



Statement of Issues

13 October 2016

Link Administration Holdings Limited – possible acquisition of Pillar

Purpose

1. Link Administration Holdings Limited (**Link**) is potentially acquiring the Superannuation Administration Corporation (trading as Pillar) (**Pillar**), which is currently owned by the New South Wales Government (the **possible acquisition**). Link and Pillar both provide superannuation administration services (**SAS**).
2. This Statement of Issues:
 - gives the Australian Competition and Consumer Commission's (**ACCC's**) preliminary views on competition issues arising from the possible acquisition
 - identifies areas of further inquiry
 - gives all interested parties an opportunity to comment
 - invites interested parties to submit information to assist us in our assessment of the issues.

Overview of ACCC's preliminary views

3. The legal test which the ACCC applies in considering acquisitions is in section 50 of the *Competition and Consumer Act 2010* (**the Act**). Section 50 prohibits acquisitions that would have the effect, or be likely to have the effect, of substantially lessening competition in any market.
4. The ACCC divides its preliminary views into three categories, 'issues of concern', 'issues that may raise concerns' and 'issues unlikely to raise concerns'. For this acquisition there is one 'issue of concern' and one 'issue that is unlikely to raise concerns'.

Issue of concern

- The possible acquisition will result in the removal of a SAS provider. In particular, it will remove the only SAS provider with the demonstrated capacity to supply SAS to larger superannuation funds (**funds**) in competition with Link. The ACCC's preliminary view is that the possible acquisition is likely to substantially lessen competition in a national market for the supply of SAS.

Issue that is unlikely to raise concerns

- The possible acquisition is unlikely to have the effect of substantially lessening competition in related product markets, specifically those related to the IT platforms and software used in the provision of SAS.

Making a submission

5. The ACCC is seeking submissions from interested parties, particularly on the following key issues:
 - the impact of the possible acquisition on competition for the supply of SAS
 - the extent to which an alternative acquirer of Pillar could establish itself as an effective competitor to Link
 - the extent of competitive constraint from:
 - a. funds that currently outsource their SAS switching to insourcing
 - b. funds that currently self-administer, supplying (or starting to supply) SAS to other funds.
 - the likelihood that an alternative supplier would be able to commence supply of SAS in a sufficiently timely manner and on a sufficient scale to constrain Link following the possible acquisition, taking into account any barriers to commencing supply and expanding
 - the likelihood that the increased market concentration would reduce competition in related product markets, including for IT platforms and software.
6. Detailed discussion of these and other issues, along with specific questions, is contained in this Statement of Issues.
7. Interested parties should provide submissions by no later than 5pm on 28 October 2016. Responses may be emailed to mergers@acc.gov.au with the title: *Submission re: Link - attention Fiona Sam/Karina Geddes*. If you would like to discuss the matter with ACCC officers over the telephone or in person, or have any questions about this Statement of Issues, please contact Fiona Sam on (03) 9658 6450 or Karina Geddes on (03) 9658 6442.
8. The ACCC anticipates making a final decision on 15 December 2016, however this timeline can change. To keep abreast of possible changes in relation to

timing and to find relevant documents, interested parties should visit the Mergers Register on the ACCC's website at www.accc.gov.au/mergersregister.

Confidentiality of submissions

9. The ACCC will not publish submissions regarding the possible acquisition. We will not disclose submissions to third parties (except our advisors/consultants) unless compelled by law (for example, under freedom of information legislation or during court proceedings) or in accordance with s155AAA of the Act. Where the ACCC is required to disclose confidential information, the ACCC will notify you in advance where possible so that you may have an opportunity to be heard. Therefore, if the information provided to the ACCC is of a confidential nature, please indicate as such. Our [Informal Merger Review Process Guidelines](#) contain more information on confidentiality.

About ACCC 'Statements of Issues'

10. A Statement of Issues published by the ACCC is not a final decision about an acquisition, but provides the ACCC's preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
11. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the parties to the transaction and other interested parties with the basis for making further submissions should they consider it necessary.

