Q&A

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Openness is essential for the development of attractive European capital markets

How important are EU capital markets for LSEG and how committed is LSEG to their development?

LSEG is one of the largest financial market infrastructures and data providers in the EU. We have approximately 3000 employees across 19 EU Member States (c.24,000 globally). LSEG and EU capital markets are intrinsically connected and crucial to each other.

Within the region, we are an integral partner for our customers across the trade lifecycle. We have extensive experience, deep knowledge and a worldwide presence in data and analytics; indices; capital formation; and trade execution, clearing and risk management across multiple asset classes.

On the Post Trade side of our business, LSEG provides systemically important infrastructure for financial markets. It accounts for roughly one-quarter of the global segment in which it operates and clears the majority of the global interest rate swap market. Regionally, Paris-based CCP LCH S.A. clears the vast majority of the eurozone's government debt repo and CDS markets.

We have a keen interest in the continuing growth of EU capital markets and remain committed to expanding our offering in the region. In addition to being a leading CCP for eurozone's government debt repo and CDS markets, pending regulatory approval, LCH SA intends to launch DigitalAssetClear which will offer, cash-settled, clearing of Bitcoin futures and options contracts. We have also recently expanded our uncleared capabilities by acquiring Quantile, a market-leading optimisation provider with presence in Amsterdam, and Acadia, a leading provider of automated uncleared margin processing and integrated risk and optimisation services for the global derivatives community with presence in both Dublin and Dusseldorf. Whether through its Data & Analytics, Capital Markets or Post Trade divisions, LSEG is deeply committed to supporting a healthy and resilient EU financial ecosystem.

How important is central clearing for the competitiveness and resilience of EU capital markets? What are current strengths and areas of improvement of the EU clearing ecosystem?

As key financial market infrastructures, CCPs ensure financial stability. They support the growth of the economy by facilitating efficient management of capital and they act as superior risk managers.

Our market leading risk management framework underpins everything that we do to ensure resiliency in the market.

Mandatory central clearing became a vital part of the response to the global financial crisis, following commitments made by world leaders at the G-20 Pittsburgh Summit in 2009, to improve transparency and mitigate risks. The clearing obligation materialized in the EU under the European Market Infrastructure Regulation ('EMIR') and has demonstrated its value during recent crises and ensured the resilience of EU capital markets. For example, LCH Group helps manage periods of market stress such as at the outset of the COVID pandemic and the Credit Suisse event ensuring the safety and stability of the marketplace. This was possible as a result of our commitment to the operational, credit and liquidity resilience of our clearing services and adherence to strictly prescribed risk management standards.

Markets are global and CCPs are a mere reflection of how both markets and participants operate most effectively and safely. When looking at improvements to EU capital markets competitiveness, it is essential that EU firms' access to global CCPs and their liquidity pools is not restricted.

If the EU wants to develop flourishing and attractive capital markets, it should first focus on integrating its 27 markets rather than developing regional financial market infrastructures. The objective should be to attract international investment and capital, which will be hard to achieve without fundamental reforms such as greater integration of EU debt, solvency laws, and tax frameworks, to name a few. The objective shouldn't be regionalism or strategic autonomy, but openness based on a sound regulatory and supervisory framework.

It is also important to note that central clearing isn't the answer to all market needs. The bilateral world also plays a crucial role in the efficient and safe functioning of financial markets. This is why we have recently expanded our services to the uncleared derivatives market, providing risk management, capital, and collateral efficiencies.

As such, we welcome some of the solutions being proposed in the EU, such as the exemption of trades resulting from Post Trade Risk Reduction Services from the clearing obligation, which can significantly reduce risk across cleared and uncleared portfolios, thereby reducing overall risk in the market.

Does the EMIR 3 proposal set out the key measures needed for improving the competitiveness and resilience of the EU clearing ecosystem? What are the potential issues raised by these proposals and should alternative or complementary actions be considered in certain areas?

The EMIR 3 proposal sets out many positive measures that, once implemented, could increase the competitiveness and attractiveness of the EU clearing ecosystem.

Looking at the supervisory pillar, proposals aimed at improving time-to-market for new product and services are welcome. For EU CCPs such as LCH S.A., we need consistency in the approach and timeframes across the EU to enable a faster adaptation to market demands whilst remaining risk management conscious and prudent. This approach will enable EU CCPs to compete on a level-playing field.

Amendments to the MMF and UCITs Regulations opening the door to more buy-side clearing are also welcomed. We would also suggest considering eliminating counterparty risk limits for centrally cleared repo transactions. By doing so, the EU would enable a wider base of market participants to use central clearing, leveraging newly developed Sponsored Clearing models which would further enhance financial stability.

Whilst we are supportive of the measures outlined above, the review of the EMIR framework does include several proposals, such as a new EU CCP supervisory framework, that could be detrimental to the EU clearing ecosystem.

For example, London-based LCH Limited is directly supervised by ESMA, while LCH S.A. has three main national competent authorities in addition to the EMIR college and ESMA's CCP Supervisory Committee. Addressing such supervisory complexity is crucial to improve the competitiveness of EU CCPs. At the very least, EU CCPs of systemic importance to the Union should only be directly supervised by EU authorities. This would help ensuring better harmonisation and implementation of EU rules and supervisory outcomes.

Additionally, measures limiting EU firms' ability to clear EUR IRS will increase their risk exposure and costs. EU market participants should be free to access any CCP irrespective of their location so long as they are appropriately supervised. Such proposals also go against the successful internationalization of the euro. As a reminder, 75% of EUR IRS flows originate outside of the EU. That is more than the USD. By taking the risk of regionalizing EUR IRS flows, we could undo the successful international role of the euro, a key objective of this European Commission.

We understand the EU's desire to develop strong local market infrastructures to support its own economy and attract both local and foreign capital, but that should be achieved organically and through market-led, safe, and stable incentives. Forcing market behaviours will not only go against fiduciary duties and best execution but result in an unlevel playing field with non-EU peers, higher costs for industry, and ultimately increased financial stability risk.

Let me conclude by saying that not only has the UK faithfully transposed the EU EMIR framework it helped develop, but it also requires that market infrastructures adhere to the highest risk management standards. As regulators in other jurisdictions have done, we urge EU policymakers to consider enhancements to EU-UK supervisory cooperation rather than dislocating a global, highly liquid, and efficient market. The signing of the EU-UK Memorandum of Understanding (MoU) and the creation of a joint Financial Services Forum brings about a great opportunity for both jurisdictions to look for alternative solutions that will uphold competition and free movement of capital and ensure the stability of the EU financial system.

Global markets, both from a systemic risk perspective and efficiency for the real economy, are best served by global CCPs, subject to both local and global regulations overseen through supervisory cooperation, globally.