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THE LONDON STOCK EXCHANGE – PREY AND PREDATOR

Cally Jordan

C.D. Howe Institute; Estey Chair in Business Law (Saskatchewan); Melbourne Law School

PART A: LONDON – PLAYING HARD TO GET*

I INTRODUCTION

Stock exchanges are old institutions, and the London Stock Exchange[1] (1802) amongst the most venerable. Nevertheless, the LSE has not been immune to the systemic changes sweeping through the industry, setting off chain reactions of demutualization, consolidation and diversification. As with other bourses, the LSE sought to boost profit margins by diversifying revenue streams through investments in post-trade services, the provision of information and the creation of platforms trading more sophisticated financial instruments. The process has not always been straightforward. Entrenched in tradition, its exclusive membership initially resisted change but eventually succumbed. Mergers or consolidations though have remained elusive; the LSE still stands more or less alone.

The modern LSE began to take shape some 30 years ago, with the regulatory change and opening of the industry during the "Big Bang" of 1986. Like a magnet, this event attracted investment from Continental Europe, and later, attention from other major exchanges and businesses around the world. Questions linger as to why the LSE remained aloof for so long, and why it has been so choosy in pursuing its alliances over the past decade. Why, in the face

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[1] LSE, or 'the Exchange' hereinafter.

of so much global change and decisive action by its American and European counterparts, did LSE continue to operate alone? Why did it ignore advances that would have rendered it one of the largest exchanges in the world? Was there some grand strategic plan or simply a series of untoward coincidences? Some answers may never surface. However, the LSE's solitary trajectory can be primarily attributed to two reasons.

Firstly, the LSE overtly espoused a "policy of independence", rooted in the clubbiness of the exchange as originally constituted. This attitude accounts for the LSE's initial resistance to change. After compromises with the government were reached in the early 1980s, resistance to change softened to hesitation. The LSE somewhat tentatively began exploring ways to venture into the new international markets, without relinquishing the safety of home.

Then, as offers to merge began to pour in after 2000, the LSE viewed its sense of independence as an aid, not a hindrance, to its plans for the future. Finding itself at the centre of global finance, with strong domestic markets and access to the world's major financial intermediaries, the LSE came into its own. The LSE bided its time, somewhat courageously in the face of falling profits, through several major bids. In 2007, the LSE finally made its first move and jumped into the merger games.

Secondly, a clutch of inter-related, heterogeneous reasons may explain the fraught merger negotiations involving the LSE: defective merger strategy (including corporate governance failures on the part of merger partners), under-valuation of the LSE and insufficient business synergies. These three factors, in various guises, operated in each of the breakdowns in negotiation between LSE and OMX, Deutsche Börse (twice), NASDAQ (several times), Macquarie Bank and TMX. Lower profile and unreported negotiations were also taking place during this period and undoubtedly the same factors were at work. The LSE moved in a leisurely manner, looking for considered and symbiotic relationships.

II CONTEXT: LEAD UP TO THE 21ST CENTURY

A *The Big Bang*

From World War II until 1979, the presence of exchange controls, introduced to stabilize the sterling, had "cocooned" the members of the LSE from international competition.[2] The removal of these controls in 1979 suddenly encouraged UK residents to purchase foreign securities, foreign investors to buy British securities and London to become a financial centre of convenience for institutional investors from around the world.[3]

Foreign intermediaries flooded into the City of London, sparking outrage. There were fears that international capitalism had triumphed over democracy.[4] Foreign intermediaries though established themselves by setting up and running a foreign investment market. The LSE's control over the domestic market (which had was distinct from this foreign market) began to slip.[5]

Only the largest firms of brokers envisioned the international potential of European securities, and the role London could play in this. Many of the old guard members of the LSE had never been required to concern themselves with business in foreign securities or foreign clients. They feared alteration of the regulations and rules that underpinned their control of the domestic market.[6]

This competitive shift saw the LSE forced to review its rules and regulations throughout the early 1980s, particularly in relation to single capacity and fixed commissions. As this process began, a case in the Restrictive Practices Court brought by the government (the RPC case) served to complicate matters. The case alleged that the LSE was exploiting a "quasi-monopoly", and threatened to undermine the LSE's already precarious hold on the domestic market. The Exchange's entire rulebook risked being thrown out, jeopardizing the LSE's institutional role and the stability of the market as a whole.[7] As the Exchange at this point was the primary, if not exclusive, regulatory body, its role was crucial.

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2 Ranald C Michie, *The London Stock Exchange: A History* (Oxford University Press, 1st ed, 2001) 500.
3 Ibid 521.
4 David Kynaston, *The City of London: Volume IV – A Club No More, 1945-2000* (Pimlico, 1st ed, 2002) 585.
5 Michie, above n 2, 544.
6 Ibid 524.
7 Ibid 545.

Attempts by the Council of the LSE to persuade the government to drop the case were futile. The Thatcher government's reluctance to compromise was based upon a concern that any concessions would be viewed by the public as a conservative government 'pandering' to their friends in the City of London.[8] However, several years later, as the date for the case was set, a deal was struck to "dismantle, by stages and with no unreasonable delay, all the rules which at present prescribe minimum scales of Commission, and to complete the dismantling by 31 December 1986".[9]

The Exchange also agreed to expand their policy on membership applications and to become more accountable to non-members. The Council was to include non-members appointed by the Bank of England. Not long after, the RPC case adjourned, and eventually legislation was passed exempting the Exchange from the RPC's jurisdiction.[10]

The Big Bang resulted from the confluence of two forces. As Ranald Michie puts it, the "power of impersonal market forces, whereby technological change and globalization destroyed the natural protection of a national stock exchange"[11] and the political agenda of the conservative Thatcher government, which pushed the Exchange into compromise. To achieve their goal of unleashing the forces of the free market and globalization, the Thatcher government was prepared to let slip the LSE monopoly in order to win public approval.

The compromises agreed upon in 1983 were implemented reasonably quickly in the three or so years leading up to the Big Bang, on October 27, 1986.[12] Reform of regulations relating to investor protection, including the creation of the Securities and Investment Board (SIB) began in 1985. By mid-1985, the LSE had accepted that member firms could be 100% owned by single non-members, which meant they could be full subsidiaries of British or foreign banks. On the Friday of the Big Bang, the LSE finally readied itself to enter the international market. After "20 semi-wasted years…it was time, at last, to get real".[13]

B *Mergers with ISRO and LIFFE*

The first significant move made by the Exchange after the Big-Bang was to merge with the International Securities Regulatory Organization (ISRO) in September 1986. This merger is

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[8] Ibid 548.
[9] Ibid 550.
[10] Ibid 553-4.
[11] Ibid 543.
[12] Kynaston, above n 4, 688-692.
[13] Ibid 697-8.

explicable by looking to the conditions the Big Bang created in the City. Many of the LSE's member firms had become foreign owned and international companies, attracted by SEAQ International, had also flocked to the Exchange in order to benefit from the orderly market provided by the new rules.[14] The merger with ISRO was done to address this new international focus, with two purposes in mind. The first was to establish a self-regulatory organization (SRO) under the new legislation.[15] The second was driven by the fact that many of the ISRO firms trading in the Eurobond market had become members of the Exchange under the new rules. As such, the merger drove international players towards the Exchange, rather than leaving it open for them to go and form a separate organization and market.[16]

There was, however, possibly a third purpose to the ISRO merger. Many figures in the financial world, particularly those based in New York, recognized that the merger not only sought to create a 24 hour electronic marketplace for stocks, but would allow the Exchange to self-regulate and to provide trading options in around 100 American blue chip equities.[17] That is to say, the merger with ISRO proceeded on the basis that LSE saw itself, in this new world order, as a genuine competitor of New York in claiming to be the global centre of finance. In 1988, the merger with ISRO took effect, and the LSE was permitted to regulate both the market and the conduct of participants. By merging with ISRO, the LSE brought the large number of international players streaming into London under the Exchange's purview, as well as enhancing the Exchange's status around the world.

