

# Completed acquisition by FNZ (Australia) Bidco Pty Ltd of GBST Holdings Limited

## Summary of the CMA's decision on relevant merger situation and substantial lessening of competition

**6866/19**

1. On 5 November 2019, FNZ (Australia) Bidco Pty Ltd, an indirectly wholly-owned subsidiary of Kiwi Holdco CayCo, Ltd (**FNZ**), acquired the whole issued share capital of GBST Holdings Ltd (**GBST**) (the **Merger**). FNZ and GBST are together referred to as the **Parties**, and for statements referring to the future as the **Merged Entity**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of FNZ and GBST is an enterprise; that these enterprises have ceased to be distinct; and that the share of supply test is met. The four-month period for a decision, as extended, has not yet expired. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
3. In the UK, FNZ is active in the supply of software and transaction processing and custody services to investment management platforms. Similarly, GBST is active in the UK in the supply of software to investment management platforms, and software to support trade settlement and clearing services for investment banks.
4. The CMA considered the impact of the Merger against the pre-Merger conditions of competition. The CMA took into account foreseeable developments in the Parties' competitive offerings within its competitive assessment, including GBST's investment in its E-volve programme and continued use of its partnership model.
5. The Parties overlap in the supply of solutions involving software and/or servicing (**Platform Solutions**) to investment platforms. Investment platforms provide tools, either directly to consumers or via financial advisers and employers, to support their investment activities, such as investment advice/management and tax administration (particularly for pensions). Both Parties supply Platform Solutions to investment platforms with a mainstream retail proposition (**Retail Platforms**).

6. The CMA found that there is differentiation across investment platforms and suppliers of Platform Solutions. There are some differences in the requirements of Retail Platforms compared to platforms operated by private-client investment managers and private banks (**Private-client Platforms**), and stockbroking platforms. In particular, Retail Platforms, in contrast to other types of platform, tend to require their Platform Solution to have strong capabilities in supporting:
  - (a) the processing of a high volume of mainstream investments and information for a large number of customers, offered at low cost with limited manual intervention; and
  - (b) a wide range of tax wrappers integrated into the platform (on-platform tax wrappers), often for pension administration (**On-Platform Pension Wrappers**).
7. The CMA found that other types of investment platform tend to focus more on managing a portfolio of investments, which can include more complex investments, for a smaller number of customers as part of a more tailored service with more manual intervention. The core proposition of other investment platforms also appears to be less focused on pension administration and other forms of tax relief, which they may offer 'off-platform' via a specialist provider where required.
8. The CMA found that the strength of suppliers' Platform Solutions varies among these different types of investment platforms. For example, some suppliers have not proven their ability to deliver the technology at scale on Retail Platforms, and some suppliers do not offer On-Platform Pension Wrappers.
9. Suppliers are also differentiated by delivery model of the software and servicing components of their Platform Solution. FNZ supplies these components as part of a combined software and servicing offering. GBST supplies software either on a standalone basis (which can be combined with in-house or third-party servicing by the customer) or in partnership with a servicing provider, in particular Equiniti.
10. Some Retail Platforms are open to different delivery models, in particular whether to keep servicing in-house or to outsource this function. In contrast, the CMA found that Retail Platforms generally considered developing software in-house to be more difficult and less beneficial than in-house servicing.

11. In light of the differentiation in investment platforms and their requirements for their Platform Solution, the CMA assessed the impact of the Merger on the supply of Platform Solutions to Retail Platforms (**Retail Platform Solutions**) but has also considered the constraints from suppliers focusing on other Platform Solutions. The CMA has included all delivery models, with the exception of in-house software, within this frame of reference because the CMA found that many customers are open to these different options. The CMA has taken into account in the competitive assessment differences in these delivery models and the extent to which the option for in-house software and/or servicing varies by customer.
12. The CMA found that Retail Platform Solutions have to meet specific requirements resulting from different jurisdictional tax and legal regimes. Suppliers of Retail Platform Solutions cannot easily and quickly enter into a new country, given the need to adapt to these different requirements and the importance of experience and reputation in serving customers in a particular country. The CMA therefore assessed competition in the supply of Retail Platform Solutions on a UK-wide basis.
13. The CMA found that FNZ has a particularly strong position in the supply of Retail Platform Solutions given its range of capabilities in technology and servicing; and GBST is one of only a few rivals that exerts a competitive constraint on FNZ in the supply of Retail Platform Solutions.
14. Evidence from third parties, the Parties' internal documents and from recent tender evaluations indicated that the Parties are close competitors. While GBST only has capabilities in software, this does not significantly limit the extent to which it competes with FNZ. Software is a key component of a Platform Solution and the CMA considers that GBST's software when combined with in-house servicing, or third-party servicing (obtained separately by the customer or provided as part of a package with a partner such as Equiniti), is a credible alternative to FNZ's integrated software and servicing Platform Solution. In particular, the CMA found that:
  - (a) FNZ and GBST are two of the largest Retail Platform Solutions in terms of assets under administration;
  - (b) both Parties have strengths in the technology used in Retail Platform Solutions and develop this technology in direct competition to each other;
  - (c) most third parties considered FNZ and GBST to be close competitors and submitted that FNZ and GBST are two of only a few specialist

technology competitors proven at scale, and that the differences in the Parties' delivery models have not stopped them from competing directly with each other;

