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ANTICIPATED ACQUISITION BY
LONDON STOCK EXCHANGE GROUP OF
QUANTILE GROUP LIMITED

ME/6973/21

RESPONSE TO THE ISSUES STATEMENT

30 JUNE 2022

NON-CONFIDENTIAL

1. Executive summary[1]

- LSEG's rationale in acquiring Quantile is line with its broader strategy to develop its service offering and grow and diversify into other areas – its focus is not on compression. This growth, and thus the rationale for the acquisition, would be jeopardised in the event LSEG pursues a foreclosure strategy. (**Section 2**)

- LSEG's exceptional customer partnership model (and its associated governance controls) provides customers with both the means to detect and challenge any attempted foreclosure strategy. (**Section 3**)

- The regulatory context in which LCH operates, including the role of iNEDs and customers on key governance and consultative bodies, and LCH's critical role in managing risk makes any foreclosure strategy unrealistic. (**Section 4**)

- The objective and transparent standards to which LCH adheres would render any foreclosure strategy implausible and highly visible to customers (**Section 5**):
    - LCH observes objective criteria in approving ACSPs, and the withdrawal of approval from, or refusing to approve, an ACSP who had the support of customers would be a brazen measure which LCH would struggle to justify to customers who value the choice and competition that more than one ACSP provides.
    - In practice, scheduling changes are modest and unlikely to affect rivals' ability to compete. Manipulation of scheduling by LCH at the scale required to disadvantage Quantile's rivals materially be a significant departure from its current role in scheduling, cutting across customer preferences as well as being both visible and highly disruptive for customers, who would make their objections known.
    - Legal requirements and LSEG's own policies regarding confidentiality and data security make any strategy based on preferential access to data unrealistic.
    - The implementation by LCH of the compression process itself is highly automated and standardised, in line with transparent and objective constraints with which ACSPs themselves work to formulate the compression proposal, meaning a foreclosure strategy involving process manipulation could not realistically be implemented.
    - Any price discrimination between ACSPs would not be approved by iNEDs as it would mean that the agreement with Quantile is not on arms' length terms, and any increase in fees would need to be by more than […]% to bring about a material increase in compression costs; while LCH considers that the introduction of fees to members/clients that were discriminatory based on the identity of the ACSP would be unlawful and highly visible to customers who would object vociferously.

- Even if LSEG has the ability to engage in foreclosure, it would not have the incentive to do so because any foreclosure strategy would risk the loss of revenues across its business that would far exceed any benefit LSEG could derive from the foreclosure strategy (**Section 6**):
    - With respect of Quantile's business, […].
    - From LCH's perspective, even if there were only a small risk of LCH losing OTC IRD clearing business, this would still be enough to deter any foreclosure strategy given the uncertainty of the success of any hypothetical foreclosure and the material costs if the risk materialised. This risk is real in light of equivalent liquidity and the low cost

[1] This response to the CMA's Issues Statement dated 16 June 2022 ("**Issues Statement**") sets out the key reasons why the transaction cannot be expected to result in a substantial lessening of competition ("**SLC**") within any market or markets in the UK. It does not address every aspect of the Issues Statement and, failure to address a specific part of the Issues Statement does not mean that the Parties accept the CMA's reasoning. The Parties reserve the right to respond to other aspects of the Issues Statement during the remainder of Phase 2.

of clearing new trades at rival CCPs, and political pressure post-Brexit to move clearing to EU venues.
  - More generally, the risk to revenues from the same influential customers across LSEG's wider business, especially from new projects or those businesses working hard to grow their revenues, would also deter any foreclosure strategy.

- A foreclosure strategy of sufficient force and relentlessness to eliminate competition from an incumbent provider with a share of supply of around 70-80%, would likely require a brazen and obvious disregard for regulatory obligations, its own open access model and the views of its most important customers, as well as a reckless attitude to the risk of customer retaliation, and the failure of so many checks and balances, that it lacks any credibility in the real world in which LCH operates. Therefore, it cannot credibly be described as "more likely than not" that an SLC will result, and the "balance of probabilities" standard will not be met.

2. Deal rationale

1. For LSEG, this transaction is not about compression. While Quantile's OTC IRDs multilateral compression services are a natural complement to LCH's clearing and unilateral compression services for OTC IRDs, multilateral compression is a relatively mature market with limited growth opportunity. [...]. As detailed further in the following sections, an understanding of the motivation for this transaction makes clear that any hypothetical foreclosure strategy, whether analysed as a question of ability, incentive or otherwise, is not credible.

2.1. Quantile complements LSEG's post-trade strategy

2. Increasing regulatory capital requirements and pressure on returns on capital have led financial institutions to look for solutions to optimise collateral and free up their capital and balance sheets. LSEG's Post Trade division is looking more broadly for solutions that enable customers to look across their portfolios, both bilateral and cleared, and try to make these more efficient and less costly, whether that is by compressing notional or optimising margin, liquidity or capital.

3. LSEG's Post Trade strategy is therefore focused on developing its service offering beyond that of centralised CCP risk manager to also providing a range of solutions that are complementary to LCH's core services today and that solve customers' objectives to be more financially and operationally efficient, thereby creating a more robust financial market environment. This naturally includes areas of greatest future growth and, in particular, extending LSEG Post Trade's range of financial resource optimisation services to other asset classes and uncleared trades, building on other initiatives Post Trade is already pursuing in the uncleared space, such as SwapAgent.

4. Quantile therefore complements the existing and developing set of analytics, data and funding optimisation services in LSEG's Post Trade division.

2.2. Expected growth and [...]

5. [...]

6. [...]

7. This can be seen most clearly in the Quantile post-transaction business plan (Investment Case) which underpins both the LSEG valuation and the consideration paid by LSEG for the acquisition. […]

Figure 1: […]

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8. While the direction of growth was reflected in the Quantile pre-transaction business plan […], the acquisition by LSEG is expected to accelerate the anticipated growth significantly. […]

9. Indeed, the additional comfort in knowing that Quantile will one day have the backing and investment required with a trusted customer-driven partner to continue to offer its services and innovate has been instructive for customers since their initial investment. For this reason, the Parties anticipate that customers will be largely supportive of the transaction – and believe that this will make it more likely that customers will support Quantile (see Section 7 below). The anticipated impact of the transaction in accelerating Quantile's growth can be seen from the table below:

Figure 2: Historical evolution of Quantile revenue and projected future growth with and without the transaction

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10. […]

11. It should be noted that the valuation is based entirely on the *Quantile* business plan, i.e. Quantile revenues post-transaction. There is no upside included from LCH (or other LSEG) revenues – this is because LSEG do not expect that the deal will make LCH a more attractive clearing house than it is already. Multilateral compression of OTC IRDs will continue much as it is today with at least two providers, and is equally available at other CCPs.

