OFFICE OF FAIR TRADING

Anticipated acquisition by London Stock Exchange Group plc of Turquoise Trading Limited

CR/07/09

The OFT's decision on reference under section 33(1) given on 12 February 2010. Full text of decision published 19 February 2010.

Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

PARTIES

1. The **London Stock Exchange Group Plc** ('**LSEG**') is the holding company of the London Stock Exchange plc ('LSE') and Borsa Italiana S.p.A. ('Borsa Italiana'), the companies responsible for the organisation, management and administration of, respectively, the LSE and the Italian regulated markets on which equities, bonds and derivatives are traded.

2. **Baikal Global Ltd** ('**Baikal**') is a wholly-owned subsidiary of LSEG. It is a multilateral trading facility ('MTF') designed to support the trading of equities on a pan-European basis. LSEG have been developing Baikal for the past two years, but it is yet to commence operations. Post-merger, Turquoise (defined below) will be merged with the Baikal business.

3. **Turquoise Trading Limited** ('**Turquoise**') is an MTF which currently offers trading for equities listed on 16 European exchanges, including the LSE and the Italian exchange, Borsa Italiana. Commencing trading operations in September 2008, Turquoise shareholders include investment banks BNP Paribas; Citibank; Credit Suisse; Deutsche Bank; Goldman Sachs; Merrill Lynch; Morgan Stanley; Société Générale; and UBS.

4. LSEG estimated that Turquoise's UK turnover for 2009 was approximately £[0-5] million.

TRANSACTION

5. The transaction involves LSEG acquiring all of the issued and outstanding share capital of Turquoise. Post-merger, Turquoise will be merged with LSEG's Baikal business. In consideration for its Turquoise shares, the Turquoise shareholders will receive shares in the new Baikal-Turquoise entity, which will be a newly incorporated company ('NewCo').

6. Immediately post-merger, LSEG will own 60 per cent of NewCo, while the Turquoise shareholders will own 40 per cent. LSEG has informed the OFT that its intention is to, [ ], transfer shares representing up to nine per cent of the issued shares of NewCo, to [ ] additional minority shareholders for cash consideration.

7. LSEG has advised that most board decisions will be settled by a simple majority vote and Turquoise shareholders will not exercise any management control over the merged entity. [Turquoise shareholders will have some influence over Newco].[1]

8. LSEG has submitted, and the OFT agrees, that LSEG will have sole control of NewCo post-merger.

9. The OFT's administrative deadline for making a decision on reference in this case is 18 February 2010.

JURISDICTION

10. As a result of this transaction LSEG and Turquoise ('the parties') will cease to be distinct.

11. The parties both operate trading platforms facilitating the trading of on-book[2] UK-listed equity securities and, according to LSEG, the merged entity will have a share of supply of approximately 69 per cent. The share of

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[1] [ ].

[2] 'On-book' trades are those which are facilitated by a trading platform such as an exchange (like the LSE) or an MTF (such as Turquoise).Trades are reported contemporaneously with the transaction.

supply test in section 23 of the Enterprise Act 2002 (the Act) is therefore met.

12. The OFT therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

MARKET DEFINITION

Equities trading platforms

Product market

Introduction

13. The parties both currently operate trading platforms for the on-book trading of securities listed on the LSE.[3]

14. Besides the parties, there are a number of trading platforms which currently facilitate trade in UK equities. These include Chi-X, BATS Trading, NYSE Arca and Nasdaq OMX (sometimes referred to as NEURO). These are all MTFs which also facilitate trading on other European exchanges.

15. Within on-book trading, there are two sub-divisions: displayed (or 'lit') and non-displayed (or 'dark'). Displayed trading books are fully transparent to the market, with trades reported in real time and the depth or liquidity of the market fully visible. Non-displayed books, on the other hand, do not show any pre-trade transparency and give no indication as to the liquidity of the trading book.[4] Turquoise and LSEG both offer both lit and dark trading platforms, although LSEG's dark pool has only been operating since December 2009 and currently has a very low segment share.

[3] Although the parties also overlap in the trading of Italian-listed equities, the vast majority of UK consumers conduct their business on UK venues. This decision therefore focuses on the effects of the merger on UK-listed securities.

