BerkeleyLaw
UNIVERSITY OF CALIFORNIA
Berkeley Center for
Law and Business

Berkeley Center for Law and Business
University of California, Berkeley
School of Law
Boalt Hall #7200
Berkeley, CA 94720-7220

Hong Kong Stock Exchange Drops Nearly $37 Billion Bid for London Rival
By Abhishek Banerji, LL.M Candidate 2020 | November 19, 2019

The Hong Kong Stock Exchange ("HKEX") recently pulled out of its $36.6 billion bid to acquire the London Stock Exchange ("LSE"). The merger would have created the largest trading entity with a combined value of over $70 billion.

Prior to HKEX's failed LSE acquisition bid, LSE publicly questioned "the sustainability of HKEX's position as a strategic gateway in the longer term." This statement is likely in response to the widespread protests in Hong Kong surrounding its political relationship with mainland China. Thus, LSE's statement highlights a lack of investor confidence in the Asian giant amidst rising political instability.

As for M&A trends more broadly, external factors, such as politics, often play a role in deal making, and HKEX's dropped bid is just one example. Earlier this year, the U.S. Treasury Department proposed an amendment under the Foreign Investment Risk Review Modernization Act that would give the Committee on Foreign Investment in the United States ("CFIUS") greater authority to halt or scrutinize Chinese and other foreign investments. Under the proposed amendment, this authority would extend to investments the U.S. deems to be "protected." Similarly, with respect to the bid made by HKEX, officials from the Bank of England had previously advised the U.K. Treasury that the LSE-operated clearing house constituted "critical market plumbing." Therefore, the deal, if materialized, would have been subject to U.K. scrutiny. Accordingly, M&A lawyers advising clients with cross-border deals need to factor in this increased regulatory scrutiny, especially when dealing with acquirers from politically unstable regions.

With HKEX's bid out of the picture, LSE may now proceed with its deal to acquire Refinitiv Holdings Limited, a portfolio company of the Blackstone Group. LSE claims that the deal would put it at the forefront of the financial data sales industry. In addition, earlier this year, LSE mentioned that it would like to proceed with the deal since it made more "strategic sense" than the proposed merger with HKEX. Thus, while the political instability in Hong Kong likely attributed to HKEX's change of heart, LSE is now able to move forward with its strategic business goals unhindered by HKEX. It remains to be seen whether HKEX will be successful with future acquisitions if the political climate does not dramatically shift soon.