity."

4. Governance

Basel Committee guidelines include:

- The dual nature of CCR contains elements of both market risk and credit risk, necessitating that CCR management involves strong collaboration between the market risk and credit risk functions at the bank.
- Banks are encouraged to establish ad hoc intraday exposure monitoring, which should be adequate for assessing impacts of large intraday market moves on risk limits.

ISDA/IIF response:

"Banks have varying levels of formal collaboration between market and credit risk management functions in practice, which makes it difficult to implement a one-size-fits-all approach. The associations propose that banks be given the flexibility to adopt their own approaches."

5. Infrastructure, Data and Risk Systems

Basel Committee guidelines include:

- Systems, models and data management capabilities should be sound and sufficiently sophisticated to support CCR measurement under business-as-usual and stress conditions.

ISDA/IIF response:

"The guidelines should acknowledge that there is a trade-off between: (1) including granular details in modelling/margining; and (2) having transparent and sound measurement systems. Including all idiosyncratic elements and data from illiquid markets does not lead to transparent and sound measurements systems, as required in the guidelines, and may not be practical."

6. Close-out Practices

Basel Committee guidelines include:

- Banks should ensure that seasoned professionals familiar with legal processes for carrying out a declaration of counterparty default are able to initiate close outs as needed.
- Banks with sound practices maintain up-to-date close-out playbooks. They carry out mock close-out exercises to uncover potential issues in advance of an actual close out.

ISDA/IIF response:

"Close-out situations are fact- and circumstance-specific, and each case may therefore require the allocation of different internal and external resources and the execution of different steps; the guidelines should reflect this."

Read the Basel Committee's guidelines for counterparty credit risk management in full, April 30: tinyurl.com/3cakjx8p

Read the ISDA, IIF response to the Basel Committee in full, August 28: tinyurl.com/4ds3y7t8

Full Disclosure

Since taking the helm at the Securities and Exchange Commission, ***Gary Gensler*** *has initiated a wide-ranging set of rules, including landmark Treasury market reforms. A commitment to transparency lies at the heart of the agency's mission, he tells* **IQ**

IQ: You're now well into your fourth year as chair of the US Securities and Exchange Commission (SEC) and it's been a very busy time for rulemaking at the commission. Which rules do you see as the most significant, and what are the priorities going forward?

Gary Gensler (GG): One of the privileges of leading this agency is working with the 5,000 people here, but it's also the breadth of the issues in which we're involved. We've already proposed and adopted more than 40 items during my time here. More than three quarters of those are well into the implementation phase and have not been challenged in court.

We recently halved the US settlement cycle for equities and corporate and municipal bonds, along with Canada and Mexico. This is a key investor protection initiative where we're really leading the globe – you sell your stock on a Monday; you get your cash on a Tuesday. It's straightforward stuff but pretty important. Europe, Switzerland and the UK are now looking at how they might join us in the next few years.

We've adopted and implemented some really critical items related to corporate governance, including how executives can sell their shares in the market and how they publicly disclose their pay versus performance. This is all very consequential for strong corporate governance.

We've taken some very important steps in cyber, both for companies and issuers that have material cyber events and, more recently, for individuals. So, if your broker-dealer or investment adviser has a hack and your personal identifying information is taken, you would get a notice.

We've adopted and are working with clearing houses and market participants

on implementation of some key reforms in the Treasury market related to central clearing. This is really critical in the $27 trillion Treasury market, which has seen repeated jitters. Bringing more volume into central clearing will help to promote all-to-all trading in these markets.

We've addressed some of the repeated instabilities in money market funds and adopted rules last year that are still being implemented. We adopted rules on truth in advertising for registered investment companies and we have updated a 24-year-old rule in that area. I'm very proud of some of the work we've done regarding issuers in the US market from China, making sure we have proper access to inspect their auditors.

It's a wide-ranging policy agenda because this is an agency that covers the full spectrum of capital markets. Those markets are $110 trillion-$120 trillion in size with a diverse set of asset classes, market participants and investors.

"We adopted the Treasury rules in December 2023 – 15 months before customer clearing and another 15 months before funding clearing is due to be implemented. I have confidence in the abilities of market participants and clearing houses to get these important projects done"

IQ: Following a series of market shocks in recent years, global policymakers have been exploring what they perceive as vulnerabilities in non-bank financial intermediation (NBFI) and considering policy measures to address leverage, liquidity, margin and transparency. How has this body of work informed the SEC agenda during your tenure?

GG: The US capital markets have benefitted from vibrant competition between banks and non-banks, which has led to greater competition in capital markets, more access to capital for issuers and more investment choices for savers and investors. Compared to Europe, we're much more reliant on non-banks than banks for credit intermediation – 75%-80% of credit provision in the US is outside of banks and in Europe it's almost the reverse.

That doesn't mean NBFI is without risk. We've taken up a series of resilience projects, including shortening the settlement cycle and the Treasury market reforms. There are three main reforms in that market – central clearing, oversight and registration of dealers and registration of some trading platforms. We've taken up resilience projects on clearing house governance, recovery and wind-down, and several projects relating to mutual funds. We also have proposals outstanding on broker-dealers' cyber resilience policies and procedures.

IQ: The Treasury market reforms that were finalised in December 2023 will require major structural changes, and implementation deadlines are fast approaching. Are you confident there will be sufficient time for implementation? What message would you give to market participants on preparation and implementation?

GG: These are important reforms that have a lot of support in the official sector, but also among market participants. There are key protections that will come into effect from March 2025, starting with customer clearing. These protections mean broker-dealers will no longer be able to net customers' margin against their house money when they're onward posting to the clearing houses, and the clearing houses will have to add protections for customer clearing. That's only nine months away and although there's a fair amount of work to do for the enhanced clearing of the funding market by June 2026 and the cash market by December 2025, it's important to do the work and get involved in the testing and building so that budgets and technology are ready on time.

While there is ample time, there are still going to be issues that market participants will need to work through. The US market shortened the settlement cycle, and we were able to do that 15 months after we adopted the rule. We adopted the Treasury rules in December 2023 – 15 months before customer clearing and another 15 months before funding clearing is due to be implemented. I have confidence in the abilities of market participants and clearing houses to get these important projects done, but it is a team →

> "Fraud is fraud and bad actors will try to use new technologies to do bad things. That's been true since antiquity. If firms are using an AI model, they shouldn't think they can now do a bad thing and blame it on the model"

→ effort – it takes planning by all market participants and work on documentation, trade flow and the like.

The net result will lower risk in the system. The US Treasury market has had repeated jitters and fragilities. It's too important a market to leave as it is, with so much risk outside of regulated clearing houses in largely unregulated interdealer brokers acting as central nodes in the system. That model has been shown to be fraught with problems during times of stress.

IQ: How many clearing houses do you think will ultimately clear US Treasury securities? Is there a balance to be struck between competition and netting efficiencies?

GG: By our remit from Congress, we as an agency consider competition to be a good thing. So, if there are other clearing houses that make filings with the SEC, we will consider them under the law and the rules. I won't prejudge any of those potential filings, but competition can lead to efficiencies and better markets. It's critically important that we don't lower risk standards – robust risk standards for clearing houses help to protect the whole market.

IQ: Following approval from the SEC and the Commodity Futures Trading Commission (CFTC), CME and the Fixed Income Clearing Corporation recently enhanced their cross-margining arrangements, increasing the product scope and simplifying the overall calculation process. What positive effects do you anticipate from these changes?

GG: I was honoured to be chairman of the CFTC at a time when some cross-margining applications were submitted. My experience with this is that they can benefit the markets and market participants when posting margin, particularly when positions and risk can be legally netted. At the same time, what's critical is that any clearing house manages its risks and has sufficient margin if one of its members fails to protect all the other members of the clearing house and the system at large. So, it's a balance and it's critical that cross margining doesn't increase risk and lower the protection of any one clearing house.

IQ: The SEC's proposal on safeguarding advisory client assets has received a lot of attention, and ISDA has raised concerns over its application to derivatives. In particular, the proposal would appear to conflict with existing CFTC regulations. Is this something you have been able to discuss with CFTC staff?

GG: A lot has changed since we last updated our custody rule in 2009. We put out for proposal a new safeguarding rule and we got a lot of feedback, which we're still considering. I did ask staff in considering that feedback to make recommendations to the commission as to whether we should seek further public comment or even reconsider the proposal itself. We're still sorting through that and although I don't want to prejudge where the staff might come out, we have received comments regarding custody of derivatives positions. We won't move further on this until the staff is ready.

IQ: In March 2024, the SEC adopted rules to enhance climate-related disclosures by public companies and in public offerings. Will these rules go far enough to provide investors with the information they need on climate-related risk? How important is it to ensure they align with disclosure requirements in other jurisdictions?