Timeline

Date	Event
17 August 2016	ACCC commenced review of the possible acquisition
13 October 2016	ACCC publication of Statement of Issues
28 October 2016	Deadline for submissions from interested parties in response to this Statement of Issues
15 December 2016	Anticipated date for ACCC final decision

The parties

12. Link is an ASX-listed company with operations in superannuation administration, shareholder management and analytics, and share registry. Link provides SAS through its businesses, Link Super and Australian Administration Services (AAS), using its own proprietary platform, the aaspire platform. According to Link, it is the largest provider of SAS in Australia, administering approximately 10 million superannuation member accounts.
13. Pillar is a state-owned corporation that provides SAS mainly to Government funds, pension funds and defined benefit schemes, but does have experience providing SAS to non-Government funds. Pillar administers more than 1.1 million

superannuation member accounts with assets totalling more than \$100 billion. Its clients include:

- First State Super
- State Super
- Public Sector Superannuation accumulation plan (PSSap)
- Aon.

14. Pillar does not have its own proprietary IT administration platform and is currently licensed to use Financial Synergy's (Acurity) platform.

Industry background

15. Superannuation funds require a range of administration services to operate on a day-to-day basis. These services can be performed in-house by the fund itself, by a third party such as Link or Pillar, or by adopting a hybrid model whereby the fund is partly administered in-house and partly by a third party.

16. Superannuation administration services include:

- management and distribution of benefit payments to members
- data and document management
- member communication – production and issuing of member and employer statements
- management of employer contributions and processing of contributions into funds
- administering member investment choice
- customer contact services
- insurance and claims management
- online member and employer services
- financial and accounting services
- risk and compliance framework.

17. Customers of these services are typically trustees of funds, including public sector, industry, retail and corporate funds.

18. There has been increasing consolidation of SAS providers which has resulted from market exit and Link acquiring other SAS providers. Citistreet and IBM for example have exited the industry. Link has made a number of acquisitions, including:

- Australian Administration Services (AAS) in September 2006

- Primary Superannuation Services Pty Limited (PSS) in 2008
 - Australian Superannuation Group (TASG) in 2008
 - PSI Superannuation Management in June 2012
 - FuturePlus Financial Services Pty Ltd in December 2012
 - administration assets of Russell Investments in February 2013
 - Superpartners Pty Ltd¹ in August 2014, which more than doubled Link's member accounts.
19. The ACCC has estimated that Link administers approximately 80 per cent of outsourced member accounts.²

Future with and without the acquisition

20. Section 50 of the Act prohibits mergers or acquisitions that would have the effect or be likely to have the effect of substantially lessening competition in a market. In assessing a proposed acquisition pursuant to section 50 of the Act, the ACCC considers the effects of the acquisition by comparing the likely future competitive environment post-acquisition if the acquisition proceeds (the “with” position) to the likely future competitive environment if the acquisition does not proceed (the “without” position) to determine whether a proposed acquisition is likely to substantially lessen competition in any relevant market.
21. The NSW Government has announced that it intends to privatise Pillar and the NSW Parliament has passed legislation to enable its sale, with a competitive sale process having commenced. The ACCC therefore considers that in the future without the possible acquisition it is likely that an alternative purchaser would acquire Pillar. If Pillar is not sold, the ACCC considers that the current competitive environment would likely remain.
22. The ACCC understands that in recent years, Pillar has lost some customer accounts and has been implementing a large IT transformation. The NSW Government considers that private sector ownership will put Pillar in a stronger position to pursue growth opportunities and improve the business' long-term financial viability.³
23. An important issue for the ACCC's review is the extent to which an alternative owner of Pillar, other than Link, will likely be able to improve the position of Pillar in the future, and make Pillar an even stronger competitor in the market.

¹ Superpartners was a SAS provider established by a group of five industry funds. It was acquired by Link Group in December 2014. Superpartners' shareholders were AustralianSuper, Cbus, HESTA, HOSTPLUS, and MTAA Super.

² ACCC estimate based on publicly available data.

³ Superannuation Administration Corporation (Pillar) (Authorised Transaction) Bill 2016, 3 May 2016, *Second Reading*.

The ACCC invites comments on what the competitive environment in the future without the possible acquisition would look like relative to an acquisition by Link, in particular:

- Pillar's current (pre-privatisation) competitive position in the market
- Pillar's likely competitive position should: 1) Link acquire Pillar; 2) an alternative purchaser acquire Pillar; and 3) the NSW Government retains ownership of Pillar
- whether an acquirer will need to invest in Pillar to increase its competitiveness and if so the type and level of investment that would be required (including cost, time and staffing)
- the likelihood of that investment being made.

