RESPONSE TO INVITATION TO COMMENT

CCIA response to Invitation to comment: SMS investigation into Microsoft's business software ecosystem

About CCIA

CCIA is an international, not-for-profit trade association representing a broad cross section of communications and technology firms. For more than 50 years, CCIA has promoted open markets, open systems, and open networks. CCIA's members support thousands of UK business customers, competing with Microsoft and others in many of the sectors considered in the invitation to comment.

Q1: Please give your views on the proposed scope of our investigation and candidate descriptions of Microsoft's business software ecosystem.

The proposed scope is broad, including:

- Operating systems.
- Productivity software used by both businesses and consumers.
- Server and database software only used by businesses.
- Security and identity software, such as Entra ID, Active Directory and Defender.

A single process that can consider these services as an ecosystem seems appropriate. The CMA should still bear the complexity of this ecosystem in mind in its analysis and design of any conduct requirements. This is most likely to matter where the complexity of the ecosystem means that either barriers to competition might be greater in aggregate than in isolation, or where the nature of the ecosystem creates circumvention risks.

An example, discussed in our response to Question 4, is where licensing terms and related restrictions attached to one product restrict competition in an adjacent market such as cloud, which the CMA has found to have an adverse effect on the competitiveness of AWS' and Google's offerings in the supply of cloud services. Restrictions attached to multiple products within the scope defined for this SMS investigation might combine to restrict customer choice in the aggregate more than in isolation.

The broad scope of the investigation should not lead to a delay in the CMA imposing conduct requirements where material harm to competition by Microsoft has already been investigated and established – namely with regards to software licensing. The CMA should prioritise remedies to Microsoft's conduct with regards to software licensing in parallel to the broader investigation, and impose appropriate conduct requirements at the earliest possible opportunity.

Q2: Please provide any submissions or evidence relevant to the avenues of investigation we have set out above. Are there other issues that the CMA should take into account, and if so, why?

The avenues of investigation for SMS tests (paragraph 25) should generally give proper weight to dynamic competition. The potential for other parties to create new digital services in the event that the user proposition were to worsen (quality-adjusted prices were to rise) incentivises competition in markets, and can spur innovation by incumbents and potential contestants alike. This has clearly occurred over time in a broad range of digital markets and can affect behaviour now separate from market conditions now, or expected disruption over a 5-year time period.

Unlike other digital markets considered in earlier SMS investigations, however, where consumers generally express satisfaction with the options available, business cloud customers express frustration at constraints related to restrictive software licences (see response to Q4). This makes it less plausible that dynamic competition is functioning as an effective constraint on behaviour.

Q3: What are your views on how business software may evolve in future, including as a result of AI and increased cloud adoption, and how Microsoft's business software ecosystem might be affected by these changes?

Many of the services in question became popular in the 1990s when, for example there were:

- Fixed costs for private infrastructure - infrastructure and other platforms becoming available as public services made both establishing and scaling services harder.
- Lump sum licences - the shift from expensive lump sum payments for licences to more flexible software as a service terms would make adding or cancelling services easier.
- Significant learning costs for ordinary users - learning to use office software was a significant undertaking with classes, books, etc. This is now rare outside highly technical settings (e.g. software development).
- Less potential for supply-side substitution - with the overall growth of the digital economy, there are more companies with the customer relationships and technical, financial and other resources needed to make strategic investments to compete in digital markets either themselves or partnering with new entrants.

The CMA could understand restrictive software licensing as a means to leverage the market position established in that era, or for services where multi-homing remains much more challenging, to inhibit competition in newer and more dynamic segments (i.e. public cloud) and with newer competitors. These constraints will limit the scope for evolution that might

otherwise take place without the constraint of restrictive software licensing. While such tools can accelerate technical migration, they cannot override contractual licensing terms that prohibit or penalise deployment on a customer's chosen infrastructure. The restrictions are legal, not technological, and will persist.

Q4: Please give your views on whether the issues outlined in this section are the right ones for the CMA to focus on, or whether there are others we should consider.

Prevent leveraging of market power into adjacent activities, such as cloud services

This is the issue where current evidence is most developed and, in our view, where the CMA's work can deliver the clearest benefit to UK customers. The Cloud Market Investigation already found that Microsoft's licensing of its business software had an adverse effect on competition in cloud services. The question for this investigation is therefore less whether a problem exists than how best to address it.

