HOUSE OF LORDS

Select Committee on the European Union

EU Financial Affairs Sub-Committee

Corrected oral evidence: Brexit and central counterparties

Wednesday 13 February 2019

10.15 am

Watch the meeting

Members present: Baroness Falkner of Margravine (The Chairman); Lord Bruce of Bennachie; Lord Butler of Brockwell; Lord Cavendish of Furness; Lord Desai; Lord Giddens; Baroness Liddell of Coatdyke; The Earl of Lindsay; Baroness Neville-Rolfe; Lord Thomas of Cwmgiedd; Viscount Trenchard.

Evidence Session No. 1 Heard in Public Questions 1 - 11

Witnesses

I: Daniel Maguire, Chief Executive Officer, London Clearing House Group; Michael Voisin, Director, Futures Industry Association.

Examination of witnesses

Daniel Maguire and Michael Voisin.

Q1 **The Chairman:** Good morning, Mr Daniel Maguire from the LCH Group and Mr Michael Voisin from the FIA. Welcome to the EU Financial Affairs Sub-Committee's public evidence session on Brexit and central counterparties.

You have before you a declaration of members' interests. The session is being broadcast live on parliamentlive.tv. A full transcript is being taken and will be made available to you to make any corrections shortly after the session.

We are delighted to have you here. Mr Maguire, we know you from the past when you gave evidence to us. Welcome back. Would either of you like to make a brief opening statement, or shall we go straight into questions?

Michael Voisin: There is no opening statement from me.

The Chairman: Excellent. I will kick off by asking what impact Brexit has had to date on UK central counterparties. Mr Maguire, I think we spoke to you 18 months ago. There has been a considerable shift in the sand since then on both sides in EU regulation. Has there been a significant shift of activity or jobs from the UK to other EU member states? In general, what do you think of the landscape as you see it now?

Daniel Maguire: I last appeared before the Committee in October 2017. It is fair to say that a lot of progress has been made since then across the industry; we have come a long way. As we look at things now, the importance and criticality of clearing as a node for reducing systemic risk and enhancing financial stability in the capital markets is much better understood on both sides of the channel, both sides of the Atlantic and further afield. There has been a lot of progress in education and in understanding of its critical importance.

We have seen a lot of tangible and, importantly, visible progress in the regulatory tapestry that sits across global marketplaces. We have seen some good implementation and clarity from EU, UK and US authorities. That has brought some certainty into the marketplace, but it is temporary. We must not rest on our laurels or be complacent because there is a need for it to transition to more permanent certainty.

To answer the question on impact directly, we have seen no discernible change in behaviour by customers, by which I mean banks, pension funds, hedge funds and asset managers. Clearly, there is a lot of marketing and media, but as regards facts we have seen no discernible change in activity or behaviour in the use of our clearing house; indeed, we have been having record years.

Michael Voisin: The question is focused very much on CCPs. Another question is: how do end-users—customers, pension funds and insurance companies—access CCPs? That would be through clearing brokers, the

clearing members. A significant question relates to access by EU 27 end-users to CCPs via the clearing brokers, and where the clearing brokers are located and whether they are required to be located in the EU 27 or whether services can be provided to them from the UK. At the moment, there is an element of uncertainty about that. We will probably touch on it later. A lot of arrangements have been put in place for those services to continue to be provided from the EU 27 should it not be possible to provide access via UK-based clearing members.

The Chairman: What needs to happen to do away with the uncertainty?

Michael Voisin: In a sense, the provision of clearing services to end-users is a regulated activity, and the question is whether UK-located clearing members will be permitted to provide that regulated activity to EU 27 members after Brexit.

The Chairman: We will pick that up as we go along.

Q2 **Lord Desai:** What is the worst-case scenario, and are you prepared for it?

Daniel Maguire: It is hard to characterise the worst-case scenario. We deal in uncertainty in clearing houses, as you pointed out the last time we met. It is very important that we prepare for every conceivable scenario, purely from a clearing house standpoint. I cannot talk on behalf of the whole industry.

The business continues to perform strongly. The work that has been done with the notifications that came out from the European Commission, ESMA and the Bank of England on 19 December 2018 gave a lot more clarity and certainty. Although that does not give us certainty on the political outcome, it gives us certainty from a financial stability standpoint. At LCH we took a lot of heart from that and, more importantly than LCH, the industry at large—referring to the customers—appreciated that certainty. But there is still the point about temporary versus permanent. On the worst-case scenario as you refer to it, we think we have taken the temperature down a bit from what we saw on 19 December, but there is no room for complacency.

Michael Voisin: I absolutely agree. The worst-case scenario has been avoided by the temporary equivalence regime. There are still unfavourable circumstances in the potential splitting of customers' portfolios at clearing members in the UK and outside it. That will make it harder for mostly EU 27 end-users to generate efficiencies with their portfolios of derivatives. If they clear all their transactions through a single clearing member, they may have the benefits of offsets that will help them with their regulatory capital; it will help them with the margin they have to post and the risk profile. If they are split between different clearing members, it creates more risk and cost for those end-users. Currently, it is not clear that there is a solution to that in the context of a full Brexit.

Lord Desai: Would that impact on the economy as a whole? Could it

cause serious financial market disruption?

Michael Voisin: That is probably an exaggeration. It would, however, cause significant cost. Mr Maguire can talk about the sorts of numbers involved, which I understand are quite large. They would be costs borne ultimately by consumers whose money is invested in the hedging tools that are critical to the smooth operation of the real economy. They are real costs and significant amounts of money that should not be ignored.

Lord Desai: But business will continue to operate even at a higher cost, and transactions will still be carried out; or will they stop? Will there be a breakdown?

Daniel Maguire: To build on Mr Voisin's point, there is a cost element and there is the safe continuous operation of the marketplace. I will focus on the latter. The focus from a clearing house regulatory standpoint has been primarily on preserving financial stability and reducing systemic risk. What we now have in place on a temporary basis averts a breakdown in process. Why do I say that?

We now have from a clearing house and customer standpoint the ability to continue to offer the services we do, and to continue to manage the risk in the way we did. If we go forward and there is a change from what we have as temporary to permanent, where things could fragment markets, it will have a cost impact. In my view, and probably even more importantly, it will fragment risk, and that flies in the face of G20 commitments, because fragmentation will have a negative impact in terms of risk and default in the real economy.

Lord Butler of Brockwell: In saying that the temporary Commission regime has dealt with the immediate problems, do you make no distinction between a deal and no-deal situation?

