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The Commission approves the merger of Swan Securities Ltd and Capital Market Brokers Ltd, subject to conditions.

Introduction

Swan Securities Ltd (''SSL'') and Capital Markets Brokers Ltd (''CMB'') notified the Competition Commission of their proposed merger (the "proposed merger") and sought the guidance of the Competition Commission on whether the proposed merger may substantially lessen competition in Mauritius. Both SSL and CMB are licensed by the Financial Services Commission as investment dealers. They are important players in the provision of stockbroking services on the Stock Exchange of Mauritius ("SEM"). One of the main activities of investment dealers is to buy or sell securities on behalf of their clients.

The Concerns of the Executive Director

The Competition Commission assessed whether the proposed merger may substantially lessen competition in the concerned markets in Mauritius.

Prior to the proposed merger there were seven providers of stockbroking services in Mauritius which will be reduced to six following the transaction. In recent years, this market has seen several mergers which have reduced the number of players and made the market more concentrated.

The merger of SSL and CMB will increase that market concentration and as such the Executive Director of the Competition Commission had certain competition concerns with respect to the proposed merger. In particular, the Executive Director was concerned that the proposed merger may:

- **Increase the price for existing clients of the parties**. SSL and CMB may have different pricing structures, and the Executive Director was concerned that those benefiting from a lower price from either SSL or CMB may see their price increase following the proposed merger.

- **Result in less favourable terms and conditions for some clients of the parties.** The Executive Director was concerned that as they aligned their terms and conditions following the proposed merger, some existing clients may see their current terms and conditions deteriorate.

- **Lead to reduction in innovation and service quality**. Staffing directly affects the ability of dealers to offer efficient services, introduce innovation, and provide value-added services. As such, there was concern that this merger could lead to future reductions in staff or concentration of expertise in a single entity, thus reducing competitive rivalry and negatively affect innovation, customer service, and supply capacity.

Nonetheless, it was observed that six players will remain on the market, with some players having significant market shares and as such having the ability to impose competitive constraint on SSL and CMB. It is also noted that the sector is regulated with the fee in the concerned market capped.

Therefore, the Executive Director was of the view that while the proposed merger may give rise to competition concerns, they are not so serious as to block the proposed merger in its entirety; but the concerns may be addressed by behavioural undertakings. The parties were informed accordingly.

The Undertakings

Consequently, CMB and SSL offered undertakings to address the above competition concerns. They have committed that pricing for existing clients will not be increased unless required by law or justified by higher costs. Moreover, if the terms and conditions differ for the existing clients of SSL and CMB separately, the most favourable terms and conditions will be applied after the merger. The companies also committed to maintaining or improving current service terms. Subject to employment legislations, they also undertook that no staff retrenchment will be made as a result of the merger. They will also allow existing clients to transfer their investments to another broker if they so wish.

Following assessment, the Executive Director formed the view that the undertakings offered would satisfactorily allay the competition concerns. The assessment also took into account that several major players will continue to operate in the market and provide a competitive pressure on the merged entity, and that the market has reached a sufficient level of maturity and remains regulated by the Financial Services Commission and the SEM. The Executive Director therefore recommended the Commission to approve the proposed merger subject to the undertakings.

Subsequently, the Commissioners approved the proposed merger subject to the undertakings. The undertakings have been given the form of a direction and is now binding on the parties.

The decision of the Commission is available on the website of the Competition Commission or at this link.

Statement of the Executive Director

Mr. Vipin Naugah, Executive Director of the Competition Commission, stated:

"It has been noted that over the past decade, the stockbroking services market in Mauritius has experienced structural challenges arising from limited scale, which may, in some instances affect firms' ability to enhance the quality, range and depth of services offered to investors.

Nevertheless, it remains essential to ensure that consolidations in such markets do not undermine effective competition, consumer interest, or the competitive dynamics of the market.

I appreciate the cooperative approach adopted by SSL and CMB, as well as the undertakings offered which facilitates a more efficient investigative process and allows consumers and the wider economy to benefit from the positive effects of competition in a timely manner. I also appreciate the close collaboration with the Financial Services Commission and the Stock Exchange of Mauritius on the matter.

I am confident that the undertakings will ensure that the state of competition in the market is not negatively affected by the merger."

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