



Securities and Exchange Commission of Pakistan

Order

Under section 18(3) of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012

In the Matter of

Integration of Karachi Stock Exchange Limited, Lahore Stock Exchange Limited and Islamabad Stock Exchange Limited

1. The matter before the Securities and Exchange Commission of Pakistan (hereinafter referred to as "the Commission") arises from the submission of schemes of integration by the Karachi Stock Exchange Limited (KSE/successor stock exchange), Lahore Stock Exchange Limited (LSE/transferor stock exchange) and Islamabad Stock Exchange Limited (ISE/transferor stock exchange) (jointly referred to as "the stock exchanges") under section 17 of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 ("the Act"), for integration of KSE with LSE and KSE with ISE. Accordingly, under section 18(3) of the Act, this Order shall dispose of the matter.
2. The Karachi Stock Exchange (Guarantee) Limited was incorporated under the Companies Act, 1913 (now Companies Ordinance, 1984) on March 10, 1949 as a company limited by guarantee. The Lahore Stock Exchange (Guarantee) Limited and Islamabad Stock Exchange (Guarantee) Limited were incorporated under the Companies Ordinance, 1984 on October 5, 1970 and October 25, 1989 respectively as companies limited by guarantee. The stock exchanges are registered to operate as stock exchanges under the provisions of the Securities and Exchange Ordinance, 1969 and the Securities Act, 2015. Later, in compliance with the Act, the stock exchanges were corporatized and demutualized with effect from August 27, 2012 as companies limited by shares. The registered stock exchanges provide services to the



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issuers of listed securities for listing and trading platform for trading of such securities. The detail of securities listed at the transferor stock exchange and the status of trading of securities at their trading platforms are discussed in more detail in the ensuing paras.

3. The KSE, ISE and ISE vide letters dated October 29, 2015 and October 30, 2015 respectively, under section 17(1) of the Act submitted schemes of integration of KSE with ISE and KSE with ISE (collectively referred to as "the schemes") to the Commission specifying the below given purposes. In addition to identifying their purposes and objectives, the schemes specify various substantial benefits of the proposed integration for all the stakeholders and seek to allay anti-competitive concerns. In this regard, the operative parts of the schemes are reproduced below:

Quote:

Purpose of Scheme of Integration

This Scheme of Integration shall afford benefits to the capital markets in general and investors in particular and also add shareholder value for Shareholders of the Successor Exchange, inter alia, for the following reasons:

The Exchanges would stand integrated to enable a purposeful consolidation of trading and listing services across the country. The integration is consistent with regional and international trends.

The resultant economies of scale shall bring in greater efficiency in the administration, maintenance, governance, regulatory supervision as well as rationalisation of costs associated with core exchange functions, and provide added benefit to the issuers who will be assured consolidated regime governing listing duly regulated by the Commission.



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Shareholder value of the Successor Exchange may be enhanced significantly thereby increasing prospects of strategic investment, including foreign direct investment, in the post de-mutualization/integration scenario as noted in Section 1.2 above.

The financial position of the Successor Exchange may be bolstered thereby rendering improved liquidity and also provide greater comfort to investors.

TRE Certificate Holders of Transferor shall become TRE Certificate Holders of the Successor Exchange at no additional cost or expense to them, and are intended to have access to a much larger pool of liquidity and opportunity for efficient price discovery.

Incongruent base minimum capital requirements across the country shall stand rationalised thereby affording level playing field to all TRE Certificate Holders.

The emergence of a single securities market shall be in the best interests of the investors and the general public. This market will also foster high standards of professionalism among market participants for the eventual growth of the domestic capital market.

Consistent with the provisions of the Act, and subject to regulatory approvals to be procured in due course, the Successor Exchange shall be enabled to list its own securities, and the investors would enjoy benefits attaching thereto.

The proposed Scheme will enable optimal utilization of available resources; rationalization of overlapping facilities, infrastructure and regulatory mechanism; improve overall competitiveness of the business at the national as well as regional level; and help the Successor Exchange to better face the current and future challenges and opportunities.



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The Transferor would be well poised to conduct business as a non-banking finance company and contribute to the development of the national economy, thereby enhancing prospects, including shareholder value, for the Transferor.

Enhancement of Competition

The contemplated integration, from a competition law perspective, benefits competition and allays any anti-competitive concerns, as indicated below:

Contribute substantially to the provision of services

The proposed integration is most likely to produce a number of efficiency benefits, which can accrue directly or indirectly to the users of the integrated exchange; intermediaries (brokers), final investors and issuers (listed companies).

The integration process would also increase the liquidity of the Successor Exchange and, therefore, reduce the implicit costs of trading for investors by centralizing the trading activities. It will reduce bid-ask spreads insofar as it helps intermediaries to defray fixed order processing costs, namely, the costs of access to the trading platform and of maintaining a continuous market presence; reduce adverse-selection costs, due to the presence of informed traders; reduce the inventory-holding costs of market makers.

The proposed integration is likely to have a positive impact on volume through increased trading.

Accessing a single trading platform instead of two (or more) allows market professionals to save on the hardware, software and focus on more skilled human capital.

Such efficiency is Integration-specific



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The proposed integration would directly benefit the users and final investors in several ways, such as: apart from broadening trading opportunities for brokers' and investors by offering them access to national level securities market.

The harmonization of rules and procedures across the Pakistan markets would simplify TREC Holders' processes and operations. For large TREC Holders, who are already active on the different exchanges, single trading platform would provide the opportunity to rationalize their trading policy and, to rationalize their back-office function by concentrating these operations in a single location and more broadly, to re-organize their trading activities and the staff resources required to perform these operations can be reduced.

The proposed integration ensures continuation of business by TRE Certificate Holders, who would have been at risk on account of consequent inability to encourage strategic investment. Considering the market depth and potential enhanced trading volumes, the proposed integration offers TRE Certificate Holders of the Transferor to continue playing an effective role in developing the core stock exchange business.

Presently, each market has varying trading rules (e.g., specific trading hours or local rules, base minimum capital or paid up capital requirements). The proposed integration intends to offer the TRE Certificate Holders of the Transferor an opportunity to trade at national level securities exchange.

Also, smaller markets tend to deter large foreign investors from participating in these markets. Following integration, all markets would use the same rules, thus eliminating an obstacle to foreign investment. The proposed integration would result in a liquid market, thus leading to lower volatility.



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Benefits outweigh lessening of competitors in the market

The benefit of integration is that it would allow all TRE Certificate Holders direct access to a national level securities market. Integration would avoid the previous intermediation costs and with harmonized trading rules resulting in TREC Holders benefitting from reduced internal operating costs. The wider range of trading opportunities would result in greater inter-broker competition.

