

Anticipated acquisition by Mastercard UK Holdco Limited of VocaLink Holdings Limited

Decision on relevant merger situation and substantial lessening of competition

ME/6638/16

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 4 January 2017. Full text of the decision published on 30 January 2017.

Please note that [X] indicates figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.

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SUMMARY

1. Mastercard International Incorporated (**Mastercard**) through its subsidiary Mastercard UK Holdco Limited has agreed to acquire VocaLink Holdings Limited (**VocaLink**) (the **Merger**). Mastercard and VocaLink are together referred to as the **Parties**.
2. Mastercard International Incorporated is a financial services company with primary activities in the ownership and operation of branded four-party payment credit and debit card schemes (eg MasterCard, Maestro, and Cirrus). VocaLink provides central infrastructure services (**CIS**) to three UK interbank payment systems (namely, the Bacs interbank payment system (**Bacs**), the Faster Payments Service (**FPS**) and the LINK ATM network (**LINK**)). VocaLink has developed the mobile application Zapp that allows a payer directly to pay a merchant online or, in the future, at the point of sale (**POS**).
3. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that the Parties will cease to be distinct as a result of the Merger, that the turnover test is met and that, accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
4. The CMA assessed the effects of the Merger against the background of an ongoing review of payment systems by the Payment Systems Regulator Limited (**PSR**). In its review of the ownership and competitiveness of payment system infrastructure provision, the PSR has proposed a series of remedies (**PSR Proposed Remedies**) including a potential requirement for the current shareholders of VocaLink to divest their equity interest in VocaLink.
5. The CMA assessed the Merger against a counterfactual consisting of the sale of VocaLink to a purchaser that does not raise substantial competition concerns.
6. The Parties overlap in the supply of CIS to the following three UK interbank payment systems:
 - a) LINK, the UK's automated teller machine (**ATM**) network which connects payment services providers (**PSPs**) and ATMs operating in the UK. It is comprised of almost all of the UK ATM card issuing financial institutions and independent ATM deployers.
 - b) FPS, which is an automated clearing and settlement scheme for credit transactions and provides near real-time payments between bank accounts within the UK.

- c) Bacs, which is a batch-based automated payment processing system which allows corporate customers and financial institutions to send or receive payments in the form of direct debits or direct credits.
7. The CMA has assessed the Merger against a frame of reference consisting of the provision of CIS to each of these schemes and FPS and Bacs combined.
 8. The Parties also overlap in the supply of gateway services (gateways are used to provide secure access to the central infrastructure) and data analytics (data analytics include a variety of services ranging from the provision of information which enables merchants, issuers and/or advertisers to adapt their operations in response to consumer activity, to fraud detection, or to consumer credit referencing). In addition, the Parties overlap in the provision of payment facilities (ie, ways for a payer to pay a payee).
 9. The CMA assessed the following competition concerns (theories of harm):
 - Horizontal unilateral effects on competition for the market for the supply of CIS to LINK.
 - Horizontal unilateral effects on competition for the market for the supply of CIS to Bacs and FPS, both separately and combined.
 - Horizontal unilateral effects resulting from a loss of potential competition between Zapp and Mastercard – customer-to-merchant payment services relying on FPS.
 - Vertical effects on ATM switching services.
 - Vertical effects on payment providers that compete with Mastercard and rely on FPS.
 - Vertical effects through the ability and incentive to reduce or prevent innovation in the supply of payment methods relying on FPS and Bacs.

Supply of CIS to LINK

10. The CMA found that VocaLink, Visa and Mastercard are the most credible bidders for the provision of CIS to LINK. The CMA considers that there is a real risk that LINK will not be able to obtain credible bids from a wider range of suppliers due to the incumbency and cost advantages that VocaLink and, to a lesser extent, Mastercard and Visa have over other possible bidders. In particular, the CMA found that there may be switching costs which would limit the credibility of other bidders. On a cautious basis and based on the evidence available to it, the CMA considers that the Merger results in a

reduction from three to two in the number of credible bidders for the supply of CIS to LINK. The CMA, therefore, concluded that the Merger results in a realistic prospect of a substantial lessening of competition (SLC).

Supply of CIS to Bacs and FPS, both separately and combined

11. The CMA assessed the loss of competition between VocaLink and Mastercard both in relation to the provision of CIS to each of FPS, Bacs and a possible simplified payments platform which would combine the two payment schemes. The CMA found that Mastercard was not a close competitor to VocaLink for the provision of infrastructure services to Bacs given that it has not competed to provide such services anywhere in the world. In relation to FPS, Mastercard was not found to be a close competitor either. The CMA also found that Mastercard did not have a particular advantage in the supply of these services. In addition, the CMA found that a large number of credible alternative providers exist who would compete against the Parties in future tenders for either the supply of CIS for each of Bacs and FPS separately or any future merged interbank payment system. Therefore, the CMA concluded that the Merger will not result in a realistic prospect of an SLC in the supply of CIS to each of FPS and Bacs or to the two payment schemes combined.

Loss of potential competition between Zapp and Mastercard

12. The CMA also assessed the effects of the Merger on the provision of payment facilities in the UK. VocaLink has developed a real-time payment solution called Zapp. Zapp is a mobile application that allows payers directly to pay merchants online or, in the future, at the POS by initiating a bank transfer from the customer's UK bank account to the merchant's bank account. It has very limited existing operations. However, the CMA assessed whether there was a realistic prospect of Zapp becoming a strong competitive force in the foreseeable future in the provision of payment solutions and, the extent to which, customers may be harmed by the loss of this potential constraint on Mastercard. While Mastercard clearly values Zapp as being a product which may drive future growth, the CMA found that the extent to which Zapp would develop to compete against Mastercard's card services absent the Merger was not certain and that other card service providers and a number of potential applications may compete with Zapp and Mastercard's card services in the future.
13. On the basis of this evidence, the CMA concluded that the Merger will not lead to a realistic prospect of an SLC through the loss of potential competition in the supply of customer-to-merchant payment solutions.

Vertical effects

14. The CMA found that the Parties' products and services interrelate on different levels of the supply chain resulting in vertical or diagonal relationships. The CMA has therefore considered the following vertical or diagonal theories of harm but has, however, found no realistic prospect of an SLC in either.

ATM switching services

15. VocaLink supplies the central infrastructure used by LINK. As both LINK and Mastercard provide ATM transaction services and are, therefore, competitors. The CMA assessed the merged entity's ability and incentive to degrade services provided by VocaLink to LINK or LINK's users, to prevent innovation within LINK, and to access and strategically use commercially sensitive data of LINK's users. The CMA has found that the merged entity does not have the ability or incentive to engage in any total or partial foreclosure strategies because of certain technical and contractual limitations, its small share in ATM switching and the fact that, in the event that it were able to foreclose, any potential losses would likely outweigh any potential gains and accordingly there is no realistic prospect of an SLC.

Payment providers competing with Mastercard and relying on FPS

16. The CMA also considered that as infrastructure provider for FPS the merged entity would provide input to entities that rely on FPS and compete with Mastercard. The CMA found that the merged entity would either have insufficient ability and/or no incentive to foreclose FPS' users that compete with Mastercard by degrading services or increasing the cost of FPS services. The CMA also found that the Merger will not give the merged entity sufficient ability and/or incentive to foreclose innovation by FPS or its users. The merged entity's ability is constrained by technical as well as contractual limitations. The CMA has further found that the merged entity has no incentive to engage in such strategy because of regulatory oversight, reputational damage and because of the existing competition for the provision of gateway services and CIS to FPS, which would result in significant losses to the merged entity, while appear limited.

Innovation in the supply of payment methods relying on FPS and Bacs

17. The CMA considered whether the merged entity would reduce or prevent innovation for either Bacs or FPS in the future, as a result of the Merger. The CMA believes that the merged entity will have no ability to prevent innovation. However, the CMA considers it possible that the merged entity might reduce

innovation by delaying or slowing down implementation of scheme driven innovations. In addition, any innovation that Bacs and FPS are planning in the course of the current contract would need to be passed on to the merged entity for implementation, thereby giving it access to the strategic plans of the schemes. However, the limited ability would result in insignificant gains compared to the losses to be incurred if such strategy were adopted. These losses would result from reputational damage, potential regulatory intervention, loss of or reduced likelihood of retaining the contracts for the provision of infrastructure to Bacs and FPS and potentially weakening its position vis-à-vis competitors. As a result the CMA has found that the merged entity has no incentive to stifle or prevent innovation.

18. The CMA has concluded that there is a realistic prospect of the merger resulting in an SLC in relation to horizontal unilateral effects on competition for the market for the supply of CIS to LINK. The CMA has concluded that there is no realistic prospect of the merger resulting in an SLC in relation to the loss of potential competition between Zapp and Mastercard or in relation to any of the vertical theories of harm.
19. With regard to its concerns relating to the horizontal unilateral effects on competition for the market for the supply of CIS to LINK, the CMA is considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (**the Act**). The Parties have until **11 January 2017** to offer an undertaking that might be accepted by the CMA. If no such undertaking is offered, then the CMA will refer the Merger pursuant to sections 33(1) and 34ZA(2) of the Act.

ASSESSMENT

Parties

20. Mastercard UK Holdco Limited is a subsidiary of Mastercard which is, in turn, a subsidiary of Mastercard Incorporated, a corporation listed on the New York Stock Exchange and headquartered in Purchase, New York, USA.
21. Mastercard is a financial services company with primary activities in the ownership and operation of branded four-party payment credit and debit card schemes (eg MasterCard, Maestro, and Cirrus)¹. Mastercard's revenue in 2015 was £[~~xxx~~] million, of which £[~~xxx~~] million was generated in the UK.

¹ According to the PSR 'Four-party schemes involve relationships between (i) the cardholder and the merchant; (ii) the merchant and the acquirer; (iii) the acquirer and the issuer; and (iv) the issuer and the cardholder. In a four-party scheme, the scheme rulebook sets the terms of dealing between the issuer and acquirer.'

22. VocaLink provides CIS to three UK interbank payment systems (namely, Bacs, FPS and the LINK). VocaLink is also developing new products such as Zapp (a mobile payments application which is expected to leverage banks' usage of FPS' real-time payments technology). VocaLink revenue in 2015 was £[X] million, of which £[X] million was attributable to the UK. [X] of its revenues relate to the provision of CIS to Bacs, FPS and LINK (together referred to as the **three UK schemes**).

Transaction

23. The Parties entered into a share sale and purchase agreement (**SPA**) pursuant to which Mastercard will acquire 92.4% of the issued share capital and voting rights of VocaLink. Completion of the proposed transaction is conditional upon clearance by the CMA.
24. A combined minority shareholding of 7.6% will be retained by eight of VocaLink's current shareholders (**Minority Shareholders**).² The SPA includes a [X].
25. Under the SPA the sellers receive a deferred consideration [X] (**Earn Out**).

Rationale for the Merger

26. Mastercard submits that the Merger would allow it to build on VocaLink's complementary interbank payment infrastructure capability, specifically in relation to real-time interbank payments. The merger would enable it to expand its offering beyond card-based payment processing in the UK and internationally into new business-to-business, person-to-person, retail payments, disbursement, and recurring bill payment flows.

Jurisdiction

27. As a result of the Merger, the enterprises carried on by Mastercard and VocaLink will cease to be distinct.
28. The UK turnover of VocaLink exceeds £70 million,³ so the turnover test in section 23(1)(b) of the Act is satisfied.

² Barclays, Lloyds Banking Group, RBS Group, Santander Group, Nationwide Building Society, Coventry Building Society, Yorkshire Building Society, and Bristol & West.

³ For VocaLink's turnover in 2015 see para. 22.

29. The CMA 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.
30. The Merger meets the thresholds under Council Regulation (EC) 139/2004 (the **EC Merger Regulation**) for review by the European Commission. The Parties submitted a reasoned submission to the European Commission on 12 September 2016 requesting pre-notification referral to the CMA under Article 4(4) of the EC Merger Regulation. The CMA informed the Commission that it agreed with the referral request and considered the Merger capable of being reviewed in the United Kingdom under the Act. On 17 October 2016, the European Commission announced its decision to refer the Merger to the CMA for review.
31. The preliminary assessment period for consideration of the Merger under section 34A(2) of the Act started on 18 October 2016 and the statutory 45 European Commission working day deadline for a decision is therefore 4 January 2017 (including an extension to the preliminary assessment period under section 34A(5) of the Act). The Merger was considered at a Case Review Meeting.⁴
32. The Parties informed the CMA that the Merger is not subject to review in any other jurisdiction.

Industry background, regulatory framework and the PSR

33. There are different payment systems in the UK, namely card schemes, LINK, FPS, Bacs, CHAPS⁵ and C&CCC.⁶ The first four systems are considered further in this decision.
34. PSPs are members of different schemes according to their individual requirements. The CIS provider that supplies the infrastructure to the schemes has to meet the demands set by each scheme. The three UK schemes all allow a model of either direct or indirect access to their central infrastructure. With direct access, the user links directly into the central infrastructure. Indirect access grants access through an intermediary, most commonly a sponsor bank but also other third parties such as aggregators.
35. The payment systems sector in the UK falls within the regulatory powers of the PSR. Bacs, CHAPS, FPS, LINK and Visa are, in addition, overseen by the

⁴ See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, from paragraph 7.34.

⁵ Clearing House Automated Payment System.

⁶ Cheque & Credit Clearing Company.

Bank of England. Bacs, CHAPS, FPS, and LINK are considered as systemically important under the Banking Act 2009.

36. The PSR has recently conducted a review of the ownership and competitiveness of payment system infrastructure provision (**PSR Review**). The PSR published in February 2016 its interim report and in July 2016 its final report 'Market review into the ownership and competitiveness of infrastructure provision' (**PSR Report**).⁷ The PSR found insufficient competition for the provision of payment system infrastructure.
37. As part of its investigation, the CMA has received evidence from the PSR regarding the technical operation of the relevant schemes, the PSR Review and the PSR Proposed Remedies.

PSR proposed remedies

38. The Merger has been proposed against the backdrop of the PSR Review. The PSR Report proposes a package of three remedies:
 - a) Competitive procurement remedy – to implement competitive procurement exercises for CIS, the PSR considers (i) issuing guidelines,⁸ (ii) requiring the scheme operators to develop and publish a procurement strategy, or either (iii) mandating that competitive procurement is undertaken by a specified date, with minimal elements of the process being specified by the PSR; or (iv) mandating a competitive procurement exercise, with additional aspects such as the process being specified by the PSR.
 - b) Enhanced interoperability remedy – entails the implementation of a common international messaging standard (ISO20022) for Bacs and FPS.⁹
 - c) Divestment remedy – considers the divestment by the four largest VocaLink shareholders of their interest in VocaLink. The PSR found that the four largest PSPs' common ownership and/or control of both the operators of the three UK schemes and VocaLink was likely to reduce the level of competition in the market for the provision of CIS. The PSR therefore considered requiring a full or partial divestment by these four largest PSPs of their shareholding in VocaLink. The proposed sale of

⁷ The PSR [Report](#) can be downloaded from the PSR's [website](#).

⁸ This means the PSR would set out best practice guidelines for procurement, but would not compel the industry to follow these.

⁹ The PSR considers simply mandating the adoption of the common messaging standard or mandating the adoption of the standard and in addition specifying the approach and process to be used, particularly during the transition period.

VocaLink to Mastercard anticipated this proposed remedy. The PSR therefore is not currently consulting on this remedy.¹⁰

39. The PSR is currently consulting on the effectiveness and proportionality of the first two remedies. At the time of this decision the consultation is still open.¹¹ Therefore, the exact form and impact of any proposed remedies is at this time unknown. Therefore, the exact form and impact of any proposed remedies is at this time unknown. However, the PSR Proposed Remedies indicate that it is realistic to expect some changes to the market in the future. Accordingly, this section will briefly outline how the CMA took into account the PSR Proposed Remedies based on the information currently available to it. The remedies are referred to in the competitive assessment section of this decision.

