

Background Paper:
Obstacles to cross-border mergers and acquisitions in the financial sector

A. Purpose of the paper

In September 2004, the informal Ecofin Council in Scheveningen discussed the issue of lagging cross-border consolidation¹ in the banking area. This low level of cross-border consolidation is not confined to banking, but is relevant for the whole financial sector, with some nuances. In the upcoming Financial Integration Monitor report, the Commission will dedicate a chapter on the quantitative aspects of cross-border restructuring, confirming the trends discussed in Scheveningen. Indeed, between 1999 and 2004, the report will show that cross-border mergers and acquisitions (M&As) accounted for around 20% of the total value of M&As in the financial sector, whereas cross-border deals represented 45% of M&As in other sectors over the same period.²

Finance Ministers asked the Commission to examine possible explanations for this low level of pan-European restructuring specific to the financial sector, by reviewing the obstacles to cross-border M&As, in order to identify possible internal market failures, gaps or shortcomings.

It should be stressed that the role of the Commission is to ensure that existing EU law is enforced properly, as well as to propose growth-supportive actions, within the context of the overall EU competitiveness policy. It must be equally clear that the Commission does not intend to favour specific business models or to influence individual market decisions, as long as they are compatible with the Treaty rules and the EU secondary law. On that basis, it is the role of the Commission to analyse market functioning, in order to detect any unjustified obstacles that would hamper companies in making their own decisions regarding their business organisation in the Internal Market.

The misuse of the supervisory powers to block cross-border mergers has been identified by Ministers of Finance as a possible obstacle to cross-border mergers and acquisitions. The Commission has already taken steps to improve and clarify the current provisions in the relevant directive, to avoid such situations.

At the same time, there may be other factors explaining the lack of cross-border mergers in the financial services sector, when assessed against the domestic consolidation³ process. This paper tries to draw a first list of potential obstacles to cross-border mergers, i.e. obstacles that would make a cross-border merger less attractive, more expensive or more complex than a domestic merger. It covers the whole financial sector, trying to distinguish between market segments when relevant.

Obstacles to consolidation in general (i.e. obstacles that impede domestic consolidation as well) are not covered. Obstacles to forms of integration other than cross-border M&As (such as direct cross-border provision of services) are also out of the scope of this paper, even though some obstacles might be relevant for different channels of integration.

This list is aimed at providing all possible explaining factors, in order to serve at a later stage as a base for discussion on which of those obstacles should, and could, be removed in order to achieve the objective of improving the functioning of the Internal Market for financial services. It is not a policy paper, but a first analysis of the explanations behind the facts discussed at the Scheveningen informal Ecofin Council.

¹ Cross-border consolidation means in this paper consolidation involving entities located in different EU Member States.

² The full study will be published in the "Financial Integration Monitor – 2005", due in May 2005.

³ Domestic consolidation is to be understood as consolidation occurring within a single EU Member State.

In its present form, the paper does not distinguish between those obstacles that are key to explain lagging cross-border consolidation, and those of a more anecdotic nature. In addition, some obstacles mentioned here might be not relevant any more, but they may have influenced the situation of the past few years and could therefore provide part of the explanation for low cross-border consolidation up to now. However, we tried to mention the ongoing developments related to each obstacle identified.

B. Methodology

The paper tries to distinguish between three generic categories of obstacles:

- (i) *Execution risks*: those are obstacles that may pose a threat to a successful outcome of a bid, or may well result in the blocking of a deal. This category also covers obstacles because of which the expected result of a bid may not be what could be expected, even though the bid itself was successful. Obstacles in this category may not materialize and therefore may not have a direct cost, but their simple perception may deter potential bidders, or target entities and their shareholders, from initiating a merger process.
- (ii) *One-off costs*: those are specific costs that are caused by the execution of the cross-border deal, and would not exist in a domestic merger or acquisition deal.
- (iii) *On-going costs*: those are additional costs in the management of the merged entities, once the merger is achieved, which would not exist in the management of merged entities within the same domestic market. Those costs can be direct (additional costs to manage the entities merged cross-border compared with the entities merged domestically) or indirect (lower synergies within the entities merged cross-border than within the entities merged domestically).

The identified obstacles are also grouped according to their nature: legal barriers, tax barriers, implications of supervisory rules and requirements, economic barriers and attitudinal barriers.

A summary table is enclosed at the end.

