



EUROPEAN COMMISSION

DG Competition

*Case M.8149 –
MasterCard/ VocaLink*

Only the English text is available and authentic.

**REGULATION (EC) No 139/2004
MERGER PROCEDURE**

Article 4(4)

Date: 17.10.2016



EUROPEAN COMMISSION

Brussels, 17.10.2016
C(2016) 6787 final

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE

**To the notifying party
To the UK Competition Authority**

Dear Sirs,

**Subject: Case M.8149 – MasterCard/ VocaLink
Commission decision following a reasoned submission pursuant to Article 4(4) of Regulation No 139/2004¹ for referral of the case to the United Kingdom and Article 57 of the Agreement on the European Economic Area².**

Date of filing: 12.09.2016

Legal deadline for response of Member States: 03.10.2016

Legal deadline for the Commission decision under Article 4(4): 17.10.2016

I. INTRODUCTION

1. On 12 September 2016, the Commission received by means of a Reasoned Submission a referral request pursuant to Article 4(4) of the Merger Regulation with respect to the transaction cited above. The Parties request the operation to be examined in its entirety by the competent authorities of the United Kingdom.
2. According to Article 4(4) of the Merger Regulation, before a formal notification has been made to the Commission, the parties to the transaction may request that their

¹ OJ L 24, 29.1.2004, p. 1 (the 'Merger Regulation'). With effect from 1 December 2009, the Treaty on the Functioning of the European Union ('TFEU') has introduced certain changes, such as the replacement of 'Community' by 'Union' and 'common market' by 'internal market'. The terminology of the TFEU will be used throughout this decision.

² OJ L 1, 3.1.1994, p. 3 (the 'EEA Agreement').

transaction be referred in whole or in part from the Commission to the Member State where the concentration may significantly affect competition and which present all the characteristics of a distinct market.

3. A copy of this Reasoned Submission was transmitted to all Member States on 12 September 2016.
4. By letter of 22 September 2016, the Competition and Market Authority as the competent authority of the United Kingdom informed the Commission that this country agrees with the proposed referral.

II. THE PARTIES

5. **MasterCard** International Incorporated ("MasterCard", "the Notifying Party", the US) is active globally in the card payments system industry. Its main activities include the ownership and operation of branded four-party payment credit and debit card schemes (notable MasterCard and Maestro) and the provision of switching services, i.e. transmitting authorisation, clearance and settlement instructions, for card transactions of those schemes.
6. **VocaLink** Holdings Limited ("VocaLink", the UK) is a technology company active in interbank payment systems in the UK. It designed, built and now operates the payments infrastructure which underpins the operation of three interbank fund transfer schemes in the UK, including real-time automated clearing, batch payment clearing and ATM transaction switching. VocaLink also offers "gateway solutions" which provide connectivity for payment service providers (PSPs) and corporate customers into VocaLink infrastructure, and is developing mobile payment solutions.
7. MasterCard and VocaLink are collectively referred to as "the Parties".

III. THE OPERATION AND CONCENTRATION

8. On 21 July 2016, the Parties and the current co-owners of VocaLink entered into a share sale and purchase agreement, pursuant to which MasterCard will acquire 92.4% of the share capital and voting rights of VocaLink, the remaining 7.6% will be held by the existing shareholding. The transaction in question involves the acquisition of sole control of VocaLink by MasterCard ("the Transaction") and amounts to a concentration pursuant to Article 3 (1) (b) of the Merger Regulation.

IV. EU DIMENSION

9. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million (MasterCard: EUR 10 726 million, VocaLink: EUR 250 million). Each of them has an EU-wide turnover in excess of EUR 250 million (Mastercard: EUR [...] million, VocaLink: EUR [...] million), but they do not achieve more than two-thirds of their aggregate EU-wide turnover within one and the same Member State. The notified operation therefore has a Union dimension.

