

Summary of Commission Decision

of 19 February 2008

declaring a concentration to be compatible with the common market and the functioning of the EEA Agreement

(Case COMP/M.4726 — Thomson Corporation/Reuters Group)

(Only the English version is authentic)

(Text with EEA relevance)

(2008/C 212/04)

On 19 February 2008 the Commission adopted a Decision in a merger case under Council Regulation (EC) No 139/2004 of 20 January 2004 on the control of concentrations between undertakings, and in particular Article 8(2) of that Regulation. A non-confidential version of the full decision can be found in the authentic language of the case and in the working languages of the Commission on the website of the Directorate-General for Competition, at the following address:

http://ec.europa.eu/comm/competition/index_en.html

I. INTRODUCTION

- On 3 September 2007, the Commission received a notification of a proposed concentration by which Thomson Corporation ('Thomson') acquires sole control of the undertaking Reuters Group plc ('Reuters'). Thomson Financial and Reuters are both global providers of financial information, integrated with software tools and applications. They aggregate and disseminate market data content including real-time market data, and provide analytics, trading and messaging capabilities needed by financial professionals.

II. RELEVANT MARKETS

II.A. General characteristics of the market

- The proposed transaction relates to the financial information industry, i.e. the provision of financial information, analytics and trading capabilities. The main users of the notifying parties' products are customers in the financial service industry, such as banks, traders, funds, corporate customers, etc. Financial information products notably consist of indicative or tradable prices for various types of financial instruments such as equities, corporate and government bonds, etc. They also include real time information, decision support tools, historical and reference data and news and analysis.
- Customers in the financial services industry can be broadly categorised into those engaged in sales and trading of financial instruments and trade execution ('on-trading floor') and those involved in research, providing advice and asset management ('off-trading floor'). According to the parties, off-trading floor users can be further categorised into four main customer segments: **Wealth Management** ('WM' — financial advisers and private banks), **Investment Management** ('IM' — invest on behalf of third parties, such as mutual funds), **Investment Banking** ('IB' — mergers and acquisitions) and **Corporates** (internal firm business).
- The notifying parties are both active in the on-trading and off-trading floors. Reuters has a particularly strong presence

in the on-trading floor, whereas Thomson is particularly active in the off-trading floor. However the notifying parties' activities overlap to a significant degree in a number of off-trading floor related activities. A number of competitors are present on the market, including Bloomberg which is active in all segments, and other smaller competitors such as FactSet, Standard & Poor's, IDC, etc.

- Financial information is supplied to customers via two main distribution channels:
 - via direct datafeed where customers obtain their content in a direct or 'raw' format, from which they build their own internal applications or portals. These datafeeds generally correspond to one specific content set (ex: equities, fixed income data, broker reports, news, etc.); and
 - via 'desktop solutions' (alternatively called 'workstations') where several content sets are generally included, together with a number of software applications. Most large competitors propose desktop solutions, and need in many cases to source specific content sets to their competitors, including Thomson and Reuters. The bulk of sales of the notifying parties is realised via such desktop products.

II.B. Relevant product markets

- The notifying parties delineated relevant markets and shares along the lines of the two groups: (a) Sales & Trading and (b) Research and Asset Management, corresponding to customers engaged in, respectively, 'on-trading floor' and in 'off-trading floor' activities. These groups were further broken down as follows: Sales & Trading: (a-1) Fixed Income; (a-2) Institutional Equities; (a-3) Foreign Exchange; and (a-4) Commodities & Energy. Research and asset management: (b-1) Investment Management, (b-2) Wealth Management, (b-3) Investment Banking, and (b-4) Corporates.

7. Based on these definitions, at the EEA/worldwide level, the parties would overlap in six of the product segments: (a-1) Fixed Income; (a-2) Institutional Equities; (b-1) Investment Management; (b-2) Wealth Management; (b-3) Investment Banking; and (b-4) Corporates, but their combined market share would not be particularly high, and in any case never higher than 25 %.
8. Although the market investigation has largely confirmed the distinction between sales & trading and research and asset management fields, it also notably indicated that discrete content sets represent the adequate antitrust markets for assessing the impact of the present merger. To this extent some discrete products, content sets or functionality such as transaction platforms, datafeeds, real-time market data, non-real time data, analytics, News, Broker Research, Fundamentals, Estimates, Economic data, time series, messaging, etc. have been indicated as the most relevant competitive factors by respondents.
9. Along these lines, the Commission conducted an extensive market investigation concerning principally the following content sets/products, identified as relevant product markets:

Sales & Trading

- (a) *Real-time market data sold through desktop products/workstations.* They include real-time market data and financial information in all or specific assets classes (Institutional Equities, Fixed Income and other relevant asset classes).
- (b) *Real-time datafeeds.* Real-time market data supplied on a standalone basis by way of data feeds.
- (c) *Market data platforms.* Such platforms receive datafeeds from multiple sources (including customer sources) as inputs and standardise these datafeeds into a format so that they can be used by the customer.
- (d) *Transaction platform for fixed income securities.* These platforms allow for the transaction of fixed income securities by connecting sellers and purchasers of bonds and other fixed income products.
- (e) *News.* Financial and business-related news constitute a financial content that is considered a key separate asset in the context of especially the on-trading floor, but also in respect of the off-trading floor space.

Research & Asset Management

- (f) *Broker research reports.* Broker research reports contain an analysis of a security, an industry or a market.

- (g) *Earning estimates.* Earning estimates are predictions made by analysts that a company will achieve a certain amount of profit/loss in the future, typically with respect to key metrics such as annual or quarterly earnings per share.
- (h) *Fundamentals.* Fundamentals data consists of various company-specific data, such as financial statement data, calculated financial ratios (e.g. averages for growth rates), per share data (e.g. earnings/book value/cash flow per share), etc.
- (i) *Time series of economic data.* Economic data consists of data on macroeconomic variables, such as GDP, unemployment, etc.
- (j) *Other content set.* Ownership data, deals database, profiles of managers, public filings, other times series (equity, fixed income, futures, options, warrants, etc.).

II.C. Relevant Geographic Markets

10. As regards the separate content sets markets, the market investigation indicated that these markets are to be regarded as global in scope, but it provided some indications 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 on an EEA-wide or even national level. In any case, the geographic scope of the market would appear to be at least EEA-wide and may probably be worldwide in scope.

III. COMPETITIVE ASSESSMENT

11. The Commission investigation has shown that Thomson/Reuters would have the incentive and the ability to develop anti-competitive behaviour in some fields in the Research and Asset Management (off-trading floor) area.

III.A. Sales & Trading

12. The market investigation confirmed that the merger does not raise competition concerns in the Sales and Trading area, generally and with respect to the relevant markets identified above ((a) *real-time market data sold through desktop products/workstations*; (b) *real-time datafeeds*; (c) *market data platforms*; (d) *transaction platform for fixed income securities*; (e) *News*). The reason for such lack of concerns principally lies in the very limited presence of Thomson in the Sales and Trading area. The main asset of Thomson in this area is Tradeweb, a transaction platform for Fixed Income securities, but Reuters is marginally active in this specific area.

III.B. Research & Asset Management

13. The Commission analysis showed that the merger raises competition concerns in the areas of broker reports, earning estimates, fundamentals, and economic time series. With regard to these four content sets, both Thomson and Reuters are the main suppliers on the market, with competitors unable to provide equivalent data in terms of depth (history) and breadth (geographical coverage). Many competitors redistribute either Thomson or Reuters data. With such a position Thomson/Reuters would have the incentive and the ability to increase its prices subsequently. In addition, the time and investments necessary for a competitor to build a comparable offer would be subsequent (several years and millions of Euros), and in any case would not guarantee the same depth of data as some financial information are hardly available in the public space several years after their publication.
14. Customers in their majority purchase desktop solutions embedding several content sets together with analytic software. In the supply of desktop solutions, Thomson and Reuters compete with competitors which may procure some of Thomson's and Reuters' content sets as input for their own desktop products. In this respect the distribution of desktop is vertically related to the provision of content sets. This vertical relationship may further increase the parties' incentive to increase prices for the delivery of such databases to customers reached via competitors' platform or to restrict the provision of these content sets to Thomson/Reuters own customers in order to induce customers to prefer the Thomson/Reuters package (content and application tools) instead of that of competitors.

