The Thomson/Reuters merger investigation: a search for the relevant markets in the world of financial data

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I. Introduction
On 19 February 2008, after an in-depth investigation, the Commission cleared the Thomson/Reuters merger transaction subject to commitments (2). The case concerns the acquisition by Thomson of sole control over Reuters within a dual-listed company structure. Thomson and Reuters are both global providers of financial information, integrated with software tools and applications, to financial professionals (banks, investment funds, wealth managers, corporations, etc.).

This decision is significant in several respects: First, it is the first in-depth investigation by the Commission in the financial information and market data business (3). Second, this case presented particular issues not only in the identification of relevant markets, but also for the assessment of the market position of the parties and their main competitors in those markets. Indeed, the resolution of both aspects was key to the outcome of the investigation and could be achieved only through massive use of internal documents from both parties. Third, this case was resolved by early remedies submitted by the parties during phase two of the Commission’s investigation. Fourth, the Commission’s investigation, together with the negotiation of remedies, was undertaken in parallel with the examination of the case by the US Department of Justice. The process involved close cooperation between the two authorities, including exchanges of detailed information and views on analytical methods, as well as joint meetings and the negotiation of remedies with the parties.

Two important distinctions are common in the industry and highly relevant for the assessment of the case. The first is between ‘on-trading-floor’ and ‘off-trading-floor’ activities. On-trading-floor users are those involved in the sale and trading of financial instruments and trade execution (sales & trading). Off-trading-floor users are those involved in research, providing advice, and asset management (research & asset management). Many large financial institutions have both types of users in different parts of the organisation. This differentiation is intertwined with the distinction between the ‘sell-side’ (i.e. customers whose primary business is selling or trading financial products) and the ‘buy-side’ (customers whose primary business is investing in financial products).

On-trading-floor users focus on extensive real-time data and information, as traders often have to decide on their investments within a few instants. Off-trading-floor users include investment or portfolio managers, wealth managers, investment bankers, and research analysts. Given their longer-range perspective, they tend to focus more on historical and reference data and analytics than on extensive real-time data and information.

II. Features of the financial information sector
The transaction concerns the financial information industry. Financial information products include real-time information on market data, i.e. prices and quotes for various types of financial instruments needed by traders, historical and reference data, and news, as well as analysis, decision support tools and trading platforms. The main users of these products are customers in the financial service industry, such as banks, traders, brokers, funds, or corporate customers, which are often very large global institutions. These customers may consume a range of items on the market for financial information products and tend to be sophisticated organisations.

II.A. On trading/off trading floor; sell-side/buy-side

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II.B. Datafeeds and desktops; compilers and redistributors

Suppliers of financial information and market data reach customers via two main channels: (i) direct
datafeeds, containing one or more specific content sets (e.g. equities, fixed income data, broker research reports, fundamentals, estimates, news, etc.); or (ii) desktop solutions (also called 'workstations'), where several content sets are generally packaged together with a number of software applications and analytical tools in a standalone bundled solution.

Content sets — supplied via direct data feeds — are further delivered either directly to end users by the compilers of such content sets or to redistributors, which then re-distribute the content sets together with their own desktop to end users (4). The market for desktop solutions can therefore be considered a downstream market relative to the market for the individual content sets, since (depending on the level of vertical integration of the suppliers) some of the competitors active in this desktop market have to procure some key content used by their desktop customers (or let their customers procure that content directly) from upstream compilers of the relevant content sets. On this downstream market, vertically integrated companies like Thomson and Reuters (being both compilers and desktop suppliers) compete with re-distributors offering their own desktop solutions that incorporate content sets compiled by Thomson and Reuters (and by other compilers).

III. The relevant markets

The parties proposed to delineate the relevant product markets along the lines of the two broad customer groups mentioned above: (a) sales & trading and (b) research & asset management, broadly corresponding to customers engaged in, respectively, 'on-trading-floor' and in 'off-trading-floor' activities. These two categories were further broken down into smaller customer groups according to their specific needs (5). Under such an approach, the market shares of the parties in such customer-driven segments would have been quite limited.

The Commission’s market investigation confirmed the broad distinction between sales & trading and research & asset management and showed that its central feature is whether users need real-time information or non-real-time/archival information. Real-time information is required in particular by on-trading-floor users whereas non-real-time/archival information is primarily needed by off-trading-floor users. For non-real-time information, timing is not as important as the completeness and reliability of the information.