2.3. The alleged foreclosure strategy would undermine LSEG's rationale for the transaction

12. The success of LSEG's acquisition of Quantile, […].

13. The most obvious reaction of these customers would be to refuse to use […]. It is not likely that LSEG would jeopardise its own growth plans, […], by engaging in such a foreclosure strategy. Please see Section 6 below for further details.

3. LCH's customer partnership model means that foreclosure is unrealistic as customers would be aware and prevent a foreclosure strategy

14. Given LCH's history as a previously customer-owned financial market infrastructure ("**FMI**"), LCH has maintained strong relationships with its customers as part of its customer partnership and open access ethos. These have been important to the success of LCH. This alone means that any deviation from this business model would be so much more visible to the market and prompt greater reputational damage than for a different business, without the same history or business model. This broader context, and the additional detail reflected from Section 3.1 onwards below, again demonstrate the implausibility of the alleged foreclosure theory of harm.

3.1. SwapClear Banks have a very influential role and, as the greatest users of multilateral compression, would strongly resist foreclosure

15. LCH's customer partnership and open access model is 'cemented' into LCH through its governance structures (including user representation on LCH Board and committees[2]), and in particular, through LCH's agreement with the SwapClear Banks (which is replicated across other services as well)[3]. In particular, the SwapClear Banks are shareholders in OTCDerivNet ("**OTCD**").

16. Under the contractual arrangements governing the relationship ([…]), LCH is also obliged to consult with the SwapClear Banks, […], on certain business decisions. […]

17. Specifically, defined consultation rights relate to, […][4], […].

18. LCH meets with the SwapClear Banks at the OTCD Board […]. At the board meetings, a range of matters are notified and consulted upon, including […]. As a result, there is a high level of transparency […] which provides the SwapClear Banks with significant insight and influence into these.

19. By way of example, in March 2021, following extensive socialisation and consultation, SwapClear introduced an accommodation fee for client collateral. […].

20. […]

21. Similarly, when LCH added non-deliverable interest rate swaps ("**ND IRS**") in three currencies as products eligible for clearing, […].

22. More significant changes, such as conversion from LIBOR to risk-free rates underwent extensive consultation over a period of years to ensure that the services offered by LCH, and the prices at which these were offered, met customer demand.

23. In addition, the contractual arrangements also establish a SwapClear Consultative Committee, […].

24. LCH consults with market participants much more broadly than in respect of any particular obligation to do so (whether regulatory or in the contract with OTCD and the SwapClear Banks) – […].

25. In light of the level of transparency the extensive consultation and notification requirements create, and the broader cooperation and feedback culture that exists between LCH and the SwapClear Banks it is unrealistic to consider that the SwapClear Banks would not be informed or, if dissatisfied, not be able to push back against any foreclosure strategies. In particular:
    a. An unprecedented decision to reject a potential ACSP that has support from one or more of the SwapClear Banks would clearly result in dissatisfaction with LCH and it is therefore unrealistic to suggest that LCH would take such an action without discussion with, or in opposition to the views of, the SwapClear Banks, e.g. at OTCD.

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[2] Users are not represented on only one of five Board committees, the Operational Resilience Committee.
[3] ForexClear, CDSClear and SwapAgent all have similar governance models.
[4] [...].

b. A decision to withdraw the approval from TriOptima, even on the basis of ostensibly justifiable grounds (if these could be identified), would equally require engagement with the SwapClear Banks through OTCD, which all use TriOptima's service (to a greater extent than Quantile's – as the incumbent provider with a share of supply of around 70-80%) and would also result in dissatisfaction with LCH.

c. Changes to the SwapClear processes to advantage only one ACSP would similarly be visible to SwapClear Banks and therefore resisted: [...][5].

d. Changes to the approach on scheduling (an area on which LCH has historically not played a central role) would similarly have to be discussed with ACSPs and members. The only change to scheduling which has been implemented (following operational improvements) underwent member consultations and was also notified to the SwapClear Banks via OTCD [6].

e. Customers (including the SwapClear Banks) would be very concerned if they believed that customer data held by the CCP was being used by another LSEG entity without their knowledge or approval.

f. Increases to compression fees for clearing members/clients of any type [...] – indeed the fee structure and compression fee cap has been kept constant since 2016 [...].

3.2. Other clearing members have high visibility and interest in the service and are able to influence LCH's behaviour

26. In addition, LCH also runs Product Advisory Groups and Risk Working Groups where participants are able to comment on proposed changes to markets, products and services, risk policies, models and frameworks. Clearing members are also consulted on Rulebook changes, a process which clearing members are very familiar and engaged with.[7] In 2021, LCH self-certified 36 changes to the CFTC to LCH Limited rules, all of which were either notified to members or go through consultation with members, depending on their materiality[8].

27. Frequent engagement with both the SwapClear Banks and members mean that formal complaints and use of the escalation mechanism within the SwapClear Banks' agreement is very rare. It is more common to receive feedback through the earlier engagement or consultation process which enables SwapClear to tailor its services to those required by its clearing members and their clients.

28. Members have other avenues through which to request change or express dissatisfaction, including directly with LCH or through a trade association. [...]. LCH worked with the members to reach an acceptable position on the various points, which resulted in changes being made to the LCH Rulebook.

3.3. Conclusion

29. This regular and extensive customer engagement which has been in place for many years would prevent LCH from being able to engage in any type of foreclosure strategy. There are multiple opportunities to identify and influence any changes in behaviour, such as foreclosure, and multiple opportunities for escalation. This is recognised by the market investigation in the Phase 1 decision, where customers said that they would complain either

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[5] See LSEG's response to RFI2 for further detail.
[6] Ibid.
[7] Rulebook changes are filed with the US CFTC and published on LCH's website: https://www.lch.com/resources/rulebooks/proposed-rule-changes.
[8] Self-certification is a representation from the Chief Compliance Officer of LCH that the rules apply with applicable regulation.

bilaterally, through a trade association, as part of an industry effort with other banks or through their representatives on the LSEG/LCH board.[9]

4. LCH's regulated status and structure – and Quantile's separation from LCH – mean that it could not and would not favour Quantile

30. Post-merger, Quantile will become part of LSEG but will be separate to the LCH group. […]. Moreover, as set out at Section 2.3 above, the success of the Quantile business post-transaction is dependent on growing existing services. To the extent that these services involve any relationship / interaction with a CCP, tying Quantile to LCH's offering (as opposed to part of the infrastructure of the wider LSEG) would undermine the importance of Quantile's offering being essentially "CCP-agnostic" in order to reach the broadest customer base possible. As detailed further at Section 6.1 below, Quantile's growth prospects are entirely dependent on it maintaining a strong, constructive relationship with its customers.

