



Q&A

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Unity and ambition for a competitive Union: time for action

Are the actions listed in the EU Competitiveness Compass the main priorities for making progress on the SIU?

The EU is at a crossroads. In addition to the twin digital and green transitions, the renewed geopolitical tensions and need to boost European defense means that financial markets will have a pivotal role to play in the coming years. And not just as mere enablers of industry, but as a powerful sector for growth, employment, international attractiveness and value creation. Mature EU financial markets will not only attract foreign capital but also channel EU's citizens' savings into important EU-led projects.

The EU competitiveness Compass is undoubtedly one of the building blocks of the transformational change the EU needs to go through. And to make it a reality we need serious political commitment and decisive action from all involved stakeholders, including the private sector, to complete both the Banking and Capital Markets Unions.

What we have seen so far is promising. The simplification agenda will make it easier for business to operate in the EU. This is a much-needed step towards establishing a level-playing field with our international competitors and therefore boosting our competitiveness. Similarly, the objectives of lowering barriers to the Single Market and improve the coordination of policies at the EU level are also essential towards making the EU and its companies more attractive. The current fragmentation of rules – and their interpretations – makes it extremely costly and burdensome to provide cross-border services, imposing a financial ceiling above which very few companies can rise and thrive.

If we are serious about unlocking Europe's financing potential and retaining a prominent position in the global economy, we collectively need to take the necessary steps – and within an ambitious timeframe – to simplify the regulatory framework.

Does the SIU require a change in approach compared to CMU, given that many drivers of capital market development lie with the Member States (e.g. pensions, financial education, tax incentives...)?

I believe both the EU and national components are equally important. As such, we not only need to continue the work that has been carried out during this past decade at the EU level but also shift into higher gear at the national level to achieve true progress.

Updating and completing the EU regulatory framework remains critical to tackle inefficiencies and barriers to the distribution of capital, goods and services. 27 regimes and close to a hundred institutions, bodies, agencies and national authorities cannot be conducive to agile and efficient operations. Firms need one set of rules, enforced in a consistent and harmonised way across the entirety of the EU territory.

Difficult decisions will have to be taken in areas such as insolvency, governance, and tax, but without a unified vision it will be impossible to move forward as a coherent, strong and united entity that can compete with the global superpowers of our time. Again, political commitment is paramount for transformational changes to take place. And that is exactly what Europe needs right now. We must ensure that the dire warnings of Mr. Draghi, Mr. Letta and Mr. Noyer, among others, are not in vain.

Domestically, EU governments must also deliver by taking the necessary measures to boost the development of healthy and robust financial ecosystems. Reforms will have to be carried out so that retail investment flourishes and SMEs can find investment at all levels of their growth strategies. The times where our leaders had two different discourses for Brussels and their capitals must come to an end.

During the last decade the EU has been fixated in developing a Union of capital markets, and while some significant progress has been achieved, we believe true progress has been hindered by the lack of local transformational changes. The EU cannot create a Union of capital markets unless there are markets to be united in the first place.

How can further integration of market infrastructure and supervision, as proposed in the Letta and Draghi reports, support the SIU? What are the key steps to reduce fragmentation and boost the competitiveness of EU capital markets?

Consolidation is a loaded word, and it's important to understand what we truly mean by it so we can strive towards a common goal.

We should first focus on ensuring all financial market infrastructures (FMIs) operate under common standards. If our goal is enhancing the EU's competitiveness, then supervision is a fundamental building block. And the best way to proceed would be to have a sole, common supervisor.

The existing framework is complex, multi-layered and cumbersome for both CCPs and admittedly for supervisory authorities. In addition, it is often implemented differently across Member States, creating an unlevel playing field within the EU. Such environment leads to lengthy approval processes when launching new products and services or changes to risk models. As a result, we are operating with a competitive disadvantage compared to our international peers. Greater market integration can be achieved when market participants operate under a common legal and supervisory framework. Such level-playing field would also allow CCPs – and their clients – to no longer differentiate between Member States but see the EU as one single jurisdiction. There is nevertheless an important political barrier to reaching such state, so if needed we could focus first on a few, critical players (i.e., cross-border, systemically important FMIs) rather than the entire ecosystem.

The EU must also address gold-plating issues. It cannot present itself as one market, and that is a big problem for its attractiveness. A broader and systematic use of Regulations as opposed to Directives would also help towards developing a common set of rules.

Once you have reached such state you are likely to start seeing market consolidation among exchanges, CCPs and CSDs. We nevertheless caution against pushing this idea too far. While having close to a dozen CCPs in the equities space is not ideal, neither is having only one. Competitiveness will come by suppressing impediments to customers' choice rather than suppressing choice. It will also come from supporting successful CCPs to compete at EU and global scale. Mr. Draghi talks about fostering

European champions which can compete with Chinese or US superstar companies. We have such CCPs in the EU, but their capacity to compete is impeded by the complexity of the supervisory and regulatory framework rather than by the number of players in the ecosystem. Ultimately, what matters is truly providing choice to customers, and that can only be achieved through well designed open access rules.

How are new technologies such as DLT, tokenisation, AI, cloud etc... expected to change the financial services market in the coming years? Is their implementation a key objective of LSEG? What are the challenges to overcome?

New technologies such as DLT, tokenisation, AI, and Cloud computing are set to significantly transform financial services markets in the coming years. But the two areas we see as more transformative in the short-term are Cloud and AI.

The transition to Cloud is essential to keep pace with technological advancements and to harness its capabilities for maintaining resilience and competitiveness. Cloud computing offers efficient, secure, and scalable solutions vital for our operations, and regulatory frameworks like the Digital Operational Resilience Act (DORA) support this transition by emphasising operational resilience and third-party risk management. Embracing Cloud technology is therefore essential for managing operational risks, and whilst we are mindful of the geopolitical environment we operate in, we need to ensure sovereignty consideration does not mean we miss the transition to resilient and efficient access to technology to support our competitiveness.

The use of AI technologies will also revolutionise financial markets. Looking at LSEG specifically, we have three major advantages in this area: the depth, breadth and history of our data and analytics, an open ecosystem with true interoperability between LSEG, customer and other third-party data sets, and our in-house quant and engineering talent. Our approach is to apply AI conservatively, ensuring that the use case justifies the technology's application. Such AI use cases are generally applied to support compliance, operational efficiency, and data discoverability, rather than directly impacting the trading or clearing engines. We are far from a world where AI is used in core CCP functions, but we see it as potentially enhancing productivity and the discoverability of data within existing processes, typically by using Generative AI tools in customer service.

We should therefore collectively ensure safe access to Cloud and use of AI capabilities while maintaining necessary human oversight and balancing sovereignty with competitiveness.