However, contrary to the approach adopted by the parties, the investigation suggested that, from a market definition standpoint, the value of the products in this industry is determined by their functionalities and content rather than the activities of the end user. For the off-trading-floor area in particular, the investigation revealed the existence of discrete markets for individual content sets, such as news, research provided by brokers, fundamental data on companies, earning estimates and macro-economic data, as these content sets are not substitutable from the customer’s viewpoint. Such content sets may be needed by various customer groups (e.g. by investment bankers as well as investment managers), but all such groups may require several of these content sets (e.g. news and fundamental data on companies). Likewise a number of content sets are often traded separately from one another and, in any event, distinct structures of supply and demand (in particular different types of suppliers) are clearly identifiable for each content set. Following the same approach, but looking at functionalities and content sets in the on-trading-floor area, transaction platform services and market data platforms are also to be considered as distinct markets.

At the downstream level, the Commission found that different bundles of content sets, data and functionalities/analytics are traded in packaged form as desktop products or workstations. At this level, products are often customised according to the needs and requirements of various categories of customers, so that there may be different packages offered for e.g. investment managers & bankers, wealth managers and corporates.

On the basis of the market investigation, the main relevant markets defined by the Commission in the area of sales & trading were: i) real-time market data sold through desktop products/workstations; ii) real-time datafeeds (direct and consolidated datafeeds); iii) market data platforms; iv) transaction platforms for fixed-income securities; v) news. The main relevant markets found by the Commission in the area of research & asset management were: vi) broker research reports; vii) earning estimates; viii) fundamentals; ix) time series of eco-

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(4) Redistribution can take the form of ‘royalty-based’ or ‘sell-through’ re-distribution. In the case of sell-through redistribution, the compiler of the content sets enters into a direct contractual relationship with the end customer, even though the re-distributor distributes the content set together with its desktop solution. In the case of ‘royalty-based’ redistribution, the re-distributor enters into a direct contractual relationship with the final customer as regards the content set. The re-distributor in both cases uses the content set in order to integrate it with its desktop offering for final customers.

(5) Sales & trading: fixed income; institutional equities; foreign exchange; commodities & energy. Research and asset management: investment management, wealth management, investment banking, corporates.
The Commission also investigated the vertical effects of the merger, given the interplay between vertically integrated and less vertically integrated suppliers (which is of particular importance especially in research & asset management), bearing in mind the existence of a degree of customisation of desktop products at the downstream level across the segments within the off-trading-floor field (investment management, investment banking, wealth management, corporates).

As regards the geographical dimension of the various product markets in question, the Commission found that these markets would appear to be at least EEA-wide and may probably be worldwide in scope, but also noted that differences may exist between the very large investment (tier-1) banks, which normally source on a global scale, and the smaller (tier-2 or tier-3) financial institutions, which would source at EEA-wide or even national level. This element nevertheless had no material impact on the assessment of the case.

IV. The competition analysis

For most of their activities, Thomson and Reuters have a fairly complementary focus. Reuters has a particularly strong presence in sales & trading (on-trading-floor), whereas Thomson is particularly active in research & asset management (off-trading-floor), where Reuters also has a significant presence. The Commission thus found very significant overlaps in a number of areas within research & asset management (off-trading floor), raising competition concerns.

It is worth noting that the investigation of these (as well as other) markets was conducted throughout in close cooperation with the US Department of Justice, through detailed information and exchanges of views on methodologies of analysis as well as through conference calls and joint meetings (also with the parties, especially for the negotiation of remedies). This close cooperation resulted in a broad consensus between the two agencies on the main issues and the main remedies for the case.

IVA. Markets in sales & trading

The Commission found that the merger did not raise competition concerns in the sales and trading area with respect to the relevant markets as set out above. Generally, the reason for the absence of concerns was the very limited presence of Thomson in this area.

For real-time market data sold through desktop products, Reuters and Bloomberg were already pre-merger by far the leading players on the worldwide and EEA market, with competitors such as IDC/Comstock and Telekurs/Fininfo being distant fringe players. Thomson’s presence in this market was even more limited and the market structure was not altered by the merger to any significant extent. As regards real-time datafeeds, where Bloomberg’s presence is relatively small while Reuters is the clear market leader, the merger did not entail any significant change in the market structure. Thomson was a very small provider in this field, far behind other players such as Telekurs and IDC-Comstock. Similarly, no change in market structure was to be expected for market data platforms, given the absence of horizontal overlap in this market. As regards transaction platforms for fixed-income securities, where Thomson is an active player (with its Tradeweb platform), the merger would not have had any significant effect due to Reuters’ fairly marginal activities in this field.