31. As noted in the Initial Submission, LCH has a clear risk management role with high levels of visibility – and scrutiny - over its decisions and actions. There are many controls – including through regulation and governance – to ensure that the CCP acts in accordance with regulatory and member expectations, including not putting LCH at risk.
    a. LCH is subject to a series of organisational and conduct of business regulatory requirements that ensure that it is held to a high standard of governance and independence to allow it to carry out its important duties[10].
    b. Its governance arrangements ensure that LCH's objectives as CCP are maintained and not sacrificed in the pursuit of commercial interests of particular stakeholders, including its majority shareholder.

32. For these reasons, LCH operates in its own interests and with its own governance structure, not operating as a "typical" subsidiary. The LCH Board is composed of 5 independent non-executive directors ("**iNEDs**"), three user directors, three executives of the LCH group and one director nominated by LSEG (non-executive). The Risk and Remuneration Committees of the LCH Board are comprised solely of iNEDs. In addition, a committee comprised solely of iNEDs is required to approve related party transactions between LCH and other LSEG entities to ensure they are on bona fide arms' length terms. iNEDs are expected to have relevant expertise and independence from LCH and provide an effective, independent oversight mechanism. They are relied on to carry out this oversight by the Bank of England, which holds regular individual meetings with the iNEDs (referred to as 'close and continuous meetings') during which they provide the iNED's independent views to the Bank of England as to how LCH is operating.

33. An example of where LCH iNEDs pushed back on LSEG policies, thus demonstrating their independence (in particular from LSEG), is […].

34. This broader structural separation from LSEG, which is of fundamental importance to the operation of LCH, again renders any alleged foreclosure strategy untenable. It is inconceivable to conclude that LCH would act in favour of a business within LSEG which is not in the best interest of LCH and its members and clients or that that LCH would be able to change its Rulebook or other rules and processes to favour one ACSP over another in light of its governance and regulatory controls.

35. In particular:

[9] Paragraph 135 Phase 1 decision.
[10] See paragraphs 13 and following of the Initial Submission.

a. Rejecting an ACSP/withdrawing the approval of an existing ACSP […].
b. Changes to the ACSP process to benefit one ACSP over another would have to go through the established change process. […]
c. Breaches of the information policies put in place by LCH, or changes to these, to provide preferential data to Quantile would be not only a breach of contract with a particular third party but also a breach of LCH's code of conduct and a disciplinary matter. Where they involve trade data, there would also be a direct breach of EMIR.
d. In addition to a number of reasons which would prevent LSEG from amending compression fees (see further at Section 5.5 below) - changes to the terms/prices to ACSPs to disadvantage Quantile's rivals or to favour Quantile would mean that the contract with Quantile would not be on bona fide arms' length terms and so could not be approved by iNEDs. […]

36. As a regulated entity, and given its systemic role, LCH is expected to operate to high standards and behave predictably - and its governance structure ensures that it does so. As such, it is inconceivable that LCH would seek to foreclose Quantile's rivals in order to favour Quantile, as part of the LSEG group, in circumstances where this not only would be contrary to customers' wishes but may put at risk LCH's existing and well-established processes, many of which are founded in regulation.

5. LCH does not have the ability to foreclose Quantile's rivals

37. LCH's role in multilateral compression is a narrow one. In practice, LCH is limited to implementing its customers' requests. The multilateral compression process itself is highly standardised and, by necessity, largely automated, as explained in the site visit, and takes place over the course of three days to established deadlines with limited or no "quality" parameters. Similarly, for the reasons explained below, the examples of partial foreclosure strategies to which the Issues Statement refers are not practicable and do not match the operational reality of the market.

38. Customers are also closely involved in and drive forward every step of the process, from investing in, supporting and testing a new ACSP to identifying the trades for compression, setting the constraints within which the ACSP should operate, consenting to the release of their trade data, and validating and accepting the ACSP compression proposal (which is then merely implemented by LCH). This ensures they have both the means and incentive to closely scrutinise LCH's behaviour and detect any hypothetical conduct that does not maximise effective and efficient compression.

5.1. Refusing to approve ACSPs as a total foreclosure strategy would be contrary to established practice, international standards upon which LCH reports and its own internal processes

39. As set out in the Initial Submission:
a. Foreclosure would clearly be contrary to LCH's open access principles upon which its success is built and which is favoured and demanded by its customers;
b. It would also be contrary to international standards for FMIs and, in particular, the IOSCO Principles which specifically refer to CCPs maintaining open access to service providers including portfolio compression service providers, and against which LCH has to self-assess on a yearly basis to the Bank of England and other international regulators; and
c. LCH's own internal governance would prevent a hypothetical total foreclosure strategy given that LCH, as a regulated entity with its own board, has to act in its own best interest rather than in the interests of its majority shareholder (see above).

40. It is also inconceivable that LCH would be able to totally foreclose the incumbent without consultation with the SwapClear Banks and other customers. TriOptima (whose JV parent is CME), has a share of supply approximately four times that of Quantile, and has frequent interaction with customers who would be materially impacted by LCH's action (see above) and, for the reasons explained at Section 6 below, would be able to retaliate.

41. Turning to the criteria themselves, they are in place to ensure that: (i) LCH is operationally able to connect to the third party[11]; (ii) that the party does not present an unacceptable risk exposure to LCH[12]; and (iii) that the service has sufficient customer support to justify the time and expense required by LCH to onboard a third party[13].

42. The criteria themselves do not constitute a high bar for a third party vendor to meet, as demonstrated by the fact that all potential ACSPs have been approved in the past (and approval has never been withdrawn).

43. LCH publicly operates within the above constraints and therefore would similarly not be able to change its access criteria so that other multilateral compression providers are not able to apply successfully.

44. Similarly, given the role and nature of the Rulebook as the central rules that govern the relationship between the CCP and its members and the process that is required for any material changes, i.e., extensive consultation, it is unrealistic to consider that LCH would make changes to its Rulebook in order to attempt to make the criteria more difficult to meet for a particular third party service provider.