Research for CCIA by J L Partners since the conclusion of the Market Investigation has reinforced the importance of this issue. J L Partners surveyed 512 UK IT decision-makers and found that a sizable majority (67%) think that restrictive software licences often make it harder for them or their organisation to make decisions that would drive productivity in the UK. This rises to 68% amongst senior decision-makers.

The impact varies by sector, but the constraints are universal. Private sector leaders see clear benefits if restrictions were lifted: 54% say their businesses could work more productively, while 45% report that they could adapt software to new or specific needs more easily, grow more easily, and reduce costs. As one technology leader stated: “Abolishing restrictive licensing should make the UK more attractive... If the UK can be an outlier, they may be able to lead other countries and attract more foreign investment. Also [it] will contribute to faster growth.”

For public services, the stakes are equally high. Nearly half (47%) of public sector IT decision-makers say removing software licence restrictions would allow public sector organisations to improve security and better enable partnering with additional software vendors, whilst 42% say it would allow partnerships with additional cloud infrastructure vendors. For the public sector in particular, this connects directly to the Government's value-for-money and digital efficiency objectives: terms that prevent public bodies from moving existing software to the cheapest compliant cloud raise the cost of public services with no corresponding benefit.

The research reveals how much weight Microsoft’s licensing terms carry in procurement decisions, although awareness of its constraints vary:

- Around three-quarters (74%) are aware of the constraints restrictive software licences create for customers looking to use other cloud platforms, but there is a substantial minority that are not. In the public sector, that minority, unaware of Microsoft's restrictive licensing terms, reaches 38%.
- This significantly impacts buying decisions. The vast majority of respondents reported that licensing terms and pricing structures had a significant effect on their IT infrastructure choices, with only 4% reporting that it does not influence their decisions at all.
- Similarly, 92% reported that equal rights for Microsoft software across all IT providers would change their procurement decisions, with 70% reporting a moderate or strong impact. This is a striking finding in the research as it indicates that the conduct in question is not a marginal irritant but a material factor in how UK organisations buy cloud services.
- One commercial decision-maker told the researchers: "It gives you the option to be able to consider other providers with the knowledge that you would be paying the same price for these Microsoft products."
- A public sector decision-maker said: "If I've purchased software, it should mean I'm the owner, and if it means that I need to go to the cloud with that..., of course, I shouldn't have to pay more for that."
- The practical challenges are tangible. When running Microsoft software on non-Azure clouds, common challenges cited include increased costs (60%), reduced functionality (50%) and lower support levels (28%)
- These barriers have real consequences for cloud adoption. Nearly 70% reported that the extra costs associated with using on-premises software specifically had influenced their cloud adoption choices for some workloads, including 44% who reported that it affected which cloud provider they chose and 25% who kept some workloads on-premises instead.
- Meanwhile, 85% of main decision makers would be more willing to switch providers or adopt multi-cloud strategies if their organisation could transfer existing software licences across clouds without additional costs. This points toward a key point we discuss in more detail under Question 5.

In light of the well-established adverse effect on competition that Microsoft's software licensing practices have on competition for cloud services, the CMA should prioritise establishing remedies to this conduct without delay. Conduct requirements related to Microsoft's software licensing practices should be developed and imposed in parallel to the investigation of the other aspects of Microsoft's business ecosystem.

Improve competition in business software by ensuring that technical design and interoperability enable customers to choose between different providers

Mandatory requirements for interoperability should be focused where there are artificial barriers that inhibit the development of new services, versus the inherent barriers to interoperability that can develop as digital services innovate, change and diversify.

Licensing restrictions, considered above, are an example of where there are artificial barriers imposed to restrict competition, rather than reflecting inherent features of the technology or the establishment of new services. This can be seen with Microsoft creating a "Listed Providers" category to impose its most onerous licensing conditions specifically on the companies that are its most comprehensive competitors, while in parallel granting preferential licensing terms to customers running Microsoft software on Azure (e.g. Azure Hybrid Benefit, multi-session licensing for Azure Virtual Desktop, extended security updates, etc.). A restriction defined by the identity of the competitor, rather than by any technical feature of the product, is difficult to explain on any basis other than limiting competition, and is the kind of barrier that requires immediate remedy.

