December 1, 2020

Dear Member,

This has been a truly unique and challenging year, with all of us having to adapt to living and working in the midst of a global pandemic. Despite these challenges, and thanks to the continued dedication and contributions of our staff and member firms, we were able to achieve some big wins on benchmark reform, margin requirements and capital rules. As we head into 2021, we are well set to deliver new industry solutions to help drive greater efficiency in derivatives markets.

Not surprisingly, the **coronavirus** outbreak was a key priority for ISDA members for much of the year. As the virus evolved into a global pandemic in March, we acted quickly to provide guidance on the small number of market closure events that occurred, and sent a clear message to global policy-makers on the importance of keeping markets open, as well as providing continued access to US dollars. As the difficulties of working in a pandemic became clear, we engaged with regulators to secure relief on impending implementation dates and comment files, resulting in one-year deferrals of the final Basel III requirements and phases five and six of the initial margin (IM) requirements for non-cleared derivatives – vital changes that enabled firms to focus on business continuity and risk management.

While derivatives markets and infrastructure continued to function throughout the crisis, ISDA has looked closely at whether any lessons can be learned, resulting in a full analysis of the performance of the ISDA Standard Initial Margin Model during the coronavirus-related volatility, a review of the resilience of market infrastructures, and a study into the procyclicality of the regulatory capital framework.

Despite quickly pivoting to address these critical issues, ISDA has continued to focus on pre-existing priorities – notably, **benchmark reform**. In October, ISDA launched the IBOR Fallbacks Supplement and IBOR Fallbacks Protocol, enabling market participants to incorporate robust fallbacks into new and existing derivatives trades from the effective date of January 25, 2021. Four years in the making, the launch marked a major step in reducing the systemic impact of a key interbank offered rate (IBOR) becoming unavailable. At time of writing, more than 1,200 buy- and sell-side entities across the globe had adhered to the protocol, demonstrating the broad support across the industry.

As we approach the end-of-2021 deadline set by regulators, ISDA will continue to support the industry with standards, documentation, educational materials and virtual events to enable a smooth transition from LIBOR and other IBORs.

The pandemic has also not disrupted our various initiatives to drive greater efficiency and automation in derivatives markets – in fact, it has acted as a further catalyst for that work. Central to that effort has been the development of standards to enable the **digitization** of documentation and automation of post-trade operations.

Earlier this year, we published a letter that set out a series of principles and objectives necessary to achieve a digital future in financial markets, and we've taken important steps to drive that forward, including the launch of the ISDA Clause Library (a new drafting tool intended to introduce greater standardization in how firms negotiate and agree clauses within their ISDA documentation) and the extension of ISDA Create to allow online negotiation of a wider universe of legal agreements on top of critical regulatory IM documentation.

ISDA Safe, Efficient Markets

Work has continued on the Common Domain Model (CDM), which establishes a standard digital representation of events and processes that occur during the lifecycle of a trade, and we announced that the International Securities and Lending Association would work to model and code specific securities financing transaction (SFT) components for inclusion in the CDM. ISDA also won the regulatory reporting category in the G-20 TechSprint for using the CDM to develop a pilot tool to meet derivatives reporting regulations. We are working on several other exciting initiatives and collaborations in 2021.

This focus on creating **efficiency** through mutualized solutions exists across the organization, from the launch of ISDA benchmarking of standardized approaches for market risk, counterparty credit risk and credit valuation adjustment risk, to our focus on driving consistent best practice and improving operational processes to cut costs in the collateral management space. This drive for efficiency will continue to be a key priority into 2021 – for example, through the launch of the 2021 ISDA Interest Rate Derivatives Definitions, which will be accessible to users digitally for the first time.

Next year will bring additional challenges and opportunities, including rollout of phase five of the regulatory initial margin requirements in September and development of local rules to implement the final Basel III measures, including the Fundamental Review of the Trading Book. ISDA will continue to support industry implementation with fact-based advocacy, quantitative analysis and mutualized solutions.

Next year will also see increased focus on environmental, social and governance (ESG) issues, the impact of Brexit and engagement with the new administration in the US. On ESG, we are focusing on a variety of areas, including the promotion of consistent standards. On Brexit and broader global coordination, we will continue to advocate for an effective cross-border framework for derivatives. Significant work has gone into all these areas already, and we are well positioned to deliver results in 2021.

Despite the coronavirus crisis, we are pleased to report that ISDA has maintained a **strong financial position**, and has the resources to continue leading the important work on IBOR transition, digitization and automation, legal standards and documentation, margin and capital. Our commitment to working as efficiently as possible means we are pleased to announce that **dues will remain flat in 2021** for all three categories of membership, as per the attached invoice.

As we approach the end of this most unusual of years, we would like to extend our sincere thanks for your firm's continued contribution to ISDA's working groups. As a member-driven association, your firm's involvement is critical in enabling us to solve these vital policy issues and to ensure derivatives markets remain both safe and efficient. We wish you all a safe and restful holiday season with your loved ones, and the very best for the New Year.

Sincerely,

Eric Litvack
Chairman

Scott O'Malia
Chief Executive Officer