BerkeleyLaw
UNIVERSITY OF CALIFORNIA
Berkeley Center for Law, Business and the Economy

University of California, Berkeley
School of Law
2850 Telegraph Ave, Suite 500
Berkeley, CA 94705-7220

Ph: 510.642.0532 – Fax: 510.643.7095
E-mail: BCLBE@law.berkeley.edu
http://www.law.berkeley.edu/bclbe.htm

Chief Executive at Deutsche Börse Group Ousted Amidst Insider Trading Scandal

By Reid Wells, J.D. Candidate 2020 | November 9, 2017

Amidst growing shareholder pressure, Carsten Kengeter has agreed to step down as the head of Deutsche Börse, one of the world's largest stock exchanges. German authorities are investing Kengeter for insider trading after he purchased €4.5m worth of Deutsche Börse shares at the end of 2015 (the equivalent of 5.3 million USD). Kengeter purchased the shares just months before the company announced a potential merger with the London Stock Exchange Group (LSEG)—and weeks before formal work on the deal began. Public share value rose for both companies following the announcement and prosecutors now believe actual merger talks might have begun as early as that summer.

The all-stock merger between Deutsche Börse and LSEG would have created the largest operator of stock markets in Europe and likely the most profitable company in its industry. However, the deal faced problems from the beginning with Brexit. Ultimately, European regulators shut it down over monopoly concerns. Both Deutsche Börse and LSEG are now competing for post-Brexit market share as well as searching for new CEOs—Xavier Rolet announced that he will be stepping down as chief executive of LSEG at the end of next year.

Kengeter, once set to lead the exchange behemoth, now faces criminal charges in an investigation that keeps escalating problems for Deutsche Börse. The company was willing to shell out approximately $12.5 million in fines to end the German investigation (€10.5m in corporate fines and €500,000 for Kengeter). However, the Frankfurt court declined the agreement and ruled that the investigation will continue.

Despite Deutsche Börse's supervisory board largely sticking by Kengeter's side throughout the investigation, some of the company's largest shareholders are now calling for its chairman, Joachim Faber, to step down as well. One of the 15 largest shareholders told the *Financial Times* last week: "Mr. Kengeter and Mr. Faber have been a tandem and should jointly draw the consequences." While Mr. Faber says that he is willing to run for another term as chairman in May 2018, his continued support of Kengeter has not settled well with many top investors nor other members of the board. As a result, Faber recently hinted that he may consider an earlier departure, should it become necessary.

Kengeter will continue to head Deutsche Börse on an interim basis until December 31st, leaving on a tenure of just three short years. While the board has publicly expressed regret at Kengeter's early departure, other top investors are breathing a sigh of release. This scandal has created an additional burden on Deutsche Börse which hasn't preforming well since the LSEG merger failed last year. The company has announced that it isn't likely to meet its full-year earnings targets and analysts predict their 2018 goals may be "overly optimistic" as well.