Broker reports

15. Broker reports are created by broker companies willing to create commissions on transactions and include financial information on firms and markets. The industry distinguishes (i) real-time research (distribution of broker reports in the 7-30 first days after their publication) when reports are distributed to stimulate transactions, and (ii) aftermarket research (distribution of reports after this initial period) where reports are used by e.g. investment bankers to have a business insight of a firm or a sector.
16. The market investigation stressed that the competition concerns relate to the distribution of aftermarket research. In real-time research, several competitors are emerging (FactSet, Bloomberg, Capital IQ) and the brokers themselves actively distribute their reports with an objective to generate commission fees. In aftermarket research, the notifying parties estimate their market share at [70-80] % (Thomson [60-70] %, Reuters [0-10] % worldwide). In an internal document, Reuters estimates its own market share at [0-10] % and Thomson's market share at [80-90] %. All other competitors redistribute either Thomson or Reuters aftermarket research offerings. Direct distribution of aftermarket reports by individual brokers is very limited.

17. The merger would therefore lead to a near monopoly for the aftermarket distribution of broker reports.

Earning estimates

18. Estimates expectations are the most important determinant of equity prices since investors buy stocks at prices that the market determines based on corporate earnings potential. Just like Broker reports, earning estimates are produced by brokerage firms.
19. Reuters and Thomson are the main suppliers of earning estimates. There is no other close substitute since no other company offers the breadth and depth of Reuters and Thomson databases. FactSet/CF is a distant third player with weak market coverage outside Europe and Bloomberg is not considered by customers and competitors as a solid competitor (its offer has only come on the market in February 2007). According to the parties' estimates, the market shares of the combined entity would be [40-50] % (worldwide at the retail level, Thomson [30-40] %, Reuters [0-10] %) although an internal document points to higher market shares for Thomson ('Thomson has [60-70] % of global shares for Estimates').
20. The merger would remove Reuters, the most viable alternative to Thomson, and eliminate rivalry between the most credible suppliers. The only other significant supplier of estimates would be FactSet/CF whose offering is much more limited in breadth and depth.

Fundamentals

21. 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 companies' website), but some providers aggregate them in databases. For instance, Reuters covers [50 000-60 000] (public and private) active and inactive companies, whereas Thomson covers [50 000-60 000] (public and private) active and inactive companies.
22. The Commission principally relied in its analysis on internal documents and results of the market investigation. The market investigation notably showed that there are three main providers of fundamentals data: Thomson, Reuters and Compustat. Respondents to the Commission investigation indicated that the offering of Compustat database would not be comparable to that of Thomson and Reuters, since it is principally US-focussed and furthermore would not be suitable especially for buy-side customers (hedge funds and investment managers) who are active in quantitative investment management and require 'global' fundamentals, with depth and back history. Other competitors such as Capital IQ and Bloomberg offer fundamentals data with more limited depth and breadth.

23. Accordingly, the merger seems to have significant horizontal as well as vertical effects on fundamentals. The merger would eliminate rivalry between the competition between the two suppliers of fundamentals with global coverage in breadth (Asia, US and EEA-wide coverage) and comparable depth, plus sufficient history, leaving re-distributors principally with Compustat's database which is focussed on the United States only.

Time series/economic data

24. Economic data consists 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 proprietary data of, e.g., research institutes.

25. The Commission principally relied in its analysis on internal documents and results of the market investigation. The main competitor of the notifying parties is Global Insight which would be left as the only large competitor to Thomson/Reuters post-merger. However the combined Thomson/Reuters would have a most complete offer, with notably the largest depth and breath of data in terms of geographic reach and history. Global Insight is smaller in general terms and focuses principally on US data. All other competitors both lack breath and depth of data in order to be considered comparable to Thomson or Reuters.

26. Internal documents of the parties indicate that the notifying parties' products Datastream (Thomson) and Ecowin (Reuters) have been in close competition. After the merger, such competition would to come to an end. It can be concluded from the above that the proposed transaction would raise serious doubts as to its compatibility with the common market. Post merger, one close competitor would disappear from the market for time series economic content sets, and customers would be left with limited choices that represent lower credibility and limited scope in terms of depth and breadth.

Vertical relations

27. The merger therefore leads to non-coordinated effects resulting from horizontal overlaps on the markets for broker reports, earning estimates, fundamentals, and economic time series *vis-à-vis* final customers as well as re-distributors.

28. In addition to this horizontal effect following the merger and as an aggravating factor, the merger also gives the merging parties the ability and incentive to foreclose competitors, by raising prices for those content sets or foreclosing them entirely, on the downstream market for desktop products including those content sets sold to users in the area of investment management, investment banking or corporates. Competitors producing desktop products for those markets heavily depend on Thomson/Reuters for this

data. The incentive results from the fact that Thomson and Reuters are themselves active with products downstream. These concerns were raised by a number of competitors and customers and were confirmed by an internal document from Reuters which indicates that would Thomson pull out of the distribution of its research and estimates offering from one competitor, Reuters should take advantage of this move to capture this competitor's customers. It is worth noting that the strategy envisaged by Reuters is not to replace Thomson as a content set provider, but rather to fully displace this competitor.

