

Anticipated acquisition by Standard Life plc of Aberdeen Asset Management PLC

Decision on relevant merger situation and substantial lessening of competition

ME/6686/17

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 22 June 2017. Full text of the decision published on 18 July 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.

SUMMARY

1. Standard Life plc (**Standard Life**) has agreed to acquire Aberdeen Asset Management PLC (**Aberdeen**) (the **Merger**). Standard Life and Aberdeen are together referred to as the **Parties**.
2. 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.
3. The Parties overlap in the supply of active asset management services and in the supply of business-to-business platform services (**adviser platforms**) in the UK (and elsewhere). The CMA therefore assessed the impact of the Merger in relation to the supply of:
 - (a) active asset management services (ie the supply of collective investment vehicles and portfolio management services) – on a cautious basis, the CMA also considered possible segmentation by customer (retail and institutional investor) and type of underlying asset (eg equities, real estate, multi-asset); and

(b) adviser platforms.

4. In both product frames of reference, on a cautious basis, the CMA assessed the impact of the transaction in the UK.
5. The CMA found that the Parties have relatively modest shares of supply and face a significant number of competitors in both the provision of active asset management services and adviser platforms. Third parties also confirmed to the CMA that the Parties are not particularly close competitors, either generally in active asset management or in any narrower customer or asset category, or in adviser platforms. In addition, the CMA identified a number of significant competitors which will continue to constrain the Parties post-Merger.
6. The CMA believes that these constraints, taken together, are sufficient to ensure that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects in the supply of either active asset management services or adviser platforms in the UK.
7. Although there are a number of vertical relationships between the Parties, the CMA did not identify any credible vertical theory of harm.
8. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

9. Standard Life is a public limited company, headquartered in Edinburgh, with shares listed on the London Stock Exchange. It is active in asset management (through its Standard Life Investments business) as well as pensions and savings. The turnover of Standard Life in the financial year ending 31 December 2016 was £18,776 million worldwide and £[~~XX~~] million in the UK.
10. Aberdeen is a public limited company, headquartered in Aberdeen, with shares listed on the London Stock Exchange, which is also active in asset management. The turnover of Aberdeen in the financial year ending 30 September 2016 was £1,005 million worldwide and £[~~XX~~] million in the UK.

Transaction

11. Under a scheme of arrangement under Part 26 of the Companies Act 2006, Standard Life will acquire the entire issued share capital of Aberdeen.
12. The Parties informed the CMA that the Merger was the subject of review by competition authorities in the Republic of Ireland, Germany and the United States. The Merger was cleared by all these competition authorities prior to the CMA's decision.

Jurisdiction

13. As a result of the Merger, the enterprises of Standard Life and Aberdeen will cease to be distinct.
14. The UK turnover of Aberdeen exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied.
15. 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.
16. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 22 May 2017 and the statutory 40 working day deadline for a decision is therefore 18 July 2017.

Counterfactual

17. 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 these conditions.¹
18. In this case, there is no evidence supporting a different counterfactual, and the Parties and third parties have not put forward arguments in this respect.

¹ *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).

Therefore, the CMA believes the prevailing conditions of competition to be the relevant counterfactual.

Frame of reference

19. 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.²
20. The Parties overlap in the supply of asset management services, as well as in the distribution of asset management products through platforms. Each of these services is addressed in turn below.

Product scope

Asset management services

21. The Parties overlap in the provision of asset management services on a global basis.
22. The UK's asset management industry manages over £1 trillion for UK retail investors and £3 trillion on behalf of UK pension funds and other institutional investors. The industry also manages around £2.7 trillion on behalf of overseas clients.³
23. According to the Parties and third parties, asset managers compete primarily on value (delivering return net of cost), client service, performance, product range and 'shelf space' (ie distribution channels).
24. Previous UK and EU merger cases have defined the supply of asset management services to include:
 - (a) the creation, establishment and marketing of collective investment schemes (eg mutual funds, unit trusts, investment trusts and open ended investment companies), for both institutional and retail customers; and

² [Merger Assessment Guidelines](#), paragraph 5.2.2.

³ Financial Conduct Authority Interim Report: Asset Management Market Study, November 2016 (**FCA Interim Report**).

(b) the provision of portfolio management services.⁴

25. In the present case, the CMA did not receive evidence to suggest that it should depart from this product frame of reference. However, in line with previous cases,⁵ the CMA considered whether it was appropriate in this case to delineate the product market further, either:

(a) between actively and passively managed funds;

(b) between retail and institutional customers; and/or

(c) by asset type.

26. Each of these possible further segmentations of the frame of reference is considered in turn.

Actively and passively managed funds

27. Active asset managers research and invest in individual companies while passive managers invest in portfolios that seek to reflect an index (eg FTSE 100).