This self-important vision of the LSE played out again in its attempt to purchase the London International Financial Futures and Options Exchange (LIFFE) in 1987.[18] LIFFE was established in 1982 when exchange controls were lifted, and it begin trading futures and options. At the time of the attempted takeover, LIFFE was developing a contract based on German government bonds, which eventually provided a disincentive to merge with LSE.[19] Michie suggests LIFFE harboured concerns about its autonomy if subsumed as just one

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14 Michie, above n 2, 580.
15 *Financial Services Act 1986* (UK) c 60.
16 Michie, above n 2, 581-2.
17 'London Stock Exchange Seeks Global Role', *Associated Press News Archive* (online), 16 September 1986 <http://www.apnewsarchive.com/1986/London-Stock-Exchange-Seeks-Global-Role/id-2c0b99ae65781887731eb878dea615dc>.
18 David Kynaston, *LIFFE: A Market and its Makers* (Granta Editions, 2002) 152.
19 Michie, above n 2, 582.

component of a hypothetical London Futures and Options Exchange. This, he suggests might have spurred LIFFE to fear that a tie up with the LSE would stifle LIFFE's "entrepreneurial" operation.[20]

Eventually, the LSE reconciled itself to the LIFFE rejection although that did not stop future attempts to merge with the lucrative and forward thinking exchange.[21] LIFFE itself was interested in the LSE's Options Market (LTOM). In response, the LSE began to pay more attention to that aspect of their business, the strategy being to become a dominant force in their own right. But not for long. A few months later the LSE, likely as a result of the crash of 1987, made the fateful decision to focus on becoming the most important market for international equities. The futures markets could be left to their own devices.[22]

As such, the remainder of the 1980s saw the LSE being only partly successfully in attempting to regain its dominant position in the world order, absent the advantages of a quasi-monopoly. While the absolute dominance of days gone past were likely gone forever, the Exchange had unequivocally established domestic dominance and was holding more than its own in the international equity markets.

The scope for expansion in the domestic market was clearly limited due to competition from LIFFE, but the merger with ISRO paved the way for international expansion. This was facilitated in part by the replacement of the trading floor with an electronic network and by the extension of membership to a variety of major global financial players. As the European forerunner of electronic trading, through SEAQ International, the LSE was able to assert initial post-Big Bang dominance, through their preparedness to quickly abandon the trading floor.[23]

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20 Ibid.

21 Simon English, 'Garban Chief Rejects LSE Plans for Liffe Merger', *The Telegraph* (London), 31 May 2001.

22 Michie, above n 2, 583.

23 Norman S Poser, 'The Stock Exchanges of the United States and Europe: Automation, Globalization and Consolidation' (2001) 22 *University of Pennsylvania Journal of International Economic Law* 497, 502.

The 1990s saw the future of all physical stock exchanges put into serious question. [24] The LSE was in the doldrums. Many saw the Exchange as directionless at best, or incompetent at worst,[25] as the waves of globalization eroded the bricks and mortar exchanges.[26] However, in 1995 the LSE launched the Alternative Investment Market (AIM), an international market for growing companies. Criticism had been directed at the Exchange as facing a dismal future and AIM was the response. By 1996, AIM had listed 205 securities, at a value of 4.3 billion pounds.[27] In a second response to mounting criticism, in 1997 the LSE launched the Stock Exchange Electronic Trading Service, designed to enhance the trading speed and efficiency.[28]

The last step in creating the new exchange was demutualization. The LSE membership voted in favour of it in 1999, thereby paving the way to becoming publicly listed company, operating on a fully commercial basis. The Exchange saw this as a necessary move in face of the increasing competition posed by the advent of electronic trading.[29] The club, created nearly two hundred years ago, was disbanded.[30]

Demutualization occurred in March 2000, and one year later, the Exchange listed on itself, with a market capitalization of approximately $2.1 US billion. Amid concerns over conflicts of interest, the Exchange relinquished its role as a regulator of the primary market to the Financial Services Authority, the newly established governmental regulator. The Exchange could now place its customers and shareholders at the centre of its activities. Additionally, the Exchange gained the flexibility it needed to operate in a rapidly changing environment. [31]

III Policy of Independence

Against the backdrop of the Big Bang, the internationalization of the City, the launch of AIM and demutualization, the LSE pursued a policy of independence or self-imposed isolation between 2000 and 2006. The Exchange resisted takeover attempts and merger proposals from

24 Richard O'Brien, *Global Financial Integration: The End of Geography* (Chatham House, 1992) 8.
25 See Erik Portanger and Vanessa Fuhrmans, 'How it Became a Foggy Day on the London Exchange', *Wall Street Journal* (New York), November 2 2001, 1; Vincent Boland, 'Securing a Future', *Financial Times* (London), March 5 2001, 22.
26 J J Fishman, *The Transformation of Threadneedle Street: The Deregulation and Regulation of Britain's Financial Services* (Durham, NC, 1993) 269.
27 Michie, above n 2, 619.
28 London Stock Exchange, *Our History* (7 July 2015) <https://web.archive.org/web/20150905191913/http://www.londonstockexchange.com/about-the-exchange/company-overview/our-history/our-history.htm>
29 Laura Padilla Angulo, 'The London Stock Exchange: Strategic Corporate Governance Restructuring After Demutualization' (2014) 30(1) *The Journal of Applied Business Research* 211, 216.
30 Ibid 215.
31 Ibid 215-6.

the Continent (Euronext, Deutsche Börse and OM Group), across the Atlantic (NASDAQ) and even from Australia (Macquarie Bank). What accounts for such frenzied activity?

First, by 2000 London was an incredibly attractive merger partner. The LSE was the largest stock exchange in Europe in 2000, with a market capitalization of $2.9 trillion US dollars, an impressive listing of both domestic and foreign companies and a trading book of upwards of 12,000 securities.[32] This pre-eminence may have given the LSE a false sense of security, that nothing had changed despite the shake-up of the Big Bang; it could continue to go it alone. Or perhaps the LSE may simply have been biding its time, reluctant to compromise its prized autonomy.

