



Conversation with David Schwimmer

David Schwimmer - Chief Executive Officer, London Stock Exchange Group

David Wright - President, EUROFI

David Wright

We are very lucky this afternoon that we have a series of conversations with some of the industry leaders in Europe. Our first speaker is David Schwimmer, who is the chief executive officer of LSEG. I am sure he will tell us more. David joined the group in August 2018. Before that, he was with Goldman Sachs as chief of staff to Lloyd Blankfein, who was then the president and CEO of Goldman Sachs. He has just about the most impressive academic record that you could have coming from the US, having degrees from Yale, from Harvard, and from the Fletcher School of Law and Diplomacy. That is fantastic. Let us start.

You are at the coalface. You see things moving every day. How do you see the European capital markets today? Are we making progress and moving in the right direction? You probably heard J. Berrigan saying we have more to do. How do you see the big issues today? What do we need to do to make it more vibrant and dynamic?

David Schwimmer

Thank you, David. It is great to be here. I was just listening to J. Berrigan's remarks. I agree with pretty much everything that he said. I think there is an opportunity to go from making important changes that really have an impact on the margin to really significant political decisions that could have an impact on how attractive and competitive the EU is seen to be. I think we all know what those issues are, so there is no need to recount them. It is a question of emphasis. I am not the first to say that the EU is a leader in regulation. How does the EU become a leader in innovation? I think that would be a fundamental shift and a really important opportunity. We also all know that capital is mobile. When capital gets excited, it moves. We have seen that excitement in the US. We have seen that excitement recently in India. We are even seeing that excitement

now in Japan. There are different drivers of this, but it would be great to see some of the political decisions that focus on competitiveness and opportunity and help unleash that in Europe.

David Wright

I am very glad you used the word excitement. My memory goes back to when Jacques Delors was driving forward the single market programme. This was at the beginning of the 1990s, but there was excitement. There was a genuine belief that things were really happening at the European level. I think he deserves enormous credit for building that. How do we generate that excitement again in Europe nowadays? What do we need to do here?

David Schwimmer

Without going into a number of the specific reforms that J. Berrigan and others have talked about, I think there is a mindset issue here, and almost a cultural dynamic. If you look at how the EU tends to approach a lot of issues, in effect, there is an effort to force activity to either happen within the EU or stay within the EU, as opposed to trying to attract activity to happen within the EU. This gets to this discussion around competitiveness. If there were the same focus on competitiveness that we have in the EU on the digital transition or the green transition, which I know people are talking about, that would have a dramatic impact. It is a mindset shift in terms of being focused on attracting capital into what should be a huge, dynamic, attractive, active capital market. That is a significant mindset shift.

We do not have all day here, but there are a number of other aspects in terms of the cultural dynamics. J. Berrigan touched on financial literacy. How do we get more retail involvement and retail excitement? You see that in some countries in Europe, but how do you get that more pan-European interest? How do we have

pension funds taking a more active role - in terms of the pension capital that is available in Europe, I do not mean to overly generalise here ?. Some are fantastic investors, but I think there is more opportunity there.

David Wright

Knowing the US capital market very well, would you argue that the multi-trillion capitalisation and securitisation like the 401(k) plans and these types of instruments provide the bedrock of a deep, liquid capital market in the US? Is that something we have to replicate here in Europe, for example?

David Schwimmer

I think it is an important part of it. I think this is why this issue is so challenging. There is no single silver bullet. This is about having the right regulatory environment. It is about having the right political environment. It is about having the right embrace of risk culture. It is about having the appropriate balance between capital market activity and bank lending activity. That does not change overnight. I think all of these issues come into play. I think this is something that needs cooperation and partnership between the public sector and the private sector. I think you need an acceptance of risk because capital markets are about risk and allocation of risk. There are winners and losers. That often is a concept that fits pretty uncomfortably with a regulatory environment. All of these things play a role.

David Wright

David, one thing I definitely wanted to ask you about is listings, because I think there has been a collective frisson in Europe about losing a lot of listings. First of all, listings are going down. Secondly, there have been a lot of listings drifting across the Atlantic. I think that is partially true in the UK as well. What does one do about that? Are the rules wrong? Is it the depth of the markets? Is this a fragmentation issue? Why is it so sudden?

David Schwimmer

I think it is related to the conversation we have had already, but there are some nuances to it. The first point I should make is that there is a very strong narrative about listings going to the US, whether from continental Europe or from London. The narrative is, frankly, a little bit overplayed if you look at the actual number. I think it is important to keep that in mind. There is also a narrative about a difference in valuations that you can get in the US versus listings in continental Europe or in London. That narrative is also overplayed. There are a number of banks that have done some good analytical work on this. Look at companies on a comparable apples-to-apples basis in terms of growth rates. If you adjust out for the significantly larger number of tech stocks that have a very high multiple in the US market, there is not that kind of meaningful differentiation in valuation. Some of these overly simplistic narratives have gotten a lot of play in the media. You have to look at them a little bit more sceptically.