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C. Identified obstacles to cross-border mergers

I. Legal Barriers

a) Execution risks

1. Cross-border takeover bids are complex transactions that may involve the handling of a significant number of legal entities, listed or not, and which are often governed by local rules (company law, market regulations, self regulations). Not only a foreign bidder might be disadvantaged or impeded by a potential lack of information, but also some legal incompatibilities might appear in the merger process resulting in a deadlock, even though the bid would be “friendly”. This legal uncertainty may constitute a significant execution risk and act as a barrier to cross-border consolidation.

⇒ *The new Takeover Bids Directive (2004/25/EC), adopted on 21 April 2004, lays down common rules in order to ensure greater legal certainty for cross-border takeovers. The Directive has to be transposed by May 2006.*

2. The financial sectors of some Member States include institutions with complex legal setup resulting in opaque decision making processes. An institution based in another Member State might only have a partial understanding of all the parameters at stake, some of them not formalized. Such a situation might constitute a significant failure risk, as a potential bidder might not have a clear understanding of who might approve or reject a merger or acquisition proposal.
3. In some cases, legal structures are not only complex but also prevent, *de jure* or *de facto*, some institutions to be taken over or even merge (in the context of a friendly bid) with institutions of a different type. Such restrictions are not specific to cross-border mergers, but could provide part of the explanation of the low level of cross-border M&As, since consolidation is possible within a group of similar institutions (at a domestic level) whereas it is not possible with other types of institutions (which makes any cross-border merger almost impossible).
4. In some Member States, the privatization of financial institutions has sometimes been accompanied by specific legal measures aimed at capping the total participation of non-resident shareholders in those companies or imposing prior agreement from the Administration (i.e. "golden shares"). Some of such measures were clearly discriminatory against foreign institutions, when it came to consolidation.
 - ⇒ *The European Court of Justice has indicated that such measures were not justified by general-interest reasons linked to strategic requirements and the need to ensure continuity in public services when applied to commercial entities operating in the traditional financial sector. See for instance cases C-367/98 (judgement of 4 June 2002) or C-463/00 (judgement of 13 May 2003).*
5. In some Member States, company law allows the company boards to set up defence mechanisms, such as double voting rights and poison pills, to prevent any hostile bids. Such asymmetries in company law might distort the level playing field within the EU, and protect national markets, sometimes to the benefits of participants in these markets.
 - ⇒ *The initial Commission's proposal for the new Takeover Bids Directive (2004/25/EC), adopted on 21 April 2004, included the approval of shareholders before activating defence mechanisms to counter a takeover bid. This provision has been repelled by the European Parliament and the Council. In the adopted text, Member States may decide to forbid such arrangements (i.e. opt in).*
6. Even if an acquisition is successful, there may exist impediments to effective control, i.e. there may be a risk that the acquiring company does not acquire proportionate influence in the decision making process within the acquired company – while being exposed to disproportionate financial risks. This can be explained notably by the existence of special voting rights, ineffective proxy voting or use of the Administrative office by a foreign acquirer. Also barriers (or restrictions) to sell shares could hamper the process.
 - ⇒ *As mentioned in §5, the Commission's initial proposal for a new Takeover Bids Directive tackled some of these issues, but some provisions were taken out of the final version during the co-decision procedure. Also, as part of the Corporate Governance Action Plan, the Commission opened a consultation on the exercise of Shareholders' rights which was closed in December 2004.*
7. Differences in national reporting schemes, notably as regards accounting systems, may result in difficulties to assess the financial situation of a potential target.
 - ⇒ *From January 2005, listed EU companies will be required to publish their consolidated accounts using International Accounting Standards, as endorsed by the Commission. Member States have the option of extending the requirements of the IAS Regulation (EC 1606/2002) to unlisted companies and all banks and insurance companies and to the production of non-consolidated accounts.*

b) *One-off costs*

8. The national laws of some countries might include restrictions on the type of offers that can be executed (i.e. cash only vs. exchange of shares). Even though such measures are not in themselves discriminatory to cross-border mergers, they might constitute a barrier to cross-border consolidation, given that the different features of such mergers (notably in terms of size) could call for a specific type of offer.