Secondly, many of the proposals the LSE received were deficient in various ways or thwarted by shareholder and regulatory concerns. Each negotiation was marked or interrupted by some significant disincentive arising, on the part of the LSE.[33] Suitors themselves had their own ambitions for global branding and dominance, putting them at odds with those of the LSE.[34]

OMX Group and the LSE did successfully cooperate to create EDX London, an international equity derivatives business. However, LSE relinquished no independence in the creation of EDX and benefited from the technological savvy of the Nordic exchanges.[35] London's suitors went elsewhere, at least temporarily. London did not become part of the "mega-exchanges", NYSE Euronext or NASDAQ OMX Group.

A *Deutsche Börse – the "First Failure"*

In 1998, the LSE had entered into talks with Deutsche Börse (DB), the Frankfurt based stock exchange, which resulted in an alliance to create a common electronic trading platform.[36] This alliance continued until May 3, 2000, when the LSE and DB announced a long awaited merger. At the time, this announcement was ground-breaking, "the most far-reaching undertaken by

32 Poser, above n 23, 502.
33 'Hard to Get', *The Economist* (London), 16 July 2005, 71.
34 David Fairlamb, 'Swedish Surprise: OM's bid catches the London Stock Exchange off guard', *Business Week*, 11 September 2000, 58.
35 'London Stock Exchange and OM to Create new Equity Derivatives Business' *OM* (Sweden), 9 December 2002.
36 Francis A Lees, *Financial Exchanges: A Comparative Approach* (Routledge, 1st ed, 2012) 133.

any stock exchanges'[37] The plan for the two exchanges was to merge their cash markets in equities and derivatives into a company called "iX" (International Exchanges).[38] If it had gone ahead, it would have created the world's third biggest stock market by turnover, and easily the largest in Europe.[39] Clearly, the merger would have established an impressive exchange with numerous ostensible advantages. Importantly, it would have beaten every other exchange to the punch, and likely become the first pan-European market.[40]

Despite this, the DB-LSE tie up was not to be. A litany of reasons caused the merger to fail, some of which can be linked to the LSE's insistence on independence. However, many of the obstacles to the creation of iX were simply unfortunate coincidences, or tactical errors on the part of DB.

London was wary of DB's aggressive CEO, Werner Seifert, who was to head up iX.[41] On the other hand, certain aspects of the plan were too London-centric. Blue chip stocks were to be confined to trading in London,[42] while Frankfurt would trade smaller growth companies, which had been the preserve of AIM.[43] The LSE's insisted on being the headquarters of the merged entity, arguing that only London could compete with New York City.[44] Despite the relative arbitrariness of this, it became a sticking point that exacerbated tensions, particularly in light of DB's demands for management control.[45]

Secondly, the business plan for iX failed to articulate several key aspects of the merger. It omitted to identify processes or mechanisms to deal with the differences in regulatory systems, practices and currency.[46] It also neglected to explore how a proposed secondary venture with NASDAQ would actually play out.

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37 Vincent Boland and Aline van Duyn, 'Deal with London Gives Frankfurt Added Weight: Deutsche Borse', *Financial Times* (London), 22 May 2000, 12.
38 Poser, above n 23, 503.
39 Boland and van Duyn, 'Deal with London Gives Frankfurt Added Weight: Deutsche Borse', above n 37.
40 Poser, above n 23, 503.
41 Ibid; see also 'London Stock Exchange and OM to Create new Equity Derivatives Business', above n 35.
42 Poser, above n 23, 503.
43 Lees, above n 36, 133-4.
44 Ibid 134.
45 Boland, Vincent and Aline van Duyn, 'iX Doubt Creeps Out: Vast Detail on the Planned Merger of the London Stock Exchange and Deutsche Borse Has Not Been Enough to Deflect Dissent', *Financial Times* (London), 22 May 2000, 30.
46 Boland and van Duyn, 'Deal with London Gives Frankfurt Added Weight: Deutsche Borse', above n 37, 13.

Thirdly, shareholder opposition in both London and Frankfurt proved problematic. The owners of DB, an aggressive and tightly knit syndicate of leading German banks, wanted as much control as possible for DB.[47] There were issues of questionable corporate governance at the German exchange. Several LSE member-shareholders were loathe to lose trading in growth stocks;[48] others were critical of a poorly thought out merger.[49]

Costs were an issue in this "first failure". The merger would have replaced two successful, extant exchanges with two new ones, but increasing the costs to both.[50] Settlement, the single biggest cost to cross-border trading at the time, was not addressed in the merger plan.[51] The leak of an internal memo telling LSE staff to "blame the Germans" in the event of breakdown further served to obfuscate discussions and compromise the viability of the merger.[52] Then the OM Group entered the fray with a competing offer in August 2000.[53]

The LSE had entered the takeover game.[54] However, the talks between the London and Frankfurt had also spurred the creation, in September 2000, of another, different, pan-European exchange, Euronext, following a merger of the Amsterdam Exchanges, Brussels Exchange and Paris Bourse.[55] Symbolically at least, Euronext was a blow to the LSE. iX had been intended to be a pan-European stock market. Euronext beat LSE to the punch while claiming the status of the "first integrated European stock and derivatives market".[56] Then, in 2001, Euronext's acquisition of LIFFE added further insult to injury.[57]

B *OM Group*

47 Boland, Vincent and Aline van Duyn, 'iX Doubt Creeps Out', above n 45.
48 Poser, above n 23, 503.
49 James Moore, 'LSE Merger Flawed, Says Old Mutual', *The Times* (London), 6 September 2000, 25.
50 Lees, above n 36, 134.
51 Charles Pretzlik and Aline van Duyn, 'London Takes Stock: A Swedish Takeover Approach for the London Stock Exchange Highlights Unresolved Issues in the Way of a Merger with Germany's Deutsche Boerse', *Financial Times* (London), 29 August 2000, 16.
52 Amanda Hall, 'Steely Don' [2000] (June) *Director* 45, 45.
53 Erik Portanger, 'Exchange in London Now in Play', *Wall Street Journal* (New York), 30 August 30 2000, A18.
54 Lees, above n 36, 134.
55 Ekaterina Dorodnykh, *Stock Market Integration: An International Perspective* (Palgrave Macmillan, 2013) 30.
56 Poser, above n 23, 504.
57 Dorodnykh, above n 55, 30.

The surprise bid of August 2000 by OM Group was a final piece of excitement for the LSE in what had already been an eventful year.[58] A friendly bid was made first, which the LSE rejected. The next week, OM Group followed up with a hostile bid. The offer, not surprisingly, was at a significant premium of GBP3.50 per share, in a cash and share exchange: GBP20 in new OM shares plus GBP7.19 in cash.[59] There were some suggestions that the bid was a defensive move to impede the iX merger, rather than a genuine attempt at fostering a successful joint enterprise with London.[60]

Despite the strong position and technology focus of the OM Group, the LSE initially described the bid as unattractive – at least relative to the iX merger. With the advent of the hostile takeover, OM Group began a roadshow throughout October 2000, visiting LSE shareholders, trying to garner their support.[61] The OM Group conceded defeat in early November, when only 6.7% of LSE shareholders indicated support.