Michael Voisin: The EU's temporary equivalence regime is on the basis of no deal. If there is a deal, there will be a transitional period and the status quo will prevail. In both events, the worst-case scenario is avoided because there is a temporary equivalence regime in no deal. The UK has a temporary recognition regime flowing the other way for EU 27 CCPs. Again, the worst-case scenarios are avoided from that perspective.

The Chairman: The Earl of Lindsay will need to leave right after this question. It will be nothing to do with your answers; he has another appointment.

Michael Voisin: We will try not to give him a reason to stay.

Q3 **Earl of Lindsay:** I apologise for the clash of commitments. I want to ask about data. We have been told constantly about the importance of the UK being granted data adequacy to facilitate the flow of data between the UK and the EU. How important is that factor to the CCP community?

Daniel Maguire: The Bank of England, the ECB and LCH have a tripartite memorandum of understanding with regard to data sharing that has been

in place for a number of years. The Bank of England and ESMA recently enhanced the memorandum of understanding as well. With those two events and the 19 December European Commission temporary equivalence, from a CCP standpoint we do not see major issues on data sharing. It is not a high order concern from a CCP standpoint.

Earl of Lindsay: Mr Voisin, from your slightly wider perspective do you agree?

Michael Voisin: Yes. In the clearing world, little personal data is involved. A lot of the major issues relating to data are connected with personal data. It is possible to structure arrangements in such a way that the main concerns in relation to clearing do not arise in data transfer.

The Chairman: Mr Maguire, can I go back to one of your earlier answers? The last time you appeared before the Committee, I recall your saying that the impact overall of what we saw coming down the line might mean that business, as it fragmented, would not necessarily move to the EU but would move to other jurisdictions. Do you see that happening? Could you also tell us whether there is as yet any impact on jobs, or any movement of people?

Daniel Maguire: I will take that in two halves. The fragmentation question corresponds to what we refer to as location policy and the impact thereof. Our view has been and continues to be that a location policy is a fragmentation policy and flies in the face of G20 commitments. It does not make sense and solves nobody’s problem.

When we were looking at things in October 2017, there were reasonable reactions. The view we had then and continue to have is that, if there is broader market fragmentation, it is possible that things could move to the US, not necessarily the EU, so a location policy would not necessarily achieve its goal. That continues to be our view. Over the course of 18 months, there has been positive momentum and positive discussions, between not just the UK and the EU but the UK, the US and the EU. I hope that policy will be avoided, but it is still a possibility at this point.

The Chairman: We will talk about location further on in the session. What about jobs?

Daniel Maguire: On jobs, I can talk only from the clearing house standpoint. We have seen no change in our employment or staffing in any way, shape or form around the clearing of derivatives.

The Chairman: Despite Deutsche Börse picking up a significant chunk of business in July last year.

Daniel Maguire: There are media messages and marketing, and there are facts. That is probably the best way to look at it. The competitive landscape is upon us, and has been for some time. There is no complacency on our part, but, if you look at market share, volumes and facts, you will see that there has been no material shift in volumes. I do not want to underestimate it, but, to give context, in 2018 LCH had a

record year for the volume of clearing interest rate swaps, repos and other product sets. We have not seen a discernible change in behaviour, but we have seen a discernible change in marketing and the associated noise. People are competitors, and a competitive landscape is a good thing for all of us. Competitors are definitely leveraging the Brexit uncertainty to fuel their competitive aspirations, but we see no discernible change.

The Chairman: Mr Voisin, do you have any comments?

Michael Voisin: In relation to clearing members, there are clearly concerns that services will need to be provided from the EU that previously had been provided from the UK. Many large clearing members are looking at moving operations and services to the EU 27. It very much depends on the clearing member; many different approaches are being taken, but inevitably that will result in the loss of business and employment from the UK to the EU 27, to enable EU 27 customers to be serviced from EU 27 clearing members instead of UK clearing members.

The Chairman: To return to Lord Butler's point, does deal or no deal have an impact, or will it be a slow burn?

Michael Voisin: It will depend on the deal. If there is some form of deal, there is a transition period and the need to make arrangements immediately recedes. There is obviously a lead time, which is talked about a lot, so contingency plans have already been put in place by all the large clearing members because they cannot wait, but the level of implementation in movement of jobs is probably happening at a slower level at the moment.

Q4 **Viscount Trenchard:** I would like to ask about contractual continuity, which is known to be a pressing issue for the financial services industry. I think this is connected with Lord Butler's question about equivalence recognition. You have confirmed that there is mutual equivalence of central counterparties, but unfortunately it is not equivalent because the EU has given us one year and we have given the EU three years, as I understand it, which seems odd.

I understand that the problem of contractual continuity is also connected to the fact that, although CCPs have been recognised as equivalent, albeit temporarily, exchanges have not, and this is a problem of piecemeal recognition. As the exchanges are not recognised yet, derivatives are forced into being considered as OTC derivatives. What are the difficulties for the CCPs as regards contractual continuity for derivatives, given that the classification of those that are OTC is being increased? What is being forced into being OTC that would otherwise not have been?

Michael Voisin: Contractual continuity is a slight misnomer because it is not about continuation of contracts; it is about the ability to manage existing contracts. As you rightly said, this is less an issue for CCPs and more of an issue for end-users and their contractual relationships with their clearing members and clearing brokers. To build on an answer I gave slightly earlier, the question is the extent to which, and how, end-

users ultimately access CCPs via their clearing members. Because of the temporary regime, CCPs can continue to provide services in the EU 27. I can talk later about the disparity in time periods. I am probably not so concerned about that, and I will explain why a bit later.

Contractual continuity is not really a concern for CCPs; their contracts can continue to be managed and closed out through their clearing members. The question is to do with end-users who may have a very large volume of cleared derivatives through, say, a clearing broker in the UK, and after Brexit might have to trade through a different clearing broker in the EU 27. They may have difficulty trading between those two portfolios, depending on the regulatory regime in place at the time. It is very complex.

It is partly governed by MiFID II and MiFIR, the new regulations relating to the provision of investment services in the EU, but it is also governed by exemptions available in each member state. Each member state is considering its own exemptions at the moment as part of its Brexit contingency planning, so it is not possible to speak with a great deal of certainty. Luxembourg and Ireland, for example, already have in place arrangements similar to the UK overseas persons exemptions, which probably allow the provision of services from the UK to end-users.

The question is the extent to which existing legacy portfolios can continue to be managed and run off through UK clearing brokers in other EU 27 jurisdictions. That is uncertain because we are dependent on legislation being passed in each EU member state. There have been very positive noises from a number of member states that are keen to avoid cliff-edge impacts, effectively, for end-users in the particular member state.

