



**BEFORE THE
COMPETITION COMMISSION OF PAKISTAN**

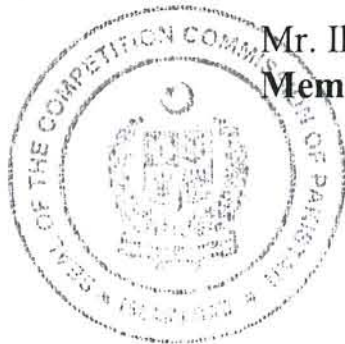
**IN THE MATTER OF
FIRST PHASE REVIEW**

**ACQUISITION OF SHARES OF PAKISTAN STOCK
EXCHANGE LIMITED BY A CONSORTIUM COMPRISING
OF CHINA FINANCIAL FUTURE EXCHANGE, SHANGHAI
STOCK EXCHANGE, SHENZHEN STOCK EXCHANGE,
PAK CHINA INVESTMENT COMPANY LIMITED AND
HABIB BANK LIMITED**

CASE: 868/Merger-CCP/17

Commission:

**Ms. Vadiyya Khalil
Chairperson**



**Mr. Ikram ul Haque Qureshi
Member**

Order

I Background

1. On 31 January 2017, a consortium comprising of the China Financial Futures Exchange (“**CFFEX**”), Shanghai Stock Exchange (“**SSE**”), Shenzhen Stock Exchange (“**SZSE**”), Pak China Investment Company Limited (“**PCICL**”) and Habib Bank Limited (“**HBL**”) (the “**Applicants**”, or “**Acquirers**”, or “**Consortium**”) submitted a joint pre-merger application (the “**Application**”) to the Commission, for the intended acquisition of shares of the Pakistan Stock Exchange Limited (the “**Target**” or “**PSX**”) pursuant to the Competition Act, 2010 (the “**Act**”) and the Competition (Merger Control) Regulations, 2016 (the “**Merger Regulations**”).

The case is examined as under:

II Merger Parties

The Acquirers (“Consortium”)

China Financial Futures Exchange (CFFEX)

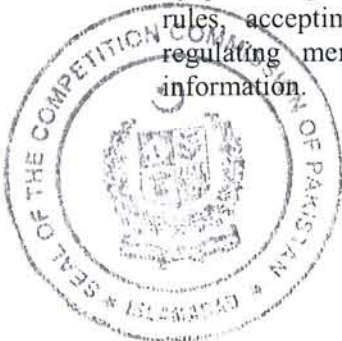
2. CFFEX, the lead strategic investor, is a demutualized exchange active in the trading, clearing, and settlement of financial futures, options, and other derivatives. The exchange was incorporated in Shanghai, China in 2006, with the approval of the State Council and China Securities Regulatory Commission (CSRC), as a joint venture of the Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange.

3. CFFEX's main functions include, *inter alia*, organizing and arranging the listed transaction, trading, clearing, settlement and delivery of financial futures and other derivatives, formulating business rules, conducting self-management, disseminating market trading information, providing technology, venue, and facility services as well as other functions approved by the CSRC. CFFEX provides a well-structured, sophisticated and stable all-electronic trading platform. The system provides extra security to the market with a multilayered clearing risk control framework.

4. Total assets of CFFEX as on 31 December 2015 were RMB [PKR (@1 RMB =15.20)], while its total turnover for the same period remained at RMB [PKR (@1 RMB= 15.20)].

Shanghai Stock Exchange (SSE)

5. SSE, incorporated in 1990 in China, is a non-profit organization governed by CSRC. SSE provides four major securities categories mainly equities, bonds, funds, and derivatives by providing a marketplace and facilities for the securities trading, formulating business rules, accepting and arranging listings, organizing and monitoring securities trading, regulating members and listed companies and managing and disseminating market information.



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6. Total assets of SSE as on 31 December 2015 were RMB [PKR (@1 RMB=15.20)], while its total turnover for the same period remained at RMB [PKR (@1RMB=15.20)].

Shenzhen Stock Exchange (SZSE)

7. SZSE, established in 1990 in Shenzhen, China, is a self-regulated legal entity under the supervision of the CSRC. Its main functions include, *inter alia*, organizing and supervising securities trade and performing duties prescribed by law, regulations, rules and policies as approved by the CSRC. The exchange also provides full support to development in small and medium businesses.

8. Total assets of SZSE as on 31 December 2015 were RMB [PKR (@1RMB=15.20)], while its total turnover for the same period remained at RMB [PKR (@1RMB=15.20)].

Pakistan China Investment Company Limited ("PCICL")

9. PCICL, incorporated in 2007 in Islamabad, Pakistan is a joint venture (JV) in which equity is equally contributed by Government of Pakistan and China Development Bank. The JV is a development financial institution (DFI) which offers investment (banking) services as well as credit to agriculture, information technology, manufacturing/services, real estate and infrastructure sectors.

10. Total assets of PCICL as on 31 December 2015 were PKR while its total turnover for the same period remained at PKR .

Habib Bank Limited ("HBL")

11. HBL, founded in 1941 in Karachi, Pakistan. The bank is engaged in a basic range of services to its customers as well as commercial banking and asset management related services in Pakistan and overseas.

