CMA
Competition & Markets Authority

INTERCONTINENTAL EXCHANGE/TRAYPORT MERGER INQUIRY

Summary of hearing with Exchange A on 24 May 2016

Background

1. Exchange A, which also operates a vertically integrated clearing house, (Exchange A) was invited to provide its views on the merger through a hearing.

2. Exchange A said that it [✂] offers a number of products to end-customers which overlap with products offered by ICE in the energy markets [✂].

3. Exchange A said that Trayport was an infrastructure provider. Trayport aggregated trades and the infrastructure connected inter-dealer brokers to end clients. The platform was also used for trades to be sent to clearing houses, such as Exchange A, for clearing.

Access to Exchange A

4. [✂].

5. For traders who used the Trayport platform, prices were revealed directly to potential traders by the inter-dealer broker and the end-customer exercised their choice to express a bid or lift an offer on the platform. The transaction occurred on the Trayport platform and was then channelled into Exchange A (via straight through processing (STP)) for clearing.

6. [✂].

Switching between voice brokered and electronic trades

7. Exchange A stated that it was unclear which of the relevant asset classes would focus more on electronic trades and those that would remain voice centric. However, Exchange A believed that [✂] the complexity of the trade would affect whether the trade was carried out over the counter (OTC) or electronically.

8. Exchange A said that it would be very hard to switch away from an electronic platform, such as Trayport, to an OTC voice only brokered market because of

the aggregation facility Trayport provided – which generated liquidity and made available the best bid and offer. [✄].

Competition for clearing services

9. Exchange A said that some products were common to different clearing houses and that traders were free to choose the clearing house they wanted to use after they had executed the trade. Each clearing house would try to influence an end-customer's choice by competing on the published price and the fees charged for clearing. There were also other aspects such as liquidity of certain products, which meant that similar products were likely to be cleared at the same venue.

10. [✄]. Bids and offer processes were predominantly controlled and managed by Trayport as a service provider. Therefore, it was possible for a service provider, such as Trayport, to bias the choice of clearing venue towards ICE by just tweaking the user interface or workflow on its platform.

11. [✄].

Choice of clearing house and ease of switching

12. [✄].

13. Exchange A said that it was likely that a trader's key consideration for which clearing house to use was liquidity. So, if an executing venue was clearly the most liquid venue, where the trader would get the best execution, then traders would go to that venue. [✄].

14. [✄]. However, the choice of clearing venue was impacted by a lot of different factors, price being one of these, a clearing venue that was not on Trayport would struggle as a potentially significant pool of trading liquidity would not be accessible for clearing.

15. [✄].

Concluding remarks

16. [✄].

17. Exchange A said that Trayport on its own had an ability to be neutral in the market. However, under the ownership of ICE, a few issues arose. For the execution of the trades, ICE would be present in, and could influence, any transition of the market from an OTC venue to a screen-traded platform. Where the market remained OTC, Trayport was dominant and clearing may

potentially be diverted towards ICE leveraging on its ownership and management oversight of Trayport.

18. Exchange A said that the merger could reduce optionality for customers leading to detrimental effect on customers and thereby on market development. This was not necessarily immediate but may present the likelihood eventually.