[4] For this reason, non-displayed trading books are often referred to as 'dark pools'.

16. Equities can also be traded in other ways not offered by the parties, including via 'off-book'[5] venues such as broker pools and through bilateral trading.

17. Broker pools allow brokers to match orders among their own client/customer base. Brokers cannot access these directly but, rather, these orders are automatically matched with each other through the broker's system. Some brokers have bilateral arrangements with other brokers which allow access to each others' internal liquidity.

18. Bilateral (or over-the-counter ('OTC')) trading involves direct negotiation between brokers and uses little in the way of technology. For both OTC and broker pool trades, transactions are reported after the fact.

19. In *A report on the proposed acquisition of LSE plc by Deutsche Börse AG or Euronext NV ('LSE/Euronext')*,[6] the Competition Commission ('CC') found that the market could be delineated into on-book and off-book trading. In that case, the CC found that the constraint imposed by off-book trading alternatives to LSEG's pricing strategies to be weak. Further, on the supply-side, the CC concluded that providers of off-book trading platforms could not readily and viably replicate LSEG's trading platform, particularly when compared to the superior knowledge and expertise of existing on-book platforms.[7]

20. LSEG argued that the competitive landscape has changed significantly since the 2005 *LSE/Euronext* Report. This, it submitted, is due to advances in infrastructure and trading technology; more focus on the costs of trading; development by venues of innovative trading solutions; and the introduction of the harmonisation measures in the Markets in Financial Instruments Directive ('MiFID').[8]

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[5] 'Off book' trading takes place away from the order books of trading platforms. Although these trades are reported, this occurs after the event, rather than contemporaneously as they are with on-book transactions.
[6] November 2005.
[7] *LSE/Euronext* at 4.53.
[8] EC Directive 2004/39/EC ('MiFID Directive'). MiFID is the regulatory framework for the trading of financial instruments within the European Community. One of the purposes of the directive is to allow financial institutions to provide services throughout the EU (formerly EC), on the basis of home country supervision. Provision was also made for MTFs to operate. This regulation governs financial institutions when they are providing services such as executing trades on behalf of their clients; it does not, however, apply to them when they are trading using their own money (known as 'proprietary trading').

21. MiFID also introduced a 'best execution' obligation for financial intermediaries which trade financial instruments on behalf of third parties. Article 21 of MiFID requires that:

> …investment firms take all reasonable steps to obtain… the best possible result for their clients taking into account price, costs, speed, likelihood of execution and settlement, size, nature or other consideration relevant to the execution of the order. Nevertheless, whenever there is a specific instruction from the client the investment firm shall execute the order following the specific instruction.

22. Thus, the costs of executing a trade are not the only factors which need to be considered by a trader when deciding how to fulfil an order. The liquidity of various venues, the latency of their technology and the likelihood of execution are also important considerations. The above considerations are also relevant for financial institutions when proprietary trading, although they are not bound by best execution principles when trading in this fashion.[9]

LSEG's submission

23. LSEG submitted that the market could be characterised in a number of ways:

    a. on-book/off-book in line with the *LSE/Euronext* report
    b. by venue type that is, MTF, exchange, broker pools etc
    c. displayed and non-displayed, or
    d. one market for all venues and methods for trading equities.

24. LSEG submitted that (d) was the most appropriate approach in this case.

On-book/off-book

25. There is some evidence to suggest that separate markets may exist for on- and off-book trading. The OFT considers it appropriate to define markets principally on the basis of demand-side considerations. Here, market

[9] See footnote 8, above. Presumably, however, firms would behave in a way that maximises their own welfare, and so this is arguably 'best execution', albeit that they may have different trading strategies and objectives from their clients.

enquiries revealed that off-book trades tend to be executed in different ways and, particularly with regard to OTC trades, involve different considerations than on-book trades. For example, OTC trades are often used for very large transactions where there is a risk that executing on-book may have a material impact on the price of an equity, and the requirement for execution certainty means breaking a trade into smaller parcels is not appropriate.[10]

26. Nonetheless, the OFT considers that it may sometimes also be appropriate to aggregate separate markets defined on the demand-side into a single market on the basis of supply-side considerations (that is, if suppliers in the separate markets can quickly and easily switch their activity between them). Here, however, different players operate in on- and off-book trading. For on-book trading, exchanges and MTFs act as central trade facilitators, whereas off-book trades occur within and between brokerages.

