



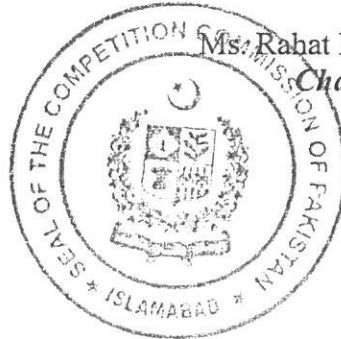
BEFORE THE
COMPETITION COMMISSION OF PAKISTAN


FIRST PHASE REVIEW

ACQUISITION OF UPTO % SHAREHOLDING OF M/S. CENTRAL
DEPOSITORY COMPANY OF PAKISTAN LIMITED BY M/S. PAKISTAN STOCK
EXCHANGE LIMITED FROM M/S. ALLIED BANK LIMITED AND M/S. IGI
INVESTMENTS (PRIVATE) LIMITED

CASE: 1346/Merger-CCP/2022

Commission




Ms. Rabat Kaunain Hassan
Chairperson

ORDER

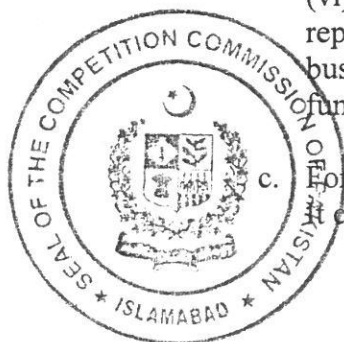
1. On 12th December, 2022, the Competition Commission of Pakistan ("**Commission**") received a pre-merger application ("**Application**") pursuant to Section 11 of the Competition Act, 2010 ("**Act**") read with Regulation 6 of the Competition (Merger Control) Regulations, 2016 ("**Merger Regulations**") whereby, M/s. Pakistan Stock Exchange Limited ("**PSX**" or "**Acquirer**") intends to acquire a total of _____ shares (_____ % shareholding) of M/s. Central Depository Company of Pakistan Limited ("**CDC**" or "**Target**") from M/s. Allied Bank Limited ("**ABL**" or "**Seller 1**") and M/s. IGI Investments (Private) Limited ("**IGI**" or "**Seller 2**"). All requisite information/documentation pertaining to the Application was completed on 27th January, 2023.
2. The Commission has examined the Application as well as all the documents attached therewith and the information provided by the concerned undertaking(s). The Phase I competition assessment of the intended transaction has revealed the following facts:

i. The business activities of the undertakings concerned are:

- a. For PSX: provides full suite of trading services through Karachi Automated Trading System (KATS), Karachi Internet Trading System (KITS), and Bonds Automated Trading System (BATS). KATS facilitates trading for stockbrokers. KITS is an online system for trading. BATS provides trading platform for corporate debt instruments (term finance certificates), and government debt securities. Also, PSX provides data solution services.
- b. For CDC: CDC's main statutory function and licensed activity is the management and operation of a Central Depository System (CDS) and related investor account services. The CDS is an electronic book-entry system used to record the title of the account-holders to securities entered therein, to transfer such securities electronically and for pledging such book-entry securities. CDC is currently the sole entity in Pakistan handling the electronic (paperless) settlement of transactions carried out at PSX. The CDS system, in addition to company shares, also facilitates the electronic entry and management of *inter alia* equity, debt and other financial instruments in the Pakistani capital market as well as term finance certificates, WAPDA bonds, sukuk, open-end and closed-end funds and modaraba certificates.

CDC is also engaged in providing other services beyond the traditional depository domain such as: (i) trustee & custodial services, (ii) share registrar services, (iii) roshan digital account related CDS account opening services and shared KYC, (iv) investor portfolio services, (v) developing and managing a Centralized Information Sharing Solution for the domestic insurance industry, (vi) providing e-services in the form of an eIPO system and an eDividend repository and, (vii) through its wholly owned subsidiary, ITMinds Limited, business process outsourcing services including back office accounting functions to the mutual fund industry.

c. For ABL: it is principally engaged in commercial banking and related services. It currently holds _____ % shareholding of CDC.



- d. For IGI: it is a wholly owned subsidiary of M/s. IGI Holdings Limited and is primarily engaged in investing, acquiring, selling and holding of debt/equity securities. It currently holds % shareholding of CDC.
- ii. As per the Application, PSX will purchase ordinary shares of CDC (approx. % shareholding) at price of PKR - per share from ABL and ordinary shares (approx. % shareholding) at price of PKR - per share of CDC from IGI. The total estimated amount under consideration to be paid for ordinary shares (% shareholding) is expected to be PKR -.
- iii. The relevant product markets in this case have been identified as “Central Depository System and Ancillary Services”, “Trustee and Custodial Services”, “Investor Portfolio Services”, “Share Registrar Services”, “Centralized Information Sharing Solutions for insurance industry”, “Initial Public Offering (IPO) Services” and “Business Process Outsourcing Services”. The relevant geographic market is “Pakistan”.
- iv. The reported market shares of CDC in the aforementioned relevant markets are:
 “Central Depository System and Ancillary Services” – %
 “Trustee and Custodial Services” – %
 “Investor Portfolio Services” – %
 “Share Registrar Services” – %
 “Centralized Information Sharing Solutions for insurance industry” – %
 “IPO Services” – %¹

As per the Applicant, market shares in the relevant market of ‘Business Process Outsourcing Services’, considering the fragmented nature of the market, are not accurately determinable.