Competitive procurement remedy

40. With regard to the competitive procurement remedy, the CMA believes that it is realistic to anticipate changes in requirements on procurement and has taken this proposed remedy into account in its competitive assessment. The CMA believes, based on the evidence available to it, that competitive tendering is unlikely to take place before the expiry of the existing contracts for each of FPS, Bacs and LINK (and could take longer than this).¹² Depending on the scheme, competitive tendering may not take effect for three to five years.

Enhanced interoperability remedy

41. With regard to the enhanced interoperability remedy, the CMA has assessed the Merger on the basis that the implementation of a common messaging standard for Bacs and FPS to enhance interoperability is a realistic outcome. As the PSR did not consider this remedy appropriate for LINK, the CMA assessed the Merger on the basis that a common messaging standard is unlikely to be implemented for LINK.

Divestment of ownership remedy

42. The PSR has found it unnecessary to further pursue the proposed divestment of ownership remedy should the Merger go ahead. The CMA took this potential remedy into account in the counterfactual as, absent the Merger (or

¹⁰ If the Merger does not go ahead the PSR intends to consult on the divestment remedy.

¹¹ [Market review into the ownership and competitiveness of infrastructure provision: remedies consultation](#), 7 December 2016.

¹² The contacts for Bacs, FPS and LINK run at least until June 2019, December 2020, and April 2021 respectively.

any alternative voluntary change in ownership of VocaLink), the CMA considers that the imposition by the PSR of a divestment remedy in order to address the competition concerns identified is a realistic outcome.

The Payments Strategy Forum's recommendations

43. The CMA has also taken into account the Payments Strategy Forum (**PSF**) recommendations for the future of UK payments systems. The PSF was introduced by the PSR in March 2015. It is composed of industry and service-user stakeholders, and tasked with forming strategic priorities for the long-term development of payment systems.
44. The PSF published recommendations for the future of the UK payment systems on 29 November 2016 (**PSF recommendations**).¹³ These recommendations include two major changes: (i) a consolidation of the governance of Bacs, FPS, and C&CCC and (ii) the creation of a new payment infrastructure for these schemes, the so-called 'simplified payments platform'. The PSF recommendations foresee the tender for the simplified platform to be completed in the second half of 2020.
45. Third parties submitted that they anticipate that the legacy infrastructures of FPS, Bacs, and C&CCC will not transition immediately to the new simplified payments platform upon implementation but will operate in parallel to the simplified payment platform for a transitional period of approximately three to five years.

Counterfactual

46. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers the CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than prevailing conditions.¹⁴

¹³ 'A Payments Strategy for the 21st Century - putting the needs of users first.'

¹⁴ *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.5. The *Merger Assessment Guidelines* have been adopted by the CMA (see *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, Annex D).

47. The Parties submitted that the current competitive situation was not the appropriate counterfactual due to the PSR Report, the PSR Proposed Remedies,¹⁵ and technological advances and regulatory changes in the sector.
48. The Parties submitted that the CMA should adopt a counterfactual in which the alternative purchaser of VocaLink would ‘almost certainly be an industry participant’, because it did not consider a private equity or other investor to be a credible purchaser of VocaLink. In support of this submission, VocaLink mentioned that [REDACTED].
49. The CMA believes that, absent the Merger, there is a realistic prospect that a controlling interest in VocaLink would have been sold to an alternative purchaser who does not raise substantial competition concerns. The CMA notes the following evidence which demonstrates that absent the Merger, a controlling interest in VocaLink would be sold to an alternate purchaser:
- a) VocaLink’s submissions and internal documents regarding the sales process which show that [REDACTED].¹⁶
 - b) The PSR Report and the consideration of a divestment remedy.¹⁷
50. The sales process conducted by VocaLink demonstrates that many of the alternative purchasers identified would not raise substantial competition concerns. Since [REDACTED], VocaLink [REDACTED] from more than [5–15] companies regarding a potential merger or acquisition. The companies [REDACTED] included:¹⁸
- a) card scheme operators ([REDACTED]);
 - b) non-UK payment infrastructure operators (eg [REDACTED]);
 - c) technology providers (eg [REDACTED]); and
 - d) private equity investors (eg [REDACTED]).
51. The CMA notes that some of these enquiries were received whilst VocaLink was still looking for [REDACTED] VocaLink chose not to take them forward following its decision to [REDACTED].¹⁹ However, VocaLink did [REDACTED]. Therefore, the list of potential purchasers provided may not be exhaustive.

¹⁵ See above para 38 et seq.

¹⁶ VocaLink response to request for further information of 6 September 2016, Annex 1, Question 4, VocaLink’s response to the CMA’s request for further information of 3 November 2016, Q4.

¹⁷ See above para 42 et seq.

¹⁸ VocaLink response to request for further information of 6 September 2016, Annex 1, Question 4.

¹⁹ VocaLink response to request for further information of 6 September 2016, Annex 1, Question 4; VocaLink’s response to the CMA’s request for further information of 3 November 2016, Q4.

52. Even from the list of companies [X], there are a number which would not raise substantial competition concerns than Mastercard, in particular, those that have no existing products or services which overlap with VocaLink's (eg private equity firms or some of the foreign operators).
53. The CMA considers that there might be some benefits from a payments sector purchaser (eg synergies of scale and/or scope). However, [X] indicates that they could make a competitive offer. Furthermore, the CMA notes, that irrespective of the purchaser, VocaLink would retain the necessary experience for delivering payment systems infrastructure including delivery against its current contractual arrangements. In addition, the CMA has no indication that a private equity investor would per se be unacceptable to the regulatory stakeholders. Rather such an investor would have to be considered on a case-by-case basis.
54. Lastly, the CMA considers that there are alternative purchasers active in the payments sectors that would, if they were to purchase VocaLink, constitute a more competitive counterfactual than the purchase by Mastercard because they would only overlap with VocaLink in areas where there are no horizontal competition concerns and would not raise vertical competition concerns.²⁰ Based on VocaLink's submissions and its merger investigation, the CMA concludes that there are a number of alternative purchasers who would not raise substantial competition concerns.²¹
55. Therefore, the CMA considers that the relevant counterfactual in this case is one in which VocaLink is acquired by an alternative purchaser which does not raise substantial competition concerns.

Frame of reference

56. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merger parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.²²

²⁰ Ie, the alternative purchasers considered would not be close a competitor for the provision of CIS to LINK.

²¹ The CMA contacted companies listed by VocaLink as potential buyers and discussed possible limitations with the Bank of England.

²² [Merger Assessment Guidelines](#), paragraph 5.2.2.

Overlap products and services

57. The Parties submitted that their activities are very different and largely complementary. The Parties overlap, however, in the area of ATM switching services (ie the processing and settlement of ATM transactions) and, to a lesser degree, gateway solutions and data analytics.
58. Mastercard provides ATM switching services in relation to:
- a) foreign- and UK-issued Mastercard branded credit cards;
 - b) UK-issued Mastercard and Maestro branded debit cards when used in independent non-LINK UK ATM systems; and
 - c) foreign-issued Mastercard and Maestro branded debit cards.
59. Mastercard does not currently provide infrastructure services to real-time (FPS and LINK) payment systems but has bid for contracts to FPS and LINK in the past. Mastercard does not provide batch based infrastructure services anywhere in the world and has not bid to supply Bacs in the UK.²³ The CMA found that Mastercard is a competitor for FPS and LINK given past bids and that Mastercard is a potential bidder for Bacs (especially given the PSF recommendation for a simplified payments platform which would bring together FPS and Bacs (see paragraph 44)).
60. VocaLink provides the central infrastructure for three of the UK's interbank payment systems (Bacs, FPS and LINK) and also provides ATM switching services as well as gateway solutions and data analytics.
61. The Parties are also active in the provision of payment facilities. Mastercard is a provider of payment facilities internationally and in the UK: Mastercard's debit and credit card products allow a payer directly to pay a merchant at a POS or online and to make recurring payments to a payee.
62. VocaLink has developed the mobile application Zapp that allows a payer directly to pay a merchant online or, in the future, at the POS.²⁴ The CMA considers that, given its functionality and intended purpose, this tool competes with other payment facilities including debit and credit card products.
63. Therefore, the Parties overlap in the following areas:
- a) Supply of CIS for interbank payment systems.

²³ Batch payments are aggregated instructions for one payment to/from different payees/payers.

²⁴ The underlying payment scheme used for Zapp transactions is FPS.

- b) Supply of gateway solutions and data analytics.
- c) Provision of payment facilities.

64. Each of these overlap areas is discussed further below.²⁵

Vertical and diagonal relationships

65. In addition to the activities in which the Parties overlap, their products and services interrelate on different levels of the supply chain resulting in vertical or diagonal relationships:
- a) VocaLink supplies the central infrastructure used by LINK, ie provides an input for LINK's offering. LINK and Mastercard compete in ATM transaction services so, as a result of the Merger, Mastercard will provide an input to one of its competitors downstream.
 - b) VocaLink also provides the central infrastructure used by FPS and Bacs. Some payment services providers that compete with Mastercard downstream rely on FPS and Bacs to provide their services and thus rely on the use of VocaLink's central infrastructure. Therefore, as a result of the Merger, Mastercard will provide an input to its competitors downstream that use FPS and Bacs.
66. The different areas in which the Parties' activities are related along the payment system value chain and the effect of the Merger on these activities will be further considered below.

Central infrastructure services to interbank payment systems

Product scope

67. The CIS provided to interbank payment systems bundle software and hardware provision, secure telecommunications networks and operating environments to support the clearing and settlement of payments.²⁶ The service also includes other ancillary services for the secure and reliable running of a payment infrastructure. CIS reach from the set-up of an infrastructure to its operation, maintenance, and further development.

²⁵ See para. 67, 97, and 101 respectively.

²⁶ [Market review into the ownership and competitiveness of infrastructure provision.](#)

Previous cases

68. In the OFT's *LINK Interchange Network/Voca* (2007) decision,²⁷ evidence obtained from the Parties and third parties indicated that services offered by LINK (LINK scheme) and Voca (Bacs scheme) are not demand-side substitutes for final consumers or upstream customers. From a supply-side perspective, the evidence obtained by the OFT was mixed. The OFT did not conclude on the precise scope of the product frame of reference in that case.

Demand-side substitution

69. The CMA considers that there is limited demand-side substitutability between the infrastructure services supplied to the three UK schemes because the schemes' current requirements and specifications are distinct, and the services provided by VocaLink are bespoke and to a significant degree not interchangeable. In turn, the services the schemes provide to their members are also distinct. For instance, LINK uses a different messaging standard than Bacs and FPS. Furthermore, the fact that most of these schemes' customers are members of all three schemes indicates that the services they provide are not substitutes and that the banks use the different schemes for different services.²⁸

Supply-side substitution

70. The CMA assessed whether to aggregate narrower relevant product markets based on supply-side substitution.²⁹ VocaLink supplies infrastructure services to three UK schemes and Mastercard has competed for contracts to two of the three UK schemes and therefore the CMA has assessed whether suppliers can easily switch to supply each of the schemes.

Parties' submission

71. The Parties submitted that there was a significant degree of supply-side substitutability in the provision of CIS to interbank payment systems. The Parties consider that subject to the level of investment required, providers of infrastructure services for certain payment systems were able to, and did, compete to supply infrastructure service contracts to other types of payment systems. The Parties also gave examples of some commonalities in the

²⁷ [ME/2928/07](#).

²⁸ The PSR stated in its final report that: 'The available evidence suggests that the competitive constraint from rival payments systems that Bacs, FPS and LINK face is limited. All the large PSPs participate in all three schemes, suggesting that there are limits to the degree of substitutability between what these three payment systems offer and what payment products and services other payment systems offer', paragraph 4.18.

²⁹ See [Merger Assessment Guidelines](#), from paragraph 5.2.17.

provision of CIS to different interbank payment systems to illustrate some level of supply-side substitutability between the supply of CIS to different interbank payment systems.³⁰

Third party views

72. Some potential suppliers of CIS to interbank payment systems in the UK indicated that they could supply infrastructure services to more than one of the three UK schemes. They also confirmed the Parties' submission that they may enter into partnerships for specific tenders if they lacked relevant expertise for one of the schemes.
73. However, third party evidence indicates, overall, that the set of potential competitors is somewhat different for LINK compared with Bacs and FPS. Five entities were identified (either named by the schemes or expressed their interest when asked by the CMA) as potential suppliers to more than one scheme. Two parties were identified as potential suppliers to all three schemes. Three potential suppliers stated that they are not interested in providing CIS to LINK, however, two of those expressed interest in providing CIS for Bacs and FPS while the third had no interest in providing services to any of the schemes.
74. The PSR Report states that operators' and direct PSPs' views about potential competitors differ between the three payment systems.³¹ The PSR also mentioned in its report that it had received comments stating that some providers might not be 'suitable' to provide CIS to LINK. Reasons included: incomplete functionality required for LINK CIS; conflict of interests in their business strategies; or no established connectivity with PSPs in LINK.

CMA assessment

75. Based on the evidence outlined above the CMA considers that there is limited demand-side substitutability between the three UK schemes. The CMA also considers that the set of potential suppliers for the schemes is different, in particular for LINK as opposed to FPS and Bacs. In other words, the degree of supply-side substitutability is lower for LINK than for FPS/Bacs.
76. The CMA also notes that the PSF has recommended a simplified payments platform (ie Bacs and FPS merger), while LINK is expected to continue as a standalone scheme. The timeframe for implementation of a simplified payments platform is, however, uncertain. In addition, there remain

³⁰ For example they use the same hardware and some pieces of software for more than one infrastructure.

³¹ See PSR Report, paragraph 4.106.

differences in the characteristics of FPS and Bacs and the suppliers available or willing to supply them.

77. The CMA does not consider that there is sufficient evidence to aggregate the supply of CIS on the supply-side for all three schemes.
78. The CMA, therefore, considered the effects of the Merger on a separate product frame of reference for the supply of CIS to each scheme (Bacs, FPS and LINK). The CMA has also considered, taking account of the PSF recommendation for a simplified payments platform, the effects of the Merger on the supply of CIS to FPS and Bacs together.

Conclusion on product scope

79. The CMA has considered the effects of the Merger in the following product frames of reference:
 - a) on a narrow basis, competition for the supply of CIS to each of LINK, Bacs and FPS; and
 - b) on a wider basis, competition for the supply of CIS to both Bacs and FPS; and separately to LINK.
80. However, it was not necessary for the CMA to reach a conclusion on the product frame of reference for Bacs and FPS, since, as set out below, no competition concerns arise on any plausible basis with regard to these two schemes.

Geographic scope

Parties' submission

81. The Parties submitted that although these are UK contracts with oversight by UK based regulators which is synonymous with a national market, international suppliers (some with a UK presence) compete for contracts for the provision of CIS to UK interbank payment systems and pose an increasingly strong cross-border competitive constraint. They also said services could be supplied from overseas.

Previous cases

82. In its *LINK Interchange Network/Voca* (2007) decision, the OFT considered the relevant geographic market to be the UK.

83. The European Commission has not assessed the provision of CIS to interbank payment schemes. However, it has analysed various downstream markets for payment processing services.³² While the exact definition has ultimately been left open in these cases, the European Commission considered the markets national in scope, due to various national characteristics.

CMA assessment

84. The three UK schemes each procure CIS in the UK for their members. The geographic scope of these schemes is national as their purpose is to provide interbank connection between PSPs in the UK in order to facilitate payments within the UK. Moreover, the schemes' rules are specific to the UK and regulatory oversight lies with UK authorities. From a demand-side perspective, the location of the procurement decision and the location of the provision of the services are within the UK. Some of the goods and services that an infrastructure provider supplies are by their nature specific to the location of the customer (eg telecommunication networks) whilst others are not tied to a certain location (eg software). While, there are transnational regulations in place, several regulations are specific to the UK. Further, the infrastructures are designed to the specifications of each schemes' requirements in the UK, for example by using specific message standards, being set up in Pound Sterling or settling through the Bank of England.
85. The PSR Report named a number of potential overseas suppliers for the three UK schemes. However the mere fact that international providers compete for the contracts in the UK is not sufficient evidence that the geographic market is wider than national. Specifically, this market is characterised by very specific UK based requirements in compliance with the UK's regulatory framework. In short, supply is to be met in the UK for the specific UK schemes, pointing strongly to a national market.