V. ASSESSMENT

10. The activities of the Parties appear to be largely complementary, as MasterCard is mainly active in the card payments sector and VocaLink provides infrastructure for interbank payment systems, in particular for three important interbank payment systems schemes (hereafter also referred to as "payment scheme") in the UK:

- Bacs Payment Scheme Limited ("Bacs"): batch-based automated payment processing system which allows corporate customers and financial institutions to send payments in the form of direct debits or direct credits;
 - FPS: an automated clearing and settlement scheme for credit transactions and provides near real-time payments between bank accounts within the UK. Vocalink provides the infrastructure for the real-time payments platform on which the FPS scheme operates.
 - LINK and ATM management services: LINK is a network connecting payment services providers (banks) and ATMs operating in the UK. It is comprised of almost all of the UK financial institutions that hold money and issue ATM cards and the owners of the ATM machines. VocaLink provides central switching infrastructure services for the LINK scheme, which enable cardholders from one bank to use an ATM of another bank or an independent ATM unaffiliated with any bank.
11. In the United Kingdom, MasterCard also provides limited infrastructure services for switching of ATM transactions carried out at independent non-LINK ATMs in particular for: MasterCard branded cards and for UK issued MasterCard and Maestro branded debit cards.
 12. Based on the information included in the Reasoned Submission the only market significantly affected by the transaction is the national market for the provision of central infrastructure services for interbank payment systems in the United Kingdom or its sub-segment comprising the provision of infrastructure services for ATM transaction switching in the United Kingdom. As will be explained below, this market presents all the characteristics of a distinct market.

A Relevant product markets

13. The Commission has not assessed before the market for provision of infrastructure services to interbank payments. The Notifying Party notes that the United Kingdom's Payment Systems Regulator ("PSR") as well as the United Kingdom's Office of Fair Trading ("OFT") in their previous decisions or reports, distinguished separate markets for provision of infrastructure services for interbank payment systems and card payment systems. VocaLink is not active in providing infrastructure to the card payment system, thus the overlaps arise only in the area of infrastructure services for interbank payment systems.
14. Furthermore the OFT³ in its decision of 2007 approving the merger between LINK Interchange Network Limited and Voca Limited, which lead to the creation of VocaLink, considered separate markets for processing ATM transactions using real-time capabilities and processing inter-account transfer (such as Bacs payments) based on batch processing technology. OFT considered that there was no demand side substitutability and evidence regarding the supply side substitutability provided mixed results.
15. The Notifying Party submits that the market can be analysed at two levels. The broader product market definition would comprise the provision of infrastructure services to interbank payments (irrespective of the type of payment schemes) or the

³ Office of Fair Trading decision:
<https://assets.publishing.service.gov.uk/media/555de3b3ed915d7ae50000bc/LINK.pdf>.

narrower product market definition would be based on distinguishing separate markets for the provision of central infrastructure services to each interbank payment scheme.

16. As mentioned above, the Parties activities overlap only in relation to infrastructure services for switching of ATM transactions.
17. For the assessment of this referral request, the exact product market definition regarding the provision of infrastructure to payment systems can be left open as the outcome of the assessment would not be different under any plausible product market definition.

B Geographic market definition

18. As regards the geographic scope of the market, the Notifying Party submits that the contracts for the provision of central infrastructure services to interbank payment systems present the characteristics of national markets. In particular, the relevant payment systems operate on bespoke United Kingdom technical standards and they only conduct transactions in pounds sterling. Furthermore, contracts are awarded by United Kingdom scheme operators to provide services in the United Kingdom. This view was also presented by OFT in its previous decisions.
19. The Commission has not considered yet the geographic market for the provision of infrastructure services for interbank payment systems, which is upstream, related to the provision of payment processing services. The Commission has however analysed various markets for payments processing services and considered that they are national in scope, due to various national characteristics.⁴ Given that the infrastructures in this case are designed according to the specific characteristics of the payment scheme in the United Kingdom, the upstream market is should be considered as national as well.
20. Given the (national) geographic scope of the markets in questions, both the overall market for the provision of infrastructure services for interbank payments as well as the distinct market for the provision of infrastructure services for ATM transactions, the Commission considers that they present all characteristics of a distinct market limited to the United Kingdom.

