



NOVEMBER 2020

ETF BRIEFING

CONSOLIDATION: EURONEXT ACQUISITION OF BORSA ITALIANA

Trading on the London Stock Exchange after 31st December 2020

Euronext acquisition of Borsa Italiana

It was recently announced that Euronext has entered into a binding agreement with the London Stock Exchange (“LSE”) to acquire the Borsa Italiana Group. Having acquired Oslo Børs VPS in 2019 and the Irish Stock Exchange in 2018, this is another significant step towards creating a single pan-European stock exchange platform and towards Euronext’s stated objective of “Creating the largest liquidity pool within the European capital markets union aiming to deliver sustainable superior market quality and value for local and global clients”. An EGM of Euronext shareholders has been convened on 20th November to approve the transaction.

The acquisition is also significant in the context of the European ETF market. With fragmentation commonly cited as a major reason Europe lags behind the US in the evolution of its ETF industry, this consolidation is clearly a positive development for the European ETF industry.

European Exchange ETF Market Share

While the Euronext ETF platform spans markets in Amsterdam, Brussels, Dublin, Lisbon, Oslo and Paris, the addition of Borsa Italiana is arguably the most significant acquisition yet, particularly in terms of bolstering Euronext’s ETF market share. With average daily trading value of €450 million (Euronext) and €551 million (Borsa Italiana)¹, as at the end of August 2020, the trading volume across the newly expanded Euronext group will more than double and

¹ Source: Euronext

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make Euronext the second largest ETF exchange in terms of average daily trading value, behind Deutsche Borse.

Authorisation to market in the UK and trading on the LSE after 31st December 2020

Following the conclusion of the Brexit transition period on 31 December 2020 (“Brexit Deadline”), existing Irish domiciled ETF issuers that have entered the FCA Temporary Permissions Regime will retain access to the UK market for those existing ETFs which have registered for the regime. Such issuers may also extend their permission to register new ETF sub-funds authorised after the Brexit Deadline to market in the UK for a period of up to 3 years from that deadline. Such ETF issuers may continue to passport to trade such new ETFs on the LSE via the simplified passport from a Euronext Dublin listing.

The process and requirements for UK market access (and therefore access to trading on the LSE for ETFs) after the Brexit Deadline will depend on the outcome of the Brexit negotiations and the introduction of the FCA’s new Overseas Fund Regime (“OFR”). If Brexit negotiations fail to yield a breakthrough, new ETF entrants will be required to apply for full FCA recognition under section 272 of the Financial Services and Markets Act or seek to market under the OFR. While the legislation for the OFR was enacted in October 2020, the timing of the introduction of the OFR for authorisation of offshore UCITS and AIFs, including new ETF entrants, to market in the UK is still uncertain.

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