

**ISDA & The Centre for Financial Technology:
Challenges and Opportunities of Digital Transformation
January 29, 2025
Opening Remarks
Scott O' Malia, ISDA Chief Executive**

Good morning and thank you for joining us today for our event on the challenges and opportunities of digital transformation. A big thank you to our sponsors, Clifford Chance and RBC Capital Markets, and a special thank you to our co-host, Imperial College Business School's Centre for Financial Technology.

In many respects, technology has transformed the financial sector. From payments to quantitative trading, financial institutions have made use of cutting-edge technology to make things easier, faster, safer and more accurate. That's had an impact on all of us. The chances are you used your phone or contactless card to tap in and out of the train station this morning or to buy a coffee. In fact, cash now makes up less than 20% of all payments in the UK. Technology isn't just reshaping finance – it's woven into the fabric of our everyday lives.

But if we look beyond these customer-facing solutions, the story isn't quite so transformative. Progress behind the scenes has been far less marked, and that's where the real challenge lies.

In my remarks this morning, I'll briefly highlight the areas that we think are ripe for digitization and the advantages this can bring – as well as the challenges involved. I'll then describe the steps ISDA has taken to bring greater standardization, optimization and automation to parts of the derivatives market, with the aim of cutting costs, enhancing revenues and reducing risk.

Manual processes

According to a 2024 report on the future of finance by Boston Consulting Group (BCG), banks are spending more on IT as a share of revenue than most other industries. But much of that is directed at maintaining complex, legacy systems and complying with regulatory requirements. Only a small portion is actually targeted at innovation and modernization, with the banking sector lagging other industries in investing in new capabilities at scale.

The result is a lack of interoperation across legacy platforms and continued reliance on manual processes in back-end systems that leads to inefficiencies, higher costs, mistakes and greater risk. The derivatives market is no exception. For example, the legal and regulatory provisions of a derivatives contract are typically negotiated with multiple drafts of paper documents or PDFs. This process sucks up substantial resources and delays the start of business with a new customer. Key information must be manually copied from these documents into internal systems, which can lead to errors. And in times of market stress, firms need to search hundreds of pages of

documents to determine their rights and obligations. In volatile, fast-moving markets, delays cost money and increase risk.

We have to do better. BCG recommends that banks design a drastically simplified business strategy that is supported by a modern platform operating model, a bold deployment of front-to-back digitization and a comprehensive re-imagining of functions leveraging artificial intelligence (AI) and generative AI. Without this, banks will struggle to reduce costs and deliver value to investors.

Of course, that's easier said than done. Overhauling legacy systems is hard, it's expensive and it takes time. There aren't any shortcuts to doing this right. But we think the cost and efficiency benefits more than make it worthwhile.

At ISDA, we've taken a very targeted approach, focusing on areas in which derivatives market participants share common problems and can get the biggest bang for their buck. And our starting point is always the same – to develop industry-wide standards as the foundation of any solution.

For the remaining part of my remarks, I'd like to highlight some of the areas we're focused on and the benefits digitization can bring.

Digital solutions

Over time, each firm has established its own unique set of descriptions for events and processes that occur during the life of a trade. There's simply no commercial advantage to organizations maintaining their own terminologies and data standards, as it results in firms having to continually reconcile their trades to make sure they have the same information – a big drain on resources.

That's why we developed the Common Domain Model, or CDM – an open-source data standard for financial products, trades and lifecycle events.

This has formed the basis of our Digital Regulatory Reporting (DRR) initiative, which significantly reduces the time, resources and cost needed to implement reporting regulations in multiple jurisdictions.

Over the past 12 months alone, five jurisdictions have amended their regulatory reporting rules, with more to follow this year, including Canada and Hong Kong. Each set of rules needs to be interpreted and then implemented – a huge amount of work for each individual firm to do on its own.

The ISDA DRR addresses this by taking a common interpretation of each set of requirements that has been reviewed and agreed by an industry working group. The CDM is then used to convert that industry interpretation into unambiguous, machine-executable code. That code can be used as the basis for implementing the rules or to validate that a firm's interpretation is aligned with the industry reading.

This not only helps firms reduce implementation and maintenance costs – using a common interpretation of the rules brings greater accuracy and consistency to the reporting process, reducing the risk of non-compliance and the potential for regulatory penalties caused by incomplete or misreported data.

I'm pleased to say that ISDA has committed to support 11 reporting rule sets in nine major jurisdictions through the DRR. As importantly, the DRR will evolve as rules are further modified in the future, avoiding the need for firms to reassemble teams to overhaul their systems every time changes occur. It's about building a smarter, more resilient system that works for the long term.

Let me turn to another area where ISDA has used technology to bring efficiencies to derivatives market processes. I mentioned earlier the example of resource-intensive, paper-based negotiations of derivatives contracts.

In response, ISDA has been working to digitize the documentation process. For example, the ISDA MyLibrary platform now hosts over 160 derivatives documents and document versions in digital form, giving users the ability to access and navigate commonly used agreements in one place. A sophisticated search function also allows users to easily find key provisions in their contracts, improving efficiency and reducing risk at times when key contractual terms need to be identified swiftly.

Combined with ISDA Create – a digital platform for the negotiation and execution of derivatives contracts that captures and stores the resulting legal data – firms can access the specific details of their negotiated trades within a few clicks of a mouse, giving them a complete picture of their exposures. Available through S&P Global Market Intelligence's Counterparty Manager platform, ISDA Create brings huge improvements to the speed and efficiency of negotiations, enabling firms to start trading with new counterparties at a quicker pace.

We're now preparing to launch our latest offering – the ISDA Notices Hub. This responds to challenges that exist with the physical delivery of critical termination-related notices – an essential part of the risk management process when a counterparty fails to pay or enters into default.

Under the ISDA Master Agreement, these notices must be delivered by certain prescribed methods using the counterparty's address as listed in the agreement. This has long been problematic if firms have moved offices without updating the address details in their documentation. But more recent issues emerged during the pandemic lockdowns, making it extremely difficult to deliver or receive notices. This is a big problem – uncertainty over the delivery of notices can have serious economic consequences, with losses running to millions or even hundreds of millions of dollars.

The ISDA Notices Hub is an online platform that will enable the instantaneous delivery and receipt of termination notices, eliminating risk exposures and potential losses that can result from delays in terminating derivatives contracts. It will also maintain a golden source of updated

address details for those counterparty relationships where physical delivery of notices will continue.

We've obtained strong industry support for the Notices Hub and plan to launch in the middle of this year on S&P Global Market Intelligence's Counterparty Manager platform, so watch this space.

These are just a handful of our digital solutions, and I encourage you to visit our Solutions InfoHub on the ISDA website to learn more.

The path of digital transformation is rarely a straight line. As I've mentioned today, there are plenty of challenges ahead. But with those challenges come immense opportunities. For those firms that prepare effectively, a future defined by greater standardization, automation and efficiency is within reach. ISDA's commitment to digital initiatives serves as a clear example of how technology can be harnessed to meet these challenges head on, positioning firms to navigate whatever disruptions or complexities the market may bring.

Thank you.