GG: Nearly 90% of the top 1,000 US companies by market capitalisation already make some climate risk disclosures to their investors, and nearly 60% already disclose something about greenhouse gas emissions. The new rule is about disclosures to those investors making decisions – it's about materiality and what a reasonable investor would find important when making an investment decision. We're not a climate regulator or an environmental regulator – we are a securities regulator. It's all grounded in materiality as well, so there is a substantial likelihood that a reasonable investor would find it significant in the total mix of

information used to make an investment decision. I'm aware of initiatives in other jurisdictions, but we're sticking to US law and US markets. I look at this only through the lens of the material information investors use to make their investment decisions.

IQ: There has been an active debate about the regulation of crypto assets, and whether they should be considered as securities. What is the appropriate model of regulation for this market?

GG: Without prejudging any one asset, it's pretty straightforward: most crypto assets are likely to be securities and should be regulated as such. There are 15,000-20,000 tokens and there's nothing incompatible about the accounting ledger they're stored on with the securities laws. The principle is consistent – it's about making proper disclosure to investors so they can decide whether they want to buy or sell a particular crypto asset.

IQ: In July 2023, the SEC proposed rules to require broker-dealers and investment advisers to take steps to address conflicts of interest associated with the use of predictive data analytics and similar technologies. How are you approaching the rapid development of artificial intelligence (AI)?

GG: I think AI is among the most transformative technologies of our time and I'm speaking well past generative AI. It's already being used in finance to protect customers from fraud, to survey markets and for compliance with anti-money laundering and sanctions regimes. It's used by traders to assess the markets, by investment advisers to set up robo-advising applications and by insurance companies for claims processing. It's used by all sorts of financial institutions for opening accounts, and I think it will lead to significant changes in corporate issuance and risks and opportunities in different parts of the economy.

Our role here at the SEC remains consistent – it's all about making sure firms disclose the material information that is needed and that those disclosures are not misleading. Just as in other areas of transition, sometimes folks will exaggerate what they're doing with this new technology, whether it's an investment adviser bragging about the use of AI when they're not really using it or a company that says it's doing something but it's not true. We need to beware of misleading the public in any material way – so-called AI washing.

Fraud is fraud and bad actors will try to use new technologies to do bad things. That's been true since antiquity. If firms are using an AI model, they shouldn't think they can now do a bad thing and blame it on the model. If you deploy the model, you have a certain responsibility and obligation, particularly if you're a fiduciary or advising people. If you're using a model to front run or manipulate a market or perpetrate a fraud, there's still a human somewhere who is responsible.

Finally, we have a proposal outstanding about potential conflicts. If you're using an algorithm that's putting the investment adviser or the broker-dealer into the mix of your engagement with customers, the basic concept in the US is that you've got to put the investor first. You must make sure the algorithm hasn't got it the other way around by putting the investment adviser or broker-dealer first.

Those are our three areas of focus – AI washing, fraud and deception, and conflicts. But I also think there's a risk that goes well beyond the US, which is that the use of AI will lead to certain fragilities in capital markets. That is why both the models and the data are likely to end up being quite centralised. We already have a system in the US where there are three large cloud providers, two of which are used by around 75% of the financial sector. There are natural economics of networks that are at play, and that is likely to also happen with AI. If everyone relies on the same model or the same data set, this could drive the market to a bad place, but that's a challenge we all share.

IQ: It's just over a decade since you completed your five-year stint as chair of the CFTC. Of course, 2009-2014 was a very different time, but what similarities and differences would you observe between your time at the helm of these two agencies?

GG: Both are great agencies, tracing their heritage back to the Roosevelt era and protecting the public against some of the abuses and problems of the 1920s. Both benefit from a commission structure that I endorse, bringing together folks from diverse policy and career backgrounds. Both exercise oversight of their markets through exams, enforcement and rulemaking.

But there are definitely some differences as well. The SEC is about nine times larger in terms of staff and flow. Unlike the CFTC, we're very much a disclosure-based agency at the SEC, which is something I'm very proud of. President Roosevelt had a vision of full, fair and truthful disclosures to help investors decide what investments they make. I worked with a great team at the CFTC and now have the opportunity and privilege to work with the 5,000 people at the SEC.

Of course, the CFTC also had the distinction of having Scott O'Malia as a commissioner and although we didn't always agree, when we disagreed, we always found a pathway to do so agreeably. IQ

GARY GENSLER IN BRIEF

Sworn in as chair of the US Securities and Exchange Commission (SEC):
April 17, 2021

Chairman of the US Commodity Futures Trading Commission:
May 26, 2009 – January 3, 2014

Last holiday?
At the beach.

Favourite place to be?
With my daughters – wherever they are.

What keeps you awake at night?
Not much.

Career highlight?
It's the remarkably talented professionals with whom I worked, whether at Goldman Sachs or now at the SEC and in between at the Massachusetts Institute of Technology and on political campaigns.

Compliance Culture

*As chair of the Australian Securities and Investments Commission and a member of the IOSCO board, **Joseph Longo** is focused on the effective functioning of domestic and international markets. He talks to **IQ** about the key priorities, including data and digital transformation*

IQ: What are the regulatory priorities for the Australian Securities and Investments Commission (ASIC) in 2024 and beyond?

Joseph Longo (JL): Since I became chair, my goal has been to ensure ASIC is ambitious and confident in discharging its regulatory and enforcement responsibilities to serve and advance the public interest.

We have a broad remit and are operating in an environment, both locally and internationally, where cost-of-living pressures, climate change, rapid technological transformation and an ageing population are impacting consumers' needs and the ways in which they navigate the financial services markets.

Our regulatory priorities aim to address the most significant threats and harms to investors and consumers, especially the most financially vulnerable consumers, arising from these global trends as they relate to our regulatory environment and as they intersect in areas that may cause harm or loss.

We have identified a number of specific strategic priorities, alongside our ongoing regulatory and enforcement work. These include targeting poor product design, distribution and marketing, sustainable finance, with a particular focus on greenwashing and climate-related financial disclosures, poor governance and advice misconduct in superannuation that adversely affects retirement outcomes, and technology risks in financial services and markets, including cyber and operational resilience practices within companies and financial market infrastructure.

Our goal is to create a culture of compliance across Australia's financial system, and the corporate sector more generally, by applying the right mix of education, enforcement and litigation.

IQ: Under your leadership, ASIC is pursuing a vision to become "a leading digitally enabled and data-informed regulator by 2030". What will this look like and what is the roadmap to achieving it?

JL: That's right. To support this vision, we have started a digital transformation programme. We received initial funding in the recent federal budget to commence a programme of work to boost our cyber security across our regulatory systems, which will set us on firm foundations for our digital uplift.

We will now move to implement these initiatives, including a new threat intelligence platform to improve information collection and real-time detection of internal and external cyber threats.

Last year, ASIC seized and reviewed 2.6 million documents as part of its investigations.

"Our goal is to create a culture of compliance across Australia's financial system, and the corporate sector more generally, by applying the right mix of education, enforcement and litigation"

The time taken to collect, process and sift through this volume of data to find the needle in the haystack and make the connections with other data sets we've previously collected is exceedingly labour-intensive, relying heavily on manual efforts from our investigators.

Bolstering our data and analytics capabilities through investment to create a unified view of entities, coupled with advanced analytics, would significantly expedite our ability to connect disparate data sets and accelerate the investigation process.

We know utilising innovative digital and data-driven approaches works. ASIC's approach to tackling investment scams with world-leading website takedown powers has seen us shutter about 5,000 scam websites since July 1, 2023, all to help protect consumers. This is work that has been recognised globally, with ASIC jointly leading a new anti-scams working group of regulators in Asia Pacific to tackle the issue in our region.

IQ: Global policymakers have been exploring perceived vulnerabilities in non-bank financial intermediation (NBFI) and considering measures to address leverage, liquidity, margin and transparency. How is ASIC participating in this work and what are the priorities?

JL: ASIC is involved in a range of work through our membership of the Council of Financial Regulators (CFR), which comprises ASIC, the Reserve Bank of Australia (RBA), the Australian Prudential Regulation Authority and the Treasury, and the International Organization of Securities Commissions (IOSCO).

ASIC also assists the RBA with work the Financial Stability Board (FSB) undertakes in this area, which involves each jurisdiction annually completing a survey about policy tools relating to the major types of non-bank entities. This work helps inform the analysis that is undertaken by the CFR about activity in the NBFI sector in Australia.

In April 2024, the RBA reported that risks to financial stability posed by the NBFI sector in Australia remain relatively contained given its comparatively small size (excluding superannuation) and its declining interconnectedness with the traditional banking sector. Lending by Australian non-banks remains small as a share of outstanding credit but has recently shifted towards riskier market segments and there is less detailed information about this lending than for lending carried out by prudentially regulated banks.

