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## **Dodd-Frank Five Years On: Significant Progress and Outstanding Challenges**

**NEW YORK, July 20, 2015** – Five years on from the Dodd-Frank Act being signed into law, significant progress has been made in implementing derivatives market reforms, but a number of outstanding issues need to be resolved, according to a paper published today by the International Swaps and Derivatives Association, Inc. (ISDA).

“A five-year anniversary is a good opportunity to reflect honestly on successes and areas for improvement. An objective review of the challenges will undoubtedly make Dodd-Frank even stronger,” said Scott O’Malia, ISDA’s Chief Executive Officer. “Given its scope and scale, opinions about the law vary widely. There should, however, be a very broad and very clear consensus on one aspect of regulatory reform: the derivatives markets have made substantial progress in achieving the goals set out by policy-makers.”

Five years after the enactment of the Dodd-Frank Act on July 21, 2010, much of the framework envisaged by US legislators is in place. In particular, most of the requirements contained within Title VII – the section relating to derivatives – have been implemented, resulting in the launch of clearing mandates, trade execution requirements and reporting and transparency obligations.

- Central clearing is well established, with approximately 75% of interest rate derivatives (IRD) and credit default swap (CDS) index average daily notional volume now cleared, according to data submitted to US swap data repositories (SDRs).
- Following the introduction of the first swap execution facility (SEF) mandates in 2014, approximately 55% of IRD and 65% of CDS index average daily notional volume is now traded on SEFs.
- All swap transactions involving a US person are now required by the Commodity Futures Trading Commission to be reported to an SDR, giving regulators the ability to spot systemic risks.
- US margin rules for non-cleared derivatives are close to finalization, and capital rules are being phased in.

Despite the improvements in transparency and the reduction in counterparty risk spurred by the Dodd-Frank Act, a number of challenges remain to be resolved. ISDA believes now is the time to focus on ensuring regulatory regimes are consistent and harmonized across borders, and to ensure they support risk management that enables economic activity and growth.

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Many of the challenges stem from a lack coordination and cooperation between global legislators and regulators. Discrepancies in implementation schedules and in the substance of the regulation in different jurisdictions have emerged as a result, leading to the fragmentation of global liquidity pools. This reduces choice, increases costs, and could make it more challenging for derivatives users to enter into or unwind large transactions, particularly in stressed market conditions.

ISDA recommends the following targeted amendments.

- Regulators should work to harmonize rule sets as far as possible. Transparent, clearly articulated substituted compliance determinations based on broad outcomes would maximize the potential for cross-border harmonization.
- Regulators should identify and agree on the trade data they need to fulfill their supervisory responsibilities, and then issue consistent reporting requirements on a global basis. Further work is also needed by the industry and regulators to develop and adopt standardized product and transaction identifiers, as well as reporting formats. [ISDA has played a leading role in this area](#) through its taxonomies, Financial products Markup Language reporting standard and unique trade identifier prefix service (UTIPrefix.org).
- [Targeted amendments of US SEF rules](#) would encourage more trading on these venues and help facilitate cross-border harmonization. Allowing greater flexibility in execution methods in certain cases would bring US rules closer to those proposed in Europe.
- Central counterparties have become systemically important. More work is needed to ensure they are resilient – for example, through greater transparency on margin methodologies and minimum standards for stress tests. Further regulatory input is required on [acceptable recovery tools](#) and the conditions for resolution that do not involve use of public funds.
- Finalizing national-level non-cleared derivatives margin rules swiftly is important to maximize the time for preparation. [ISDA has been leading industry implementation efforts](#), which includes the development of the ISDA Standard Initial Margin Model (ISDA SIMM). But certainty in the rules is required to progress this effort.
- Capital rules should be globally consistent to prevent financial institutions and non-financial corporates in one jurisdiction being put at a competitive disadvantage. The interplay of the various regulatory components should be comprehensively assessed to ensure the cumulative impact is fully understood to avoid excessively high financing costs for borrowers and increased hedging costs for end users.

ISDA's Briefing Note *The Dodd-Frank Act: Five Years On* is available on the [Dodd-Frank page on ISDA's website](#).

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**About ISDA**

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 800 member institutions from 67 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: [www.isda.org](http://www.isda.org).

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