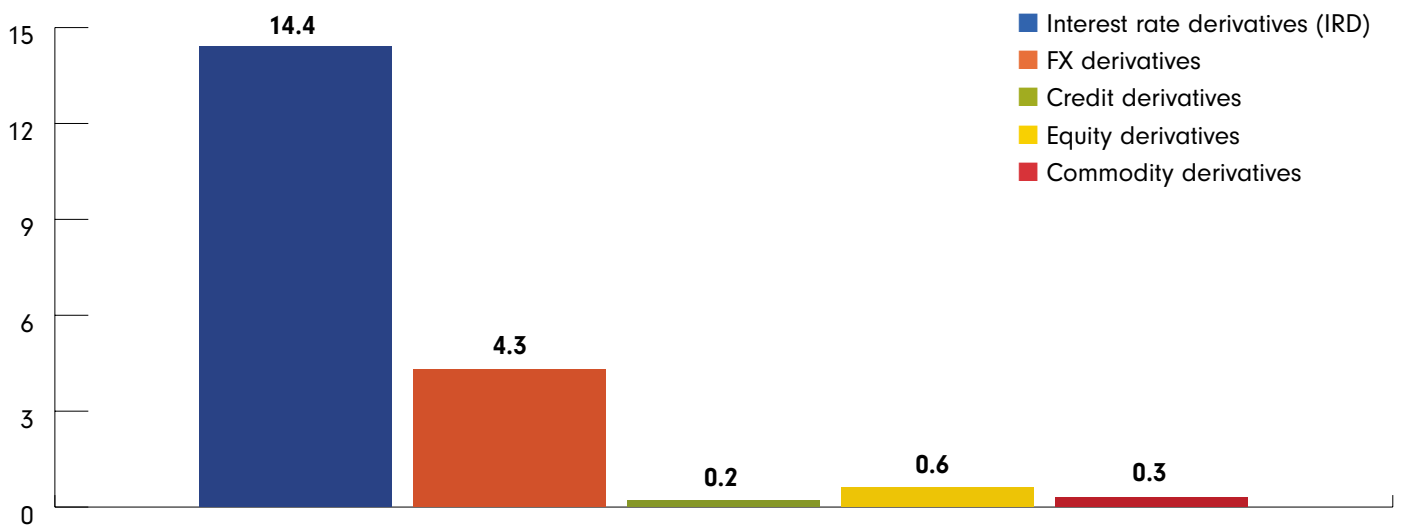


## DERIVATIVES – FACTS AND FIGURES

*Total derivatives gross market value  
= \$19.8 trillion at end-June 2023*

### Derivatives Market by Asset Class (\$ trillion)



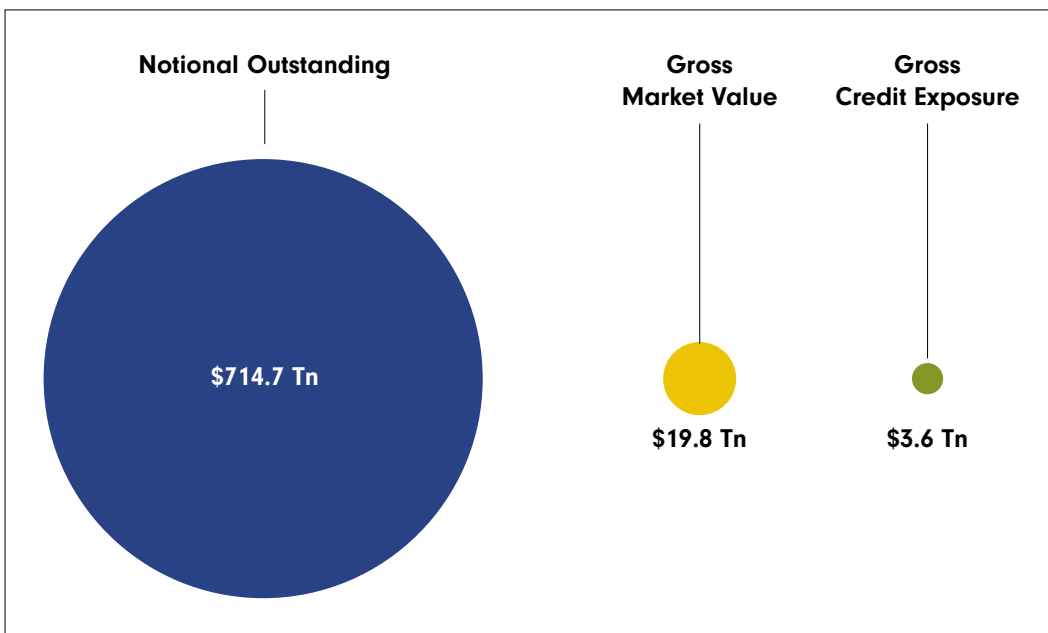
Source: Bank for International Settlements semiannual survey as of June 2023

## What is Gross Market Value?

- Derivatives market size is often quoted in terms of notional outstanding. However, this doesn't represent the amounts that are actually paid from one party to another, and it doesn't reflect the losses that would occur if all outstanding derivatives were terminated.
- An alternative measure for assessing risk is gross market value, which represents the maximum loss that parties would incur if they all fail to meet their contractual payments and the contracts are replaced at current market prices. In other words, gross market value represents the level of market risk in derivatives transactions. This is about 2%-3% of notional outstanding.
- This risk can be reduced by netting, which allows two parties to consolidate offsetting payments under various derivatives into a single net payment from one to the other. Exposure after netting is less than 1% of total notional outstanding.
- Taking the collateral that parties have posted to each other into account reduces that exposure even further. Regulatory requirements are now in place requiring the posting of collateral on derivatives trades.

## What is Close-out Netting?

- Close-out netting allows firms to terminate outstanding transactions with a counterparty following an event of default, and to offset the various obligations into a single net amount owed by one party to the other.
- This is an important means of reducing credit risk between two counterparties. Without close-out netting, firms would need to manage their credit risk on a gross basis. This would result in less credit capacity and reduced liquidity.
- Managing credit risk on a net basis means more credit is available to firms looking to raise financing or hedge their exposures.
- Regulators allow close-out netting to be risk-reducing for the purposes of capital requirements, so long as there is a high degree of legal certainty over the enforceability of close-out netting under the local law in each jurisdiction. Firms can also exchange collateral on the net amount, leading to reduced costs. This encourages more participation in markets where close-out netting is enforceable.
- ISDA has worked with authorities across the globe to help draft legislation on the enforceability of close-out netting. ISDA netting opinions are currently available for over 80 jurisdictions.
- ISDA has published the 2018 update to the Model Netting Act. This is designed to provide a template that can be used by jurisdictions considering close-out netting legislation. It is available here: [bit.ly/2UeMLMS](https://bit.ly/2UeMLMS)
- Watch an introductory video on the importance of close-out netting here: [bit.ly/2K1KJf1](https://bit.ly/2K1KJf1)



Source: Bank for International Settlements semiannual survey as of June 2023

### June 2023

Notional Outstanding:  
**\$714.7 trillion**

Gross Market Value:  
**\$19.8 trillion**

After Netting:  
**\$3.6 trillion**

### December 2022

Notional Outstanding:  
**\$618.0 trillion**

Gross Market Value:  
**\$20.8 trillion**

After Netting:  
**\$3.7 trillion**

### June 2022

Notional Outstanding:  
**\$632.1 trillion**

Gross Market Value:  
**\$18.3 trillion**

After Netting:  
**\$3.3 trillion**