Given vulnerabilities in the NBFI sector can have implications for financial stability, the CFR will monitor evolving risks in the sector by improving visibility over domestic NBFI activities, including in commercial real estate and the growing use of over-the-counter derivatives.

Our work also intersects with ASIC's membership of IOSCO internationally in several areas. This includes the ⟶

"We have observed the enthusiasm for digital assets goes up and down over time, but my warning is very clear that retail investors must think twice before investing in crypto. Crypto assets are inherently risky and complex"

→ Financial Stability Engagement Group, which aims to enhance NBFI resilience to reduce excessive spikes in liquidity demand related to structural liquidity mismatches in open-ended funds and margining practices. It also includes the IOSCO Committee on Emerging Risks, which is undertaking analytical work to identify and assess emerging risks and vulnerabilities within the growing private finance sector. In addition, ASIC chairs the IOSCO Committee on Regulation of Market Intermediaries (Committee 3), which recently outlined 12 good practices designed to support participants in the leveraged loan and collateralised loan obligation markets. NBFIs play a large role in these markets and there are fewer and looser covenants on investor protections, less transparency and scope for potential conduct-related issues.

IQ: Australia is one of several countries to be updating its derivatives reporting rules, with similar updates having been implemented in the US, EU, Japan, the UK and Singapore. How confident are you that these updates will materially improve transparency in the global derivatives market? What more could be done?

JL: These updates will materially improve not just transparency in the global derivatives market but also the conformity and consistency of derivatives transaction data, which will ultimately improve its quality and useability.

In terms of further improvements, relatively minor implementation issues are being raised as each jurisdiction implements requirements for internationally consistent reporting standards, and regulators are collaborating internationally to find common approaches to resolving any residual issues.

I also know regulators are working to ensure data analytics and international data sharing arrangements are fit for purpose to facilitate the use of that improved derivatives transaction data.

IQ: Climate-related disclosure requirements will be introduced in Australia over the coming years. What role will ASIC play in the administration of climate disclosures, and how important is it that Australia's requirements are aligned with those in other jurisdictions? How serious an issue is greenwashing and what is ASIC doing to clamp down on this?

JL: The growing interest in environmental, social and governance (ESG) issues is driving the biggest changes to financial reporting and disclosure standards in a generation. This is a transformational issue for global markets and we need to be ready to meet that change at every step of its development. To do that, we must maintain high standards of governance and disclosure.

We think the introduction of the mandatory climate-related financial disclosure requirement regime will improve transparency and provide the information architecture to support the growth in sustainability-related products and services. This will facilitate the efficient allocation of capital.

We also want to minimise divergent climate reporting requirements between different jurisdictions. That's important for market efficiency, the competitiveness of Australian companies and to reduce the regulatory burden for reporting entities.

As with any new regime, we intend to take a pragmatic approach to supervision and enforcement, and we will develop guidance to help entities meet their obligations. There will obviously be a period of transition as the industry works to build the capability required to meet these new obligations as well.

In the meantime, I have been encouraged to see listed companies report voluntarily under the recommendations of the FSB's Taskforce on Climate-related Financial Disclosures. In my discussions with business leaders, I have also been encouraging them to start developing the necessary organisational and governance structures to support future reporting requirements, including any additional sustainability-related topics that may be introduced in future years.

While we prepare for these reforms, ASIC has been active under longstanding financial consumer protection laws in addressing greenwashing, particularly in relation to superannuation and investment products.

Greenwashing, for example, erodes trust in the market and can lead to the misallocation of capital. Combating greenwashing is therefore critical to supporting trust. ASIC's role is to help

shore up that trust by finding the right balance between guidance, surveillance and enforcement. We won our first greenwashing civil penalty action against Vanguard Investments earlier this year and have other active court cases involving greenwashing.

Just like the reporting standards under consideration, our focus on greenwashing is about ensuring transparent information and conduct, and enforcing what are long-standing and well-established legal obligations that prohibit misleading and deceptive conduct.

Sustainability-related claims, like any other information, must be founded on reasonable grounds. Equally, omitting material sustainability-related information – that is, greenhushing – can also be misleading and deceptive, depending on the nature and significance of the omission.

I would also say that a recent development in our greenwashing work is a focus on the governance around sustainable representations made to investors. This is a logical extension of our focus on whether sustainable representations are misleading or deceptive.

IQ: How is ASIC responding to the growth of private markets in Australia?

JL: ASIC's latest market cleanliness report has shown Australia's equity markets continue to operate with a high level of integrity and remain consistently among the cleanest in the world. This makes Australia an attractive destination for investment. Many forms of capital are available to grow Australian businesses, the economy and to fund important initiatives such as Australia's energy transition.

Private equity and private credit funds are an important source of funding for many Australian companies, especially businesses that have difficulty raising capital in public markets or accessing bank loans.

ASIC has been watching the rise of, and discussion about, the growth of private markets very closely. While Australia's private markets are dwarfed in size by our listed equity markets, their opacity presents an outsized risk to market integrity, particularly as more investors become exposed.

ASIC is putting private market participants on notice in recognition of the risks we can see. Our focus on private markets will form part of a new, fifth strategic priority for ASIC – to drive consistency and transparency across markets and products.

We are expanding our supervision of private equity and private credit funds, reflecting recent growth in this sector. We are establishing a dedicated private markets unit within ASIC, which will be out there speaking with private equity and credit firms, hedge funds and others to reinforce and test our expectations on governance, reporting and managing conflicts of interest.

Private markets are less transparent than public markets and present different risks for investors, including on liquidity, asset selection and valuations, leverage, performance reporting and fees. We will also review how managers of private finance funds protect confidential information and manage conflicts of interest in their businesses.

IQ: Retail investors in Australia have shown an appetite for digital assets, notably through exchange-traded funds. Does this trigger specific concerns for ASIC that might require regulatory monitoring or intervention?

JL: My consistent refrain on this issue has been that many crypto-asset products are financial products under the current law. As a result, the issuers – and any intermediaries and exchanges that trade in those crypto assets – need an Australian financial services licence.

The Australian government has also proposed a licensing regime for digital asset facilities to ensure most major forms of crypto-asset activities are regulated in Australia. We have observed the enthusiasm for digital assets goes up and down over time, but my warning is very clear that retail investors must think twice before investing in crypto. Crypto assets are inherently risky and complex.

As for crypto exchange-traded funds, they are regulated products and can be traded via stockbrokers and others, on ASX and CBOE in Australia. However, they are also very risky given their value depends on underlying assets that are volatile, like Bitcoin and Ethereum.

IQ: What role do you think artificial intelligence (AI) could play in the future of financial markets, and what guardrails are needed to manage the associated risks and avoid malicious use of AI?

JL: I believe effective AI tools may bring enormous benefits, but there is the potential for considerable harm. All participants in the financial system – including regulators – have a duty to balance innovation with the responsible and ethical use of emerging technologies.

We have been engaging with the industry, other agencies and international peers to monitor developments, identify risks and improve practices around its use. For example, we are reviewing the use of AI and advanced data analytics in a sample of entities in banking, credit, insurance and financial advice, and testing how licensees are identifying and mitigating potential consumer harms. We're hoping to report on those findings shortly.

We are also encouraging conversations on AI. In partnership with the University of Technology Sydney, we hosted an AI Regulators Symposium in May so we could have a critical conversation with experts from academia, business, industry and government on how AI is changing regulation, and the way regulators go about their work and identify the conditions necessary for effective regulation of AI.

There is clearly a question here about whether our current regulatory framework is enough to meet the speed of AI's growth. Businesses and individuals that develop and use AI are already subject to various Australian laws.

The current laws that ASIC administers, such as directors' duties and general licensing obligations, are technology neutral. This means they apply equally to outcomes delivered by AI and non-AI systems and processes, and those laws continue to protect consumers and investors. However, we must consider if the current laws can prevent potential harms caused by AI, even if they are sufficient to punish bad action.

For now, existing obligations on good governance and the provision of financial services don't change with new technology. IQ

A Commitment to Reporting

ISDA's Digital Regulatory Reporting initiative has shown it can be used by firms to implement changes to regulatory reporting requirements cost-effectively and accurately, reducing the risk of regulatory penalties. What's next for this initiative?

The regulatory reporting landscape continues to evolve at pace, with a raft of jurisdictional rule changes coming into force this year and next, emphasising the need for firms to adapt and innovate to meet tight regulatory compliance deadlines.

In all, five jurisdictions have amended their derivatives regulatory reporting rules in 2024 – Japan, the EU, the UK, Australia and Singapore – with Canada and Hong Kong set to make similar revisions in 2025. This follows changes to US Commodity Futures Trading Commission (CFTC) swap data reporting rules that came into effect in December 2022.