Two failed mergers in such a short period of time impacted the credibility of the executive ranks at LSE, leading to the replacement of CEO Gavin Casey. The shareholders' general opposition – and level of animosity towards Casey immediately prior to his replacement – reflected negatively on the LSE's foreign merger prospects.[62]

Why did LSE shareholders reject the OM Group bid? There was suspicion at the time as to the motives of the OM Group, that their interest was driven primarily by the publicity and recognition associated with the bid.[63] As with the proposed DB merger, London feared losing its position as the centre of European international finance and OM Group would not bring with it a burgeoning derivatives market. LSE shareholders may also have been holding out for a sweeter deal should a "white knight" appear to spur better terms from DB or Euronext.[64]

C *EDX*

58 Hall, above n 52.
59 'London Stock Exchange and OM to Create new Equity Derivatives Business', above n 35; Fairlamb, above n 34.
60 'LSE Quick to Dismiss OM Groups's 808M Bid', *The Scotsman* (Edinburgh), 29 August 2000 <http://www.scotsman.com/business/finance/lse-quick-to-dismiss-om-group-s-163-808m-bid-1-838933>.
61 Sheila Jones, 'OM Roadshow Fails to Convince Regions: Stock Exchange Concerns Over Share Offer Remain', *Financial Times* (London), 26 September 2000, 3.
62 Simon English, 'Casey Falls on his Sword', *The Telegraph* (London) 16 September 2000.
63 'Modernizer Plots London Takeover', *Euromoney*, October 2000, 42.
64 'LSE Quick to Dismiss OM Groups's 808M Bid', above n 60.

Nevertheless, 2003 saw the rekindling of the OM-LSE relationship, and with it, the formation of EDX London, an international equity derivatives business, capitalizing on London's strong international equity presence and the technological prowess of the Nordic group. Announced late in 2002,[65] the move signalled a slight softening in the LSE's "policy of independence" in going back to OM, after fending off their hostile bid. Clara Furse, whom the media regarded as the capable replacement for the somewhat derided Gavin Casey,[66] led the charge in looking to compete with LIFFE.

The formation of EDX London was designed to give the LSE a strong position in the lucrative derivatives market controlled at the time by LIFFE (owned by Euronext) and Eurex (owned by DB). EDX had the technological advantage of OMX, and looked to not only control Scandinavian equity derivatives but to leverage the technology to offer a wider set of products to a wider set of customers. Onlookers at the time suggested that rather than being a significant strategic change, the move was a growth initiative, not designed to – and not likely to – immediately threaten LIFFE.[67] This was confirmed by Clara Furse, who suggested at the time that EDX was created to provide services to the firms participating in the OTC market.[68]

Not an obvious strategy even at the time of its creation, EDX quickly unravelled. In 2008 NASDAQ acquired OMX; most of the EDX derivatives contracts moved to NASDAQ OMX, leaving only the Norwegian derivatives products with EDX London.[69] These contracts were quietly rolled into the Turquoise trading service established by the LSE in 2009.

D *DB's Second Bid and Euronext*

As interest in a pan-European exchange persisted and London's international equities business went from strength to strength, the LSE became an ever more attractive take-over prospect. In

65 Andrew Cave, 'Old Rivals Forge New Derivatives Alliance', *The Telegraph (UK)*, 10 December 2002; John Carroll, 'London Stock Exchange Nabs a Competitive Edge: Derivatives Game Plan Targets European Players', *Bank Technology News*, January 2003, 14.

66 Vincent Boland, 'A Single Minded Manager', *Financial Times* (London), 27 January 2001; Silvia Ascarelli, 'London Bourse is Set to Trade Tradition for Neutrality, Naming Outsider as CEO', *Wall Street Journal* (New York), January 24 2001.

67 Carroll, above n 65.

68 Jill Treanor, 'Stock Exchange Teams Up with OM', *The Guardian* (online), 10 December 2002 <http://www.theguardian.com/business/2002/dec/10/3>.

69 'Taking on the Big Boys – Nicolas Bertrand Interview', *Futures and Options World*, 23 July 2010 <http://www.fow.com/2637010/Taking-on-the-big-boys-Nicolas-Bertrand-interview.html>.

2004, $5.3 trillion in stocks traded in London and 293 initial public offerings took place over the Exchange.[70] For these reasons, DB and the LSE put aside their differences and resumed discussions. Concurrently, Euronext entered the fray. London's $5.3 trillion in stocks traded in 2004 exceeded the combined total of stocks traded on DB and Euronext for that year.[71] For DB, the prospects of success had improved, in part due to the arrival of a new LSE head, Clara Furse and also because the LSE was no longer dominated by trading members. With demutualization, most of LSE's new shareholders were only interested in obtaining the best price for their investment.[72]

The DB bid, for 2 billion euro (GBP 1.3 billion), launched on December 13, 2004, valuing the LSE at a 23% premium over its closing price two days earlier. The LSE rejected the bid as too low, but DB kept the bid open over the following three months.[73] Meetings between Clara Furse, Weiner Seinfert (head of DB) and head of Euronext ensued. Discussions continued until February 9, 2005, at which point a 5% activist shareholder (The Children's Investment Fund, or TCI) took DB out of the game.[74] TCI cited a failure of corporate governance on the part of CEO Werner Seifert,[75] who was promptly replaced by the hedge funds that had brought the deal down.[76] The Euronext talks eventually petered out, despite promising signs.

By this stage, the LSE policy of independence had already begun to falter (partly due to Furse's influence), being replaced by a tacit acknowledgement that something had to happen soon.[77] It is unclear whether the LSE's extended talks with the German Börse were genuine or merely posturing so as to generate interest from Euronext and perhaps the exchanges across the

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70 Beth Carney, 'The London Exchange's Last Days?', *BusinessWeek Online*, 2 February 2005 <http://www.bloomberg.com/bw/stories/2005-01-30/the-london-exchanges-last-days>.

71 Ibid.

72 Richard Wachmann, 'German Invasion- Or Just a Case of Market Economics?', *The Guardian* (online), Sunday 19 December 2004 <http://www.theguardian.com/business/2004/dec/19/theobserver.observerbusiness17>.

73 Carney, above n 70.

74 Ibid.

75 See Sudi Sudarsanam and Tim Broadhurst, 'Corporate Governance Convergence in Germany through Shareholder Activism: Impact of the Deutsche Boerse Bid for London Stock Exchange' (2012) 16 *Journal of Management and Governance* 235; and Stilpon Nestor, 'How Bad Governance Cost Deutsche Börse Its Deal', *International Financial Law Review* (online), 1 October 2005 <http://www.iflr.com/Article/1984711/How-bad-governance-cost-Deutsche-Brse-its-deal.html>.