c) *Ongoing costs*

9. Differences in employment legislation across the EU may also create barriers for efficient and flexible (re)organisation. In particular, the procedures to move staff within a pan-European group remain very complex (furthermore in some cases, prudential rules impose constraints on the location of staff – cf. in insurance art. 3 of Directive 95/26/EC). Those differences may also result in higher legal costs to deal with the different legal systems, as well as complex processes and different timelines when trying to introduce changes on a cross-border basis.
10. The different accounting systems across the EU have also required companies to set up adapted IT, specific personnel and reporting systems. This limits the scope of possible cost synergies when two institutions merge across the border, where as such synergies do exist when two institutions merge within the same Member States.
- ⇒ See §7.
11. The consumer protection rules are very different from one Member State to another. This heterogeneity translates into the necessity of country-customised financial products compliant with those rules, and therefore also specific IT systems that handle those products and consumer relationship. For instance, this has been evidenced in the mortgage credit sector in the report recently published by the mortgage credit forum group set up by the Commission. Furthermore, those different rules are often based on the “general good” provisions and consequently potential abuses aimed at protecting the national markets are difficult to challenge in court.
- ⇒ A significant example is the case C-442/02 (*CaixaBank vs. France*), where the European Court ruled in October 2004 that France could not ban interest bearing current accounts in that it constitutes an obstacle to the freedom of establishment.
12. Differences in national implementations of the Directive on data protection may also interfere with an optimal organisation of businesses within merged companies. Indeed, it can have a strong impact on IT systems and limit back-office rationalisation.
13. More generally, differences of approaches in private law, sometimes explained by historical or cultural factors, may impose a country-by-country approach for some products or services (especially in the insurance sector), with the same results as differences in consumer protection rules. Those differences include notably liability and bankruptcy rules, with the implied difficulties of enforcing cross-border collateral arrangements, as well as differences in legal rules for securities.
- ⇒ The Commission is working with researchers and stakeholders to develop a Common Frame of Reference for contract law as a form of handbook identifying best solutions in European contract law and giving guidance on the different approaches used, with a view to providing common definitions, principles and model rules for use in lawmaking (see COM 2004 (651) final: “European Contract Law and the revision of the acquis: the way forward”).

II. Tax barriers

a) *Execution risks*

14. As mentioned earlier, mergers and acquisitions are complex processes. Despite some harmonised rules, taxation issues are mainly dealt with in national rules, and are not always fully clear or exhaustive to ascertain the tax impact of a cross-border merger or acquisition. This uncertainty on tax arrangements sometimes requires seeking for special agreements or arrangements from the tax authorities on an *ad hoc* basis, whereas in the case of a domestic deal the process is much more deterministic.

⇒ *The Merger Directive (90/434/EEC) provides for the deferred taxation of capital gains arising from cross-border corporate restructuring carried out in the form of mergers, divisions, transfers of assets or exchanges of shares. Taxation of the capital gain is deferred until a later disposal of the assets. In October 2003, the Commission put forward a proposal to improve the Mergers Directive (90/434/EEC), which aims at clarifying the scope of the Directive as well as ensuring it applies to European Companies and European Co-operative Societies. Political agreement by the Council was reached on 7 December 2004.*

15. The uncertainty on VAT regime applicable to financial products and services may put at risk the business model or envisaged synergies. The EU's VAT legislation in this area is badly in need of modernisation and because of its inadequacies, there is an increasing tendency to resort to litigation. The outcome can often be uncertain and as a result tax implications may place a question mark over otherwise sound business strategies. In recent years, the number of significant ECJ cases on VAT and financial services has increased steadily. Individual judgement may indeed clarify the law in particular circumstances but often at the cost of consequences which may not always be compatible with overall Community policy objectives.

⇒ *To take just one example, case C-8/03, Banque Bruxelles Lambert SA vs. Belgian State, the ECJ arrived at a judgement on the VAT treatment of open-ended investment companies (SICAVs) which has the potential to create tension in achieving the objective of equality of treatment and sustaining a level playing field for operators across the EU. In the absence of legislative measures, it is inevitable that the Court will play an increasing role with uncertain consequences. The Commission has attempted to address the provisions of the 6th VAT Directive (77/388/EEC) dealing with financial services but without much success. DG Taxud is currently looking at the distortive effect of these provisions and intends to proceed with a process of modernisation which will better ensure their compatibility with the objectives of the Internal Market and give business greater certainty about the tax implications of business decisions.*

b) *One-off costs*

16. The principal relief from the Merger Directive (90/434/EEC) is the deferral of tax on the capital gains on the assets transferred in a transaction covered by the Directive. However, in some cases where the Directive does not apply, special corporate structures have to be put in place to avoid such an exit tax on capital gains. This is for instance the case when permanent establishments are transferred from one Member State to another, by a holding company located in a third Member State. It can also occur when a subsidiary is converted into a branch.

