Future of Derivatives Survey

The ISDA Future of Derivatives Survey considers the issues facing the industry, in order to gauge how the derivatives market will develop and evolve. While the survey shows that participants are largely optimistic about the future of the derivatives market, several key challenges are likely to focus industry attention and resources, including ongoing regulatory compliance, the rollout of regulatory initial margin requirements, Brexit and benchmark reform.

The survey was conducted in February and March 2018, and attracted more than 900 responses in total. Approximately a third of the responses came from dealers, and 43% comprised buy-side firms (including bank end users, pension funds, energy companies, asset managers, insurance firms, non-financial corporates and governmental/supranational entities). The remainder of responses came from infrastructure providers, fintech companies and law firms.
Do you expect overall derivatives volumes in the market to increase, decrease or stay the same over the next three to five years?

- Increase: 47.3%
- Stay the same: 35.5%
- Decrease: 17.2%

Do you expect derivatives market liquidity in the following asset classes to increase, decrease or stay the same over the next three to five years?

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Increase</th>
<th>Decrease</th>
<th>Stay the same</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rates</td>
<td>51.8%</td>
<td>22.3%</td>
<td>13.7%</td>
<td>12.2%</td>
</tr>
<tr>
<td>FX</td>
<td>53.7%</td>
<td>22.0%</td>
<td>14.9%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Credit</td>
<td>29.3%</td>
<td>24.9%</td>
<td>22.2%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Commodities</td>
<td>31.7%</td>
<td>25.0%</td>
<td>27.8%</td>
<td>26.2%</td>
</tr>
<tr>
<td>Equities</td>
<td>34.8%</td>
<td>14.0%</td>
<td>25.0%</td>
<td>13.7%</td>
</tr>
</tbody>
</table>

Do you think the number of derivatives dealers/market-makers will increase, decrease or stay the same over the next three to five years?

- Increase: 56.6%
- Decrease: 26.7%
- Stay the same: 16.6%
- Don't know: 0%
On a scale of 1 to 10, with 10 representing the greatest impact or challenge and 1 representing little impact or challenge

How big a challenge does the derivatives market face with the transition from IBORs to alternative risk-free rates?

How big a challenge will regulatory compliance be over the next three to five years?

How big a challenge does the derivatives market face with regards to Brexit?

What impact do you think new technologies like distributed ledger, smart contracts and cryptocurrencies will have on the derivatives market in the next three to five years?

Future of Derivatives Survey
How optimistic are you about the future of derivatives markets? (On a scale of 1 to 10, with 10 being the most optimistic and 1 being least optimistic.)

Do you think derivatives end-user activity (hedging, trading) in the industry will increase, decrease or stay the same over the next three to five years?

Do you expect the cost of using derivatives to increase, decrease or stay the same over the next three to five years?
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**How would you characterize the industry’s readiness for the next phases of regulatory initial margin rollout?**

- Well progressed: 49.1%
- Some, but on track: 28.4%
- Some, but behind schedule: 19%
- Little to none: 14%
- Don’t know: 12.5%

**In what areas of the derivatives process are there the greatest potential for cost savings from new technologies like distributed ledger, cloud and smart contracts over the next three to five years?**

- Transformation of mid- and back-office operations: 50.4%
- Greater automation of trading: 14%
- Tools to support regulatory compliance and reporting: 13%
- Replacing legacy systems: 14%
- All of the above: 12%

**Which of the following industry solutions will help most in complying with forthcoming phases of the regulatory initial margin requirements (please choose all that apply)?**

- Online IM CSA negotiation tool: 12%
- Mechanism for identifying collateral eligibility for specific regulatory requirements: 19%
- Third-party IM calculation services for both single and multiple applicable IM regimes: 28.4%
- Further standardization of IM CSA terms: 19%
- Central trade valuation for the purpose of margin calculations: 14%
- Standardizing the custodian documentation and onboarding process: 10%
- Don’t know: 14%
ABOUT ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient.

Today, ISDA has more than 900 member institutions from 68 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 website: www.isda.org. Follow us on Twitter @ISDA.

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