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Market infrastructure

	Payment systems/ E-money providers	Trading platforms	Financial benchmarks	Custodians
Current market	Upward	Upward, high levels of activity	Upward, significant levels of M&A	Flat, with a dip in the levels of M&A
We are seeing	Strategic M&A deals and financial sponsor interest	Strategic M&A deals	Strategic M&A deals	Strategic M&A deals <input type="checkbox"/> Non-core disposals by banks, but some custodians with robust balance sheets focus on organic growth in terms of product lines and jurisdictional coverage
Key drivers	<input type="checkbox"/> Market participants are forced to scale up to meet reduced profitability resulting from new regulations <input type="checkbox"/> Increasing operating costs resulting from additional regulatory burden and increasing litigation risk in connection with multilateral interchange fees <input type="checkbox"/> Competition from a growing range of alternative services and innovators	<input type="checkbox"/> Market consolidation globally and regionally, but some signs of platforms concentrating efforts within 'home continent' markets	<input type="checkbox"/> Increasing operating costs resulting from the burden of new regulation and heightened regulatory enforcement action risk from both EU and non-EU regulators	<input type="checkbox"/> Increasing operating cost bases and heightened regulatory enforcement action risk following regulatory reforms <input type="checkbox"/> Rise in outsourcing arrangements, with BNY Mellon, State Street, J.P. Morgan and Citi remaining predominant. But other market participants are making inroads
Trends to watch	<input type="checkbox"/> Private equity interest in payment service providers	<input type="checkbox"/> Co-operation and operational harmonisation between exchanges through joint ventures and other forms of strategic alliance, prompted by the European Central Bank under Target2-Securities <input type="checkbox"/> Vertical integration and inorganic growth into clearing, custody and financial information service provision	<input type="checkbox"/> A smaller number of market participants having sufficient infrastructure to support a benchmark administration business, given the FCA in effect treats administrators as 'mini-regulators' vis-à-vis their data submitters <input type="checkbox"/> Uncertain profit margins	<input type="checkbox"/> Private equity consolidators
Our M&A forecast	▲▲▲▲▲ Relatively steady M&A levels. Main motivation is likely to include competition with established market participants, compounded by disruption by innovators	▲▲▲▲▲ An uptick in market consolidation. Main motivation is likely to include regulatory change, such as MiFIDII expanding the types of trading venues which are regulated	▲▲▲▲▲ Slow-down in M&A activity. Many businesses have already upscaled their operations, but a further 'thinning of the herd' is likely. Main motivations are the new EU Benchmark Regulations, which will bring a number of new benchmarks within the regulatory perimeter, the rise in regulatory and private litigation risk, and data contribution contracts that are becoming trickier to negotiate	▲▲▲▲▲ Uptick in consolidation M&A. Competition from Central Securities Depositories (CSDs) is one of the main drivers. Due to The EU Central Securities Depositories Regulation, CSDs face increasing competition and are encroaching on custodians

“ Regulatory change continues to be a key driver of M&A activity

Publicly reported examples

Payment systems/E-money providers

Market participants being forced to scale up	<ul style="list-style-type: none"> □ Moneycorp's acquisition of Commonwealth Foreign Exchange (May 2017) □ Swedbank's acquisition of PayEx (May 2017) □ BNP Paribas Fortis's acquisition of PaySquare Belgium (May 2017)
Increasing litigation risk	<ul style="list-style-type: none"> □ 27 UK High Street companies filing individual multilateral interchange fee claims against Visa and MasterCard totalling £300 million (June 2017)
Competition from innovators	<ul style="list-style-type: none"> □ Plynk raised €25 million from Swiss Privée Ltd (June 2017) □ Square's official launch in the UK (March 2017)
Private equity interest in payment service providers	<ul style="list-style-type: none"> □ Advent/Bain's acquisition of Concardis (January 2017) □ AnaCap's acquisition of Heidelpay (January 2017)

Trading platforms

Market consolidation	<ul style="list-style-type: none"> □ J.P. Morgan Chase acquired 114.4 million shares of Moscow Exchange (June 2017) □ Deutsche Börse announced that its €200 million share buyback will be used to fund 'targeted M&A' (April 2017)
Concentrating on 'home continent'	<ul style="list-style-type: none"> □ Deutsche Börse's sale of International Securities Exchange Holdings to Nasdaq (June 2016)
Co-operation between exchanges	<ul style="list-style-type: none"> □ Nasdaq and Shanghai Stock Exchange are rumoured to be in talks over Kazakh bourse stake (May 2017)
Vertical integration and organic growth	<ul style="list-style-type: none"> □ Clearing: Deutsche Börse has been ahead of the curve for a long while through the merger between Deutsche Börse Clearing and Cedel International (early 2000), followed by the full integration of Clearstream (July 2002) □ Custody: Australian Securities Exchange JV-ed with Digital Asset Holdings to develop blockchain solutions in connection with domestic cash equities clearing and settlement (January 2016) □ Financial information services: Deutsche Börse sees M&A opportunities in the index data and analytics space (June 2017)

Financial benchmarks

Significant levels of M&A	<ul style="list-style-type: none"> □ LSE's acquisition of The Yield Book and Citi Fixed Income Indices (May 2017) □ ICE's upcoming launch of clearing for London gold benchmark (May 2017)
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Custodians

Rise in outsourcing	<ul style="list-style-type: none"> □ BlackRock transitioning US\$1 trillion of AuM from State Street to J.P. Morgan for custody (January 2017)
Smaller activity	<ul style="list-style-type: none"> □ BNP Paribas selected by MAPFRE Inversión to provide custody services for its €60 billion portfolio (February 2017)
Organic growth by custodians with strong balance sheets	<ul style="list-style-type: none"> □ JTC Group's acquisition of New Amsterdam Cititrust B.V. (April 2017) □ ZEDRA's acquisition of Barclays' UK trusts business (April 2017)
Heightened regulatory enforcement action risk	<ul style="list-style-type: none"> □ Citigroup agreed to pay US\$97 million to end the US Department of Justice's money-laundering probe (May 2017) □ Deutsche Bank was fined US\$41 million by the US Federal Reserve for failures to screen for possible money laundering (May 2017)
Private equity continuing to be active	<ul style="list-style-type: none"> □ Equiom Group continues to look for acquisition opportunities in Europe (November 2016)