⇒ *See comment of §14. Also related to this issue is the judgement published in March 2004 (case C-9/02 – de Lasteyrie du Saillant) by the European court which ruled that taxation on unrealised capital gains of a natural person moving to another Member State constitutes an obstacle to the freedom of establishment.*

c) *Ongoing costs*

17. The issue of transfer pricing is a complex one for a group operating in several countries. As was evidenced in the Commission's Communication "Towards an Internal Market without tax obstacles - A strategy for providing companies with a consolidated corporate tax base for their EU-wide

activities” (COM(2001) 582), a lack of common approach to allocate profits may rise to numerous problems on the fiscal treatment of intra-group transfer pricing, notably in the form of high compliance cost and potential double taxation.

⇒ *The Commission set up a "EU Joint Transfer Pricing Forum" with Member States and business representatives, meeting on a regular basis. Bringing together all parties concerned to discuss the issues at stake it helps to reach a better common understanding and allows to identify possible non-legislative improvements to the practical problems in order to reduce compliance cost and prevent disputes.*

18. A group operating across several Member States may wish to centralize support functions to increase operating efficiency. But in many cases the result will include creating a VAT penalty on the inter group supply of services (e.g. legal services or other back technical operations) to another Member State. Given that in the financial services sector VAT is at best only partially recoverable, this represents significant additional costs that penalised cost synergies to expect from a cross-border merger when compared to a national merger. This tax penalty on cross-border shared service operations is in addition to the general bias towards vertical integration which is widely perceived as a barrier to efficiency in the existing VAT provisions.

⇒ *See comment of §15.*

19. The lack of a homogeneous system of loss compensation across the EU affects the profit taxation at the group level. A group with several subsidiaries in the same Member State may offset profits in some of them by losses in others, whereas it will be more difficult, if possible at all, with a group with subsidiaries in several Member States. Therefore groups may prefer intra-domestic consolidation to enjoy wider diversification effects as they may benefit from direct horizontal loss compensation instead of deferred and incomplete vertical compensation between subsequent fiscal years.

⇒ *In the pending case C-446/03 (Marks & Spencer), the European Court Justice has been asked whether it is contradictory to the EC treaty to prevent a company to reduce its taxable profits by setting off losses incurred in other Member States, while it is allowed to do so with losses incurred in subsidiaries established in the State of the parent company.*

20. Specific domestic tax breaks may favour specific, non-harmonized products or services, with the result that every institution has to provide this service or product if it wants to remain competitive. In such a situation, a merger between two entities located in that domestic market may yield synergies of scale, whereas it will be more difficult to exploit comparable synergies for a foreign institution taking over a domestic one, while not being entitled to the tax break in their home state.

21. In some cases, there may be discriminatory tax treatments for foreign products or services, i.e. products or services provided from a Member State different from the one where it is sold. Therefore, a cross-border group will be disadvantaged when trying to centralise the “industrial functions” (e.g. asset management functions) over a domestic group since the latter may keep all its value chain within the country and still benefit from synergies.

⇒ *In the area of asset management, the Commission has opened a number of infringement cases to examine the tax treatments of dividends on foreign investment funds that could potentially be discriminatory (infringements 2000/5059 vs. DE, 2002/4714 vs. AT, 2003/2009 vs. FR, 1994/476 vs. EL, 2003/2010 vs. IT).*

22. The impact of taxation on dividends might influence the shareholders' acceptance of a cross-border merger. Even though a seat transfer or a quotation in another stock market might be justified for economic reasons, groups of shareholders could be opposed to such an operation if it implies higher non-refundable withholding tax, and thus lower returns on their investments.

⇒ *See COM(2003) 810 for a presentation of the different tax schemes applying to dividends across the EU. In the cases C-315/02 (Lenz) and C-319/02 (Manninen), the European Court of Justice ruled in 2004 that taxation on*

dividends should make no distinction between dividends originating from domestic companies and those originating from companies established in another Member State. In particular, tax credit mechanisms or reduced rates should apply equally to all dividends distributed by any company established in the EU.

III. Implications of supervisory rules and requirements

a) Execution risks

23. A cross-border merger may highlight gaps or imperfections in the regulatory framework which may make regulators feel uncertain how to proceed, leading to delay, the imposition of specific measures or a veto of the proposed merger. In the banking sector, for example, the emergence of large cross-border groups might raise local supervisors' concerns regarding financial stability (e.g. the ongoing discussions on deposit guarantee schemes). In other sectors such as exchanges which had traditionally operated within one national market, regulators may be unclear how to operate in a cross-border context.