45. Finally, a total foreclosure strategy would be very visible, not least because in order to request access, the potential ACSP would already need to show support of six SwapClear clearing members. Refusal would therefore be visible to at least these members, which by definition have already explicitly provided their support for the new ACSP, including investing resources in connectivity and testing with the new ACSP (investment that would be wasted if the new ACSP is not approved). As mentioned above, SwapClear members are embedded in LCH's governance structure and have multiple avenues through which to complain.

46. Nor would any **partial** foreclosure strategy be plausible. As demonstrated by the analysis at Sections 5.2 to 5.5 below, there are a number of grounds on which the partial foreclosure mechanisms set out by the CMA at para. 24 of the Issues Statement can be dismissed.

5.2. Foreclosure through scheduling would require a fundamental and unrealistic change to LCH's role

47. As explained during the site visit, LCH does not play a central role in scheduling of multilateral compression runs and has resisted previous attempts by ACSPs to convince it to play such a role. This is because LCH considers that the timing and frequency of runs should

[11] This is met through criteria (i) meets the requirement to provide multilateral compression in accordance with LCH's rulebook; and (iv) LCH can operationally support the proposed compression services.

[12] This is met through criteria (ii) potential ACSP has robust legal framework under which to provide such compression services; and (iii) potential ACSP can demonstrate robust controls and operational capability.

[13] This is met by the last two criteria (v) that potential ACSP has written confirmation of commitment from at least six SwapClear clearing members to use their compression services; and (vi) potential ACSP can demonstrate successful testing of its compression services with a minimum number of potential participants.

be dictated by participants (who will decide whether to participate in runs). The current approach to scheduling is published on LCH's website[14].

48. Therefore, whilst there is no physical or technological barrier which prevents LCH influencing the scheduling of compression cycles, this would be a significant departure from past behaviour and practice, requiring an important change to the role LCH currently plays in the process. ACSPs are in constant communication with their customers to ensure that their services (including scheduling of compression cycles) meet customer demand. In contrast, as the central counterparty, LCH essentially implements the proposals submitted by ACSPs.

49. LCH imposes limited constraints (namely that an ACSP can only do one run a day and that an ACSP can only perform one run in a currency per calendar week).[15] The dates proposed by ACSPs are accepted with very limited exceptions, related either to key dates in the calendar (e.g., elections or public holidays) or (exceptional) system constraints. As a result, ACSP runs are almost always accepted by LCH: there were only four instances (8 days in total) last year when they were cancelled, all related to the extraordinary conversion of a large number of LIBOR trades to risk-free-rates. There were no cancellations at all in 2019 or 2020.

50. ACSPs can only carry out the number of runs that are supported by their participants and, therefore, customer demand and there is no capacity constraint that is key to the scheduling. Currently, approximately 50 runs occur per quarter with LCH being able to facilitate more slots if there is sufficient customer demand.

51. Quantile has not, however, had feedback from participants that they wish to have a greater number of compression runs per quarter, nor does Quantile consider that particular runs have more value than other runs. As mentioned at the site visit, it is Quantile's view that it is preferable to carry out regular runs rather than runs on particular days. The attractiveness of a run will depend on the number of participants and the volume of trades to be compressed in order to make the run as efficient as possible (and keep operational support costs manageable).

52. Currently, market demand has evolved such that the average number of days between runs was identical across ACSPs for EUR and USD in Q1 2022, and similar for GBP. This illustrates an even balance in scheduling. Therefore, any changes to this (which would be apparent from the published schedule) would be obvious.

Figure 3: Q1 2022 number of runs and days between runs

	Number of Runs		Average days Total		Average days TriOptima		Average Days Quantile	
	Q4 2021	Q1 2022	Q4 2021	Q1 2022	Q4 2021	Q1 2022	Q4 2021	Q1 2022
EUR	11	11	7.4	7.7	14	18	14	18
GBP	10	7	9	13	18	28	15	21
USD	14	11	7	7	12	14	13	14

Source: LCH

53. The number of average days between runs also demonstrates that there is sufficient space between runs to accommodate scheduling changes requested by one ACSP without interfering with competing runs.

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[14] https://www.lch.com/services/swapclear/essentials/approved-compression-service-providers-acsps.

[15] Due to these constraints, there is no real scope for partial foreclosure related to processing Quantile's compression runs quicker/sooner than TriOptima's as parallel runs will be in different currencies (see paragraph 62).

54. Any attempt by LCH to change its historic role in scheduling and interfere in the scheduling of compression cycles in a way that cut across the preferences and interests of participants in these runs would be highly unpopular with these participants. Given the rarity with which LCH has previously interfered with run scheduling and the publication of the run schedules, any deliberate strategy would also be very obvious to participants. This would severely damage LCH's relationship with these participants, on whose support SwapClear's future as a business relies.

5.3. Regulatory and confidentiality/data security requirements would prevent LCH from discriminating against TriOptima in access to data

55. As set out in the Initial Submission:
    a. Preferential exchange of disaggregated, confidential trade data with Quantile without consent from clearing members/clients would be illegal and prohibited under EMIR.
    b. LCH would also have to breach its duties under EMIR to ensure high standards of security and that the integrity and confidentiality of information are maintained.
    c. LCH employees would have to breach their own policies, standards and controls (with potential disciplinary effects) to consciously and intentionally depart from their usual way of operating as an open access business that frequently works with third parties that compete with LSEG businesses. These policies are supported by restricted access to trade data on certain systems, which again would have to be intentionally breached.

56. Given this robust framework, and the regulation around appropriate data security, integrity and confidentiality for CCPs given their systemic role, foreclosure of Quantile's rivals by providing data or information to Quantile that gives it an advantage over rival multilateral compression providers is, at best, not credible and at worst, would be a serious breach of regulation and/or internal policies.

57. All information received is treated in the same way as set out above. As such, there is no data or information that could be provided to Quantile that would give it such an advantage that it would be able to foreclose rival multilateral compression providers,

5.4. The highly automated and known process precludes any other foreclosure mechanism

58. In any event, it is the Parties' firm view that the very nature of the relationship between LCH and ACSP, as detailed further below, means there is no tenable partial foreclosure mechanism which could exist on the facts.

59. As set out in the Initial Submission and explained at the site visit, the process between CCP and ACSP is a series of file exchanges that is largely standardised. The file exchange is necessary to collect the required data from participants and the CCP to solve the mathematical optimisation problem and to process the changes to the underlying portfolios resulting from the compression i.e., trade unwinds and new risk replacement trades. These files go through straight-through processing.

