

**BEFORE THE
COMPETITION COMMISSION OF PAKISTAN**

IN THE MATTER OF

FIRST PHASE REVIEW

**INTEGRATION OF KARACHI STOCK EXCHANGE LIMITED,
LAHORE STOCK EXCHANGE LIMITED AND ISLAMABAD
STOCK EXCHANGE LIMITED**

CASE: 757/Merger-CCP/15

Commission

Ms. Vadiyya Khalil
Chairperson

Mr. Mueen Batlay
Member

Mr. Ikram Ul Haque Qureshi
Member



ORDER

I Background

1. Karachi Stock Exchange Limited (KSE), Lahore Stock Exchange Limited (LSE) and Islamabad Stock Exchange (ISE) jointly submitted, through their legal counsel, Hassan Kaunain Nafees, a pre-merger application (the "application") dated 06 October, 2015 to notify the Commission, of the integration of LSE and ISE with KSE, along with the necessary information as well as a Bank Draft for PKR _____ as processing fee applicable under Regulation 5(6) of the Competition (Merger Control) Regulations 2007 ("the CMCR"). The case is examined in the light of the provisions of the Act as well as the CMCR, as under:

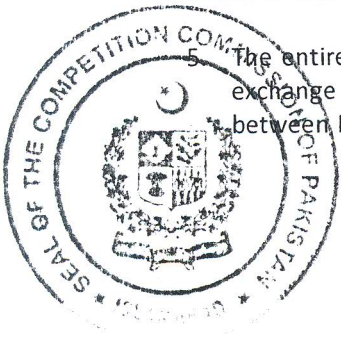
II Transaction Details

Merger Parties

2. KSE was incorporated under the Indian Companies' Act VII of 1913 (as applicable to Pakistan) on 10th of March, 1949 as a company limited by guarantee, and is a registered stock exchange under the Securities and Exchange Commission Ordinance, 1969. KSE was re-registered as a public limited company on 27 August, 2012 under the Stock Exchanges (Corporatisation, Demutualisation and Integration) Act, 2012 (XV of 2012). KSE was established to conduct, regulate and control the trade or business of buying, selling and dealings in shares, scripps, Participation Term Certificates, Modaraba certificates, Stocks, Bonds, Debentures, Debenture stock, Government papers, Loans, and any other instruments and securities of like nature including but not limited to Special National Fund Bonds, Bearer National Fund Bonds, Foreign Exchange Bearer Certificates and documents of similar nature issued by the Government of Pakistan or any agency authorised by the Government of Pakistan.
3. LSE was incorporated under the Companies Ordinance, 1984 (XLVII of 1984) in October 1970, and is also registered under the Securities and Exchange Ordinance, 1969. LSE was re-registered as a public limited company on 27 August, 2012 under the Stock Exchanges (Corporatisation, Demutualisation and Integration) Act, 2012 (XV of 2012). LSE was established to conduct, regulate and control the trade and business of stocks, shares, securities, bonds, government papers, loans and other investments or securities of like nature.
4. ISE was incorporated under the Companies Ordinance, 1984 (XLVII of 1984) on October 25, 1989 and it became operational on August 10, 1992. ISE was re-registered as a public limited company on 27 August, 2012 under the Stock Exchanges (Corporatisation, Demutualisation and Integration) Act, 2012 (XV of 2012). ISE was established to conduct, regulate and control the trade and business of stocks, shares, securities, bonds, government papers, loans and other investments or securities of like nature.

Mode of Transaction

The entire stock exchange business of LSE and ISE is proposed to be integrated into the stock exchange business of KSE pursuant to the Schemes of Integration between LSE and KSE and between ISE and KSE. The merger parties entered into a Memorandum of Understanding on 25



V.S.

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August 2015 outlining their mutual understanding to proceed with arrangement of induction of the TRE Certificate Holders of LSE and ISE into KSE, to be renamed as "Pakistan Stock Exchange Limited". LSE and ISE will no longer be able to run as a stock exchange company, however, they will be able to undertake business as a non-banking financial company. There is no proposed cash/value consideration.

6. The Securities and Exchange Commission of Pakistan (the "SECP") has agreed to facilitate the proposed transaction, upon the approval of the Schemes of Integration between LSE and KSE and ISE and KSE, respectively, ISE and LSE will be able to under business as a non-Banking Finance Company.