The integration of exchanges eliminates the duplication of costly infrastructure, thus reducing the average cost of processing a trade. Additionally, in the post-integration scenario, listing fee regime shall be rendered uniform across the country under supervision of the Commission.

Without prejudice to the respective positions of the parties in the matter, the Competition Commission of Pakistan has already given its explicit observation in the matter of M/s Karachi Stock Exchange (Guarantee) Limited (File No. 12/ISE/Sec.3/CCP/2007) that the subject matter of competition in the securities market is that the 'members' (TREC Holders) of stock exchange compete with each other for trading orders and nothing else. Furthermore, the Competition Commission of Pakistan itself has a stated position that a unified trading platform (as would also be the outcome of this proposed integration) will result in numerous benefits to the investors in terms of greater liquidity, better price discovery, security and greater transparency in terms of entire transaction being documented and traceable. Moreover it discourages the practice of "arbitrage". In proposing the integration, there is a clear recognition of the principle that insofar as competition aspects in mergers/ integration are concerned, focus remains to protect competition and not the competitors.

Unquote:



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4. The Commission on November 2, 2015 in exercise of its powers under section 18(1) of the Act granted its in-principle approval to the schemes ("in-principle approval") based in part on the representations made by the stock exchanges, through legal opinions furnished by them, that the schemes, which contemplated the partial merger of LSE and ISE with KSE whereby LSE and ISE would transfer all their assets, undertakings and liabilities relating to the stock exchange business to KSE and their market places and facilities would cease to exist, would not violate section 17(1) of the Act.
5. The Commission noted that the schemes were submitted in due compliance with section 17(2) of the Act and had been approved by special resolutions of the shareholders in extraordinary general meetings held by KSE on October 26, 2015 and LSE on October 28, 2015 and annual general meeting of ISE on October 27, 2015. The scheme was approved unanimously by the shareholders of KSE and ISE with a total number of 74 shareholders holding 110,603,657 shares constituting 34% of total voting rights being present at the KSE's extraordinary general meeting and 68 shareholders holding 73,042,380 shares constituting 50% of voting rights at the ISE's extraordinary general meeting. LSE approved the scheme with a total participation of 53 shareholders holding 44,224,291 shares constituting 34% of voting rights with one dissent by M/s. Zafar Securities (Pvt.) Ltd. represented by Syed Asim Zafar holding 843,975 shares which constitute 0.658% of LSE's total shareholding.
6. During the process, the Commission ensured that the stock exchanges complied with the procedures detailed in the Stock Exchanges (Corporatisation, Demutualization and Integration) Regulations, 2012 ("the Regulations"). Accordingly, in terms of requirements of regulation 11(2) and regulation 11(3) of the Regulations, the stock exchanges submitted the following information and documents along with the schemes:

Under regulation 11(2):

(a) *identification of undertaking including proposed treatment thereof;*



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- (b) *terms of integration agreed between the transferor and successor exchanges;*
- (c) *details of creditors of the stock exchanges;*
- (d) *details of material contracts and contingent liabilities of the stock exchanges;*
- (e) *treatment of assets, undertaking and liabilities;*
- (f) *treatment of registered TRE Certificate Holders, employees and other stakeholders;*
- (g) *details of companies listed on the stock exchanges;*
- (h) *details of trust funds, demands, claims, liabilities including contingent liabilities etc.; and*
- (i) *details of outstanding investor claims, settlements and awards, if any.*

Under regulation 11(3):

- (a) *certified true copy of the special resolution of the shareholders of each stock exchange passed to approve the proposed scheme of integration;*
- (b) *copies of the notice and Statement under Section 160 of the Companies Ordinance, 1984 along with minutes of the Extra-Ordinary General Meeting ("EOGM") in which the above special resolution is passed;*
- (c) *list of shareholders who attended the EOGM including the respective shares held by them;*
- (d) *list of dissenting shareholders who attended the EOGM along with the respective shares held by them;*
- (e) *financial statements, duly reviewed by the auditors, based on the limited scope not earlier than thirty days from the date of filing of the proposed scheme of integration; and*
- (f) *proposed names of the stock exchanges to be effective after approval of the scheme of integration.*

7. The Commission, thereafter in exercise of its powers under regulation 11(4) of the Regulations called for further information and documents from the stock exchanges, which were deemed to





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be an integral part of the schemes, relating to *inter alia* investor protection funds and clearing and settlement funds maintained by the stock exchanges, TRE certificate holders, listed companies and securities, employees, claims and complaints against TRE certificate holders, trading information, regulatory and statutory levies, revenues, assets etc. In response, the stock exchanges through various communications submitted the requisite documents and information to the Commission.

8. After the Commission's in-principle approval, the stock exchanges in compliance with the requirements of section 18(1) of the Act and regulation 11(5) of the Regulations and the Commission's instructions, published the schemes on November 7, 2015 in two English and two Urdu daily newspapers i.e. The News and Business Recorder, Nawa-e-Waqt and Daily Duniya, requiring the stakeholders to intimate directly to the Commission in writing, within the 15th day from the date of such publication, the reasons, if any, why the Commission should not approve the scheme of integration. The timeline for submission of objections was valid till November 22, 2015.
9. The authorized legal representatives of KSE, LSE and ISE on October 6, 2015 filed a pre-merger application in relation to integration of the three stock exchanges, before the Competition Commission of Pakistan ("the CCP"). The CCP concluded its phase I review vide order dated October 22, 2015. Subsequently, the CCP vide its order dated November 27, 2015 in the case: 757/Merger-CCP/15 while concluding the phase II review of the pre-merger application jointly submitted by KSE, LSE and ISE under section 11 of the Competition Act, 2010 passed an order approving integration of the three stock exchanges subject to some conditions. The relevant paras of CCP order are reproduced below. The CCP through its said order also made some recommendations to suggest measures that Commission should take in the post-merger scenario.

Quote:

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Para 65. In view of the analysis above, we are of the considered opinion that the proposed transaction does not substantially lessen competition in the relevant market. Furthermore the efficiencies to be gained by the proposed transaction far outweigh the possible anticompetitive effects which may result from the elimination of competitors from the market. It is pertinent to mention that the availability of ex-post facto remedies is also an influential factor in the Commission's determination. Nevertheless, some competition concerns remain to be addressed.

