

Business

'Wine and ribs go a long way in agreeing deals'

The Sunday Interview Terry Duffy

The CME Group boss tells *Lucy Burton* why he bought Nex and how an early failure on the stock exchange shaped his career

When the former Tory party treasurer Michael Spencer arrived at the Mandarin Oriental in New York on

February 2, he came armed with two precious gifts for his dinner companion Terry Duffy. One was a bottle of expensive red wine for Duffy's wife, whose birthday it was that day. The other was a present that had been on the 59-year-old's wish-list for at least a year – the chance to buy Spencer's bond trading business Nex Group.

Duffy, who runs the world's biggest exchange, the Chicago Mercantile Exchange (CME) Group, had originally broached the idea with Spencer over a Budweiser and steak in Florida last April but did not get the answer he wanted. Nevertheless, he agreed to meet the Nex founder for dinner again just before the Christmas holidays.

"I wasn't sure if Michael wanted to just say hello," recalls Duffy. "I don't know how the hell I remember this but I had a special, it was a short rib with some small potatoes and vegetables, which by the way were outstanding. French wine and short ribs go a long way in putting big deals together."

So too does patience. Duffy finally asked Spencer about a deal having known him for 17 years, first meeting in London in the heat of the dotcom bubble when Spencer was building his voice broking business (sold to Tullett Prebon to create TP ICAP in 2016), and since staying in touch through industry conferences and the odd dinner. "I'd call him, wish him happy holidays, say don't forget about me," he says. The two sides agreed to a £3.9bn deal last month.

Having successfully charmed Spencer, Duffy is aware that his next job is to win over London and the rest of Nex's management team. A well-known name in America – the CME Group has a market valuation of around \$54bn (£38bn), far more than New York Stock Exchange owner the Intercontinental Exchange and almost five times that of the London Stock Exchange – less is known about the US-based business executive in Britain's financial circles.

He is planning to visit London in the coming weeks, and hopes those who work with him would describe him as upfront, a straight shooter, someone who doesn't play games or waste money.

"People in the industry kick tyres on transactions – there's a lot of cost associated with it," he says. The industry is famously hard to do deals in given the political pressures often associated with selling or buying an exchange, and lengthy talks between the LSE and its German rival Deutsche Boerse ended in no deal last year after the merger was blocked by EU regulators. Does he think that whole episode was a waste of time? "Don't know if it was a waste of time, but eventually you either fish or cut bait," Duffy says. "They spent a lot of time and money trying to get that to go, but when the Government says this is never going to happen then you probably know. These institutions are looked at as nationalistic. That's why this [deal with Nex] is completely different to the LSE-DB deal."

The CME's takeover of Nex will be the Chicago-based exchange's biggest overseas acquisition ever and its largest deal in more than a decade, beating previous tie-ups that Duffy has overseen in his time as chairman and then chief executive for the business.



The rise and rise of a global trading giant

1898

Chicago Butter and Egg Board opens, an agricultural commodities exchange, which later became the Chicago Mercantile Exchange

2002

Becomes the first US exchange to go public, listing in New York

2007

Merges with the rival Chicago Board of Trade, becoming a \$25bn derivatives powerhouse

2008

Acquires the New York Mercantile Exchange, adding energy and metal to its offerings

2018

Now largest exchange in the world with a market cap of \$55bn, it agrees to £3.9bn deal with London's Nex Group

Traders in the pit of the CME Group in Chicago. The business is five times the size of the London Stock Exchange

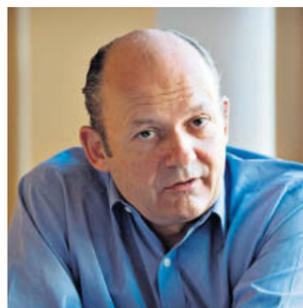
Founded in 1898 as the Chicago Butter and Egg Board, revenues at the CME have shot up from \$453.2m in 2002 to \$3.6bn in 2017 under Duffy's leadership. Deals closed during that time include the mammoth takeover of the CME's century-old rival the Chicago Board of Trade (CBOT), as well as the acquisitions of the Kansas City Board of Trade, which trades red winter wheat, and the New York Mercantile Exchange, which deals primarily in the energy and metals space. Duffy's eye for a good deal is one of the things Spencer makes a point of praising him for.