Having said that, there is an issue. It comes back to some of the topics that we were touching on already, in terms of risk appetite among investors. The US is

the largest capital market in the world. That is both positive and negative. This is something that we have seen with a number of companies. It does not make sense for every company to go list in the US. A lot of companies that go list in the US get lost in the capital markets there, given their size. We have looked at the statistics specifically of companies that have gone from the UK. A significant majority of those that are still listed are trading well under their listing valuation, and a number have been delisted. It is not such a wonderful environment to go into. I think the narrative is still out there.

There is an important aspect here, which is that the US is seen somewhat culturally as more receptive to longer-term innovation, longer-term growth opportunity and near-term profits. There is less demand for that. As an investor, you may say, 'I would rather invest in the UK or European markets,' but if you think about the kinds of companies that are driving change, that are driving innovation, a lot of them take that longer-term perspective. From an investor perspective, do we have that kind of support for those companies here in the EU? Do we have that kind of support for those companies in Europe broadly?

David Wright

Looking at the smaller companies, do you think Europe is doing a rather poor job? We are not getting many fast-growing, small companies to list in Europe. That is the future economy, is it not? That is where huge numbers of jobs and growth will come from. What I am asking here is, is there a particular problem regarding small companies?

David Schwimmer

Here is where I want to be a little bit careful about the narrative becoming too negative. First of all, the Initial Public Offer (IPO) environment around the world has been pretty grim for the past couple of years, including in the US. The other aspect of this is that, because we have had low interest rates for so long, people often lose sight of the fact that we are basically at the tail end of a 20-year cycle, when it has been very easy for companies not to go public. They have had plenty of access to private capital. I do not want to make interest rate predictions, but if we are at the end of a 20-year cycle, and if we are in a position where capital actually has a cost again, then you will see companies thinking very differently about access to capital. We are already seeing significant changes in terms of how the private equity sector is working.

I think that is a long way of saying it is a little bit early to call the death of small and medium-sized IPOs in this market and in other markets, because I think this change in the interest rate paradigm is going to have an impact on how access to public equity capital is seen as relatively more attractive.

David Wright

Finally, David, myself and others have been reading about some very interesting technology projects underway at the LSEG. How are you adapting to all the AI, distributed ledger technology (DLT), desktop

management interface (DMI) and tokenisation? This is a big question. Maybe you could steer us and give us a flavour of where the LSEG thinks it should move.

David Schwimmer

There is a lot going on at LSEG in terms of what we are doing with both DLT and with AI in different parts of the business. I will just touch briefly on an initiative. We have to build digital market infrastructure. We are basically building what we refer to as asset class agnostic digital infrastructure, so that you can have the custody of the tokenisation, the actual execution and settlement in an existing digital infrastructure. Our focus initially will be on asset classes. I will call them new asset classes, but they are basically asset classes where the current market infrastructure does not work so well. You should not expect us to go after public equities. That is actually working pretty well. For example, private assets tend to face much more friction in terms of how the execution takes place.

On the AI front, we are using AI in a number of different areas. In our operations, we are using it to answer customer queries. In terms of our data ingestion, we have thousands of people doing data ingestion, given the scale of our business. You can just imagine the greater efficiencies we are getting out of those people by arming them with AI technology to help ingest the data that we use in our global data business. We are embedding it in some products that we are building, in particular with products that we are building as part of our partnership with Microsoft. We expect to be rolling that out. Some of the pilots are actually coming over the course of the next few months. They will be generally available over the course of this year. There is a lot of excitement internally about that. There is a lot of excitement in terms of the customers that we are designing these products with. I think they are going to have a big impact in terms of the workflow, how the financial sector really interacts and is able to work with each other.

David Wright

Finally, I have a curveball question, as I think you call it in the US. Think forward 10 years, David. Is it an instantaneous trading, clearing, settlement, tokenised world we are going to be living in, in terms of trading and so forth?

David Schwimmer

There are many different ways to speculate on that question. Maybe I will pick up on one of the comments that J. Berrigan was making earlier. Today, there is still this emphasis on the geographic location of where trading supposedly takes place. Capital is global. Companies tend to be at least international, if not global. I think with the benefits of technology, 10 years from now, we are in an environment where the trading does not necessarily take place in a specific location. In this case, we are talking about equity trading, but the trading does not take place in a jurisdiction. It is taking place in the cloud.

There is an important question there. What happens from a regulatory perspective? Some asset classes do

not require regulation. The way we like to work, and given the institution we are, we work with regulators. We are having these conversations already. I think there is a real opportunity here for regulators to also have this mindset and think, 'How do we apply our regulatory medallion in a less geographically focused but more functionally focused environment that this digital, cloud-based, et cetera?'

David Wright

Thank you, David. It is great pleasure to have you with us. Thank you for your support of Eurofi. We look forward to seeing you in the next edition in Hungary in September time.

David Schwimmer

Thank you for having me.