

# Anticipated merger of Bacs Payment Schemes Limited, Faster Payments Scheme Limited, and Cheque & Credit Clearing Company Limited

## Decision on relevant merger situation and substantial lessening of competition

**ME/6684-17**

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 12 July 2017. Full text of the decision published on 19 July 2017.

### SUMMARY

1. The proposed transaction (the **Merger**) relates to the consolidation of three interbank payment systems:
  - (a) **Bacs payment system (Bacs)**. Bacs is the interbank system for high-volume, regular payments. Bacs processes payments through two electronic payment schemes: (i) Direct Debit, which is used by individuals to pay bills; and (ii) Bacs Direct Credits, which is used by employers to pay salaries and wages. Bacs Payment Schemes Limited (**BPSL**) operates Bacs.
  - (b) **Faster Payments Service payment system (FPS)**. FPS is an interbank payment system that provides near real-time payments. Currently, FPS processes almost all Internet and telephone banking payments in the UK. Faster Payments Scheme Limited (**FPSL**) operates FPS.
  - (c) **Cheque & Credit Clearing system (C&CC)**. C&CC is the interbank payment system that processes cheques and other paper instruments. The current process for clearing cheques is shortly to be replaced by the Image Clearing System (**ICS**), which allows cheques to be scanned and exchanged electronically. Cheque & Credit Clearing Company Limited (**C&CCCL**) operates C&CC.
2. BPSL, FPSL, and C&CCCL are together referred to as the **Parties**.

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 share of supply 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 has found that the Merger does not raise competition concerns as there is currently no material competition between the different payment systems operated by the Parties. In particular, each of the three payment schemes offers a different type of payment, processed at a different speed, via a different channel, and they are typically used for different transaction values. Hence, almost all banks participate in all three payment schemes. This conclusion is reinforced by past decisions from the CMA and OFT, the Parties' internal documents, the views of the relevant regulators and third party evidence gathered in the CMA's investigation.
5. For this reason the CMA believes 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.
6. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

## **ASSESSMENT**

### **Parties**

7. BPSL is a company limited by guarantee that operates Bacs. It currently has 16 members, including banks and building societies. BPSL's UK turnover in the year ending December 2015 was £13 million.
8. FPSL is a company limited by guarantee that operates FPS. It currently has 16 members, including banks and building societies. FPSL's UK turnover in the year ending December 2015 was £40 million.
9. C&CCCL is a company limited by shares that operates C&CC. It currently has nine shareholders, which are banks and building societies. C&CCCL's UK turnover in the year ending December 2015 was £16 million.
10. The services offered by each of the payment schemes are described in paragraph 28.

## Transaction

11. Bacs and FPS are regulated by the Payment Systems Regulator (**PSR**) and the Bank of England (the **Bank**). In addition, the PSR regulates C&CC. In April 2015, the PSR established the Payment Strategy Forum (**PSF**) to drive collaborative innovation in payment systems.<sup>1</sup> In November 2016, the PSF proposed the consolidation of BPSL, FPSL, and C&CCCL into a new single entity: the New Payment Systems Operator (**NPSO**).<sup>2</sup>
12. The Merger will proceed as follows:
  - (a) The businesses of Bacs and FPS will be transferred to the NPSO. In the case of C&CC, it is the ICS that will transfer to the NPSO (because ICS will replace paper processing by 2018).
  - (b) The NPSO will be a company limited by guarantee. The existing members of BPSL, FPSL, and C&CCCL, as well as any future members, will become the new members and shareholders of the NPSO.
  - (c) The NPSO will own and operate the three payment schemes. It will be governed by a new Board, appointed by an Appointments Committee independent from the members.
13. As a result of the transaction, the three payment schemes will cease to be owned and managed separately<sup>3</sup> and will become subject to a single new ownership and governance structure.

### ***Rationale for the transaction***

14. Whilst in the short-term, the services of the current payment systems will continue to be available and offered separately using their current infrastructure, in the longer-term, the NPSO expects to develop a simplified, integrated payments platform, based on a new IT infrastructure. In a strategy document in November 2016, the PSF found that *'multiple payment systems are unnecessarily complex, time consuming, and costly for [payment service*

---

<sup>1</sup> The PSF includes a wide range of industry and service-user stakeholders, including user representatives and payment service providers. These members were appointed jointly by the PSR and the PSF chairman following a public nomination process during the summer of 2015. The Bank, the Prudential Regulatory Authority, the Financial Conduct Authority, and the PSR are observers on the PSF.