Market definition

24. The key area of overlap between Link and Pillar is in the supply of SAS. The ACCC's preliminary view is that the markets relevant for assessing the competition effects of the possible acquisition are national markets for:
- the supply of SAS by a third party (although the ACCC considers that there could be narrower markets for components of SAS, for example, risk and compliance)
 - the supply of IT platforms and software used in the provision of SAS.
25. The ACCC's preliminary view is that SAS supplied in-house should not be included as part of the market for the supply of SAS. Based on market feedback to date the ACCC considers that from a customer substitution perspective, it is unlikely that funds which currently outsource their SAS could easily switch to insourcing, particularly for core components of their SAS such as registry and processing services. Further, the ACCC considers that, from a supplier perspective, self-administered funds (or the owners of self-administered funds) are unlikely to commence supplying SAS to third party funds in a way that would significantly constrain Link. These issues are explored further in the competition assessment below. The questions under paragraphs 66 and 71 also relate to market definition.

Issue of concern: reduction in competition in the supply of SAS

26. Based on its inquiries to date, the ACCC's preliminary view is that the possible acquisition is likely to substantially lessen competition by removing Pillar as a key competitor to Link in the supply of SAS. This is in circumstances where:
- funds are reluctant to acquire SAS from an SAS provider without a demonstrated capacity to supply a fund of a similar size and type
 - Pillar is the only other SAS provider with the demonstrated capacity to supply SAS to larger funds

- although Mercer (and possibly other SAS providers) may have the capacity to supply SAS to larger funds, to date none has supplied SAS to larger funds and so lack a demonstrated track record that they can do so
 - smaller SAS providers without sufficient scale may face difficulties being price competitive with Link, which benefits from a significant scale advantage, and may also not have the capacity to serve Link or Pillar's larger customers
 - there are significant barriers to entry and expansion for supplying SAS, and funds that are currently outsourcing SAS have a limited ability and incentive to bypass an SAS provider through insourcing SAS.
27. Currently Link is by far the largest SAS provider. The possible acquisition would remove one of the few, and from the perspective of some customers, the only competitor to Link. This may result in lower service levels or higher prices, which will ultimately be passed on to fund members. The possible acquisition would also remove the opportunity for someone else to operate Pillar to compete with Link.

SAS providers

28. Market participants have generally identified three major SAS providers – Link, Pillar and Mercer.
29. Link is by far the largest SAS provider. As noted above, the ACCC has estimated that Link services the vast majority (approximately 80 per cent⁴) of outsourced member accounts and currently benefits from having considerable scale.
30. Pillar has experienced uncertainty about its future ownership for a number of years but is perceived by a number of market participants to be an alternative and competitor to Link (and could be a greater source of competition to Link if it were under different ownership). Pillar is undergoing a significant IT transformation.
31. Market feedback has suggested that Mercer is an alternative for *some* market participants. Although Mercer's total member base is similar to Pillar, market participants have noted that Mercer mainly provides SAS to corporate funds and, unlike Link and Pillar, does not currently provide SAS to larger funds. Some market participants have indicated that Mercer may have the potential to service larger funds in future.
32. Smaller SAS providers, including, for example, OneVue, Independent Fund Administrators & Advisors, Recreo and Superannuation Benefits Administration are not generally considered by market participants to be a viable alternative, particularly for larger-sized funds (those with several hundred thousand or more members). This is due to their absence of scale (affecting their ability to be cost competitive) and a track record of servicing larger funds.
33. The risk of switching to a smaller SAS provider was considered by some market participants to be too high and not an option they would consider, particularly given the need to satisfy APRA requirements in relation to the use of outsourced

⁴ ACCC estimate based on publicly available data.

services.⁵ It is unclear whether these smaller SAS providers would have the capacity and capability to simultaneously service more than one of the larger funds currently administered by Link or Pillar.

The ACCC invites comments from market participants on the competitive constraint imposed by existing alternative SAS providers. In particular, market participants may wish to comment in as much detail as possible on the following:

- whether there would be any viable alternative SAS providers to Link if the possible acquisition proceeded
- the extent to which Mercer would competitively constrain Link if the possible acquisition proceeded
- whether the alternative SAS providers available to a fund vary according to the size and type of fund
- the extent to which other SAS providers have actively competed with Link and/or Pillar for SAS contracts, including components of SAS (see the list of SAS components in paragraph 15 above). For example: whether other SAS providers have competed in the same tender process and whether other SAS providers' offers have been used to negotiate better terms with Link or Pillar.