As a portfolio of derivatives matures, some may have been natural hedges for those that have matured, so the portfolio may have become more directional, as it is called, because it is less hedged. That may result in greater margin calls than might otherwise be the case. There are potentially significant cost implications if people cannot actively manage their portfolios. Frankly, it is in everyone’s interest for the management of portfolios to be able to continue effectively.

Daniel Maguire: To go back to the specific CCP point, the issue is about access to CCPs. There is no concern from the CCP perspective about contract continuity. It relates to the clearing broker and the end-user, and what we refer to as the bilateral or uncleared world, so it is de facto not in the clearing house.

I agree that there is asymmetry in the Bank of England’s temporary recognition of the EU and the Commission’s temporary recognition the other way, which is why I keep referring to the need for it to be permanent. That would alleviate any concerns we would have on that purely from a CCP standpoint, but I agree with Mr Voisin that there is a ripple effect, and the impact of contract continuity is further downstream rather than in the clearing houses.

Michael Voisin: In relation to clearing houses, that is correct. There was a question about trading venues that we have not answered. Would you like us to go on to that now?

The Chairman: Yes, please.

Michael Voisin: A number of trade associations have written to the European Commission pointing out that there has not been an equivalence regime for UK trading venues. That means that EU 27 members could be denied access to UK trading venues if no equivalence is granted. To the extent that the trading venues offer greater liquidity, and therefore better pricing, it means that trading by people who do not have access to those venues would be more expensive; they would have to pay a higher bid offer spread. Were they to trade on those venues, they would be treated not as exchange-traded derivatives but as over-the-counter derivatives under EMIR.

Because those contracts would be categorised as OTC, the risk is that it would go to the assessment of whether the counterparty, if it is a non-financial one, is what is called an NFCs+ or NFCs-. NFCs+ are those whose notional amount of contracts exceeds a certain threshold. The consequence is that they fall within mandatory risk management provisions under EMIR, including, for example, the margining of their derivatives and other provisions. It would not be desirable for many EU 27 end-users to fall into that category, which might cause them to reduce their trading on UK venues and might deny them favourable pricing and liquidity.

Daniel Maguire: There are two outcomes. One is a lack of access for the EU 27 to these venues and all the things that brings, much the same as the arguments about clearing houses. The alternative is that people refer to OTC, neither of which seems a sensible outcome.

Viscount Trenchard: When you say trading venues, does it mean stock exchange? Is "trading venue" a new term for a recognised stock exchange?

Michael Voisin: Trading venues would include over-the-counter trading venues, swap execution facilities and derivatives trading venues, not just stock exchanges or forms of regulated execution platforms.

The Chairman: Mr Voisin, do I understand correctly? In effect, you are saying that the lack of clearing equivalence would result in more damage to EU customers and the impact would not be felt in the UK. The impact in the UK would be loss of business.

Michael Voisin: Yes.

The Chairman: But from a customer perspective, it would be EU customers who would not be able to have access.

Michael Voisin: Yes. It is about access by EU 27 customers to UK infrastructure, but, of course, if that access is denied, the infrastructure

loses business. The question is: where does that business go, and how does one create trading liquidity between UK market participants and EU 27 market participants? One could end up with a rather ironic position whereby US trading venues that have been deemed equivalent are the places where UK and EU 27 members have to go to trade with each other. That would be ironic.

The Chairman: Indeed.

Daniel Maguire: There are parallels. There is an important nuance, but it is a distinction; it refers to equivalence of execution venues, trade venues or exchanges. From a clearing standpoint, we have now crossed that bridge and we have access under the temporary recognition regime. This is specifically about execution, but there are a lot of parallels in access to liquidity and people using other equivalents in other parts of the world. There are parallels, but obviously it is slightly different.

Q5 **Lord Giddens:** I have two questions, one of which I think you have answered and the second you might not want to answer. The question I was documented to ask you is whether you want to say anything else about the limitations of the temporary recognition regime and issues that need addressing.

I would like to go back to the questions asked by Lord Butler and Lord Desai. A no-deal Brexit would be a huge shock, I think, operating against the background of volatility in the wider world economy, with a slowdown in growth in China and, if I may put it this way, the somewhat eccentric policies followed by the United States. Some people are already talking of a global recession. Could that produce a greater shock in your sector, or in the issues you are dealing with, and do we need to take further actions to anticipate that kind of worst-case scenario?

Daniel Maguire: I will answer the easier one first, but I will answer both.

Lord Giddens: The easier one is the second one.

Daniel Maguire: Let me refer first to the recognition regime and then talk about the broader macro-question you asked. The way we and, I believe, the European Commission, the Bank of England and other authorities see the European Commission and ESMA recognition for this temporary period is as a bridge from the current world to the future world. The future world in our parlance is what is known as EMIR 2.2. I am trying religiously not to use acronyms and jargon as everybody in the industry does.

EMIR 2.2 is, essentially, the future regulatory tapestry for the treatment of what we refer to as a third-country clearing house. There are already things in place, but that is really the future. The regulation is currently going through the European trialogue process in which we have been heavily involved. Embedded in that are various elements, such as direct supervision by ESMA, which is the pan-European regulator. The intention

is for ESMA to oversee clearing houses in the EU potentially and in third countries such as the UK.

The Chairman: We will be coming to the whole story about ESMA and its impact later in the session.

Daniel Maguire: I will pause there. To finish the answer, as we go through the process, it is about making sure that we have the oversight required by third-country regulators of UK CCPs. One of the key elements is ensuring that it is proportionate, predictable and does not in any way interfere with what we would call business-as-usual operations by default. We need to ensure that the home regulator has the authority in a default scenario to take the action it needs to. Those are the key things about the future text and fabric.

Lord Giddens: Do you feel relatively sanguine about the temporary situation?

Daniel Maguire: I am seldom sanguine. There is more work to do.

Lord Giddens: There must be risks attached to it.

Daniel Maguire: There are definitely risks. There is good dialogue and good understanding that global product, global derivatives, and global clearing houses need globally co-ordinated regulation. There is good understanding, but, as always, the devil is in the detail. We are very focused on working with the authorities on that. "Sanguine" is probably not the word I would use; I would say "focused". I am cautiously optimistic.

Michael Voisin: There is precedent in the EU for the temporary nature of the recognition. There are many examples of relatively short-term exemptions being granted by the EU in the context of clearing. For example, one is related to what is called qualifying clearing house recognition for capital adequacy purposes under the Capital Requirements Regulation being granted initially for six months to accommodate US CCPs that have not yet undergone an authorisation and final recognition process. This has been rolled over every six months at relatively short notice for some years.