<sup>2</sup> It is also intended that the NPSO will acquire the Paym mobile banking service (**Paym**), currently operated by the Mobile Payments Service Company Limited (**MPSCo**).

<sup>3</sup> The three consolidating payment system operators (**PSOs**) have a number of common members/shareholders. They are, however, managed and operated independently, with separate boards of directors (including independent directors) in place to oversee their respective operations and strategy.

*providers] to join and participate in.*<sup>4</sup> The PSF therefore recommended consolidation to establish a new more simplified payments architecture.

15. The final report of the delivery group tasked to set up the NPSO concluded that its purpose is to *'support a vibrant UK economy enabling a globally competitive payments industry through the provision of robust, resilient, collaborative retail payment services, rules and standards for the benefit, and meeting the evolving needs, of all users.'*<sup>5</sup>
16. The Parties submitted that the new governance structure of the NPSO will also ensure greater independence between the financial institutions that participate in the schemes and the operator of the schemes.
17. The PSR has said that the Merger *'could deliver more dynamic competition and innovation in payments. As competition grows, consumers will benefit from new entrants entering the market and competing for customers by offering better service and more innovative products.'*<sup>6</sup>
18. The Bank has stated that the Merger could deliver a number of benefits, including further developing the capability and capacity of the operator, simplifying access and supporting overall resilience and robustness. The Bank supports the consolidation of these operators as a way of realising important financial stability benefits that should flow from the process.<sup>7</sup>

## **Jurisdiction**

19. As a result of the Merger, the enterprises of BPSL, FPSL, and C&CCCL will cease to be distinct.
20. The Parties overlap in the supply of interbank payment services in the UK. Their combined share of supply, based on volume of interbank payment transactions, is higher than 25% (27%).<sup>8</sup> The CMA therefore believes that the share of supply test in section 23 of the Act is met.
21. 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.

---

<sup>4</sup> PSF, A Payments Strategy for the 21<sup>st</sup> Century, Putting the needs of users first, November 2016.

<sup>5</sup> NPSO, Payment System Operator Delivery Group Report, 4 May 2017.

<sup>6</sup> Hannah Nixon, Managing Director of the PSR, [PSR and Bank of England Joint Statement on Payment System Operator Delivery Group \(PSODG\) Report](#), 4 May 2017.

<sup>7</sup> David Bailey, Bank of England, [PSR and Bank of England Joint Statement on PSODG Report](#), 4 May 2017.

<sup>8</sup> As explained in the CMA's guidance, [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, paragraph 4.56, the share of supply test is not an economic assessment of a relevant economic market. Rather, it is simply a reasonable description of a set of goods or services.

22. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 26 June 2017. The statutory 40 working day deadline for a decision is therefore 18 August 2017.

## Counterfactual

23. 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. 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.<sup>9</sup>
24. In the present case, there is no evidence supporting a different counterfactual. Neither the Parties nor third parties have submitted that an alternative counterfactual should be used. Therefore, the CMA believes that the relevant counterfactual is the prevailing conditions of competition.

## Background

25. The Parties operate and provide different types of interbank payment system<sup>10</sup> for use by payment service providers (**PSPs**), ie banks, building societies, credit unions, and other financial institutions. PSPs use interbank payment systems to allow their customers to transfer funds between bank accounts.<sup>11</sup> PSPs provide the physical or electronic interface so that end-users can make payments.
26. An interbank payment system includes a set of rules that is set by the PSO, eg, BPSL, FPSL, and C&CCCL. These rules govern how the system is administered, how payments are processed, the resolution of payment errors, and the criteria that participants in the payment scheme are required to meet.
27. Generally, an interbank payment involves an authenticated message sent from one trusted party to another on behalf of a payor and beneficiary. The

---

<sup>9</sup> [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).

<sup>10</sup> A 'payment system' is defined in the Financial Service (Banking Reform) Act 2013 as follows: a 'system which is operated by one or more persons in the course of business for the purpose of enabling persons to make transfers of funds, and includes a system that is designed to facilitate the transfer of funds using another payments system.'

