



## **DETERMINATION OF MERGER NOTIFICATION M/07/042 – MELLON/AAMGSS**

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### **Section 21 of the Competition Act 2002**

#### **Proposed acquisition by Mellon Bank N.A. of ABN AMRO Mellon Global Securities Services B.V.**

**Dated 27/08/07**

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#### **Introduction**

1. On 1 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 Mellon Bank N.A. (“Mellon”) would acquire 50% of the issued share capital of ABN AMRO Mellon Global Securities Services B.V. (“AAMGSS”) from ABN AMRO Bank N.V. (“ABN AMRO”).
2. AAMGSS is a non full function joint venture owned 50% by Mellon and 50% by ABN AMRO. Post acquisition AAMGSS will come under the sole control of Mellon and the joint venture will terminate.

#### **The Undertakings Involved**

3. On 31 May 2007 the Authority approved the merger of Mellon Financial Corporation (“MFC”) with the Bank of New York (“BNY”) to form Bank of New York Mellon (“BNYM”)<sup>1</sup>. Mellon, the acquirer, is now a wholly owned subsidiary of BNYM. In Ireland BNYM generated an estimated turnover of approximately €[.] million for the year ending December 2006<sup>2</sup>.
4. This turnover was generated through the fund administration and asset servicing activities of<sup>3</sup>:
  - Mellon trustee Ltd.;
  - Mellon Fund Administration Ltd.;
  - Pershing Securities (International Ltd.);
  - BNY Fund Services (International) Ltd.;
  - BNY Trust Company (Ireland) Ltd; and,
  - BNY Alcentra Group Holdings, Inc.
5. AAMGSS, the target, is a provider of global custody and custody related services to institutional investors worldwide. The target has offices in Amsterdam, London, Frankfurt, Luxembourg, Singapore and Beijing and in the financial year to December 2006, AAMGSS generated a worldwide turnover of approximately €[.] million of which

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<sup>1</sup> For details see M/07/018, *BNY/Mellon*.

<sup>2</sup> This combined turnover is estimated from the separately reported turnovers of MFC and BNY for the financial year ending December 2006.

<sup>3</sup> In addition BNYM holds a 19.9% stake in Hamon Investment Group Pte Ltd., Singapore which is a wholly owned subsidiary of Hamon Ireland Ltd.

approximately €[.] million was generated in Ireland through the following activities:

- Core Custody Services:
  - i. Global securities custody;
  - ii. Safekeeping and administration relating to global custody services; and,
  - iii. Accounting, record keeping and reporting relating to global securities custody.
- Value Added Services – including investment accounting, regulatory reporting, compliance monitoring, performance measurement & investment analysis, transition management, commission recapture, securities lending, multinational reporting, asset pooling, derivatives processing and transaction cost analysis, OCT derivative valuation, trustee and depository services (UK only) and depotbank (Germany only).

## Analysis

6. In the State there is horizontal overlap only in the provision of global custody services.<sup>4</sup>
7. The Authority recently analysed the operation of the custody services industry in M/07/026, *State Street/IFIN*. Custody services can be either domestic or global. For example, domestic custody services are those custodian services provided to funds domiciled in the domestic country whereas global custody services are those provided to funds which are not domiciled in the domestic country.
8. In its decision on M/07/026 the Competition Authority did not find it necessary to define the product market in terms of either domestic or global custodian services. It did however make a distinction between the Irish-domiciled and non-domiciled funds custodian market.
9. AAMGSS is active only in the provision of global custodian services and does not provide domestic custodian services in any country in which it operates including Ireland.
10. The parties submit that the market for global custody services is worldwide and this is supported by the European Commission in its decision of Bank of New York/Royal Bank of Scotland<sup>5</sup>. On this basis the acquirer's share worldwide of global custodian services is [.]% while that of the target is [.]%. However, the parties have also provided data on a hypothetical geographic market for global custodian service that is limited to the State in which the share of the acquirer is estimated at [.]% and that of the target is [.]%<sup>6</sup>.
11. In its analysis of the market for custodian services in M/07/026 the Authority found that:
  - there is strong competition from other market players. This level of competition persists and includes competition from State Street

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<sup>4</sup> AAMGSS is a non full function joint venture between Mellon and ABN AMRO. Mellon by definition has a vertical relationship with the target since it provides services to AAMGSS on the basis of a Master Sub-Custody Agreement.

<sup>5</sup> Case No IV/M.1618 (5 August, 1999)

<sup>6</sup> These market shares are calculated using data from Lipper Fitzrovia (a London-based investment funds research company) "Domiciled Market Share Rankings by Asset", 30 June 2006.

Corporation (the entity resulting from the recent merger of State Street Corporation with Investors Financial Services Corp.). In addition the merged entity will face competition from other strong competitors such as JP Morgan, Northern Trust, Bank of Ireland Securities Services, Citibank, HSBC and BNP Paribas;

- the merging parties' customers are large institutional investors such as [...] and [...] who regularly review the performances of their service providers. This continues to be the case in the context of the extant merger; and,
  - the costs associated in switching from one supplier to another are minimal and most custody and administration contracts may usually be terminated with 90 days notice without penalty. Again this continues to be the case.
12. The Authority considers, in light of the limited market share accretion, the number and strength of competitors that are present, the strong buyer power of customers, and the ease of switching together with low switching costs, that even in the proposed hypothetical narrow geographic market of the State the proposed transaction does not raise competition concerns in relation to custody services in the State.

#### **Ancillary Restraint**

13. The Authority also reviewed restrictive arrangements agreed by the parties in their Share Purchase Agreement. The Authority considers that these arrangements are consistent with its approach in respect of ancillary restraints in mergers.

#### **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 Mellon Bank N.A. of ABN AMRO Mellon Global Securities Services B.V. 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