Both Thomson and Reuters were present in the news market, with Reuters being a powerful global player in the market alongside Bloomberg and Dow Jones. Thomson had recently entered the market through the creation of its own branded news service, Thomson Financial News (TFN), following TFN’s acquisition of AFX (Agence France Press). The Commission found that Thomson’s role in the market was limited, as it had not yet gained much traction and could not be seen as a ‘maverick’ whose elimination would have adversely affected competition in the marketplace. In addition, after the merger, Dow Jones remained in the market as a much stronger competitor than TFN, alongside a number of news agencies providing news on a regional basis, such as the FT Group (Financial Times) and Nikkei. Therefore, the Commission concluded that the disappearance of TFN as an independent news provider would not raise competition concerns.

IV.B. Markets in research & asset management

The Commission found that the merger raised competition concerns in the following areas of research and asset management: aftermarket broker research reports, earning estimates, fundamentals, and time series of economic data. For these four content sets, both Thomson and Reuters were found to be the main suppliers on the
market, with other competitors generally unable to provide equivalent data in terms of depth (history) and breadth (geographical coverage). This would have put the merged entity in a position to profitably increase the prices of such content sets for customers and redistributors. The Commission found that these adverse horizontal effects of the merger would be further aggravated by the vertical effects on the downstream market for desktop solutions, where the desktop solution offerings of several competitors include these content sets as a key input. Post-merger, Thomson/Reuters would have had the ability and the incentive to foreclose those downstream competitors by raising prices for the delivery of such content or by restricting its supply to Thomson/Reuters’ own customers, in order to induce customers to opt for Thomson/Reuters desktop products (bundling content and application tools) instead of those of competitors.

In this case, the Commission found that entry would be unlikely. Due to the time and investment needed for a competitor to come up with a comparable offer (several years and huge investment), entry could not have been on a sufficient scale to provide the same depth and breadth of data in any of the four content sets considered, among other things because some financial information is no longer publicly available several years after its first publication.

**IV.B.1. Broker research reports**

The Commission found competition concerns regarding the distribution of aftermarket broker research. Broker research reports are produced by broker companies wishing to secure commissions on transactions and include financial information on firms and markets. The industry distinguishes between (i) real-time research reports (distribution of research within the first 7-30 days after its publication), when reports are distributed to customers in order to solicit trading transactions, and (ii) aftermarket research reports, also called ‘embargoed research reports’ (distribution of research after this initial period), where reports are used by e.g. investment bankers to gain a business insight into a firm or a sector prior to longer-term investment decisions.

While several competitors are emerging in real-time research — Factset, Bloomberg, Capital IQ (belonging to Standard & Poor’s) — and brokers themselves actively distribute their individual reports with a view to generating commission fees for trading order execution, in aftermarket research, the combined market share of the merged entity would have been dominant. This was confirmed by the analysis of internal documents from the parties. All other competitors are essentially redistributors of either Thomson or Reuters aftermarket research offerings. Direct distribution of aftermarket research reports by individual brokers is limited to their individual research and was not considered capable of constraining the merged entity’s offerings and behaviour post-merger.

Entry into this market would not be immediate, as the entrant must sign a sufficiently high number of agreements with well-reputed broker companies in order to render its offering attractive to sophisticated financial customers. The Commission found that this is a long and costly process, which is rendered more difficult by the existence of exclusive agreements secured by the merging parties. The Commission therefore concluded that merger would have led to a near monopoly for the distribution of brokers’ aftermarket research.

**IV.B.2. Earning estimates**

The Commission found that Reuters (with its ‘FirstCall’ and ‘IBES’ products) and Thomson (with its ‘Reuters estimates’ and ‘Reuters estimates forecast pro’ products) are the main suppliers of earning estimates in the marketplace. Earning estimates are forecasts by brokerage firms of the future earnings of companies, which are the most important determinants of equity prices. Thomson and Reuters also supply estimates to redistributors or for incorporation in other products. There is no other close substitute, since no other company offers the breadth and depth of Reuters and Thomson products. FactSet/JCF was found to be a third player, with weaker market coverage outside Europe. Indeed, internal documents from the parties also pointed to very high market shares for Thomson in particular, to which Reuters’ significant share would have been added post-merger.