60. A number of checks and balances are in place to ensure that the run (i) can be accurately processed, as LCH is responsible for this element; (ii) does not create additional risk for SwapClear or its members; and (iii) is in line with member requests. These checks are largely automated except for two checks on the day of compression, the first (an exceptions-only check) to ensure that members are not taking on more risk than anticipated; and the second, to check that the CCP is cashflow flat (i.e. that it is not taking on any additional risk). This final check is a 'four eyes' check but operates to ensure the run complies with objective

transparent constraints that are provided to the ACSP and within which the ACSP also operates. This process cannot therefore be manipulated by LCH to favour Quantile.

61. LCH can support multiple ACSP compression cycles in 3 different slots per day. In practice, this means that if a run is not able to be processed in the first slot (e.g., if there is a customer delay to their consent to the ACSP or the run fails the cashflow checks), it would still be possible for the run to be implemented on the same day at a later slot.

62. As set out in the Initial Submission, it is unrealistic to conclude that LCH could or would, for example, change the order of compression files to discriminate against TriOptima. This is because:
    a. To do so would require changes to the automated nature of the process which could introduce operational risk, contrary to LCH's primary objective as risk manager.
    b. In order to have a foreclosure effect, any change would need to have a negative effect on TriOptima's ability to compete, e.g. because runs were persistently and significantly delayed (despite the three slots per day) or runs regularly failed. In practice, competing runs (i.e. for the same currency) are not carried out on the same day (as multi-homing large banks can't compress their portfolios in a given currency with Quantile and TriOptima on the same day), and there is sufficient space in the schedule to remedy any delay. The order in which files are processed would therefore have no effect on outcomes.
    c. Changes to the process, in particular as fundamental as those required by a foreclosure strategy of this type, would be required to be shared with the SwapClear Banks and would also have to go through internal governance (see above).

63. Given the structured nature of the workflow process, which both ACSPs and customers are very familiar with, any changes would be clearly detectable and could not be justified.

5.5. Price-based foreclosure through pricing to ACSPs or clearing members/clients would not be possible

64. As set out in the Initial Submission, there are a number of governance and contractual reasons that would prevent LCH from charging different ACSP fees to TriOptima and Quantile in order to discriminate against TriOptima. Given the low cost of these fees to ACSPs, fees would have to increase by many multiples to even have an effect, which makes this strategy all the more unrealistic. For example, in 2020, to bring about a 5-10% increase in total multilateral compression costs, LCH would have needed to increase its ACSP fee by […]%. […]

65. Neither would LCH be able to amend its clearing member/client fees to discriminate against Quantile's rivals. This is for a number of reasons:
    a. […]
    b. […]
    c. LCH would also be required to consult with other clearing members/customers, who may also retaliate in view of the value offered by compression and their potential preference for a particular provider.
    d. Under Articles 7 and 38 EMIR, LCH believes that it would be unlawful to discriminate between fees charged to clearing members and clients for implementation of multilateral compression services by Quantile and TriOptima.[16]

[16] See LSEG's response to RFI2 for further detail.

66. Given the above, it is unrealistic to suggest that LCH would be able to change the fees either to clearing members/clients or to ACSPs themselves leading to foreclosure of TriOptima.

6. The Merged Entity would have no incentive to foreclose

67. Even if the CMA concludes that LSEG has the ability to foreclose Quantile's rivals in multilateral compression services, the Parties submit that the Merged Entity (i.e. the Parties post-transaction) would not have an incentive to do so due to the costs of foreclosure that would far outweigh any potential benefits.

68. In particular, the CMA notes in the Issues Statement that any costs to the Merged Entity of engaging in total or partial foreclosure strategy with respect to multilateral compression services would be likely to be "limited" whereas the apparent benefits would be "substantial".[17] LSEG strongly disagrees with these conclusions, which ignore the business realities it faces, and considers that the risks to the Merged Entity of any strategy capable of foreclosing rival multilateral compression service providers would dwarf any conceivable benefits.

69. As a starting point when considering the risks of any foreclosure strategy for LSEG, it is important to recognise that Quantile's leading customers – […] – regard choice and competition in multilateral compression services as essential. As explained in the Initial Submission:
   - In addition to driving healthy competition between ACSPs, many customers actively multisource to take advantage of the differentiated nature of the services offered.
   - Having a choice of multilateral compression service providers is also important to customers from a simple security of supply perspective and the SwapClear Banks would find it unacceptably risky to have to rely on a single provider of such a service.

70. The strength of customers' support for choice and competition in multilateral compression services is demonstrated by the proactive role larger customers have played in supporting competition between ACSPs, […]. For these reasons, these customers would vehemently oppose any attempt to restrict competition and choice in multilateral compression services.

71. The Phase 1 decision acknowledged that customers would disapprove of any strategy aimed at foreclosing rival compression service providers to Quantile. However, it contended that – notwithstanding this – customer retaliation would be unlikely.

72. The reasoning in the Phase 1 decision significantly understates the costs and risks of such a foreclosure strategy to LSEG and LCH – as well as to Quantile itself - for a number of reasons:
   - first, it does not consider the damage that such a foreclosure strategy would do to Quantile's own future growth prospects;
   - second, it materially understates the risk of LCH losing OTC IRD clearing business and materially overstates the amount of business that LCH would need to lose to render a foreclosure strategy unprofitable for LSEG; and
   - third, it places insufficient weight on the risks that a foreclosure strategy would create for LSEG's wider business.

73. We explain each of these points in turn below.

[17] Issues Statement, paragraph 26.

6.1. Any foreclosure strategy would damage Quantile's own future growth prospects

74. The Phase 1 decision assumes that Quantile itself would benefit from any foreclosure strategy in relation to multilateral compression services, with any countervailing costs and risks only falling on LCH. However, this overlooks the fact that Quantile's own future growth prospects – […]– would be ruined by such a foreclosure strategy.

75. […], there are significant opportunities for Quantile to develop new services and grow its revenues outside compression. […]

76. However, Quantile's growth prospects in these other services are […].

77. While Quantile does not have any direct visibility of the plans of rival providers of post-trade solution services, it is highly likely that rivals also see such services as important growth opportunities. In some cases, rivals have already developed their own services in these areas For example:
    - in relation to IM optimisation services, TriOptima – like Quantile – has already extended its IM optimisation services to cover FX and equities in addition to IRDs, while both Capitalab and LMRKTS already offer IM optimisation services for both FX and IRDs; and
    - similarly, TriOptima, Capitalab and LMRKTS already offer SA-CCR Capital optimisation services.