The expectation is that a similar process would occur in this situation. It is an expectation, but it is born from experience rather than assurance, based on the fact that it would be in the EU's interests to extend if EMIR 2.2, which Mr Maguire talked about, has not yet been enacted and is not yet in force. The expectation may be that EMIR 2.2 will be in force and fully operational at the expiry of the 12-month period, in which case one would not need to roll it over. But if there is a delay or if EMIR 2.2 were not to be fully in force and did not govern recognition of third-country CCPs, as would be the case of the UK, I would have thought it a sensible and reasonable expectation that the 12-month period would be rolled over. It would be in the interests of EU 27 end-users, to the extent

that it has already been felt to be in their interests, for that to be continued until there was an appropriate regulatory regime in place.

Daniel Maguire: To respond to the second question, from a macroeconomic perspective clearing houses are naturally pessimistic and cautious, so we observe all the things you referred to. We are a circuit breaker in the financial markets. In the unfolding global situation, we are looking at and preparing for all eventualities. That is what we do. From margining methodology to stress testing and thinking of scenarios that are extreme but plausible, as we refer to it in the industry, we are considering all those elements and ensuring that we, the marketplace and the members and their customers are well insulated. We are the new normal, as people often refer to it, but we keep a very cautious eye on things.

It is hard to predict the outcomes. We reflect the short term of the market, but we are looking across a longer horizon. The CCPs are not an isolated node in the marketplace. We are generally a reflection of what is happening in the markets. There are sometimes discussions about CCP recovery resolution. If a CCP that is well managed, well governed and well overseen has challenges, there is a much broader event happening in the marketplace. We need to join all the dots when we look at CCPs, because if a CCP is raising margins and default funds it is—

Lord Giddens: You are main contributors to stability. That is a key part of your function.

Daniel Maguire: Our core primary purpose is to maintain and strengthen financial stability. That is what we do. That means we take a more conservative, some could say pessimistic, view. Our role is not necessarily to be popular but to be safe.

Q6 **Baroness Neville-Rolfe:** I want to ask a couple of questions about the 12-month temporary conditional equivalence decision, which you have already touched on quite a bit. It sounds as though you welcome it. First, how satisfactory is it? Secondly, are you reassured by the associated memorandum of understanding that has been reached between the Bank of England and ESMA? We have talked about the risk of business going to other member states and, perhaps more critically, to New York in that context. Is 12 months enough? Is there a risk of a cliff edge either at the end of the 12 months or if Article 50 is extended, in which case, as I understand it, the 12 months lapse?

Michael Voisin: I think I have answered the question on how satisfactory the 12-month arrangement is, in that we understand it is intended to be a bridge to EMIR 2.2. If it was not an adequate period of time for the bridge, we expect that there would probably be an extension. I am probably answering your questions in reverse order. Perhaps we will talk about the risk of a cliff edge in a moment.

It is satisfactory as a substantive proposal, because it enables the process of equivalence of UK CCPs to be assessed before Brexit should

occur, and the memorandum of understanding facilitates that assessment process. The EU could determine the equivalence of all the UK's CCPs prior to Brexit, and that would enable the CCPs to continue providing services to EU 27 clearing members. That ought not to result in business leaving UK CCPs simply by reason of Brexit.

I have talked already about the impact on clearing members based in the UK providing clearing services to EU 27 members. That is more complex, and it will depend to a large degree on legislation that may be enacted in each EU member state to enable the run-off of portfolios in the event of a hard Brexit.

As you rightly pointed out, the 12-month equivalency arises only if there is a hard Brexit on 29 March. There are two things. If there is not a hard Brexit, there will be a transition period and that would deal with it. If Brexit is delayed, but only for a short time, technically the 12-month equivalency provision would need to be effectively re-enacted to a different date on which a hard Brexit would take effect, if there were a hard Brexit.

Lord Bruce of Bennachie: When you say a hard Brexit, do you mean no-deal Brexit?

Michael Voisin: Yes, that is correct. If no-deal Brexit arises but is delayed—for example, because there is a postponement of the Article 50 process—there would need to be another equivalence decision, but I assume that there would be time for that to be enacted. Hopefully, the period of time for which Article 50 was extended would be known and would give people the opportunity to take appropriate action similar to the way they have done already.

Baroness Neville-Rolfe: I am a glass-half-full person as well. You seem to be quite confident that these things are going to be rolled over. In other parts of the Brexit chaos, that is not the assumption being made. What gives you the assurance that these things can be rolled over if the need arises, which is obviously very welcome?

Daniel Maguire: I am a glass-half-empty person. I shall not speculate on whether Article 50 will be extended. We will look at the facts when we have them. What I can say is that the importance, criticality and systemic nature of clearing in derivatives is very well understood by all. At technician level, there is a collective desire to ensure that we preserve that stability and continuity. I do not use the word "complacency" lightly. We do not have any complacency on this, but I have confidence, given the work and the education that has been done, that everybody understands the risks of not doing it. That is probably the best way to think of it. If it is not rolled over, I think people know the consequence.

To fast-forward 12 months, in a hard Brexit no-deal scenario, we have a contingency in place. There is some asymmetry in the timeframes, but in principle it is a similar outcome. I will go back to that point. There is definitely a clear understanding that the arrival of a cliff edge should not

happen, because there are no longer any surprises. There is education and understanding about the importance of this.

We need to be very careful about where we are. On 19 December, the EU enshrined in law the temporary recognition. That is important. It is not flimsy; it is enshrined in EU law. One key element remains before we have full confidence that we have that contingency in place for a hard Brexit no deal, and that is the formal ESMA recognition. We have MoUs between the Bank and ESMA, which I hope is a prelude to that recognition. I am cautiously optimistic and confident that ESMA recognition will be shortly forthcoming. Once we have that, all the signs are that there is probably little desire to have another cliff edge further down the line, but there are two elements to the EMIR 2.2 negotiation within Europe.

One element is about third-country CCPs. The text in the trialogues of the Commission, Council and Parliament seems reasonably stable. There is another element about EU CCPs within the Union, and how they will be overseen. That is probably more of a hot potato. There is potential that the EU CCP element could interfere with the third-country CCP regime, so we are paying close attention. I oversee clearing houses in the EU and the UK, so I can see both sides. Probably a key area of focus is to make sure that EMIR 2.2 lands within the next 12 months.

Michael Voisin: One can also see the differential treatment afforded to CCPs where legislation has been brought forward. One would assume that it is regarded by the Commission as important and essential to the economy of the EU 27, compared with trading venues and clearing brokers, where there has been no action yet, although this has been drawn to their attention, and essentially in the context of a no-deal Brexit it would be left to each individual member state to determine how its own particular businesses should be treated and what protection should be afforded. Those are three different levels. By extrapolation at least, that can give one a degree of confidence that there would be similar action in a slightly different context.

