



सत्यमेव जयते



Fair Competition
For Greater Good

COMPETITION COMMISSION OF INDIA

(Combination Registration No. C-2014/06/183)

30.7.2014

Notice u/s 6 (2) of the Competition Act, 2002 given by:

- Bombay Stock Exchange Limited and
- United Stock Exchange of India Limited

Order under Section 31(1) of the Competition Act, 2002

1. On 13th June 2014, the Competition Commission of India (hereinafter referred to as the “Commission”) received a notice under sub-section (2) of Section 6 of the Competition Act, 2002 (“Act”) filed by Bombay Stock Exchange Limited (“BSE”) and United Stock Exchange of India Limited (“USE”).
2. The Proposed Combination relates to the merger of USE with BSE pursuant to scheme of amalgamation under Sections 391 to 394 of the Companies Act, 1956 and the provisions of the Companies Act, 2013 respectively.
3. In terms of Regulation 5 and 19 of Competition Commission of India (Procedure in regard to the transaction of business relating to combinations) Regulations, 2011 (hereinafter referred to as “Combination Regulations”), vide letter dated 19th June 2014, the parties to the combination were required to provide additional information latest by 26th June 2014. The parties filed their reply on 27th June 2014 after seeking extension of time. Vide letter dated 3rd July 2014, the parties were again required to provide additional information by 14th July 2014, which was submitted by the parties on due date.
4. BSE is engaged in the business of providing stock exchange services. BSE provides a market/platform for trading in equities, debt instruments, equity derivatives, currency derivatives, interest rate derivatives, and mutual funds etc. Additionally, BSE along with its subsidiaries, associates and joint venture companies provides various services like clearing, settlement, market data services, index services, and depository services etc.



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5. USE is engaged in the business of providing stock exchange related services in the currency derivatives (CD) segment.
6. Currently there are four stock exchanges with nationwide terminals in India viz., National Exchange of India Limited (“NSE”), BSE, MCX Stock Exchange Limited (“MCX-SX”) and USE. NSE and BSE are multi-product exchanges operating in different product segments including equity, derivatives, debt instruments etc. MCX-SX has also got approval from the Securities Exchange Board of India (“SEBI”) to function as a full-fledged stock exchange; however, as per the information available in public domain, its trading volumes in equity and debt segments are negligible. Out of these exchanges, USE is the only exchange which operates in a single product segment of CD. It is also observed that the stock exchanges in India are mostly vertically integrated except USE which has outsourced its operation and maintenance services and clearing and settlement functions to BSE and its subsidiaries.
7. It is generally observed that the dynamics of competition in the stock exchanges relate to wider participation, liquidity, diversified revenue streams, and volumes; which are considered to be critical for the health of an exchange. Further, like any other technology industry, stock exchanges have to develop an innovative platform for the benefit of the consumer. Stock exchanges in general may also be seen to have the characteristics of a networking industry with focus on innovation and technology. Moreover, as the transaction volumes increase, per unit cost of transaction gets substantially lowered. Accordingly, the strategic choices of stock exchanges include attainment of critical mass of market participants. Stock markets across the globe have, therefore, witnessed a large number of combinations.
8. As stated, the parties to the proposed combination i.e. BSE and USE are both engaged in the business of providing stock exchanges services. However, while BSE operates in a number of segments including equity, equity derivatives, currency derivatives and interest rate derivatives; USE operates only in CD segment. Consequently the competition analysis of the proposed combination focuses on the CD segment where the overlap between the parties exists and which for all practical purposes may be taken as the relevant market.



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9. Using cumulative turnover during the period November 2013 to June 2014 as an indicator, NSE emerges as a clear market leader with around 53% market share, distantly followed by MCX SX (23%), BSE (18%) and USE (6%), respectively.
10. BSE commenced operations in the CD segment in November 2013 when all the three other exchanges were already providing their services in the CD segment. The competition assessment of the proposed combination is also guided by the market dynamics of stock exchanges. Increasingly, single product exchanges are finding it difficult to compete with multi-product exchange. Multi-product exchanges have the advantage of having netting opportunities (offered by product scope) in the post trading stage of clearing and settlement, which can make a trader prefer to trade an asset on the exchange where he is already trading in other assets. It is observed that from a firm's perspective, it would be profitable to add products on the platform without incurring significant capital cost, thus benefitting from the scope economies. By virtue of its strength in other segments, BSE is in a position to offer better economies of scope to the market participants.
11. Considering the facts on record and the details provided in the notice given under sub-section (2) of section 6 of the Act, the Commission is of the opinion that the proposed combination is not likely to have an appreciable adverse effect on competition in India in any of the relevant market(s) and therefore, the Commission hereby approves the same under sub-section (1) of section 31 of the Act.
12. This approval is without prejudice to any other legal/statutory obligations as applicable.
13. This order shall stand revoked if, at any time, the information provided by the parties is found to be incorrect.
14. The Secretary is directed to communicate to the parties accordingly.