III Notification Thresholds

7. The transaction meets the proposed thresholds prescribed in Regulation 4 of the CMCR.

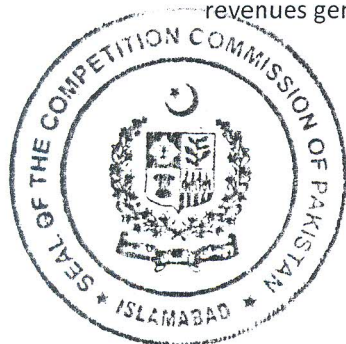
IV Presumption of Dominance

Relevant Market

8. The notified transaction gives rise to the creation of a single stock exchange by merging all three existing stock exchanges. The applicants have submitted that a total of 560 companies are registered at KSE, 433 on LSE and 217 on ISE. However, securities commonly listed on all three stock exchanges constitute \times of the trading volume of listed securities in Pakistan.
9. The matter at hand entails the integration of three stock exchanges in the country. A stock exchange is a facility for bringing together buyer and sellers of securities. A security, generally, is an instrument that denotes financial value issued by a corporation or the government that are secured by debt or equity. To be traded on a stock exchange, securities need to be listed on a stock exchange. There are two important stakeholders that are an integral part of the stock exchanges. First are the companies who list their securities on a stock exchange to be traded. The second are the brokers who have the right to conduct trade of the listed securities on behalf of the investors.
10. Accordingly, the relevant product market is in question is the trading platform for the sale, purchase and exchange of the listed securities while the relevant geographical market is the whole of Pakistan.

Looking into Presumption of Dominance

11. The applicant has submitted that that the strategic rationale for the proposed transaction is to "enable optimal utilization of available resources, rationalization of overlapping facilities, infrastructure and regulatory mechanism. It will also improve the overall competitiveness of the business at the national as well as regional level: improve governance standards, increase efficiency and encourage true competition in terms of best price discovery and order execution".
12. The applicants have also provided the market shares of the three stock exchanges in terms of revenues generated through trading on the securities for 2014-2015.



13. The data shows that KSE leads the relevant market by being the dominant player and holding a significant market share of % in the relevant market while the other stock exchanges have negligible market shares. The post-merger entity will hold % of the relevant market.

14. The proposed transaction meets the presumption of dominance under Section 3 of the Act.

V Competition Concerns

15. The Commission has the following competition concerns with regard to the proposed transaction.

Potential impact on listing of companies:

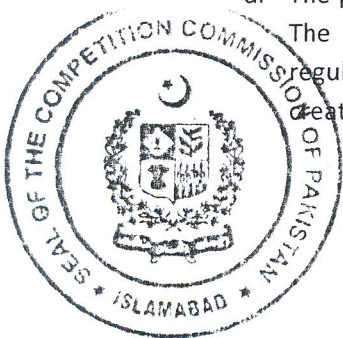
- a. A primary competition concern is the reduced choice that will be available to companies for listing after the merger. Where previously three exchanges were available to allow companies the option of choosing the one most suited to their needs, a single exchange may lead to increased listing fees and other stringent requirements for new companies for listing, which could amount to the creation of entry barriers.

Potential impact on brokers:

- b. Another major concern is the likely impact the transaction will have on brokers not currently licensed to operate at the KSE. Under the scheme of integration, all the TREC holders from ISE and LSE will be inducted as TREC holders in KSE without any additional costs or fees. In terms of their experience and financial strength these brokers are not at par with their KSE counterparts. The Commission is concerned that after the integration these new brokers may be subjected to strict conditions and requirements, such as increase base minimum capital, thereby leading to their exit from the only trading platform in the country. Similarly, entry of future brokers to the only trading platform may become hard if stringent conditions and requirements are placed by the post-merger entity. The Commission is unsure how the continuity of business of LSE and ISE origin TREC holders shall be ensured.
- c. Moreover, the Commission is concerned that a natural bifurcation of TREC holders into different classes is also at risk of being formed, where original KSE TREC holders who are also shareholders will be in a strengthened position to dictate company policy to the disadvantage of the new TREC holders.

Potential impact on future exchanges:

- d. The proposed transaction will create a single stock exchange for the foreseeable future. The Commission is concerned that in the absence of clear regulatory rules and regulations for formation of new exchanges, the integrated exchange will make the creation of new exchanges extremely difficult if not impossible.



Potential impact on other exchanges:

- e. KSE, LSE and ISE have shareholdings in CDC, NCCPL and PMEX. The effect of the integration on the shareholding and working of these entities is unclear. The Commission is concerned that after the integration, when LSE and ISE are no longer exchanges, the post merger entity may be able to influence the working of these companies and exchanges to gain an undue competition benefit.

VI. Conclusion

16. In view of the competition concerns raised above, there are doubts regarding the compatibility of the proposed transaction with the Competition Act, 2010. The Commission has, therefore, decided to open a second phase review in the matter.

17. It is so ordered.


(Mueen Batlay)
Member


(Ikram Ul Haque Qureshi)
Member


(Vadiyya Khalil)
Chairperson

Islamabad, the 22nd October, 2015

