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London Stock Exchange-Deutsche Börse Merger Faces Continued Uncertainty

By Geetika Jerath, J.D. Candidate 2019 | March 13, 2017

If the $31 billion merger of Deutsche Börse and the London Stock Exchange (LSE) collapses, this will be their third failed attempt since 2000. However, if the deal goes through, LSE-Deutsche Börse would be the world's biggest exchange operator by revenue and second-largest exchange operator by market value.

LSE shares fell 3% when the exchange revealed that they believe the European Commission "is unlikely to provide clearance for the merger." This assumption arises from a last-minute demand from European regulators to LSE. In order for deal approval, LSE was informed that it must sell its 60% stake in MTS, an electronic trading platform for European government bonds and other products.

However, LSE has announced that it is unwilling to divest its interest in MTS. After trying to alleviate competition concerns by offering to sell LCH Clearnet SA, the French wing of their clearing house, LSE's leadership believes that this demand is "disproportionate" because MTS plays a critical role in trading Italian government bonds and securities.

LSE and Deutsche Börse agreed to the merger in March 2016, and received shareholder approval in July. Subsequently in September, European regulators announced an in-depth investigation due to the scope of the merger and its effect on competition in financial markets. Since the merger would "combin[e] stock exchanges in Britain, Germany and Italy, as well as several of Europe's largest clearinghouses," critics, including France's finance minister, publicly raised concerns about the merger's implications.

Nevertheless, supporters include various senior bankers and the second-largest shareholder for both exchanges, Blackrock. Blackrock's Chairman, Laurence Fink, has publicly stated that, "skeptics of this merger must consider the need for stronger capital markets in Europe - as well as the ways the alliance could in fact benefit competition by deepening access to capital on the continent."

Industry insiders suspect that the controversy goes beyond competition concerns, with Brexit heightening the involvement and influence of national politics and politicians. A primary concern of politicians in the German state of Hessen, where Deutsche Börse and the financial capital of Frankfurt are located, is where the combined entity would be headquartered. While the plan is to base LSE-Deutsche Börse in London, since the United Kingdom will not be a part of the EU, there is a strong push to move the headquarters to Frankfurt.

If the merger is successful, Carsten Kengeter, the chief executive of Deutsche Börse will head the combined entity. However, if the merger fails, Xavier Rolet, the chief executive of LSE, has agreed to continue in his position at the company. Despite the uncertainty, the LSE board remains committed to the merger while they await the European Commission's decision by April 3.