Venue type

27. As noted above, there are a host of considerations which brokers take into account when deciding where to execute a trade order. Each method of trading has its own features, advantages and disadvantages and the decision on which venue(s) to use to execute a trade will depend on the particular requirements of the client.

28. For example, on the demand-side, for some clients certainty of execution may be as or more important than price, and so platforms with relatively high liquidity, such as the LSE, are favoured. For others, price is the key determinant, and so these trades may be sent to lower cost venues such as one of the MTFs. Where brokers want to minimise the impact of a trade on the share price of a stock, they may seek to negotiate an OTC trade directly with another broker or execute in a dark pool.

29. Market enquiries also revealed, however, that there may be a number of ways to execute a particular trade in accordance with a client's needs. For example, large orders may be traded OTC, broken up into smaller orders and sent to multiple venues or executed via an 'iceberg' order.[11] This

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[10] For more information, see paragraph 28, below.

[11] An iceberg order allows a customer to set an upper bound of the constituent parts of an order. Once the first sub-order is executed, another sub-order of the same size is generated, and this continues until the entire order is executed.

suggests that there is a degree of substitution between venues, and that this can vary according to the circumstances.

Displayed and non-displayed

30. Displayed trading includes trading on exchanges and MTFs; non-displayed is conducted in dark pools, broker pools and OTC. Market enquiries revealed that, on the demand-side, non-displayed trading is less expensive and carries less risk of pre-trade information leakage which can affect the price of an equity. However, it can carry less execution certainty as less information is known about the liquidity of these venues.

31. On the supply-side, many displayed trading platforms now offer both lit and dark trading, which suggests that substantially the same suppliers may compete in separate putative demand-side markets, and that it may therefore be appropriate to aggregate them on the basis of supply-side considerations.

One market for all venues and methods for trading equities

32. On the basis of the discussion in paragraphs 25 to 31 above, on the demand-side, the substitutability of one method for another will depend on the particular requirements of a client or trading strategy. Further, there is a degree of overlap on the supply-side between many of the different venues and methods for trading equities.

33. The OFT did not need to conclude on the precise scope of the product market in this case, however, because even on the narrowest plausible candidate market in which the parties overlap – on-book, displayed UK equities – there is no realistic prospect of a substantial lessening of competition. The merger has therefore been assessed on this basis.

Geographic market

34. In *LSE/Euronext*, the CC defined the geographic market to include 'all exchanges currently placing a competitive constraint on the pricing and behaviour of LSE in the UK through the threat of head-to-head

competition.'[12] It thus found that the home countries of these exchanges should be included and defined the market to include Europe and the USA.

35. Consistent with the CC's decision in *LSE/Euronext*, LSEG submitted that the OFT should find the geographic scope of the market to be at least pan-European in this case.

36. Since the *LSE/Euronext* report in 2005, the threat of head-to-head competition recognised by the CC has become actual head-to-head competition, with exchanges such as NYSE and Nasdaq now directly competing with LSEG. In addition, MTFs, which do not have a 'home country' as such, and operate on a pan-European basis, also now compete head-to-head with LSEG for the provision of trading services for UK-listed equities.

37. In addition, other national exchanges such as Deutsche-Börse (Germany) and Six Swiss Exchange (Switzerland) have also begun offering trading in other European equities and may also be considered as potential entrants.

38. The OFT therefore considers, on a conservative basis, that the appropriate geographic scope of the market includes all jurisdictions hosting platforms which currently compete with the LSEG for trading services in UK-listed equities; that is, at least Europe and the US.

Market for the sale of market data

39. Trading platforms generate and record data concerning the trade of equities on their own platforms. Such data includes equity prices, trends, bid/ask spreads, trade values and volumes, and historical data. Each data set represents trading on different platforms, and so each data set will be unique to that platform.

