

NEWS RELEASE  
For Immediate Release

## **ISDA Interest Rate Derivatives Market Analysis: 67% of Notional Cleared; Compression Reduces Market Size by 62%**

**NEW YORK, January 21, 2016** – Clearing and portfolio compression are having an increasingly significant effect on the interest rate derivatives (IRD) market, with more than two-thirds of IRD notional outstanding now cleared and compression reducing the size of the market by approximately 62%, according to new research published today by the International Swaps and Derivatives Association, Inc. (ISDA).

An estimated 67.1% of total IRD notional outstanding was cleared at end-June 2015, reflecting a rise in the use of clearing houses in recent years – in response to clearing mandates for certain products in some jurisdictions, but also due to risk, capital and operational efficiency reasons. This compares to 21% at year-end 2008. According to ISDA estimates, 95% of the IRD notional outstanding that can be cleared is now cleared.

Use of compression services has also increased rapidly, driven by the rollout of new capital requirements, such as the Basel III leverage ratio, and innovations in compression technology. The IRD market, as measured by notional and adjusted for the impact of clearing, would be 162% larger without any compression activity.

“Clearing and compression have become well established in the interest rate derivatives market, in part because of regulatory and capital requirements, but also because of the risk management and operational benefits these services provide,” said Scott O’Malia, ISDA’s Chief Executive Officer. “We expect cleared and compressed volumes to continue to increase, although a portion of the IRD market will always be non-cleared, reflecting the fact that some products are not suitable for clearing and some counterparties are exempt from clearing mandates.”

The ISDA research shows that the strong growth in clearing and compression is having an impact on publicly reported IRD notional outstanding figures, such as those published by the Bank for International Settlements (BIS). Clearing acts to increase reported notional outstanding, as a single bilateral transaction is counted as two cleared trades once novated to a central counterparty (CCP). In contrast, compression reduces notional outstanding by cancelling offsetting trades, which can make it seem like fewer transactions are taking place. The BIS figures are reported after compression, but are not adjusted for the double counting of cleared trades.

After factoring out these effects, the research finds that underlying IRD market activity (before clearing and compression, measured as total notional outstanding) increased by 4.7% between December 2014 and June 2015. However, a strong increase in compression activity has resulted in a decline in the publicly reported notional outstanding data over the same period.

**-more-**

Highlights from the report include

- An estimated 67.1% of IRD notional outstanding was cleared at end-June 2015. This proportion has fallen slightly from a high of 72.0% six months earlier due to an increase in CCP portfolio compression activity.
- Roughly 95% of clearable IRD notional outstanding is currently cleared.
- The BIS reported a decrease of 14.0% in IRD notional outstanding in the six months to June 30, 2015, from \$505.4 trillion to \$434.7 trillion.
- Adjusting for the effects of clearing and compression, underlying IRD notional outstanding increased by 4.7% over the same period.
- Overall IRD notional has been reduced by roughly 62% as a result of portfolio compression.

The full *ISDA Derivatives Market Analysis: Interest Rate Derivatives* is available on the [Research section of ISDA's website under 'Research Notes'](#).

**For Press Queries, Please Contact:**

Lauren Dobbs, ISDA New York, +1 212 901 6019, [ldobbs@isda.org](mailto:ldobbs@isda.org)

Nick Sawyer, ISDA London, +44 203 088 3586, [nsawyer@isda.org](mailto:nsawyer@isda.org)

Donna Chan, ISDA Hong Kong, +852 2200 5906, [dchan@isda.org](mailto:dchan@isda.org)

**About ISDA Derivatives Market Analysis: Interest Rate Derivatives**

The report uses data from the BIS, the Depository Trust & Clearing Corporation (DTCC), LCH.Clearnet's SwapClear, CME Group, Japan Securities Clearing Corporation and TriOptima. The research uncovers key trends in the IRD market by analyzing the impact of central clearing and portfolio compression. By adjusting BIS notional outstanding figures, the report provides an estimated metric that reflects changes in the size of the IRD space before compression and clearing occur.

**About ISDA**

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 850 member institutions from 68 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. Information about ISDA and its activities is available on the Association's website: [www.isda.org](http://www.isda.org).

ISDA® is a registered trademark of the International Swaps and Derivatives Association, Inc.

You are receiving this email as notification of an ISDA Press Release distribution. If you no longer wish to receive these emails please contact [press@isda.org](mailto:press@isda.org).