<sup>11</sup> There are also card payment systems, which facilitate payments made using payment cards (eg debit cards and credit cards). Card payment systems include Visa, Mastercard, and American Express.

message contains information on the value that should be transferred between the accounts. The bank account balances of the payor and beneficiary are then credited and debited accordingly.

28. Each interbank payment system supports a different type of payment transfer, depending on the needs and requirements of end-users. In the UK, there are currently the following interbank payment systems in operation:
- (a) **Bacs.** Bacs is the interbank system for high-volume, regular payments. Bacs processes payments through two electronic payment schemes: (i) Direct Debit, which is used by individuals to pay bills; and (ii) Bacs Direct Credits, which is used by employers to pay salaries and wages. In 2016, Bacs processed over 6 billion payments, with a value of around £4.6 trillion.
  - (b) **FPS.** FPS is an interbank payment system that provides near real-time payments, subject to an upper limit of £250,000. Currently, FPS processes almost all Internet and telephone banking payments in the UK. In 2015, FPS processed 1.2 billion transactions, with a total value of over £1 trillion.
  - (c) **C&CC.** C&CC is the interbank payment system that processes cheques and other paper instruments. In 2015, 452 million items were cleared through the C&CC system, with a total value of £473 billion.
  - (d) **CHAPS.** CHAPS is the UK's large-value sterling payment system. It is operated by the CHAPS Clearing Company. It is the only payment system that guarantees real-time finality of individual payments of unrestricted value across the Bank's Real Time Gross Settlement system.<sup>12</sup> CHAPS is principally used for high-value wholesale financial market transactions and property purchases. In 2016, the total volume of CHAPS transactions was 37.5 million, with a total value of over £68 trillion.
  - (e) **LINK.** The LINK system is responsible for managing the national ATM network. The ATM network enables customers to withdraw cash from almost all the UK's ATMs, irrespective of the bank at which they hold their account. In 2015, LINK processed over 3.17 billion interbank transactions, with a total value of over £127 billion.
29. Bacs, FPS, LINK, and CHAPS are recognised as interbank payment systems under section 184 of the Banking Act 2009. This brings them under the scope of the Bank's supervisory regime. These interbank payment systems are also

---

<sup>12</sup> See [A Guide to the Bank of England's Real Time Gross Settlement System](#), October 2013.

designated by HM Treasury under the Financial Services (Banking Reform) Act 2013, and are therefore regulated by the PSR.

30. The Parties operate on a not-for-profit basis, with the pricing for participation in their schemes based on a cost allocation. These costs include admission costs, connection fees, and allocation of ongoing costs to administer the payment scheme. For Bacs, FPS, and C&CC, PSPs do not charge transaction fees to end-users.<sup>i</sup>

## **Frame of reference**

31. Market definition provides a framework for assessing the competitive effects of a merger. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger. There can be constraints on merging 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.<sup>13</sup>
32. In the present case, the Parties overlap in the supply of interbank payment services in the UK.
33. The Parties submitted that each interbank payment system constitutes a distinct service that is not substitutable. Therefore, the Merger brings about no horizontal overlap and raises no competition concerns.
34. As explained above, each of the three payment systems ultimately allow for the transfer of funds between banks. However, they are used in different ways and for different types of bank transactions.
35. It was not necessary for the CMA to reach a conclusion on the appropriate product frame of reference since, as set out below, no competition concerns arise on any plausible basis. In its competitive assessment, the CMA has assessed whether, and to what extent, the Parties' respective payment schemes compete.
36. The geographic scope of the three payment schemes is national. This is because their purpose is to provide interbank connections between PSPs in the UK to facilitate payments within the UK. Moreover, the schemes' rules are specific to the UK and regulatory oversight lies with UK authorities. The Parties and third parties confirmed that the appropriate geographic frame of

---

<sup>13</sup> [Merger Assessment Guidelines](#), paragraph 5.2.2.

reference is national. For these reasons, the CMA assessed the impact of the Merger nationally in the UK.