⇒ *The Economic and Financial Council is examining the effects of increased integration of the financial sector on financial stability and crisis management. Several areas, among which deposit guarantee schemes, are being scrutinized to ensure that the regulatory and supervisory framework is adapted to cross-border consolidation.*

24. The misuse of supervisory powers, notably regarding those related to the approval of changes in the shareholding, have also been indicated as raising obstacles to cross-border consolidation. Although it was confirmed by the Commission that such powers should only be used on prudential grounds (Champalinaud case), the current legislation offers significant leeway for supervisors to veto cross-border consolidation.

⇒ *Following the mandate given by the Economic and Finance Council at their Informal Scheveningen meeting (10 and 11 September 2004), the Commission is considering the relevant provision of the Codified banking Directive and has put a discussion paper to the Banking Advisory Committee on 24 November 2004. A similar discussion took place at the Insurance Committee on 1 December 2004.*

25. The complexity of the numerous supervisory approval processes in the case of a cross-border merger can also pose a risk to the outcome of the transaction as some delays must be respected and adds to the overall uncertainty. In particular, in the case of a merger between two parent companies with subsidiaries in different countries, 'indirect change of control' regulations may require that all the national supervisors of all the subsidiaries must approve the merger.

b) One-off costs

c) Ongoing costs

26. Despite a common regulatory framework, there might be significant divergences in supervisory practices at the level of institutions. Such divergences might be explained by optionality in the harmonised rules, including provisions taken at national level that exceed the harmonised provisions ('superequivalent' measures), or lack of coherence in enforcement of common rules. The consequence is a limit on homogeneous approaches, and therefore synergies, of risk control and risk management within a cross-border group.

⇒ *The Lamfalussy approach has been extended to the areas of banking and insurance, which i.a. provides for EU supervisory committees in charge of achieving greater convergence in supervisory practices. The new Capital Requirements Directive provides an enhanced framework for supervisory cooperation, as will the upcoming Solvency II Directive.*

27. The multiple reporting requirements, in some cases combined with a lack of transparency in terms of requirements and definitions, may also impose a significant and costly administrative burden on

cross-border groups. Indeed, a cross-border merger might cause heavier reporting requirements compared to those imposed on the two entities that are being merged. Instead of creating cost synergies as in a domestic merger, a cross-border might even create additional costs.

⇒ *The Commission set up a forum group which set out several recommendations in a report published in June 2003. To follow-up on these recommendations and within the overall so-called "Pillar II" work, the Committee of European Banking Supervisors is investigating the technical solutions to enable a streamlined reporting regime in the field of banking.*

IV. Economic barriers

a) Execution risks

b) One-off costs

28. The fragmentation of the European equity markets may impose additional transaction cost on a cross-border merger. For instance, the exchange of share mechanism can be complex, and more expensive, when the two entities involved are listed on different stock exchanges. The additional costs might also influence the bidder on the type of deals (i.e. cash vs. exchange of shares).

c) Ongoing costs

29. Independently of the legal frameworks or tax incentives (see §13 and 20), some differences in product mix, are explained by habits, preferences or even history. This is especially true for the most common products, such as payment instruments. As a result, the potential for product rationalization resulting from a cross-border merger is more limited than for a domestic merger.

30. In cross-border groups, there are also more non-overlapping fixed costs, which cannot be spread over several countries. Indeed, even without legal, tax or prudential barriers, there would remain differences between Member States that would require a differentiated approach to be adapted to the local environment. This limits potential synergies. The most obvious example is language, and the implications in terms of customer services for instance.

31. The low level of cross-border consolidation might also be explained by a lack of potential targets, due to the lack of middle-size institutions. National consolidation of middle-size institutions resulted in the emergence of rather large and complex institutions. The few examples of cross-border mergers seem to indicate that it implies more often a big institution taking over a middle-size one. Taking over a big institution may be perceived as too complex (and risky), whereas the takeover of a small one might not be sufficient to offset the induced costs.

32. The absence of critical size in some market segments (e.g. investment banking) may incite institutions to enter into a niche strategy, where the advantages of cross-border mergers that create large players is less evident from an economic point of view. Indeed, not only it would be difficult to find synergies between two niche players, but also absolute size would not necessarily be an advantage if an institution wants to maintain its competitive advantage in its niche market.