Conclusion on geographic scope

86. For the reasons set out above, the CMA has considered the impact of the Merger for the supply of CIS for the three UK schemes as set out in para 80 in the UK.

³² M.4316 *ATOS Origin / Banksys / BCC*, of 29 September 2006 while ultimately left open, strong indication for a national market regarding processing of payment cards was found, see also M.2567 *Nordbanken / Postgirot* of 8 November 2001, M.7241 *Advent International / Bain Capital Investors / NETS Holding* of 8 July 2015, M.7711 *Advent International / Bain Capital / ICBPI* of 16 September 2015.

87. However, with regard to FPS and Bacs, it was not necessary for the CMA to reach a conclusion on the geographic frame of reference, since, as set out below, no competition concerns arise on any plausible basis with regard to these two payment schemes.

Supply of ATM transaction switching

88. The provider of ATM transaction switching services routes ATM transactions between ATM operators and the relevant card issuing institutions. This service is required to enable so-called shared transactions. Shared transactions allow customers of a card issuer (eg a bank) to use an ATM that is not deployed by their card issuer (for example, if Bank A's customer wishes to withdraw cash from Bank B's ATM).
89. Shared transactions are of particular importance for ATM operators that do not issue ATM cards, as their ATMs need to connect to card issuers to allow for the withdrawal of money and the performance of other services at their ATMs. The provision of ATM switching services is a source of revenue, in particular for independent ATM deployers.

Product scope

90. Mastercard offers ATM switching infrastructure through its proprietary network. Mastercard can be considered as a vertically integrated provider of this service to downstream ATM operators.
91. VocaLink operates the LINK ATM switch and as such provides ATM switching services to LINK. VocaLink, therefore, supplies the essential input into LINK's offering to downstream ATM operators.
92. In addition to Mastercard and LINK, Visa Europe also offers ATM switching services. These three schemes currently compete for the supply of ATM switching services.
93. Third party evidence indicates a degree of demand side substitution between the ATM transaction switching services offered by Mastercard, Visa and LINK, with some examples of customers switching between the different service providers.
94. The CMA, therefore, assessed the effects of the Merger by reference to the supply of ATM switching services.

Geographic scope

95. The cards processed via LINK are cards issued in the UK. The messaging system and the rules used by LINK are specific to the UK. Furthermore, ATM deployers need to be connected to a physical ATM switching network within the UK. Cards that are processed via Mastercard's ATM switch might also be international and the messaging system is proprietary to Mastercard, but a physical connection to a national ATM is still required. These factors indicate that the geographic scope for international and national ATM switching services differs.
96. On a cautious basis, the CMA assessed the effects of the Merger on the supply of ATM switching services in the UK. However, the CMA did not have to conclude on the precise geographic frame of reference since the Merger does not give rise to a realistic prospect of an SLC irrespective of the geographic scope.

Gateway solutions and data analytics

97. The Parties both provide gateway solutions and data analytics services.
98. Gateways are used to provide secure access to the central infrastructure. They are developed in-house by the PSPs or are provided by third parties. Data analytics include a variety of services ranging from the provision of information which enables merchants, issuers and/or advertisers to adapt their operations in response to consumer activity, to fraud detection, or to consumer credit referencing.
99. The CMA has not received expressions of concerns in relation to gateway solutions or data analytics. The CMA found that there is limited competition between Mastercard and VocaLink for the supply of gateway services since Mastercard provides gateway solutions only for access to its own card transaction processing network and does not provide gateway solutions for access to the interbank payment systems. Furthermore, the evidence available to the CMA indicated that there was a significant amount of competition for the provision of gateway solutions to individual payment systems (eg ACI, Swift, First Data, Cardtronics, Wincor are potential suppliers). In relation to data analytics the CMA as also found limited competition between Mastercard and VocaLink as VocaLink's services are based on the data received through the operation of the payment schemes' infrastructure whereas Mastercard's data is based on its card scheme. VocaLink's revenue from data analytics is a fraction of that of other providers which are numerous (eg Experian, IBM, Equifax, CallCredit).

100. The CMA, therefore, believes that the Merger does not give rise to a realistic prospect of an SLC in relation to the supply of gateway services and data analytics.

Alternative payment methods to Mastercard's card payment services

101. For the purpose of its assessment of the effects of the Merger on the potential competition between Mastercard and Zapp and of the vertical effects of the Merger, the CMA has considered the extent to which the payment services offered by Mastercard and other payment facilities compete, in particular, to what extent in how far they are alternatives to one another in customer-to-merchant payments and recurring payments.

Product scope – alternative payment methods

Customer-to-merchant payments online and at the POS

102. A consumer can use some or all of the following methods to pay a merchant at the POS: card services (ie credit, debit and pre-paid cards), cash (which is dependent on the ATM network that uses LINK, Mastercard or Visa ATM switching services), cheque³³ or e-money (ie funds stored electronically on a loyalty card or in an e-wallet).³⁴ Zapp is also intended to be used at POS, in the future however, this option is not yet available. Card services run on the card schemes' proprietary networks. Funds can be transferred to an e-wallet either via credit/debit card or by bank transfer. The latter utilises the Bacs or FPS infrastructure.
103. For online payments the possible methods are similar except that cash and cheques are not usually practicable means of payment and that bank transfers from the customer's bank account into the merchant's account are possible.
104. From the merchant's perspective the different methods vary in costs, settlement time and also acceptance by their customers.

Me-to-me transactions

105. For 'me-to-me' transactions, such as funding an e-money account or an ISA account, consumers can use a bank account transfer (relying on FPS), set up a direct debit (relying on Bacs) or use cards.

³³ Cheques are still accepted by some retailers.

³⁴ For higher value transactions a bank transfer might also be used in an offline setting.

Recurring payments

106. Recurring payments such as utility bills, council tax, gym memberships or subscriptions can be paid either by setting up a direct debit, standing order (relying on FPS) or providing credit or debit card details.

Mastercard's competition with different payment methods

107. Mastercard provides card services as a means for a payer to pay a merchant. VocaLink's product Zapp is also aimed at providing a new, alternative, method for customer-to-merchant payments. Consequently, there will be a horizontal overlap between the Parties with regard to these payment facilities.
108. VocaLink as a provider of CIS for the three UK schemes provides input for other payment methods relying on FPS (customer-to-merchant online or POS payments), Bacs (recurring payments) or LINK (cash).
109. Therefore, there are also (direct or indirect) vertical and diagonal relationships between VocaLink and the different payment facilities offered downstream.

Third party views

110. Third parties told the CMA that there is a range of payment methods available to intermediaries and end-consumers and that these comprise cash, direct debits/credits, payments relying on FPS, card payments, and e-money payments, depending on the type of recipient and sender (eg consumer, retailer), the time required, and the type of transaction (eg push or pull).³⁵
111. A large number of third parties also mentioned that, depending on the intended use, different payment methods currently compete or will (increasingly) compete in the future. Some of these third parties identified specific scenarios in which payment methods that rely on the payment infrastructures supplied by VocaLink are substitutable with card payments. For example, an e-money account can be funded using either a direct bank transfer or a credit/debit card; a utility bill can be paid by debit/credit card or bank transfer.
112. The CMA also received third party submissions with examples showing how cards and the other recurring payment methods are both offered and used as alternatives for the same type of payments. Third parties also submitted that

³⁵ 'Pull' refers to payee initiated payments, ie, debit transfers, while 'push' refers to payer initiated payments, ie, credit transfers.

automatization had reduced the shortcomings cards have had with regard to expiry, as reminders could now easily be sent ahead of the expiry date.

CMA assessment

113. The Parties submitted that while there was significant demand-side substitutability between Bacs and FPS based customer-to-merchant payments and debit cards, these payment methods were only to a limited extent substitutes for credit card payments. A number of Mastercard's internal documents show that [REDACTED].³⁶
114. The CMA also notes that Mastercard submitted to the European Commission³⁷ that card issuers (and acquirers) compete with all other payment systems and forms of payment, including cash and cheques.³⁸
115. The CMA found multiple points of overlap between card payments, both credit and debit, and, in particular, between payment methods relying on FPS. These overlaps vary to some extent depending on whether a consumer pays at a POS, online, funds an own account or sets up a recurring payment. The CMA, nevertheless, considers that the various payment methods may exert competitive pressure on each other.
116. For customer-to-merchant payments, both online and at POS, card payments are widely used and their usage is further increasing (in particular as some of the new or digital payment methods such as e-wallets also rely to a great extent on cards). The CMA believes, based on the internal documents reviewed and its market testing, that alternative payment methods relying on FPS, such as Zapp, have the potential to become closer substitutes to card payments (both debit and credit) than is presently the case.³⁹
117. The Parties submitted that there may only be a limited degree of substitutability between recurring payments made by either standing order or direct debit and those made by debit or credit cards, as cards had expiry dates and may get lost, in both cases resulting in periodic replacements. In addition, the Parties refer to particular benefits of direct debit such as the Direct Debit Guarantee. The CMA found however instances in which card payments did replace direct debit or in which both would be offered interchangeably.

³⁶ Confidential Annex D20 [REDACTED]; See also Confidential Annex 13(vii) [REDACTED], in particular page 14, Confidential Annex 9(ii) [REDACTED].

³⁷ In relation to EC case COMP/34.579.

³⁸ In its submission to the EC, [REDACTED].

³⁹ Zapp in this regard differs from most other emerging payment methods as it relies on FPS and is not simply a way of storing credit/debit card information.

118. Without concluding on the exact delineation of the product frame of reference, based on the evidence outlined above, the CMA considers, for the purposes of the assessment of this Merger, that card payments compete to some extent with online, POS and recurring payment methods relying on FPS and/or Bacs. Therefore, on a cautious basis, the CMA assessed the effect of the Merger on the supply of customer-to-merchant payment services and recurring payment services.

Geographic scope

119. The payment schemes (including card schemes) are UK regulated, and their members are mostly PSPs in the UK, as are most of the PSPs' customers.
120. The CMA notes that customers of the products and services that rely on the payment schemes may be located outside the UK (eg overseas customers of UK PSPs) and foreign businesses and customers may use the products and services from within the UK, however this has no bearing on the frame of reference.
121. The CMA therefore assessed the effect of the Merger on the users of payment methods that compete with Mastercard in the UK.

Conclusion on frame of reference

122. For the reasons set out above, the CMA has considered the impact of the Merger in the following frames of reference:
- a) The supply of CIS for each of LINK, bacs and FPS in the UK.
 - b) The supply of CIS to both Bacs and FPS in the UK.
 - c) The supply of ATM switching services in the UK.
 - d) The supply of customer-to-merchant payment services relying on FPS in the UK.
 - e) The supply of recurring payment services in the UK.

Competitive assessment

Horizontal unilateral effects

123. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or degrade quality on its own and without

needing to coordinate with its rivals.⁴⁰ Horizontal unilateral effects are more likely when the merger parties are close competitors.

124. The CMA has assessed the following horizontal unilateral effects theories of harm in the following markets:

- a) The supply of CIS for LINK in the UK.
- b) The supply of CIS to FPS in the UK.
- c) The supply of CIS to Bacs in the UK.
- d) The supply of CIS to a simplified payments platform in the UK.
- e) The supply of customer-to-merchant payment services in the UK.

125. Each of these theories of harm are assessed in detail below.

Horizontal unilateral effects on competition for the market for the supply of CIS to LINK

126. The CMA assessed with this theory of harm the loss of competition between Mastercard and VocaLink for the supply of CIS to LINK and whether this may raise competition concerns. The CMA first assessed the closeness of competition between VocaLink and Mastercard for future contracts to supply CIS to LINK. Taking into account the PSR's proposed remedies, the CMA then assessed the extent of the constraint from other potential suppliers; that is, the extent to which other bidders for any future LINK contract could constrain the merged entity in light of any advantages that VocaLink and Mastercard may have over other potential suppliers. The CMA then also assessed wider conditions of competition by analysing the barriers for other potential suppliers to compete effectively for LINK's CIS contracts, since even with the a non-restrictive set of requirements, the scheme may face a small number of bidders when, for instance, switching costs are high. The removal of a close competitor and an insufficient number of credible competing offers could worsen the outcomes achievable for LINK in future competitive tenders.

127. The current contract for the supply of CIS to LINK was awarded in 2015. It has a break clause that can be exercised in April 2019, in which case the contract will end in April 2021. To award this contract LINK had [redacted] global providers evaluated of which only [redacted], VocaLink, Mastercard, [redacted], were considered to be able to fulfil the mandatory criteria. [redacted] submitted an offer and VocaLink

⁴⁰ *Merger Assessment Guidelines*, from paragraph 5.4.1.

was awarded the contract. According to LINK, Mastercard came [X] in its evaluation and [X].

Parties' submissions

128. The Parties submitted that they were not each other's closest competitors for the supply of CIS to LINK because first, they consider Visa to be an equally close competitor and second, they consider that the previous RFI LINK tender was not fully competitive and not a good indicator of competition for future tenders. In this regard, the Parties identified thirteen potential competitors for the provision of CIS to LINK and submitted that other providers of ATM switching services are likely to be closer competitors to VocaLink than Mastercard. The Parties further submitted that neither Mastercard nor Visa would have a material advantage over other bidders and referred, in particular, to entry costs, with which the CMA understands to mean the cost a new provider has to incur in order to provide the requested service. These costs might among others include switching costs.

Third party views

129. A number of third parties expressed strong concerns regarding the Merger and its effect on potential future tenders for the supply of CIS to LINK. These included the following interrelated themes:
- a) The number of potential bidders for future contracts. Third parties stated that the Merger would lead to a reduction from three to two suppliers based on LINK's latest procurement exercise, which they considered would be representative for future competitions as well.
 - b) The ability of the merged entity to raise rivals' costs or to obtain a competitive advantage over other providers. This relates to the ownership of the LIS5 messaging standard used for LINK. These third parties are concerned that a new provider would either require a change of messaging standard, thereby raising the switching costs for the LINK members, or would have to license the rights to use the standard as VocaLink is the owner of the relevant IP rights. A member of LINK also estimated that if LINK were to change to a different messaging standard, the cost of switching to the new messaging standard would be a very significant part of its switching costs.

c) Concerns regarding the retained Minority Shareholding and Earn Out⁴¹ provisions agreed between Mastercard and the Minority Shareholders of VocaLink. This was based on the assumption that those provisions may put potential competitors of VocaLink at a disadvantage in the next tender for the supply of CIS to LINK, as VocaLink's shareholders that are also members of LINK may benefit from LINK continuing to use VocaLink for the supply of CIS.

130. With regard to this last concern, the CMA considered whether the Earn Out and the fact that some members of LINK retain a shareholding in VocaLink (see paragraph 25 above) may further reduce competition in the provision of CIS to LINK. While some third parties were concerned about these provisions, the Parties submitted that this should not give rise to any merger specific concerns as [redacted]. In any event, the CMA does not believe that these provisions play a material role in the awarding of the LINK contract, because the shareholding is too small to influence the Minority Shareholders' incentives.

131. Other views and comments of third parties are set out in the competitive assessment below.

Closeness of competition

132. The CMA, as a starting point, considered the evidence on the past tender, internal documents and third party submissions to assess which companies may be credible bidders for the supply of CIS to LINK. Each of VocaLink, Mastercard and Visa has currently the ability to provide CIS to LINK.

133. The award of the current contract indicates that the Parties and [redacted] are close competitors. LINK submitted that to award the current contract it assessed a number of potential providers against a set of criteria. For this assessment LINK commissioned a study evaluating a number of companies operating in the payment sector of which only [redacted], VocaLink, Mastercard, [redacted] were considered to be able to fulfil the mandatory criteria. LINK issued an RFI to these [redacted] companies. Only [redacted] submitted an offer. The study notes that [redacted] and Mastercard have an advantage versus other potential suppliers in relation to the provision of physical network connectivity.

134. [redacted] came [redacted] and [redacted] in this contract award demonstrating that [redacted] is a particularly keen competitor for this contract.

⁴¹ See above para 25.