Para 66. The Commission is therefore approving the integration subject to the following conditions:

- i) Upon integration Pakistan Stock Exchange Limited must expedite its search for a strategic investors or financial institution for divestment of forty percent 40% of shares currently in the blocked account. The same must be carried out by Pakistan Stock Exchange Limited in terms of the provisions of the Demutualization Act within a period of one year from the date of integration, failing which the SECP must review the structure of Pakistan Stock Exchange Limited and require divestment and/or appropriate changes inter-alia to protect the interest of non-member brokers and to ensure that main objective of integration is duly served. The sale of twenty percent 20% of the shares of the integrated stock exchange to the public must also be carried out within the timelines specified.*
- ii) Pakistan Stock Exchange Limited shall establish the proposed SME counter within one year, with a view to facilitate the listing of SMEs on reasonable terms and conditions.*
- iii) More than fifty percent of the directors on the board of Pakistan Stock Exchange Limited shall be independent and shall be nominated/approved by the SECP until the divestment is made to the strategic investor.*

Unquote:



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10. The Commission for purposes of this order places on record the objections received from the following stakeholders who availed the opportunity of hearing:

- i) One shareholder of LSE, i.e. M/s. Zafar Securities (Pvt.) Ltd. represented by Syed Asim Zafar, recorded its dissent to the scheme of integration between KSE and LSE in the shareholders meeting held on October 28, 2015;
- ii) During the period within which stakeholders' objections were solicited, the Commission received a letter dated November 17, 2015 signed by 72 employees of LSE objecting to the scheme of integration between KSE and LSE.

11. The Commission in order to provide a reasonable opportunity of hearing to the objectors held a hearing on December 7, 2015 for the objecting shareholder of LSE - M/s. Zafar Securities (Pvt.) Ltd. represented by Syed Asim Zafar, and on December 10, 2015 to the objecting employees of LSE. Syed Asim Zafar did not attend the hearing scheduled before the Commission on December 7, 2015, whereas KSE was represented by its Deputy Managing Director and LSE and ISE by their respective Managing Directors (MD). The Commission noted that the hearing notice was duly received on December 3, 2015 by Mr. Shehzad - Branch Manager of M/s. Zafar Securities (Pvt.) Ltd. The Commission further noted that it had not received any request for adjournment of hearing from Syed Asim Zafar, nor did he communicate any objections to the Commission on the integration scheme during the period it was open for stakeholders' objections. Thereafter, Syed Asim Zafar vide his e-mail at 17:25 on December 7, 2015 communicated the reasons for his dissent as quoted below and said that if the reasons of his dissent required any further explanation, the Commission may reschedule the hearing on any other convenient day and time.

Quote:

- i) *The recent agreement between Pakistan and China regarding the economic corridor sets great opportunities for small and medium sized companies to get listed on a smaller*



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stock exchange. Lahore, being at the center of much activity in the future, and Lahore Stock Exchange (LSE), being a regional exchange, could have played a very vital role in the development and listing of such companies. Moreover, I feel regional companies would have been more comfortable to deal with a local exchange.

- ii) Since its inception in 1971, LSE has served the whole of Central and Northern Pakistan. Its members (now shareholders) have strived very hard for its development and the success of the capital markets. In all these years, they have built a very important brand name. However, they have not been given any representation in the formation of the Pakistan Stock Exchange. In my opinion, the shareholders' interest has not been fully protected.*
- iii) I believe that if LSE were allowed to function, our shareholders and independent management could have made this into a very robust and efficient exchange. We would have brought in a lot of new listings, our volumes would have increased and so would have our profitability.*
- iv) Our ability to adapt to changes quickly and our young and energetic leadership would have created a healthy competition among exchanges. This would have kept all the stakeholders satisfied.*

Unquote:

The Commission, while noting that he did not attend the hearing fixed for December 7, 2015, based on his above email granted him a second opportunity and fixed a hearing for December 10, 2015 which was communicated to him vide the Commission's letter of December 8, 2015. Subsequently, Syed Asim Zafar vide another e-mail dated December 9, 2015 at 14:22 intimated that he would not be able to appear for the hearing on December 10, 2015 due to prior commitment and requested for the said hearing to be postponed till sometime the next week. Yet again the Commission taking into consideration his request granted him a third and final opportunity of hearing scheduled for December 14, 2015.



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Syed Asim Zafar appeared before the Commission for the hearing on December 14, 2015. MD KSE (through Video Conference facility), Deputy MD KSE and MD LSE were also present for the hearing proceedings. Syed Asim Zafar communicated that his comments were general in nature and not objections as such. Accordingly, the Commission noted that there was nothing on record communicated by him indicating that the scheme of integration submitted by LSE and KSE were prejudicial to his rights and interest as a shareholder of LSE. Moreover, the Commission noted that his observations were related to his expectations as to what LSE's role and performance could be in the future.

The Commission further briefed him on its perspective on integration and the benefits that are expected to be gained as a result of divestment of shares to strategic investors, in particular access to advanced technology and improved governance. The Commission also shared its views on ensuring in future that the successor stock exchange's (also referred to as the Pakistan Stock Exchange Limited (PSX) board of directors has national level representation. It was further stated that a centralized and more liquid trading platform will benefit all stakeholders and will support the Commission's approach towards encouraging larger number of brokers which are local and contribute towards outreach of the market.

The MD LSE also acknowledged the Commission's support in facilitating continuity of business of LSE and its brokers at the successor stock exchange.

The MD KSE assured that KSE intends to fully support the transferor stock exchange's brokers and will take them along in the best commercial interests of the successor stock exchange.

At the conclusion of the hearing, Mr. Zafar agreed that the integration proposed by the stock exchanges was in the interest of the market and appreciated the Commission's views. He further extended his support for the ongoing process of integration. Considering the same, the hearing proceedings were concluded by the Commission.



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12. On December 10, 2015 an opportunity of hearing was provided to 72 employees of LSE who had expressed concerns to the Commission on November 17, 2015 regarding uncertainty about future operations of LSE and its impact on employees, and inaction regarding future treatment of employees. However, only 17 individuals appeared before the Commission. The MD LSE was present in-person while the, MD KSE and Deputy MD KSE were in attendance through video conference facility. MD LSE explained that all employees concerned with the undertaking of LSE had been offered employment contracts while the remaining employees had either accepted severance packages or had been retained for the surviving entity of LSE, excluding any employee who had already resigned. Out of the 17 individuals, three (3) employees concerned with the undertaking had already been offered contracts of employment by KSE effective the date of integration. They were apprehensive that considering the nature of their work their employment may be discontinued in future by PSX. However, the MD KSE explained that these employees would constitute an integral part of the team and would be utilized in various areas within the company. Upon satisfaction of these individuals, the matter stood resolved and the Commission called upon 12 individuals who had been offered severance packages by LSE. These individuals had accepted the severance package and accordingly received the corresponding cheques and signed documents on December 03, 2015 declaring that they have received full and final settlement of their dues in relation to their services with LSE and that with this full and final settlement, they have no claim against LSE whatsoever. In view thereof, the Commission had granted such ex-employees an opportunity of hearing, although they were no longer stakeholders, to determine whether they had accepted the severance under any duress. Considering a positive response from all 12 individuals, the Commission called upon an employee of LSE not concerned with the undertaking who had not been offered severance by LSE. While he had been offered employment by LSE, he expressed the desire to avail the severance package. In view thereof, MD LSE was ordered to resolve the matter and offer him severance package. The last individual appeared before the Commission. He explained that he had not been offered any severance by LSE. However, it transpired during the course of the proceedings that he had tendered his resignation to LSE and accordingly pursued employment



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elsewhere before the severance package was offered. Considering that he was no longer an employee of LSE and therefore a stakeholder, the Commission concluded the hearing proceedings.