It is a critical period in the evolution of trade reporting. That is why ISDA has pledged to support 11 reporting rule sets in nine major jurisdictions through its Digital Regulatory Reporting (DRR) initiative. Moreover, the ISDA DRR will be updated as rules are modified in the future, avoiding the need for firms to reassemble teams and devote additional resources to further refine systems for every subsequent change.

"The rolling global regulatory rewrites require a high level of resourcing to implement. Resourcing means cost, so it results in a significant investment uplift for each rewrite," says Steven Cruise, head of business solutions for financial markets regulatory technology at Standard Chartered. "The continued increased focus from the regulators on data quality means there's an extremely high level of diligence you must apply to these upgrades to ensure your reporting quality is at the right level in terms of completeness and accuracy. It's an expensive exercise. That's why ISDA's commitment is hugely important, and that's why participation in the DRR is so key, as is continuing to build towards a critical mass of industry participation and adoption."

A common interpretation

For each rule set, the DRR takes as its foundation a common interpretation of the requirements that has been reviewed and agreed by an ISDA working group. It uses the Common Domain Model (CDM) – 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 then be used as the basis for implementing the rules or to validate that a firm's interpretation is aligned with the industry reading. Vendors can also implement the ISDA DRR as part of their reporting solutions and make them available to their customers.

This avoids the need for each firm or vendor to review and interpret every rule set individually and develop its own reporting logic from scratch, cutting down on time and costs associated with compliance and enabling resources to be reassigned to other projects.

"The benefit of the DRR is that firms can solve regulatory requirements in a mutualised

> "The rolling global regulatory rewrites require a high level of resourcing to implement. Resourcing means cost, so it results in a significant investment uplift for each rewrite"
>
> **Steven Cruise, Standard Chartered**

fashion. If you consider the actors involved in developing these regulatory requirements within each firm – business analysts, product owners, regulatory operations, compliance, technologists – and the significant amount of time spent across all those disciplines, there is scope for meaningful savings across the industry," says Cruise.

Importantly, establishing a golden-source interpretation that is reviewed and agreed by an industry committee increases the consistency and accuracy of reporting, reducing the potential for regulatory penalties due to incomplete or misreported data and delivering the transparency policymakers have long been seeking to achieve.

"There are ISDA working groups that will discuss anything that is contentious or open to interpretation within the regulations, come to a consensus as to the right approach and clarify with the regulator if necessary. That best practice feeds into the DRR, meaning adopters have it codified rather than having to take it away and understand how to apply it to their own reporting platform," adds Cruise.

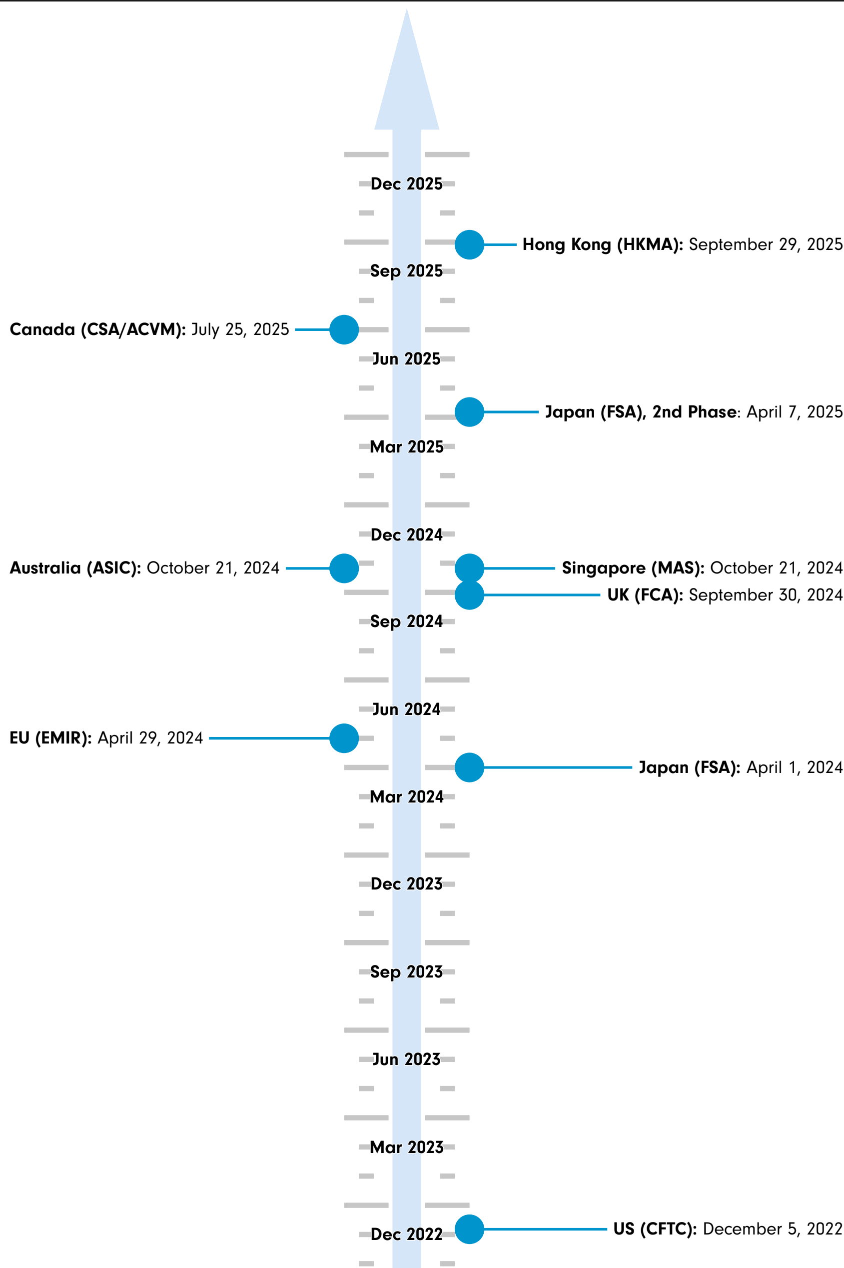
A global commitment

The first iteration of the ISDA DRR was launched in November 2022, ahead of an initial set of reporting rule changes introduced by the CFTC on December 5, 2022. The DRR has since been extended to cover amended rules in Japan, the EU and the UK, which came into effect on April 1, April 29 and September 30, 2024. It was also extended to cover amended reporting requirements in Australia and Singapore, which were introduced on October 21.

The DRR will be further extended to cover rule changes in Canada and Hong Kong, due for implementation in 2025. The DRR for those rules will be available well in advance of implementation, giving firms plenty of time to test and incorporate the code into their reporting processes.

All in all, ISDA has committed to supporting 11 reporting rule sets in nine jurisdictions: the US under CFTC rules, the EU under the European Market Infrastructure Regulation (EMIR) and Markets in Financial Instruments Regulation (MIFIR), the UK under UK EMIR and UK MIFIR, Japan, Australia, Singapore, Hong Kong, Canada and Switzerland. No dates have yet been set for revisions to derivatives reporting rules under EU and UK MIFIR or in Switzerland.

CONFIRMED IMPLEMENTATION DATES FOR REPORTING RULE AMENDMENTS



"So far, 2024 has been a significant year, with lots of jurisdictions going through regulatory rewrites. The next 12-18 months are all about coverage of these core jurisdictions – maintaining and ensuring they are up to date," says Andrew Bayley, senior director, data and reporting, at ISDA.

What's more, the rules in each of those core jurisdictions will be maintained and updated over time, ensuring any future changes will be covered well in advance of going live. For example, the CFTC is debating further revisions to its swap data reporting rules, and the ISDA DRR will be amended to reflect any resulting changes. These modifications will be implemented seamlessly for those firms using the DRR for CFTC reporting.

A further phase of revision is also expected in Japan, scheduled for April 7, 2025, so ISDA's commitment to support future updates is seen as an important element in broader adoption by the industry.

"ISDA's ongoing support to maintain the DRR is integral to its success. Incorporating future rule changes and guidance is critical to ensure industry participants are able to benefit from the rule interpretation and technical implementation. Regulations are →

"ISDA's ongoing support to maintain the DRR is integral to its success. Incorporating future rule changes and guidance is critical to ensure industry participants are able to benefit from the rule interpretation and technical implementation"

Ffion Acland, Goldman Sachs

→ constantly evolving, so the DRR would quickly become out of date without ongoing support," says Ffion Acland, global head of the global markets regulatory data models and governance team at Goldman Sachs.