135. VocaLink's internal documents also show that VocaLink considers the [REDACTED]⁴² [REDACTED].
136. Mastercard and Visa both have existing connectivity to ATMs in the UK through their card scheme infrastructure and are already connected to most LINK members. This reduces connectivity costs and the internal cost of the individual LINK members (the cost advantage of MasterCard vis-à-vis potential competitors is discussed in detail in paragraphs 139 below).
137. Mastercard in its response to LINK for the LINK tender stated that [REDACTED].⁴³
138. These documents further state that Mastercard's solution would [REDACTED]. In other documents in response to LINK's request for information, Mastercard stated that: [REDACTED]; and that [REDACTED].
139. An internal document of Mastercard estimated the connectivity price for a new customer at €[REDACTED]. Mastercard submitted that the costs to Mastercard would be €[REDACTED] per connectivity to be established.⁴⁴ In case of a new provider with no existing connectivity (and assuming the same costs for the remaining members) the cost would arise for each member. Based on this estimate, the cost advantage that VocaLink would have over other bidders is around €[REDACTED] million (€[REDACTED] million based on price).⁴⁵ Around €[REDACTED] million (€[REDACTED] million based on price) would be the fixed cost for establishing connectivity. The remainder is variable and assumed to be incurred for [REDACTED]. As Mastercard has established connectivity to all but two LINK members, the costs would arise only twice, giving it an advantage of approximately €[REDACTED] million (or €[REDACTED] million based on price) over other bidders (of which €[REDACTED] million are fixed for establishing connectivity).
140. With regard to the switching costs of each LINK member, as stated above, third party respondents could not provide an estimate of the cost of switching without the details of the new infrastructure provider's requirements. Most respondents emphasised however that they would expect the costs to be lower if a switch occurred to Mastercard or Visa as opposed to an alternative provider because they have existing connectivity to Mastercard and/or Visa and their internal systems are therefore already set up for these providers.
141. For the reasons set out above, the CMA considers that VocaLink, Mastercard and Visa, have distinct advantages over other potential competitors which

⁴² [REDACTED].

⁴³ [REDACTED].

⁴⁴ €[REDACTED] for the connection, €[REDACTED] for backup plus a variable estimate to be incurred over a period [REDACTED] costing a further €[REDACTED].

⁴⁵ Assuming €[REDACTED]/€[REDACTED] per connection.

support their position as most likely options for the supply of CIS to LINK and that they are therefore the only or at least, the closest potential competitors in the supply of a CIS to LINK. The loss of competition between VocaLink and Mastercard therefore raises prima facie competition concerns and the CMA assessed whether there are competitive constraints or other factors which would mitigate this loss of competition.

Competitive constraints – alternative suppliers

142. The CMA went on to consider whether there any other potential providers who could be in a position effectively to constrain the merged entity post-Merger. In the context of a competitive tender, the CMA assessed the extent to which alternative providers have both the technical capability and the economic incentive to constrain the merged entity.
143. Mastercard submitted a list of 13 alternative providers of which the CMA contacted ten and received nine responses. Only four of these expressed an interest in participating in the next tender.⁴⁶ Five of the companies contacted stated they would not bid in a tender for the provision of CIS to LINK⁴⁷ or that they did not consider themselves as competitors but rather customers or suppliers to VocaLink.⁴⁸
144. The CMA also notes that a number of providers based on LINK's previous procurement exercise did not meet all of the requirements and [REDACTED]. That said, it would be possible for other providers to improve their capability or partner with other providers in order to bid. As such, the evidence on the technical capability of alternative suppliers is mixed but there are suppliers in or outside the UK with the requisite technical capabilities.
145. As noted above, the CMA assessed with alternative suppliers whether they would be likely to bid for a contract in the future. The CMA notes in this regard that LINK has not yet prepared any tender specifications so alternative suppliers are unable to predict with certainty whether they would, in fact, bid or whether their bid would be credible. However, taking account of this caveat, the CMA received the following evidence.
146. A small number of the payment infrastructure providers that were identified by the Parties as potential competitors for the next LINK contract told the CMA that they would be interested in providing CIS to LINK. Some of these providers said that their interest would depend on the contract specifications

⁴⁶ [REDACTED].

⁴⁷ [REDACTED].

⁴⁸ [REDACTED].

set out in the next tender – which at this stage – are unknown. The PSR also received submissions from providers in the context of its PSR review which noted that 5 providers would be interested in providing CIS to LINK. Other operators identified as competitors for the next LINK contract stated that they do not have the capabilities for the provision of infrastructure services for ATM operations. In particular, three potential competitors identified by the Parties (including [X]) stated that they are not interested in bidding to provide CIS to LINK or that it is not part of their core business to provide these services. Two potential competitors saw their ability to compete in future contracts limited as a result of the Merger. Two payment infrastructure providers identified only Visa, Mastercard and VocaLink as potential competitors to supply CIS to LINK.

147. The CMA considers, based on the evidence above, that there are a limited number of potential competitors who would be willing and technically capable to supply the services and bid for the LINK contract. The CMA, therefore, considered whether it was realistic that these potential competitors would be able to bid competitively for a future LINK tender and therefore constrain the merged entity and outweigh the loss of competition occasioned by the Merger. In doing so, the CMA has assessed the competitive conditions for the future LINK tender and the costs of switching to a new provider.

Competitive conditions for the future LINK tender – PSR Report and submissions

148. The CMA notes that the PSR has reviewed in part the competitive conditions in the supply of CIS to LINK in the context of the PSR Review and in its remedies consultation. The PSR has proposed to require LINK to conduct a full procurement process ahead of the award of the next contract in 2021.
149. The PSR Report states that most PSPs already have established technical connectivity to either Mastercard and/or Visa noting that the existing connectivity reduced the cost and risks of switching from VocaLink as the infrastructure provider to either of these companies.⁴⁹
150. The PSR also stated that ‘the LINK bespoke messaging standard makes it more difficult for alternative providers to effectively compete to provide infrastructure services for LINK – representing a barrier to entry’. However, the PSR explained that the LINK messaging standard would not represent a high barrier to entry because it considered the cost that a new provider would

⁴⁹ See footnote 89 of the PSR Report, which reads ‘In LINK, most PSPs have established technical connectivity to MasterCard and/or Visa, which reduces the cost and risks of switching to either of these companies if they were to replace VocaLink as central infrastructure provider.’

incur to use the standard not to be significant when compared with other relevant costs and fees.⁵⁰ In addition, the PSR also states that the vast majority of LINK members already had an established connection with Visa and Mastercard core infrastructures.⁵¹

151. In relation to future competitive conditions for the LINK contract, the Parties submitted that there are changes to the industry that will not yet be apparent to the competitors for the next LINK contract and would, if known, encourage bids from them. These changes include: (i) LINK separation from VocaLink, (ii) the fact that the latest contract between LINK and VocaLink includes [redacted],⁵² and (iii) the PSR's remedy requiring LINK to conduct a full procurement process ahead of the award of the next contract. The Parties stated that, because of these changes, the most recent LINK tender is not indicative of the process that LINK will follow when it next tenders the contract and that LINK and its members' interests benefit from maximising the number of bidders.
152. Respondents to the CMA's investigation submitted that the cost incurred by LINK members if the infrastructure provider were to change, would play a significant role in the selection of a winning bidder for the future LINK tender. The CMA contacted several LINK scheme members who confirmed that they would expect costs to be lower if a switch was to Mastercard or Visa rather than another provider. The estimates of the likely cost differentials varied.

Assessment of barriers to switching to a new provider

153. Consequently, the CMA assessed the extent to which potential competitors would face entry or switching barriers which would reduce their ability to bid competitively for a future LINK tender.
154. The CMA assessed the costs of switching to a new infrastructure provider with a similar infrastructure to the one currently provided by VocaLink would be higher than the cost of switching to Mastercard.
155. The CMA understands that a new processor would provide its own network infrastructure for the support of the LINK network traffic. A temporary interconnect would have to be created between VocaLink and the new processor to support the migration between the two processors. The new processor would have to design and implement a new network in accordance with LINK security requirements and service level agreements. In addition, the new processor would have to engage with each LINK member to deploy

⁵⁰ See PSR Report, paragraph 4.240.

⁵¹ See PSR Report, paragraph 4.290.

⁵² Such as for example the agreement to [redacted].

resilient leased lines into each Link member's data centre, gain access to the member's data centre and install necessary equipment. The new processor would also have to configure service and update security access controls on the members' firewalls and conduct connectivity testing between its infrastructure and each LINK member.

156. The CMA found a range of estimates of the cost of a new provider entering the supply of CIS to LINK.
157. As set out above in paragraph 139, Mastercard, for the purpose of the last tender, estimated that the connectivity cost per LINK members was €[REDACTED] per connectivity to be established.
158. VocaLink in a study prepared for discussions with VocaLink regarding the next tender,⁵³ estimated that the main switching cost for a new provider would involve set up, line rental and network certification cost (amounting to c£[REDACTED]).⁵⁴
159. Certain costs would also arise per member and the CMA assessed these additional cost. The Study set out estimated per member project costs of £[REDACTED] per member (a total of c£[REDACTED] based on 40 members). Mastercard's internal documents [REDACTED].⁵⁵
160. The CMA believes that, in addition, the new provider would have to licence LIS5⁵⁶ and the cost for parallel running during the migration period would have to be taken into account.⁵⁷
161. The CMA believes and the Parties acknowledged that there could be further switching costs for LINK members in addition to those described above. These switching costs include costs such as: physical changes required, project costs (staff and governance processes, external consultants), and testing costs. The CMA understands that the costs depend to a large part on the IT-systems of the different LINK members, with larger banks with old legacy systems having the highest costs.
162. LINK members stated that it was difficult to estimate the exact cost of switching at this stage without the details of the new infrastructure provider's

⁵³ See a 'LINK connectivity study dated 28 November 2016' (the **Study**).

⁵⁴ The Study sets out an 'high level estimate' of total switching costs of c£[REDACTED] based on: (i) set up cost (c£[REDACTED]); per annum line rental cost (c£[REDACTED]); network certification cost (c£[REDACTED]); member project cost to support (c£[REDACTED]). The member project cost to support are comprised of £[REDACTED] per LINK member on the assumption of 40 members in total.

⁵⁵ See discussion above paragraph 139.

⁵⁶ The CMA notes that the impact of the PSR Proposed Remedies in relation to messaging standards is likely to be significant in removing barriers to entry only for Bacs and FPS, as LINK will continue to operate on the VocaLink proprietary standard LIS5.

⁵⁷ LINK estimated this to be a further £[REDACTED].

requirements. Even so, estimated switching costs vary significantly between LINK's members, ranging from [£200,000-£50 million] in total. These costs would depend on the size of the LINK member and whether the new tender would be a 'like-for-like' with the current system or significantly different. The costs would also depend on whether or not the messaging standard were to remain the same, ie whether or not LIS5 were used. Given that continued use of LIS5 would require the new provider to sub-license the standard from VocaLink the CMA believes that the messaging standard is an important factor that increases the costs for a new provider.

163. The end customers of a LINK tender are the LINK members. The LINK members are therefore able to vote on the decision to switch to a new provider. As such, the CMA considers that an assessment of switching costs to a new central infrastructure provider in this context must take account of the scheme members' costs and intentions. [REDACTED].
164. If VocaLink were to remain the infrastructure provider, none of the costs would occur. If Mastercard were to be a bidder absent the Merger, then there would be some additional costs, however they would be lower than those arising from the award of the contract to an alternative provider.⁵⁸ An alternative provider would be likely to have to take these switching cost into account when making an offer.
165. In the Study, VocaLink also estimates the costs for a scenario in which VocaLink would make its communication infrastructure available to the new provider. In this scenario, the cost of implementation would be lower, but the costs of migration to members would broadly remain the same. The costs were estimated to be c£[REDACTED] for certification and c£[REDACTED] for the members to implement (again based on 40 Members). VocaLink would not retain its role as a central infrastructure provider but would provide managed communication services to the new processor, ie monitor, maintain and upgrade the network.
166. The CMA notes that, although in this scenario the switching cost would be lower, LINK commented that some costs were not included in VocaLink's estimates.⁵⁹
167. In general, LINK indicated that it had not considered the scenario put forward by VocaLink to be practicable or viable to address the incumbency advantage of VocaLink. In terms of the timing of an agreement with a VocaLink to

⁵⁸ [REDACTED].

⁵⁹ For instance: [REDACTED].

materialise this scenario, LINK submitted that: (i) no agreement has been reached; (ii) the discussions would require time (around a year); and (iii) the approval of the proposed offer was subject to its members' agreement.

168. The CMA, therefore, considers that it has not been provided with sufficient evidence to consider the alternative scenario considered by VocaLink as sufficiently certain to be timely implemented and to reduce the costs involved with a new alternative provider. As such, the implementation of the scenario put forward by VocaLink is merely hypothetical as no agreement with LINK has been reached and LINK voiced concerns with regard to its feasibility. In addition, the CMA considers that the success of this proposal depends on the willingness of alternative providers to supply a solution that is compatible with VocaLink's current infrastructure set up.
169. Based on the above the CMA believes there are significant switching for both the new provider and, in particular, the individual LINK scheme members. This materially limits the number of viable alternative providers to LINK.
170. Based on the evidence mentioned on switching costs, the CMA believes, therefore, that if switching were to occur, the switching is likely to be to either Mastercard or Visa as switching costs to either of these is reduced because of their existing connectivity. The CMA believes that there is a realistic prospect that, as a result of the various costs identified above, potential competitors would not bid or would not be able to bid competitively. Consequently, the CMA considers that there is a realistic prospect of an SLC in a future LINK tender will not be sufficiently competitive as a result of the loss of competition between VocaLink and Mastercard.

Conclusion on horizontal unilateral effects on competition for the market for the supply of CIS to LINK

171. The CMA considers that the Merger will lead to the reduction in credible bidders for the supply of CIS to LINK from three to two. VocaLink has a significant incumbency advantage and Mastercard and Visa are its closest competitors. The CMA considers that, in addition, there is a realistic prospect that the switching costs consisting of implementation and adaption costs to LINK members' internal systems, would prevent LINK from being able to attract bidders other than Visa, Mastercard and VocaLink. Accordingly, the CMA believes that the Merger raises a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to competition for the supply of CIS to LINK.

Horizontal unilateral effects on competition for the market for the supply of CIS to Bacs and FPS, separately and combined

172. The CMA assessed whether the Merger gives rise to competition concerns in the supply of CIS to FPS and Bacs, either considered separately or combined.

Bacs

173. In order to assess the likelihood of the Merger resulting in unilateral effects in the markets, the CMA considered the closeness of competition between the Parties and the competitive constraints from other suppliers.
174. The provision of CIS to Bacs has not been tendered for in the past.⁶⁰ The CMA has, therefore, relied on evidence from Bacs, the Parties' and third party views and submissions as well as insights from comparable competitions for infrastructure similar to Bacs outside the UK.
175. With regard to similar systems to Bacs, the CMA notes that VocaLink has participated in tenders in two jurisdictions winning one of these contracts⁶¹ and being shortlisted in the other.⁶² Mastercard has not participated in any tenders for systems similar to Bacs.

CMA's assessment

176. Bacs requirements are complex and functionally rich meaning that any provider of central infrastructure is likely to have to develop a bespoke solution to fulfil Bacs' requirements. VocaLink's internal documents state that it considers the [REDACTED].
177. With regard to Mastercard, the CMA has found that the evidence available to it does not indicate that Mastercard is a close current or potential competitor to VocaLink in this market. Specifically, Mastercard has not provided or considered providing services to Bacs or similar schemes outside the UK. The CMA also found that, even if Mastercard were to compete to supply CIS to Bacs, it would not have a particular advantage over other potential suppliers.
178. The CMA asked potential providers for the supply of central infrastructure to Bacs about their interest and capabilities to bid in a tender. Five providers stated their interest and capability while a further provider stated it would consider participating in a tender as part of a consortium bid.⁶³ Only one third

⁶⁰ [REDACTED].

⁶¹ Supply [REDACTED].

⁶² Supply [REDACTED].

⁶³ [REDACTED].

party, [X], raised concerns about its ability to compete in future contracts to Bacs as a result of the merger. The CMA therefore believes that a number of potential suppliers appear to be willing and able to participate in a future tender to supply CIS for Bacs.