40. The parties both publish the current price of UK equities on their website and do not charge a fee for this. However, whereas Turquoise and most other MTFs also make data such as trade volumes, values and historical

[12] At 4.59.

information available for free, LSEG charges a fee for this additional market data.[13]

41. Market enquiries revealed that the value of a platform's data is linked primarily to its share of trading. As the incumbent monopolist, the LSE was previously the only platform which produced any data and its current market share means it still enjoys the ability to be able to charge a fee for it. It is also the primary operator of 'opening' and 'closing' auctions, and market enquiries revealed that these are universally used by the market as reference prices for equities and indices.

42. Although other sources of information have emerged with the introduction of competing trading platforms, market enquiries revealed that LSE's data is still 'must have' and that other sources are not viable substitutes.

43. A concern was raised that the acquisition may hinder the ability of LSEG's competitors to charge for their data going forward. However, the transaction will only result in an increment of 2.5 per cent in the trade of **all** UK equities, which the OFT does not consider to be significant enough to foreclose the ability of competitors to charge for their own market data. Further, one MTF, Chi-X, has begun charging a fee for the redistribution of its market data, which suggests it may be approaching a market share which will enable it to sell its market data.

44. In light of the above, the OFT does not consider the transaction gives rise to concerns in this market and it is not considered further.

Other markets

45. The OFT received a complaint relating to the market for listing services, as well as one relating to clearing houses.

46. Turquoise does not currently compete with LSEG as a platform for the listing of public companies in the UK, and there is no evidence to suggest that, absent the merger, Turquoise would have sought to do so.

[13] Chi-X, the largest MTF, has recently begun to charge a fee for the redistribution of its data (by, for example, data aggregators such as Bloomberg and Reuters).

47. With respect to clearing houses, neither party has any interest in a clearing house for UK equities. LSEG owns a clearing house in Italy – CC&G – however the OFT understands that [ ].

48. Given the lack of actual or potential competition between the parties in the listing market, and the fact neither party has an interest in clearing UK equities, the OFT does not consider there to be a realistic prospect of competition issues arising in either potential market. These issues are therefore not discussed further.

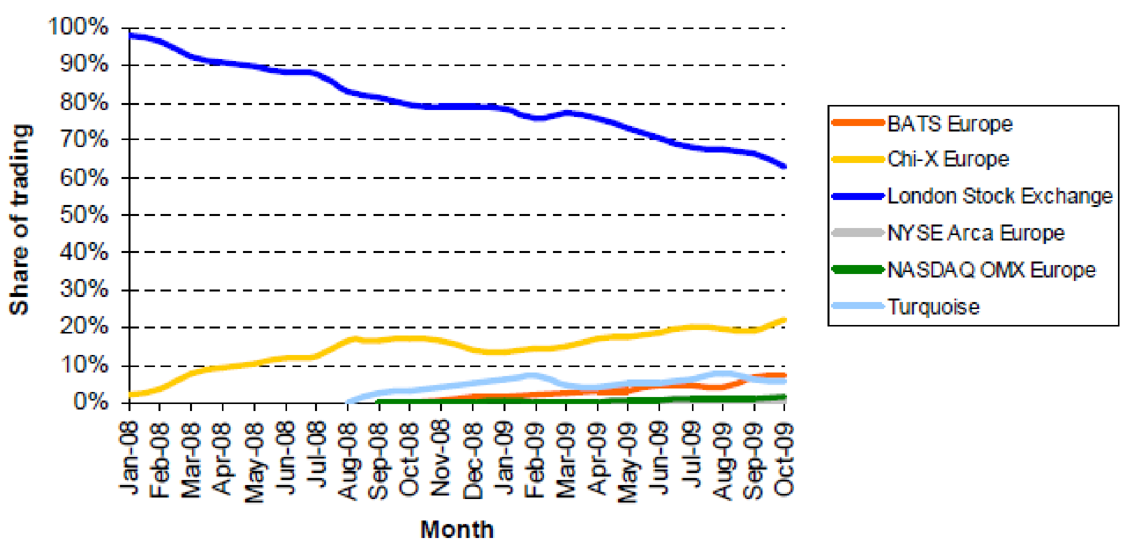
HORIZONTAL ISSUES

Equities trading services

49. LSEG submitted that it has a share of on-book, displayed UK equities of approximately 63 per cent, with Turquoise having just under six per cent.