- (d) the Parties' internal documents indicate that both Parties view each other as a close competitor, with each Party comparing the other's offering. This is particularly relevant in the context of a competitive landscape where there are only a limited number of competitors offering a Retail Platform Solution with similar capabilities to those of the Parties; and
  - (e) while there have only been a small number of recent tenders for Retail Platform Solutions, FNZ and GBST are two of only a few suppliers that regularly participate in these tenders. The Parties have competed against each other in a number of these tenders, and some customers' tender evaluations indicate that FNZ and GBST (when combined with a servicing partner) are considered to have similar offerings.
15. The same sources of evidence indicate that the main third-party competitive constraints on the Parties are Bravura and SS&C. Bravura, which offers a software-only Platform Solution similar to GBST, was mentioned most often as a competitor by third parties, consistent with Bravura's greater participation in recent tenders in Retail Platform Solutions than other third-party competitors. SS&C, which offer a combined software and servicing Platform Solution, was mentioned less often by third parties, although it has recently been successful in tenders for Retail Platform Solutions. Other competitors had lower levels of participation in these recent tenders and were noted less often by third parties. This is broadly consistent with the shares of supply in Retail Platform Solutions where FNZ, GBST, Bravura, SS&C are the only competitors of significant scale.
16. In addition, the CMA considered the constraint from suppliers such as Avaloq, SEI and Pershing. The CMA found that these competitors exert a weaker constraint on the Parties in Retail Platform Solutions. In particular, the CMA found that these suppliers do not have the same reputation as the Parties to deliver Retail Platform Solutions given their limited activities and/or interest in supplying Retail Platforms. These suppliers would also need to develop their technology to compete more strongly in the supply of Retail Platform Solutions.
17. The CMA believes that some of the Parties' customers may be in a weak negotiating position due to the lack of credible alternative supply options and the high barriers to switching. These factors increase the likelihood of

horizontal unilateral effects, which may include price rises or a reduction in quality (including as result of a reduction in product development).

18. The CMA considers that the Merger will affect all Retail Platform Solutions customers. In particular, the Merged Entity may seek to exploit its increased market power by applying pressure on GBST's existing standalone customers to take a combined software and servicing solution. The Merged Entity could apply this pressure by scaling back GBST's development of this software or otherwise not offering this software on competitive terms unless existing GBST customers take a combined software and servicing solution.
19. Prior to the Merger, GBST had incentives to maintain the competitiveness of GBST standalone software in part due to competition from FNZ. Whereas the Merged Entity would have incentives to reduce the competitiveness of GBST's standalone software given the higher margins the Merged Entity could earn from supplying GBST's existing customers a combined solution. The Merged Entity would be in a strong position to do this given that switching to other suppliers would be costly for customers. This concern is consistent with concerns raised by customers and FNZ's internal documents regarding FNZ's plans for GBST's Retail Platform Solution. Therefore, the unilateral effects of the Merger may be particularly acute with respect to existing GBST customers.
20. The Parties' internal documents indicate that barriers to entry are high. This is corroborated by third party comments on the difficulty of developing Retail Platform Solutions that meet the requirements of UK customers (see paragraph 12 above) and the difficulty of demonstrating proven scale in Retail Platform Solutions. In addition, there are high switching costs that would inhibit new entrants or smaller providers from achieving significant scale, including operational and reputational risks for both platform providers and suppliers of Platform Solutions should the switching fail. There are some high-profile incidences in which switching has resulted in significant disruption for the platform provider and their end-investors. The CMA therefore believes that entry or expansion into Retail Platform Solutions would not be timely, likely or sufficient to constrain FNZ post-Merger.
21. The CMA therefore believes that the Merger gives rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects in the supply of Retail Platform Solutions, excluding in-house software, in the UK.
22. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (the **Act**). FNZ has until 6 April 2020 to offer an undertaking to the CMA that might be accepted by the CMA. If no

such undertaking is offered, then the CMA will refer the Merger pursuant to sections 22(1) and 34ZA(2) of the Act.