179. In addition, BPSL⁶⁴ appears to be willing and able to conduct a competitive tender process taking account of the PSR's message standard remedy, in order to attract a sufficient number of credible suppliers.
180. Therefore, whilst Vocalink is likely to have a significant incumbency advantage over its rivals, the CMA does not believe that the Merger would strengthen that advantage or that Mastercard would have a particular advantage over other competitors.

Conclusion on horizontal unilateral effects on competition for the market for the supply of CIS to Bacs

181. Based on the above, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to competition for future Bacs CIS contracts.

FPS

182. The CMA has based its assessment on FPSL's⁶⁵ submissions, insights into competitions for infrastructure similar to FPS abroad and third party comments.
183. The current contract for the supply of central infrastructure to FPSL was entered into with VocaLink in 2014. [X] FPSL conducted a benchmarking exercise against alternative providers, such as [X] and [X]. The current contract with FPSL expires on 30 June 2020.
184. The CMA understands that the contract preceding the 2014 contract was awarded to VocaLink following an initial tender in 2006/2007 which was open to six providers, including Mastercard who declined to bid at the second round.
185. FPSL submitted that it is in the early stages of developing a procurement plan and expects to make formal approaches to potential providers in [X] 2017. The procedure and the specifications for a future tender are subject to the PSR Proposed Remedies and will need to consider the PSF's

⁶⁴ Bacs Payment Schemes Limited (**BPSL**) is the operator of the Bacs scheme.

⁶⁵ Faster Payments Scheme Limited (**FPSL**) is the operator of FPS.

recommendations. FPSL also considers the future tender to be akin to procuring for a 'new system' rather than a re-tendering of the existing infrastructure. Therefore, FPSL considers that the incumbency advantages for VocaLink should be relatively low and a sufficiently large number of suppliers (including IT outsourcing providers) should be in a position to provide these services.

186. With regard to similar systems abroad VocaLink participated in two tenders in 2015 of which it won one. Mastercard did not take part in these tenders. Both Parties took part in a 2016 tender to supply the service of a clearing processor for instant payments in the [REDACTED] which neither won.
187. Concerns were raised during the investigation about possible conflicts of interest between the scheme and those of its members that elected to retain a Minority Shareholding in VocaLink (these Minority Shareholders were said possibly to influence the decision making) and the possibility that Mastercard could leverage its card network as the sole connectivity channel to UK payment systems.

CMA's assessment

188. The CMA considers that VocaLink and Mastercard are not each other's closest competitors for the provision of CIS to FPS. VocaLink's internal documents tend to indicate that [REDACTED]. However, the CMA assesses this with caution given that the PSR's Proposed Remedies involve a new competitive tender requirement and possibly remedies to remove incumbency advantages such as a move to a common messaging standard. VocaLink's internal documents show that it considers [REDACTED]. Mastercard, on the other hand, while having competed for the award of the initial contract does not yet operate on the international ISO20022 standard, though its internal documents [REDACTED].⁶⁶
189. The CMA asked potential providers for the supply of CIS to FPS about their interest and capabilities to bid in a tender. Five suppliers stated interest and capability⁶⁷ while a further two expressed their capabilities but stated no current interest.⁶⁸
190. The CMA considers that a number of potential suppliers appear to be willing and able to consider a future tender to supply infrastructure services to FPS. In addition, FPSL appears to be willing and able to conduct a competitive tender process including the shift to the international messaging standard, in

⁶⁶ Annex 13(xv), p. 16 et seq.

⁶⁷ [REDACTED].

⁶⁸ [REDACTED].

order to attract a sufficient number of credible suppliers. The CMA therefore believes that FPSL will design a competitive bidding process.

191. Based on the above, the CMA found that, while VocaLink might retain a certain incumbency advantage, the next tender for the provision of CIS to FPS is likely to be competitive. In addition and most importantly, the CMA has found no evidence that the Merger would strengthen that advantage or that Mastercard would have a particular advantage over other competitors given that it has not yet developed the support of the international message standard.

Conclusion on horizontal unilateral effects on competition for the market for the supply of CIS to FPS

192. Based on the above, the CMA does not believe that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to competition for future FPS central infrastructure service contracts.

Bacs and FPS

193. Based on the above assessment for Bacs and FPS separately, the CMA believes that if Bacs and FPS were considered to be part of the same frame of reference, the competitive outcome of the Merger with regard to the supply of CIS to the combined system would not be less competitive, mainly because any VocaLink's incumbency advantage will be lower for a different single payment platform and this tender is likely to attract a significant number of bidders. The CMA therefore believes that, if Bacs and FPS were to be considered jointly, the Merger would not give rise to a realistic prospect of an SLC.

Horizontal unilateral effects – loss of potential competition between Zapp and Mastercard

194. The CMA assessed whether the Merger may give rise to potential competition concerns.
195. Where a merger leads to the removal of a potential entrant, this could lessen competition by weakening the competitive constraint on an incumbent supplier.⁶⁹ A potential entrant is only a constraint if entry actually occurs.
196. In assessing whether a merger leads to unilateral effects from a loss of 'actual potential competition', the CMA considered whether the potential entrant

⁶⁹ [Merger Assessment Guidelines 5.4.14.](#)

would be likely to enter in the absence of the merger and whether such entry would lead to greater competition. The CMA also assessed whether there were other potential entrants before reaching a conclusion.⁷⁰

Closeness of competition – Zapp as a close potential competitor

197. VocaLink’s internal documents show that Zapp is [redacted]. While numerous internal documents compare Zapp with [redacted], internal documents also frequently reference [redacted] being competitors, particularly digital wallets [redacted].⁷¹
198. An internal strategy document compares Zapp to [redacted] and estimates [redacted] of online customer-to-merchant transactions in the UK are made by [redacted]. At the POS [redacted] of payments are said to be made [redacted] are attributed to [redacted].⁷²
199. Mastercard’s own Masterpass service – ie a customer-to-merchant online and POS-based payment system⁷³ – shares many consumer-facing characteristics with Zapp, particularly the focus on a digital approach. However, Masterpass uses the card scheme’s networks to complete the transaction instead of FPS. Some third parties stated during the investigation that Masterpass competed directly with Zapp.
200. Similarly, Mastercard discussed the potential for convergence between ACH⁷⁴ and card schemes in its internal documents, noting that [redacted].⁷⁵
201. The CMA therefore believes that Zapp would compete with Mastercard’s payment products.

Likelihood of entry

202. VocaLink’s internal documents⁷⁶ indicate that Zapp is still [redacted]. Although Zapp was [redacted]. The Parties note that Zapp has only recently come to market, with a de minimis number of transactions and a de minimis market share.
203. It is difficult for the CMA to evaluate how likely it is that this product will succeed and whether and when Zapp will establish itself as a payment method in the UK.

⁷⁰ [Merger Assessment Guidelines 5.4.15](#).

⁷¹ For example, [redacted].

⁷² VocaLink response of 1 November 2016 Annex M.20, page 12.

⁷³ [Mastercard presentation](#) [redacted], pages 39 to 44.

⁷⁴ ACH refers to Automated Clearing House and related to bank account to bank account payment systems.

⁷⁵ [Mastercard board presentation](#) [redacted], pages 5 to 6.

⁷⁶ For example, VocaLink response of 1 November 2016 Annex M.20, page 24 to 25.

204. The CMA therefore sought to assess Zapp's likelihood of entry and the extent to which Zapp is expected to penetrate the UK market and compete with Mastercard by considering:
- a) Zapp's importance to the Merger and VocaLink's and Mastercard's expectations for Zapp; and
 - b) what would be the realistic prospects for Zapp absent the Merger.
- *Zapp's importance for the Merger and the Parties' expectations for Zapp*
205. VocaLink appears to have invested substantial amounts of money into Zapp, with a cumulative EBITDA of -£[redacted] between 2013 and 2015.⁷⁷ [redacted]. This estimated that the base case performance would result in Zapp's annual EBITDA growing to c.£[redacted] by 2020.⁷⁸ £[redacted] of EBITDA is [redacted] the size of VocaLink's total EBITDA in FY15 (£[redacted]m).⁷⁹ Other internal documents provided a wide range for the estimated valuation of Zapp, noting that this would differ depending on the discount rate applied, and the potential purchaser. The recommendation from VocaLink's advisers appears to be c.£[redacted].^{80,81} VocaLink's EBITDA forecasts are predicated on Zapp achieving a share of [redacted] of electronic and mobile transactions, and [redacted] of other relevant transactions in the UK.
206. These estimates were created in the [redacted] and should therefore be considered with the necessary caution.
207. Mastercard's projected financials for VocaLink appear to include a slower expansion of Zapp than VocaLink's internal view. However, by 2025, Mastercard still expected Zapp would be generating a level [redacted]. These estimates appear to be based on the assumption that Zapp is acquired by Mastercard and that Zapp will benefit from the relationship that Mastercard has with the banks and that Mastercard will facilitate Zapp's access to POS machines.
208. Mastercard has placed a base case value of Zapp in the UK as being £[redacted], with large potential upside from international expansion.
209. Mastercard's internal documents, [redacted].

⁷⁷ Mastercard presentation [redacted], page 2.

⁷⁸ VocaLink [redacted].

⁷⁹ Mastercard presentation [redacted], page 19-20.

⁸⁰ VocaLink presentation [redacted].

⁸¹ VocaLink [redacted].

- *Prospects for Zapp absent the Merger*

210. According to internal documents, VocaLink's [REDACTED].⁸² The Parties submitted that absent the Merger, Zapp would not be viable as a standalone competitor without developing its proposition in partnership with an existing card scheme.
211. The CMA found that banks had prioritised the implementation of digital wallets relying on card rails such as Apple Pay, Samsung Pay or Android Pay over that of Zapp.
212. On the merchant side, [REDACTED].
213. A number of third parties stated that Mastercard's acquisition of VocaLink would bring benefits to Zapp. Amongst other things, it could provide:⁸³
- a) greater access to funding and resources than VocaLink;
 - b) stronger relationships with the banks;
 - c) technical access to POS machines; and
 - d) greater opportunity for international expansion.
214. Some third parties noted that Zapp would provide Mastercard with a more competitive offering against Visa's debit cards in the UK.⁸⁴ [REDACTED].⁸⁵
215. For example, Mastercard noted the option to integrate Zapp into Masterpass as an alternative to cards.⁸⁶
216. However, based on third party submissions and internal documents, and having regard to the significant investment already made by VocaLink in Zapp, the CMA believes that, absent Zapp's acquisition by Mastercard:
- a) VocaLink might sell Zapp separately from its other business to a company present in the payment sector that would bring to Zapp at least some of the benefits mentioned in paragraph 213 above. Some third parties submitted that they would be interested in acquiring Zapp as a standalone business.
 - b) VocaLink might enter into a partnership with another card scheme operator. [REDACTED].

⁸² [REDACTED].

⁸³ [REDACTED].

⁸⁴ For example, [REDACTED].

⁸⁵ For example, [REDACTED] paragraph 1(b).

⁸⁶ Mastercard [REDACTED].

Conclusion on likelihood of entry

217. Based on the evidence above, the CMA believes that Zapp will enter in the UK, albeit its implementation may not be imminent or occur within the sort of time frame relevant to a consideration of potential entry.⁸⁷
218. However, the evidence indicates that Zapp can be expected to be implemented both with and without the Merger. Although the evidence is mixed, Mastercard's acquisition of Zapp may in fact facilitate and accelerate its penetration in the UK.

Increase in competition and other potential entrants

219. The CMA assessed whether the Merger will remove the competitive constraint on Mastercard of a significant and close potential competitor.
220. As mentioned above, Zapp is a new entrant in the provision of customer-to-merchant payment methods. Both Mastercard and VocaLink, as well as third parties suggest that Zapp could increase competition in customer-to-merchant payment methods.
221. Card payments are widely used for both online and offline customer-to-merchant payments. Card payments in the UK are highly concentrated with two card providers, Mastercard and Visa, accounting for [80-100]% of transactions. Payment methods relying on FPS could be strong competitors to these two providers.
222. However, as noted by the Parties, Zapp is better positioned to compete with debit cards as it lacks the features of credit cards.⁸⁸ The CMA believes Zapp will compete principally with debit cards, rather than credit cards. Mastercard's share of debit cards in the UK is currently [x%] (while Visa has [x%] of the market).⁸⁹ While Mastercard's share of debit cards may increase in future as it continues to compete for contracts from the large banks which issue the majority of debit cards, the CMA nevertheless believes that the loss of competition due to Zapp coming under common ownership with Mastercard's card scheme is small.⁹⁰ Mastercard also has the Masterpass e-wallet, but this is only one of a number of competing e-wallets, such as GooglePay and

⁸⁷ [Merger Assessment Guidelines para 5.4.17](#).

⁸⁸ Zapp operates with a user's current account; does not offer an interest-free period and revolving credit facility, does not offer any of the collateral rewards that attract certain credit card users (such as cashback, priority schemes, air miles and prize draws); and does not offer statutory purchaser protections provided by the Consumer Credit Act.

⁸⁹ [x%].

⁹⁰ Mastercard also has the Masterpass e-wallet, but this is only one of a number of competing e-wallets and the CMA does not believe that there is a realistic prospect that any loss of competition between Zapp and Masterpass will be substantial.

ApplePay, and the CMA does not believe that there is a realistic prospect that any loss of competition between Zapp and Masterpass will be substantial.

223. With regard to online payment methods, the CMA's merger investigation also showed, however, that there are already a number of providers offering 'push payments' similar to Zapp operating internationally, namely, iDEAL and Sofort providing non card based online payment methods.⁹¹
224. For the reasons set out above, the CMA found that the actual constraint that Zapp imposes and would in the future impose on Mastercard is limited. In addition, Mastercard position in debit card in the UK is currently small. Therefore, the elimination of the limited constraint imposed by Zapp would not substantially strengthened Mastercard's competitive position, as it would remain constrained by Visa and, as explained above and potential competitors.
225. Moreover, as further explained below, there are other customer-to-merchant payment solutions in addition to Zapp and new entrants that will compete with the merged entity in the near future.⁹²

Other potential entrants

226. The Parties stated that Zapp's functionality connects merchants to banks, and it is the bank which initiates a payment. Zapp is thus independent of VocaLink's role as the infrastructure provider. Therefore, another application developer could create similar software.
227. VocaLink's internal documents [REDACTED]. The Parties submitted that during Zapp's development period in the last four years, significant global brands have established first mover advantages, through mobile payment applications such as ApplePay, GooglePay,⁹³ and PayPal.
228. Based on the evidence mentioned above and third party submissions, the CMA, therefore, believes that the convergence of payment systems is resulting in ACH competing with card schemes and may also result in the introduction of alternative competitors using a different approach. These payment methods may continue to have specific features and characteristics, but will compete with Zapp and Mastercard.

⁹¹ Note that the CMA has no indication on the likelihood that these entering the UK.

⁹² Although the current alternative customer-to merchant payment solutions are either not provided in the UK or do rely on credit cards.

⁹³ Note that both, GooglePay and ApplePay, currently rely on credit cards and are not technically comparable to Zapp.

229. The Parties submitted that, as a result of PSD2,⁹⁴ which will enter into force in January 2018, there will be a further expansion and proliferation of competitive offerings, and that existing mobile payment applications already offer an ACH-based service (eg PayPal and SEQR use Bacs direct debits) or could decide to move to an ACH-based service (eg FPS) under PSD2.
230. Although the CMA places limited weight on the possible effects of the implementation of PSD2 – as there is no sufficient certainty regarding those effects, the CMA notes that PSD2 may help lower barriers of entry by reducing the need for active bank participation in the service. This is because banks will be obliged to treat payment initiation services from authorised third party providers as equivalent to those from other banks.⁹⁵ This will act to reduce the need for bank participation in building new competitor services to current payment methods.
231. The CMA cannot exclude that some companies in the payments industry may be considering using the opportunities offered by PSD2 and may even already have taken some actions towards the implementation of customer-to-merchant payment solutions that do not use ‘card rails’ and allow POS payments.
232. In particular, a potential competitor stated that they have not yet taken any active steps in the UK to enter push payments but cannot exclude that they might do so (perhaps by entering into a partnership). This third party also acknowledged that PSD2 could have a significant impact in facilitating entry.
233. As stated above, paragraph 223, there are already providers of alternative payment solutions operating abroad and it may be possible for digital wallet providers to enhance their products easily and timely for these new payment forms or other payment providers to develop alternative customer-to-merchant payment solutions in anticipation or once PSD2 is implemented.
234. Therefore, the CMA found that the merged entity might be constrained by other provider of customer-to-merchant payment solutions, including solutions that allow POS payments.