76 David Lanchner, 'Lull Before the Reform?' (2005) 30(5) *Institutional Investor International Edition*, 14, 17.

77 'Hard to Get', above n 33.

Atlantic. Regardless, LSE was clearly in the driver's seat, due to a market share that dwarfed its two competitors

Despite the failure of the merger, the talks piqued the interest of the British authorities as to the regulatory consequences of a pan-European merger. In April 2005, an investigation was conducted by the British Competition Commission about the consequences of any hypothetical mergers between the LSE and Euronext or DB. The competition issue raised by a merger with DB was clearing and settlement: LCH Clearnet would become the sole provider of settlement and clearance services, potentially triggering provisions about substantial lessening of competition.[78] The report concluded that the DB merger would not lead to any substantial lessening of competition.[79]

The merger also piqued the interest of the Association of Private Client Investment Managers and Stockbrokers (essentially an organization comprised of the big banks), as well as regulators and companies listed on AIM. The merger, some argued, had it gone ahead, could usher "in an era of lower costs for European exchange users and greater profits for bourse investors."[80] European Securities Forum representatives suggested that the bid drew people's minds to the questions of competition across Europe, and might accelerate the harmonization of regulation and consolidation among the exchanges.[81] Onlookers were optimistic that a "lucrative equilibrium struck between profit-driven exchange shareholders and efficiency and cost-driven users".[82] The regulatory clearances that the failed attempts engendered, were arguably important signposts of the pan-European regulation and integration that was to follow.

E *Macquarie*

Yet another offer for the LSE came late in 2005 from the Australian Macquarie Bank (Macquarie), after some degree of build up and speculation.[83] Macquarie offered GBP 1.5

78 'Stock Exchange Mergers: Three Dimensional Chess', *The Economist* (London), 4 August 2005.

79 *Competition and Markets Authority Case: London Stock Exchange plc/Deutsche Borse AG and Euronext N.V. Merger Inquiries* (1 November 2015) <https://www.gov.uk/cma-cases/london-stock-exchange-plc-deutsche-b-rse-ag-and-euronext-n-v-merger-inquiries-cc>.

80 Lanchner, above n 76, 14.

81 Ibid 16.

82 Ibid 19.

83 'LSE Receives "No Formal Approach" from Macquarie Bank', *Australian Broadcasting Corporation*, 15 August 2005 <http://www.abc.net.au/news/2005-08-15/lse-receives-no-formal-approach-from-macquarie-bank/2081538>.

billion or 580 pence per share, which it characterized as attractive. The Macquarie bid quickly became hostile after LSE's board balked.

The Macquarie price appeared, simply, too low - the LSE described it as "derisory" – and the businesses lacked synergies. The LSE issued a statement that the proposal lacked strategic or commercial credibility.[84] The fact was, in light of the failed Euronext and DB negotiations, Macquarie's offer was not the kind of relationship the LSE was striving to develop. Geographic factors aside, Macquarie brought none of the diversity the LSE sought in derivatives or clearing services. The LSE would have had to relinquish its cherished "independence", a notion which may have evolved under Furse, but which remained very much part of the LSE ethos and identity. Macquarie argued that DB and Euronext had both lost interest and that a merger with a US exchange was unlikely to be allowed by the US regulator, the SEC.[85]

Fundamentally, the bid failed because of divergent views over the value of the LSE.[86] Macquarie saw the LSE as a low-growth business with a cyclical operation. LSE shareholders saw high growth potential due to increased volumes generated by high frequency trading. The DB and Euronext discussions had also stoked the price expectations of the LSE shareholders.

F *NASDAQ*

Speculation in 2002 and ongoing talks from 2004 preceded a NASDAQ acquisition bid in 2006. NASDAQ was motivated by the same factors which had attracted European bidders, with the difference that the NASDAQ overtures came from across the Atlantic.[87] Only months later, NYSE and Euronext successfully merged to create the first large scale trans-Atlantic exchange.

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84 'LSE Rejects "Derisory" Bid by Macquarie Bank', *Australian Broadcasting Corporation*, 15 August 2005 <http://www.abc.net.au/news/2005-12-10/lse-rejects-derisory-bid-by-macquarie-bank/758472>.

85 Norma Cohen, 'Macquarie Abandons Bid for London Stock Exchange', *Financial Times* (London), 20 February 2006 <http://www.ft.com/intl/cms/s/0/93ed699a-a24c-11da-9096-0000779e2340.html#axzz3fNpy7UET>.

86 Ibid.

87 Michael Gorham and Nidhi Singh, *Electronic Exchanges: The Global Transformation from Pits to Bits* (Elsevier Financial Markets Press, 1st ed, 2009) 172-3.

London's AIM market was also competing with NASDAQ for listing early-growth companies[88] and the LSE's large investment in high speed trading systems presaged even greater future competition.[89] Status and size also mattered. NASDAQ wanted to win the race to be the first transAtlantic exchange, with operations in both major centres of global finance. The synergies were attractive; the merger would "unite the premier market for technology companies in the USA with one of the oldest venues for share trading with Europe".[90] It would have created the world's second largest exchange, with more than 6,000 companies listed and aggregate market capitalization of $7 trillion.[91]

Despite all the speculation in the four years leading up to it, NASDAQ's initial offer in March 2006 (US$4 billion) was rejected. As with the Macquarie bid, it may have simply been an undervaluation of the LSE, failing to reflect a number of supposedly "hidden values" such as technology synergies [92] and the value of control ownership.[93]

After the rejected bid of 2006, NASDAQ acquired a 30% stake in LSE and by January 2007 the NASDAQ offer stood at US$5.7 billion. This offer too was rejected, but this time, in part due to constraints imposed by the UK Takeovers Panel rules.[94]

The LSE viewed their business model as incompatible with that of NASDAQ. While impressive, NASDAQ's listings were primarily the smaller technology companies; the LSE saw its reputation and prestige deriving from its status as a global financial centre in the same league as the NYSE.[95]

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88 A Postelncucu and D Blackwell, 'Take Aim and Outshine the Competition', *Financial Times*, 3 September 2005, 9.
89 Lees, above n 36, 148.
90 Aaron Lucchetti and D Reilly, 'London Exchange Rebuffs a Bid from NASDAQ', *Wall Street Journal* (New York), 11 March 2006, B1.
91 Lees, above n 36, 146.
92 J Authers, 'Platforms Hold Key to Merger Savings', *Financial Times*, 16 March 2006, 21.
93 Lees, above n 36, 147.
94 A McDonald and H Teitelbaum, 'NASDAQ Declines to Raise its Bid for LSE', *Wall Street Journal* (New York), 27 January 2007, B3.
95 Dorodnykh, above n 55, 37.