3. At present, PSX is the only securities exchange in Pakistan and CDC is currently the only licensed entity acting as a central depository. Both are, therefore, dominant in their respective markets. Overall, PSX provides trading services and CDC provides post-trading services to investors/participants; provision of complementary/interconnected/correlated services that are part of the trading life cycle and operating in connected markets.
4. Although we understand that the current acquisition of a mere % shareholding would not lead to any material change in control of CDC, we find, through multiple meetings with and clarifications provided by the Applicant, that the subject transaction represents a first step towards acquiring at least up to % shareholding of CDC. In this regard, as per

The general public participates in Initial Public Offerings (IPO) of companies in two ways: (i) through physical submission of the requisite application/documents; or (ii) online submission of the same. To facilitate subscribers, CDC & PSX have developed an e-IPO system/software. Since April 2021, the total value of IPOs was PKR -. Out of this, a total amount of PKR -/- was through both PSX and CDC’s e-IPO systems, amounting to a total market share of %. CDC’s market share is PKR % (based on the amount received through CDC’s e-IPO system, i.e., PKR -), whereas PSX’s e-IPO market share is only %.



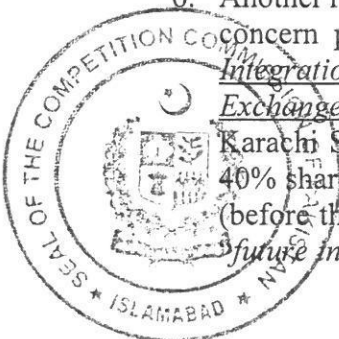
Section 11 of the Act, any undertaking intending to acquire shares of another undertaking shall apply for clearance from the Commission of the intended merger.

In this connection, Regulation 8(3)(a) of the Central Depositories (Licensing and Operations) Regulations, 2016 (the “**CDC Regulations**”) as amended through S.R.O. 1417 (I)/2021 dated 3 November 2021 (the “**2021 SRO**”) and read with Section 48 of the Securities Act 2015 (the “**Securities Act**”) provides that “collective shareholding of all shareholders other than those mentioned at clause (a) of sub-regulation (1) above [i.e., a securities exchange or a connected company] shall not exceed forty nine percent”. Thus, a holistic reading of Regulation 8 of the CDC Regulations along with Section 48 of the Securities Act implies that PSX is permitted to acquire at least % shares of CDC (being the sole securities exchange in Pakistan). Importantly, the Applicant has clarified its intent to acquire up to % shareholding in CDC through its email correspondence dated 13 August 2022 with the M&A Department that “...Additionally, PSX is acquiring further shares from ineligible shareholders of CDC & NCCPL merely to comply with the requirements of the law and SECP’s direction. As only the Exchange is allowed to hold % shares in the Central Depository...” In addition, at page 90 of its Annual Report of 2022 (Annexure A - information required under Regulation 3(1) of the Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2017), PSX has stated that its purpose to acquire CDC shares is “to consolidate shareholding in CDC to make it a subsidiary company and its members from such investment while facilitating compliance with applicable Regulations and period of investment by CDC and its shareholders.”

The Commission was also informed by the Applicant that the Securities and Exchange Commission of Pakistan (“**SECP**”), being the apex sector regulator responsible for overseeing the operations of CDC and PSX, had directed PSX via its letter no. SMS/SE/2(307)/2019 dated 5 March 2021 “to engage with other ineligible shareholders for reaching an agreement over a suitable price for divestment of shareholding in CDC...”

Therefore, considering the subject transaction relates to the envisaged integration of PSX, being the sole securities exchange, and CDC, being the only central depository, and that both function in connected markets, a more comprehensive assessment would be required. Moreover, the eventual acquisition of % shareholding of CDC by PSX would amount to a ‘change of control’ event, which intention is evidenced on record, hence, requiring a more detailed assessment.


5. Furthermore, we note that there remains a likelihood of PSX being in a position to exercise influence on the Board of Directors of CDC as presently, it has three nominee directors. Pak China Investment Company Limited (which has been categorized as an associated company by PSX in its Annual Report 2022) also has one nominee director on the Board of CDC. Pursuant to the eventual acquisition of % shareholding of CDC, PSX would have a greater presence on the Board of CDC.
6. Another relevant aspect that also needs to be considered would be the possible competition concern previously highlighted in the Commission’s Phase II Order in the matter of Integration of Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange dated 27 November 2015. Although at the time of the merger PSX (formerly Karachi Stock Exchange) had % shareholding and was only allowed to have up to 40% shareholding in CDC as per the previous Regulation 8(3)(a) of the CDC Regulations (before the same was amended via the 2021 SRO), the Commission had opined that any future integration [between CDC and PSX] could possibly become a barrier to entry for



new entrants in the market.” The Commission, at the time, had not discussed the same in detail as it was not the main subject matter of the stock exchange merger. However, for the subject transaction, such considerations may require a more in depth analysis.

7. In light of the above, we find that the presumption of dominance as determined under Section 2(1)(e) read with Section 3 of the Act is met as both PSX and CDC are the sole entities in their area of licensed activity, i.e., the sole stock exchange and the sole central depository. Both markets are integrated markets and their activities are part of the trading life cycle. Thus, the intended acquisition would likely strengthen their position and may have an overall impact on trading services in securities market. In light of the foregoing, a Phase II review is hereby initiated under Section 11(6) of the Act.

8. It is so ordered.


(Ms. Rahat Kaunain Hassan)
Chairperson



Islamabad the 10th FEB, 2023.