Building an estimates database requires contracting with a large number of brokers in order to incorporate their earning estimates in a credible database. The Commission found that this would be a very costly and lengthy process, so the barriers to entry in this market are significant.

Based on the above, the Commission found that the merger would have removed Reuters as the most viable alternative to Thomson, thereby eliminating rivalry between the most credible suppliers. The only other significant supplier of estimates would have been FactSet/JCF as a weaker substitute.

**IV.B.3. Fundamentals**

Both Thomson and Reuters compile databases of fundamentals and supply fundamentals data to redistributors or for incorporation in other products. Fundamentals consist of various company-
specific data, such as reportable pro forma financial statement data (including balance sheet, cash flow and income statements), calculated financial ratios, etc. Such information is publicly available on an individual basis (e.g. from company websites), but end-users prefer to have access to the full range of company data in a database (preferably containing both ‘as reported’ and standardised/normalised data).

The Commission found that there are three main providers of fundamentals in the marketplace: Thomson, Reuters and Compustat (belonging to Standard & Poor’s). They also provide the three main fundamentals databases supplied by third parties (redistributors): Thomson's Worldscope, Reuters Fundamentals and Compustat. Compustat’s database was not found to be comparable to that of Thomson and Reuters, since it is principally US-focused and would not be suitable for buy-side customers in particular, such as hedge funds and investment managers, who require ‘global’ fundamentals with a breadth of global data and a depth of history. Other competitors such as Capital IQ (also belonging to Standard & Poor’s) and Bloomberg were found to offer fundamentals with more limited depth and breadth and not necessarily offered for redistribution. Accordingly, the merger would have eliminated rivalry between the two main suppliers of fundamentals with global coverage in breadth (Asia, US and EEA-wide) and a comparable depth of history. This analysis was corroborated by internal documents from the parties. Customers and redistributors would then be left with no products comparable to those offered by the parties.

The Commission found that barriers to entry are significant in this market. A number of years and substantial investment are needed to construct a database comparable to those offered by Thomson and/or Reuters and to be able to offer a credible product acceptable to the market. Apart from the sheer collection of (active and inactive) company data from around the world with sufficient history, the added value of a fundamentals database also lies in the fact that the financial information is standardised/normalised. This processing requires a large number of qualified employees, several years and considerable investment.

The merger would therefore have reduced from three to two the providers of fundamentals, which also supply re-distributors. Taking into account that the focus of Compustat’s offering is the US, it would have meant that the merged entity would be the only supplier of fundamentals with a global coverage.

IV.B.4. Time series of economic data

The Commission found that the merger would raise competition concerns in the market for economic data. Economic data consist of data on macroeconomic variables, such as GDP, unemployment, money supply, balance of trade figures and inflation rates. The ultimate sources of such data are typically governmental bodies (national and supranational statistical offices or central banks), but such series also include the proprietary data of research institutes. The parties’ products Datastream (Thomson) and Ecowin (Reuters) were in competition, so the other main player in this market, Global Insight, would have been left as the only large competitor to Thomson/Reuters post-merger. However, the Thomson/Reuters combination would have had the most complete offer, notably with the largest depth and breadth of data in terms of geographical reach and history covered. Therefore, the merger would have eliminated rivalry between the parties’ products. Global Insight is smaller in general terms, and all other competitors lacked both breadth and depth of data in order to be considered comparable to Thomson or Reuters. This analysis was corroborated by internal documents from the parties.

Barriers to entry in this market are also considerable. Compiling a content set from raw data requires a number of years of effort along with significant resources and substantial investment in personnel and infrastructure in order to collect raw data of sufficient scope and to normalise them into meaningful compiled data. Furthermore, a reputation for high-quality data delivery is vital for any vendor wishing to gain a sufficient footprint in the market.

The Commission found that the merger gave rise to competition concerns in this market. It considered in general that the merger would have reduced the providers of economic data from three to two and eliminated rivalry between the closest competitors. The Commission concluded that for professional customers especially interested in time series of economic data covering non-US and EEA countries, the merger would have removed competition between the two most important databases available in the marketplace, most likely leading to the discontinuation of one of the two products. EEA customers would have been particularly harmed.

IV.B.5. Ownership data; deals; other content sets (profiles, public filings, other time series)

The Commission did not find any competition concerns in other relevant markets for research & asset management. Reuters is a marginal player
(unlike Thomson) in ownership data and in deals, so the merger did not change the competitive situation to any significant extent. In addition, no overlap resulted from the merger as regards profiles and public filings, while no concerns (either of a horizontal or vertical nature) emerged in the course of the market investigation for other time series.