Secondly, the LSE already had a viable smaller growth company market in AIM which, over the period 2003 through 2007, had attracted many non-UK companies.[96] Although half the size of NASDAQ, many companies preferred AIM as it offered lower listing costs (4%-5% of capital raised as compared to 6%-8% for NASDAQ). For small, capital hungry companies, this was a big difference. AIM had been a primary attraction for NASDAQ, but proved a sticking point for the LSE.[97]

In addition to the perceived lack of synergies, the merger discussions were confounded by a rising LSE share price. From March 2006 to February 2007, the share price of the LSE rose rapidly in contrast to NASDAQ's which plateaued. LSE further exacerbated matters by engaging in a variety of strategic manoeuvres, such as share repurchases and cost controls, which provided incentives to shareholders not to part with their shares.[98] More importantly, the LSE was extremely reluctant to be regulated by the SEC out of Washington DC.[99]

The NASDAQ discussions also coincided with the LSE introducing a high-speed trading platform. This platform was called TradElect and offered algorithmic trading to users. It was able to display prices within 2 milliseconds of receipt, and served to greatly improve and modernize the LSE's internal trading and information services.[100]

Finally, the LSE was also, simultaneously, in discussions with Borsa Italiana (Milan). The Italians had indicated their interest about the same time as Macquarie and NASDAQ, but received an initially negative response. However, in this fluid and dynamic environment things could change quickly.[101]

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[96] Such as EBT Mobile, a company from China, which Lees suggests enrolled on the AIM despite 'a more neutral home' for it would have been NASDAQ; Lees, above n 36, 146.

[97] Ibid.

[98] 'Nasdaq Fails in Takeover Bid for London Stock Exchange – Business – International Herald Tribune', *The New York Times* (online), 11 February 2007 <http://www.nytimes.com/2007/02/11/business/worldbusiness/11iht-nasdaq.4549290.html>.

[99] Gorham and Singh, above n 87, 173; Grant Ringshaw, 'LSE and NASDAQ Seek Merger Concessions', *The Sunday Telegraph*, 2 June 2002.

[100] Lees, above n 36, 148.

[101] Gorham and Singh, above n 87, 173-4.

So why did the LSE choose to reject a powerful rival, to merge with the smaller, relatively insignificant, Milan exchange? The rush of mergers between exchanges had been intense in prior years. Competition was taking its toll on the LSE; profits were falling, despite a rising share price. The introduction of TradElect had been expensive but necessary. London was struggling to gain ground on New York as the centre of world finance, particularly since the NYSE-Euronext merger had gone ahead. For all its strengths, the LSE lacked diversity in its revenue streams (it had no strong derivatives business), was not operating its own clearing house (compared to exchanges like Deutsche Börse) and found its profit margins being squeezed by electronic trading networks and even smaller exchanges like Switzerland.

In this context, the merger with NASDAQ must have seemed intuitively attractive to some LSE shareholders. It would have formed one of the world's largest exchanges and would have beaten the NYSE-Euronext joint enterprise to the punch. But to proceed with the merger would have been to ignore what the LSE really needed, which was diversified revenue. And the LSE found just that in the Borsa Italiana.

IV From the Hunted to the Hunter

In 2007, the LSE shifted from being the hunted to being the hunter with the merger with Borsa Italiana. Markets were changing rapidly. The LSE then went on to purchase an interest in Turquoise and merged it with Baikal to create a multilateral trading facility. Further investment in technology, with the purchase of MilleniumIT, occurred in 2009. In 2011, an aborted merger with the Canadian TMX group recalled the failures and near misses of the earlier decade, and revived rumours that, in an about face, the LSE might acquire NASDAQ.

A *Borsa Italiana*

Announced mid-way through 2007 amidst concerns that NASDAQ might attempt to block the merger, discussions with the Borsa Italiana (BI) had been ongoing since the approaches of Macquarie and NASDAQ in 2006. NASDAQ however had already abandoned their pursuit of the LSE and was looking to offload their substantial shareholding. In early 2008, the Qatar Investment Authority (QIA) purchased the block of shares in exchange for a stake in OMX.[102]

[102] Gorham and Singh, above n 87, 174-5.

The QIA had ambitions to imitate the LSE, in order to develop securities trading in the Gulf region.[103]

Clara Furse, head of the LSE, justified the merger with the BI by citing increased earnings, accelerated stock listings and share trading in the Italian market and reputational advantages, all of which sounded somewhat hollow.[104] Personalities played a part. Massimo Capuano, a former McKinsey partner and an ambitious leader of the BI,[105] saw the strategic advantages in a pan-European exchange and wanted to block a transAtlantic merger between NYSE and Euronext. Despite his failure to realize either of his ultimate goals, he was a key driver in making the merger with the LSE a success.

The most attractive element of the BI for the LSE was the Italian exchange's strong derivatives and bond trading platforms. BI was small compared to the LSE, only slightly smaller, in terms of the value of the domestic companies listed on it, than OMX or the Swiss exchange.[106] The merger with the LSE created Europe's largest stock exchange, with a widely diversified revenue stream. The BI brought to the table a "sprawling group of businesses, including equities, derivatives trading, clearing, settlement and custody".[107] It also had a large share of the MTS Bond trading platform, along with an option to seize full control from Euronext. Despite the low tariffs for trading, settlement and clearance, the BI had a profit margin of 38%.

The MTS bond trading platform, originally created by the Bank of Italy to trade Italian government bonds, was a particularly attractive acquisition. BI and Euronext owned the holding company in nearly equal measure, with the latter having the 51% controlling stake. With the merger, BI exercised its call option to acquire full control.[108]

There were several other salient factors that attracted the LSE to the BI. One of them was the new stream of stock offerings, in the form of Italian medium sized family companies that would

103 Lees, above n 36, 117.
104 Alistair Macdonald and A Mecenni, 'LSE Adds Dimension as Holders Back Deal', *Wall Street Journal* (New York), August 2009, 2007, C3.
105 Gorham and Singh, above n 87, 173-4.
106 Lees, above n 36, 150.
107 Ibid 152.
108 Ibid.

potentially become available to the LSE.[109] Whether any benefits materialized is unclear, although at the time "Italian bankers view[ed] the prospect of smaller Italian companies gaining the interest of large institutional money from London as a real possibility".[110]

Francis Lees considers the Italian-LSE merger a success.[111] The merged group has the largest European equities pool by market capitalization and by daily value of equities traded; the group is a primary listing venue, with the LSE consolidating its position as the first preference for large international companies while the merger with Milan increased access to European capital for those listing on the main market and on the AIM. Finally, Lees notes the increase in the efficiency of post-trade services that the group provided. Other commentators noted that the merger allowed the LSE to maintain its prized autonomy, while creating cross access opportunities and enlarged liquidity pools for both exchanges.[112]

The merger had not been a given. Hedge fund shareholders complained that a high value acquisition would dilute their interest in the LSE. Rumours circulated that NYSE Euronext, arguably a more desirable match than the LSE, had its eye on the BI.[113]

The LSE-Italiana merger could also be viewed as a "poison pill", a purely defensive move by the LSE with a compliant partner in the BI. NASDAQ could have been poised to strike again, once the Takeover Panel rules allowed them to. The LSE merger with BI diluted NASDAQ's stake. The perception remained that the LSE would only merge on its own terms, regardless of the business case.[114]

B *2009-09: Turquoise and Baikal*

In 2008, the LSE revealed plans for a dark pool, to be called Baikal in homage to the deepest, darkest lake in the world, in the heart of Siberia. The market share of dark pools had been growing across North America in the preceding decade and Europe was following the trend.