28. The Parties overlap only in active asset management services. Therefore, the CMA assessed the impact of the Merger in relation to active asset management services. It was not necessary for the CMA to reach a conclusion in this case on whether active and passive asset management fall within the same product frame of reference as no competition concerns arise on any basis.

Customer type

29. Previous UK and EU merger cases have considered a potential segmentation of asset management services by customer type, namely between institutional and individual (or retail) customers.⁶

⁴ CMA Decision: *Anticipated acquisition by BMO Global Asset Management (Europe) Limited of F&C Asset Management plc*, 2 May 2014 (**BMO / F&C**), paragraph 14; Case M.7877: *Warburg Pincus / General Atlantic / Unicredit / Santander / SAM / Pioneer*, 26 May 2016, paragraph 21.

⁵ *BMO / F&C*, paragraph 19.

⁶ **EU cases:** Case M.7877: *Warburg Pincus / General Atlantic / Unicredit / Santander / SAM / Pioneer*, 26 May 2016; COMP/ M.6812: *SFPI / Dexia*, 21 February 2013; COMP/M.5728: *Credit Agricole / Societe Generale Asset Management*, 22 December 2009; COMP/M.5580: *BlackRock/Barclays Global Investors UK Holdings*, 22 September 2009.

UK cases: *BMO / F&C*; OFT Decision: *Anticipated decision by BlackRock of the exchange traded funds business of Credit Suisse*, 13 June 2013 (**BlackRock / Credit Suisse ETF**); OFT Decision: *Anticipated Acquisition by Resolution plc of Friends Provident*, 12 October 2007; OFT Decision: *Anticipated Acquisition by Old Mutual plc of Försäkringsaktiebolaget Skandia*, 30 November 2005.

30. The Parties submitted that, although there are differences between the two types of customer, these differences are not sufficient for them to be treated as separate markets. The Parties highlighted a number of factors which they suggested pointed to a single market, including product crossover, similar investment drivers, the availability of intermediated sales of 'institutional' products to retail investors and ease of supply-side switching.
31. Feedback from third parties indicated that the key difference between sales to institutional and retail customers is that sales to institutional customers require a sophisticated approach (including detailed reporting and risk management) while sales to retail customers focus on delivering mass-appeal products. One third party submitted that creating a credible and scalable institutional service would be a big step for a retail-only supplier, while an institutional-only supplier will often have little experience of marketing to the public or working with third party distributors or platforms. Notwithstanding these differences, the CMA has observed that most of the large asset management providers offer services to both institutional and retail investors.
32. In this case, as no competition concerns arise on either a narrow or broader frame of reference, the CMA has not found it necessary to conclude on whether there should be separate frames of reference for institutional and retail investors.

Asset type

33. Asset management mandates and pooled funds can be restricted to specific asset classes or subsets, like UK smaller companies or emerging market equities, or they can be wider, such as multi-asset, allowing the asset manager more discretion to switch between assets.⁷ The Parties submitted that, although different asset types/products offer different risk profiles, identifying separate frames of reference by specific fund, asset or product type would be artificially narrow and ignore the market realities of the asset management industry.
34. Previous cases have considered narrow asset types without reaching a conclusion on whether these constitute distinct product markets.⁸ In the present case, feedback from third parties indicated that managers may specialise in certain asset classes and this was one reason provided by third parties (investors and advisers) for using multiple asset managers (in addition to the benefits of diversification). However, most asset managers offer a

⁷ FCA Interim Report.

⁸ See for example: *BlackRock / Credit Suisse ETF*, in which the only overlap between the Parties was in exchange traded funds.

range of asset types and, as noted in *BMO / F&C*, it would be rare that only a certain fund would meet a client's need. The CMA also received evidence indicating the increasing popularity of multi-asset funds, and the importance of diversification to investors, which suggested that a narrow single-asset frame of reference may not reflect the competitive reality where broader demand and supply-side substitution occurs.

35. In this case, as no competition concerns arise on either a narrow or broader frame of reference, the CMA has not found it necessary to conclude on whether there should be separate frames of reference for different asset/fund types.

Platform services

36. The Parties also overlap in the provision of platform services for the distribution of asset management products and services. Standard Life operates three adviser platforms: Fundzone, Wrap⁹ and Elevate;¹⁰ while Aberdeen operates one platform: Parmenion.
37. Platforms are services used by intermediaries and retail investors to invest money in a range of funds from different asset managers and hold them together in one account. They typically offer a range of tools, which enable the investor or intermediary to see and analyse an overall portfolio.
38. Platform services can either be direct-to-consumer (**DTC**) platforms (ie accessed directly by retail investors) or adviser platforms (ie accessed only by intermediaries such as independent financial advisers). The Parties submitted that there is strong demand-side substitution between DTC and adviser platforms, with both types of platform allowing retail investors to invest in a range of funds. Third party feedback gave some support to this and noted that adviser platforms also compete with other routes to market, including wealth managers.
39. The Parties overlap only in the supply of adviser platforms (ie not DTC platforms). Therefore, the CMA assessed the impact of the Merger in relation to adviser platforms. However, it was not necessary for the CMA to reach a conclusion in this case on whether DTC and adviser platforms fall within the same product frame of reference as no competition concerns arise on any basis.