78. Any foreclosure strategy that damaged Quantile's relationship with its compression customer base would therefore gravely damage Quantile's growth prospects in relation to these other services. Indeed, these foregone revenue opportunities would in and of themselves be likely to render a foreclosure strategy unprofitable.
    - As Figure 4 below illustrates, LSEG has valued Quantile on the assumption that these non-compression services will generate […] in annual revenue and a similar amount in additional gross profit by 2025 than they collectively do today[18]. This means that any foreclosure strategy would need to be capable of generating at least […] in additional revenue in compression services simply to offset the non-compression business that Quantile would risk forfeiting as a result of pursuing a foreclosure strategy (i.e. even before considering the potential costs and risks to LCH and other parts of LSEG).
    - This […] revenue sacrifice is significantly more than the Parties' best estimate of TriOptima's revenue from providing compression services in 2021, which the CMA appeared to use to assess the potential financial benefit to Quantile of a foreclosure strategy in its Phase 1 decision.[19] […], TriOptima's expected compression revenue in 2025 would still remain less than […].
    - In other words, these potential benefits from foreclosing TriOptima would be insufficient to offset the non-compression revenue growth opportunities for Quantile that LSEG would forfeit if it were to pursue a foreclosure strategy.

Figure 4: Comparison of the growth in Quantile non-compression revenue that LSEG would forfeit by pursuing a foreclosure strategy against TriOptima's estimated revenue from compression services

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[18] [...].

[19] Neither LSEG nor Quantile have any direct visibility of the revenues that TriOptima earns from multilateral compression services. However, Quantile assumes that TriOptima's revenues would be approx. two times higher than its own, in line with TriOptima's higher share of multilateral compression activity. This would place TriOptima's compression revenues for 2022 in the region of [...].

6.2. Even if there were only a small risk of LCH losing OTC IRD clearing business, this would still be sufficient to deter any foreclosure strategy – and in reality, the risk would be very real

79. In its Phase 1 decision, the CMA suggested that customers would need to move […] of their OTC IRD clearing activity away from LCH to make a foreclosure strategy unprofitable for the Merged Entity[20]. The CMA did not share its calculations, but LSEG considers it inconceivable that this could be correct.

80. Figure 5 below compares LCH SwapClear's revenues and gross margins to the revenues and gross margins that Quantile earned from providing multilateral compression services in 2021. The chart also shows Quantile's best estimate of TriOptima's revenues from compression services [21], which the CMA appeared to use to assess the potential financial benefit to Quantile of a foreclosure strategy in its Phase 1 decision (*i.e.* entirely excluding TriOptima from the market for compression). As is evident from this chart, SwapClear's gross margins in 2021 were approximately […] times higher than those estimated for TriOptima for compression services.

Figure 5: SwapClear's and ACSPs' revenues and gross profits in 2021

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81. The above implies that even if there were only a very small […] chance of banks shifting their clearing activity out of SwapClear to a rival CCP in retaliation to a foreclosure strategy, this alone would be more than sufficient to deter such a strategy (even before additionally taking account of the damage that such a foreclosure strategy would do to Quantile's own growth prospects, as outlined above, or the wider risks that such a strategy would create for LSEG, as discussed below). LSEG considers the real risk of a foreclosure strategy triggering such a shift in clearing activity to a rival CCP would be considerably higher than this. There are a number of reasons for this:

- First, **SwapClear's key customers – the SwapClear Banks – are also all leading users of multilateral compression services**. Moreover, for the reasons set out above, these banks benefit greatly from the choice and competition created by having more than one provider of these services and would strongly oppose any move by LCH to foreclose this choice and competition.

- Second, **SwapClear faces competition from several credible, well-established rival CCPs** that are part of leading financial market infrastructure groups, including Eurex, CME and JSCC. The SwapClear Banks are already connected to these rival CCPs and there are no technical barriers to these CCPs serving all SwapClear clients. Nor are there any liquidity-related barriers that would prevent or deter customers from moving their OTC IRD clearing activity across from SwapClear to these rivals for several leading international currencies. "Liquidity" at a CCP refers not to volumes of activity, but the ease with which a market participant can find counterparties willing to trade at competitive prices (whether bilaterally or at a suitable trading venue) and clear at their CCP of choice. While SwapClear currently has higher OTC IRD clearing volumes, it does not follow that this disparity in cleared volumes translates into material differences in CCP liquidity. On the contrary,

[20] CMA Phase 1 decision, paragraph 138.

[21] Again TriOptima's revenues have been estimated by scaling up Quantile's revenues by a factor of two, to reflect TriOptima's higher compression volumes.

there is clear evidence that rival CCPs have similar levels of liquidity to SwapClear in several leading currencies, including most notably EUR-denominated IRDs in the case of Eurex. As the chart below from Eurex's own marketing materials shows, there are no longer any systematic differences between the prices that dealers quote clients to clear EUR trades on Eurex compared to SwapClear. This means that market participants can just as easily find counterparties willing to trade these products at competitive prices if they clear on Eurex as if they clear on LSEG.[22]

Figure 6: Market data confirms that Eurex's and LCH's liquidity for EUR-denominated swaps is similar

Large dealers provide similar liquidity for Eurex Clearing compared to LCH for Euro Swaps

Eurex-LCH Price Comparison

2yr		5yr		10yr		30yr	
Eurex	LCH	Eurex	LCH	Eurex	LCH	Eurex	LCH
0.70	1.72	0.70	1.72	0.70	1.72	0.90	1.93
0.87	0.87	0.84	0.85	0.84	0.84	1.12	1.11
1.09	1.23	1.00	1.30	0.9	1.73	1.24	1.24
1.11	1.11	1.10	1.74	1.00	1.23	1.47	2.32
1.13	1.84	1.15	1.15	1.20	1.20	1.50	2.17
1.26	1.24	1.20	1.20	1.27	1.26	1.90	1.90
1.40	1.22	1.53	1.92	1.48	1.48	1.97	1.95
1.45	1.45	1.54	1.54	1.53	1.91	2.00	2.00
1.48	1.48	1.60	1.60	1.59	1.59	2.09	2.09
1.49	1.29	1.69	1.69	1.65	1.70	2.26	2.24

Top 10 quotes per tenor as a weekly average 28 Feb to 04 Mar 2022

EUREX 12 17 March 2022

Source: Eurex, https://www.eurex.com/resource/blob/143582/b584f45770a6da577e1418c887fa2119/data/Eurex-Clearing-partnership-program-summary-otc-ird.pdf , slide 12.