III.C. Conclusion of the assessment

29. Based on the above the Commission has come to the conclusion that the proposed merger would — in terms of serious doubts — significantly impede effective competition in the markets for broker report (aftermarket research), estimates (both current and historical estimates), fundamentals, and time series/economic data (TS/E) both at the worldwide and EEA level.

IV. REMEDIES

30. In order to remove the preliminary concerns identified in the areas above, the notifying parties have proposed first commitments on 6 December 2007, and an improved version on 21 December 2007 (the commitments') following the presentation of the results of the market test conducted by the Commission. The commitments are designed to enable the purchaser(s) of the assets to compete effectively in selling Estimates, research, fundamentals and time series/economics.

31. These content sets are not produced and supplied by distinct business entities that could simply be divested to remedy the Commission's concerns. For this reason full divestiture of certain Reuters or Thomson businesses was not contemplated. Since these 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 which are used in connection with the relevant databases.

32. The commitments are based on the main following elements:

- (a) Thomson and Reuters will commit to sell a copy of the database for each of the content areas fundamentals, estimates, aftermarket broker research, and time series/economics;
- (b) in order to operate the databases, the purchaser will be offered the opportunity to recruit key personnel and other personnel currently operating the databases on a daily basis;
- (c) the notifying parties will license on a royalty free basis all IP rights, trade secrets, know how and technical information embodied in the databases and will provide software for collection and aggregation.

- (d) Thomson and Reuters will provide transitional technical support services for a period of up to [...] from the date of the divestiture;
- (e) Thomson and Reuters will undertake reasonable best effort to assist the purchaser(s) with obtaining the necessary content owner (brokers) consents. For an extended period of up to [...], Thomson and Reuters will permit the purchaser to act as a redistributor of the content of contributors having not reached an agreement with the purchaser;
- (f) Thomson and Reuters will assign to the relevant purchaser customer contracts specifically for direct content datafeeds from the Thomson Fundamentals and Reuters Estimates databases. To the extent that such contracts are not assignable, the notifying parties will allow such customers to early terminate their contracts to enter into negotiation with the purchaser;
- (g) the purchaser criteria specify that any potential purchaser should be an existing provider of financial information, have an incentive to distribute the relevant databases via third parties, and have the necessary financial resources.
33. Competitors and customers globally acknowledged during the market test that facilitating the rapid entry of a new competitor in the relevant fields would be an adequate remedy to their competition concerns. More generally, these commitments address the competition concerns identified by the Commission during the market investigation and respond to the concerns raised during the market test with regard to the viability of the proposed remedy.
34. The databases should notably be divested with all assets necessary to run the business (software, intellectual property rights, etc). The purchaser will also have the possibility to hire all necessary personnel from Thomson and Reuters via the organisation of a recruitment process.
35. In addition, the notifying parties will facilitate the signature of deals with financial information contributors and will permit the purchaser to serve as a redistributor of the content of any such contributors with whom the purchaser does not yet have appropriate arrangements for a period of [...]. This clause will notably make it possible for the purchaser to almost immediately after the transaction propose a credible offer on the market. With regard to estimates and fundamentals, customers purchasing direct datafeeds will be either transferred to the purchaser or offered the possibility to early terminate their contracts with Thomson or Reuters, therefore allowing the purchaser to amortize its costs on an existing customer base. It should be noted that the transfer of customers was not contemplated in the areas of broker reports or economic time series as collection costs for these databases are significantly lower and the viability of the offer of the purchaser will not depend on the transfer of existing customers.
36. Finally, the commitments foresee that the purchaser should be an existing provider of financial information, and as such will already benefit from a strong reputation on the market. Such suitable purchaser criteria are an additional guarantee that the remedies will be operational on the short term and that competition will be restored after completion of the merger.

V. CONCLUSION

37. It is accordingly concluded that the Commitments modify the notified concentration to such an extent that the serious doubts of the Commission as to the compatibility of that concentration with the common market are removed. The concentration should, therefore, be declared compatible with the common market pursuant to Article 8(2) of the Merger Regulation and with the EEA Agreement pursuant to Article 57 thereof, subject to compliance with the commitments.