EMIR reporting

The ISDA DRR has already shown that it does what it's supposed to – increase accuracy and reduce errors. According to the Depository Trust and Clearing Corporation, the proportion of successfully submitted reports during the first week of the revised EMIR reporting rules in the EU was roughly 75%, climbing to 96% after two months. In contrast, DRR users were able to report with close to complete accuracy from day one, reducing the risk of regulatory penalties for incorrect reporting.

Swiss-based investment company Pictet Group is one of the firms that uses the ISDA DRR for reporting under EU EMIR. According to Emmanuel Geinoz, market infrastructure and derivatives expert at Pictet Group, the initial implementation took some time to map internal trade data to the CDM, but that investment will pay dividends for future implementations. "Once you have done that, the DRR is cost effective and easy to implement," he says.

The revisions to reporting rules in multiple jurisdictions are intended to incorporate globally agreed data standards to improve the consistency of what is reported and the format in which it is submitted (see box). Once complete, global rules will be more aligned, but they won't be identical – variations will continue to exist, meaning firms cannot take the work completed for one location and directly apply it to another.

By using the ISDA DRR, reporting entities can cut the costs and burden of interpreting and implementing each set of rules themselves, and then repeating that work if the rules change in future. Instead, they can implement code that has been validated and tested by industry participants and will be updated as rules are amended, reducing time, effort and use of valuable internal resources.

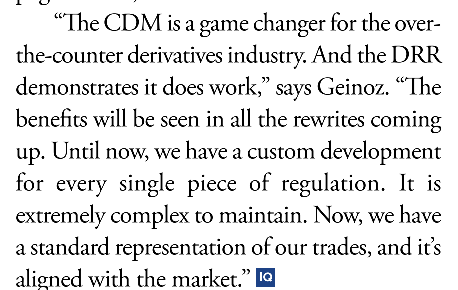
Adoption

With the DRR now live for six rule sets, a big focus for ISDA will be driving adoption across the globe.

"A large number of institutions have contributed to the consensus interpretation of each rule set, as well as developing and validating the DRR code, and the number of users is increasing. As other jurisdictions go live with their amendments, we believe more and more firms will recognise the benefits of adoption," says Eleanor Hsu, senior director, data and reporting and global programme lead for DRR at ISDA.

For Pictet's Geinoz, a key benefit is the standardisation the CDM brings to the market – something that can have much broader application across the industry (see pages 35-37).

"The CDM is a game changer for the over-the-counter derivatives industry. And the DRR demonstrates it does work," says Geinoz. "The benefits will be seen in all the rewrites coming up. Until now, we have a custom development for every single piece of regulation. It is extremely complex to maintain. Now, we have a standard representation of our trades, and it's aligned with the market." IQ



For more information on the ISDA DRR, visit the ISDA Solutions InfoHub: www.isda.org/isda-solutions-infohub/

A REGULATORY PUSH FOR REPORTING STANDARDS

The various revisions to reporting rules around the world are intended to incorporate globally agreed data standard to increase consistency in the definition and format of key derivatives data elements. The standards, developed by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions, include:

- Technical Guidance on the Harmonisation of the Unique Transaction Identifier, February 2017: www.bis.org/cpmi/publ/d158.pdf
- Technical Guidance on the Harmonisation of the Unique Product Identifier, September 2017: www.bis.org/cpmi/publ/d169.pdf
- Technical Guidance on the Harmonisation of Critical OTC Derivatives Data Elements (Other than UTI and UPI), April 2018: www.bis.org/cpmi/publ/d175.pdf

Paradigm Shift

With a renewed focus on bringing greater standardisation and automation to collateral management processes, market participants are applying the Common Domain Model to yield efficiencies

The posting of collateral is the cornerstone of regulatory efforts to mitigate counterparty credit risk and maintain the resilience of the financial system. Significant industry effort has been spent on complying with mandatory clearing and margining requirements for non-cleared derivatives, with many more entities now having to exchange collateral. But the underlying collateral management processes are not always fully automated and may require manual intervention – something that can lead to errors and delays, even during periods of relative calm. During stress events, the issues can quickly escalate, adding to the pressure on markets and increasing risk.

It's an issue that regulators have highlighted in their reviews of margin practices in the wake of recent stress events, including the March 2020 dash for cash and the UK gilt market crisis in September 2022. As margin calls spiked during those episodes of volatility, many firms were forced to sell assets or turn to repo markets to generate cash to post as collateral. Some had to draft in extra staff to manage the huge volume of margin calls and get collateral to where it needed to be. In the shadow of these market stresses and the fragilities they laid bare, there is widespread recognition by both regulators and market participants that greater automation and efficiency must be a priority.

"We've seen margin requirements and settlement volumes go through the roof in volatile markets and there has been a lot of pressure on firms to make sure they have the right tools in place. There is a big push towards greater data standardisation and automation to achieve straight-through processing, with less reconciliation and manual processing," says Malwina Wasowska-Azemi, business analyst at CloudMargin, a collateral management technology provider.

Common Domain Model

ISDA has been working with market participants and technology providers to bring about the change that is needed. Using the Common Domain Model (CDM) – an open-source data standard for financial products, trades and lifecycle events – firms are able to standardise and automate key processes. Several collateral management use cases have been developed, including the digitisation of key documents, streamlining of data onboarding, standardisation of eligible collateral terms and automation of cash collateral calculations and payment processes.

In June, ISDA announced that VERMEG, a technology provider for the banking and insurance sector, had integrated the CDM into its COLLINE collateral management system to support the consumption of digitised credit support annexes (CSAs).

Meanwhile, Ark 51, a document repository developed by legal services provider DRS, is using the CDM to extract key information from variation margin CSAs to feed into collateral systems. VERMEG and DRS are the first entities to put the CDM to work for collateral management, and both have plans to expand their use of the model. But they won't be the only ones – a number of other firms are exploring and testing the CDM to automate key parts of the collateral management process.

"Collateral management is an intertwined ecosystem, with counterparties, custodians, triparty providers and technology providers all playing an important role. We need to create a network effect to bring about real change. If we have a handful of technology providers using the model to deliver operational efficiencies and data interoperability to their clients, then

"We've seen margin requirements and settlement volumes go through the roof in volatile markets and there has been a lot of pressure on firms to make sure they have the right tools in place"

Malwina Wasowska-Azemi, CloudMargin

we will realise that network effect. The initial focus has been on two specific use cases – digital documentation and eligible collateral representation – but we have more use cases ready to roll out," says Amy Caruso, head of collateral initiatives at ISDA.

While there is still a long way to go to achieve lasting automation and efficiency in collateral management, many believe now is the time. With the introduction of mandatory clearing and the implementation of margin requirements for non-cleared derivatives, margin call volumes and collateral inventory demands have increased incrementally – and will continue to rise. Additional entities continue to come into scope as margin rules are rolled out in new jurisdictions, such as India, Mexico, and China.

"The priority for the industry over the past 15 years has been to respond to regulatory requirements. Now, we are transitioning to an era when market participants are thinking more proactively about addressing inefficiencies and bottlenecks. Recent stress events showed that collateral management is an area that needs improvement – data and operational inefficiencies didn't cause the market shocks, but those challenges didn't help either," says Caruso.

"We heard from our members about various issues and inefficiencies – for example, they might have had sufficient collateral available, but their various systems couldn't keep up with the spike in margin call volumes and the real-time interoperability demands of liquidity management. We need to enhance the consistency and standardisation of data so collateral can be managed more efficiently during periods of stress, especially across systems or siloes. Sourcing collateral from repo and securities lending desks needs to happen as close to real time as possible to reduce funding costs and operational strain," she adds.

Collateral management and liquidity preparedness have also made their way onto the radar of policymakers, as part of a wide-ranging review of margining practices that has been undertaken by international agencies. Speaking at an event hosted by ISDA in London on July 18, Nathanaël Benjamin, executive director, financial stability strategy and risk, at the Bank of England, highlighted the liquidity needs that arise from sharp margin calls during periods of stress.

"Enhancing market participants' liquidity preparedness to meet their collateral requests would go a long way towards reducing procyclical behaviours in response to large margin calls and preventing the liquidity crises that have amplified past financial shocks. This requires a high degree of transparency, effective stress testing and improvements to operational processes," said Benjamin.

Time to onboard a negotiated and executed CSA using the CDM

Seeds of change

While an immediate transformation in operational processes would be impossible to achieve, the CDM has created the opportunity to realise tangible change. Originally developed by ISDA, the model is now hosted by FINOS and jointly maintained by ISDA, the International Capital Market Association (ICMA) and the International Securities Lending Association (ISLA). That collaboration means the CDM is being used to bring greater standardisation and automation across derivatives, repo, securities lending and bond markets, creating opportunities that include improved efficiency of collateral management across products.