- Third, there are **no transitional costs that would make it expensive for the SwapClear Banks to switch their clearing activity to a rival CCP**. On the contrary, SwapClear's users could rapidly shift their clearing activity to a rival CCP in the normal course of business at no additional cost. […]. This means that once its members resolved to switch, SwapClear could suffer a catastrophic loss of business ([…]) within a very short timeframe. [23]

- Fourth, in the absence of these switching costs and barriers, **LCH's survival as a leading CCP for OTC IRDs post-Brexit depends entirely on its ability to maintain a good working relationship with its members.** The European Commission has made it clear that moving clearing activity from London to the EU (i.e., from LCH to Eurex) for counterparties based in Europe is a top strategic priority post Brexit and – while it has granted UK-based CCPs time-limited equivalence until June 2025 – it has no plans to grant any extension beyond this.[24] […] LCH's survival as a leading CCP for OTC IRDs depends entirely on its ability to maintain a good working relationship with its members and clients, which is in turn underpinned by:
  - LCH's strong track record as an open access provider; and

[22] For further evidence on the growth in liquidity for EUR-denominated OTC IRDs on Eurex in particular, please refer to paragraphs 95-101 of the Parties' response to the Phase 1 Issues Letter.
[23] For further evidence on this, please refer to paragraphs 104-108 of the Parties' response to the Phase 1 Issues Letter.
[24] […]

- o SwapClear's deep alignment with its customers' interests, reinforced by a governance structure and contractual obligations to consult that give these customers special insight into and influence over its activities (see above).

Any move by LCH to foreclose rival compression service providers would bring its track record for open access to an abrupt end and signal a sharp break between LCH's actions and the interests of its customers. […]

82. The Phase 1 decision notes that the CMA's market investigation accepted that most customers would, in principle, consider "*moving or threatening to move a material volume of trades to other CCPs*" as a reaction to a foreclosure strategy.[25] The CMA noted in its Phase 1 decision that customers' answers on the question of how easily they could do this in practice "*varied significantly*".[26] However, even if these responses are taken at face value, they indicate that there would at least be significant uncertainty as to whether LCH could implement a foreclosure strategy without prompting customer retaliation against SwapClear. Given that even a small risk of retaliation against SwapClear would undermine such a strategy (see Figure 5 above), even "varied" customer feedback of this nature would constitute an unacceptable risk for LSEG.

6.3. The risks that a foreclosure strategy would create for LSEG's wider business are substantial

83. A breakdown of LCH's relationship with the leading users of multilateral compression services customers would also jeopardise:

- LCH's ability to compete for other clearing services (in addition to OTC IRDs); and
- LSEG's ability to compete for a range of other services that dwarf multilateral compression in scale.

A breakdown of LCH's relationship with the Quantile's leading customers would jeopardise its ability to compete for other clearing services

84. Figure 7 below provides a breakdown of the revenue that LCH as a whole earned from each of the SwapClear Banks in 2021.

Figure 7: Revenues that key Quantile customers generated for LCH in 2021, compared to the (estimated) revenues they generated for multilateral compression service providers

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85. As the chart above also illustrates, these banks – which as noted above are also the leading users of multilateral compression services – generate a significant amount of revenue for LCH's other clearing businesses in addition to SwapClear. These multiple touchpoints with LCH give these users a range of further options for retaliating and punishing LCH (over and above switching business out of SwapClear).

86. For instance, LCH generates a significant amount of revenue from equity and FX clearing services, but faces fierce competition in these clearing services:

   a. **FX products** are largely not CCP-cleared, meaning that LCH has to work hard to grow its ForexClear business. […]

   b. **Equities clearing** in European markets is fiercely contested with a number of competing CCPs. LCH has a market share of […] in cash equities clearing

[25] CMA Phase 1 decision, paragraph 136.

[26] Ibid.

services, with EuroCCP, SIX x-Clear, Eurex and CC&G (now Euronext Clearing) also competing for customers. LCH also faces strong competition in equity derivatives clearing where the trading venue through which it has historically generated most of its clearing volumes – Euronext – has recently announced its plans to cut ties and switch to partnering with a rival CCP.

c. **CDS clearing** services are also highly competitive, with LCH's CDSClear business facing strong competition from the incumbent, ICE Clear Europe and ICE Clear Credit.

d. **Fixed income products (including cash bonds and repos)** are largely not CCP-cleared, meaning that LCH has to work hard to grow its RepoClear business. […]

87. In all of the above clearing services, customers can readily switch CCP, […].[27] […] – meaning that, even if only a small subset of banks moved a single clearing service to a rival CCP, this would result in a revenue loss for LCH that was larger than the total amount of revenue that Quantile earns from compression services. […][28]

88. Many of these businesses, especially those like RepoClear and ForexClear, are working hard to grow revenues in a largely uncleared market. For LCH to suffer significant loss, customers do not have to switch existing business but simply choose not to clear new business with LCH.

89. In addition to these existing LCH services, LSEG and LCH are also working with customers on new services for which they are dependent on customer buy-in, which in turn relies heavily on its reputation as a trusted market partner and open access provider. Without customer support, these services will fail. […]

90. […]

91. […]

Any damage to LSEG's relationship with Quantile's leading customers would also harm its ability to compete for a range of other services that dwarf multilateral compression in scale

92. As the chart below illustrates, many of Quantile's leading customers are also key LSEG customers that generate substantial revenue across multiple segments of LSEG business (in addition to generating significant revenue for LCH as noted above). LSEG faces fierce competition across the sectors in which it operates – including the services that comprise both its Data & Analytics (D&A) division and Capital Markets division – and customers have a number of alternative providers to turn to if they were dissatisfied by LSEG's actions or lost trust in LSEG.[29] The risks associated with pursuing a foreclosure strategy that undermined LSEG's relationship with any one of these customers (let alone all of them) would far outweigh any conceivable benefit that the strategy could deliver for Quantile.

Figure 8: Revenues that key Quantile customers generated for LSEG in 2020, compared to the estimated total size of the multilateral compression market

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[27] For further information on these examples, please refer to paragraphs 112-113 of LSEG's response to the Phase 1 Issues Letter.

[28] Ibid.

[29] For estimates of LSEG's shares of supply in its D&A division and Capital Markets division, please refer to Tables 3 and 4 of LSEG's response to the Phase 1 Issues Letter.

93. In LSEG's experience, these customers think holistically about their relationship with LSEG and negotiate the various services they procure from LSEG in a joined-up way (through their senior executives or internal teams). If LSEG or LCH took any steps that the banks disapproved of with regard to compression services, the banks would be able to escalate the issue and easily express concern at multiple touchpoints.