Baroness Neville-Rolfe: Is there not a risk that the Commission will do the stability-linked bit and leave the others, especially after a year, so as to improve the competitiveness of operators within the EU 27? You have described the different bits, and you make a very good argument that the stability is such that in a sense the EU has a big interest in it, but I am worried about the bits where our position could be undermined going forward.

Michael Voisin: The issue in relation to trading venues and clearing brokers exists already. Currently, there is no measure in place.

Baroness Neville-Rolfe: But you are hoping that it will be fixed, so I suppose it could come back again afterwards.

Michael Voisin: On trading venues, there has been no response from the Commission, so there is no certainty. When I said I was confident

about the 12 months, that was in relation to the CCPs, and legislation has been brought forward. The EU is not planning to make proposals in relation to clearing brokers, and trade associations are waiting for a response to the points that have been made about trading venues.

Baroness Neville-Rolfe: Against that background, to go back to my first question, is this going to lead to a shift of work to New York, which was a concern that we talked about when Mr Maguire came to see us last time?

Daniel Maguire: There are about 60 CCPs globally. I think 47 are recognised under ESMA but they are non-EU CCPs. EU firms have access to all of them in various shapes or forms. The lion's share of CCPs are not within EU borders. We are but one or two of those. We have to look at what the customers, members, banks and pension funds are doing. I referred to no discernible change. Let me give more fabric and colour to that. In my dialogues and my experience, there is no desire to force fragmentation of the marketplace. If we have cliff-edge scenarios, or the temporary recognition falls away, it will have a forced impact on the marketplace. As I said earlier, a location policy is really a fragmentation policy.

We are a service provider. The customers will decide. To date, customers have decided that they want to continue to clear with a CCP where they can bring all their risk and have the diversification effects of that. It is not necessarily a UK thing. The jurisdiction in which we operate is secondary; it is the global model that motivates customers. Anything that runs the risk of breaking that is not something customers want. That flows all the way through. Derivatives are hedging and real economy tools, so if there is fragmentation it will increase risk but it will also increase cost, and that will be reflected in the real economy. It is challenging to see customers pushing for that kind of fragmentation.

You mentioned competition. Healthy competition drives innovation across the CCPs. Having location policies removes competition.

Q7 **Baroness Liddell of Coatdyke:** Fast-forward: we are through transition and soft Brexit or hard Brexit, and we are now a third country. What is the main difference between current EU regulation of CCPs and the regulation that exists for CCPs in third countries? As a coda to that, what would the UK need for competitive advantage as a third country? What change would be needed, or would change be needed, to give the UK competitive advantage? You talked about being cautiously optimistic. I cannot get the optimism bit.

Daniel Maguire: I did say I was a glass-half-empty person as well. Let us fast-forward to whatever outcome we have. We are used to operating as global CCPs across borders and across different regulations. LCH Ltd is primarily overseen by the Bank of England, but we have regulators overseeing us from 13 other jurisdictions; we have clients in 60 jurisdictions; and we have 21 currencies. Our business as usual is having oversight from many regulators. It comes with the territory; we expect it,

support it and embrace it. We have little fear of having regulation over us.

The key tenets in the future architecture, to ensure that we can operate and be competitive, are predictability, clarity and certainty, and as much of that as possible ex ante any crisis. Clearing houses, notwithstanding the current environment, are generally in the spotlight only during crises. We need to be able to operate in those scenarios. Having worked through numerous defaults, one of the key ingredients is everybody knowing what they can do, what they need to do and when. If we have a scenario where the regulatory architecture gives us a situation where there are many hands on the steering wheel, as it were, that would not be helpful.

One of the key tenets is that we build a future infrastructure and architecture, and the UK authorities engage with their counterparts across the US, Europe and otherwise, to ensure that we have clarity about who the home regulator is and a proportionate amount of oversight from the other regulators. No regulation and oversight is not the answer, but nor is having everybody suffocating. If I was to pick one key area, it would be that enabling point.

Baroness Liddell of Coatdyke: What are the chances of achieving that, given that other people will be looking at opportunities in the marketplace? What are your chances? Are you in any sense moving into the glass-half-full category?

Daniel Maguire: I am cautiously optimistic. This is not new. We have had oversight by the CFTC in the US. I was involved in achieving the licence for the derivatives clearing organisation in 2001. Why a degree of confidence? The degree of confidence is based on its not being new and its being achieved with Canada. I will not name every nation. Generally, we have these agreements in place with all the G20 nations, so there are good precedents.

The importance of CCPs, more through G20 commitments than Brexit, has increased. It is always good to have a fresh look at these elements; there may be areas to tighten up. I think we will see more interest from central banks, given the node and the financial stability element. It is fine to have a fresh look at it, but there is optimism from the recent history of achieving these kinds of arrangements. They are all very hard arrangements and everybody needs to be reasonably pragmatic, which is not always the case.

Michael Voisin: The essence of derivatives markets is that they are global. A key feature for participants in the markets is that they have global access to global markets. Mr Maguire talked about CCPs. Further down the chain, end-users will need access to CCPs through clearing brokers. One of the more challenging aspects of the clearing market is the extent to which clearing brokers based in the UK, for example, would be free, after a deal is negotiated and signed off, to continue to provide clearing services, as they do currently, to customers who are currently in the EU 27. That is a much broader question around financial services

equivalence, which I am sure you have had a lot of testimony on. I will probably not go beyond that other than to say that it is a very similar issue.

The question is whether regulation in the UK is sufficiently robust, and appropriately tracks regulation in the EU, for some form of determination of equivalence that would allow services to continue to be provided to EU 27 customers, where they wish services to be provided in clearing access by UK clearing brokers to EU 27 customers: pension funds, insurance companies and corporates wanting to hedge their positions. The trade associations strongly advocate that sort of access to global markets, based on appropriate regulation. We will talk ultimately about the trajectory of the regulatory regimes for both the UK and the EU post Brexit, and the extent to which they can be kept aligned so that both regimes will be free to recognise each other, but you have probably heard enough about this from many people so I will not go further.

Daniel Maguire: With my crystal ball, I have had a chance to look a little further at what would be good in the future. Mr Voisin talks about the global markets. These are global markets. We have succeeded in achieving our position in the global markets by being respectful of local jurisdictional law, protocols and etiquette.

The Chairman: When you say "we", do you mean LCH Group?

Daniel Maguire: Yes, LCH as a firm. The future architecture needs to continue to reflect and allow that situation. Closing borders and closing doors will be very restrictive. It is a matter of being healthily respectful of bankruptcy codes, securities law and so on in each jurisdiction, but it is possible for global markets and the flow of global capital to create a clearing architecture that allows for that. The quid pro quo is that people will want some degree of transparency, disclosure and oversight. Regulatory and supervisory co-operation will be absolutely critical if we continue to have the goal to be global in our business.