⁹ Wrap is operated by Standard Life's pension and savings business.

¹⁰ Standard Life acquired Elevate from AXA in May 2016.

40. The CMA also notes that Standard Life's adviser platforms offer a 'whole-of-market' service, where advisers can access a range of funds to compile bespoke portfolios in conjunction with their client, while Parmenion only offers pre-compiled, risk-weighted portfolios, which are available as an off-the-shelf solution (known as 'discretionary fund management'). It was not necessary for the CMA to conclude on whether these different approaches could constitute distinct frames of reference as, on a conservative basis, the CMA considered both together and found no competition concerns. The CMA has taken into account the differentiated nature of the Parties' adviser platform offerings within its competitive assessment.

Geographic scope

Asset management services

41. Previous UK and EU merger cases have considered whether markets for asset management might be international, or at least EEA-wide, in scope.¹¹ However, the CMA (and its predecessor bodies) has previously taken a cautious approach, considering the impact of transactions in the UK alone.
42. The Parties submitted that asset management is a global market, highlighting that the main providers in the UK are active across the world, and that a significant proportion of many UK-based providers' assets under management are managed on behalf of non-UK clients.
43. A number of third parties told the CMA that the market for asset management is increasingly global. This feedback was consistent with the Parties' view that few geographical barriers exist and that all of the largest players operate in the US and Europe.
44. However, the CMA noted that, despite operating globally, over 80% of each of the Parties' EU-wide turnover is generated in the UK. The CMA also noted the different regulatory requirements and authorisations required for operating in different geographic markets. Therefore, on a cautious basis, the CMA examined the transaction on a UK-wide basis. It was not necessary for the

¹¹ **UK Cases:** *BlackRock / Credit Suisse ETF*, paragraphs 36-40; OFT Decision: *Anticipated acquisition by Royal London Mutual Insurance Society of certain assets and business of Resolution plc*, 28 December 2007, paragraph 18; OFT Decision: *Anticipated acquisition by Pearl Group Limited of Resolution plc*, 28 December 2007, paragraph 19; OFT Decision: *Anticipated acquisition by Resolution plc of Friends Provident plc*, 12 October 2007, paragraphs 17-18; OFT Decision: *Anticipated acquisition by Old Mutual plc of Försäkringsaktiebolaget Skandia (publ)*, 19 December 2005, paragraphs 21-2; OFT Decision: *Anticipated merger of ISIS Asset Management plc & Foreign Colonial Group (Holdings) Limited*, 19 August 2004.

EU cases: COMP/M.5580: *BlackRock / Barclays Global Investors UK Holdings*, 22 September 2009, paragraph 14 with further case references in footnotes 7 and 8.

CMA to reach a conclusion in this case on the geographic frame of reference as no competition concerns arise on any basis.

Adviser platforms

45. The Parties submitted that adviser platforms could also be a global market as adviser platforms can easily expand their offerings to different jurisdictions.
46. However, the Parties' adviser platforms are currently focused on UK intermediaries who service retail investors in the UK. Therefore, on a cautious basis, the CMA examined the transaction on a UK-wide basis. It was not necessary for the CMA to reach a conclusion in this case on the geographic frame of reference as no competition concerns arise on any basis.

Conclusion on frame of reference

47. For the reasons set out above, the CMA assessed the impact of the Merger in the following frames of reference:
 - the supply of active asset management services in the UK;
 - the supply of adviser platforms in the UK.
48. Within active asset management, the CMA also considered the impact of the Merger on narrower frames of reference based upon customer type and asset type (on both an alternative and cumulative basis).
49. However, it was not necessary for the CMA to reach a conclusion in this case on either the product or geographic frame of reference, since, as set out below, no competition concerns arise on any plausible basis.

Competitive assessment

Horizontal unilateral effects

50. 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 to degrade quality on its own and without needing to coordinate with its rivals.¹² Horizontal unilateral effects are more likely when the merger parties are close competitors.

¹² [Merger Assessment Guidelines](#), from paragraph 5.4.1.

51. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to horizontal unilateral effects in the frames of reference set out in paragraph 47.

