



DETERMINATION OF MERGER NOTIFICATION M/07/026 -

State Street/IFIN

Section 21 of the Competition Act 2002

Proposed merger of State Street Corporation with Investors Financial Services Corp.

Dated 12/06/2007

Introduction

1. On 23 May 2007 the Competition Authority ("the Authority"), in accordance with Section 18(1)(a) of the Competition Act, 2002 ("the Act") was notified, on a mandatory basis, of a merger of State Street Corporation ("State Street") with Investors Financial Services Corp. ("IFIN").
2. Post-completion of the proposed transaction, the merged group will have the name State Street Corporation and the existing Irish entities of State Street and IFIN will remain in place. State Street anticipates that all current IFIN clients will continue to be serviced by the relevant IFIN entities in Ireland until they have been moved to State Street. The intention is to then liquidate IFIN's existing Irish entities.

The Undertakings Involved

The Acquirer

3. State Street is one of the world's leading specialists in providing institutional investors with investment servicing, investment management and investment research and trading services. State Street operates in 26 countries and it is incorporated in the Commonwealth of Massachusetts.
4. In Ireland, State Street International (Ireland) Limited is involved in two main business activities, the provision of custody services and fund administration through its Irish subsidiaries, State Street Custodial Services (Ireland) Limited and State Street Fund Services (Ireland) Limited. State Street had a turnover in the State of €[...] million in 2006. Custody services involve the following types of activity: safekeeping of the assets, income and dividend processing and arranging of withholding tax relief, acting as trustee and tax reclaim. Fund administration includes accounting and transfer agency.
5. State Street's Irish fund administration activities are also carried out by another of its subsidiaries, IFS. IFS does not provide custodian services; it specialises in supplying administration services to hedge fund promoters.

The Target

6. IFIN, through its wholly-owned subsidiary, Investors Bank & Trust Company, provides services to institutional investors including fund complexes, hedge funds, banks and insurance companies. Investors Bank & Trust Company provides core services including global custody, multicurrency accounting, fund administration and middle office outsourcing as well as value-added services including foreign exchange, cash management, securities lending and investment advisory services. IFIN's offices are located in the United States, Canada, the Cayman Islands, Ireland, the United Kingdom and Luxembourg.
7. In Ireland, IFIN is engaged in two main business activities, the provision of custody services and fund administration, through its Irish subsidiaries operating under the business name, Investors Trust Ireland. IFIN had a turnover in the State of €[...] million in 2006.

Analysis

8. The international funds industry has evolved over the past decade. Ireland has become one of a select number of key locations in the world where fund promoters establish, launch and service investment funds. Within Europe, Ireland's main competitor jurisdiction is Luxembourg.
9. The Irish international investment funds sector is dynamic and growing. The industry is comprised of approximately 6,000 funds with an aggregate net asset value of over €1 trillion. Over 321 fund promoters have Irish domiciled funds as part of their distribution strategy.
10. An Irish-domiciled investment fund must, under domestic regulatory rules, have an independent Irish-based fund custodian and fund administrator. Therefore, once a fund promoter decides to establish a fund in Ireland, it must hire independent Irish-based service (i.e., fund custody and fund administration) providers.
11. There is a horizontal overlap between State Street and IFIN both in Ireland and abroad in the provision of fund custody services and fund administration services.¹

Fund Custody Services

12. Fund custody services involve the following types of activity: safekeeping of assets, presentation of securities for, and reception of securities from, clearing/settlement platforms, income and dividend processing, arranging of withholding tax relief and tax reclaim, acting as trustee of mutual funds.
13. Using Lipper Fitzrovia² data, State Street and IFIN, on the basis of assets under management, will have an aggregate share of around 27% of the Irish-domiciled funds custodian market and have a similar

¹ There is no vertical overlap in the activities of State Street and those of IFIN in the State.