50. The chart below tracks the market shares of venues for the trading of UK equities shares since January 2008. As is evident from the graph, the market shares of participants can fluctuate from month to month, although the overall trend until November 2009 was LSEG losing market share to the other players in the market.

Graph 1 – displayed on-book market shares for trading in UK equities from January 2008 to October 2009



Source: Parties

51. LSEG submitted that the merger did not represent a material increment in its market share. It argued that its main competition does not come from Turquoise, but from a long and varied list of competitors which include other exchanges, MTFs and broker pools. Turquoise, it submitted, is only the fourth largest trading platform in the UK.

52. LSEG further argued that there has been aggressive price competition from MTFs across Europe and this has resulted in LSEG's share dropping to around 60 per cent, despite it having substantially lowered its fees in response.

53. Market enquiries revealed that LSEG faces significant competition from, primarily, Chi-X, BATS and other MTFs, including Turquoise. In response to the lower fees charged by these platforms, LSEG has reduced its fees considerably over time. MTFs are still generally cheaper to trade on than the LSE, however. LSEG charges a connection fee and an annual membership fee to its members, whereas none of the MTFs do. Further, the cost of trading on the LSE is a flat rate per trade, whether a trader is buying or selling. Many MTFs, on the other hand, charge only for buy-side or 'aggressive' trading and sell-side or 'passive' trading is either free or attracts a rebate.[14]

54. In addition, some MTFs also periodically run price promotions to attract trade volumes to their venues.

55. LSEG also faces non-price competition from other platforms. For example, a number of market participants advised that competing platforms provide better latency than LSEG. Further, as MTFs have won volumes away from the LSE, the gap between the relative liquidity of the LSE and these platforms has also diminished.

56. In terms of the closeness of competition between the parties, customers surveyed generally viewed Chi-X and BATS as being the closest competitors to the LSE for UK equities. Although Turquoise was considered a viable option, some doubts were raised about its level of service and the commitment to the market of its shareholders going forward.

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[14] This is known as the 'maker/taker' model.

57. The remaining competitors in the market were generally viewed as currently weak, but emerging, constraints. It is worth noting, however, that a number of these are backed by large, well-resourced and experienced players such as the New York Stock Exchange (NYSE Arca) and Nasdaq (Nasdaq OMX) and many investment banks have thus already connected to these platforms, despite their low market share.[15]

Potential concerns

58. A small number of market participants raised concerns about the merger and these are discussed below.

Turquoise shareholders may direct increased trade volumes through Turquoise and damage rival MTFs

59. A small number of market participants raised some concerns that Turquoise shareholders – which will retain a 40 per cent stake in the new merged entity – would favour NewCo by committing volumes to it at the expense of other platforms. The OFT does not consider the merger gives rise to concerns of this regard, primarily because these shareholders already possess the ability and incentive to do this. Indeed, they currently have a **greater** incentive now than post-merger, given they currently own 100 per cent of Turquoise. The OFT also notes that the transaction does not involve any formal liquidity agreements between Turquoise shareholders and NewCo.

60. Many Turquoise shareholders also have shareholdings in other platforms. Thus, favouring Turquoise would damage their investments in these other venues, which further dampens their incentive to engage in such a tactic.

61. Finally, Turquoise shareholders are also its major customers and have an interest in ensuring competition between venues is maintained. Indeed, this was one of the key reasons Turquoise was set up. Unduly favouring NewCo would harm these prospects.

[15] Many investment banks advised us that they are generally reluctant to connect to platforms until they are satisfied about their longevity. An indicator used by some brokers is market share.

LSEG may use Turquoise as a 'loss leader' to harm its rivals

62. Some market participants raised concerns that the transaction may allow LSEG to engage in predatory pricing by charging below cost on the Turquoise platform thus attracting trade volumes away from other venues. In the long run, concerns were raised that this could cause the exit of some competitors, and that competition would be damaged as a result.

