Completed acquisition by ION Markets Investment Group Limited of Broadway Technology Holdings LLC

Decision on relevant merger situation and substantial lessening of competition

ME/6888/20

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

SUMMARY

1. On 6 February 2020, ION Trading Technologies Group Limited (**ION**), a wholly owned subsidiary of ION Investment Group Limited (**ION Group**), acquired a controlling stake in Broadway Technology Holdings LLC (**Broadway**) (the **Merger**). ION and Broadway are together referred to as the **Parties** and, for statements relating to the future, the **Merged Entity**.

2. ION is a software provider, headquartered in Ireland, offering trading and workflow automation products to financial institutions worldwide, including sell-side front-office systems for electronic trading of each of fixed income securities and foreign exchange. Broadway is a software provider, headquartered in the US, which supplies capital markets solutions to sell-side financial institutions in fixed income, foreign exchange, commodities and crypto currency.

3. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of ION and Broadway is an enterprise; and that these enterprises have ceased to be distinct as a result of the Merger. The CMA believes that the share of supply test is or may be met on the basis of an overlap between the Parties in the supply of sell-side front-office systems for electronic trading of gilts to Gilt-edged Market Makers (**GEMM**s) designated by the United Kingdom Debt Management Office (**DMO**) in the UK. The

combined share of the Parties is above 25% as the Parties supply the aforementioned systems to 10 out of eighteen GEMM customers with an increment of at least one GEMM customer. 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.

4. The Parties overlap in the supply of sell-side (sell-side institutions, such as banks and brokers, facilitate trading in capital assets) front-office (front-office covers the first parts of the trade process, eg trade execution) software for the electronic trading of:

   (a) fixed income securities (**FI**) (such as government bonds, interest rate swaps, repurchase agreements (repos) and corporate bonds); and

   (b) foreign exchange (**FX**).

5. In relation to FI, based on the Parties' internal documents and third-party evidence, the CMA has found that the Parties compete to supply a platform for sell-side front-office FI trading, and a bundle of software components which varies between customers. The CMA has described this as a sell-side front-office system for FI electronic trading. The CMA found that such systems are generally bought and sold on a worldwide basis.

6. In relation to FX, the CMA similarly found that competition occurs for sell-side front-office systems for FX electronic trading and that this occurs on a worldwide basis.

7. The CMA has therefore assessed the impact of the Merger in the following frames of reference:

   (a) sell-side front-office systems for FI electronic trading, worldwide; and

   (b) sell-side front-office systems for FX electronic trading, worldwide.

8. The CMA has not included in-house provision within the product frame of reference. The CMA has however taken account of the constraint from in-house provision in its competitive assessment.

9. The CMA considered the impact of the Merger against the pre-Merger conditions of competition.

Horizontal unilateral effects

FI

10. In relation to the supply of sell-side front-office systems for FI electronic trading, worldwide, the available evidence shows that the Merger would combine ION, by far the largest supplier with significant bargaining power in relation its customers, with one of the two main competitors to ION in this market.

11. The CMA found that the Parties are close competitors. The CMA identified a number of the Parties' internal documents which indicate that the Parties consider each other as important competitors in the supply of sell-side front-office systems for FI electronic trading. Moreover, the Parties' customers considered that they are close competitors or that they offer similar functionality, with some noting that Broadway is ION's closest competitor.

12. The CMA found that, based on the Parties' internal documents and evidence from third parties, there are only a small number of competitors that could constrain the Merged Entity in the supply of sell-side front-office systems for FI electronic trading. Bloomberg is the only competitor to impose a significant constraint on the Parties while AxeTrading, smartTrade and TransFICC provide a more limited constraint.

13. The CMA also assessed the competitive constraint on the Merged Entity from self-supply by customers. The available evidence shows that some banks use in-house solutions for all or significant parts of their sell-side front-office systems for FI electronic trading, and that a small number of the largest banks had switched from ION and/or Broadway to largely use in-house systems for FI electronic trading. However, based on evidence from third parties, the CMA believes that the constraint from self-supply is limited, as only a small number of banks are in a position to viably and sustainably self-supply. Therefore, the CMA found that the constraint from self-supply would not sufficiently protect customers from the exercise of market power by the Merged Entity.

14. The CMA also found that following the Merger, and prior to the CMA imposing an initial enforcement order on ION on 2 April 2020, the Merged Entity updated the proposed terms and conditions of the provision of services which had been offered to at least one Broadway customer in a manner which the

CMA considers may have been detrimental to the customer. The available evidence shows that these changes to the terms post-Merger may reflect a loss of competition resulting from the Merger.

15. The CMA considered possible entry or expansion into the supply of sell-side front-office systems for FI electronic trading, worldwide. The evidence the CMA received from third parties indicates that opportunities for competing suppliers to enter and/or expand by participating in procurement exercises are likely to be relatively limited; a new supplier would need to make large up-front investments to develop the functionalities required by sell-side firms; and potential customers expect providers to have a number of sizeable customers and a track record to be considered a viable supplier. Accordingly, the CMA does not believe that entry or expansion will be timely, likely or sufficient to prevent a realistic prospect of a substantial lessening of competition (**SLC**) as a result of the Merger.

16. Therefore, the CMA believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of sell-side front-office systems for FI electronic trading, worldwide.

FX

17. In relation to the supply of sell-side front-office systems for FX electronic trading, worldwide, in contrast to FI, the Parties' internal documents and third-party feedback did not suggest that the Parties are close competitors and indicated that there are a number of other competitors (including smartTrade, Refinitiv, FlexTrade and Fluent) that will continue to constrain the Parties post-Merger.

18. Therefore, 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 the supply of sell-side front-office systems for FX electronic trading.

Conglomerate effects

19. The CMA also considered whether the Merged Entity could 'bundle' the sale of sell-side front-office systems for FI and FX electronic trading by selling sell-side front-office systems for FI and FX electronic trading together such that there is a low incremental price for the systems for FX electronic trading,

weakening rival providers of sell-side front-office systems for FX electronic trading and harming competition through their foreclosure.

20. The CMA considered that barriers to switching and the customised and differentiated nature of the product made it difficult to foreclose competitors in the provision of sell-side front-office systems for FX electronic trading; and that systems for FI and FX electronic trading are not economic complements (such that an increase in price of systems for FI electronic trading reduces demand for systems for FX electronic trading, or vice versa). Hence, the Merged Entity lacks the ability to profit from such a strategy. As both Parties were already in a position to provide a combined offering for sell-side front-office systems for FI and FX electronic trading, the Merged Entity would have to make such an offering more attractive, thereby foregoing profits, while likely only inducing limited switching. Hence, the CMA also found that the evidence does not suggest that the Merged Entity would have an incentive to engage in such a strategy.

21. Therefore, the CMA has found that the Merged Entity will not have the ability or incentive to leverage its market power in the provision of sell-side front office systems for FI electronic trading to foreclose competitors in the provision of sell-side front office systems for FX electronic trading. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of conglomerate effects.

Decision

22. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of sell-side front-office systems for FI electronic trading, worldwide.

23. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (**the Act**). ION has until 14 July 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.