⁹⁴ Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015. on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (**PSD2**).

⁹⁵ [PSD2, A briefing from Payments UK, Jul 2016](#), pages 10 to 11.

Conclusion on horizontal unilateral effects – loss of potential competition between Zapp and Mastercard

235. The CMA believes that Zapp might compete principally with debit cards, where Mastercard's share is small. Additionally, the CMA does not believe that Zapp's first-mover advantage is significant and the merged entity might be constrained by other providers of customer-to-merchant payment solutions, including solutions that allow POS payments.
236. The CMA, therefore, believes that the Merger does not raise significant competition concerns as a result of the loss of potential competition between Zapp and Mastercard in the supply of customer-to-merchant payment services.

Vertical effects

237. Vertical effects may arise when a merger involves firms at different levels of the supply chain, for example a merger between an upstream supplier and a downstream customer or a downstream competitor of the supplier's customers.
238. Vertical mergers may be competitively benign or even efficiency-enhancing, but in certain circumstances can weaken rivalry, for example when they result in foreclosure of the merged firm's competitors. The CMA only regards such foreclosure to be anticompetitive where it results in a substantial lessening of competition in the foreclosed market(s), not merely where it disadvantages one or more competitors.⁹⁶
239. For a vertical theory of harm to materialise, each of the following questions would need to be answered in the affirmative:⁹⁷
- a) Would the merged entity have the ability totally or partially to foreclose its competitors?
 - b) Would the merged entity have an incentive to do so, in the sense that this would be a profit-maximising strategy?
 - c) Would the effect of such a foreclosure strategy be sufficient to reduce competition in the affected market to an extent that it may be expected to result in an SLC?

⁹⁶ In relation to this theory of harm 'foreclosure' means either foreclosure of a rival or substantial competitive weakening of a rival.

⁹⁷ See [Merger Assessment Guidelines](#), paragraph 5.6.6.

240. If one of these questions is answered in the negative, the CMA does not have to assess further the other requirements.

Vertical effects – ATM switching services

241. There are three ATM switching providers in the UK, namely LINK, Mastercard, and Visa. VocaLink estimates that more than 99% of ATMs in the UK are connected to LINK. VocaLink is the provider of infrastructure to LINK, supplying the essential input into LINK's ATM switching offering to ATM operators.

242. Currently, Mastercard switches Mastercard and Maestro branded card transactions.⁹⁸ Mastercard is also an alternative payment infrastructure provider to LINK, both for core ATM switching and settlement services and other associated services and non-core services.⁹⁹ The PSR Report states: 'Of the three payment systems [FPS, Bacs and LINK], LINK faces the most obvious competitive threat, with both Mastercard and Visa as potential alternatives.'¹⁰⁰

243. The CMA considered whether the change in ownership of VocaLink gives rise to non-horizontal effects on competition in the provision of ATM switching services. Third parties raised concerns that, following the Merger, Mastercard may have the ability and incentive to foreclose LINK's users by:

- a) degrading VocaLink's services to LINK or to LINK's users ((partial) input foreclosure);
- b) preventing innovation within LINK, in particular due to VocaLink's ownership of the LIS5 messaging standard ((partial) input foreclosure); and
- c) having access to, and strategically using, commercially sensitive data of LINK's users.

The CMA notes that LINK currently has a high share of ATM switching, and that these concerns seem to have arisen because of the possibility that, if one or more major PSPs leave the LINK system, this could increase fees for the remainder, prompting further PSPs to leave LINK.

⁹⁸ Visa switches Visa branded credit card transactions. Mastercard and Visa also switch debit card transactions for some debit cards issued by overseas banks.

⁹⁹ Associated services include services such as service delivery services and data management services. Non-core services include testing services and ATM anti-skimming alerting services.

¹⁰⁰ [REDACTED].

Degradation of service levels or increase cost

244. The CMA has assessed Mastercard's ability and incentive to use its ownership of VocaLink, the supplier of CIS to its competitor LINK, to negatively impact on the services provided by VocaLink or to raise prices of VocaLink services to LINK and thereby incentivise LINK members to switch to Mastercard.

Ability to degrade service levels or increase cost

245. In assessing the merged entity's ability to degrade service levels or increase cost, the CMA assessed the contractual and regulatory environment in which VocaLink currently provides its services to LINK and took into account the Parties' submissions and third party comments.
246. Some third parties raised concerns that the impact of downgrading service levels could be significant. They noted that VocaLink has been over-performing its contractual obligations towards LINK and, post-merger, could degrade service levels to the minimum agreed level.
247. A small number of third parties also mentioned that the merged entity would have the ability to use VocaLink's ownership of the LIS5 messaging standard to degrade maintenance levels and increase innovation costs. Based on these concerns and the vertical/diagonal relationship between Mastercard and LINK, the CMA assessed the merged entity's ability to totally or partially foreclose the provision of central infrastructure to LINK.
248. With regard to core-services (ie ATM switching and settlement services), the CMA notes that service levels are fixed in contract until 2021. The current contractual agreements between VocaLink and LINK stipulate [REDACTED].¹⁰¹
249. [REDACTED] some third parties told the CMA that they do not consider that VocaLink could degrade its offering of core services to LINK.
250. The CMA is of the view that the merged entity would not have the ability to totally foreclose the provision of core services to LINK, given LINK's ability to enforce any contractual obligations and in light of regulatory supervision.
251. Further, the CMA found that there is no realistic prospect that VocaLink will have the ability to degrade services or increase costs in a targeted way mainly for the following reasons:

¹⁰¹ [REDACTED].

- a) VocaLink cannot precisely control service degradation by the [redacted] difference between the aspirational target of [redacted] availability and the minimum contractually compliant level of [redacted].
 - b) VocaLink cannot target degradation to affect individual customers. Issuers' cards may be used across a large number of ATMs controlled by different entities. Therefore, it would not be possible to degrade the service vis-à-vis an individual issuing entity without degrading services to all issuers.
252. The CMA also considers that there is no realistic prospect of VocaLink increasing will have the ability to increase costs of particular LINK members in relation to core services, because:
- a) The only pricing flexibility in the contract with LINK is in relation to non-core services.
 - b) LINK members consider a variety of factors when selecting a scheme such as membership fees, membership overheads, interchange costs/fees and functionality. ATM switching costs represent only a small proportion [redacted] of the total LINK scheme per transaction costs. The interchange fee, in particular, is more important. As such, increases in switching costs are not a material contributing factor in LINK members' choice of scheme. Furthermore, the CMA understands that the main reason for banks considering leaving LINK for Mastercard and/or Visa is that Mastercard and Visa may offer a lower interchange fee.¹⁰²
 - c) There are some recent examples of LINK members switching to Mastercard or Visa. [redacted].
253. With regard non-core services, [redacted]¹⁰³ and VocaLink is entitled to [redacted].
254. The CMA has also assessed whether there is an ability to partially foreclose the provision of CIS to LINK through a variety of mechanisms notwithstanding the provisions of any contract between LINK and VocaLink (now or in the future).
255. The Parties and third party respondents submitted that any breach of core or non-core service levels would be highly visible to LINK, its members, consumers and the regulator. A breach must be notified to LINK. Importantly, any breach must also be notified to the Bank of England and may lead to

¹⁰² Even though large PSPs are acquirers of ATM transactions (when customers of other PSPs use ATMs at their branches) as well as issuers (when their customers use ATMs at other PSPs' branches and/or independently operated ATMs), they tend to be net issuers and thus benefit from a lower interchange fee.

¹⁰³ [redacted].

remedial action against LINK, including step-in rights. The Parties emphasised that a breach might also lead to negative press coverage.

Conclusion on ability to decrease services and increase cost

256. Based on the above, the CMA believes that the merged entity will not have the ability to totally foreclose LINK or its members. The CMA also believes that there is only very limited ability for the merged entity to partially foreclose LINK by degrading non-core services.

Incentive to degrade services and increase cost

257. The CMA has assessed the merged entity ability to partially foreclose the supply of non-core services, considering the possibility of gains and losses for Mastercard.¹⁰⁴

- *Potential gains*

258. The CMA assessed whether Mastercard would gain from engaging in the strategies mentioned above. LINK members changing to Mastercard's ATM transaction switching service would increase Mastercard's revenues. A further incentive to foreclose input to LINK could arise from the fact that the loss of a LINK member increases the membership fees for all remaining LINK members, as the scheme's costs are apportioned among fewer members.
259. Independent ATM deployers also submitted that it may become uneconomical to operate all or part of their ATM fleet. They also noted that Mastercard may have an incentive to put them at a competitive disadvantage as cash competes with card payments. Mastercard's internal documents support the view [REDACTED].^{105,106}
260. However, even if LINK members were to change scheme as a result of deteriorating service levels or on increased costs, as LINK not only faces competition from Mastercard, but also Visa. Two card issuers have already switched to Visa. Further LINK members would be likely to switch to Visa if LINK deteriorated or became more costly. As [REDACTED]% of debit cards are Visa branded, nearly all PSPs have an existing debit contract with Visa which makes a change to Visa highly likely. This may further limit any gains.

¹⁰⁴ While the CMA has only assessed the incentives of the merged entity with regard the foreclosure of non-core-services, the CMA notes, for the sake of completeness, that the same analysis of incentives would apply regarding the foreclosure of core services. However, the CMA did not have to rely on that assessment in relation to core services.

¹⁰⁵ Eg Annexes G09 and M20.

¹⁰⁶ Confidential Annex 13(vii) [REDACTED].

261. In particular, based on the information submitted by the third parties, the CMA estimates that over [redacted]% of LINK members have existing connectivity with Visa's ATM switch. Only a limited number of debit cards in the UK are Mastercard branded.¹⁰⁷ This suggests that LINK members would be more likely to choose Visa than to Mastercard as alternative provider.

- *Potential losses*

262. Any loss of a PSP as LINK member would reduce VocaLink's revenue as CIS provider to LINK because its revenue is largely variable with transaction volume. However, there is a [redacted].¹⁰⁸ Consequently, as more PSPs switch away from LINK, VocaLink's losses [redacted].

263. A service degradation by the merged entity might also lead to losses in the form of penalties, service credits or an obligation to restore the standard service level. Furthermore, as VocaLink generates revenue based on transaction volumes, any service failure that might impact on the core services would cause loss of income. These costs would significantly outweigh any minimal gains that may be realised if some PSPs were to select Mastercard as their ATM switching provider.

264. As noted above, Mastercard's ability to engage in foreclosure strategies based on service degradation or increase in cost is mainly limited to non-core services. The CMA understands that some of these might be offered separately from the core ATM switching services by suppliers other than Mastercard or VocaLink. In addition, the submissions from third parties indicate that there is no realistic prospect that a degradation of non-core services will trigger the LINK members' decision to switch.

265. Based on the above the CMA believes that the potential losses to Mastercard from engaging in a foreclosure strategy based on decreasing services and increasing cost would outweigh the potential gains.

Conclusion on ability and incentive to degrade services and increase cost

266. The CMA believes that the merged entity will not have the ability to totally foreclose Mastercard's competitor LINK and only very limited ability to partially foreclose LINK. In addition the CMA found that the merged entity will have no incentive to degrade services and increase cost to LINK or its members.

¹⁰⁷ See paragraph 222 above.

¹⁰⁸ [redacted].

Therefore the CMA has not assessed the effect of this possible foreclosure strategy on competition.

Prevention of innovation

Ability

267. The CMA has assessed whether the merged entity would have the ability to reduce or prevent innovation by Mastercard's competitor LINK, in particular through its ownership of the messaging standard LIS5.
268. The Parties submitted that Mastercard will not have the ability to prevent innovation in relation to LIS5 used for LINK, as LINK controls the scheme rules and innovation. LINK scheme members determine which innovations are to be supported and, as the processing partner, VocaLink is contractually obliged to support and implement them.¹⁰⁹
269. However, with the Merger, the merged entity will own the IP rights to its competitor's messaging standard which gives it the ability to foreclose LINK from innovation.
270. A third party explained that, even though LINK has the right to sub-license LIS5 in perpetuity should it choose another provider, any maintenance and enhancement of the standard will have to be developed by VocaLink.
271. Concerns were raised that this will give Mastercard the ability to slow down its competitor's (ie LINK's) innovations and general improvements, stifling any further developments of LINK.
272. The PSR Report states that the fact that VocaLink retains ownership of the LIS5 standard's intellectual property and the LINK brand 'may prevent some innovation from happening'.¹¹⁰ Third parties mention that maintenance and development of the standard depend on the 'working relationship' between VocaLink and LINK. LINK cannot unilaterally implement changes. Instead changes and pricing need to be agreed with VocaLink. Some third parties were concerned about the ownership of the messaging standard as a potential mechanism to undermine LINK.¹¹¹
273. In addition, any innovation for LINK users would need to be presented to VocaLink a long time in advance so there may be a risk that information about

¹⁰⁹ The CMA notes however that there is [redacted].

¹¹⁰ PSR Report, paragraph 4.240.

¹¹¹ A third party explained that the scheme already experiences difficulties in the maintenance of LIS5 because VocaLink provides the standard also to other customers (including overseas users).

this innovation could be leaked to Mastercard thereby minimising any competitive advantage of LINK over Mastercard. This means that any change and development request may give Mastercard insight into its competitor's (ie LINK's) strategy, giving Mastercard an opportunity to implement similar changes thereby eliminating any chance of developing a competitive advantage.

274. The CMA therefore considers that the merged entity would have the ability to partially foreclose LINK by preventing or slowing down innovation.

Incentive

275. Mastercard's gains in engaging in the reduction of innovation could be the same as the possible gains outlined above (see paragraph 258 et seq.) However, the same losses are also likely to occur.
276. In addition, Mastercard has committed to [REDACTED].¹¹² A breach of these commitments [REDACTED].
277. Furthermore, Mastercard will not have the incentive to prevent innovation in relation to the LIS5 messaging standard because the merged entity will continue to be judged, among other factors, on its cooperation with regard to innovation. A poor performance would not only reflect negatively on VocaLink but also on Mastercard. Moreover, given that LINK's members are Mastercard's customers, Mastercard would have an incentive to ensure that it maintains a good working relationship with LINK and will therefore need to ensure the standard is effectively maintained and developed.
278. Based on the above the CMA believes that the potential losses the merged entity would incur by engaging in such strategy would outweigh the potential gains and that, consequently, there is no incentive to prevent innovation.

Conclusion on ability and incentive to prevent or reduce innovation

279. The CMA believes that the merged entity will have the ability to partially foreclose LINK by preventing or slowing down innovation. However, the CMA found that the merged entity will have no incentive to prevent or reduce innovation to LINK or its members. Therefore the CMA has not assessed the effect of this possible foreclosure strategy on competition.

¹¹² [REDACTED].

Access to information

Ability

280. With the Merger, the merged entity would gain visibility over all ATM transactions of its main ATM switching competitor.¹¹³ The CMA assessed whether Mastercard has the ability to strategically use this information to compete less aggressively with LINK for services over which they do or could potentially compete or put LINK at a competitive disadvantage by being able more effectively to target services or offers to LINK members. Concerns were raised by a number of LINK members in this regard. However, this would depend on the ability of the merged entity to access and strategically use the data in question.
281. It is the CMA's understanding that VocaLink has full visibility over all transactions made over the LINK infrastructure.¹¹⁴ In addition, VocaLink has the ability to identify transaction data of individual LINK members through their interface.¹¹⁵ In addition to ATM switching services, VocaLink also provides ancillary services to ATM operators which do not form part of the contractual arrangements between LINK and VocaLink and are provided and agreed in their specific terms with each ATM operator. These services include ATM driving (providing data to the ATM owner, monitoring availability and profitability), ATM routing (routing messages from one or more ATMs to the switching infrastructure to LINK, Mastercard, Visa, or other international card schemes), and ATM managed services (cash provision, helpdesks, operational assistance). According to the Parties' submission, VocaLink provides these ancillary services to approximately [25-35%] of the ATMs that are connected to LINK. VocaLink may therefore have access to even richer data of those customers.
282. The CMA received concerns stating that insight into LINK's pricing to each of its members and the use of Visa cards by customers of the LINK members would allow the merged entity to target specific members. In particular:
- a) A third party raised concerns with the CMA that the Merger may expose LINK to unfair competition from Mastercard.
 - b) Independent ATM deployers raised concerns that the merged entity could use the information to make more attractive offers to card-issuing

¹¹³ The CMA notes that Mastercard would also gain an overview of a very large share of the total ATM transactions in the UK.