63. The OFT notes, however, that for a predatory pricing strategy to be successful, a firm must possess substantial market power. However, as discussed above, the merged entity will continue to face significant competition from remaining players in the equities trading market. As such, the OFT does not consider that, post-merger, LSEG will have substantial market power in the UK equities trading market. It therefore considers it would not be able to engage in a predatory strategy of the type alleged.

64. Market participants also raised serious doubts about the ability of LSEG to engage in such a strategy. First, as mentioned earlier, post-merger at least 40 per cent of Turquoise will continue to be owned by major customers of Turquoise. Thus, any such strategy would have the effect of reducing their profits. Second, as shareholders in other MTFs, any damage to these platforms would also damage profit earnings in this regard as well. Finally, as noted above, customers of trading platforms have a vested interest in promoting long-term competition among venues.

65. Given [Turquoise shareholders will have some influence over Newco],[16] the OFT also considers LSEG – were it minded to engage in such a strategy – would face strong opposition from existing Turquoise shareholders.

Conclusion

66. The OFT considers the merged entity will continue to face significant competition from the remaining competitors in the market post-merger, such that there is no realistic prospect of a substantial lessening of competition.

[16] See paragraph 7, above.

Barriers to entry and expansion

67. To offer trading services in UK-listed securities, platforms need funding, trading platform technology, a relationship with a central clearing counter-party ('CCP') and regulatory approval.

68. Market enquiries revealed that developing trading technology from scratch can take years and involve substantial investment. As such, much new entry in the UK has been by companies with existing technology which is being used in other jurisdictions. Indeed, Chi-X, BATS, Nasdaq OMX and NYSE Arca all had existing operations in the US.

69. Platforms must also gain regulatory approval from an appropriate authority. This does not need to be from the UK Financial Services Authority ('FSA'); it can be obtained from the relevant regulator in any jurisdiction subject to MiFID.[17] Once regulatory approval is obtained in one MiFID jurisdiction, a company can offer trading services throughout the EEA.

70. Some market participants advised that the process of obtaining regulatory approval can be time consuming and quite costly in terms of application and legal fees. For firms with existing operations in other jurisdictions, however, evidence before the OFT revealed that the application process can take as few as six months. For example, one MTF advised that it received regulatory approval from the FSA within five months of announcing its intention to enter.

71. Once a company has entered the market, however, evidence before the OFT shows that gaining market share can be a slow process. First, connecting to a new platform requires an investment in time and technology from a broker, and convincing them to spend these resources is time-consuming.

72. A number of larger brokers surveyed advised that the decision of whether to connect to a platform is based on assessment of the longevity of a platform; that is, whether it is likely to survive or not. This is often based on the market share of the new entrant on either an individual equity, index or market-wide basis. A number of brokers told us that a market share of

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[17] For example, QUOTE MTF obtained regulatory approval in Hungary and is now actively trading in other European securities.

one to two per cent is normally required before they will connect to a platform. This can raise issues for new platforms, as they need brokers to connect before any trading can be undertaken on them.

73. Some firms, however, will connect to a new platform as soon as it begins operations and start actively trading. These firms, sometimes known as 'market makers', will quote both a 'buy' and 'sell' price in an equity in the hope of making a profit when the price moves. This generates liquidity on a platform.

74. The backing of a large industry player can also be an advantage when convincing brokers to connect. For example, some brokers told us that they connected to Nasdaq's platform as soon as it entered the market.

75. Alternatively, new entrants can also secure liquidity where they have brokers as shareholders (as in the case of Turquoise) who agree to commit a percentage of proprietary trade for a period of time. However, many market participants surveyed indicated that this was not a strategy they would be likely to consider in the future.

Examples of new entry

76. There is ample evidence of entry into the market since the introduction of MiFID. Moreover, there is evidence of recent entry from both well-backed players like NYSE (Arca) and Nasdaq (OMX), but also an independent Hungarian-backed company, QUOTE MTF which became operational in the UK in September 2009. Nasdaq and NYSE both have less than two per cent market share in the UK, while QUOTE MTF's volumes are, at this stage, very small.