² Lipper Fitzrovia is a London-based investment funds research company.

share of the combined Irish-domiciled and non-domiciled funds custodian market.³

14. At present, State Street is the number one player in the sector with around 23% of the Irish-domiciled funds custodian market and a 21% share of the combined Irish-domiciled and non-domiciled funds custodian market. IFIN is the number eight player in the sector with 4% of the Irish-domiciled funds custodian market and with a 6% share of the combined Irish-domiciled and non-domiciled funds custodian market. Thus, post-merger, there will be limited market accretion.
15. Post-completion of the proposed transaction, State Street and IFIN will continue to face strong competition from other market players such as JP Morgan, Northern Trust, BNY Trust Company/Mellon, Bank of Ireland Securities Services ("BOISS"), Citibank, HSBC and BNP Paribas. These players are financially powerful and have strong market reputations. Moreover, the merging parties' customers are large investment managers such as [...] and [...] who regularly review the performances of their service providers.⁴ The parties submit that the costs associated in switching from one supplier to another are minimal. Most custody and administration contracts may usually be terminated with 90 days notice without penalty.
16. Information provided by the parties indicates that switching between service providers by fund promoters is a regular occurrence. A recent example of switching is Barclays Global Investors' decision in late 2005/early 2006 to switch its custody and administration business from BOISS to JP Morgan. This change catapulted JP Morgan, in terms of funds domiciled in Ireland, into the second largest custodian and second largest administrator in Ireland. JP Morgan was previously seventh and fourth in the relevant rankings. Barclays Global Investors is the largest promoter of Irish-domiciled funds with around €70 billion in assets under management.
17. Information submitted by the parties also indicates that both State Street and IFIN have gained and lost customers in recent years.
18. The Authority considers that in light of the limited market accretion, the number of competitors that are present and the strong buyer power of customers, the proposed transaction does not raise competition concerns in relation to fund custody services in the State.

Fund Administration Services

19. Fund administration services typically include accounting services and net asset valuations, share registration and taxation services, transfer agency, record keeping services, and portfolio reporting services.
20. Using Lipper Fitzrovia data, State Street and IFIN, on the basis of assets under management, will have an aggregate share of around 27.5% of the Irish-domiciled funds administration market but have

³ This 27% market share figure is on the basis of assets under management. The respective market share figures of the notifying parties on the basis of number of funds under custody would be lower. Lipper Fitzrovia uses both bases to compile relevant market share figures. Based on number of funds under custody, State Street and IFIN would have an aggregate share of 17% of the Irish-domiciled funds custodian market and have a similar share of the combined Irish and non-domiciled funds custodian market.

⁴ Reviews are usually undertaken every two to three years.

around 21% of the combined Irish-domiciled and non-domiciled funds administration market.⁵

21. At present, State Street is the number one player in the sector with around 23 % of the Irish-domiciled funds administration market and with a 17% share of the combined Irish-domiciled and non-domiciled funds administration market. IFIN is the number eight player in the sector with around 4% of the Irish-domiciled funds administration market and with an approximate 4% share of the combined Irish-domiciled and non-domiciled funds administration market. Thus, post-merger, there will be limited market accretion.
22. As with fund custody services, both parties will face strong competition from the other market players such as JP Morgan, Northern Trust, BNY Trust Company/Mellon, PFPC International, HSBC, Citibank and BISYS Fund & Hedge services.
23. The arguments outlined in paragraphs 15 to17 above regarding the ease of switching and the buyer power of the merging parties' custodian customers also apply to their respective fund administration clients. Information submitted by the parties indicates that both State Street and IFIN have gained and lost fund administration customers in recent years.
24. The Authority considers that in light of the limited market accretion, the number of competitors that are present and the strong buyer power of customers, the proposed transaction does not raise competition concerns in relation to fund administration services in the State.

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 merger of State Street Corporation with Investors Financial Services Corp. 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 Gorecki

Member of the Competition Authority

⁵ Both parties' market share figures tend to be significantly lower when the market is analysed in terms of number of funds administered. Based on number of funds administered, State Street and IFIN have an aggregate share of nearly 17% of the Irish-domiciled funds administration market but have around 13% of the combined Irish and non-domiciled funds administration market.

