

# International Swaps and Derivatives Association

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## INSURANCE FORUM

In 2015, the Insurance Commission recognized derivatives as an investment vehicle to promote investment diversification. This recognition is consistent with Section 202 (k) of the Amended Insurance Code as “other

assets” “deemed by the Commissioner to be readily realizable and available for the payment of losses and claims”. But under Circular Letter No. 2015-56, the derivatives were limited only to forwards and swaps. As a form of precaution, the aggregate placements in derivatives shall not exceed 10% of the total admitted assets of life companies or 20% of the net worth of a non-life company. A derivative is a “financial instrument that derives its value from the movement in commodity price, foreign exchange rate and interest rate of an underlying asset or financial instrument.”

In this regard, it is important to know the role of the International Swaps and Derivatives Association (ISDA). The International Swaps and Derivatives Association (ISDA) is an over-the-counter (as opposed to those traded in exchanges) derivatives industry trade association. Its primary objective is to make privately negotiated derivatives safer, transparent, and more efficient. Thus, its slogan “*Safer, Efficient Markets*”. It does this principally by providing templates for counterparties in derivatives contracts. It seeks to reduce credit and legal risks in transactions - to which OTC derivatives are exposed to. It has identified three key focus areas: a) reducing counterparty credit risk; b) increase transparency; and c) improving the industry’s operational infrastructure. It was founded in 1985 by a group of dealers and initially called the International Swap Dealers Association. Today (2018), it has 875 member institutions in over 68 countries.

The main office of ISDA is in New York. Its membership includes derivatives market participants such as commodity companies, investment managers, international banks, derivatives exchanges, clearing houses, and insurance companies. Membership types are Primary (dealer firms), Associate (service providers) and Subscriber (end-users).

ISDA Primary Membership is designed for international and regional banks, insurance companies, diversified financial firms, and energy and commodities firms. It currently includes over 200 large global institutions that deal in derivatives. ISDA Associate Membership is designed for service providers, key components of the derivatives

market infrastructure, such as technology solution providers, exchanges, intermediaries, clearing organizations and repositories, as well as law firms, accounting firms and other service providers. Associate Membership provides a forum for industry participants to stay up to date with and influence important developments and initiatives. ISDA Subscriber Membership is designed for corporations, financial institutions, supranationals, government entities, and others that use derivatives to better manage financial risks. Subscriber Membership provides a forum for industry participants to stay up to date with and influence important developments and initiatives.

With the expansion of global finance, the growth of the derivatives market was met with challenges. Trading in derivatives can be complex. The negotiation of the precise terms and conditions can be complex as well. In response, ISDA produced the ISDA Master Agreement which is a standardized template to be used between a dealer and the counterparty entering into a derivatives transaction. The Master Agreement was first published in 1992 and updated in 2002. The Master Agreement consists of fourteen clauses which are called *Sections*. The ISDA Master Agreement is a pre-printed template where any changes, additions, or alterations will have to be done through a document called *Schedule to ISDA Master Agreement*.

ISDA also creates industry standards and provides industry definition of terms such as the 1999 ISDA Credit Derivatives Definitions. Among the terms defined were credit default swaps, credit linked notes, and total return swaps.

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