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109 H Teitelbaum and C Emsden, 'LSE to Gain Italy IPO Pipeline', *Wall Street Journal*, 12 July 2007, C2 cited in Lees, above n 36; Dorodnykh, above n 55, 37.

110 Lees, above n 36, 152.

111 Ibid 153.

112 Dorodnykh above n 55, 37.

113 A Mocenni and E Taylor, 'NYSE Makes Rival Bid for Borsa Italiana', *Wall Street Journal*, 22 June 2007, C2.

114 Ibid 151, citing Norma Cohen, 'Defensive Logic behind LSE's Aggressive Italian Manouevre', *Financial Times*, 23 June 2007, 9.

The LSE was shaking off its musty traditional image and keeping up with the times. DB launched its own dark pool, Xetra, later that year.[115]

Dark pools were a response to shifts in trading patterns. Algorithmic trading in equity markets by high frequency traders was forcing large investors such as superannuation and pension funds off the exchanges into the dark pools where large orders could receive special handling. In 2009, approximately one fifth of the equities traded in Europe each day was traded through a dark pool.[116] Baikal was designed to provide the "special handling" for institutional investors trading in blue chip shares across continental Europe. Clearing was handled by the BI and the large buy-side traders accessed Baikal through the sell-side banks.[117]

In April 2009, Baikal selected Fidessa and BNP Paribas as technology partners to support Baikal. Cutting edge technology was essential in order to differentiate the business from the 12 other significant dark pools across Europe as at June 2009.[118] The LSE also purchased MillenniumIT, a Sri-Lankan IT company, for $30 million, with a view to developing new trading systems. These systems were to replace TradElect, the system introduced in 2007.[119] Such a brief turnaround indicated the shortening of the technology cycle for stock exchanges, even in comparison to five years before.

In December 2009, LSE bought a 60% share in Turquoise, a multilateral trading facility (MTF) created by a syndicate of investment banks. Turquoise was set up and designed to allow trading to occur on and off traditional exchanges, at a 50% discount to "traditional" stock exchanges. Once the purchase had gone ahead in February 2010, Turquoise was merged with Baikal, the LSE's dark pool.[120] The LSE's acquisition represented both an easing of tensions with the investment banks looking to offload Turquoise as well as an opportunity to offer trading across Europe. [121]

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115 Ibid 154.
116 Ibid 155.
117 Jeremy Grant, 'LSE Refreshes Baikal "Dark Pool"', *Financial Times* (London), 16 June 2009.
118 Ibid.
119 Jeremy Grant, 'LSE Buys MilleniumIT to Cut Costs', *Financial Times* (London), 16 September 2009.
120 Jeremy Grant, 'LSE Buys Turquoise Share Trading Platform', *Financial Times* (London), 21 December 2009.
121 Ibid.

By this time, Xavier Rolet had taken over from Furse as the CEO of the LSE Group. [122] In one of his first press interviews, at the AGM that year, he indicated that the exchange was looking to provide services facilitating the trading of corporate bonds from Britain and across Europe. This was to supplement the current business the LSE Group had in Italian and other sovereign issued debt securities. Rolet was the instigator of the MilleniumIT purchase. He also helped to push through Baikal-Turquoise merger.

Revenues for the LSE Group declined in 2009, despite the merger of 2008. The global financial crisis no doubt contributed, but the relentless development of the preceding years and competitive pressures exerted by new technologically advanced stock trading platforms also played a role.[123] New stock listings were particularly impacted. Thomson Reuters' data indicated that Chi-X Europe had 20% of trading in the top 100 UK stocks, while LSE, a far older institution, had 67%. The BI had not been a solution to this critical problem.

Rolet oversaw the Baikal/Turquoise merger and technological acquisitions designed to modernize trading. He also reduced staffing in order to minimize operating costs and considered purchasing a majority stake in the clearing house operated by Fortis.[124] While this never came to pass, by 2014, the LSE allowed its customers to clear trades on EuroCCP.[125]

Rapid changes in technology and finances had pushed the LSE from reluctant participant in the new world order to cutting edge competitor.

C *2011 and Onwards*

Throughout 2011, the LSE's newfound assertiveness and proactivity continued, as the Exchange sought to continue to diversify revenue and increase profit margins by seeking valuable new business partners. The LSE embarked on a strategy of spreading sources of revenue across every aspect of the trading cycle.

[122] Jeremy Grant, 'Rolet Speeds in to Push Change at LSE', *Financial Times* (London), 18 July 2009.
[123] Jeremy Grant, 'LSE Refreshes Baikal "Dark Pool"', above n 117.
[124] Lees, above n 36, 154.
[125] Phillip Stafford, 'LSE to Allow Customers to Clear Trades on EuroCCP', *Financial Times*, 21 May 2014.

Merger fever though had not abated. In February 2011, the LSE announced a merger with the Canadian TMX, to create a combined entity with a 5 billion pound market capitalization. The formidable Xavier Rolet was to head the group, with the TMX CEO to be president. Had the deal gone ahead, the entity would have been the second largest exchange in the world.

Just weeks after the TMX merger was announced, Reuters reported rumours that the LSE was considering a takeover of NASDAQ. Questions to Xavier Rolet on whether a three-way merger might occur were deflected.[126] Ultimately, regulatory issues, including the reluctance of the LSE to be subject to the jurisdiction of the US regulator, the fearsome SEC, scuppered a NASDAQ merger.[127]

On June 13, 2011, the Maple Group, a consortium of Canadian banks and pension funds, launched a cash and stock bid hoping to block the LSX-TMX merger. The LSE and TMX agreed to pay a special dividend, later that month, in order to sway shareholders away from the rival Maple bid. Unfortunately for the LSE, TMX shareholders did not back the merger, and subsequently, the Maple group deal was approved by Canadian authorities, giving birth to the TMX Group.