In derivatives markets, the CDM has been used as the foundation of ISDA's Digital Regulatory Reporting initiative (see pages 32-34), as well as for collateral management automation. ISDA recently published a start-up guide to help users learn more about the model and how it can be deployed. This has further spurred momentum among technology providers and other entities to explore and test the CDM.

For VERMEG, the CDM offered the opportunity to move away from the manual processing of initial margin (IM) CSAs through its COLLINE collateral management system. This means documents negotiated on digital platforms, such as ISDA Create, or negotiated traditionally but with digital output capabilities to the CDM, can now flow seamlessly through to COLLINE, significantly reducing the costs, errors and time associated with manual onboarding.

"Like any collateral management system, COLLINE is a big consumer of data, and we welcome any initiative to support standardisation or normalisation of data. We have our own data format that we always need to map to and format, which comes at a cost. By integrating the CDM, we have been able to reduce that cost and improve the efficiency of onboarding to COLLINE," says Wassel Dammak, head of collateral solutions strategy at VERMEG.

Dammak estimates it can take as much as two days to onboard a negotiated and executed CSA using manual data capture, but the CDM has the potential to reduce this to less than 30 minutes. Using the CDM has also opened the door to greater commonality between IT and business teams within those firms using COLLINE, he adds.

"When everyone is using the same language, it makes processes faster and cheaper and allows more tasks to be handled by machines, which presents new opportunities. We've seen a lot of interest from our clients in how they can use the CDM to create further efficiencies. This is about changing the paradigm, moving from PDFs and paper to automated systems," Dammak explains.

While the initial application of the CDM to IM CSAs has been available to COLLINE users for several months, VERMEG is now exploring the extension to eligible collateral schedules (ECS) and other types of agreements.

"Our clients are looking to create efficiencies across the value chain in collateral management, and the start of the chain is the negotiation and execution of CSAs, so this was the natural starting point for us. Now we're looking at other areas, such as ECS, Global Master Repurchase

Agreements and Global Master Securities Lending Agreements," says Dammak.

Collateral representation

Beyond digital documentation, ISDA has also prioritised the representation of eligible collateral as a CDM use case. One of the key challenges is that every entity has its own conventions when referring to an asset that is posted as collateral, which inevitably leads to inconsistencies and inefficiencies in collateral management, as well as possible collateral valuation disputes.

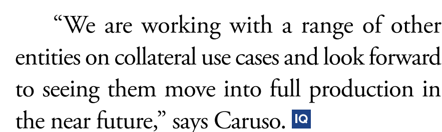
"There is no reason why one entity's ECS should describe a three-year Treasury any differently to another's, but that is the reality we have all come to accept. If we can use the CDM to help firms map data more consistently across all collateralised products – collaborating with ICMA and ISLA when it comes to repo and securities lending ECSs too – then that will improve interoperability and create greater consistency in collateral inventories and liquidity management," says Caruso.

Collateral representation has been an area of focus for CloudMargin. The goal is to transform the data it receives from clients into a CDM format, enabling collateral eligibility data to be extracted in the same consistent format for use in its own systems.

"Eligibility has not become any less complex. We need to be able to support both the very vanilla terms and the most complex of eligibility terms. There is a large number of fields and combinations of those fields that can exist within an ECS, so it made sense for us to focus our standardisation efforts here," says Wasowska-Azemi.

> "We've seen a lot of interest from our clients in how they can use the CDM to create further efficiencies. This is about changing the paradigm, moving from PDFs and paper to automated systems"
>
> **Wassel Dammak, VERMEG**

Along with document digitisation and collateral representation, other CDM use cases include automation of cash collateral calculation and payment processes, streamlining margin call and collateral inventory data and improving the automation of portfolio reconciliation and dispute resolution via interoperability of reconciliation data – changes that will bring greater operational efficiency and improved liquidity management.



"We are working with a range of other entities on collateral use cases and look forward to seeing them move into full production in the near future," says Caruso. IQ

Access the CDM Collateral Start-up Guide and other relevant materials: tinyurl.com/2wyjv9bu

To schedule an introduction to CDM-Collateral, contact: collateralinitiatives@isda.org

DerivatiViews on ISDA.org!

*ISDA Chief Executive Officer **Scott O'Malia** offers informal comments on important OTC derivatives issues in derivatiViews, reflecting ISDA's long-held commitment to making the market safer and more efficient.*

Visit: https://www.isda.org/category/news/derivativiews/

ISDA® Safe, Efficient Markets

MISSION STATEMENT

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.

THE PREEMINENT VOICE OF THE GLOBAL DERIVATIVES MARKETPLACE

Representing the industry through public policy engagement, education and communication

AN ADVOCATE FOR EFFECTIVE RISK AND CAPITAL MANAGEMENT

Enhancing counterparty and market risk practices and ensuring a prudent and consistent regulatory capital and margin framework

THE SOURCE FOR GLOBAL INDUSTRY STANDARDS IN DOCUMENTATION

Developing standardized documentation globally to promote legal certainty and maximize risk reduction

A STRONG PROPONENT FOR A SAFE, EFFICIENT MARKET INFRASTRUCTURE FOR DERIVATIVES TRADING, CLEARING AND REPORTING

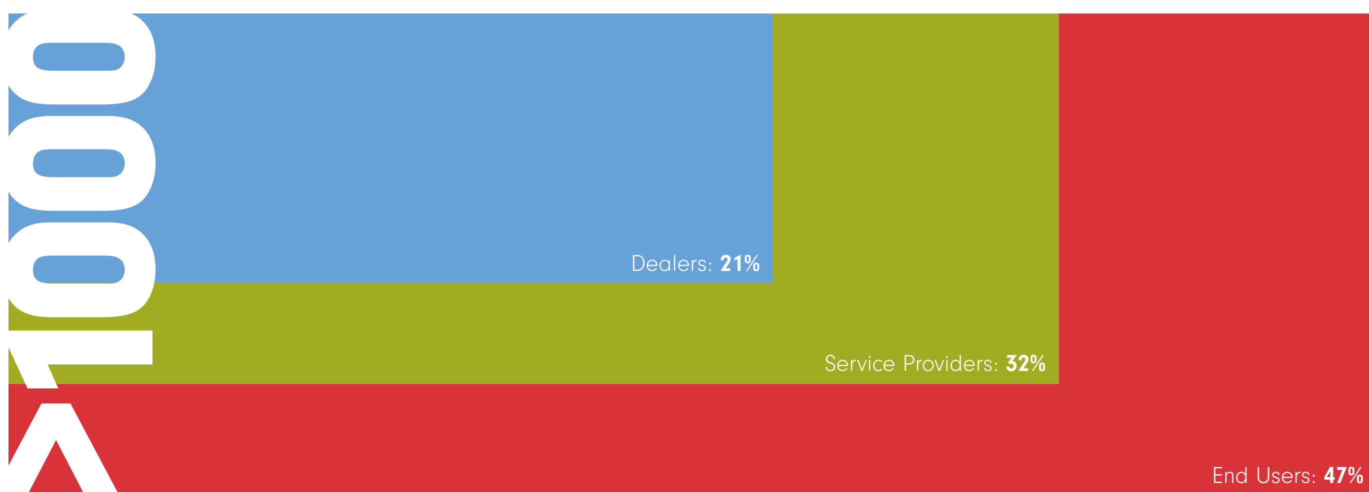
Advancing practices related to trading, clearing, reporting and processing of transactions in order to enhance the safety, liquidity and transparency of global derivatives markets

www.isda.org

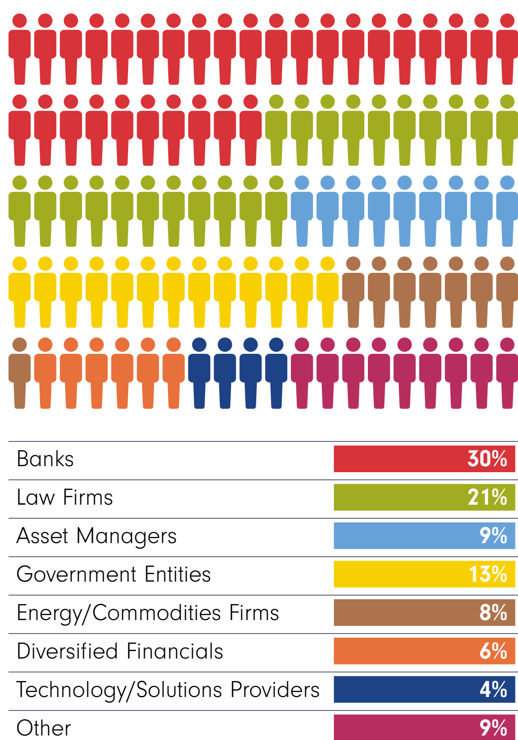
MEMBERSHIP INFORMATION

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.