C Assessment

Legal requirements

21. According to the Commission Notice on Case Referral in respect of concentrations⁵ in order for a referral to be made by the Commission to one or more Member States pursuant to Article 4(4) of the Merger Regulation, two legal requirements must be fulfilled:

i) there must be indications that the concentration may significantly affect competition in a market(s);

4 COMP M.4316 ATOS Origin/Banksy/BCC, COMP M.2567 NordBanken/Posgiro, M.7873 - WORLDLINE / EQUENS / PAYSQUARE, COMP/M.7241 – ADVENT INTERNATIONAL/ BAIN CAPITAL INVESTORS/ NETS HOLDING.

5 OJ C 56, 5.3.2005, p. 4 (the 'Notice on referrals').

ii) the market(s) in question must be within a Member State and present all characteristics of a distinct market.⁶

Significantly affected market(s)

22. On the basis of the information submitted in the Reasoned Submission, the Transaction will give rise to at least the following affected markets: the market for provision of infrastructure services to interbank payments in the United Kingdom and the market for provision of infrastructure services for ATM transaction switching in the United Kingdom.
23. On the market for provision of central infrastructure services for interbank payment systems VocaLink share in the United Kingdom amounts to [80-90]% and of MasterCard to [0-5]%, measured by volume of transactions. Accordingly, the combined market share in the United Kingdom amounts to [80-90]%.
24. On an alternative market comprising provision of infrastructure services for ATM transactions in the United Kingdom the VocaLink share amounts to [70-80]% and the MasterCard share to [0-5]%, measured by volume of transactions. Accordingly, the combined market share amounts to [70-80]%.
25. There are therefore horizontal overlaps leading to significantly affected markets both on the overall market for the provision of infrastructure services for interbank payment systems and on the narrower market for the provision of these services for ATM transactions in the United Kingdom.

Distinct market(s)

26. Furthermore, the markets in question are confined to the territory of one Member State, the United Kingdom and therefore present all the characteristics of a distinct market, as demonstrated in paragraphs 18 to 20 above.

Additional factors

27. According to the Notice on referrals (paragraph 9), jurisdiction should be only re-attributed to another competition authority in circumstances where the latter is the more appropriate for dealing with a merger, having regard to the specific characteristics of the case as well as the tools and the expertise available to the authority. Furthermore, other than verification of the legal requirements, consideration should also be given to whether the national competition authorities to which referral of the case is contemplated may possess specific expertise concerning local market(s) or be examining another transaction in sector concerned.⁷
28. The Notifying Party submits that the United Kingdom's Competition and Markets Authority may be well placed to assess the Transaction, in particular given the OFT's previous reviews of mergers in the payment system sector.⁸ Furthermore, according to the Notifying Party the UK's Competition and Markets Authority will be able to draw upon the current market review of the ownership and competitiveness of the provision

6 The Notice on referrals, paragraphs 16-18.

7 The Notice on referrals, paragraphs 19-23.

8 Voca/Link and ME-5475/12, Anticipated acquisition by Bottomline Technologies (DE), Inc of Albany Software Limited.

of infrastructure services to interbank payment systems in the United Kingdom undertaken by the national Payment System Regulator.

29. In addition, the requested referral complies with the consideration of the “one-stop-shop” principle as the case would be reviewed by a single competition authority, which is an important factor of administrative efficiency.

Conclusion

30. Based on the information provided by the Notifying Party in the Reasoned Submission, the Transaction may significantly affect competition in the United Kingdom, on national markets which present characteristics of distinct markets, and it therefore appears appropriate that the national competition authority of the United Kingdom review the Transaction.

VI. REFERRAL

31. On the basis of the information provided by the Notifying Party in the Reasoned Submission, the case meets the legal requirements set out in Article 4(4) of the Merger Regulation in that the concentration may significantly affect competition in a market within a Member State which presents all the characteristics of a distinct market. The Commission considers, on the basis of the information submitted in the Reasoned Submission, that the principal impact on competition of the concentration is liable to take place on distinct markets in the United Kingdom, and that the requested referral would be consistent with point 20 of the Notice on referrals.

VII. CONCLUSION

32. For the above reasons, and given that the United Kingdom has expressed its agreement, the Commission has decided to refer the transaction in its entirety to be examined by the United Kingdom. This decision is adopted in application of Article 4(4) of the Merger Regulation and Article 57 of the EEA Agreement.

For the Commission

(Signed)

*Johannes LAITENBERGER
Director-General*