Q8 **Lord Cavendish of Furness:** The EU legislation currently under negotiation seeks to increase ESMA's supervision of what are known as systemically important third-country CCPs. What would such enhanced supervision from ESMA mean in practice for UK CCPs? How would it differ from being supervised by the Bank of England?

Daniel Maguire: I do not wish to repeat too many of the comments already made. We are broadly comfortable with the concept of ESMA having some oversight of LCH Ltd, which is the CCP in question here. From our firm's standpoint, it is common practice to have that. We have oversight from the CFTC, the Ontario Securities Commission and the RBA in Australia. It is not new.

The key element is prescription around precisely those elements of which ESMA has oversight and when, and its being predictable. At any given time, we have regulators from across the globe doing exams, as we refer to them; you might call them audits. We operate on a full transparency

and disclosure basis, but the key is ensuring that that is in concert and co-ordination with our primary regulator, the Bank of England. That is a key element. We are very encouraged by the memorandum of understanding between the Bank and ESMA.

A key thing is the element of proportionality. If a clearing service or a clearing house is deemed systemically important, there needs to be some specificity as to how we determine that. If it is systemically important for the Union, in what regard is it important? Is it the scale of the business? Is it the products that are cleared? There is a distinction between, for example, sovereign debt markets and OTC derivative markets; there is a difference between a large clearing service and a small one. The oversight of ESMA needs to be proportionate and specific to the systemic designation.

The Chairman: How do you think it should define systemically important? Would it be risk?

Daniel Maguire: I would focus primarily on risk and financial stability. I referred to the two areas in my prior response. One is around the product. Some products are traded, such as sovereign bonds and repos, and are direct tools of monetary policy transmission. It is hard to make a claim that they are not important to the issuer or the Union, in which they are issued. There is a product element, and we are very encouraged by that. That is how we are overseen by the CFTC; it is product driven. We have seen some progression in the European Parliament on the EMIR 2.2 text to split services and products, which is encouraging. I think that is recognised. It is important in sheer scale and size, but it is more important from a size standpoint, where the oversight should be different, versus the product. The two elements are product and size.

Lord Cavendish of Furness: To put it another way, am I right in saying that you are unworried by increased supervision by ESMA?

Daniel Maguire: I might characterise it slightly differently. We need specificity, but as to the general direction—enhanced supervisory oversight by ESMA—we already have that oversight by it and by others, so, if it is of a similar ilk and is proportionate, I am pretty confident about that.

Lord Cavendish of Furness: I have not understood why ESMA is seeking increased supervision.

Michael Voisin: At the moment, where there is recognition of a third country's clearing house, there is, effectively, complete deference to the regulator of that third-country clearing house. The structure of the current EMIR arrangement is that a clearing house in the EU is regulated by its home regulator, so, for LCH, that would be the Bank of England. In the EU, there is a body of regulators working together with the Bank of England because of the impact across the EU. A pan-EU college of regulators effectively supervises UK CCPs, with the Bank of England as the lead regulator.

As a third-country CCP, the sole regulator would be the Bank of England. There would be no equivalent to the college. One could see a concern in the EU about the lack of influence. If, for example, there were to be a similar arrangement via EMIR 2.2 whereby there was collaboration between the Bank of England and the regulators in Europe, one could welcome that. The Bank of England is highly authoritative, and has a very beneficial effect on sharing knowledge and expertise around Europe, and it would be a shame were that exchange of information not to continue for the benefit of Europe.

In relation to the regulation and monitoring of CCPs, there is a global initiative, led by the Financial Stability Board, the G20, CPMI and IOSCO to try to create global standards that CCPs around the world adhere to. There is great collaboration between regulators globally in trying to identify and adhere to the most incredible standards of risk management globally for CCPs because of the systemic importance of CCPs.

People are welcoming of global standards. That is why Mr Maguire referred to proportionate regulation, which ensures that regulators are satisfied as to adherence to the global principles, understand differences and have active exchanges of information. It is a very positive thing for regulators generally that critically important and globally systemic organisations are run to appropriate standards that people are comfortable with. Provided that the regulation is proportionate, there should be no objection to, and even a welcome for, an increased level of engagement between EU regulators and UK CCPs. EU regulation of UK entities is not necessarily a bad thing if it is done collaboratively in an appropriate spirit.

Lord Cavendish of Furness: That is much clearer. Thank you.

Q9 **Lord Butler of Brockwell:** I gather that in the legislation under negotiation the circumstances in which recognition could be withdrawn, or notice could be given, have not yet been defined. Could that create uncertainty that might cause CCPs or clients to want to be within the EU rather than in a third country?

Michael Voisin: One sees in a lot of regulation for which regulators are very nervous about setting out clearly the parameters and borders within which reserved discretion for extreme circumstances might actually be exercised. The discussions around EMIR 2.2 taking place in Europe suggest increasingly that the right to withdraw recognition should be reserved for extreme circumstances, and that the market should be given enough opportunity to adapt. That is the increasing narrative around which the legislation is being proposed and debated in Europe, and it allows people to draw greater comfort. Increasingly, the statements are less alarmist, less protectionist one might say, and focused more on genuine risk management. It is equally plausible that, if a CCP in the EU were to operate outside accepted regulatory parameters, it too might be subject to a similar sanction, which is the withdrawal of authorisation.

The expectation, given the systemic importance of a CCP, is that before such a sanction was applied there would be extensive discussion with the CCP affected and it would be given the opportunity to address any concerns expressed to it. That is the way regulation generally works with responsible regulators. One has every expectation that the EU regulators will continue to act in a highly responsible way. Indeed, the focus should be on managing risk in the EU 27, which is wholly understandable.

We have already seen that the EU moved to create the temporary equivalence regime because it was concerned about the impact of lack of access to UK CCPs in the context of no-deal Brexit. One could expect a similar set of circumstances to arise in relation to a potential withdrawal under EMIR 2.2, because similar considerations are likely to arise unless at the time the particular CCP was less systemic. If the CCP was less systemic, withdrawal for systemic reasons would be unlikely. There are many reasons to believe that such a process would not come as a surprise. One would be surprised if regulators made decisions of such a profound nature for political rather than genuine risk reasons.

Lord Butler of Brockwell: That would apply to CCPs in third countries as much as to CCPs in the EU. I think that was implicit in your answer.

Michael Voisin: Yes. It is reserved for systemic CCPs.