- 13. The Commission while evaluating proposals for integration of the stock exchanges had the following considerations vis-à-vis the purpose and benefits of integration specified in the schemes:**

Section 3.1 of the schemes: *The Exchanges would stand integrated to enable a purposeful consolidation of trading and listing services across the country. The integration is consistent with regional and international trends.*

The proposed integration of the stock exchanges is consistent with global practices. After being demutualized, most exchanges have revisited their commercial strategy to improve viability and enhance business prospects. Exchanges have generally opted to consolidate, merge and/or integrate their domestic markets; and build alliances by establishing cross-border linkages with other exchanges. In-country mergers have taken place in Singapore, Hong Kong, Australia, Malaysia, Indonesia, India and Turkey. Historically, the Central Government of India/Securities and Exchange Board of India (SEBI) had granted recognition to 25 stock exchanges. However, after emergence of nationwide trading terminals, developments in technology and abolition of compulsory listing in regional stock exchanges, trading on stock exchanges was concentrated in two exchanges namely, Bombay Stock Exchange Limited and National Stock Exchange of India Limited. SEBI observed that the smaller/regional stock exchanges which did not have trading at their own platform became defunct due to lack of sustainable operations. Accordingly, SEBI on December 29, 2008 formulated an exit policy which permitted the stock exchanges to exit from functioning as a stock exchange while retaining their movable and immovable assets, subject to compliance with certain conditions. This exit policy was subsequently reviewed and revised on May 30, 2012 to inter-alia include, that the stock exchanges having annual trading turnover on their own platform of less than INR1000 crore



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can apply to SEBI for voluntary surrender of recognition and exit at any time before the expiry of two years from the date of policy, failing which SEBI could proceed with compulsory exit of such stock exchanges. Therefore, all the de-recognized/non-operational stock exchanges voluntarily or compulsorily exited from the business of a stock exchange. Accordingly, the SEBI led efforts have reduced the number of stock exchanges substantially.

Section 3.2 of the schemes: *The resultant economies of scale shall bring in greater efficiency in the administration, maintenance, governance, regulatory supervision as well as rationalisation of costs associated with core exchange functions, and provide added benefit to the issuers who will be assured consolidated regime governing listing duly regulated by the Commission.*

Technological advancements have made geographical trading boundaries irrelevant in terms of access, efficiency and reliability and support development of a unified stock exchange providing geographically neutral trading facilities throughout Pakistan regardless of location. Centralized clearing and settlement services are already offered by the National Clearing Company of Pakistan Limited ("NCCPL"), and the Central Depository Company of Pakistan Limited ("CDC") has been providing electronic settlement of book-entry securities transactions for all stock exchanges of the country regardless of geographical confines. Thus having a single stock exchange to provide trading facilities in the country would enable efficiency in operations by eliminating duplication of products and services thereby reducing redundancies. Further, the governance of the stock exchange would be stronger with qualified, knowledgeable and independent directors on the board and a well-functioning management. With only one stock exchange in the country regulatory supervision would be more focused.

For listed companies the impact of integration can be advantageous. The decision for a company to list on one and more-liquid exchange is based on the desire to reduce the cost of raising capital. These costs include direct costs of listing fees, as well as the indirect costs related to compliance with regulations. Currently, companies listed at KSE, LSE and ISE have to comply with the

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regulatory and disclosure requirements separately at all three stock exchanges as well as pay listing and annual fees at all three stock exchanges regardless of the trading activity that would be generated. Multiple listing at stock exchanges therefore results in increased cost both in terms of listing fee and regulatory compliance. With only one stock exchange, the companies with multiple listings would be required to pay listing fee at only one stock exchange thus reducing business costs. Dual listing may be beneficial in case where trading in the shares of a listed company is being generated at both the platforms independently and hence enhanced trading volume is produced. Historical patterns of trading activity of commonly listed companies at KSE, LSE and ISE reflect that trading in these have remained concentrated at KSE. Considering the fact that listing at a stock exchange with low turnover adversely affects a company's ability to achieve price discovery and also raise further capital, companies generally prefer to list at stock exchanges with higher liquidity. With regards to securities solely listed at LSE and ISE, they will experience an increase in trading volume due to wider outreach, greater visibility, and increased prominence.

Section 3.3 of the schemes: *Shareholder value of the Successor Exchange may be enhanced significantly thereby increasing prospects of strategic investment, including foreign direct investment, in the post de-mutualization/integration scenario as noted in Section 1.2 above.*

AND

Section 3.4 of the schemes: *The financial position of the Successor Exchange may be bolstered thereby rendering improved liquidity and also provide greater comfort to investors.*

With integration of the stock exchanges, all of the trading activity shall be centralized at the successor stock exchange. This will ensure financial viability of the successor stock exchange with a greater proportion of its income generated from its stock exchange related business. A stronger institution would enable the successor stock exchange to expand its operations across the country thus increasing the investor base and also attracting new issuers. This would not only increase liquidity in the market but also further strengthen the stock exchange's financial



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position. The prospects of attracting strategic investors and foreign investment would therefore increase.

Section 3.5 of the schemes: *TRE Certificate Holders of Transferor shall become TRE Certificate Holders of the Successor Exchange at no additional cost or expense to them, and are intended to have access to a much larger pool of liquidity and opportunity for efficient price discovery.*

In terms of the schemes, TRE certificate holders of LSE and ISE will become TRI certificate holders of the successor stock exchange without any cost and hence have direct access to a much more liquid trading platform. TRE certificate holders of LSE and ISE will be able to attract more clientele and benefit from their geographical location. Moreover, the benefits of not requiring a third party to execute the trades on their behalf would lead to increase in volumes based on lower brokerage fee. If integration of Borsa Istanbul is taken as a reference point, where the trading volumes hit all time high post integration, it can be expected that the TRE certificate holders will experience an increase in business. Further, TRE certificate holders of LSE and ISE would also gain access to a more diversified products base, especially the derivatives segment and debt market.