12. Total assets of HBL as on 31 December 2015 were PKR while its total turnover for the same period remained at PKR .

The Target

13. PSX, (formerly: the Karachi Stock Exchange, a company Limited by Guarantee) is the single unified stock exchange of Pakistan incorporated under the law of Pakistan as a company Limited by Shares under Stock Exchanges (Corporatization, Demutualization, and Integration) Act 2012 (the "**Demutualization Act**"). On 11 January 2016, PSX was formed subsequent to the merger of the Karachi Stock Exchange (KSE), Lahore Stock Exchange (LSE) and Islamabad Stock Exchange (ISE).

14. PSX is engaged in regulating trade of buying/selling and dealing in shares, scripts, participation term certificates, modaraba, stocks bonds, debentures, government papers, loans and any other instruments and securities of like nature, but not limited to, special national fund bonds, bearer national fund bonds, foreign exchange bearer certificates issued by the Government of Pakistan.



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15. Total assets of PSX as on 30 June 2016 were PKR [redacted] while its total turnover for the same period remained at PKR [redacted].

III. Demutualization

16. In 2012, the process of demutualization the stock exchanges began under the Demutualization Act, which required the Stock Exchanges (namely, KSE, LSE, and ISE) to segregate up to [redacted] shares to a "Strategic Investor," which could be a foreign stock exchange or depository company.

17. In the matter of "**Integration of Karachi Stock Exchange Limited, Lahore Stock Exchange Limited and Islamabad Stock Exchange Limited,**" the Commission approved the scheme of integration; *vide* its order dated 27th October 2015 (hereinafter, the "**PSX Order**") subject to certain conditions. The relevant condition is reproduced as under:

"66(i). Upon integration, PSE (or PSX) must expedite its search for a strategic investor or a financial institution for the divestment of [redacted] of shares currently in the blocked account [...]"

IV Transaction

18. The transaction involves the acquisition of [redacted] shares of the Target out of a total of [redacted] shares of the Target by the Consortium in consideration of PKR [redacted], valued at PKR [redacted] per share.

19. Three members of the Consortium, namely CFFEX, SSE, and SZSE are collectively acquiring [redacted] of the shares while PCICL and HBL are acquiring [redacted] of the shares each. The funding for the intended acquisition will be from own source from the each Consortium member.

20. The transaction meets the notification thresholds prescribed in Regulations 4(2) (a) (b) (c) & (d) of the Merger Regulations, by having the combined assets of the merging parties valuing more than one billion rupees and the combined turnover more than one billion rupees. The transaction value exceeds PKR 100 million and percentage of shares to be acquired also exceeds 10% of the total shareholding of the Target.

V Relevant Market

Relevant Product Market

21. The Target in the proposed transaction is PSX which is the sole stock exchange in the country and is primarily involved in providing regulating and controlling trade or business of buying selling and dealing in shares in addition to other activities stated above. Therefore, the relevant product market in the proposed transaction is defined as the "trading platform for the sale, purchase, and exchange of the listed securities".

Relevant Geographic Market

The geographic market, in this case, is defined as the whole of Pakistan.



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V Findings of the First Phase Review and Competition Assessment

23. The competition assessment in first phase review of the intended acquisition has resulted in the following findings:

- a. The Target being the sole stock exchange in the country holds 100% market share in the relevant market. However, none of the members of the Consortium is currently active in the relevant market.
- b. The proposed transaction involves the acquisition of 100% shares of the PSX by the Consortium. Three Consortium members i.e. CFFEX, SSE, and SZSE are incorporated in China while PCICL is a DFI and HBL is a banking company incorporated in Pakistan.
- c. The proposed transaction is in compliance with the Demutualization Act and the PSX Order.
- d. The proposed transaction is expected to enhance synergies in a collaborative environment in the relevant market by adding value and helping in index trading, new products and services and cross-border listing in the Target. Moreover, the transaction is likely to result in knowledge sharing and technological development of the capital market of Pakistan.
- e. The post-acquisition concentration in the relevant market will remain unchanged. The transaction is not likely to result in creation or strengthening of a dominant position in the relevant market. The intended acquisition does not meet the presumption of dominance as determined under Section (2) (1)(e) read with Section 3 of the Act.

VI Conclusion

24. In conclusion, there is no evidence to suggest that the transaction will result in substantial lessening of competition by creating or strengthening of a dominant position in the relevant market. The intended acquisition is hereby authorized under Section 31(1) (d) (i) of the Act.

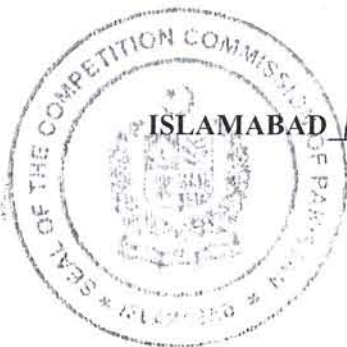
25. It is so ordered.



Vadiyya Khalil
Chairperson



Ikram Ul Haque Qureshi
Member



ISLAMABAD 14th February, 2017