Conversation with Daniel Maguire

Daniel Maguire - Head of Post Trade, LSEG & Group Chief Executive Officer, LCH

David Wright - President, EUROFI

David Wright

Ladies and gentlemen, I have the pleasure of having a conversation with Daniel Maguire, who is the Group Head, and post trade Chief Executive Officer of the LCH Group. Daniel, thank you for all of your support to Eurofi over many years. He has been in this position since 2020, and CEO of LCH since 2017. Those of you cognoscenti with a historical memory will know he has been very active in all of our debates on clearing.

Daniel, we are all talking about financing the EU economy and capital markets. I think you would argue that the London Stock Exchange is doing quite a lot here. Talk about that.

Daniel Maguire

Thanks, David. It is a pleasure to be here again, and thanks for the introduction. I will begin with a brief introduction to LSE, because I think there is a slight misnomer in the name. To lay the land for everybody, we employ around 25,000 people globally; 3,000 of them are based in 19 countries within the EU; and about 50% of our staff are based in Asia. We have clients in 190 countries, and offices in about 70 countries. We are a truly global business, despite the name, and we are split into three different things: data and analytics, capital markets business, and post trade, which is split into trading venues and post trade, which is my responsibility.

We are operating both directly in the EU and also from outside the EU inwards, in terms of the customer base that we have there as well. It is multi-asset class, end-to-end across all parts of the post-trade lifecycle, so we feel very much involved and ingrained. We are probably one of the biggest financial market infrastructure groups within the continent, so, despite the name, we feel very much part of the fabric here.

David Wright

In terms of your staff inside the EU, are they working on the trading side or the data side? With your merger, you have become a huge data company.

Daniel Maguire

We have. If you break the organisation down, around two-thirds of the organisation is data, with the acquisition of Refinitiv, as we have integrated that, and the remainder is our more classic markets businesses, which are vitally important. In terms of what our staff are working on, we have people from engineering, technology, product, sales and customer standpoints, so it is across the whole piece. Taking the markets businesses in Paris, which is the headquarters for LCH SA, we have about 300 staff based there, and that is very much dedicated to the clearing business as well. It is pretty pervasive across all different elements of the lifecycle.

David Wright

On the data issue, am I right in thinking that regulators should have real-time data today? We were talking yesterday about banking scandals and banking problems in the United States and Switzerland. Today, regulators and supervisors do not have real-time data. There is no reason why they should not have it.

Daniel Maguire

There is not. On quite a few occasions, there has been, if not real-time data, then very near to real-time data available. The challenge is always, if you get it, what you do with it. How quickly can you turn that data into insights? Data, in and of itself, is a raw material, but what do you do to process that and give insights? That is what companies like ours can do, working closely with the regulators.

David Wright

Finally on the data, do you find that demand for made-to-measure indices is growing in the corporate and financial sectors?

Daniel Maguire

Definitely, we are seeing more and more demand for out-of-the-box indices, but with the advent of sustainability and ESG, there is a much greater demand for more customisation. That is an area that we see as a big potential growth opportunity.

David Wright

Globally, I guess.

Daniel Maguire

Yes, very much so. There is a huge emphasis in Asia, where there is a rapid growth trajectory happening, but also all through Europe and into the States. It is a global phenomenon, rather than a localised one.

David Wright

Let us talk about one of your favourite subjects: clearing. We all accept that this is a crucial issue for capital markets union, but the question is how. We have had a number of panels this morning. What is the optimum way of doing this? There are proposals on the table that you are well aware of. There is an alternative approach, which I think you have always been supportive of, which is to deepen supervisory cooperation. Can that substitute?

Daniel Maguire

I believe that it can. We have had the debate for many years; there have been many panels at Eurofi on this for a long time. I shall not reprise them all, but I think that we have made some big steps forwards. The regulatory cooperation and supervision is very real. I can say first-hand we have ESMA overseeing us with our UK CCP. It is appropriately invasive on us, working in conjunction with the primary regulator, the Bank of England.