Section 3.6 of the schemes: *Incongruent base minimum capital requirements across the country shall stand rationalised thereby affording level playing field to all TRE Certificate Holders.*

This is discussed in detail in later paras of this order.

Section 3.7 of the schemes: *The emergence of a single securities market shall be in the best interests of the investors and the general public. This market will also foster high standards of professionalism among market participants for the eventual growth of the domestic capital market.*



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Trading volumes and a deeper order book make it easier to transact in a particular security with a reduced bid-ask spread and lower impact cost. This also facilitates investors desiring to sell their securities quickly and efficiently and therefore investors generally prefer trading at stock exchanges that are more liquid. Currently, investors/clients of LSE and ISE brokers pay additional cost to have their orders executed through KSE brokers considering the concentration of trading activity at KSE. A single platform would therefore address factors relating to equal access, price discovery and competition between brokers, leading to best execution of orders for investors irrespective of geographical location with lower commissions and reduced transaction costs. Further, this would limit the risk associated with inter-exchange broker-to-broker (BtB) trading.

Section 3.8 of the schemes: *Consistent with the provisions of the Act, and subject to regulatory approvals to be procured in due course, the Successor Exchange shall be enabled to list its own securities, and the investors would enjoy benefits attaching thereto.*

Although, corporatisation and demutualization of the stock exchanges has been achieved, the Act specifies a number of steps to be taken in order to fully realize the purpose, objective and spirit of demutualization. These include divestment of 60% of the stock exchanges' shares with up to 40% to be sold to strategic investor(s), i.e. stock exchanges, depository companies, derivative exchanges and clearing houses, and not less than 20% to be issued to the general public through an Initial Public Offer (IPO). The Commission in exercise of powers conferred upon it under section 12(1) of the Act issued directives to the KSE, LSE and ISE vide letter dated August 26, 2014 for above divestment. The Commission vide its letter dated February 11, 2015 based on the exchanges' request extended the timeline for IPO by a period of six months from the timeline specified vide earlier directive of August 26, 2014. The three stock exchanges have been in contact with various international exchanges for divestment of stake to strategic investors. However, the same has yet not materialized. The KSE had been relatively at an advanced stage of negotiation with a prospective international strategic investor which has made integration of local



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stock exchanges one of the conditions of its offer. Both the smaller stock exchanges i.e. LSE and ISE with meager trading activity/revenues have been unable to attract any strategic investor till date. With integration the successor stock exchange would be in a much better position to not only divest its shares to a strategic investor, but also offer its shares to the general public.

Section 3.9 of the schemes: *The proposed Scheme will enable optimal utilization of available resources; rationalization of overlapping facilities, infrastructure and regulatory mechanism; improve overall competitiveness of the business at the national as well as regional level; and help the Successor Exchange to better face the current and future challenges and opportunities.*

Integration of the stock exchanges is expected to result in a reduction in fragmentation of the market while increasing efficiency through achieving economies of scale. This would also lead to an increase in synergies within the local market structure as well as enhance access to regional and global markets. With one stock exchange providing all the services and products, duplication would be eliminated thus reducing costs to the market.

Section 3.10 of the schemes: *The Transferor would be well poised to conduct business as a non-banking finance company and contribute to the development of the national economy, thereby enhancing prospects, including shareholder value, for the Transferor.*

The schemes propose that after integration of KSE with LSE and KSE with ISE, the surviving entities of the transferor stock exchanges i.e. LSE and ISE shall continue to exist as public limited companies under the Companies Ordinance, 1984, entitled to undertake business as Non-Banking Finance Companies (NBFCs). The LSE has opted to function as investment finance company and ISE as a Real Estate Management Company. This model of integration should be favorable for the existing shareholders of LSE and ISE as they shall continue to receive benefits from the operations of surviving entities/NBFCs. These companies would also add towards development of the domestic capital market.

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14. The Commission further had the following additional considerations:

14.1 Trading Activity at the stock exchanges:

To determine the way forward for our capital market, it is essential to consider Pakistan's stock exchanges from a business viability perspective. Since the business model is best understood after greater insight into the trading pattern and contribution of each stock exchange to the total market volumes, accordingly, information with regards to trading activities and revenue generation were obtained from the stock exchanges as summarized below:

Stock Exchange	Traded Volume (%age)			Traded Value (%age)		
	2014-15	2013-14	2012-13	2014-15	2013-14	2012-13
KSE	99.73%	99.41%	99.10%	99.91%	99.81%	99.65%
LSE	0.25%	0.55%	0.87%	0.08%	0.18%	0.34%
ISE	0.02%	0.04%	0.03%	0.01%	0.02%	0.01%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

From the analysis of trading data provided by the stock exchanges it is evident that historically, trading volume has been concentrated at KSE as the more liquid trading platform. While KSE's share of trading volume has varied over time, it has mostly remained responsible for over 99% of the trading activity in the preceding three years, whereas share of the transferor stock exchanges in annual trading activity is less than one percent combined. It has also been observed that the trading activity on LSE and ISE has been consistently shrinking.

It may be noted that a certain percentage of the volumes at KSE are due to trades generated by broker of LSE and ISE by routing orders to KSE through brokers of KSE and subsequently

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settled by respective brokers of LSE or ISE using the BtB functionality provided by the NCCPL. Though there is no role of the transferor stock exchanges in such trades, however since such trades are generated by the brokers of transferor stock exchanges, an analysis of the BtB transactions is carried out based on the following data furnished by NCCPL:

In comparison with total trade activity at KSE:						
Stock Exchange	Traded Volume (%age)			Traded Value (%age)		
	2014-15	2013-14	2012-13	2014-15	2013-14	2012-13
LSE	3.86%	4.27%	4.96%	1.80%	3.52%	7.03%
ISE	1.36%	1.33%	1.69%	0.60%	1.21%	2.62%
Total	5.22%	5.60%	6.65%	2.40%	4.73%	9.65%

From the above, it is noticeable that the share of BtB transactions with respect to the total trading activities is very low and reached 5.22% of total transaction volume and 2.40% of total transaction value of KSE in 2015, respectively. It is important to note that the share of total BtB transactions is also continuously decreasing, thereby supporting the view that this model of trading is not sustainable. Hence, it may be concluded that even considering the BtB contribution, the KSE is currently responsible for over 90% of trading volumes.