Lord Butler of Brockwell: Are there some lines of business that would be more likely to be heavily regulated in that respect, or more liable to sanctions, than others?

Daniel Maguire: There is a distinction between sanctions and withdrawal and almost determining things up front. If we are in a situation where equivalence at either service or clearing house level is being withdrawn, first, it has to be technically motivated, not politically motivated; and, secondly, it should be considered as a last resort. Many things should have happened before that eventuality.

When we look at business or product lines, a lot of this is going to be discussed and focused on in the new architecture of EMIR 2.2. First, when is a product systemic to the marketplace? Secondly, is the EU in this instance comfortable having that outside or inside the EU? A lot of it is about ex ante preparation. If the idea is that everybody agrees today and in X years' time they decide it is no longer the case and there are sanctions, we have probably got it wrong. It is about defining what is systemic to the EU, how it wants to work with that, and how it wants to place the products around it and respond to it. I find it hard to envisage a product-specific element where sanctions will arise; it will be more of a technical and last resort kind of element.

Lord Butler of Brockwell: What is the timescale? When do you expect completion of the negotiations on the legislation?

Daniel Maguire: We understand that the intention is that it will be in the next 12 months. It is live now; the trialogues are under way in the

European Parliament, Council and Commission. It is active. There is always a risk of time dragging on, but it is live now.

Q10 **Lord Bruce of Bennachie:** You have been very calm and sanguine, and you argue that everybody knows the risks and, therefore, terrible things are not going to happen. That does not seem to be the Americans' reaction to these proposals, having read the observations of Christopher Giancarlo of the Commodity Futures Trading Commission. His language was that this is extraterritorial overreach by the EU and is completely irresponsible, and the EU's response was to describe the US proposals to exclude EU-based CCPs from the US market as blackmail. That is rather less calm and sanguine than you have been.

You seem to be arguing that, because it is so technical and the risks are so severe, these things are not going to happen, but, particularly in the context of no deal and a very aggressive American Administration, is there not a real possibility that damaging political decisions could override what you might call reasonable practical considerations? In that context, if that were to happen, would you regard the United States as a friend or a competitor?

Daniel Maguire: There is a lot in that to respond to carefully. We have noted the comments of Chairman Giancarlo of the CFTC, and there has been a lot of discussion of them. If we step back a bit, the US was arguably the first mover in the rollout of regulation and legislation on derivatives, with Dodd-Frank following the G20 commitments in 2009. There is acknowledgement on the US side of the table that it was the first, and, absent anything else, it wants to ensure that it has as much regulatory oversight as possible.

The devil is always in the detail, and in Chairman Giancarlo's comments there was an acknowledgement of that. Let us not have an arms race, as some people have called it, in extraterritoriality regulation so that everybody keeps raising things. There was a strong message, but there was also an olive branch. We need global supervisory co-operation and deference; we need it to be proportionate. I think that was another element of the CFTC perspective.

I cannot comment on EU-US statements on that, but one thing from which we take a lot of heart, be it from the ECB publicly, the AMF in France, the BaFin in Germany and the CFTC and others in the US, is the need for regulatory co-operation and supervisory powers. It is very clear that they see that as something the market needs, and that fragmentation is not a good thing. I cannot comment on the political elements as between different nations, but there is always a political risk and a degree of risk of reciprocity. We have worked closely with the CFTC for nearly 20 years. We are confident in that relationship and oversight; similarly, we are confident with the European Union, so I am not going to jump in between the two points.

Michael Voisin: There was perhaps some overt politicisation around the clearing agenda in the early days of Brexit, and some concerns. It is

probably fair to say that that receded as people understood the role CCPs play in the global economy and the risks they manage. Awareness of the function of CCPs has been broadened and some of the political heat is receding, which is a good thing because CCPs perform a critical global function and it is not particularly desirable that they are at the centre of political discussion.

The global initiatives around CCP standards, processes, resilience, recovery and resolution are progressing very well. What one cannot see below the water is a lot of co-operation across countries around the world between regulators working together to try to create a much safer system. That is what the industry welcomes most.

The industry works in a political environment. It tries not to be involved in the politics, and tries to ensure that the markets are safe, secure and well managed, that risk is managed and that there is global access to all of the markets by all parties, so that transaction costs are reduced and they create value for end-users. That is the essence of the derivatives market; it is a genuinely global service that wants to operate with a proportionate regulatory regime, as Mr Maguire said.

It would be foolish to pretend that, if one operates globally, one can be regulated only by one's home regulator when the impact one has is felt globally, but that needs to be co-ordinated in a managed and sensible way with appropriate deference to the lead regulator, co-operation and collaboration with regulators around the world, and proportionate step-in rights where people are rightly concerned about the impact that a particular systemically important CCP may have on their economy. The industry is working hard with regulators and politicians to try to understand that agenda and deliver a very cost-effective product to end-users and real economy businesses, which are ultimately what drive a lot of derivatives activity.

Lord Bruce of Bennachie: Are you separating CCPs and derivatives as a sector that is so critical that you will be fine? You appear to be saying that all the competition for business, jobs and so forth is elsewhere in the financial services sector.

Michael Voisin: No. One has to be careful. We are talking about cleared derivatives. The nomenclature is quite complex. There are OTC derivatives and uncleared OTC derivatives. A lot of what I have said applies to all kinds of derivatives, but it is a global marketplace and one would hope that the UK will compete on a level playing field against global players. Success or failure should depend on the ability to deliver cost-effective, commercial, safe and appropriately regulated products to customers around the world, meeting the appropriate regulatory standards of whoever they are trading with.

As a result of Brexit, there may be loss of access to certain markets. The example I have already given in the context of cleared derivatives is in relation to clearing brokers who will, for example, provide access to UK CCPs by EU 27 end-users. A question was asked earlier about the ideal

outcome. In an ideal world, there would be some sort of ability to continue to provide those services across borders to the EU 27. That would depend on the outcome of discussions and negotiations on the trade deal and the relationship between the UK and the EU 27 after Brexit.

Q11 **Lord Thomas of Cwmgiedd:** We are coming to the end of the session and it is difficult to see what we have not covered. I want to ask a more general question purely about the future. You have obviously done a very good job in getting us over the next 12 months, or whatever it is. Looking to the future, the question I would like to develop a bit is this. I appreciate that you both come from global businesses but, in trying to work out what would be best for the UK, what should we do by way of our approach to regulation to try to ensure that either we enhance the business in derivatives that is done in London or at least seek to stem its flow? As I understand it, essentially, the clearing houses themselves look at this globally. Should we have regulatory arbitrage? Should we try to come down a bit or go up a bit in our standards?