There is definitely a large emphasis on this, and it is important that we continue on that path, but I cannot ignore the fact that there are other noises and sentiments around this from a financial stability standpoint. I know there is a view that strengthening clearing capability in the EU will strengthen the EU. You may strengthen the clearing capability in the EU in theory, on paper, but I think, in reality, that it is going to weaken the EU in terms of participants' competitiveness and perhaps even the euro as a whole.

These are global markets. The clearing houses represent how the markets trade. They represent the supply and demand that goes on around the world, and the euro is a very pervasive currency. For euro IRS, EU firms only represent around 30% of the notional cleared volumes. In other words, 70 % of these euro transactions does not involve an EU participant, which is a good thing, but if you want to fragment and split that, the intended or unintended consequences will be a lack of access and, by extension, a lack of competitiveness for firms in the real economy in the EU.

I can understand the philosophical debate for forms of policy with quantitative thresholds and quotas, but I think it runs counter to making the EU more competitive; it makes it less so.

David Wright

If we think about your preferred option, in my words, not yours, which is to deepen supervisory cooperation and not put quotas or limits on, how would you do that? From the European perspective – I have heard Sean Berrigan say this – we have a financial stability issue if clearing is carried out in the UK. What would the elements for deeper supervisory cooperation mean? What would the substance be?

Daniel Maguire

We have a large number of the elements now, so interest rate swaps and a global market cleared globally. Participants are global; oversight is global, so we need levels of harmonisation, regulatory-wise. Our swaps business is overseen by 14 regulators globally. Pretty much all of the G20 have insight and oversight, so it is about transparency, disclosure, cooperation and testing. We have to test for the eventuality that members and customers fail, and to make sure that regulatory cooperation is real and sincere, and that there is full disclosure. At the same time, to the best of our abilities, we have to define what happens in every scenario. Sometimes we talk about the scenario of a clearing house in trouble, and if the clearing house is in trouble, how do overseas regulators get involved? I think the debate needs to go back to how a clearing house that is well run, well governed and compliant with all the regulations of the various jurisdictions gets into trouble.

The starting point is that there is a default. There is a default of a bank, which has been allowed to default and not go into recovery by a national competent authority, so the start of the actual chain is that clearing houses do not get into trouble in isolation. Clearing houses should not get into trouble full stop, but if they did, it is as a result of a bigger event that could have been prevented. We need to go back to first principles as to how we get to this situation, how we prevent it and how we cooperate, as regulators, to prevent it.

David Wright

I have two follow up questions. People will have memories of what happened in the great financial crisis. There were suddenly decisions taken by the Bank of England, I believe, to ratchet up collateral requirements on certain sovereign debt in Europe. From the European perspective, people worry about that. Is there any way one could conceive of a more legally binding set of obligations between the supervisory parties – not 'on paper' cooperation, but legally binding cooperation – which would mean that, vice versa, the supervisory institutions would not take decisions without full, mandatory cooperation and agreement in crisis situations. Could that work?

Daniel Maguire

If we go back in history to 2010, when there were changes in haircuts on repo collateral, it was not driven by any regulators. If you looked on every screen around the globe, credit spreads were pushing out on certain underlying debts, and equity ratings were pushing out on that. It was a risk management decision by the organisation to reflect what is happening in the market, as you would expect a good clearing house to do. It was not a supervisory edict, to clarify that point.

That said, it brought into focus the reliance on clearing houses, and we learnt a lot from that about how to communicate, correspond and transmit what you will do in certain scenarios, so it has made us much more prepared for those outcomes, working closely with the national banks that issue debt, as well as the regulatory fraternity. I do not think it is about codifying, necessarily, what happens in every scenario from a regulatory standpoint. Ultimately, we are the risk managers, and our job is to take action when we see changes in market circumstances. To put it bluntly, if we have interference on haircuts, driven by other factors, that is not a safe clearing house. Clearing houses have to be independent and reflect what is happening in the markets.