IV.C. Vertical effects

In addition to the horizontal effects, the Commission found that the merger would also have had adverse vertical effects as an aggravating factor, in that it would have given the merging parties the ability and incentive to foreclose competitors on the downstream market for desktop products including the four above-mentioned content sets sold to users in the research & asset management area (mainly for investment management, investment banking and corporates).

Following the merger, the parties would have had the ability to foreclose their downstream competitors from the four content sets. They could have done this either by increasing the price for a content set distributed via redistributors or by simply no longer providing its competitors with such data. Competitors selling desktop products for those segment/markets heavily depend on Thomson/Reuters for the data. The incentive to foreclose would have been that Thomson and Reuters themselves offer desktop products downstream. Internal documents confirmed that the parties intended to reduce their dependence on redistributors to reach some downstream customers. This incentive would have been amplified post-merger, given the lack of any sufficient competition constraint for the content sets in question. Given the level of pre-merger revenues from redistribution, the Commission came to the conclusion that the revenue lost due to the foreclosure of redistributors could have been offset by capturing even a fairly limited proportion of these redistributors’ ex-customers. A foreclosure strategy therefore appeared to be likely and profitable.

V. Remedies

In order to remove the concerns identified by the Commission, the parties proposed satisfactory commitments after the commencement of phase II of the investigation, still at the stage of ‘serious doubts’, before the Commission issued a statement of objections.

As the relevant content sets take the form of databases and can be copied and transferred, the parties offered to transfer copies of the databases together with tangible and intangible assets used in connection with the relevant databases. These four content sets are not produced and supplied by distinct business entities that could simply be divested. However, the tangible and intangible assets are included in the commitments in order to enable the purchaser(s) of the assets to establish its operations quickly in the relevant market and to compete effectively in selling aftermarket research, earning estimates, fundamentals and time series of economic data.

In addition to selling a copy of the databases for each of the four content areas where competition concerns had been identified (aftermarket research, estimates, fundamentals and time series of economic data), the commitments allow the purchaser of the fundamentals and estimates databases to recruit key personnel and other personnel currently operating the databases on a daily basis, in particular for carrying out the standardisation/normalisation needed for these databases. Customer contracts for direct datafeeds from the Thomson Fundamentals and Reuters Estimates databases would have to be assigned to the purchaser(s) of such databases. To the extent that such contracts are not assignable, the merging parties undertook to allow such customers to terminate their contracts early to enter into negotiations with the purchaser.

Further, the merging parties engaged to make reasonable best efforts to assist the purchaser(s) in obtaining the necessary content owner (brokers’) consents (particularly relevant for aftermarket research and earning estimates). The parties also undertook to provide transitional technical support services for a certain period of time.

In the course of the investigation, market players acknowledged that facilitating the timely entry of a new competitor in the relevant fields would be an adequate remedy to the competition concerns raised by the transaction. Key issues for ensuring the viability and effectiveness of the remedy were that the databases should be divested with all assets required to operate the business (software, intellectual property rights, etc), that the purchaser would have the possibility to hire all necessary personnel from Thomson and Reuters, and that some customers for fundamentals and earnings estimates would be transferred in order to give the purchaser a basis for amortising its investment costs.

Furthermore, the commitments set out strict criteria for the candidate purchaser(s). They have to be existing providers of financial information, with an incentive to distribute the relevant
databases via third parties, and have the necessary financial resources to bring the product to the marketplace and restore competition with the merged entity. This ensures that the purchasers will already enjoy a strong reputation on the market and that redistributors will not be foreclosed as regards these content sets. Such purchaser criteria ensure that the remedy entirely removes the competition concerns and that it will be viable and effective.

This comprehensive package of remedies removed both the horizontal and vertical concerns. Therefore, the Commission reached the conclusion that the concentration could be considered compatible with the common market, subject to full compliance with the undertakings.

VI. Conclusion

In this case, the Commission carried out a thorough analysis of the financial information and market data industry. The complex nature of the business, the bundling of data content and software, and the differentiation of the products rendered it difficult to arrive at undisputed estimates of the shares of sales held by the various players in the various markets. The Commission overcame this hurdle through extensive analysis and use of internal documents from the merging parties and thanks to close cooperation with the US Department of Justice. This case will set a precedent for the financial and market data industry, and is also an example of the extensive cooperation between the Commission and the US antitrust agencies.