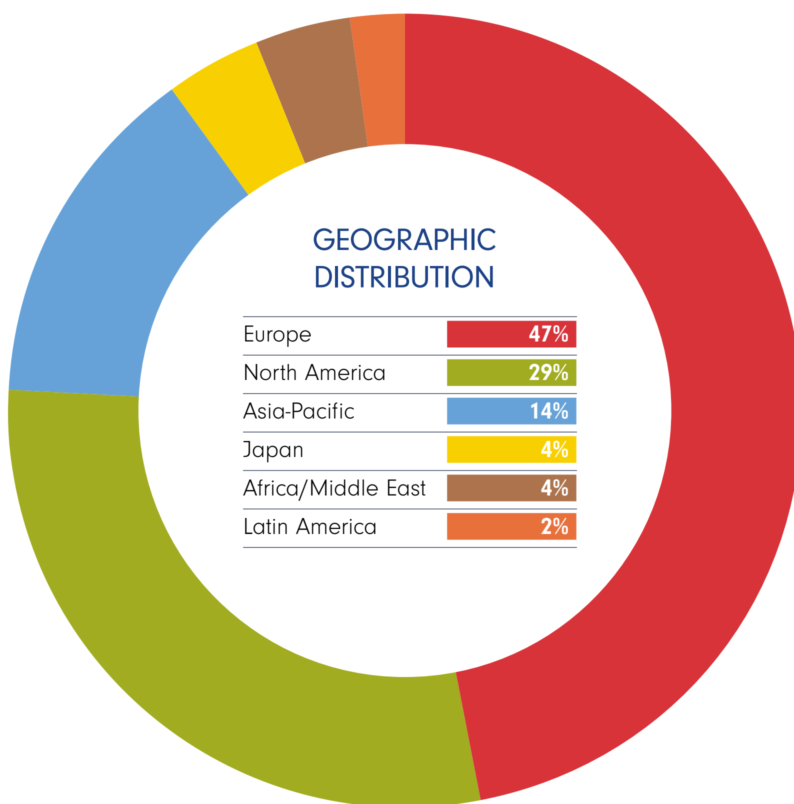
MEMBERSHIP BREAKDOWN



TYPES OF MEMBERS



Type	%
Banks	30%
Law Firms	21%
Asset Managers	9%
Government Entities	13%
Energy/Commodities Firms	8%
Diversified Financials	6%
Technology/Solutions Providers	4%
Other	9%



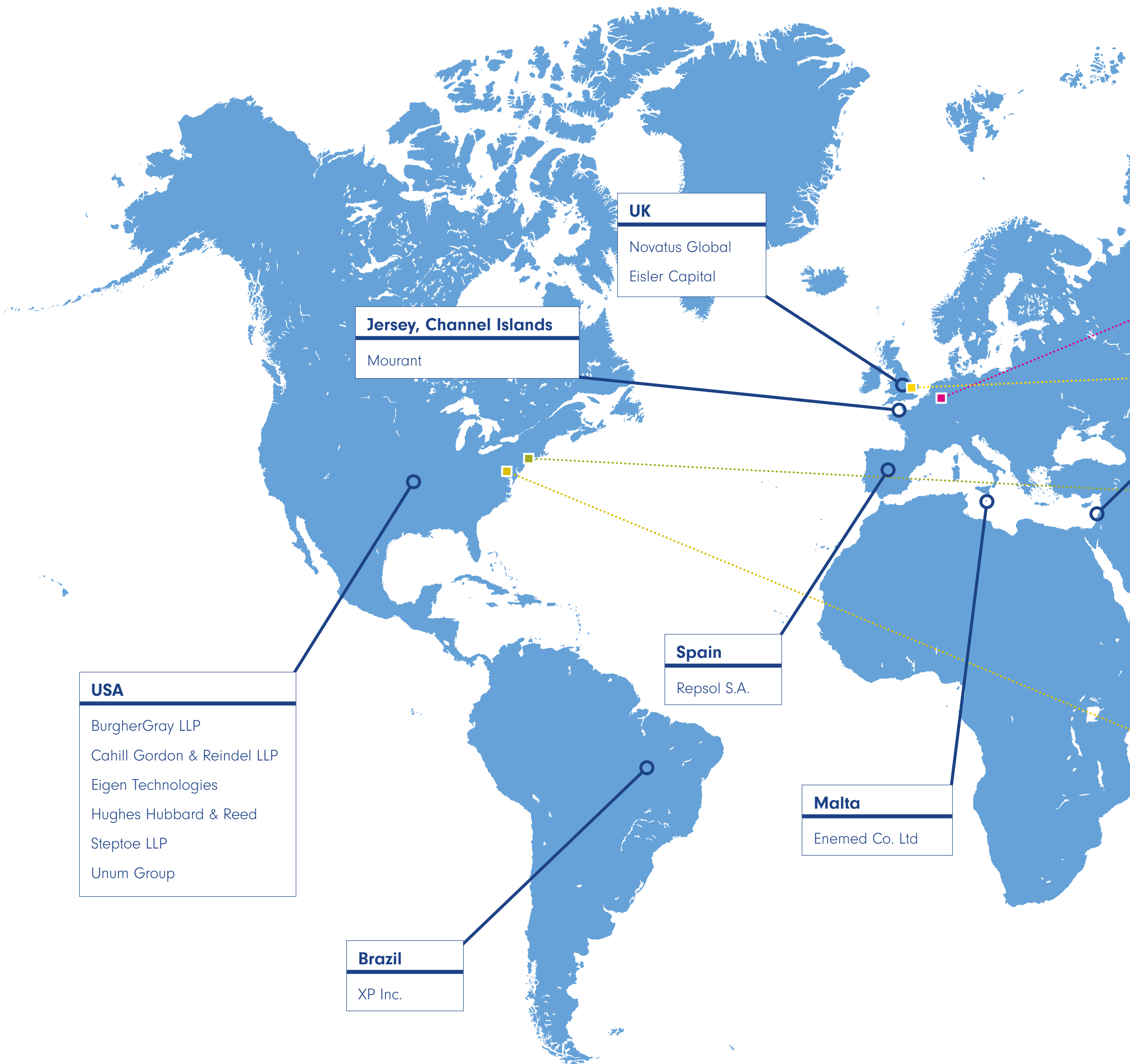
GEOGRAPHIC DISTRIBUTION

Region	%
Europe	47%
North America	29%
Asia-Pacific	14%
Japan	4%
Africa/Middle East	4%
Latin America	2%

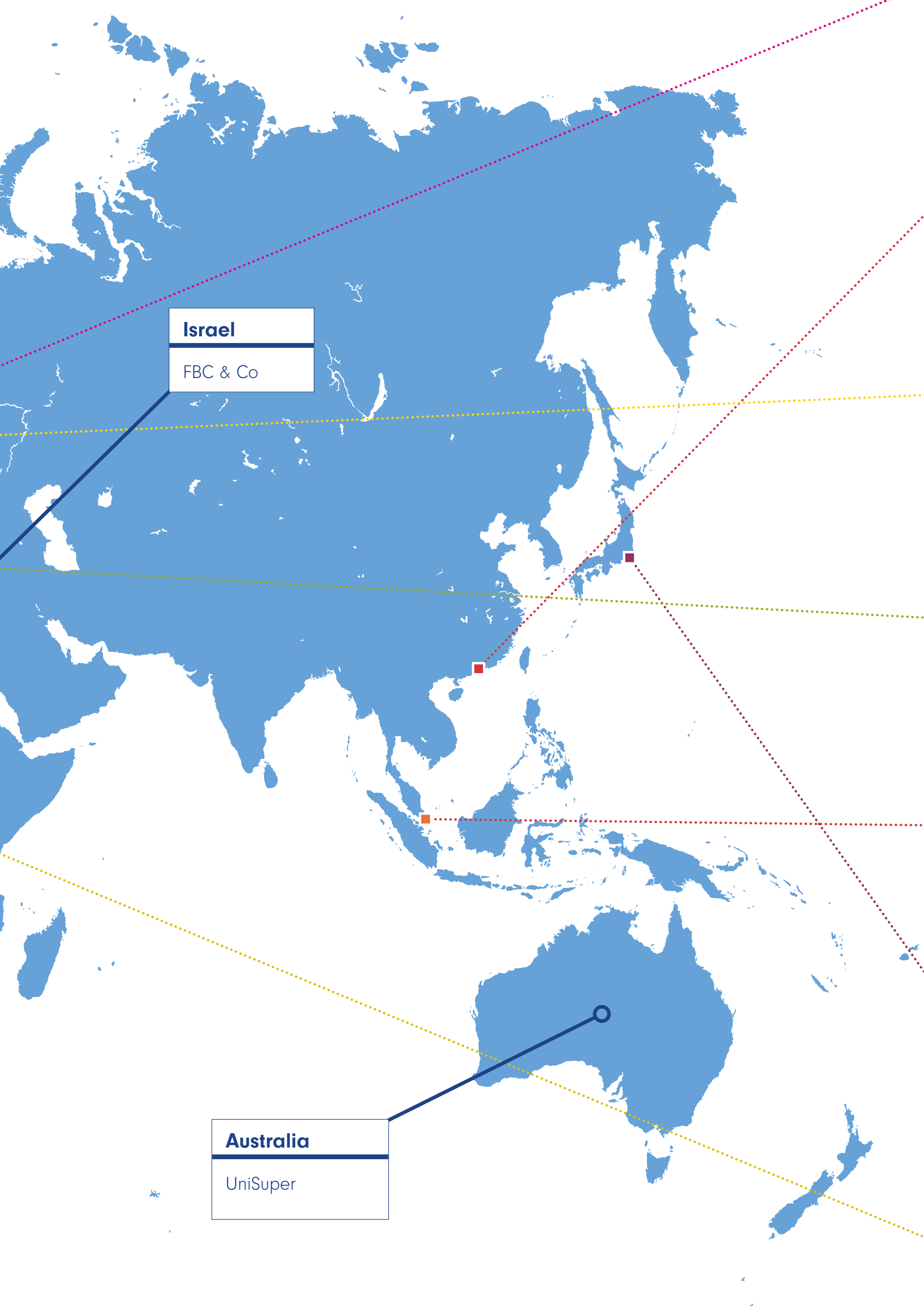
Additional information regarding ISDA's member types and benefits, as well as a complete ISDA membership list, is available on the ISDA Membership Portal: https://membership.isda.org/