Removal of Pillar as a competitor

34. Based on market enquiries to date the ACCC's preliminary view is that Pillar is a key competitor to Link, and could be an even stronger competitor to Link under new ownership.
35. In circumstances where trustees of funds owe fiduciary duties to the fund's members and need to satisfy APRA's outsourcing standard, it is critical that the selected SAS provider will be able to provide SAS without significant disruption. Any disruption to the operation of the fund would significantly impact on the fund's members, and ultimately, the reputation of the fund. With First State Super as a customer, Pillar has a track record of supplying SAS to a larger fund and supplying SAS for defined benefit schemes. Other than Link no other entity has the experience in servicing larger funds.
36. The ACCC understands that Pillar has experienced uncertainty about its future ownership for a number of years, and this has impacted on market participants' views about its continued viability. It appears that the uncertainty regarding its ownership status, has contributed to its poor performance in recent years. However, a number of market participants consider Pillar to be a strong competitor to Link, and, in some cases, the only viable alternative. Further, market participants noted that they would be more likely to consider Pillar as an alternative following the completion of Pillar's IT transformation program. Based on market feedback, the ACCC considers that, after privatisation and once its IT transformation has been completed, Pillar is likely to be a greater source of competition to Link.

⁵ When a trustee outsources a 'material business activity', such as its administration activities, the trustee is required to comply with the APRA outsourcing standard, SPS 231, which requires the trustee of a superannuation fund to demonstrate to APRA that it has appropriately assessed the outsourcing of its administration services.

The ACCC invites comments from market participants on whether the possible acquisition would remove a key source of competition to Link. In particular, market participants may wish to comment on the following:

- the extent to which Link and Pillar have competed in the past
- whether Pillar's track record of servicing larger funds is an important differentiator from other SAS providers
- whether Pillar's status as a state-owned corporation has advantaged and/or disadvantaged it in the past
- the impact of the uncertainty regarding Pillar's ownership on its past competitiveness, and the extent to which this may change in the future
- the impact of Pillar's IT transformation program on its future competitiveness
- whether the possible acquisition by Link would remove a key competitive constraint on Link.

Barriers to entry

37. The ACCC's preliminary view is that new entrants and existing smaller SAS providers face a number of significant barriers to entry and expansion.

High upfront and ongoing costs

38. The ACCC understands that there are high upfront and ongoing costs associated with providing SAS. The main upfront cost identified is in relation to IT systems. The ACCC understands that a SAS provider needs to either have its own proprietary IT record keeping platform (such as Link does), or have access to one through a third party licensing arrangement (like Pillar does) to be able to provide SAS.
39. Market inquiries indicate that considerable capital is required to develop and maintain an appropriate platform. These costs are highly likely to be sunk, in that they cannot be recovered if the company later exits.
40. It is less capital intensive to licence a platform from a third party provider, but there are still considerable ongoing costs with this approach. Even if development and maintenance costs are initially borne by a third party platform provider, the ACCC understands that they are reflected in license fees.
41. In this context, the ACCC understands that:
- Link has invested more than \$300 million in its proprietary platforms over the past 10 years⁶

⁶ Link Group FY2016 Results Presentation, 24 August 2016, p. 41.

- the NSW Government has invested nearly \$20 million since 2014 into an ongoing business transformation process to update Pillar's IT systems.⁷
42. The ACCC also understands that there are significant ongoing costs of keeping the platform up to date and compliant with regulatory requirements and changes. Further, even if the SAS provider licenses a platform from a third party these costs are generally passed on to the SAS provider or fund. Market participants have cited the complex regulatory environment for superannuation as a significant deterrent to new entry.