¹¹⁴ See clause [X].

¹¹⁵ Each LINK member has its own 'interface' (ie a communication channel interface that each PSP uses to connect into LINK) which make its transactions readily identifiable.

members of LINK than to independent ATM deployers who do not issue cards. For instance, Mastercard could reduce the total costs to card issuers for its cards and for its ATM switching services when bought together (mixed bundling).

- c) LINK stated that contractual protections might not be sufficient because Mastercard's fraud protection business, which might provide valuable services for ATM transaction switching, was not separate from the ATM switching business.ⁱ Therefore, LINK considers that it was exposed to the risk of information leakage to its competitor Mastercard as there were only weak mechanisms for contractual protection. It believes that the sale of VocaLink to Mastercard placed LINK at 'risk of competitive attack from Mastercard'.

283. A third party noted that due to the organisational structure of Mastercard, ring-fencing the relevant information is not possible. Therefore there is only scope for weak contractual protection. The Parties submitted that there are clear contractual barriers in place to prevent information exchange of this kind which have been thoroughly reviewed and approved by LINK and its members as part of the change of control conditions for LINK.

284. The CMA reviewed the contract between LINK and VocaLink (**LINK Agreement**). Clause [X] of the LINK Agreement ensures that [X]. The restrictions set out [X]. The LINK Agreement also provides for oversight by LINK. For example, LINK may request [X].¹¹⁶ If VocaLink fails to [X].

285. The current contractual provisions of the LINK Agreement [X]. However, as noted above, LINK has expressed reservations about the strength of those provisions and the CMA notes that they are subject to interpretation with regard to how and to what extent that information can be used by VocaLink employees that have access to it. Furthermore, if the information is used for the benefit of some LINK members, the contractual provisions may not be enforced. Therefore, the CMA believes that there might be some ability for the merged entity to access such data.

286. The CMA also considered whether the merged entity will be able to strategically use this data. As noted above some third parties expressed concern regarding Mastercard's ability to use the data to engage in mixed bundling.

287. However, the CMA considers that even if Mastercard were to gain access to commercially sensitive information as a result of the transaction, this would

¹¹⁶ Clauses [X] LINK Agreement.

not materially enhance its ability to provide bundled services. The CMA believes that Mastercard may already be in a position to provide specific offers to prospective customers. A LINK member considering a switch away from LINK could be able to provide Mastercard with the required information to make a specific and favourable offer, unless withholding this information could give it an advantage in the negotiation process. The CMA has not found any evidence to this effect. Therefore, with the Merger, Mastercard will, not gain access to information that would be useful for a specific offer and could not voluntarily be obtained from a prospective customer.

Incentive

288. Nevertheless, and on a cautious basis, the CMA has also assessed the merged entity's incentive strategically to use the data. As explained below, the CMA, considers that there is no realistic prospect that any advantage that the merged entity might obtain from the usage of this data to foreclose its competitors would outweigh the likely costs for the merged entity in the form of reputational damage.

Potential gains

289. The merged entity would gain from accessing and strategically using LINK member data only if it could use the data to target specific LINK members and thereby weaken LINK.
290. If Mastercard was successful in a mixed bundling offer to LINK members, Mastercard would gain by increasing both its ATM switching revenues and revenues from its card scheme business.
291. However, any gain is highly speculative, given the high probability of LINK members switching to Visa rather than to Mastercard. Furthermore, any gain may be outweighed by the reputational losses mentioned.

Potential losses

292. The same losses would occur as outlined above.¹¹⁷ In conclusion, the CMA therefore believes that the merged entity would have no incentive to access and strategically use commercially sensitive information of LINK members.

¹¹⁷ See para 262 and 277.

Conclusion on ability and incentive to access and strategically use commercially sensitive information

293. The CMA believes that the merged entity will have no the ability to access and strategically use commercially sensitive information and that the merged entity would also have no incentive to do so. Therefore the CMA has not assessed the effect of this possible foreclosure strategy on competition.

Conclusion vertical effects in relation to ATM switching services

294. As noted above, concerns regarding foreclosure of LINK are based on concerns that if a major PSP leaves LINK, this could prompt other departures and possibly an ‘unravelling’ of LINK. However, this possibility exists both with and without the Merger, and the CMA has not found evidence that the Merger increases the likelihood of this possibility. This is because, even if an ability to engage in foreclosure strategies is assumed, the CMA believes that Mastercard will not have an incentive to engage in such a strategy as the losses are likely to outweigh the limited gains. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of vertical effects in relation to ATM switching services.

Vertical effects – payment providers that compete with Mastercard and rely on FPS

295. Cards compete increasingly with other cashless payment methods, predominantly for online transactions. Some of these cashless payment methods rely on FPS for the transfer as it allows for instant clearing of the transaction similar to cards. These payment methods can be provided, among others, by entities that access the FPS infrastructure via the Direct Agency model or through an aggregator.¹¹⁸ Users of the Direct Agency model and

¹¹⁸ There are different ways to use FPS:

(i) PSP’s can become a direct member of the scheme if they meet the FPS requirements. This includes, among others, having a settlement account with the Bank of England and the provision of a board member to FPS;

(ii) An alternative is the use of a sponsor Bank/PSP and access FPS indirectly. In this case no contractual relationship between the user and FPS exists. Rather the use by the indirect user is governed by the agreement with its sponsor;

(iii) FPS also allows for a direct agency access. In this access model the user has a direct technical access to FPS but, nevertheless, uses a sponsor bank for the settlement of the transactions, thus eliminating the need to meet FPS requirement. Terms of this access model are governed on the one side by the user’s contractual arrangement with its sponsorship bank and, on the other side, by an FPS framework agreement and bilateral contracts to which the user and VocaLink as the infrastructure provider are parties. ‘Direct agency’ is defined in the ‘Agreement relating to the provision of Managed Services for a Faster Payment Service’ (**FPS Agreement**) as: ‘an organisation that is not a Member, but is connected directly to the central infrastructure to send and receive payments via the central infrastructure and who is sponsored by a Member.’

(d) The fourth access model to FPS is the use of an aggregator. Aggregators are technology companies providing access to FPS by combining a number of smaller market participants. One of those aggregators is VocaLinks product ‘Payport’. Users accessing FPS via an aggregator may also bilaterally contract additional services from VocaLink.

users that access FPS via VocaLink's aggregator product have bilaterally negotiated contracts with VocaLink.¹¹⁹

296. The CMA assessed the merged entity's ability and incentive to foreclose these FPS users by:
- a) degrading FPS services for these FPS users ((partial) input foreclosure);
 - b) preventing the implementation of new and innovative products on FPS by competitors or future competitors of Mastercard, should those innovations pose a threat to its card scheme ((partial) input foreclosure); and/or
 - c) using its access to commercially sensitive data of particular FPS users to target customers of such alternative payment method providers, offering them a card service proposition adapted to their needs.

Service degradation, increase in cost and preventing access to new innovative services

297. The CMA assessed whether the merged entity would have the ability and incentive to (partially) foreclose VocaLink services to FPS users that pose a competitive threat to Mastercard, in particular, if they have a bilateral agreement and direct link with VocaLink. Specifically, the CMA investigated whether the merged entity would have the ability and incentive to worsen the terms on which these users access the central infrastructure. This includes by degrading the level of service offered by VocaLink and/or increasing VocaLink access fees and/or increasing transaction fees for individual payments.

Service degradation and increase in cost

Ability

298. The CMA assessed whether the merged entity would have the ability to increase fees or worsen non-price elements of FPS. The CMA considers that a differentiation is required between VocaLink's ability to adopt such strategies (i) at FPS scheme level, ie, the provision of services to FPS as CIS provider and (ii) at the level on which the user accesses FPS, ie the provision of services as gateway provider through VocaLink's gateway products.
299. The CMA assessed this ability with regard to FPS members and users of FPS under the Direct Agency model. With regard to the latter, the CMA considered

¹¹⁹ For ease of reference the CMA refers to both users as Direct Agencies.

further whether VocaLink has the ability to engage in total input foreclosure when the contracts with these customers terminate.

As CIS provider

- *To FPS members*

300. Concerns were raised that the FPS Agreement may not fully protect direct members of FPS against a (partial) input foreclosure by which Mastercard targeted its competitors that rely on FPS by worsening the service level, increasing prices or preventing innovation.
301. The Parties submitted that VocaLink was unable to engage in the foreclosure strategies for specific FPS users because of technical limitations. They also stated their ability was contractually limited and that high visibility of any such strategy would hamper their ability.
302. A number of third party respondents to the CMA's investigation stated that they could not envisage a way in which VocaLink would be able to discriminate between members. [REDACTED], mentioned that a differentiation between individual FPS users was technically difficult if not impossible. It also said that the PSR had, in any event, the power to mandate change.¹²⁰
303. On review of the contractual arrangements the CMA found that costs are set at the FPS scheme level and that the FPS rules apply to all FPS members. [REDACTED].

- *To Direct Agencies*

304. Concerns were raised that the merged entity might degrade services or increase costs [REDACTED], in particular, Mastercard could, for example, [REDACTED].
305. The Parties submitted with regard to the Direct Agency model that VocaLink could not process a Direct Agency transaction more slowly than that of a direct member without impacting the processing of all FPS transactions. VocaLink's FPS infrastructure was not designed to enable different service levels to different FPS users. To do so would require technical changes to the FPS switch. In this regard, the Parties noted that their software solution is

¹²⁰ Pursuant to section 54 of the Financial Services (Banking Reform) Act 2013 (FSBRA) the PSR may give directions in writing to participants in regulated payment systems. The direction may require or prohibit the taking of specified action in relation to the system it may also set standards to be met in relation to the system. The PSR may also influence the rules of system operation (section 55 FSBRA) or amend agreements including their terms and conditions (section 57 FSBRA) According to section 56 FSBRA the PSR can order a system operator to enable the applicant to become a payment service provider in relation to the system or order a direct member of the system to grant indirect access to an applicant.

provided by a third party ([REDACTED]) and that any modification would have to be implemented by this software provider.

306. A third party ([REDACTED]) confirmed that targeted discrimination would [REDACTED].

- *Conclusion on the ability to foreclose as a CIS provider*

307. As there are technical limitations as well as contractual provisions and reporting requirements the CMA believes that it is not realistic that VocaLink has the ability to degrade services or increase cost as CIS to either FPS members or Direct Agencies.

As access provider

- *To FPS Members*

308. VocaLink provides services allowing FPS members to access the central infrastructure. In this capacity, VocaLink negotiates bilaterally additional services. In relation to these additional services, concerns were raised that in bilaterally negotiated contracts, VocaLink was not obliged to provide certain service levels to specific users which may give it some flexibility to degrade its services. Other than FPS Rules, all other terms including service levels can be negotiated by the Parties so long as they meet FPS standards. This means that VocaLink may degrade service levels to the minimum FPS standards.

- *To Direct Agencies*

309. The CMA understands that a Direct Agency and a competitor of Mastercard such [REDACTED] is likely to need to contract with a provider such as VocaLink for additional functionalities. The price and service level for those functionalities has to be individually agreed. Individual contracts may exist and increase in cost or services seem therefore possible.

310. The CMA therefore believes that VocaLink may have the ability to decrease services or increase cost in its role as access provider.

Incentive

- *As CIS provider*

311. As stated above, the CMA believes that the merged entity will not have the ability to discriminate against specific members on FPS level. However, for completeness, the CMA also assessed whether the merged entity would have the incentive to engage in any foreclosure activities should it have that ability

to do so. In assessing the incentives to engage in the foreclosure strategies, the CMA has considered the possibility of potential gains and potential losses for the merged entity.

- *Potential gains*

312. Mastercard competes with alternative payment methods relying on FPS.¹²¹ As a result, it is possible that it could have an interest in putting its competitors at a disadvantage. By increasing cost or worsening quality, the merged entity could make the competitor less attractive to its customers. This may lead to the passing on of any increased costs by the affected users of FPS to their customers. Alternatively, the reduction in service standards could impact customer satisfaction with competing payment methods. In such circumstances Mastercard could therefore gain from customers using its card, instead of a competing payment method.

- *Potential losses*

313. The Parties and third parties submitted to the CMA that any decrease in service level is highly visible not only to FPS but also to FPS members. The Parties emphasised that any larger service degradation or failure would meet public scrutiny.

314. The Parties further submitted that acquiring fast ACH capability was an important rationale for the transaction for Mastercard. In order to export these services internationally, the merged entity would need the successful implementation and operation of FPS in the UK to use as a reference abroad.

315. The CMA understands that service degradation would be visible to both, FPS and its users. VocaLink's performance is tracked and monitored against the required service levels set out in the contract. For any service level failures, VocaLink is also required to investigate and deliver a report to FPS as well as to take action to remedy the impact and causes of the failure.¹²² The FPS infrastructure also sends automated messages to all users connected to the central infrastructure (including [REDACTED]) in the event of certain types of service failures, further increasing the visibility of poor service. As a result of this visibility, any degradation of service would be likely to affect the merged entity's reputation as CIS provider.

316. The CMA believes that there are a number of alternative providers capable and willing to supply CIS to FPS. Therefore, to engage in any foreclosure

¹²¹ For instance, [REDACTED].

¹²² Clause [REDACTED].

strategy would risk adversely affecting the merged entity's chances of succeeding in the next tender of the FPS contract.

317. Furthermore a loss of a Direct Agency would currently result in a loss of [redacted] of VocaLink's 1.2 billion FPS transactions.¹²³ Given the [redacted] between VocaLink and [redacted], the CMA assessed whether the merged entity may be able to choose a foreclosure strategy that minimises the losses it would incur and maximises the impact on its downstream competitors, eg [redacted]. For instance, it may raise prices of services where switching to Visa is not likely (eg outgoing payments) or make access to innovation more costly or difficult. In doing so the merged entity's revenues generated from its contract with FPS would not be significantly affected as the FPS Agreement provides that [redacted].¹²⁴
318. However, overall the CMA notes that Mastercard currently only has a small share of debit cards (compared to Visa's [redacted]% in UK debit cards) and total transactions in the UK, reducing its incentive compared to a situation where it had a larger share of transactions. As such, a foreclosure strategy would be unlikely to be profitable. If the merged entity were successful in driving payment volumes away from an FPS user, such a strategy is much more realistic to benefit Visa. It would direct processing revenue through FPS away from the merged entity, making it less profitable.
319. Based on the above, the CMA believes that even if there was the ability of the merged entity to adopt foreclosure strategies the gains compared to the losses would be too insignificant. Therefore, overall, the CMA believes that it is not realistic that the merged entity has the incentive to engage in (partial) foreclosure of current and future competitors, ie Direct Agencies and/or FPS members that compete with Mastercard in the supply of customer-to-merchant payment methods, either online or at the POS.

As access provider

320. With regard to individually negotiated contracts that VocaLink has as access provider, the CMA likewise assessed the merged entities potential incentives to engage in (partial) input foreclosure.

- *Potential gains*

321. The CMA believes gains would be similarly limited as those outlined above (paragraph 312)

¹²³ [redacted].

¹²⁴ [redacted].

