avaloq
simplicity for a new era

CMA view

At this stage, the CMA has identified the following potential structural remedies:

(a) Requiring the full divestiture of GBST.

(b) Requiring a partial divestiture of GBST.

A full divestiture would require the sale of the whole issued share capital of GBST, as acquired by FNZ on 5 November 19.

The CMA considers that a full divestiture of GBST would be similar to a prohibition of the Merger as it would prevent a substantial lessening of competition (SLC) from resulting in any relevant market. The CMA therefore takes the preliminary view that, subject to implementation considerations, a full divestiture of GBST would represent a comprehensive and effective remedy to all aspects of the SLC it has provisionally found, and consequently any resulting adverse effects.

A partial divestiture of GSBT would involve a divestiture of of GBST subsidiaries and/or assets. Given the internal structure of GBST and the need for any divestiture to provide the basis for restoring competition lost as a result of the Merger, the CMA considers a split by geography and / or operating segment to be the only plausible options. These would be one of:

(a) Divestiture of GBST's global wealth management business (ie split by operating segment);

(b) divestiture of all of GBST's UK operations (ie split by geography); or

(c) divestiture of GBST's UK wealth management business (ie split by geography and operating segment).

The CMA would only accept a partial divestiture if it could be demonstrated that it could be appropriately configured to allow a purchaser to operate as an effective competitor in the relevant market and to attract a suitable purchaser.

The CMA invites views on

(a) Whether a full divestiture of GBST would be an effective remedy to the provisional SLC;

Yes – this would ensure a continuation of the current level of competition in the UK market, retaining the status quo

(b) whether a partial divestiture consisting of GBST's global wealth management business would be an effective remedy to the provisional SLC and if so:

> (i) the scope of the business and assets that would need to be divested in order for this remedy option to be effective;
>
> (ii) whether there are risks that the scope of the divestiture package may be too constrained or not appropriately configured to allow a purchaser to operate as an effective competitor in the market now and in the medium term and maintain competitive pace of R&D,
>
> (iii) the relevance and importance of GBST's Capital Markets business – which could be retained by FNZ under this option - to the viability and competitiveness of GBST's wealth management operations;
>
> (iv) the likely attractiveness of GBST's global wealth management business to potential purchasers; and
>
> (v) how easy or difficult it would be to implement the separation required to implement this remedy and the extent to which this would result in ongoing disruption to GBST and deterioration in its competitive capabilities.

This partial divestiture would in theory retain the status quo in the wealth management business and avoids any complications of splitting the organisation geographically. However, FNZ and GBST predominantly compete in the retail market rather than the wealth management space.

The ability to split GBST based on their solutions (capital markets and wealth) would depend heavily on the technological dependencies between the two and whether this can also be achieved on clients which have purchased solutions across capital markets and wealth management.

(c) whether a partial divestiture consisting of all of GBST's UK business would be effective and if so:

> (i) the scope of the business and assets that would need to be divested in order for this option to be effective;
>
> (ii) whether there are risks that the scope of the divestiture package may be too constrained or not appropriately configured to allow a purchaser to operate as an effective competitor in the market now and in the medium term and maintain competitive pace of R&D;
>
> (iii) the relevance and importance of GBST's Australian operations – which could be retained by FNZ under this option - to the viability and competitiveness of GBSTs operations in the UK and its ability to compete effectively in the relevant market;
>
> (iv) the likely attractiveness of GBST's UK business to potential purchasers; and

(v) how easy or difficult it would be to implement the separation required to implement this remedy and the extent to which this would result in ongoing disruption to GBST and deterioration in its competitive capabilities.

If only operations in the strictest sense are divested, i.e. people working in the UK, then the impact would be limited. FNZ can serve the market with its UK operations.

In the widest sense of operations, meaning all activities and products sold in the UK market, a divestiture based on geography would be very complicated, as the business is built on the platform and the corresponding IP. This divestiture would require FNZ+GBST to share the IP, or continue application support to UK clients, or the clients would need to re-platform away from GBST.

Due to these constraints, it is unlikely to be an attractive or viable proposition to any potential buyer.

(d) whether a partial divestiture consisting of GBST's UK wealth management business would be effective; (i) the scope of the business and assets that would need to be divested in order to be effective;

(ii) whether there are risks that the scope of the divestiture package may be too constrained or not appropriately configured to attract a suitable purchaser or may not allow a purchaser to operate as an effective competitor in the market now and in the medium term and maintain a competitive pace of R&D;

(iii) the relevance and importance of GBST's Australian business and its UK Capital markets business – which could be retained by FNZ under this option - to the viability and competitiveness of GBST's wealth management operations in the UK;

(iv) the likely attractiveness of GBST's UK wealth management business to potential purchasers; and

(v) how easy or difficult it would be to implement the separation required to implement this remedy and the extent to which this would result in ongoing disruption to GBST and deterioration in its competitive capabilities.

This partial divestiture combines the complications of both the wealth management and geographic split and would not be viable.

(e) for both a full and partial divestiture:

(i) whether there are risks that a suitable purchaser is not available or that FNZ will divest to a weak or otherwise inappropriate purchaser;

(ii) whether there are risks that the competitive capability of a divestiture package will deteriorate before completion of divestiture; and

(iii) any other elements that may be required for an effective divestiture remedy, or risks that the CMA should be aware of.

Any partial divestitures will be hindered by a difficulty to clearly delineate business, geographical or product segmentations. Any delineation will have clients which sit in more than one segment.

Other organisations in the market in a position to acquire the GBST divestiture could find it currently difficult to absorb such an investment. Such acquisition would also raise similar concerns in terms of lessening of competition

The uncertainty on GBST’s future won’t positively impact their clients’ peace of mind. GBST’s solution is critical to the operations of its clients. While in the short term the clients’ operations should be secure, the clients will be looking at alternatives if uncertainty remains high for a long period. Therefore, any prolongation deteriorates the value of GBST in the market.