Considering the business model of the stock exchanges, the Commission conducted detailed analysis of revenue break-up provided by the transferor stock exchanges in respect of stock exchange business and non-stock exchange business. Revenues from stock exchange business have been calculated by considering revenue from listing fee, trading fee and non-trading fee whereas classification of non-stock exchange revenue has been made based on revenue generated from profit on deposits and investments, rental income/gain on sale of property, management fee, share of profit from associates, other income. The analysis is depicted below:



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Stock Exchange	Core Revenue (%age)			Non-Core Revenue (%age)		
	2014-15	2013-14	2012-13	2014-15	2013-14	2012-13
LSE	30%	37%	37%	70%	63%	63%
ISE	25%	22%	2%	75%	78%	98%

A glance at the above makes it clear that continued survival of the transferor stock exchanges is heavily dependent on the income generated from their non-core business activities. It also highlights that in attempts to compensate for low revenue from core activities and explore other revenue generating alternatives, the transferor stock exchanges are relying on generating income from non-core business activities and ISE appears to have shifted its focus to property business. This situation raises alarm regarding lack of efforts and intent of the stock exchanges for improving the infrastructure and state of technology in our capital markets.

This also indicates that the issuers being listed at LSE and ISE are not getting any secondary market benefit despite paying annual listing fee. The analysis further depicts that the transferor stock exchanges are not functioning as stock exchanges in their true sense, as their major revenue generating efforts are focused on activities other than their core function i.e. to provide a viable platform for capital generation and investment alternatives.

Globally, exchanges have expanded through product diversification backed with research regarding the most feasible and commercially viable product models, expanding market outreach and technological advancements. Stock exchanges globally, have traditionally derived income from listings, trading services, membership fees and sale of market information.

At the time of demutualization in terms of requirements of section 4(1) of the Act, the stock exchanges submitted detailed five year development plans to the Commission. The business plans of the three stock exchanges conveyed an acceptance and realization regarding the need

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for exploring avenues to increase liquidity, enhance the investor base, engage in greater market development efforts and pursue avenues for ensuring alternate sources of income. The Commission observed that while KSE did show some progress on certain aspects, LSE and ISE despite lapse of over three years failed to deliver any realizable progress on the envisaged measures and the targets and timelines as contained therein.

14.2 Competition in Market:

The Commission considered the matter from competition perspective in light of the CCP order of November 17, 2015 in the case: 757/Merger-CCP/15 in paras 21, 23, 36, 37 and 38 which supports the Commission's analysis, in relation to the performance of LSE and ISE vis-à-vis KSE. The CCP order reinforces the Commission's stance that historically KSE has been the dominant exchange, in terms of trading volumes, turnover, market capitalization, number of listed companies and products offered to investors. UTS - the combined trading platform of LSE and ISE has also not been able to pose a competitive threat to KSE. Further, LSE and ISE can be categorized as non-performing stock exchanges based on their operational and financial performance. The Commission therefore views that the integration route would provide the non-performing stock exchanges an opportunity to exit while they shall continue to exist as public companies and pursue business of non-banking finance companies.

14.3 Historical perspective:

The formal process of corporatisation and demutualization of the stock exchanges was initiated under the Asian Development Bank's Financial (Non-Bank) Markets Governance Program (FMGP) 1st tranche conditions in year 2002-2005. The policy matrix in its 1st and 2nd tranche conditions included demutualization/integration of stock exchanges. The Commission on February 17, 2004 had set up an Expert Committee, comprising of national and international securities market experts, to examine the feasibility of demutualization, integration and transformation of the stock exchanges. The Expert Committee while presenting

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two models for demutualization recommended a fully integrated, demutualized stock exchange. It suggested that the process of integration and demutualization should take place simultaneously and should be enforced through the enactment of a special law/legislation. Additionally, it recommended that the decision for both demutualization and integration should be taken by the Commission, as the two processes have implications on the interest of investors.

In this context, the Commission also considered a proposal of LSE for formation of a wholly owned subsidiary that would acquire TRE certificate of KSE. The Commission also evaluated this proposal in the context of both local market considerations and international experience. Similar subsidiary model was followed in India and experience reflects this model did not contribute towards generating trading activity on the exchanges' own trading platform which opted for trading rights of the more active exchange. In fact such exchanges with low trading volumes were categorized as 'non-performing stock exchanges' and their licenses were eventually derecognized by the regulator. The LSE's proposed model would have resulted in generation of more trading activity at KSE but not at the LSE.

15. In addition to above considerations, the Commission weighed the expected benefits of integration to the following additional stakeholders:

15.1 Government of Pakistan:

Over the years, the Government of Pakistan ("GOP") has played a critical role in the development of capital markets in Pakistan through various measures under fiscal and privatization policies making it one of the key stakeholders in the stock markets. In the early 90's investment by foreigners in stock markets was allowed on equal basis with local investors under the liberalization policy of GOP. Special Convertible Rupee Account was introduced to facilitate foreign investors to move funds without any prior permission. Under the privatization policy



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since early 1990's a host of transactions have been completed through primary and secondary offerings. Accordingly, 24% of current market capitalization has been contributed by GoP.

On the fiscal side, GOP has given incentives for listing on a stock exchange in shape of tax differential which led to a boom in listings in early to mid 1990's; even today there is tax advantage for a company for listing at a stock exchange. Investors in stock exchanges have also benefited from GOP fiscal measures; capital gain tax on trading at a stock exchange even though imposed back in 1973 was held in abeyance till 2010 and this measure greatly contributed towards bringing investors to the stock exchanges and increasing trading volumes. In addition to the above, investors were allowed tax credit on investment made in listed securities which continues to be available even today. Another major contribution of GOP in bringing investors to the stock exchanges has been through its institutions like National Investment Trust and Investment Corporation of Pakistan which played critical role in expanding outreach of stock exchanges. Lastly, demutualization process apart from legal enactment was facilitated by GOP through fiscal measures under which stock exchanges were exempted from capital gain arising due to conversion from a guarantee limited company to one limited by shares.

Integration of stock exchanges as explained earlier will increase liquidity and bring depth in the market; which will facilitate GOP to successfully execute ongoing privatization deals earmarked to be done through the stock market. Additionally, higher turnover is expected which would lead to increased tax revenue under different heads. On a long term basis an integrated stock exchange with brokers present throughout the length and width of the country will act as a catalyst to increase savings and channel these to investments for economic development. Furthermore, with the approval of the Act by the Parliament, the government intended to provide the stock exchanges with a framework for integration to smaller and/or non-performing stock exchanges an opportunity to grow or exit.

15.2 Employees



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Although employed in a highly specialized industry, employees of the transferor stock exchanges concerned with the undertaking were limited in terms of exposure to the stock exchange business activities. This inhibited their ability to acquire the unique capital market expertise and potential in comparison to being employed at a much more active and liquid stock exchange. The successor stock exchange, being a more liquid and vibrant market having greater focus on its stock exchange business would enable such employees to enter into mainstream activities and acquire specialist skills and expertise enabling better marketability, reputation, exposure and career progression.