Asset management

Shares of supply

52. The Parties' combined share of supply in active asset management services in the UK is [5-10]% (with an increment of [0-5]%).
53. The Parties also submitted estimates of their combined shares of supply on a number of more narrow bases as set out in paragraph 48. The Parties' combined shares of supply of active asset management services based on investor (retail or institutional) or fund (pooled or segregated) type, is under 10%. When considered on a narrower frame of reference by asset-type, the Parties' shares of supply are larger in some segments (in particular property and multi-asset funds) but they remain significantly under 30% in all plausible frames of reference. Moreover, in these narrower segmentations the increment is generally small.
54. In the course of its investigation, the CMA spoke with the Financial Conduct Authority. The shares submitted by the Parties were broadly consistent with the FCA's view of the market. No third party raised any concerns or provided any contradictory evidence about the Parties' shares of supply in any segment.
55. The CMA believes that shares of supply at this level are not indicative of competition concerns resulting from the Merger.

Closeness of competition

56. The Parties submitted that the merged entity will continue to be constrained by a significant number of competitors post-Merger.
57. Third parties confirmed that the products of both Parties compete with a significant number of other large competitors to attract investors. Third party comments did not suggest that the Parties were close competitors, and many third parties noted that the Parties' strengths are largely complementary. In relation to property and multi-asset funds, in which the Parties' combined shares of supply were larger, third parties also said that the Parties are not particularly close competitors, and that there are a number of significant competitors which will continue to constrain the Parties post-Merger.

58. The CMA therefore believes that Standard Life and Aberdeen are not particularly close competitors.

Competitive constraints

59. The Parties and third parties noted the fragmented nature of the asset management market and the abundance of suppliers across asset classes.¹³ The CMA found that there is a large number of significant providers offering a comprehensive range of administration, advice and investment services in the UK. These include BlackRock, Legal & General Asset Management, State Street Global Advisers and Vanguard, all of which, along with many others, will continue to constrain the merged entity across its range of asset management activities post-Merger.
60. The CMA therefore believes that the merged entity will continue to face strong competitive constraints post-Merger.

Conclusion on horizontal unilateral effects in asset management services

61. For the reasons set out above, the CMA believes that the Parties do not have a large combined share of supply in active asset management services in the UK, or in any plausible narrower frame of reference; they are not particularly close competitors, either generally or in any narrower plausible frame of reference; and they will continue to be constrained by a number of significant competitors post-Merger.
62. Accordingly, 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 the supply of active asset management services in the UK, or in any narrower plausible frame of reference.

Adviser platforms

63. The Parties' combined share of supply in adviser platforms in the UK is around [10-20]%, which is well below a level which would typically indicate competition concerns, and the increment arising from the Merger is very small ([0-5]%).
64. The Parties submitted, and third parties confirmed, that their platform offerings are differentiated and are not close competitors. In particular, Aberdeen's

¹³ The FCA Interim Report indicated there were 1,840 authorised asset management firms in November 2016 (paragraph 3.13).

platform only sells its own pre-compiled risk-weighted portfolios and not individual funds.

65. No third parties raised merger-specific competition concerns in relation to the Merger's impact in the supply of adviser platforms in the UK.
66. For the reasons set out above, the CMA believes that there is no realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of adviser platforms in the UK.

Vertical effects in asset management services

67. Vertical effects may arise when a merger involves firms at different levels of the supply chain.
68. There are a number of vertical relationships between the Parties, eg between each Party's asset management business and platform business; between Standard Life's pensions and savings business and each Party's asset management business; and between Standard Life's advisory business and the asset management services of Aberdeen.¹⁴
69. However, in the absence of any horizontal concerns, the CMA did not identify any credible vertical theory of harm. No third parties raised any merger-specific vertical competition concerns.

Third party views

70. The CMA contacted customers and competitors of the Parties. The CMA also engaged with the Financial Conduct Authority. No third parties raised merger-specific competition concerns about the Merger.
71. Third party comments have been taken into account where appropriate in the competitive assessment above.

Decision

72. Consequently, the CMA does not believe that it is or may be the case that the Merger may be expected to result in an SLC within a market or markets in the UK.
73. The Merger will therefore **not be referred** under section 33(1) of the Act.

¹⁴ There are also more minor vertical links in relation to fund of funds and custody services.

Andrew Wright
Director of Mergers
Competition and Markets Authority
22 June 2017

Endnote

Paragraph 54 of this Decision as issued to the Parties on 22 June 2017 indicated that the shares of supply submitted by the Parties were consistent with the FCA's view of the market. The text of this paragraph has been amended in this published Decision to make clear that the FCA did not review the shares of supply submitted by the Parties, but rather gave the CMA its own view of the market, which the CMA considered to be consistent with the information it had received from the Parties.