European Commission
Attn.: Vice-President Mr. Valdis Dombrovskis,
Rue de la Loi 200
1049 Brussels

Subject: Contemplated merger between LSEG and DB

25 November 2016

Dear Mr. Dombrovskis,

On 24 August 2017, the London Stock Exchange Group ("LSEG") and Deutsche Börse ("DB") formally notified the European Commission of their contemplated merger. In the framework of the examination of the merger by DG Competition, the European Investors' Association ("European Investors")[1] expressed its strong concerns about the merger to the case team on 15 September 2017, elaborating further on its letter to Commissioner Ms. Vestager of 4 August 2017.

European Investors is concerned that the merger will lead to the degradation of local exchanges, which play a pivotal role in the financing of Europe's real economy. With its superior liquidity, price discovery and costs structures, international investors and large companies will be drawn to the new merged entity. An irreversible process will be set in motion whereby local exchanges will increasingly face difficulties to provide a meaningful counterbalance to the merged entity and will lose attractiveness to major financial players that are essential for the economic viability of their operations. At some point in the nearby future, a tipping point will be reached. Henceforth, trading conditions at local exchanges will deteriorate swiftly.

In our view, this development will undermine and hinder the Capital Markets Union ("CMU") initiative, the objective of which is to provide new sources of funding to business and to help increase options for investors. Strong and dynamic local ecosystems supporting various types of investors and companies of different sizes are essential to achieve this important objective. Particularly for retail investors and SMEs, these local ecosystems - with local exchanges at their core - are of paramount importance:

1. *Retail investors:* Local exchanges offer opportunities for investment in local companies. This is of crucial importance to retail investors who tend to be heavily invested in local companies

[1] European Investors is a pan-European association that promotes the interests of investors, both in the regulatory domain as well as in corporate litigation proceedings and shareholder disputes. In regulatory and legislative matters, we aim to contribute to efficient, transparent, fair and orderly financials markets in which retail investors are confident to put their capital to work, either directly or through intermediated channels, and are enabled to take informed investment decisions that suit their personal circumstances and needs.

There are different reasons for this so-called equity home bias[2]. We would like to highlight the following: i) investors are on average better informed about national stocks than foreign stocks; ii) foreign stocks are deemed as more risky because the companies are less known by investors; and iii) geographical distance is a barrier to interaction between economic agents[3].

As a result of the merger, trading conditions at local exchanges, on which retail investors continue to be reliant for their investments in domestic equities, will deteriorate. In particular, bid-ask spreads will widen due to declining liquidity, at the expense of 'locked-in' retail investors.

2. *SMEs:* CMU aims to make it easier for SMEs to raise capital on public markets. Vibrant local exchanges are essential to achieve this goal. Local exchanges allow SMEs to be brought together with local investors, to have access to a local network of firms providing relevant capital markets services and to be subject to local laws and supervision by the local competent authority. Also among SMEs, there is a significant bias towards local exchanges; they have a strong preference for initial public offerings (and secondary issuances) at their local exchange[4].

   The conditions at which SMEs can raise capital at local exchanges will deteriorate as a result of the merger. Not only will liquidity go down; the costs of listing will increase since cross-subsidization of SME services through earnings obtained from large caps will not be feasible anymore.

Apart from the effects described above, there is an increased likeliness that a great part of the activities on the merged entity will move to London, where the merged entity's headquarters will be located, and will post-Brexit not be subject to EU financial market regulation. Over the past decades, particularly since the financial crisis, the EU has enacted a wave of regulation aimed at ensuring fair and orderly functioning of financial markets and adequate protection for investors. While the future relationship between the EU and the UK is not clear yet, the plausibility that a major portion of trading activities will be subject to a different and possibly lighter regulatory regime we consider detrimental to the competitiveness of local European markets. Moreover, the proposed merger may create opportunities for regulatory arbitrage.

European Investors hopes DG FISMA recognizes some of the nonnegligible aspects of the planned merger and will be actively involved in the scrutiny process. This process should in our view look beyond purely anti-competitive effects and also take in consideration the impact the merger will have on the achievement of policy objectives as formulated by the European Commission and which European Investors, as an investors' association, strongly supports.

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[2] The equity home bias refers to the tendency among retail investors to invest in a large amount of domestic equities despite the benefits of international diversification. It is a widely acknowledged and empirically studied phenomenon in academic literature which higher costs of acquiring or holding foreign equity fail to explain.

[3] In addition to the equity home bias, there is a strong bias towards local exchanges, a closely related by separate phenomenon. From a small survey conducted among retail members of the Dutch Investors' Association VEB, 60,3% indicated that they only trade on the local exchange (regardless of the availability of stocks on this exchange). Of the 39,1% that also trade on foreign exchanges, many only do so under limited conditions (e.g. when they are particularly interested in a certain company and cannot buy this company's stocks on the local exchange).

[4] Of the 398 initial public offerings of SMEs (i.e. market cap on IPO date of below 200 million euro) in the EU (plus Iceland, Norway and Switzerland) between 7 September 2011 and 14 September 2014, 95% (380) took place at the local exchange of the country of incorporation of the SME concerned. Source: Bloomberg.

If you require additional details in regard to what has been stated in this letter, please do not refrain from contacting us at your convenience.

Yours sincerely,

Paul M. Koster
Chairman European Investors' Association

CC: Mr. Olivier Guersent, Director-General, DG FISMA
Mr. Niall Bohan, Head of Unit for Capital Markets Union, DG FISMA