Establishing parity of Microsoft software products and product functionality for use on Azure and third party cloud infrastructure could include:

- Where terms explicitly limit functionality, or diminish the customer offer when working with other products, this might include whether or not the provision of support and patches explicitly favours legacy products. In this case there are fewer plausible technical obstacles to doing so and there is a strong case for requirements to address customer constraints.
- Where there might be a requirement for interoperability with legacy software functions, this might include tools such as Active Directory, Entra ID and security suites. In this case (as with technical barriers more widely), the distinction might be whether (a) existing standards (either explicit, or in the form of longstanding technology norms) mean that changes can be implemented easily, making these more akin to licensing restrictions, or (b) it would require the creation of standards that do not yet exist, where the CMA and other regulators might need to play more of an encouraging and convening role to avoid distorting commercial relationships.

Ensure that customer purchasing decisions are not distorted by commercial arrangements like bundling, such that rival providers cannot compete effectively

It should be expected that companies operating in a broadly competitive market change their commercial offerings over time and that will often include adding new features and functionalities. However, bundling legacy tools such as Windows and Office with secondary cloud features (e.g. Entra ID, Active Directory) can serve as an artificial tool to restrict competition.

In terms of AI, the CMA should broadly see policy as successful if it supports the Government's objective (outlined in the Chancellor of the Exchequer's Mais Lecture) for Britain to "achieve the fastest rate of AI adoption of any country in the G7." It should therefore generally be supportive of attempts to integrate AI into established services, but sceptical of restrictions that prevent AI services developed by other companies being used by businesses because of pre-existing business software commitments.

Ensure that defaults, design and presentation choices do not steer users toward particular products in ways that undermine effective choice

Generally speaking, the CMA should be wary about dictating design choices too closely. It is important that companies have reasonable flexibility to identify genuine security risks, for example. Regulation might have a role where those choices are misleading and/or leverage Microsoft's legacy role in the market.

The area where the presentation of choices and defaults has caused the most widespread concern is how Microsoft presents browser choices in Windows. Unlike in mobile ecosystems, with relatively simple factual reminders, these choices are often presented to appear like security updates. Presenting a commercial steer as if it were a security or system message is the kind of potentially misleading design where intervention might produce greater benefits. It would be helpful for the CMA to clarify early whether or not it believes that is in scope for this investigation. It is a feature of the Windows operating system, but relates to how that operating system promotes software used by businesses and consumers (i.e. the Edge browser).

Q5: Please give your views on whether there are potential interventions that are likely to be necessary and which may be effective, proportionate and have benefits for UK users and consumers.

In our view effective and proportionate interventions with benefits for UK users and consumers are possible to address restrictive software licensing terms, as described above. In its response to a working paper on licensing practices and potential measures during the Market Investigation, CCIA argued that the approach needed to be:

- **Effective in the context of legacy software licensing restrictions** - the problem reflects the licensing conditions applied to existing software and to be effective a remedy will need to address customers that are already experiencing some degree of lock-in, not only those that might become locked in in future. This is an issue particularly for transparency requirements.
- **Simple for customers** - ideally a remedy will not require extensive negotiation or legal action by individual cloud customers. Regulators and competing cloud providers may in some cases be better-placed to ensure infringements are identified and responded to appropriately.
- **Comprehensive** - there are a range of means by which restrictive licensing terms can restrict the choices of customers in ways that either directly or indirectly (by impeding their ability to choose alternatives) raise quality-adjusted prices. If only some of those means are limited, this may simply lead to other restrictions being used to extract the same rents.

This is likely to mean a mix of measures. The CMA considered several measures in its Market Investigation which we consider below and which might form the basis for conduct requirements. Each addresses a different route through which licensing terms restrict customer choice, and in our view they are best pursued together as a package rather than treated as alternatives, since the comprehensiveness described above depends on closing off these routes in combination.

Non-discriminatory pricing, for example, is simple from the customer perspective, as it diminishes the prices charged to cloud providers and customers benefit as a consequence without needing to take further actions themselves. However, (a) listed providers (Microsoft's closest competitors) would still need to host certain software on dedicated hardware, meaning they will have artificially higher costs than Microsoft; and (b) Microsoft would still be able to use software assurance as a means to monetise the transfer of its licences to other providers.

