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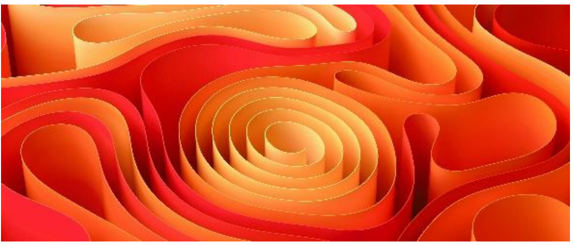

TOPICS:

Market Risk

SOURCE:

International Swaps and Derivatives Association

ISDA: Digital Assets and Derivatives - Where Next?

- This paper examines **how digital assets and distributed ledger technology (DLT) can be integrated into institutional derivatives markets**. It argues that the key determinant of adoption is not the digital assets themselves, but whether settlement, collateral and risk management frameworks can support them within existing regulatory and prudential regimes.
- The report finds that **digital settlement infrastructure** can significantly improve market efficiency. Features such as real-time settlement, programmable collateral and tokenization can reduce the duration of counterparty exposures, leading to lower capital requirements and improved balance-sheet efficiency. The authors estimate that faster settlement and portfolio compression could reduce capital consumption by approximately 40–45% while leaving underlying market risk unchanged.
- The paper also highlights **ongoing regulatory developments** in major jurisdictions, including the EU and US, which increasingly seek to incorporate digital assets into existing financial frameworks. However, challenges remain around settlement finality, legal enforceability, collateral eligibility and cross-border consistency.
- To enable institutional-scale adoption, the report stresses the need for **robust collateral frameworks, legal certainty, and industry-wide standards** such as ISDA documentation and the Common Domain Model (CDM). It concludes that digital assets can be successfully integrated into derivatives markets if technological innovation is accompanied by harmonized regulation, interoperable infrastructure and prudent risk management.