A global perspective on derivatives regulation
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Today I want to cover some of the more important issues relating to derivatives activity now occupying regulators.

But I will start with the work the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB) are pursuing on potential resilience shortfalls in non-bank financial intermediation (NBFI).

I will then turn to current projects of more direct relevance to ISDA—margining, central counterparties (CCPs), some reactions to the Archegos incident and finally benchmarks.

Procyclicality and structural vulnerabilities

After the Global Financial Crisis of 2008, the resulting reforms included a raft of measures in response to the role derivatives played in the crisis. The industry has also been dealing with benchmark reforms which also stem from behaviours which came to light a while back—the rate-rigging scandals of nearly 10 years ago.

Global regulators are still monitoring the implementation and effectiveness of the post-crisis reforms, now in light of the real-life stress test when markets were affected by the so-called “dash for cash” last March.

This triggered a renewed focus by regulators on potential structural vulnerabilities in NBFIs. Why?

A number of interrelated factors are at play. For many years, a “low for longer” and “reach for yield” environment caused corporate leverage to balloon. Reforms to the banking sector also made it more costly to house associated risk on bank balance sheets.

These are just some of the more obvious drivers of the explosive growth of investment markets—especially investment funds—as the places where corporate credit, mainly in the form of bonds or commercial paper, are intermediated.

These structural trends have also led to concerns about record financial market valuations buoyed by central bank policies.

But the “dash for cash” episode last March was a live stress test of NBFIs. The extremely large central bank interventions which then took place in underlying markets raised a new set of questions about whether NBFIs should be made more resilient so as to prevent any need to intervene in future.

Note: This is the text of the speech as drafted, which may differ from the delivered version.

The study IOSCO is doing with the CPMI and BCBS will look at initial and variation margins in centrally cleared markets as well as in uncleared markets.

Throughout the exercise, we will be cognisant of the exceptional nature of last year's shock––one that originated outside the financial system and which raised the prospect of a sudden stop in economic activity.

Bearing this wider context in mind, we hope to get a clearer picture of transparency, predictability and volatility across different markets, jurisdictions and margining models, including any changes in the amount of margin and the timing of such changes.

CCP resolution

I will now turn to some unresolved questions about CCP resolution, which has been a focus of contention for some years.

The continuity of clearing functions is absolutely critical for financial stability. The post-crisis reforms led to the creation of a very few large CCPs which could wreak havoc if they failed, exposing taxpayers to losses in the event of a bailout.

As regulators, our primary objective is to ensure that CCPs have adequate financial resources available at all times to manage extreme but plausible risks.

This means adequate resources to ensure their resilience, their recovery and—if it comes to it—their resolvability. And of course, the structure and functions of CCPs are wholly different to banks, and so resolution frameworks for CCPs cannot easily be compared to bank resolution frameworks.

But the question of whose resources should be used to support CCP resolution—and in what proportion—has long been a source of tension between clearing members and CCPs.

How this issue is managed has a direct impact on incentives for central clearing as well as a6(m)7(an)3(a7(aB

Total return swaps are equity derivatives which would be subject to these margin requirements; therefore it is reasonable to ask whether, assuming full implementation, the margin requirements would have worked to reduce losses arising in this type of incident.

There are many issues involved. Questions may arise about jurisdictional differences, whether the counterparties to the trades would be subject to the margin regime and whether the positions reached the level where initial margin requirements would actually kick in, as well as the impact of splitting concentrated positions across multiple prime broker counterparties.

It is early days. But incidents like these are valuable opportunities to test the effectiveness of the post-crisis reforms. And as a result, I am asking IOSCO to do some work in this area.

And of course, in addition to the regulatory margin requirements, prime brokers may choose to collect additional margin as part of their own internal risk management, depending on factors such as the counterparty's credit quality and underlying exposures as well as the concentration of these exposures. This is also an area for further examination.

Trade repositories

I now want to touch on trade repositories (TRs). Established as a core element of the response to the Global Financial Cr4[r)-3(4d)4(i)5(ct)-4(631 Tm[o4(r)-3(i)5(s)11(k)-4(m)-3(an)06 26.46 06.5

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