94. If LSEG did not swiftly take steps to address these concerns, the situation would rapidly escalate, with the banks' executives raising the alarm with senior executives at LSEG and – if this too fails – directing their internal teams to scale back their use of LSEG services. There are existing mechanisms and structures within the banks and therefore they could be triggered without any cost or difficulty.

95. The creation of the Group Strategic Accounts function within LSEG aims to provide these clients with streamlined access to LSEG's services and create further partnership with them across its divisions, recognising the importance of these broad relationships, which has only increased following the acquisition of Refinitiv. […][30] […].[31]

96. Moreover, the customers would not even need to shift their current expenditures in order to 'punish' LSEG. As mentioned above, they could also choose to react to a foreclosure strategy by not investing in new initiatives that LSEG is developing, which would also result in LSEG earning significantly less revenue than it would if it had not pursued a foreclosure strategy.[32]

The CMA's reasoning for dismissing this evidence in Phase 1 decision does not stand up to scrutiny

97. LSEG does not believe that the reasoning in the Phase 1 decision for dismissing this evidence stands up to scrutiny.

- First, footnote 122 of the CMA's Phase 1 decision refers to a customer negotiating fees for other LSEG products and paragraph 137 refers to 'limited instances' of disputes that led to an 'escalation' outside of the business unit directly using that product or service.

- Second, the conclusion that customers would not escalate their concerns is also not borne out by evidence on the ground – summarised above – which demonstrates that customer can, and do, discuss their business with LCH and LSEG beyond the business area with which they may be concerned (and the creation of a GSA function facilitates this) and that there can be 'contagion' risk if a customer is not satisfied with one service.

- Third, the fact that none of these examples of escalation […] does not invalidate the insight they provide into the risk associated with the foreclosure strategy. As set out above in Section 3, LCH invests heavily in its relationship with its customers […]. Nonetheless the vast majority of SwapClear Banks are LSEG GSA customers and have recourse to all the escalation mechanisms outlined above. If these customers were unhappy with actions taken by SwapClear and felt that their concerns were not being adequately addressed through the usual LCH channels, then they could activate these escalation mechanisms […].

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[30] […].

[31] For specific examples, please refer to paragraphs 122-123 of LSEG's response to the Phase 1 Issues Letter.

[32] For specific examples, please refer to paragraphs 126-129 of LSEG's response to the Phase 1 Issues Letter.

7. Customer benefits

7.1. Benefits to Quantile customers

98. Quantile's acquisition by LSEG will enable Quantile to provide a better platform to deliver market leading solutions for customers. While Quantile has achieved considerable success since its operational launch in 2017, LSEG will provide Quantile with the resources to grow and accelerate product development, and the customer partnerships to enable Quantile to increase the size of its customer network. While large, sophisticated customers such as the G-SIB banks are willing to support new entrants, as they have supported Quantile since 2015, they want to see sustained growth over time and long-term viability underpinned by financial resilience and network infrastructure.

99. The combination of LSEG's well-established reputation as a trusted customer partner, the added long-term financial resilience it provides, and its existing network of customers will enable Quantile to grow its own customer base more quickly and to a more significant extent than would be achievable on its own (or with an alternative financial investor). This can be seen from the charts below, which show the acceleration in Quantile customer numbers and revenue as a result of the transaction.

100. Figure 9 below sets out the projected increase in Quantile customer count in 2023, 2024 and 2025 as a result of the transaction. […]

Figure 9: Differences in the projected number of customers using Quantile's services in 2023, 2024 and 2025 as a result of the transaction

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101. Figure 10 below sets out the projected increase in Quantile's revenues associated with this accelerated customer growth. […].

Figure 10: Projected additional Quantile revenue as a result of the transaction accelerating customer uptake of Quantile services

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102. Achieving a larger customer base sooner will improve the amount and scale of mutual risk reduction. Importantly, the addition of every new customer not only reduces risk for each incremental customer but also for all existing customers, which benefit from the greater multilateral opportunities derived from a larger number of customers participating in each optimisation run. While the precise extent of this positive network externality will depend on the composition and nature of the customer group, these benefits can be substantial. For example, doubling the number of participants from (say) 20 to 40 can roughly double the scope for resource/risk reduction even though the 20 additional participants that join would on average be smaller than the 20 original participants.

7.2. Benefits to LSEG customers

103. Quantile brings LSEG new skills, experience, and capabilities in risk management, bank capital resource management and optimisation that can help LSEG improve its service offer to customers in a number of areas. This includes achieving greater capital savings for

customers and process and technology efficiencies. Quantile also brings existing connectivity to the largest banks for these services, which would need to be established if LSEG were to develop these services from scratch.

104. As such, the Parties consider that the acquisition is complementary and will benefit both Quantile's customers and the wider LSEG customer base. These benefits would not exist absent the transaction and should not be ignored.

8. Conclusion – there is no SLC on a balance of probabilities

105. Fundamentally, the Phase 1 decision suggests a theory of harm which is commercially unrealistic and will not materialise given the important role and influence of customers, the market structure and the regulatory and governance context within which LCH operates as a central counterparty. It is not sufficient for the CMA to establish that the SLC is a mere theoretical possibility, it must satisfy itself that the SLC is *more likely than not* under the Phase 2 balance of probabilities test.

106. The CMA could look at each individual check and balance set out in detail above, e.g. regulatory obligations, LSEG's open access and governance mechanisms, the fundamentally instructive role customers play in these markets, the minor relevance of compression to Quantile's overall offering, deal rationale etc. and conclude that LSEG could, in theory, overcome each individual obstacle in order to implement a foreclosure strategy. Such a theoretical possibility is not however sufficient to meet the balance of probabilities test, which requires the CMA to assess the strategy in the round given the real world context in which it is alleged to take place.

107. Moreover, a foreclosure strategy of the kind envisaged by the CMA in its Phase 1 decision, of sufficient force and relentlessness to eliminate competition from an incumbent provider (whose JV parents are CME, a competing CCP, and IHS Markit, now owned by S&P Global) with a share of supply of around 70-80%, would require a brazen and obvious disregard for regulatory obligations, LCH's own open access model and the views of its most important customers, as well as a reckless attitude to the risk of customer retaliation, and the failure of so many checks and balances, that it lacks any credibility in the real world in which LCH operates. Therefore, it cannot credibly be concluded that an SLC is "more likely than not" to result.