## Competitive assessment

### *Horizontal unilateral effects*

37. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint. This can allow the merged firm profitably to raise prices or to degrade quality on its own and without needing to coordinate with its rivals.<sup>14</sup> Horizontal unilateral effects are more likely when the merging parties are close competitors.
38. 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 supply of interbank payment systems in the UK.
39. The CMA's assessment, set out below, considers: (i) previous decisions analysing the competition between the schemes, (ii) a comparison of the schemes' service propositions; (iii) the Parties' internal documents, and (iv) evidence from third parties.

### *Previous decisions by HM Treasury, regulators, and competition authorities*

40. HM Treasury, competition authorities, and other regulators have assessed the substitutability between the Parties' payment schemes on several occasions:
  - (a) HM Treasury has designated each of the schemes under the Financial Services (Bank Reform) Act 2013. In this process, HM Treasury examined '*whether the types of transaction provided by the system could be provided by another payment scheme instead.*'<sup>15</sup> HM Treasury concluded that there was limited substitution between the interbank payment schemes and it brought them under the supervision of the PSR.
  - (b) In the OFT's review of UK payment systems in 2013, the OFT found that '*there is limited overlap in the activities of the payment systems.*' The OFT stated that: '*The recognised payment systems were designed to meet different customer needs and, due to the range of payments that business*

---

<sup>14</sup> [Merger Assessment Guidelines](#), from paragraph 5.4.1.

<sup>15</sup> [Designation of payment systems for regulation by the Payment Systems Regulator](#), 18 March 2015, paragraph 2.13.



*and consumers need to be able to make, are complementary in nature rather than competitive.*<sup>16</sup>

(c) In Mastercard/Vocalink, the CMA found that: *'there is limited demand-side substitutability between the three UK schemes'* (Bacs, FPS, and LINK); and that *'the services the schemes provide to their members are also distinct.'*<sup>17</sup> The CMA therefore considered the effect of this merger on a separate product frame of reference for the supply of infrastructure to each of the different schemes.

(d) In July 2016, the PSR found that the competitive constraint that each payment system faces from the other schemes is *'limited.'*<sup>18</sup> The PSR's documents explain that *'different payment systems are used to make different types of payments.'*<sup>19</sup>

41. This evidence indicates that different public bodies have consistently found that competition between the Parties' interbank payment schemes is limited.

#### *Comparison of the schemes' service propositions*

42. A comparison of the service propositions offered by each of the schemes supports these precedents. The different interbank schemes offer different types of payment, processed at different speeds, via different channels, and for different transaction values:

(a) **Payment types.** The payment schemes are differentiated in the type of payment they offer:

(i) Only Bacs Direct Debit allows a customer to authorise the payment originator to collect automatically a specified amount from the customer's account. No other payment system offers an equivalent automated, pull-payment service.

(ii) Bacs Direct Credits allows corporate customers to transfer payments to tens of thousands of payees in a single file. Other schemes do not offer an equivalent service.<sup>20</sup>

---

<sup>16</sup> OFT 1498, UK Payment systems, How regulation of UK payment systems could enhance competition and innovation, July 2013, paragraph 4.5.

<sup>17</sup> [Anticipated acquisition by Mastercard UK Holdco Limited of VocaLink Holdings Limited](#), ME/6638/16, paragraphs 69,75.

<sup>18</sup> PSR, [Final report: market review into ownership and competitiveness of infrastructure provision](#), paragraph 4.18.

<sup>19</sup> PSR, [Who we are and what we do](#).

<sup>20</sup> FPS has introduced a service that allows PSPs or end-users to connect directly to the FPS central infrastructure and submit bulk payments using the Bacs messaging format. This service, however, is only offered to a small number of PSPs, and it represents a very small proportion of FPS activity.

