Pursuing Efficiencies of Tokenization and Continuous Trading

ISDA Chief Executive Officer ***Scott O'Malia*** *offers informal comments on important OTC derivatives issues in* derivatiViews*, reflecting ISDA's long-held commitment to making the market safer and more efficient.*

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As we mark the 10-year anniversary of the ISDA Standard Initial Margin Model (ISDA SIMM), which was launched in September 2016 to coincide with the first phase of initial margin (IM) requirements for non-cleared derivatives, we've been reflecting on its journey from an ambitious new concept to a cornerstone of the non-cleared derivatives market infrastructure. It was great to celebrate this milestone with an anniversary event and market close ceremony at the London Stock Exchange earlier this month, where we discussed how the success of the ISDA SIMM has been driven by a relentless focus on maintaining its risk sensitivity, in collaboration with global regulators, which has enabled the efficient exchange of IM around the world.

During the first decade of the ISDA SIMM, we've extended the drive for greater efficiency by expanding our set of mutualized digital solutions, bringing vital improvements to a range of industry processes, from the negotiation of documentation and the delivery of termination notices to the implementation of reporting rules. We're now heavily focused on two areas where we believe significant operational efficiencies and economic value can be delivered by the adoption of new technologies at scale – tokenization and 24/7 trading.

The prospect of 24/7 trading is gaining traction for certain asset classes as market participants pursue greater efficiencies through continuous trading and clearing. This would be a huge transition that would require the constant availability of critical market infrastructure, including middleware and third-party service providers. Systems built for daily processing cycles would need to be adapted to support continuous, real-time operation, making greater automation and straight-through processing essential.

Crucially, 24/7 trading requires 24/7 risk management. Market participants and clearing houses would need to be able to move collateral on a continuous basis, without the bottlenecks and inefficiencies that exist today. As it stands, the most widely used forms of collateral and funding are not reliably available on weekends or holidays. The prospect of tokenized collateral could provide a near-term way to achieve continuous margin movement, supporting the transition to 24/7 trading.

ISDA is well advanced in building the standards, documentation and infrastructure that is needed to responsibly advance tokenization. By enabling near-instantaneous settlement, tokenized assets could reduce counterparty risk, enable intraday liquidity management and improve collateral mobility. Tokenization could also open the door to money market funds being posted as collateral, eliminating the barriers that had previously prevented market participants from reducing their reliance on cash and high-quality government securities.

As with any innovation, there are legal, regulatory and operational hurdles to be overcome to realize the potential efficiencies that tokenization offers. Questions relating to custody and segregation frameworks, capital and margin treatment, cross-border recognition and legal certainty must be addressed with industry standards and regulatory clarity. The objective should not be to create an entirely new regulatory framework, but rather to adapt existing rules and standards where necessary to support the safe use of tokenized assets in the derivatives market.

We're now working with members on a tokenization proof of concept to show how ISDA documentation can be used to exchange tokenized collateral and identify any updates that will be needed to our credit support documentation and supporting legal opinions.

Ten years ago, the launch of the ISDA SIMM resolved a shared industry challenge and brought vital efficiency to the calculation of regulatory IM. A decade later, we're working to deliver further efficiencies by unlocking the potential of tokenization and 24/7 trading.

Tokenized collateral will be on the agenda at the ISDA Digital Assets Forum in Washington, DC on October 6, 2026. For more information, click here.