- *Potential losses*

322. The CMA believes that the losses outlined above would occur. Additionally the CMA believes that further losses could occur for the reasons outlined below.
323. The CMA recognises the possibility for a Direct Agency to either become a direct member of FPS or to use an alternative access provider to access FPS's central infrastructure.
324. [✂].
325. With regard to alternative access providers, the Parties submitted and the PSR confirmed that there are a number of these providers that can supply access services to FPS similar to the services provided by VocaLink, namely ACI, Bottomline and FIS.
326. The CMA therefore believes that by engaging in any foreclosure strategy the merged entity would be aware of, and, risk the loss of the Direct Agency customer either through the customer becoming a direct member of FPS or obtaining access provision from a third party and as such likely outweigh the limited gains identified.

Conclusion on service degradation and increase in cost

327. On the basis of the evidence above, the CMA considers that the merged entity would have neither the ability nor the incentive to (partially) foreclose FPS' users that compete with Mastercard and rely on FPS by degrading services or increasing the cost of FPS services. In light of this, the CMA did not assess the effects of such hypothetical conduct on competition.

Preventing innovation

Ability

328. The CMA further assessed VocaLink's ability to (partially) foreclose competitors from new developments or innovation, by restricting the access to, or the roll-out of, new FPS services, particularly if those competitors have a direct connection to the central infrastructure.
329. Concerns were raised that VocaLink was currently upgrading the FPS service to the PayPort Managed Service Gateway.¹²⁵ It could choose not to make these services available to its competitors which use this service putting those

¹²⁵ PayPort is VocaLink aggregator product.

competitors at a competitive disadvantage compared to others that may have access to this innovation.

330. Further, concerns were raised that Mastercard may have the ability to limit roll-out of new products or services to, or otherwise favour, only its own payment services. This would include Masterpass and, following the acquisition of VocaLink, Zapp, which, once launched, is also said to compete, directly with third parties that rely on the provision of CIS to FOS and have a bilateral relationship and direct technical link to VocaLink.
331. CMA notes that the concerns raised do not apply to innovation at a central infrastructure level. These are in any event governed by a [redacted] for work that VocaLink will undertake at FPS' discretion.¹²⁶
332. VocaLink's ability to make changes on the central infrastructure level without FPS' approval is contractually limited. Moreover, VocaLink is not able to discriminate between users of its core services. Therefore, once a change has been implemented, all FPS users have equal access and use of it.
333. The CMA notes that if innovation is driven by a competitor or, indeed, any FPS user, those changes could not be hindered by VocaLink as it is FPS and not VocaLink that decides on granting or denying access to FPS.
334. With regard to VocaLink as access provider, ie in relation to users of VocaLink's PayPort product, the CMA notes that there are other providers available that could be used to gain access to FPS or to implement innovation on this level.¹²⁷
335. Finally, the CMA recognised the PSR's objective to promote the development of, and innovation in, payment systems in the interests of those who use, or are likely to use, payment systems' services, with a view to improving the quality, efficiency and economy of payment systems.¹²⁸
336. Based on the above the CMA believes that the merged entity will not have the ability to prevent innovation on the central infrastructure level. However, the CMA cannot exclude that VocaLink has the ability to prevent or slow down innovation as access provider.

¹²⁶ [redacted].

¹²⁷ See the above paragraph 325 mentioned aggregators.

¹²⁸ Section 51 FSBRA 2013. In particular, in conjunction with the PSR's power to give directions under section 54 FSBRA.

Incentive

337. The CMA considers that the same potential gains and losses would arise if the merged entity were to engage in a strategy that would prevent innovation as outlined under paragraph 312 et seq. above and that, therefore, the merged entity will not have an incentive to prevent innovation.

Conclusion on service degradation, increase in cost and preventing access to new innovative services

338. Since the CMA has concluded that the Merger is not likely to provide the merged entity with sufficient ability and/or incentive to foreclose, the CMA has not further assessed the impact of the Merger on the effects of a foreclosure strategy on competition.

Access to commercially sensitive information of FPS users that compete with Mastercard

339. A third party raised concerns that, after the Merger, Mastercard may have visibility of commercially sensitive information of its competitors that use FPS and that Mastercard might have the ability and incentive to use this information to target customers of FPS users and offer them attractive conditions to switch to products using Mastercard.

Ability

340. The CMA understands that VocaLink currently has access to FPS members' account holder information.¹²⁹ With the Merger, the merged entity may have an insight over that data. In particular, the merged entity may acquire knowledge of the volume of transactions of a merchant and use this so as to increase usage of Mastercard's card services.
341. The Parties confirmed that VocaLink had access to certain FPS member data but also submitted that under the FPS Agreement [REDACTED].¹³⁰
342. With regard to information of [REDACTED]. The merged entity has no access to the identity of the specific user [REDACTED] unless this data is voluntarily provided [REDACTED]. Therefore, the use of the information the merged entity has access to, does not allow it to target certain merchant customers of Mastercard's competitors.

¹²⁹ [REDACTED].

¹³⁰ [REDACTED].

343. The CMA notes that the FPS Agreement provides for a possibility of VocaLink [REDACTED].¹³¹
344. A third party mentioned that contractual provisions can be put in place to prevent the strategic use of commercial sensitive information.
345. Based on the above, the CMA believes that whilst the merged entity would have access to commercially sensitive information, contractual protections are in place that impede the merged entity's ability to use commercially sensitive information and [REDACTED] that information cannot be used strategically.
346. In addition, the CMA considers that the Merger will not give Mastercard direct access to a competitors' offer as this is not information that is available on scheme level. Further, the CMA considers it realistic that customers would provide relevant information directly to Mastercard if they were to gain from this.
347. The CMA, therefore, believes that it is not realistic that the merged entity would have sufficient ability to use commercially sensitive information to foreclose FPS users that compete with Mastercard.

Conclusion on access to commercially sensitive information of FPS users that compete with Mastercard

348. Since the CMA has concluded that the Merger will not provide the merged entity with sufficient ability to foreclose in such a way, the CMA has not further assessed the impact of the Merger on its incentive to foreclose and the effect of a foreclosure strategy on competition in this regard.

Conclusion on payment providers that compete with Mastercard and rely on FPS

349. As set out above, the CMA believes that the merged entity would have little or no ability to engage in any of the foreclosure strategies outlined and that in each instance the losses the merged entity would suffer as a result of such behaviour would outweigh the gains. Accordingly, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of vertical effects in relation to the supply of alternative payment methods that compete with Mastercard and rely on FPS.

¹³¹ [REDACTED].

Vertical effects – Ability and incentive to reduce or prevent innovation in the supply of payment methods relying on FPS and Bacs

350. Mastercard's card scheme competes, at least to some extent, with payment methods relying on FPS and Bacs, ie interbank payment systems that currently rely on VocaLink's supply of CIS. After the Merger, Mastercard will own the payment infrastructures on which its competitors rely.
351. Third parties expressed concerns regarding the effects of the Merger on payments relying on either FPS or Bacs.
- a) With regard to FPS some third parties expected a significant increase in competition between card payments and, in particular, fast payments facilities in the next 5 to 10 years and expressed concerns that Mastercard might hinder this process as owner of the central infrastructure. One third party, in particular, submitted that [REDACTED].
- b) In relation to Bacs, the CMA received concerns from several Bacs Accredited Bureaux. These respondents anticipated that it would no longer be in the strategic interest of VocaLink to devote investment and attention to the Bacs infrastructure after the Merger. A third party mentioned that there was an increasing number of bureaux offering innovative services, simplifying access to direct debit for payments and that these innovative payment services using Bacs may be at risk of underdevelopment following the Merger as they competed closely with Mastercard's card services.
352. For the purpose of its investigation the CMA has, therefore, assessed the possibility of the Merger leading to a loss of innovation in the UK with regard to customer-to-merchant payment methods, me-to-me payment methods and recurring payment methods. The CMA assessed, in particular, whether Mastercard, as owner of VocaLink, has the ability and incentive to reduce investment and overall resources available for improvements in VocaLink's infrastructure to support innovation in payment methods relying on FPS and Bacs rails.

Ability

Parties' submission

353. The Parties submitted that VocaLink's contracts with both FPS and Bacs provided for [REDACTED]. VocaLink has agreed with both Bacs and FPS to [REDACTED] and the [REDACTED] was determined by the schemes. Furthermore, the schemes typically initiate and control innovation. Therefore, innovative products do not arise

from VocaLink's processing of FPS transactions but rather from a third party with an innovative idea contracting either with FPS or a sponsor bank.

354. The Parties put forward further that the merged entity would remain subject to these [REDACTED] with FPS and Bacs. In addition, both in the [REDACTED] for both schemes, Mastercard had committed to [REDACTED]. Mastercard undertakes [REDACTED]. Likewise, Mastercard undertakes to [REDACTED].

Third party views

355. Third parties were concerned that the Merger would reduce the strategic incentive of the merged entity to invest in innovation in the schemes and questioned whether the current contractual protections available were sufficient.

CMA's assessment

356. As set out above, [REDACTED].
357. The CMA took into account that, other than [REDACTED], there is no additional commitment by VocaLink to innovate. The CMA also recognises that development and implementation of innovations could be delayed by the merged entity.
358. However, as explained, the assessment of vertical effects in relation to payment providers that compete with Mastercard and rely on FPS,¹³² it is not VocaLink that drives innovation. Rather, it is the relevant schemes, or the members via the scheme that drive innovation.
359. A targeted approach to innovation in order to harm only particular users of the scheme that pose a competitive threat to the merged entity is not technically possible. In relation to FPS, the reason why this is the case has been outlined above. For Bacs, the potential competitors are the accredited bureaux which do not directly access the system. It is also not possible to distinguish their transactions from others, both because, as explained by third parties, the transactions of the accredited bureaux are technically processed through the sponsor bank and because Bacs is subject to service level obligations and non-discrimination obligations.
360. In addition, the CMA notes that the PSR has a statutory duty to promote innovation with regard to the payments systems and their infrastructure. Examples of the PSR's work is evidenced, for example, by its efforts to create

¹³² See above 295 et seq.

Aggregators for access to FPS or the establishment of the PSF. Other regulatory measures are also in place to ensure innovation, such as the CMA's requirements for banks' open application programming interface or the introduction of PSD2 at a European level.

361. Based on the above the CMA believes that the merged entity will have no ability to prevent innovation. The CMA however considers it possible that the merged entity might reduce innovation by delaying or slowing down implementation of scheme-driven innovations. In addition, any innovation that Bacs and FPS are planning in the course of the current contract would need to be passed on to the merged entity for implementation thereby giving it access to the strategic plans of the schemes. As the merged entity would have access to its competitor's innovations this might reduce Mastercard's own efforts to innovate, thereby decreasing innovation in general.
362. The CMA, therefore, on a cautious basis does not exclude a realistic prospect that the merged entity will have the ability to reduce innovation.

Incentive

363. The CMA assessed whether the merged entity would have the incentive to reduce or prevent innovation to payment methods relying on FPS and Bacs rails.

Potential gains

364. The CMA considers that, as explained above, by foreclosing innovative products Mastercard may reduce rivalry with its card payment services. Some third parties stated that they expected a significant increase in competition between credit card payments and Bacs/FPS based payment facilities. A third party submitted that it is exploring an opportunity to use FPS to enable card transactions without the need to use the major debit card schemes.
365. Several Bacs Accredited Bureaux also expressed the concern that, as a result of the Merger, it would no longer be in the strategic interest of the merged entity to devote investment and attention to the Bacs system, but rather to promote a higher number of transactions and gains in Mastercard's card network. In relation to the Bacs approved bureaux the Parties submitted that there was no incentive to prevent or reduce innovation in Bacs, in detriment of accredited bureaux, as these bureaux were an important element of Bacs, accounting for a large share of ([REDACTED]) all Bacs transactions.

Potential losses

366. By adopting a strategy of ‘underinvestment’ in VocaLink’s network that prevents or reduce innovation by competing payment services, Mastercard may incur only insignificant direct losses (at least for the duration of VocaLink’s current contracts with FPS and Bacs). However, the CMA found that there are a number of credible alternative providers of CIS to both Bacs and FPS. Therefore, by adopting such strategy Mastercard would risk being unsuccessful and diminish its chances in the next tender.
367. Mastercard’s rationale for the transaction as evidenced in the internal documents mentioned above also indicate that to prevent and reduce innovation in BACs and FPS is not in Mastercard’s interest. Mastercard’s rationale for the transaction is in large part centred on Mastercard gaining access to ACH-capabilities and expanding these technologies abroad. ACH facilities are already used in a number of jurisdictions and the CMA believes that Mastercard’s performance in the UK would be taken into account by overseas’ schemes looking for a new supplier.¹³³ Any underperformance in the UK would therefore diminish Mastercard’s chances of being awarded a contract abroad. Furthermore, as submitted by the Parties, a reduction of innovation would lead to reputational damage and loss of the contract with the scheme at renewal.
368. The CMA, therefore, recognises the importance for Mastercard to uphold its reputation as an innovative company and to gain international recognition in the ACH field.
369. Additionally, the CMA believes the PSR’s powers to intervene will be a further disincentive for the merged entity to stifle competition.
370. Some third parties stated that, for the reasons mentioned above, Mastercard would put itself at a competitive disadvantage were it to reduce innovation in the UK’s primary retail payment systems, and that this would generate significant losses for Mastercard that would not be offset by the gains mentioned in paragraph 364.
371. Since the CMA has found very limited ability and no incentive for the merged entity to prevent or reduce innovation, the CMA has not assessed the effects of the merger.

¹³³ For example in Poland, Sweden, Denmark, Italy and Portugal.

Conclusion on ability and incentive to reduce or prevent innovation in the supply of payment methods relying on FPS and Bacs

372. On the basis of the evidence above the CMA believes that the merged entity may have limited ability and no incentive to reduce or prevent innovation in the supply of payment methods that use the FPS or Bacs. Therefore, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of loss of innovation in the supply of different payment methods downstream that compete with Mastercard.

Barriers to entry and expansion

373. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no substantial lessening of competition. In assessing whether entry or expansion might prevent a substantial lessening of competition, the CMA considers whether such entry or expansion would be timely, likely and sufficient.¹³⁴

374. However, the CMA has not had to conclude on barriers to entry or expansion for the above assessed horizontal theory of harm relating to the loss of potential competition between Zapp and Mastercard and the vertical theories of harm (para. 194 et seq.) as the Merger in this respect does not give rise to competition concerns on any basis. With regard to theory of harm relating to horizontal unilateral effects on competition for the market for the supply of CIS barriers to entry and expansion have been taken into account in assessing VocaLink incumbency advantage.

Third party views

375. The CMA contacted customers and competitors of the Parties and direct and indirect users of the three UK schemes as well as regulators.

376. Third party comments have been taken into account where appropriate in the competitive assessment above.

377. Additional concerns were expressed regarding the fact that with Mastercard a non UK company will be owning a UK infrastructure and regarding the availability of cash to certain consumer groups. These concerns are however not relevant to the CMA's assessment of the Merger.

¹³⁴ [Merger Assessment Guidelines](#), from paragraph 5.8.1.

Decision

378. Consequently, the CMA believes 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.
379. The CMA therefore believes that it is under a duty to refer under section 33(1) of the Act. However, the duty to refer is not exercised¹³⁵ whilst the CMA is considering whether to accept undertakings¹³⁶ instead of making such a reference. The Parties have until **11 January 2017**¹³⁷ to offer an undertaking to the CMA.¹³⁸ The CMA will refer the Merger for a phase 2 investigation¹³⁹ if the Parties do not offer an undertaking by this date; if the Parties indicate before this date that they do not wish to offer an undertaking; or if the CMA decides¹⁴⁰ by **18 January 2017** that there are no reasonable grounds for believing that it might accept the undertaking offered by the Parties, or a modified version of it.

Andrea Coscelli
Acting CEO
Competition and Markets Authority
4 January 2017

ⁱ Paragraph 282 c) first sentence should read: LINK stated that contractual protections might not be sufficient because Mastercard's scheme management function was not separate from the ATM switching business.

¹³⁵ Section 33(3)(b) of the Act.

¹³⁶ Section 73 of the Act.

¹³⁷ Section 73A(1) of the Act.

¹³⁸ Section 73(2) of the Act.

¹³⁹ Sections 33(1) and 34ZA(2) of the Act.

¹⁴⁰ Section 73A(2) of the Act.