Secondly, I think it is critical from the UK's perspective to look a bit more at clearing brokers, because from your answers they tend to be the place where the problems lies.

Daniel Maguire: The core purpose of a clearing house is to enhance strength and bring financial stability. My view is that from a UK regulatory perspective we should be maintaining, driving and leading to the highest standards, by which I mean standards of regulation, standards of legal certainty and standards from a risk standpoint. A very simple layman's example is that nobody wants the world's cheapest parachute. The key is that there is strength in having that standard as a clearing house. You compete on the highest risk standards.

If you are a bank, a pension fund, a hedge fund or an asset manager, with respect to my entire industry, people do not want to hear about the clearing house. It needs to be taken care of and kept to the highest standard, and that is what people expect. In the very narrow but important domain of clearing, I would not be a fan of any shift in standards or regulatory arbitrage.

Operating as a global CCP, and looking across the globe, there are quantitative and qualitative aspects of regulation; I admit that sometimes it is subjective. We take the highest standard in every regulation around the world and apply it globally. From a commercial and competitive standpoint, that is challenging, but I go back to the point about the parachute. A bank or pension fund CEO does not want a clearing house they have to think about at night. I am a strong advocate of high standards.

On top of that, if we keep those high standards, it is very important from a UK standpoint to continue to attract the talent to do that. That talent is not necessarily all homegrown. These are global markets and it is important that we continue to have a fantastic talent pool in the world of

derivatives in clearing and risk management in London, across legal, operations and technology. Those are the key areas, but I advocate competing on the highest standards rather than reducing them.

Michael Voisin: The issue in relation to clearing brokers is simply the provision of a broader range of investment services across borders. A lot of the discussions you have had already with other witnesses will have indicated the importance of that.

Given your backgrounds, you will know that the legal system in the UK is a particular attraction for the provision of a lot of investment services, because of the creation of certainty and the development of very sophisticated financing techniques. Although a number of clearing brokers are currently preparing for the move of a number of their customers from the UK to other countries in the EU 27, they are meeting resistance from a number of their customers who would rather stay in the UK. That is testament to the competitiveness of the financial services industry of the UK, which is to be celebrated.

The thought that the UK should engage in regulatory arbitrage is a bit unnerving. People come to the UK because of its stability and safety, the protections it affords and the fact that as a jurisdiction it does not favour its own nationals compared with other systems. It is a very objectively fair system in which to operate. I am not saying that is not the case in many other countries as well, but the UK is regarded as a particularly reliable place to do business. The emphasis on UK competitiveness surely should be based on quality of service and resilience rather than regulatory arbitrage, which might undermine confidence.

Lord Thomas of Cwmgiedd: ISDA is allowing contracts to be governed in either New York or London. It used to be New York or London. Has there been a move to contracts being based on location and law, be it German, Irish or other jurisdictions? Is the preference still London or New York in the underlying contracts, or can you not tell yet?

Daniel Maguire: I defer to my legal colleague before I give a view.

Michael Voisin: It is early days to say whether there is a noticeable trend. One could not necessarily determine from today’s trajectory what the ultimate outcome might be. One of the advantages that the UK and the US have is developed case law and legal jurisprudence on some of the trickier issues to do with derivatives. That creates greater certainty and makes it easier to advise, but whether there would be no further take-up of those contracts remains to be seen. They are legitimate commercial choices for parties to make. It is likely that some business will flow; it is difficult to say at this stage how much.

Daniel Maguire: There is a distinction to be made between cleared and uncleared derivatives. To an extent, in the world of mandated clearing for OTC derivatives, you may transact but within a matter of seconds your trade is cleared or novated, to use the legal term. You are then subject not to the underlying contract but to the clearing house rules. The

clearing house rules reflect a lot of the history of English and Welsh, or UK, law and New York law, being the lingua franca of the derivatives market.

The important point is that that legal basis underpins the clearing house rulebook, and it is that on which you build the legal cross-border global architecture so that you can have confidence that you can execute from a default, bankruptcy or security interest standpoint, for example, in all the jurisdictions where you have customers and operate. It is not just the way the contract is written; it is the underlying legal system and the interaction with all the other legal systems. That is why English and Welsh and New York law is very important in keeping that global architecture together. Today, there is not the same sophistication and global recognition of the other jurisdictional laws.

Lord Giddens: Can I push you a little further on risk? Hopefully, it will not happen, but the risk of a chaotic no-deal Brexit seems to me much greater than you imply. Furthermore, I do not see the world system being as stable as you say. China is entering these markets more and more. President Trump's main adviser has written a book called *Death by China*, for God's sake. Are there not outer-edge risks that are much more worrying than you seem to acknowledge?

The Chairman: The question is whether global financial stability is guaranteed in the next couple of months. I think Mr Carney would be better placed to comment on that.

Lord Giddens: There is also the fact that no one seems to be prepared for no-deal Brexit, and from the evidence we have heard there could be real chaos.

Lord Cavendish of Furness: I am.

Lord Giddens: We all are around this table.

The Chairman: Could we have brief responses, if any?

Michael Voisin: We are talking about a very narrow part of the financial services sector—cleared derivatives—and because of the systemic concerns there has been a lot of focus on the associated risks. We are not here to talk about the broader issues. I am not an economist, and I am not an expert. You want a proper expert on matters such as that.

We have given an overview of the preparations in the little sector we are talking about. There has been a lot of time, attention and focus on preparation, because right from the start people have been alert to the risks. There are still some outstanding things, which we have already highlighted. Personally, I do not want to venture beyond that.

Lord Butler of Brockwell: Mr Maguire, as I understand it, your company operates clearing houses throughout the world, and 90% of euro-denominated transactions happen in London at the moment. In five years' time, would you expect that proportion to have changed?

Daniel Maguire: In some ways, we are in the business of making predictions, given that we are risk managers, but in some ways we are not. It is important to make a distinction. If I may break the question into two parts, some elements of euro that we clear in London today have started to move to our Paris clearing house. That is driven not by Brexit but by market dynamics.

The Chairman: It is driven in anticipation of location policy.

Daniel Maguire: It is not driven by location policy at all. For three years, we have been planning a move under TARGET2, the settlement infrastructure in Europe, to bring lots of euro debts into one place so that people get greater benefit from a netting and balance sheet standpoint. It is market driven, and it is economically motivated in the context of where we are. On the swap side, I remain cautiously optimistic that where we are is where we will be in five years.

The Chairman: Thank you very much for your time. You have been generous with it. The public session is now ended, and the Committee will resume its private session. Mr Maguire and Mr Voisin, if you have any further thoughts you would like to reflect on and send us, we would be delighted to receive them. You have our details. Thank you very much.