Customer reluctance to switch and the importance of a track record

43. A strong reputation and a track record in the provision of SAS are critical to being able to win contracts. As a consequence it is difficult for a new SAS provider to commence operations or for a small provider to expand.
44. In this respect, market inquiries indicate that funds are generally reluctant to switch SAS providers. The ACCC understands that SAS providers have a high client retention rate, with Link's client retention rates being over 95 per cent in Fund Administration in FY2014 and 2015.⁸
45. Market participants identified the following issues with switching SAS providers:
- there are significant risks and administrative disruption involved in transitioning member data onto a new platform so a great deal of transition planning is required. It is critical to a trustee that the selected SAS provider will be able to provide SAS without significant disruption
 - transitioning onto a new platform can take up to two years
 - there are considerable costs associated with switching
 - a superannuation trustee owes fiduciary duties to its fund's members and needs to be satisfied that switching SAS providers is in its members' best interests.
46. Market inquiries indicate that trustees are very risk averse and the cost of SAS is only one of the factors that a trustee takes into account when considering options for SAS. When a trustee outsources a 'material business activity', such as SAS, the trustee is required to comply with APRA outsourcing standard SPS 231.⁹
47. SPS 231 requires the trustee to demonstrate that the fund has made an appropriate assessment, including by proving that it has undertaken a due diligence review of the service provider, taken into account the changes to the risk profile of the business activity that arise from outsourcing the activity, established a way for monitoring performance on a continuing basis, and

⁷ Superannuation Administration Corporation (Pillar) (Authorised Transaction) Bill 2016, 3 May 2016, Second Reading.

⁸ Link Group Prospectus 2015, p. 16.

⁹ APRA, Superannuation Prudential Standard SPS 231, November 2012, para 21, accessible at <http://www.apra.gov.au/Super/PrudentialFramework/Documents/Final-SPS-231-Outsourcing-November-2012.pdf>.

developed a contingency plan.¹⁰ SAS providers are not regulated by APRA and it is up to the trustee to monitor and supervise the outsourced provider.¹¹

48. In light of the above, a trustee needs to be satisfied that the SAS provider has a demonstrated capability to service similar types of funds – both in terms of the complexity of the superannuation offering (for example defined benefit transactions) and volume of accounts.
49. For the reasons above, the ACCC considers that incumbent providers of SAS face the greatest degree of competitive constraint from other established and significant SAS providers, rather than potential new entrants, smaller SAS providers, or the threat of funds insourcing SAS.

Economies of scale

50. Market inquiries indicate that the provision of SAS is a low margin/high volume business where scale is critical to be competitive. With approximately 10 million member accounts, Link benefits from a significant scale advantage relative to other SAS providers. The second and third largest SAS providers (Pillar and Mercer) have approximately 1 million member accounts each.
51. Link's scale advantage provides it with a greater ability to defray its costs, such as the cost of upgrading IT platforms in response to regulatory changes, across its large member account base and continually invest in technology.
52. Given the importance of scale economies, market participants have raised concerns that the possible acquisition removes an opportunity for someone else to establish themselves (through Pillar) as an effective competitor.
53. The ACCC considers that:
 - the possible acquisition would remove the only large SAS provider who could compete for larger funds currently administered by Link
 - SAS providers face significant difficulties achieving the requisite scale to compete effectively with Link
54. The ACCC notes that although Mercer also manages approximately 1 million member accounts, this is spread across a larger number of smaller funds.
55. The ACCC is still investigating the level at which a SAS provider is able to achieve an efficient scale to effectively compete with Link.

Limited history of substantial or sustained entry

56. Market feedback indicates there has been limited history of substantial and sustained new entry in recent years. A number of market participants referred to the exit of SAS providers Superpartners, Citistreet and IBM as a deterrent to new

¹⁰ APRA, Superannuation Prudential Standard SPS 231, November 2012, para 21, accessible at <http://www.apra.gov.au/Super/PrudentialFramework/Documents/Final-SPS-231-Outsourcing-November-2012.pdf>.

¹¹ APRA, Superannuation Prudential Standard SPS 231, November 2012, para 21, accessible at <http://www.apra.gov.au/Super/PrudentialFramework/Documents/Final-SPS-231-Outsourcing-November-2012.pdf>.

entry, as these examples demonstrate that successful entry is unlikely to be successful and the entrant risks losing significant sunk costs.

Likelihood of new entry

57. The ACCC's inquiries suggest that new entry of a sufficient scale and in a timely manner is unlikely due to the barriers to entry and expansion identified above.
58. Market participants have noted the unique regulatory requirements of the Australian superannuation and taxation systems means that overseas SAS providers would need to adapt their technology solutions significantly to satisfy Australian requirements. Several market participants did not consider new entry from overseas SAS providers to be very likely for this reason and noted previous examples of unsuccessful entry by IBM and Citistreet.
59. Some market participants consider evolving technology and increased digitisation of services could create opportunities for new entry in the future. They consider that if there is new entry, the most likely or best placed entrant would be a technology company with the capital to invest in new and innovative IT solutions.