- (b) **Speed.** The payment systems are differentiated in the speed at which they process transactions. If the customer needs a low-value payment to be sent and received on the same day, FPS is the only option. By contrast, Bacs operates a three-day processing and settlement cycle. For C&CC, the transaction time is between four and six days.
  - (c) **Channels.** The payment schemes are differentiated in the channel of payment they provide: if the payor does not know the payee's sort code or account number, they cannot use Bacs or FPS. The only option they would have is to use C&CC.
  - (d) **Value.** The payment schemes are differentiated in the transaction value limits: FPS payments have a single transaction limit of £250,000; Bacs payments have a limit of £20 million (for customers) and £999 million (for the government and banks); and cheques have no transaction limit.
43. The differences in the service propositions offered by each of the three schemes are also reflected in the different ways that they are used:
- (a) Bacs Direct Credits are mostly used by businesses (to pay salaries) and government (to pay state benefits). Over 90% of employees are paid by Bacs Direct Credit, and the government uses the service to pay nearly all recipients of state benefits and pensions.
  - (b) FPS is used by individual consumers. Internet and telephone banking payments are almost always processed via FPS. Since 2012, The UK Payment Services Regulations have required end-user payments to reach the recipients' account no later than the working day after the payor was debited. Hence, individual end-user interbank payments are processed via FPS.
  - (c) Cheques are favoured by older bank customers. These customers typically use cheques for *ad hoc* payments to trade suppliers, bill payments by post, and for gifts and charity donations.
44. Moreover, the CMA notes:
- (a) **PSPs participate in all three schemes.**<sup>21</sup> This indicates that there is limited substitutability between the three schemes, as has been noted in past decisions:

---

<sup>21</sup> This includes: Allied Irish Bank, the Bank, Bank of Scotland plc, Barclays Bank, Clydesdale Bank, The co-operative Bank, Coutts & Co, Danske Bank, HSBC Bank Plc, Lloyds Banking Group, Metro Bank, Monzo,

- (i) The CMA in Mastercard/Vocalink found that *'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.'*<sup>22</sup>
  - (ii) The PSR noted that the fact that all large PSPs participate in all the schemes suggests that *'there are limits to the degree of substitutability between what these three payment systems offer.'*<sup>23</sup>
  - (iii) The OFT found that *'due to the differences in function between the payment systems, large banks need to be members of all these systems to give consumers and businesses the range of payment types that they require.'*<sup>24</sup>
- (b) **PSPs do not switch between the schemes.** There are no instances of PSPs terminating their participation in one of the payment schemes in order to switch to another scheme.
- (c) **No competition on price.** There is no evidence of the Parties' schemes changing their prices in response to competition from other schemes. Rather, the fees the schemes charge PSPs seek only to cover the schemes' costs, which are primarily setup costs for new participants and costs incurred for infrastructure services (paid to Vocalink).
- (d) **No competition on quality or innovation.** There is no evidence of any of the Parties responding to each other in terms of innovation or product development. The payment schemes have operated in largely the same way for several years.<sup>25</sup> The PSF found that the multiplicity of payment schemes, and the need for co-ordination and collaboration between the PSOs to develop new services, has impeded the rate of innovation.
45. This evidence indicates a lack of any material competition between Bacs, FPS, and C&CC.

---

Nationwide Building Society, NatWest, Raphaels Bank, The Royal Bank of Scotland Group, Santander UK PLC, TSB, Virgin Money.

<sup>22</sup> [Anticipated acquisition by Mastercard UK Holdco Limited of VocaLink Holdings Limited](#), ME/6638/16, paragraphs 69.

<sup>23</sup> PSR, [Final report: market review into ownership and competitiveness of infrastructure provision](#), paragraph 4.18.

<sup>24</sup> OFT 1498, UK Payment systems, How regulation of UK payment systems could enhance competition and innovation, July 2013, paragraph 4.5.

<sup>25</sup> Over the last years, there have been a few additional developments, launched as a result of regulatory initiatives rather than innovation pressure (eg image clearing for cheques).

### *The Parties' internal documents*

46. There is no indication from the Parties' internal documents that they consider themselves to compete against each other. In particular, the strategic documents of each of the Parties do not mention each other as a competitor.
47. The fact that there is no material competition between the three payment systems is also supported by the PSF's Subgroup Report (on which the Bank and HM Treasury were observers), which found that the three payment schemes should be viewed '*as utilities which act as enablers of downstream (and potentially upstream) competition, rather than entities which compete with each other.*'<sup>26</sup>