Conclusion

77. The evidence before the OFT suggests that barriers to entry are not likely to be insurmountable, with the main impediment being attracting sufficient liquidity to remain viable. The evidence suggests that entry and expansion are possible, particularly for companies with existing operations in other jurisdictions.

78. In any event, the OFT did not need to conclude on barriers to entry, given it has found the merged entity is likely to continue to face substantial competition from the remaining players in the market post-merger.

Broker power

79. Turquoise was set up by nine large investment banks – which together account for [ ] of the volume traded on the LSE – in response to pricing and service levels on the LSE. Although the OFT understands that many Turquoise shareholders would be unwilling to engage in such an exercise again, this may be an indication that the largest customers of the LSE have some degree of buyer power. Further, given these customers will have direct participation at board level in the merged entity's operations, the OFT considers these customers will continue to exercise a degree of buyer power vis-à-vis LSEG.

Horizontal issues – conclusion

80. LSEG will continue to face significant competition going forward from Chi-X and BATS, and from other platforms as they continue to grow and win market share. There is also the threat of new entry, which still appears to be occurring. The fact that Turquoise will continue to remain part-owned by its major customers also means that LSEG is likely to be constrained in its ability to exercise market power using the merged entity.

THIRD PARTY VIEWS

81. The OFT surveyed customers, competitors, potential competitors and industry bodies.

82. On the whole, third parties did not expect the merger to raise competition concerns. The vast majority considered LSEG would continue to face competition from existing MTFs and perhaps from new entrants as well. Indeed, some noted that the UK market was the most competitive in Europe, with the LSE having the lowest market share of any of the incumbent national exchanges.

83. Some market participants raised concerns that the merger may allow LSEG to use Turquoise as a 'loss leader' to attract trade volumes away from rival

MTFs, hindering their ability to compete. One market participant raised a number of concerns, including that LSEG would be able to leverage its alleged dominant position in equity trading services into non-displayed trading, and that the merger may damage competition in between clearing houses. These concerns have been addressed above.

ASSESSMENT

84. The merger will result in the removal of Turquoise as an independent trading venue for UK-listed equities. Turquoise is currently the fourth largest trading venue in the market, behind the LSE, Chi-X and BATS.

85. Since the introduction of MiFID, the market for UK equities trading services has been characterised by aggressive price and service competition from new entrants seeking to gain market share.

86. Most market participants surveyed indicated that they did not believe the merger would give rise to competition concerns. Although the merger will remove Turquoise as an independent competitor, the OFT is satisfied that the merged entity will continue to face significant price and service competition from the remaining players, in particular from Chi-X and BATS.

87. The OFT considers barriers to entry to be moderate for trading services, although there are numerous examples of recent entry and expansion into the UK from existing trading platforms in Europe and the US. There is also evidence that the largest customers of trading platforms have some degree of buyer power, with Turquoise having been set up as a response to pricing and service levels on the LSE.

88. A small number of third parties raised concerns about the merger. One concern was that the Turquoise shareholders may favour Turquoise by directing trade volumes through Turquoise and thereby damage other platforms. Another was that LSEG may use Turquoise as a 'loss leader' to harm rival MTFs. Other potential theories of harm were also raised which involved LSEG leveraging its perceived dominant position in each of the UK equities listing, equities trading and market data markets.

89. The evidence before the OFT, however, was that it is not realistic that these concerns will play out. Turquoise shareholders will actually have less

of an incentive to direct volumes to Turquoise post-merger, as their combined shareholding will drop from 100 per cent to as low as 40 per cent. However, they will retain a significant influence over Turquoise, and it is unlikely that LSEG would be able to use Turquoise as a weapon to harm competition because it will not gain substantial market power as a result of the merger. Such a move would also damage the long-term competitiveness of the market, which would also not be in the best interests of Turquoise shareholders.

90. Similarly, the OFT did not consider there to be a realistic prospect that the merger would result in a substantial lessening of competition in either the listing services, market data or clearing markets.

91. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

92. This merger will therefore **not be referred** to the Competition Commission under section 33(1) of the Act.