The ACCC invites comments from market participants on the barriers to entry and expansion. In particular, market participants may wish to comment on the following:

- the upfront and ongoing costs of providing SAS, including the cost of establishing, or obtaining a licence to use, a platform and ongoing operating costs
- the features/characteristics that a new entrant would need to successfully compete, including scale, IT capability and range of services
- the switching process, including the cost and time it would take to prepare for and then transition to a new platform and any examples of the degree of platform/software customisation that is required
- the extent to which funds have switched SAS providers in the past (please provide examples of such switching)
- whether the possible acquisition would remove the opportunity for a third party (e.g. an existing SAS provider or new entrant) to establish themselves as an effective competitor
- the level at which an SAS provider would be sufficiently scaled to effectively compete with Link, whether it is by number of member accounts or funds under management
- whether the regulatory environment in Australia is a significant deterrent to overseas SAS providers entering, and if so, specify the types of complexities in the Australian regulatory environment and whether that is a deterrent
- the likelihood of a fund acquiring SAS from a technology company with a new and innovative IT solution, and, in particular, which SAS.

Insourcing

60. As discussed above, the ACCC's preliminary view is the potential for a fund to insource is not likely to significantly constrain (or would only provide a very limited constraint on) the prices and service quality offered by Link post-acquisition.
61. The ACCC understands that the ability and willingness to insource SAS may also be linked to the type of fund being operated. Self-administration appears more prevalent for retail funds that can utilise the systems and resources of their related banking and wealth management entities.
62. For funds that currently out-source, there are high barriers to insourcing SAS, including the initial core data transition cost as well as the need for technological upgrades and investment in a fund's own systems in order to maintain regulatory compliance, and the hiring and training of staff. The market feedback suggests that a price rise of between 5-10 per cent is unlikely to result in funds switching to a self-administered model.
63. The ACCC understands that in the past ten years there have been some examples of funds which have moved from an outsourced model to an insourced model. However, it appears that these examples of switching generally involved the merging of one fund with another fund, for example an outsourced fund merging with a self-administered fund and becoming part of that fund's insourced system. A commonly cited exception to this is Sunsuper, which moved from an outsourced model to an insourced model through the acquisition of its SAS provider that was exiting the market.

Insourcing of customer facing components

64. The ACCC understands that there is some willingness for some funds to unbundle their SAS and manage certain components of SAS in-house. This preparedness to move some SAS components in-house appears to be largely focused around 'customer facing' components, with funds continuing to be reliant on a SAS provider (and a SAS provider's underlying IT platform) for core administration services such as record keeping and transaction processing. Customer facing components include services such as the website.
65. Insourcing customer facing components of SAS enables funds to benefit from many of those economies of scale offered by a SAS provider, but still retain control of their customer engagement (enabling a fund to better differentiate its service offering from other funds).
66. The ACCC considers that the threat of insourcing may provide a slightly more significant competitive constraint on Link in respect of customer facing components of SAS, compared to core administration services such as record keeping and transaction processing.

The ACCC invites comments from market participants on the constraint imposed on SAS providers by the threat of a fund insourcing some or all of its SAS. In particular, market participants may wish to comment on the following:

- the extent to which insourcing is considered a viable alternative to outsourcing having regard to the size of the fund, the number of member accounts, the complexity of the scheme (e.g. whether it covers defined benefits), the range of its

product and investment offerings, and its capacity to comply with legal requirements

- the time, resource and cost implications (if possible please provide cost estimates) associated with moving from outsourcing to insourcing
- examples of funds switching to insourcing their core processing services (as opposed to customer facing functions)
- examples of funds successfully using the threat of insourcing (partial or full) to obtain better terms from their existing SAS provider
- the cost differential between insourcing and outsourcing, and whether this varies according to the size and type of fund
- whether a fund has raised the possibility of insourcing in negotiations with an SAS provider
- whether it is appropriate to consider the competitive effects of the possible acquisition on the supply of all SAS or sub-sets of SAS
- the extent to which funds are able and willing to unbundle components of SAS and the difficulties associated with doing so
- whether the possible acquisition would impact on the ability of funds to unbundle SAS.

