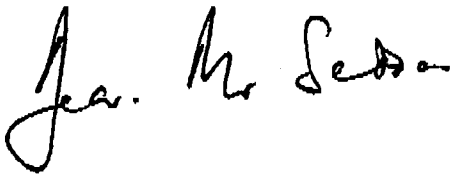


LIBA

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7 July 2005

Mr Jeremy Seddon
Competition Commission
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Proposed Acquisition by Deutsche Börse AG and Euronext NV of the London Stock Exchange.

As this stage of your complex enquiry draws to its close I am writing to you following our earlier submissions to the Commission on May 27 to set down in simple terms the position of LIBA's members

1. It is generally acknowledged that the "all-in" costs of securities dealing in Europe – trading, clearing and settlement taken together – are higher than they need be; and that the infrastructure provider markets which generate them could be significantly more efficient and sympathetic to users' interests.
2. LIBA members therefore support moves – consolidation or rationalisation – which will cut those costs and increase efficiencies. The bids in contemplation come at an auspicious time. The European Union is implementing policies for a single European securities market; and the various players in the worlds of exchanges, clearing and settlement are actively pursuing new opportunities.
3. Both the bids in contemplation promise significant synergies. But they also involve significant limitations of competition and, indeed, raise other concerns, too.
4. In **exchange trading**, in recent years, since becoming public companies, the three exchanges have established a record of significant insensitivity to users' interests. So a reduction in the number of major exchanges from three to two would unavoidably reduce the scope for them to challenge one another, and must significantly lessen the scope for competition. Moreover, in present circumstances the powerful logic of the bidding process cannot but pit the interest of shareholders against those of market users. The better the deal for shareholders, both in the bidding company and in LSE, the less benefit there is left for consumers in the market place.
5. In **post-trade services**, DB's ownership of Clearstream, and effective control of Eurex Clearing raise classic concerns, as will do any vertically integrated structure.

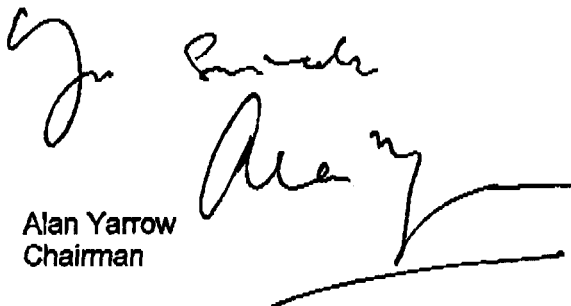
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There are evident risks of price discrimination, unfair access terms etc. as the recent findings of DG Competition have demonstrated. Such anxieties must be less in the case of Euronext (EN), which, is not part of a vertically integrated system. But they are not immaterial, nonetheless, in the longer term, by virtue of the continuing economic influence EN can exercise even if EN is committed to disengagement from LCH as an owner.

6. LIBA members therefore suggest that if either bid is to be permitted, **remedies** are needed in **each case** in relation to both **trading and clearing**. The essence of such remedies would be to ensure that:
 - a) the duty of exchanges to pursue single mindedly the interest of their shareholders must be balanced by an equal obligation to promote the interests of market users.
 - b) this state of affairs should be secured by one- off structural remedies, reflecting the principles set out in the Joint Association Press Releases of 3rd February 2005.
 - c) should this not be possible, other lasting regulatory measures are needed to secure proper continuing attention to market user interests and to **reduce rather than increase** the monopoly power of the institutions of the trading infrastructure.

LIBA members would submit that in present circumstances tailor-made or hard-wired provisions of Corporate Governance could be very effective, potentially so effective as largely or wholly to eliminate the need for conventional regulatory institutions and processes.

7. LIBA members naturally recognise that accommodating such remedies is easier for unlisted post-trade infrastructure companies than it is for stock exchanges, which are public, quoted companies.
8. In the **post-trade arena**, another equally urgent issue is ensuring that European markets move away from vertically integrated trading and post-trading structures. This should be done both to permit the maximum choice of clearing systems to exchanges; and to move the market towards a single, efficient, post-trade clearing infrastructure - whether a single European Central Counter-Party or a network of separate organisations integrated by inter-operability and common standards. The Joint Associations' 3 February Release outlines principles, which we believe will help bring about that state of affairs.



Alan Yarrow
Chairman