33. Domestic mergers can contribute to increase market power, and therefore increased profitability even without any cost synergies (i.e. raising the income while maintaining the costs at a constant level). Since most of the retail markets are still organized on a national basis, cross-border mergers yield very few, if any, increased market power.

34. Differences in economic cycles across the different Member States may also play a role, in that the economic environment has a strong effect on bank profitability. Different strategies might be

needed for different macroeconomic conditions, and therefore it might limit the scope of a potential pan-European strategy implemented at the level of a cross-border group, whereas domestic groups face a single economic environment. However, this could also be a driver for consolidation, as those differences in cycles can help to smooth the profitability by reducing risk and earnings volatility through geographical diversification.

V. Attitudinal barriers

a) Execution risks

35. Openly or not, some Member States may promote a “national industrial policy”, aiming at the creation of “national champions”. Among possible justifications, some may argue that such a policy may ensure adequate financing of the national economy. Political considerations may also play a role with recently privatised companies or institutions that have received public money. This political interference may block a cross-border merger, even though such this transaction is compatible with the existing rules. Such interference might not require formal powers or rules to materialize. Indeed, as evidenced in the previous sections, there are many obstacles to overcome to carry through a cross-border merger that it is realistic to think that no cross-border merger can be achieved if there is a strong political opposition. In addition, such a policy may lead to tolerance of high levels of concentration at a domestic level, allowing (or even encouraging) domestic consolidation over cross-border consolidation and making it even more difficult to accept a foreign takeover of a national institution with a significant market share.
36. Employees’ reluctance within the target company of a cross-border deal might also pose a threat to the successful outcome of the transaction. Indeed, employees may not accept to be managed from another country. A public opposition to the project may influence analysts’ assessment. Also employees may play a role if they have a participation in the company.
37. Cross-border mergers may imply a change in the place of quotation, or even in the currency of quotation. Shareholders’ acceptance of quotation changes may be limited, even all risks or tax impacts are eliminated. Indeed, the place of quotation may have an important symbolic value.
38. Given that cross-border mergers are complex and need to overcome a number of execution risks (as evidenced in this document), there might be an impact on shareholders’ and analysts’ apprehension of failure risk when it comes to cross-border mergers.

b) One-off costs

c) Ongoing costs

39. Interference with political considerations may also have consequences in the structures put in place after a cross-border merger. Such political concessions (e.g. guarantees of level of employment, no headquarter moves, protection of the local brand) may help in getting the merger through the different obstacles, but constrain the resulting cross-border entity in realising the full potential of the merger as options may be severely limited.
40. Consumers may mistrust foreign entities, meaning that all parameters being equal, a local incumbent may have an advantage over a competitor identified as foreign. This explains why foreign institutions often prefer to keep a local brand, even though it might impede synergies across certain functions (e.g. marketing) or slow down the integration process (transition from one brand to another over a long period of time).

Summary

	<u>I. Legal Barriers</u>	<u>II. Tax barriers</u>	<u>III. Implications of supervisory rules and requirements</u>	<u>IV. Economic barriers</u>	<u>V. Attitudinal barriers</u>
<i>a) Execution risks</i>	1. Legal uncertainty 2. Opaque decision making processes 3. Legal structures 4. Limits or controls on foreign participations 5. Defence mechanisms 6. Impediments to effective control 7. Difficulties to assess the financial situation	14. Uncertainty on tax arrangements 15. Uncertainty on VAT regime	23. Concerns regarding financial stability 24. Misuse of supervisory powers 25. Supervisory approval processes		35. Political interference 36. Employees' reluctance 37. Shareholders' acceptance of quotation changes 38. Shareholders' and analysts' apprehension of failure risk
<i>b) One-off costs</i>	8. Restriction on offers	16. Exit tax on capital gains		28. Fragmentation of the European capital markets	
<i>c) Ongoing costs</i>	9. Employment legislation 10. Accounting systems 11. Divergent consumer protection rules 12. Data protection 13. Differences in private law	17. Transfer pricing 18. Inter-group VAT 19. No homogeneous loss compensation 20. Specific domestic tax breaks 21. Discriminatory tax treatments 22. Taxation on dividends	26. Divergences in supervisory practices 27. Multiple reporting requirements	29. Different product mixes 30. Non-overlapping fixed costs 31. Lack of middle-size institutions 32. Absence of critical size 33. Market power 34. Differences in economic cycles	39. Political concessions 40. Consumer mistrust in foreign entities