Likelihood of self-administered funds expanding to provide SAS to other superannuation funds

67. The ACCC's preliminary view is that it is unlikely that a self-administered fund would provide administration services to other funds, or that the threat it would be able to do so would impose an effective competitive constraint on Link.
68. Market participants identified a number of issues including that:
- the provision of SAS by a fund to other funds may conflict with its obligations to act in its own members' best interests
 - funds actively compete for members and are unlikely to use SAS provided by a competing fund
 - there may be limited incentive for funds that self-administer to share what is perceived as a competitive advantage/point of difference with other funds
 - insourced funds are not generally set up to provide third party services and may need to significantly alter their business model and systems to do this.
69. However, the ACCC has received mixed feedback regarding the likelihood of self-administered funds commencing supply of SAS to third parties.
70. Some other market participants considered that while the provision of SAS to third parties is not common at the moment, it could become more so in the

future. The ACCC understands there are some self-administered funds which are considering providing services to third parties. However, this may be a precursor to merging with other funds rather than a shift toward providing third party SAS.

71. The ACCC is continuing to assess the likelihood of self-administered funds providing SAS to other funds and the extent to which this would competitively constrain Link.

The ACCC invites comments from market participants on the likely constraint imposed on SAS providers by self-administered funds supplying SAS to third parties. In particular, market participants may wish to comment on the following:

- whether a self-administered fund would commence supplying SAS to third parties, and whether this is influenced by the size and type of the third party fund
- the time, resource and cost implications (if possible please provide cost estimates) associated for a self-administered fund if it wanted to commence supplying SAS to third parties
- the extent to which acquiring SAS from a competing fund is considered a viable alternative to a SAS provider.

The ACCC's preliminary view

72. The ACCC's preliminary view is that the possible acquisition is likely to substantially lessen competition by removing Pillar as a key competitor to Link in the supply of SAS, in circumstances where Link may face limited competitive constraint and barriers to entry and expansion are high.
73. The ACCC is continuing to investigate the potential constraints on Link following the possible acquisition, including the ability and willingness of funds to insource, the likelihood that a self-administered fund would provide administration services to other funds and the likelihood of new entry and expansion. The ACCC's preliminary view however is that these options would be unlikely to significantly constrain (or would only provide a very limited constraint on) the prices and service quality offered by Link.

Issue that is unlikely to raise concerns: reduced competition in related product markets

74. The ACCC's preliminary view is that the possible acquisition is not likely to substantially lessen competition by reducing innovation in related product markets, specifically those related to the IT platforms and software used in the provision of SAS.
75. Link uses its own proprietary platform (the aaspire platform) and so its customers are not considered part of the contestable market by other IT platform providers. In comparison, Pillar currently uses Financial Synergy's Acurity platform, while Mercer utilises Bravura Solution's Sonata platform. Some insourced funds license their platform and software directly from an IT provider.
76. The possible acquisition would remove Pillar from the contestable market as Pillar's customers would be integrated into Link's aaspire platform. However,

based on information currently available to the ACCC, the ACCC considers that the reduction of the size of the contestable market arising from the possible acquisition is unlikely to be sufficiently significant to impact on the commerciality of investment and innovation by IT platform and software providers thereby reducing the competitive constraint that they may impose on Link. The ACCC understands that, if the possible acquisition did reduce the constraint provided by competing platform and software providers, it could in turn provide Link with an ability and incentive to reduce investment in its own platform.

77. Although the ACCC's preliminary view is that the possible acquisition is unlikely to raise concerns in related product markets, the ACCC will continue to assess the potential for competition concerns to arise.

The ACCC invites comments from market participants in relation to related product markets. In particular, market participants may wish to comment on the extent to which the possible acquisition would:

- reduce the contestable market for the supply of IT platforms/software, including the extent to which IT platform and software providers currently provide services to retail funds
- impact on the ability of IT platform and software providers to compete
- reduce the level of investment and innovation undertaken by IT platform and software providers.

ACCC's future steps

78. As noted above, the ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter. Submissions are to be received by the ACCC no later than 28 October 2016 and should be emailed to mergers@acc.gov.au.
79. The ACCC will finalise its view on this matter after it considers submissions invited by this Statement of Issues.
80. The ACCC intends to publicly announce its final view by 15 December 2016. However the anticipated timeline may change in line with the *Informal Merger Review Process Guidelines*. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement to explain its final view.