



DETERMINATION OF MERGER NOTIFICATION M/07/049 – LBBW/SACHSEN LB

Section 21 of the Competition Act 2002

Proposed acquisition by Landesbank Baden-Württemberg of Sachsen Landesbank Girozentrale

Dated 10/09/07

Introduction

1. On 30 August 2007 the Competition Authority (“the Authority”), in accordance with section 18(1) of the Competition Act, 2002 (“the Act”) was notified, on a mandatory basis, of a proposal whereby Landesbank Baden-Württemberg (“LBBW”) would acquire sole control of Sachsen Landesbank Girozentrale trading as Sachsen Landesbank (“Sachsen LB”).

The Undertakings Involved

2. LBBW, the acquirer, is the central bank for savings banks in the German Federal State of Baden-Württemberg. Through its subsidiary, Landesbank Rheinland-Pfalz, it also operates as the central bank for the savings banks in the German Federal State of Rhineland-Palatinate.
3. LBBW also acts as a full service bank in Germany and as an international business bank providing the following services:
 - leasing and factoring;
 - fund management;
 - equity financing;
 - services relating to financing or lending for real estate; and,
 - various financial services for local authorities.
4. In Ireland, LBBW’s subsidiary, LBBW Ireland is licensed pursuant to section 9 of the Central Bank Act, 1971 to carry out banking business in Ireland¹. LBBW Ireland’s principal activity relates to the provision of intra-group finance, credit investment (including international debt transactions) and management of funds for LBBW. It also provides investment management services to third parties.² The worldwide turnover of LBBW for the financial year ending 31 December, 2006 was €20.37bn and the turnover of LBBW Ireland in the State for the financial year ending 31 December 2006 was €431m.

¹ LBBW also has two Irish subsidiaries, LBBW Ireland International Finance Limited and LBBW Ireland Limited. These are dormant companies which are currently in the process of undergoing a member’s voluntary liquidation, expected to be completed in early December.

² LBBW also provides services in Ireland on a cross-border basis and it lends to a very small number of Irish entities (mostly financial institutions) at a low margin and obtains minimal turnover from this activity.

5. Sachsen LB, the target, is the central bank for savings banks in the German Federal State of Saxony. Sachsen LB, while not having a network of branches, also acts as a bank in Germany and has involvement in international markets and provides the following services:
 - corporate finance:
 - i. national and international lending business, including development loan transactions and the distribution of interest-rate derivatives in German non-banks;
 - ii. asset-based finances;
 - iii. structuring and emission of closed funds; and,
 - iv. equity business in companies as a rule not listed on the stock exchange.
 - capital markets:
 - i. treasury markets and German sales business divisions;
 - ii. asset management and structured products business division; and,
 - iii. management of the synthetic assets operated as loan replacement business.
6. In Ireland, Sachsen LB's subsidiary, Sachsen Ireland, is licensed pursuant to section 9 of the Central Bank Act, 1971 to carry out banking business in Ireland.³ Furthermore Sachsen Ireland is responsible for the international capital market activities of the Sachsen Group. These include managing the synthetic loan business, asset management and consulting on structured finance. The worldwide turnover of Sachsen LB for the financial year ending 31 December, 2006 was €4.36 billion and the turnover of Sachsen Ireland in the State for the financial year ending 31 December 2006 was €246.7m.

Analysis

7. In the State there is horizontal overlap only in the provision of structured finance products and services. Structured finance involves generally the design of, development of, sale of, purchase of or investment in various types of non standard special purpose vehicles for raising finance. For the merging parties their structured finance activities relate to offering bonds, investment funds and schemes (offered at a wholesale level by investment banks), which are then held on the balance sheet of the purchasing company, in each case for the benefit of the group.
8. In its analysis the Authority found that:
 - there is strong competition from other market players including large global investment banks who not only provide funds to support structured finance operators but also self supply such as Citigroup, JP Morgan Chase, Deutsche Bank, Merrill Lynch, and the Royal Bank of Scotland;

³ Sachsen LB has a passport of its German banking licence to provide deposit taking and other banking services on a cross-border basis in Ireland but operates in Ireland only through Sachsen Ireland.

- the costs associated in switching from one supplier to another are minimal and generally the customers do not enter long term arrangements with the parties; and,
 - barriers to entry are low and banks which are licensed in an EU Member State can passport their licences into other EU Member States and this is a simple and fast process. Barriers are also kept low since the key input for the design of structured finance products is human capital which moves freely between banks and which facilitates the establishment of "boutique" structured finance firms.
9. While the Competition Authority has not found it necessary to define the geographic market in this case the investigation undertaken has clearly shown that the geographic scope of structured finance products and services is at least European wide. There are no restrictions which limit the geographical scope of the market. Structured finance products and services are designed at multiple locations throughout the world and are bought and sold by means of distance communication from investment banks throughout the world.
 10. LBBW Ireland estimates⁴ that its market share on the European structured finance market is 0.18% while on the global market, its market share is negligible. Similarly Sachsen Ireland estimates that its market share on the European market is 0.1% and likewise its global market share is negligible.
 11. The Authority considers that given the number and strength of competitors, the ease of switching, the low barriers to entry, the likely geographic scope of the market and the limited market share accretion, the proposed transaction does not raise competition concerns in the State.

Ancillary Restraint

12. The Authority also reviewed restrictive arrangements agreed by the parties in their Share Purchase Agreement and referred to in the notification of the merger. The Authority considers that these arrangements are directly related and necessary to the implementation of the merger since without them the current shareholders in Sachsen LB would be in a position to effectively withdraw an essential source of revenue for Sachsen LB which would undermine the entire purpose of the proposed transaction.

Determination

The Competition Authority, in accordance with section 21(2)(a) of the Competition Act, 2002, has determined that, in its opinion, the result of the proposed acquisition by Landesbank Baden-Württemberg of Sachsen Landesbank Girozentrale (trading as Sachsen Landesbank) will not be to substantially lessen competition in markets for goods and services in the State and, accordingly, that the acquisition may be put into effect.

For the Competition Authority

Dr. Paul K Gorecki
Member of the Competition Authority

⁴ Based on data from *European Structured Finance Weekly*, 20 August 2007.