

December 1, 2022

Dear Member,

A single word can be used to sum up 2022: unpredictability. From the war in Ukraine to the meltdown in the crypto sector, this year has seen a succession of unanticipated events that have shaken markets. Throughout, ISDA has been committed to supporting members with a variety of tools, services and documentation that create certainty and drive greater efficiency for members. As we move into 2023, ISDA is pursuing a variety of new initiatives to further improve the efficiency of derivatives markets.

Arguably the greatest shock to markets occurred as a result of the invasion of Ukraine, which led to sanctions being applied to Russia. In the immediate aftermath, ISDA moved quickly to provide solutions and guidance to address specific industry-wide issues in the commodities, credit, equity and interest rate derivatives markets, establishing a [repository for sanctions-related information](#).

The invasion also resulted in shortages in gas supplies from Russia and surging commodity prices, putting a spotlight on energy security and reiterating the value of renewables. Countries and companies across the world have already committed to reducing their emissions of greenhouse gases and switching to alternative energy sources, but this will require more than \$100 trillion in investment to fund the necessary sustainability initiatives, technology and infrastructure. ISDA has focused on supporting the transition by developing robust legal and risk management standards to ensure markets linked to environmental, social and governance function safely and efficiently.

For example, we've published several papers exploring the key [legal](#) and [regulatory](#) issues that must be addressed in any contractual terms for the voluntary carbon market. We will also shortly launch the 2022 ISDA Verified Carbon Credit Transactions Definitions, together with template confirmations for spot, forward and options contracts. In addition, we have published [several whitepapers](#) to support the development of standards for sustainability-linked derivatives (SLDs). We're now exploring whether to [draft standardized terms](#) for documenting SLDs, which will bring greater harmonization and efficiency to this product. We're also looking closely at the [capital treatment of carbon credits](#) and progress by banks to develop [scenario analysis](#) to assess the impact of climate risk on their trading books. This will continue to be a major focus for ISDA in 2023.

These unanticipated crises came on top of an already full calendar of important events for which ISDA has long been driving industry readiness. The retirement of 30 LIBOR settings at the end of 2021 was one of the biggest changes ever to occur in financial markets, affecting tens of trillions of dollars of financial contracts. A critical part of the solution for the derivatives market was the development by ISDA of robust contractual fallbacks. More than 15,400 entities across the globe have now adhered to the [ISDA 2020 IBOR Fallbacks Protocol](#), which allows firms to incorporate the fallbacks into existing derivatives. Benchmark reform will continue to be a focus next year, with five US dollar LIBOR tenors set to end in mid-2023, and ISDA will carry on supporting this effort through [educational materials](#), [documentation](#) and [research](#).

Firms also had to prepare for the rollout of the final phase of the initial margin (IM) requirements in September, bringing the largest number of entities so far into scope. However, ongoing compliance threshold monitoring, new entities coming into scope and additional jurisdictions adopting IM requirements mean the margin rules will remain a priority in 2023 and beyond. ISDA will continue to support in-scope entities through industry tools including the [ISDA Standard Initial Margin Model](#), the [ISDA Create](#) online document negotiation platform and the [ISDA Margin InfoHub](#).

Another important date on the calendar is the December 5 implementation of the first phase of the Commodity Futures Trading Commission's (CFTC) revised swap data reporting rules, which involves the incorporation of globally agreed data standards. This marks an important step towards greater global harmonization of rule sets, but each firm still needs to interpret and implement those rules consistently to avoid inaccuracies and divergences. In response, ISDA launched its [Digital Regulatory Reporting \(DRR\) initiative](#) in November, which is designed to resolve that issue by establishing an

interpretation of the CFTC amendments developed and peer reviewed by an industry working group. Using the [Common Domain Model](#), this mutualized interpretation is available as open-access, human-readable and machine-executable code that firms can either use directly as the basis of their implementation or to check their own understanding of the rules is in line with the industry consensus. ISDA is now working to [extend the DRR](#) to cover other reporting rule revisions, including those in Europe and Asia-Pacific.

This is just one example of ISDA's push towards a more automated, digital world. We continue to expand [MyLibrary](#), ISDA's electronic documentation platform, with new documents planned for launch in 2023. Earlier this year, we also announced the intention to make [ISDA Create available within S&P Global Market Intelligence](#)'s Counterparty Manager service. This is due to go live in 2023, giving firms the ability to easily access full details of their contractual relationships in digital form from a single location. In the digital assets space, we remain committed to developing definitions for certain OTC crypto derivatives, as well as work on netting, collateral and bankruptcy protections.

ISDA's [Standardized Approach \(SA\) Benchmarking](#) initiative continues to go from strength to strength. So far, 71 banks and 16 regulatory agencies have participated in this initiative to ensure accuracy and consistency in their implementation of the Basel III standardized approaches, and we're now expanding it to cover internal model benchmarking. ISDA SA Benchmarking won *Risk.net*'s [Innovation in Technology](#) award for 2022.

While automation and digitization are crucial areas of focus for ISDA, we're also pursuing other long-running priorities. This year saw the culmination of more than 20 years of advocacy with the implementation of China's Futures and Derivatives Law, which confirmed the enforceability of close-out netting under Chinese law. ISDA [published a netting opinion](#) on the day the Futures and Derivatives Law came into effect, giving market participants greater legal certainty when trading with Chinese counterparties. We are continuing advocacy efforts in other key markets in an effort to add to the 80-odd [ISDA netting opinions](#) published so far.

Netting is an important step, but there are other measures that need to be put in place to ensure robust, liquid and safe derivatives markets. Earlier this year, ISDA [published a paper](#) that outlines the key issues that policymakers in emerging and developing markets should consider when drawing up an appropriate legal and regulatory framework for derivatives. We will work with local authorities and the International Organization of Securities Commissions in 2023 to ensure emerging and developing markets have the tools they need.

ISDA is committed to careful and efficient stewardship of its member-funded resources. Despite the global resurgence of inflation, we are pleased to announce that member dues in 2023 for all three categories of membership will only increase by a modest sub-inflationary amount, as per the attached invoice.

As we bring an unpredictable 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 2023.

Sincerely,



Eric Litvack
Chairman



Scott O'Malia
Chief Executive Officer