### *Third party submissions*

48. The CMA questioned a large number of industry stakeholders regarding the Merger.<sup>27</sup> The vast majority of responses raised no concerns.<sup>28</sup> Almost all respondents, including all members of the schemes, stated that there is no or (at most) limited substitutability between the schemes, and that the different payment schemes do not compete with each other. Many responses emphasised that the schemes are complementary, and, for this reason, PSPs need to be members of all three schemes.
49. For example, typical responses from the PSPs stated:
- (a) '*There is [no] competition between the payment systems operated by Bacs, FPS, and C&CC – the products and services that each of these three entities offer serve different, nonoverlapping purposes and customer bases.*'
  - (b) '*The schemes provide a service foundation and rule set for 3 different types of payment that we offer to our members for different service outcomes. They are distinct in their application and customer outcome.*'
  - (c) '*The payment systems provided by Bacs, FPS and C&CC all provide different payment solutions based on different models.*'
  - (d) '*The payment systems operated by Bacs, FPS and C&CC serve distinct needs and requirements and we consider that they cannot be considered*

---

<sup>26</sup> PSO Governance Subgroup Report, 2 June 2016.

<sup>27</sup> The CMA contacted a range of third parties covering different groups: direct members and owners of the schemes, indirect members, and intermediaries (eg Bacs bureaux).

<sup>28</sup> The CMA contacted 48 stakeholders. One respondent raised concerns in relation to a loss of potential competition and two respondents raised non-Merger specific concerns. The majority of respondents welcomed the consolidation.

*as substitutable to each other and therefore should not be considered in competition with one another.'*

- (e) There is no '*competition between Bacs, FPS, and C&CC.*' The schemes provide '*distinct and separate payment services*' that provide '*complementary services to members.*' The PSP stated that, therefore, '*we do not have any concerns about the impact on competition of the proposed consolidation.*'
50. A PSO also stated that it '*does not consider that Bacs, FPS and C&CC directly compete with one another, as they all offer different payment products.*' This PSO said that it had '*no concerns about the impact on competition of the proposed consolidation. This is because we consider that these interbank systems facilitate competition amongst participants and do not compete amongst themselves.*' The PSO also said that, by founding the NPSO, the Merger '*will support access to the payments schemes by streamlining and simplifying processes for all involved.*'
51. A minority of the users (not direct members) of the payment schemes that responded to the CMA's investigation considered that there is a degree of substitutability between the different payment facilities that the schemes enable, in particular between FPS and Bacs.<sup>29</sup> However, only one third party that responded to the CMA's investigation expressed competition concerns as a result of the Merger (in relation to a loss of potential competition).<sup>30</sup>
52. The CMA also contacted the Bank and the PSR. The Bank emphasised that it supported the Merger because it would enhance financial stability. One of the main reasons the PSR said that it supports the Merger is because, it considers that, by simplifying access for PSPs, competition and innovation in payments will be enhanced.
53. Overall, this third party evidence corroborates the other evidence indicating a lack of any material competition between Bacs, FPS, and C&CC.

---

<sup>29</sup> The views of some of these third parties were based on the substitutability between the different payment schemes from an end-user perspective. The CMA notes that, even if, for some bank transactions, end-users may use the different schemes interchangeably, the payment schemes do not compete for end-users. Moreover, in the short term, the different payment methods will continue to be available to end-users.

<sup>30</sup> This third party said that that the Merger could lead to a loss of potential competition between FPS and C&CC around the move to real-time payments. However, it is unlikely that the schemes would change existing services, so that they could compete against each other, due to high technical barriers as well as their common ownership reducing incentives to do so. Furthermore, such changes would be difficult to implement unilaterally by one scheme, and would take place over a long time period (depending on the complexity of the change). The Bank told the CMA that it oversees and regulates changes of this nature from a financial stability perspective. The PSR told the CMA that it actively monitors the market and that it could take regulatory action if there were changes which were inconsistent with its payment systems objectives. On the basis of this evidence, the CMA does not believe that there is a credible theory of harm in relation to a loss of potential competition.

### *Conclusion on horizontal unilateral effects*

54. Based on the evidence set out above, the CMA believes that the Merger will not give rise to competition concerns. This is because there is no material competition between the Parties' payment schemes.
55. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to interbank payment systems in the UK.

### **Decision**

56. 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 United Kingdom.
57. The Merger will therefore **not be referred** under section 33(1) of the Act.

**Andrew Wright**  
**Director of Mergers**  
**Competition and Markets Authority**  
**12 July 2017**

---

<sup>i</sup> The last sentence of paragraph 30 should read: 'For Bacs, FPS, and C&CC, PSPs do not generally charge transaction fees to end-users, although business customers may be required to pay a transaction fee'.