16. Integration is expected to play a critical role in attracting strategic investors for development of the stock exchange and the capital market. Strategic investment will also enable technological partnerships with international counterparts of good repute. It is further expected to result in improved image building of our capital market and should assist in projecting a strong case for Pakistan for reclassification at the Morgan Stanley Capital International (MSCI), the global benchmark providers, which has included Pakistan in the upcoming 2016 Annual Market Classification Review for a potential reclassification to MSCI Emerging Markets (EM). The reclassification will assist in enhanced inflow of foreign institutional investment in the country.
17. The Commission expects that post integration the successor stock exchange will take additional measures for improved governance having national level representation on its board of directors; transparency and investor protection. It must strive to comply with all relevant principles of International Organization of Securities Commissions set to protect investors, to ensure fair, efficient and transparent securities markets and to reduce systemic risk. Emphasis should therefore also be on enhancing the capacity of successor stock exchange for introducing new products and market development reforms, coupled with investor education and building market outreach.



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18. Notwithstanding anything to the contrary contained in the by-laws, regulations, procedures or any other document of KSE, LSE and ISE for the time being in force, the following is ordered by the Commission to give effect to the schemes of integration:

18.1. Connectivity of TRE certificate holders and the successor stock exchange's trading system

- (i) The Commission after granting its in-principle approval to the schemes has been coordinating with KSE and other capital market infrastructure institutions to check their readiness for ensuring seamless connectivity and business continuity of all TRE certificate holders of LSE and ISE from the effective date of integration.
- (ii) As per the information provided by the stock exchanges, post-integration, trading system of the successor stock exchange will be based, operated and managed centrally in Karachi with disaster recovery set-up at Islamabad. TRE certificate holders of the successor stock exchange based in Lahore and Islamabad will accordingly be connected to the central trading system from their respective locations. The new arrangement gives rise to various potential connectivity issues due to remote location of TRE certificate holders based in parts of the country other than Karachi. With the automation of securities trading globally, the mechanics of trading have evolved significantly which entail higher dependency on electronic access to the centralized trading systems provided by the stock exchanges. Market participants expect efficient trading systems with minimal lag in data transfer to curtail the potential for arbitrage due to system inefficiencies. Accordingly, the successor stock exchange must ensure that while the trading system is provided at a centralized location, all participants have an equal access to the same and are treated at par with reference to service availability.
- (iii) As per section 9 of the schemes, the schemes shall not become effective until "*Satisfaction of the Commission that all TREC Holders of the Transferor (except those suspended) and*



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the Successor Exchange (except those suspended) shall have access to and are assured seamless and real time access to the trading system of the Successor Exchange so as not to cause any disruption of trading activity by any TREC Holder”

- (iv) Therefore, in order to ensure smooth operational transition and uninterrupted trading following integration of the stock exchanges, the matter of post-integration connectivity of Lahore and Islamabad based TRE certificate holders of the successor stock exchange, including other areas, is considered primarily with respect to sufficiency, latency, reliability, redundancy, security and performance of new connectivity set-up.
- (v) KSE has confirmed vide its e-mail communication dated December 1, 2015 that it has already deployed connectivity setup between Karachi and Lahore, Karachi and Islamabad, and Lahore and Islamabad. The TRE certificate holders of the successor stock exchange operating from within the buildings of the transferor stock exchanges have been connected through LAN. All other TRE certificate holders will be remotely connected in a similar manner as existing TRE certificate holders of KSE operating from outside the KSE building. Simultaneously, Lahore and Islamabad based TRE certificate holders will also have direct access to systems of the NCCPL and the CDC.
- (vi) KSE has further confirmed that it has established and tested connectivity with premises of the transferor stock exchanges through primary data circuit provided by the existing service provider. In order to further eliminate reliance on one service provider, alternate arrangements have been made by establishing secondary site to site connectivity between the said premises which will operate on the model devised for primary data circuit. All the TRE certificate holders of the transferor stock exchanges, who opted to test new system, have been provided with required IT related services enabling their participation in mock trading sessions since November 16, 2015. Confirmation of successful integrated system testing of the successor stock exchange, NCCPL and CDC has also been received from these entities. The transferor stock exchanges have also confirmed that they have reviewed

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and tested relevant systems and found them satisfactory. Additionally, KSE has confirmed provision of pre-production mock trading sessions for TRE certificate holders of the transferor stock exchanges prior to the effective date of integration.

- (vii) The transferor stock exchanges vide their e-mail communication dated December 9, 2015 and the successor stock exchange through its email of December 1, 2015 have considered third party verification to independently test and verify reliability, redundancy, security and performance of connectivity set-up. The successor stock exchange has provided final report for third party verification which has been confirmed by the transferor stock exchanges. For effective business continuity and disaster recovery following integration of the stock exchanges, KSE has confirmed that it has developed comprehensive business continuity and disaster recovery policy covering the basic policy, systems, procedures and other matters related to continuing business, in consultation with the transferor stock exchanges. This policy is also being implemented to ensure continuity of critical operations of the successor stock exchange during any disaster.
- (viii) While having considered the arrangements made by the successor stock exchange to adequately cover for aspects with respect to sufficiency, latency, reliability, redundancy, security and performance of new connectivity set-up, the Commission is of the view that this is an ongoing process and expects the successor stock exchange to continue to strive to improve availability of its services in the future. Thus, in order to ensure equal access to every TRE certificate holder of the successor stock exchange with adequate back-up arrangement, the successor stock exchange shall obtain qualitative certification of its connectivity set-up and acquire suitable business continuity management certification on periodic basis. The successor stock exchange shall also ensure that issues relating to sufficiency, latency, reliability, redundancy, security and performance of new connectivity set-up are adequately provided for in order to ensure smooth access to its trading system by all TRE certificate holders.

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18.2. Treatment of Funds maintained by the stock exchanges for investor protection, and clearing and settlement of trades

- (i) As per section 6.17 of the schemes, *"All claims relating to the dealings on the Transferor prior to the Effective Date shall continue to be handled by the Transferor, and shall be met out of the corresponding trust funds established by the Transferor in accordance with the terms of the trust funds"*
- (ii) In order to enhance investor protection and ensure continuity of clearing and settlement of trades, including protection of TRE certificate holders for such purpose, each stock exchange presently maintains its separate investor protection funds and clearing and settlement protection funds ("fund" or "funds" as the context requires), under different names, through trusts.
- (iii) Since inception, the objectives of these funds have primarily been to provide requisite protection to the market and its participants, and to consistently serve as a source of stability and recourse in times of distress. Considering that the stock exchanges are being integrated pursuant to this order, it is important to provide adequate treatment for these funds and especially the funds created and maintained by the transferor stock exchanges.
- (iv) The Commission, in the best interest of the market and to ensure protection of investors' interest, has concluded that the future treatment of these funds should be aligned both with the intended objectives for which the same were created and the spirit of the applicable laws and trust deeds. Since TRE certificate holders of the transferor stock exchanges are becoming TRE certificate holders of the successor stock exchange and would continue to actively participate in trading activities, it is essential that requisite safety nets continue for the market.

