ISDA Safe, Efficient Markets

Dear Member,

Next year marks the 40th anniversary of ISDA. Over that time, ISDA has remained committed to supporting the industry with standards, solutions, services and advocacy to ensure derivatives markets function safely and efficiently. As we enter our 40th year, that commitment remains rocksteady as we tackle several big initiatives that will impact derivatives market participants around the globe in 2025.

This year was dominated by a series of elections across the world, including the US in November, which is likely to result in significant changes in policy in 2025. The US Basel III 'endgame' is a case in point, with uncertainty over the timing of any re-proposal as a result of the election. ISDA responded to the first consultation earlier this year, using data from eight US global systemically important banks to highlight the negative impacts on liquidity and the ability of banks to offer client clearing services. As US regulators debate what approach to take, ISDA will continue to advocate for risk-appropriate rules that support deep, liquid markets.

Next year will also see the first phase of the Securities and Exchange Commission's Treasury clearing mandate scheduled for implementation. While this is a US regulation, it will apply to a wide universe of non-US market participants. In response, we're focused on developing educational materials to support firms in navigating this transition. For example, we published a comparison of various clearing models for US Treasury transactions and derivatives that will be updated as new models emerge. We're also liaising with prudential regulators to highlight the impact of a lack of recognition in the revised US capital framework for cross-margining programs, as well as the effect of the non-risk-based supplementary leverage ratio on banks' capacity to participate in US Treasury markets and facilitate access to clearing. Given the extensive workload and the complex nature of the changes, spanning document negotiation, cross-margining capital issues and operational integration, we will request that policymakers adopt a more sensible implementation timetable. The likely entry of additional clearing houses will also need to be factored into the implementation strategy.

One of the common features of 2024 was the revision of regulatory reporting rules, and this will continue next year with Canada and Hong Kong among those scheduled to update their derivatives reporting frameworks. As we did this year, ISDA will expand the Digital Regulatory Reporting (DRR) initiative to cover those two sets of rules. In total, ISDA has pledged to support 11 reporting rule sets in nine major jurisdictions, and to maintain the DRR as those rules evolve in the future, bringing lower costs and greater accuracy to the reporting process.

Meanwhile, global policymakers continue to look closely at non-bank financial intermediation (NBFI) and have published a series of recommendations on margin practices and liquidity preparedness to address perceived vulnerabilities in the sector following a succession of stress events. ISDA has responded to various consultations and continues to argue for any policy responses to be targeted and proportionate to the size, business model and risk profile of the various market participants, striking a balance between resilience and market liquidity.

Along with liquidity preparedness, regulators have been looking at the responsiveness of cleared and non-cleared initial margin models to market stress. For non-cleared derivatives, we've taken quick action to review the methodology of the ISDA Standard Initial Margin Model, and we're working together with market participants and global regulators to move to semiannual calibration from 2025.

Being able to meet elevated margin calls during periods of stress is obviously important, but it's also critical that the collateral gets to where it needs to be quickly and with the minimum of friction. To that end, ISDA is working with members to leverage the Common Domain Model (CDM) to digitize key documents, represent eligible collateral terms and automate cash collateral calculations and payment processes, with other use cases in development. Several firms have adopted the CDM for collateral management in recent months, and more are set to follow in 2025.

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As in any stress event, the worst can happen and a firm might opt to terminate a trade with a counterparty, a process that has become incredibly complicated in recent years due to the rollout of mandatory margining for non-cleared derivatives and the introduction of bank resolution regimes.

To help firms navigate this process, ISDA this year launched the ISDA Close-out Framework – essentially, an online decision tree that sets out the questions firms would need to ask and the steps they would need to take when dealing with a termination. As regulators increasingly focus on internal bank processes for managing the default of a counterparty, we'll shortly be launching a series of 'tabletop' exercises to help firms plan for the worst.

This is on top of the ISDA Notices Hub, an online platform that will enable the instantaneous delivery and receipt of critical termination notices, eliminating risk exposures and potential losses that can result from delays in terminating derivatives contracts. We're currently working on building the platform, which will launch next year on S&P Global Market Intelligence's Counterparty Manager platform.

The ISDA Notices Hub is part of ISDA's suite of digital solutions, aimed at reducing risk and costs and creating efficiencies for market participants. This also includes the ISDA MyLibrary digital documentation hub, which now contains 135 derivatives documents and counting, and the ISDA Create online document negotiation and execution platform. The important work to digitize our documentation runs alongside other legal initiatives, including a review of the 1998 FX and Currency Option Definitions and efforts to strengthen the structure and governance of the Credit Derivatives Determinations Committees.

Another focus for ISDA in 2025 will be our ongoing efforts to develop scenario analysis for climate risk in the trading book. This year, we completed the second phase of the project, which involved working with a group of banks to design and model three specific climate scenarios. We're now looking at the next stage of this work, which could involve the expansion of the scenarios to include more regions and sectors. This is in addition to broader, ongoing work to develop and encourage the use of standards for environmental derivatives and voluntary carbon markets.

In all, it's been a busy and successful year – as recognized by GlobalCapital and Regulation Asia, which both named ISDA as winner of their Industry Association of the Year awards for the second year running – and it will be equally busy in our 40th year in 2025. Despite the full workload, we are pleased to announce that member dues in 2025 for all three categories of membership **will remain unchanged**, as per the attached invoice.

We would like to thank you for your firm's continued support, and we look forward to working with you next year. Please do look out for our 40th anniversary events, as we would very much like to thank you in person. We wish you a happy holiday season and the very best for 2025.

Sincerely,

Eric Litvack
Chairman

Scott O'Malia
Chief Executive Officer