There are many versions of history around this one. I was in the room, so I can clarify what we did. It was about reflecting the underlying market environment and nothing else. However, it has obviously taken a different path since then.

David Wright

Before I ask you about some new initiatives the London Stock Exchange has been announcing, are you perfectly comfortable today with the crisis management arrangements for clearing houses? Are the waterfalls going to work?

Daniel Maguire

I can talk for clearing houses, but I cannot talk for the industry at large. I think so. LCH has been around since 1888, and we have been through many defaults, from Lehman to Barings, Drexel Burnham Lambert and more recently MF Global. The focus and scrutiny we have from the policymakers and the regulators is like nothing that has ever preceded it, and that is a good thing; we expect that. There is the focus, the stress testing, the quantitative analysis we are doing on how we look at the probabilities of defaults and the various scenarios. How do we get to a point where we do not have enough resources? I am pretty confident that we have covered all of the bases, so I think that the event that could take a clearing house to the brink is one that has not been considered in regulation or policy.

Across the globe, we apply whatever the highest standard is from a risk standpoint if it is in the EU. I will not get into EU, US and UK standards. If we quantitatively look at the standard, we take the highest standard and we apply that globally as a minimum across everything we do, and often we go above that as well. Business-wise and commercially, we have a very simple philosophy that the highest standard is what everybody wants. You do not want to worry about your clearing house. We have a very simple phrase: 'Nobody wants to buy the world's cheapest parachute.' It is not about being cheap and cheerful; it is about having the highest standards and protection, and that is our hallmark.

I am confident from an LCH standpoint. I cannot talk for other clearing houses.

David Wright

To close, would you be so kind as to give us some thoughts about what I am reading as new initiatives from the LSE. I picked up three, and no doubt there are more. There is one on private capital, one on distributed ledger technologies building a platform for digital assets, tokenisation and so forth, and one on listing. Can you say a few words about these directions?

Daniel Maguire

I can, yes, and there are probably more than the ones that are public as well. Given the time, rather than dwelling on the detail of each, first of all, we are definitely of the mind that we need to embrace more efficient digitalisation of the way we operate. From a listing standpoint, there is a lot said about the UK and Europe. The rest of the world is developing at pace, from India to China to Saudi Arabia. If we start having the EU/UK debate, we are missing the point. There is a much bigger opportunity and threat out there, so embracing new, more efficient ways, and removing a lot of the burden from doing capital formation and the ongoing requirements around listing, is absolutely key. There are some progressive reforms in the UK and the EU on that, and we welcome it.

How do we react to that? The two things are interlinked. If you want to have digitalisation of markets to make things more efficient, you need to have the regulation that enables it. A lot of this is underpinned by cloud, which has had some time while we are here as well. The whole thing is interlinked: if we want more efficient markets, we need to digitalise, and if we want to digitalise, that is underpinned by cloud. Circling all of those squares is key, but our posture as a firm is, on the one hand, that we are guardians and stewards of systemic financial market infrastructure, so we take that very seriously and we are highly regulated, but we are not deaf. There are new technologies and methodologies out there, so we need to embrace those. We do not want to become Kodak.

How do we think about that? We have a cartilage role between what some people call the old and the new world, although I disagree with that. There is the existing world and the potential new world, and firms like ours – and there are others, too – have the opportunity to embrace sensibly and be the cartilage between bringing new capabilities in to help move us from an analogue world to a digital world and doing it in the safety and security of the regulatory framework that we have.

For us, that is the opportunity. How do we walk that tightrope and navigate that so that we are not just sticking to what we have always done? How do we embrace the future while protecting what we have today? That is our overall posture, hence you have seen a few things lately around this.

David Wright

It sounds extremely interesting. As a last question, in five or 10 years' time, we are going to see the tokenisation of all traditional finance being traded on the LSE. Is that what you think is going to happen?

Daniel Maguire

I think that is definitely one possibility. I just hope that we are not talking about active accounts in 10 years' time.

David Wright

Daniel, thanks very much for being with us.