



## Conversation with David Schwimmer

**David Schwimmer** - Chief Executive Officer, London Stock Exchange Group (LSEG)

**David Wright** - President, EUROFI

### David Wright

Good afternoon again, everybody. I have the pleasure now of having a conversation with David Schwimmer, who is chief executive officer and a member of the board of LSEG. He has been with LSEG since August 2018. He spent 20 years before that at Goldman Sachs, including being chief of staff to Lloyd Blankfein, who was president at the time. He has had a very distinguished career, originally from Yale University, a law degree, then international affairs from Harvard University, and the Fletcher School of Law and Diplomacy. It does not get any better than that.

David, you have been with us before, and I want to underline how much we appreciate the possibility to talk to you and also LSEG's continued support for Eurofi. It is a great pity that we could not see you in Nicosia. Hopefully, it will be in Dublin. To start, let me ask you, if I may, how you see the attractiveness today of the capital markets in the European Union and the UK. There is a lot of activity going on. We have a market integration package in Europe, and all sorts of other things. Are you positive about the direction of change? Are you seeing some good signs?

### David Schwimmer

David, first of all, thank you for having me. It is great to be able to join you, even if it is virtually. I have to say that the fact that competitiveness is at the top of Europe's agenda is a critical factor and really important. It cannot be overstated. Of course, we have to have the appropriate delivery and execution on that competitiveness agenda, but it is good to see, in the

EU Council meeting last Thursday, the EU leaders' declaration confirming the strong commitment for the EU to deepen and integrate a single market, with the aim of finalising the market integration and supervision package (MISP) negotiations by year end.

Again, these are positive signals. There does seem to be a sense of urgency, and we will see how the delivery goes. Switzerland is getting closer to the EU. The UK and the EU seem to be working more cooperatively these days. This is crucial to providing European businesses, including those in strategic sectors, with the equity and the market support that they need to innovate, to expand and to create jobs. I am very supportive of it.

One critical aspect that I will say I am hopeful but not quite yet optimistic about is the need to really mobilise pension funds and the pool in them. This is such an important area. Just to put some numbers around this, the pool of assets in UK pension funds is the third largest in the world, after the US and Japan. UK pension funds 30 years ago invested over 50% of their allocation to UK equities. Today, it is more like 4%. That is a fundamental challenge in terms of providing capital to the market. There are similar issues in the European Union. Having a stronger domestic pension allocation of capital and really creating that kind of strength in the funding of the capital markets is one very important element of this. Again, the drive for competitiveness is really important. Let us see how we go in terms of actual delivery.

### David Wright

If we drill down a little bit, David, looking at the language and proposals around improving listing

and clearing data, and all of that, do you see positive signals? Europe and the UK have had trouble with declining listings. Do you see this ecosystem with venture capital now scaling up and becoming much more a series of words you hear far more about than I have, anyway, over 25 years? Drill down a bit and tell us what you think are the key elements here.

### David Schwimmer

We are making progress, but there is more to go. The listing reforms, both in the UK and in the EU, are helpful. There are innovative market structures in these different jurisdictions. You talked about bringing in venture capital or providing more support earlier in the stage of access to the markets. Maybe I will just touch on one example that we have been working on for a few years, which is the private securities market in the UK.

What that does is allow private companies to access the public market infrastructure of the LSE and to engage in an offering on the LSE, and then go back to being a private company. It really breaks down this brightline structure between public market and private market. That is a very innovative and important change, given how much more capital is staying with private companies. This is something that we have been working on for a few years, and we had the first offering literally yesterday. When I look at that, that does give me a sense of optimism that there are creative, thoughtful and innovative structures being used, taking advantage of the openness to reform, whether it is here in the UK or in the EU, but, again, there is more to do.

### David Wright

We have seen a big surge in private equity. Would you judge that as a good thing overall? In the US, that is particularly true, but, globally speaking, non-bank financial institutions cover more than 50% of the financial markets, so there are big structural changes going on here. Is that something that you are concerned about, or do you think that these are market forces and we have to work with them?

### David Schwimmer

There are market forces at work, but that have also been influenced by, I will say, certain government actions. You touched on private equity. Private equity has grown enormously over the last couple of decades, in part because of the availability of, I will say, somewhat inaccurately, free money. Monetary policy has really significantly accelerated and enabled the growth of the private equity sector.

We are seeing the private equity world struggle a little bit now and go through a bit of a correction. Because of the nature of the private equity model, that correction will take years to work through. Where we will get to as we move more towards an equilibrium is a larger private equity sector than we would have had 20 years ago, but also a more balanced dynamic, where you have private equity working with public markets as well.

