ISDA Safe, Efficient Markets

December 1, 2021

Dear Member,

This has been another challenging year, overshadowed once again by the global pandemic. But it has also been a year of big milestones, notably on benchmark reform and the fifth phase of margin requirements for non-cleared derivatives. Throughout, ISDA has worked to support our members through fact-based advocacy and industry solutions designed to make markets safer and more efficient. As we move into 2022, we are primed to deliver new initiatives, tools and services that will further improve the efficiency of derivatives markets, operations and processes.

It is now just a matter of weeks until most LIBOR settings will either cease or become non-representative, a deadline that has dominated industry attention this year. Thanks to ISDA's IBOR Fallbacks Supplement and IBOR Fallbacks Protocol, a solution is now available that will enable outstanding LIBOR derivatives contracts to automatically switch to fallbacks at the point those LIBOR settings become unavailable, providing an industry safety belt that will help reduce systemic risk. So far, more than 14,800 buy- and sell-side entities across the globe have adhered to the protocol, demonstrating the broad support this solution has received.

Benchmark reform will continue to be a focus next year, with five US dollar LIBOR tenors set to continue until mid-2023. ISDA will continue to support this effort through documentation, educational materials, research and events. We will also shortly publish a new fallbacks protocol, this time covering benchmarks in India, Malaysia, New Zealand, Norway, the Philippines and Sweden.

LIBOR's demise wasn't the only deadline hanging over derivatives markets this year. Firms also had to prepare for the rollout of phase five of the initial margin requirements in September, bringing the largest number of entities so far into scope. Industry tools including the ISDA Standard Initial Margin Model, the ISDA Create online document negotiation platform and the ISDA Margin InfoHub played a critical role in supporting effective and consistent implementation.

Phase six in September next year will capture even more entities, so early preparation will be critical, especially when it comes to engaging a custodian. In anticipation, ISDA recently announced that Bank of New York Mellon has published key custodial documentation on ISDA Create, bringing more efficiency and automation to the negotiation process and simplifying compliance efforts. We urge firms to take advantage of the benefits of ISDA Create and prepare for phase six now. To schedule an online demo, please contact isdacreate@isda.org.

This is just one element of ISDA's push to a more automated, digital world. Earlier this year, we published the 2021 ISDA Interest Rate Definitions, marking the first time the definitional booklet has been published as a natively digital document. Available on ISDA's new electronic documentation platform, MyLibrary, users can now easily access a single golden-source version of the definitions in digital form, reducing complexity and the potential for error. We have ambitious plans to digitize more of our documentation in 2022, in line with our strategy to facilitate greater automation and efficiency in derivatives markets.

Work has also continued on ISDA's Common Domain Model (CDM), which establishes a standard digital representation of events and processes that occur during the lifecycle of a trade. A big current priority is to deploy the CDM as part of a new digital regulatory reporting initiative, which will create real efficiencies in how firms comply with reporting requirements.

We are currently prioritizing the US Commodity Futures Trading Commission's (CFTC) amended rules ahead of a May 2022 implementation date, but we're also working to digitize revised EU trade reporting requirements – initiatives that will result in cost savings for firms and reported data that is reliable and consistent. For more information or to join the ISDA working group that is developing the reporting best practices and CDM code, please email CDMDRR@isda.org.

Another big topic for this year has been the growth of the environmental, social and governance (ESG) market and crypto assets. In both areas, our focus is on developing industry standards and ensuring these markets function safely and efficiently. In the digital asset space, we have established a new legal and documentation working group that is looking at developing specific legal standards for crypto derivatives, in the same way we have for other asset classes.

In the ESG market, we have published a variety of papers exploring specific topics, from best practices for key performance indicators on sustainability-linked derivatives and their regulatory treatment to the accounting treatment of ESG assets. We also published a paper that explores the legal implications of voluntary carbon credits as a precursor to the development of robust documentation. ISDA has already published a variety of templates to support the trading of emissions and certain types of environmental derivatives – most recently, the ISDA US Renewable Energy Certificate Annex.

The capital treatment of these assets is equally important, and ISDA published a paper in July showing that the forthcoming Fundamental Review of the Trading Book (FRTB) would lead to disproportionately high capital requirements for carbon certificates. Fortunately, EU proposals to implement the FRTB included a less punitive treatment of carbon credits in line with ISDA's recommendation, which will enable banks to continue to participate in this market.

Other jurisdictions are due to publish their own proposals to implement Basel III next year, and ISDA will continue to support industry implementation with fact-based advocacy, quantitative analysis and mutualized solutions. As an example, ISDA's Standardized Approach Benchmarking initiative has now been used by nearly 70 banks globally to ensure accuracy and consistency in their implementation of the Basel III standardized approaches. This work will continue to develop in 2022, including through an internal model benchmarking pilot.

While ISDA is committed to working as efficiently as possible, these many important initiatives mean there will be a small increase in member dues in 2022 for all three categories of membership, as per the attached invoice.

As we bring another challenging year to a close, we would like to extend our sincere thanks for your firm's continued support of ISDA. We wish you a happy holiday season and the very best for 2022.

Sincerely,

Eric Litvack
Chairman

Scott O'Malia
Chief Executive Officer