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EU Opens In-Depth Antitrust Review of Merger between London Stock Exchange and Deutsche Börse

By Huan-Ting Wu, J.S.D. Candidate | October 28, 2016

European antitrust regulators announced on September 28, 2016 that they would open an in-depth investigation into the proposed all-stock merger between the London Stock Exchange (LSE) and Deutsche Börse (DB). If the merger goes ahead, LSE shareholders will own 45.6% of the new holding company with the rest being held by DB shareholders. The $28 billion deal was first discussed in May 2000, but the parties didn't reach a final agreement until March of this year. Shareholders from both exchanges approved the deal in July. The deal is expected to produce £215 million in annual cost savings over five years.

"Financial markets provide an essential function for the European economy. We must ensure that market participants continue to have access to financial market infrastructure on competitive terms," the European Competition Commissioner Margrethe Vestager said. The two parties have been direct competitors in many cases. If the deal works, it is likely to combine the largest margin pool in the world, at around €150 billion ($168 billion). This monopolistic-like status raises major antitrust concerns that it will reduce competition in clearing houses, as well as in bonds, derivatives, and repos, and therefore, increase listing fees and costs. Other areas of concern also include German stocks, exchange traded products, and other markets. LSE also expects that the forthcoming merger could lead to as many as 1,250 job losses (each of the companies has more than 5,000 staff).

Anticipating criticism and the possibility that the commission will require structural remedies in the merger review, LSE is ready to make concession by exploring a plan to sell the French subsidiary (LCH SA) of its clearing house. However, officials of France, Belgium, Portugal, and the Netherlands – the trading locations of LSE and DB's biggest rival, Euronext – expressed their concerns about the impact the deal would have on the European financial market.

It is worth noting that the European Commission blocked a deal between DB and NYSE Euronext in 2012 over anti-competition concerns. Therefore, close cooperation with the merger review and careful compliance with the conditions requested by the regulators will be key to gaining approval.

The Commission now has 90 working days, until February13, 2017, to make a decision.