Allowing customers to transfer previously purchased Microsoft software products to the cloud infrastructure of their choice without additional cost would clearly be practical, in that it would in large part restore commercial practice to where they have stood in the past, and impactful in terms of mitigating barriers to switching. In our view, it should be a prime candidate for any conduct requirement in this area and would give customers easily-comprehensible rights that will address the barriers to switching. However, it would not eliminate discriminatory pricing and might therefore be combined with that remedy. The benefits attached to those licences should move with them. Entitlements such as free extended security updates, multi-session rights for Windows, passive failover rights and dual-use rights should be available regardless of the cloud a customer chooses, rather than being confined to Azure or tied to the Azure Hybrid Benefit.

Microsoft should remove the "Listed Providers" restrictions, so that the cloud providers currently singled out for the most onerous terms can become authorised to host Microsoft software on the same basis as others. As we note under Question 4, a restriction defined by the identity of the competitor, rather than by any technical feature of the product, is difficult to justify on grounds other than limiting competition. Removing it would allow customers the choice of a like-for-like service, without which a right to switch has limited value in practice.

Establishing parity of Microsoft software products and product functionality for use on Azure and third party cloud infrastructure could include:

- Where terms explicitly limit functionality, or diminish the customer offer when working with other products (or grant preferential functionality and terms to Azure customers), this might include whether or not the provision of support and patches explicitly favours legacy products. In this case there are fewer plausible technical obstacles to doing so and there is a strong case for requirements to address customer constraints.
- Where there might be a requirement for interoperability with legacy software functions, this might include tools such as Active Directory. In this case (as with technical barriers more widely), the distinction might be whether (a) existing standards (either explicit, or in the form of longstanding technology norms) mean that changes can be implemented easily, making these more akin to licensing restrictions, or (b) it would require the creation of standards that do not yet exist, where the CMA and other regulators might

need to play more of an encouraging and convening role to avoid distorting commercial relationships.

Pricing transparency, on the other hand, while it might help customers make better-informed choices now, would not help if those customers' choices are genuinely limited due to restrictive licensing conditions, or transparency reveals pricing distorted by discriminator terms. The impact seems likely to be limited in this instance.

A final point concerns sequencing rather than substance. Addressing longstanding concerns over restrictive licensing terms is the clearest opportunity for CMA action that can increase competition and improve outcomes for customers. Because the Cloud Market Investigation has already established an underlying harm, there is no need to wait until the SMS investigation concludes before developing the remedy. We welcome the CMA's stated intention to develop conduct requirements in parallel with the designation process, and we encourage it to do so here. It would help all parties if the CMA set out a clear, time-bound path for how a licensing remedy would be developed and implemented if Microsoft is designated. In other SMS investigations thus far this has been implemented via a roadmap.

Q6: What are the key lessons the CMA should draw from measures imposed on Microsoft, in respect of its business software ecosystem, in other jurisdictions?

In addition to the cases described in the invitation to comment, other jurisdictions have recently opened investigations regarding Microsoft's business practices in cloud services and software licensing.

Brazil's Administrative Council for Economic Defense (CADE) has launched an investigation of Microsoft's cloud services and software licensing practices in Brazil. In a January 2026 technical note, CADE noted that its investigation is based on findings from the CMA's July 2025 final report on its cloud market services investigation, stating that "the possibility of the same reality occurring in Brazil must be investigated." CADE observed that Microsoft and other cloud providers operate in Brazil "with global licensing policies, technological architecture, and commercial strategies similar to those analyzed by the CMA."

In March 2026, the Japan Fair Trade Commission announced an investigation into a "Suspected Violation of the Antimonopoly Act by Microsoft Corporation." While the investigation is at an early stage, with the deadline for comments closing recently, it explicitly includes concerns about the following conduct:

"(1) not allowing them to use the Services in combination with Competing Cloud Services; or

(2) modifying or setting trade terms of the Services so that costs for the users, etc. are increased when the Services are used in combination with Competing Cloud Services compared to the case in which the Services are used on Azure."