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Stock Exchange mergers

Speaking in Brussels on 5 December, Mario Monti, the Commissioner for Competition, addressed the question of applying the rules on competition to the integration of capital market infrastructures. He pointed out that the creation of Euronext through the merger between the Paris, Brussels and Amsterdam stock exchanges, as well as the acquisition of sole control of Clearstream by Deutsche Börse, had not been notified to the Commission under the European merger control law. This was because the Commission assessed mergers only if they had a "Community dimension", that is to say, if the companies involved met certain turnover thresholds.

Turnover and market capitalisation are two very different things, especially when size is concerned. The turnover of a stock exchange is measured in terms of the fees charged for its services; and this explains why mergers in the field of financial infrastructure rarely qualify for the merger review provided by the Commission, either because the turnover thresholds are not met or because they have more than two-thirds of the turnover in one and same country. To ensure that the Commission and the different national competition authorities have their say on merger cases falling outside the scope of the Merger Regulation, the Commission agreed with the Member States in June 2000 that a special cooperation procedure would apply to the sector of stock exchanges and other financial infrastructure providers. The procedure provides for the mutual information of all Member States and the Commission of merger notifications, requests for information, etc., in the same way as is done by the Commission in those cases for which it has exclusive competence. Each Member State and the Commission are then free to comment to the national competition authorities, which are reviewing a transaction.

There has been some talk about whether horizontal mergers (for example, between stock exchanges) are preferable to vertical mergers (that is, between a stock exchange and a clearing house). As a competition authority, the Commission does not have a preference for one model of integration over the other, provided that competition law is respected. The competition issues raised are, however, different in each case. Advocates of the "horizontal model" highlight the separation of roles between different service providers: Stock Exchanges, central counterparties, Central Securities Depositories and Banks. Supporters of vertical consolidation have a different perception of the future of the industry: they see an increasing overlap between trading, clearing and settlement and orient their business model accordingly. Their objective is to build a "transaction engine" that would operate large systems and "load" them with volume. The declared aim of such integration is to "deepen the value-added chain", both upstream and downstream, that is, to cover all the steps in a securities transaction, from the placement of an order, to delivery of the securities against payment, to subsequent safe custody. ■