"I've known Terry for 20 years or so and I'm hugely impressed by the way he's built CME into the world's largest exchanges group through a series of bold moves like the acquisition of CBOT," Spencer says.

Duffy's life is miles from what it was when he was paying for his college fees by working nights at a bar in Chicago in the Eighties. He had hoped to become a policeman but one of the bar's regular visitors, a trader named Vincent Schreiber, was so impressed by his maths skills, patience with customers and memory for orders that he suggested Duffy give trading a shot. "I said I don't even know what the hell the Chicago Mercantile Exchange is [but] it's 1980, it's raining ugly outside, there were no jobs to be had back then. I thought to myself, I'll take a look at this. I got a job for \$56 a week, and when I heard the bell go off for the first time I thought someone had bombed the exchange."

He learnt quickly that trading came with big risks. His mother remortgaged the family home without his father knowing to pay for his membership of the CME, but then he lost \$150,000 on two bad trades.

"Back in the day that was a big deal, it reverberated around the trading floor that this young kid just blew up," Duffy says. "My mentor asked me, 'how are you going to pay this back, you just lost your parents house' – he called my mother,



CV

◆ Age: 59

◆ Education: University of Wisconsin-Whitewater

◆ Family: twin sons, wife Jenny

◆ Hobbies: big ice hockey fan (Blackhawks), Harley-Davidson owner

told her what happened, said I'd work it off."

Duffy then worked day and night for three years to pay the money back, spending his evenings serving drinks in the bar and his days shouting buy and sell orders as a pit trader. He has been at the CME ever since.

"Everything I made trading went to pay off the debt. It taught me great discipline. The rest is history."

His story of early losses and then rapid success – Duffy was able to look after his parents for the rest of their lives and now earns millions of dollars a year – is not all that dissimilar to Spencer's. Now one of the City's most high-profile characters, the billionaire entrepreneur was fired from stockbroker Simon & Coates in the Seventies for racking up huge losses on the gold market and was then sacked for trading errors after joining Drexel Burnham. It was years later that he decided to invest £50,000 in a start-up with two friends.

But it has not all been smooth sailing for the pair since those early missteps. The CME had to retreat from London last year after running up losses, and Duffy said the most stressful time of his life was in 2011 when US broker MF Global went bankrupt and CME was the exchange where it did business. An investigation into missing customer funds followed, and Duffy spent much of that year testifying over the issue. "The most trying part of my career was the MF Global crisis," he says. "You had a lot of people missing a lot of money and they were all looking at us."

Even after suffering a collapsed lung last year, Duffy isn't one to relax. He admits that he had his mobile phone tethered to his ear throughout a recent family holiday in Florida, and has come to the conclusion that he cannot really take a break until he retires. He laughs at the fact he does not relax nor has any plans to do so any time soon.

"A lot of people get to a certain level and try and pull the plug, or they work till

I got a job for \$56 a week, and when I heard the bell go off for the first time I thought someone had bombed the exchange'

Terry Duffy, the CEO of CME Group, has been with the business since the Eighties and has known Nex founder Michael Spencer, above left, for 17 years

they die and what good does till they die and what good does that do you?"

"My point is, I work every day, seven days a week. I'll wind down when the time is right. Every time you pull the rug on something it [ends badly]."

The workaholic is yet to have his first argument with Spencer, and insists that a bust-up is unlikely to happen even when they get on to the more sensitive details of how they plan to fully integrate the two businesses – up to 750 jobs could go as a result of the deal, representing around 16pc of the combined group's workforce

There is also still time for another business to gatecrash the deal, although Duffy is confident that a global bidding war for Nex remains unlikely.

"I don't have a lot of arguments with people, I think life is short," he says. "I don't have a problem with saying I'm wrong, I did that as a trader and it taught me great discipline."