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



Portal at **https://membership.isda.org/**

OFFICE LOCATIONS

BRUSSELS

2nd floor, Square de Meeûs 5/6
1000 Brussels
Belgium
Phone: 32 (0) 2 808 8013
isdaeurope@isda.org

HONG KONG

Suite 1602, 16th Floor, China Building
29 Queen's Road Central
Central, Hong Kong
Phone: 852 2200 5900
Fax: 852 2840 0105
isdaap@isda.org

LONDON

25 Copthall Avenue, 3rd Floor
London EC2R 7BP
United Kingdon
Phone: 44 (0) 20 3808 9700
Fax: 44 (0) 20 3808 9755
isdaeurope@isda.org

NEW YORK

10 East 53rd Street, 9th Floor
New York, NY 10022
Phone: 1 212 901 6000
Fax: 1 212 901 6001
isda@isda.org

SINGAPORE

One Raffles Quay
North Tower, #49-51A
Singapore 048583
Phone: 65 6653 4170
isdaap@isda.org

TOKYO

Otemachi Nomura Building, 21st Floor
2-1-1 Otemachi
Chiyoda-ku, Tokyo 100-0004
Phone: 813 5200 3301
Fax: 813 5200 3302
isdajp@isda.org

WASHINGTON

600 13th Street, NW, Suite 320
Washington, DC 20005
Phone: 1 202 683 9330
Fax: 1 202 683 9329
isda@isda.org

BOARD OF DIRECTORS

OFFICERS

Eric Litvack, Chairman
Managing Director, Group Director of Public Affairs
Société Générale

Axel van Nederveen, Vice Chairman
Managing Director, Treasurer
European Bank for Reconstruction and Development (EBRD)

Jack Hattem, Secretary
Managing Director, Global Fixed Income
BlackRock

Darcy Bradbury, Treasurer
Managing Director
D. E. Shaw & Co., L.P.

DIRECTORS

Charlotte Brette
General Counsel
AXA Investment Managers

Sebastian 'Benny' Crapanzano II
Managing Director and Global Head of Fixed Income Business Unit Risk Management
Morgan Stanley

Christine Cremel
Managing Director, Head of Onboarding, Transaction Management & Clearing
Credit Agricole CIB

Isabelle Girolami
Chief Executive Officer
LCH Ltd

Kieran Higgins
Head of Fixed Income Financing, Senior Manager G10 Rates, LM Rates and Markets Treasury
Citigroup

Amy Hong
Head of Market Structure and Strategic Partnerships
Goldman Sachs & Co. LLC

Sian Hurrell
Global Head of Sales and Relationship Management and Head of Global Markets Europe
RBC Capital Markets

Yoji Imafuku
Managing Director, Deputy President of Mizuho International plc, Head of Business Strategy, Mizuho EMEA
Mizuho Securities Co., Ltd.

Gesa Johannsen
Head of International Clearance & Collateral Management Business
BNY Mellon

Jeroen Krens
Managing Director, COO, Markets & Securities Services
HSBC Bank Plc.

Erik Tim Mueller
Chief Executive Officer
Eurex Clearing AG

ISDA EXECUTIVES

LEADERSHIP TEAM

Scott O'Malia
Chief Executive Officer

Katherine Tew Darras
General Counsel

Huzefa Deesawala
Chief Financial Officer

Mark Gheerbrant
Global Head of Risk and Capital

Steven Kennedy
Global Head of Public Policy

Tara Kruse
Global Head, Derivative Products & Infrastructure

Nick Sawyer
Global Head of Communications & Strategy

Lorraine Sneddon
Global Head of Human Resources

SENIOR EXECUTIVES

Clive Ansell
Head of Derivative Products & Infrastructure

Ann Battle
Senior Counsel, Market Transitions

Amy Caruso
Head of Collateral Initiatives

Monica Chiu
Senior Counsel, Asia Pacific

Roger Cogan
Head of European Public Policy

Panayiotis Dionysopoulos
Head of Capital

Lisa Galletta
Head of US Prudential Risk

Benoît Gourisse
Head of Public Policy, Asia Pacific

Jing Gu
Head of Asia, Legal

Perrine Herrenschmidt
Head of Brussels Office, European Public Policy

Andrew Ng
Group Executive & Group Head of Global Financial Markets
DBS Bank

Jared Noering
Managing Director, Head of Fixed Income Trading
NatWest Markets

Shigeru Nonomura
Managing Director, Global Markets Japan
Nomura Securities Co., Ltd.

Scott O'Malia
Chief Executive Officer
ISDA

Emmanuel Ramambason
Global Head of Resource Management and Optimization (RMO), Financial Markets at Standard Chartered Bank and Financial Markets Head of Standard Chartered Bank AG
Standard Chartered Bank

Duncan Rodgers
Head of ALM Strategy and Regional Treasury UK & FFT
UBS AG

Joanne Rowe
Corporate Risk Officer
Intercontinental Exchange, Inc.

Marc Seidner
Managing Director, Chief Investment Officer
PIMCO

Michael Stanley
Chief Investment Officer
Bank of America

Niamh Staunton
SVP Finance, Trading and Shipping
bp plc

Brad Tully
Managing Director and Global Head of Corporate Derivatives and Private Side Sales
J.P. Morgan

Esra Turk
Co-Head of EMEA Institutional Client Group, Co-Head of LATAM Investment Bank Coverage, Co-Head of Global Emerging Market Sales
Deutsche Bank AG, London

Jan Mark van Mill
Managing Director of Multi Asset
APG Asset Management

Jacques Vigner
Chief Strategic Oversight Officer for Global Markets
BNP Paribas

Tyler Wellensiek
Managing Director, Global Head of Rates Market Structure and Business Strategy
Barclays

Seslee Howell
Head of Conference Operations & Technology

Marisa Irurre Bauer
Head of Conferences

Igor Kaplun
Head of Cyber Security

Ulrich Karl
Head of Clearing Services

Shafqat Malhi
Senior Controller

Jonathan Martin
Head of Derivative Products Management

Olivier Miart
Co-Head of Digital Transformation

Dillon Miller
Chief Technology Officer

Tomoko Morita
Senior Director and Head of Tokyo Office

Mark New
Co-Head of Digital Transformation and Senior Counsel

Nnamdi Okaeme
Head of SIMM

Fred Quenzer
Senior Counsel, Americas

Paola Rensi
Head of Capital Models Benchmarking

Olga Roman
Head of Research

Bella Rozenberg
Senior Counsel & Head of Regulatory and Legal Practice Group

Rick Sandilands
Senior Counsel, Europe

Fiona Taylor
Head of UK Public Policy

Peter Werner
Senior Counsel (Legal Infrastructure and Law Reform)

Chris Young
Head of US Public Policy

Liz Zazzera
Head of Membership

"The US Treasury market has had repeated jitters and fragilities. It's too important a market to leave as it is, with so much risk outside of regulated clearing houses in largely unregulated interdealer brokers acting as central nodes in the system"

Gary Gensler, US Securities and Exchange Commission

©2024 International Swaps and Derivatives Association, Inc.