Technology is changing things here as well, because, when you think about things like digitalisation and tokenisation, you can create, through the technological and market structure shifts, a different kind of trading environment, where it becomes less about capital structure, less about public versus private, and more about liquid versus illiquid. That is a pretty interesting shift in the paradigm. What I was talking about a moment ago with respect to our private securities market is a part of that, but digitalisation also can play a big part in that going forward.

### David Wright

Just on the EU and the market integration package's approach to improving competition on infrastructure and on supervisory convergence, those are two of the big planks of European reform and of this market integration package. How do you see those things? You are supervised quite well by the European Securities and Markets Authority (ESMA). Are you happy with the way the commission has proposed changes here?

### David Schwimmer

MISP is a key proposal for us at LSEG. This is something where, for years, we have been pointing out the inefficiencies of the current EU supervisory structure and how much of a drag it can be on competitiveness for the markets generally. Again, to the main theme of the discussion here, Europe needs fewer barriers to compete globally. If we can have truly centralised supervision, that is very helpful. We are supportive of the MISP proposals for that, and that can be increasingly beneficial.

Just to put some examples around this, LSEG runs several entities in the EU that are supervised by ESMA. If the MISP is successful, ESMA will be supervising more LSEG entities. We have two central counterparties (CCPs). We have two multilateral trading facilities (MTFs). We have a regulatory reporting provider, an index provider and we will have an environmental, social and governance (ESG) ratings provider. In terms of the notion of having a single supervisor that we can interact with and that can coordinate across all of those different areas, we are very supportive of that.

To the extent that we can have more transparency and more predictability around supervisory processes, that will help investors in terms of allocating capital more efficiently. Ultimately, that will, we believe, strengthen the EU's market attractiveness.

### David Wright

Just looking forward, from a technology point of view, as you said, there is a great deal going on – artificial intelligence (AI), tokenisation and 24-hour trading. Yours has become a data-driven company. The largest part of your turnover is now in data sales and so forth. Where is all this going? There are an awful lot of moving variables. Give us your forward thinking here.

### David Schwimmer

I will put this into the EU context as well. Let me touch on a few different aspects of this. First of all, just with respect to cloud, this is an important issue that we and others have been navigating in the EU in the context of competitiveness. It is very reasonable for countries to want to have control over, I will say, cloud sovereignty. Given the pre-eminence of US cloud providers, that can be a challenge.

The issue that we see in the EU is nation-specific requirements from local member states around cloud, and we view that as very challenging. To the extent that the EU can have more of a coherent, integrated framework in terms of dealing with cloud requirements and strategic autonomy with respect to cloud providers, and if we could get away from this regulatory fragmentation around cloud usage, that would be very helpful.

Another critical topic, of course, is AI. There is no doubt that AI is transforming markets. In terms of the way that we approach this, our strategy is built on three pillars. We think about trusted data. In other words, as you mentioned, we are a very significant data provider to the markets now. It is mission-critical that our data can be trusted in these AI distribution channels, whether they are models or agents or others. We are enabling our products with AI, so we are transforming a lot of our workflow with AI functionality. We are also, of course, using AI in our own operations and capabilities, and driving significant speed and efficiency there.

As we are using this – and this applies across the industry – it is very important to make our data usable and have AI embedded in our product, but we have to adhere to what we and others refer to as responsible AI principles. Some of these have been inspired by the Organisation for Economic Co-operation and

Development (OECD), and we strongly support those initiatives, as well as initiatives like data free flow with trust. That is an opportunity, but it is important to get the risk management, and the resilience associated with that, right.

You have opened a bit of a box here in terms of technological changes in innovation. One other area that I should just touch on relates to tokenisation. This is a topic that we could spend a lot more time on. We will see a shift to more 24/7 – or maybe 24/5 – trading with tokenised assets. I do not expect to see a wholesale shift from traditional market infrastructure over to digital. There are some technological reasons why that is unlikely to happen, but I do expect to see more of a hybrid trading model.

A lot of the demand that we are seeing for 24-hour trading at this point is driven by the retail community that has grown up on crypto, and there will be demand from that for more access to equities, but the challenge is that the distributed ledger technology (DLT) does not scale fully for equity markets, and the latency requirements of the equity markets cannot be met by DLT at this point. However, there are still a lot of innovations and opportunities within those constraints. You will also see it in other asset classes and in other parts of the trade lifecycle – for example, in post trade clearing or settlement.

### David Wright

David, it has been a pleasure, as usual, to talk to you. We could go on for hours. I hope we will have the opportunity in Dublin in the middle of September, when we will definitely meet physically, to talk again. We wish you every success, and we thank you and LSEG again for your continuous support of Eurofi. Thank you so much.

### David Schwimmer

David, thank you very much. As you said, we are very supportive of Eurofi and what you are doing, and it is very helpful for the health of the market, so thank you.

### David Wright

Great. Bye for now.