Although unsuccessful in its major merger attempt in 2011, the LSE did continue to pursue a course of smaller acquisitions in search of greater value added. The LSE purchased a remaining 50% stake in the FTSE 100 Index from Pearson.[128] The revenues produced by the FTSE 100 Index (GBP100 million in 2010) were the primary attraction.[129] The LSE also teamed up with a large syndicate of investment banks[130] to create the Turquoise Derivatives platform. This was to be a MTF for equity derivatives, listing securities from Norway, Russia and the UK.[131]

126 Paritosh Bansal and Nadia Damouni, 'London Stock Exchange Mulls NASDAQ Takeover: Report', *Reuters* (New York), 7 March 2011.
127 'Nasdaq Fails in Takeover Bid for London Stock Exchange', above n 98.
128 Lilly Vitorovich, 'LSE to Buy Rest of FTSE', *Wall Street Journal* (New York), 23 December 2011.
129 Ibid.
130 Including Barclays, Deutsche Bank, Goldman Sachs, JP Morgan, UBS and MF Global.
131 London Stock Exchange Group, *London Stock Exchange Derivatives Market* <http://www.lseg.com/markets-products-and-services/our-markets/london-stock-exchange/derivatives-0>

Diversification efforts continued in 2012, with the purchase of a 60% interest in LCH.Clearnet, the second largest clearer of bonds in the world. LCH.Clearnet also cleared across asset classes for a broad range of major international exchanges. Rolet asserted that the purchase of LCH.Clearnet was a transformative transaction which "sought to promote greater innovation, choice and competition in the listed derivatives market through this new-style open-access clearing model".[132] According to Rolet, the purchase built on the past success with Turquoise and the MTS Bond trading system acquired through the BI merger.[133]

Turquoise Derivatives disappeared in 2013 when the LSE bought it outright and renamed it "London Stock Exchange Derivatives Market".[134] This move was partly designed to circumvent post-trade rules introduced in 2013 in the European Market Infrastructure Regulation (EMIR), which sought to impose higher costs on MTFs, because they are considered to be OTC.[135] By making Turquoise Derivatives part of a regulated market of a recognised investment exchange, London was able to improve market and capital usage.[136]

In December 2014, LSE extended its geographic reach with its first major acquisition since 2011, Frank Russell, an American stock index and asset management business, for US$2.7 billion.[137] The deal was touted to move the LSE further away from trading markets and the UK towards information services.[138] The Russell indices benchmark more than US$5 trillion in assets, and include the "Russell 2000", an index for small capitalization American companies.[139]

Diversification into clearing services, dark pools, derivatives and information services had produced the desired result, boosting LSE revenues by 50% to May 2014.[140] In early 2015, LSE was in talks with up to six bidders to sell Russell Investments, the asset management arm

132 'LSE Wins Control of LCH.Clearnet', *The Telegraph* (London), 02 April 2012 <http://www.telegraph.co.uk/finance/markets/9180178/LSE-wins-control-of-LCH.Clearnet.html>.
133 Ibid.
134 'London Stock Exchange to Acquire Turquoise Derivatives', *FinExtra* (London), 5 July 2013 <http://www.finextra.com/News/FullStory.aspx?newsitemid=24993>.
135 'EMIR Rules Prompt Turquoise Derivatives Reshuffle', *The Trade* (online), 5 July 2013 <http://www.thetradenews.com/news/Trading_Venues/MTFs___ECNs/EMIR_rules_prompt_Turquoise_Derivatives_reshuffle.aspx>.
136 Ibid.
137 Ian Walker and Josie Cox, 'London Stock Exchange to Buy US Asset Manager Frank Russell for $2.7 Billion', *Wall Street Journal* (New York), 26 June 2014.
138 Ibid.
139 Arash Massoudi, Joseph Cotterill and Philip Stafford, 'Bidders Circle Russell Investments Arm Auctioned by LSE', *Financial Times* (London), 29 April 2015.
140 Ibid.

of the Frank Russell company. The LSE was not interested in that component of the business but had bid for the entire company to improve its chances of winning the initial bid.[141]

V Conclusion

The past 15 years have been a period of rapid adaptation by the LSE, from aloof independence to growth through acquisition and diversification. Once Clara Furse took the helm, market imperatives could not be denied; a merger was the right move, but on London's terms.

But why did so much frenzied activity produce so little by way of tangible results? The early bids were associated with finely balanced incentives and disincentives, leading to impasse: corporate governance issues (in the form of shareholder relations), flawed merger strategies, a lack of synergies and simple under-valuations outweighed advantages. Regulatory complications and the LSE's perceived arrogance also contributed to proposed mergers unravelling. As time went on and the pace of internationalization of the markets and technological change picked up, external factors played a role. In particular, exchanges sought partners bringing advanced technology and diversification to their business model.

The LSE has been an institution caught in the midst of political, economic and technological change. Early on, adaptation, for a mutual association with such a long history of independence and such hidebound attitudes, was not easy. However, as compromise became a necessity, and later, unavoidable exposure to global change became a reality, the LSE found its feet in the new world order. This took some time. The LSE could not afford to continue missing opportunities to increase competitiveness, notwithstanding the regulatory and political issues involved. As ambitions of creating truly global exchanges grew, suitors also became more savvy about how they approached the notoriously "hard to get" LSE.[142]

Moreover, the LSE's delay in merging early on ultimately worked in its favour, if for no other reason than it let the Exchange develop a strategy and a vision for the future that accommodated the changes occurring in the financial world. When it did finally make a

141 Ibid.
142 Lanchner, above n 76.

move, it was for the right reasons, and it sidestepped some of the regulatory issues that would have likely arisen with NASDAQ or the early DB offers. Increasingly short technological cycles and the advent of dark pools and electronic trading platforms forced the LSE to seek technological improvement and diversify its revenue streams. The Exchange even finally entered the North American market, albeit in a somewhat tangential fashion, with the acquisition and retention of Frank Russell Company's index business.

But the story of the LSE highlights the importance of institutional culture and personalities in the exchange business, and in a cautionary way. As large and significant financially as exchanges may be, they are small, potentially closed worlds in other respects. In the case of the LSE, the imperial past played a part in London's response to internationalization of the markets. All roads led to London, the new Rome of international finance. Rather than looking outwards to engage internationally, as NASDAQ and the NYSE were obliged to do, the City of London instead brought the world (in the form of diversity of the markets, expertise and human capital) to London. According to Véron and Wolff in 2015, 77% of senior European finance professionals were based in the UK. Frankfurt was the runner up, with 6%.[143]

The saga continues. In March 2016 the LSE and DB announced a friendly "merger of equals" which would produce the largest exchange in the world by revenues and the second largest by market value. [144] The LSE was in play again. Carsten Kengeter, the CEO of DB would become the head of the merged entity, with offices and listing in London and Frankfurt, but the operating company in London. Other bidders surfaced, but quickly bowed out. The transaction was playing out against the background of the European "Capital Markets Union" initiative announced in 2015 and headed by Jonathan Hill of the UK. The commercial and political stars were aligned.

Until they were not. At the time of the merger announcement in March 2016, Carsten Kengeter was asked whether the Brexit, a vote for the UK to leave the EU in the June 2016

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[143] N. Véron and G. Wolff, "Capital Markets Union: a Vision for the Long Term", Breugel Policy Contribution, Issue 15/05, April 2015, 7: "A recent survey suggests that 77 percent of thighly paid financial executris in the EU are based in the UK. The next most significant roup is in Germany representing only 6 percent of the total."
[144] Bloomberg, March 16, 2016

referendum, would affect the merger (planned for November 2016). His answer was a categorical no.[145] That eventuality, which he personally hoped would not come to pass, will put the merger to the test. Will the commercial and institutional forces supporting the merger be strong enough to overcome the political and regulatory uncertainty produced by Brexit? Time will tell.

[145] Ibid.