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- (v) Given the critical role of these funds towards protection of public interest and the greater interests of the capital market, the Commission has concluded allowing the funds to exist in their present structure and form, to be maintained and managed in the manner as prescribed by the Commission in the Regulations. The transferor stock exchanges and their respective TRE certificate holders shall not have any right of claim whatsoever against the funds presently maintained by the transferor stock exchanges, except as otherwise intended in the objectives for creation of the funds i.e. to protect investors and ensure continuity of clearing and settlement of trades, as the case may be, and as required in applicable laws.

18.3. Treatment of claims and complaints against TRE certificate holder of the transferor stock exchanges

- (i) As per section 6.16 of the schemes:

"All pending claims in respect of any violation by any TREC Holder of the Transferor or relating to the dealings on the Transferor prior to the Effective Date shall be determined in accordance with the directions of the Commission"

- (ii) For the purpose of this part:

a) "Claims" means investor claims against defaulted broker(s) i.e. a broker who was expelled from membership or whose TRE certificate was or is cancelled or forfeited by the transferor or successor stock exchange, as the case may be.

b) "Complaints" means investor complaints against the TRE certificate holder of the transferor stock exchange.

- (iii) The TRE certificate holders of the transferor stock exchanges shall become TRE certificate holders of the successor stock exchange pursuant to this order. Thus, it is essential to provide adequate treatment for claims and complaints of investors against TRE certificate



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holders of the transferor stock exchanges regarding trade related dealings at the transferor stock exchanges prior to the effective date of integration.

(iv) **Lahore Stock Exchange Limited**

As per information provided by LSE under the Act and the Regulations, the status of outstanding investor claims/complaints against its brokers as on November 27, 2015 is as under:

a) **Outstanding Claims**

3,455 investor claims against 14 defaulted brokers of LSE are pending involving an amount of Rs.2.181 billion.

b) **Outstanding Complaints**

There are 7 investor complaints pending against 6 brokers of LSE. Out of these 7 complaints one is pending for adjudication before the court, 2 are in arbitration process, one is pending with the Federal Investigation Agency whereas the remaining 3 are being investigated and/or reviewed by the stock exchange and/or the Commission.

(v) **Islamabad Stock Exchange Limited**

As per information provided by ISE under the Act and the Regulations, the status of outstanding investor claims/complaints against its brokers as on November 27, 2015 is as under:

a) **Outstanding Claims**

2,024 investor claims against 17 defaulted brokers of ISE are pending involving an amount of Rs.577.04 million out of which Rs.118.404 million has been paid whereas Rs.458.638 million is still outstanding.

b) **Outstanding Complaints**

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There are 7 investor complaints pending against 6 brokers of ISE. Out of these 7 complaints, 4 are pending for adjudication before the court, one is in arbitration process whereas the remaining 2 are being investigated and/or reviewed by the stock exchange and/or the Commission.

(vi) Treatment

All outstanding claims and complaints against any ex-TRE certificate holder/ex-member of a transferor stock exchange at the time of integration and any future claim and complaint against any of the TRE certificate holder of a transferor stock exchange on the effective date of integration, pertaining to dealing in securities being TRE certificate holder of transferor stock exchange prior to the effective date of integration of the stock exchanges shall be dealt with in the following manner:

Complaints

- a) All existing and future complaints against TRE certificate holders regarding trade related dealings at the transferor stock exchange prior to the effective date of integration shall be handled by the Funds Committee, constituted by the Commission, in the manner as prescribed in the Regulations. In case of non-compliance by TRE certificate holder of the transferor stock exchange, who by virtue of integration becomes TRE certificate holder of the successor stock exchange, with an arbitration award passed by the Funds Committee, enforcement action(s) including but not limited to suspension, forfeiture and cancellation of TRE certificate against such TRE certificate holder shall be carried out by the successor exchange as prescribed in the Regulations.
- b) Appeals against an arbitration award passed by the Funds Committee may be filed with the Commission as prescribed in the Regulations.

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Claims

- a) All existing outstanding claims as on the effective date of integration of the stock exchanges shall be handled by the Funds Committee, constituted by the Commission, in the manner as prescribed in the Regulations.
- b) All claims arising or received, as the case may be, after the effective date of integration of the stock exchanges against TRE certificate holders of transferor exchange who by virtue of integration become TRE certificate holders of successor exchange, relating to business prior to the effective date of integration of the stock exchanges shall be handled by the successor stock exchange in the manner prescribed in the Regulations.

(vii) **Duties of transferor stock exchanges**

- a) Both LSE and ISE shall, on the effective date of integration of the stock exchanges, furnish copies of all records relating to any complaints and claims available with each transferor stock exchange to the respective Funds Committee constituted by the Commission under the Regulations.
- b) The surviving entities of the transferor stock exchanges shall maintain such record relating to any complaints and claims available with each transferor stock exchange in its possession and shall not under any circumstances destroy, move, transfer, tamper with or carry out any activity which would constitute tampering with, destruction, transfer or moving the records until expressly permitted in writing by the Commission.
- c) The surviving entities of the transferor stock exchanges shall, whenever required, cooperate with the respective Funds Committee or the Commission, as the case may be, relating to any matter pertaining to such complaints and claims.

18.4. Base Minimum Capital

- (i) According to the section 6.7 of the schemes,


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"Any base minimum capital, paid up capital or any other regulatory requirement at the Successor Exchange shall be assessed and decided by the Commission for all TREC Holders to ensure continuity of business of TREC Holders of Transferor"

- (ii) The present requirement to maintain the Base Minimum Capital (BMC) at the stock exchanges emanates from the need to provide a safeguard in the case of default by a broker to settle investor claims. Prior to demutualization, the stock exchanges had recourse to the membership card of a broker whereby in the case of default of a broker, the membership card was sold and the proceeds were utilized to reimburse the investors. It is worth noting that the subject treatment did not result in any additional cost to the broker.
- (iii) Pursuant to demutualization, the membership card was replaced with TRE certificates and shares of stock exchanges, thereby segregating the right to trade on a stock exchange and the ownership rights of a stock exchange. Hence, the BMC, as a substitute of membership card, also comprised of TRE certificate and 40% shares of stock exchanges out of total shares allotted to an initial shareholder, which are freely available. In contrast to the previous model, it became necessary to assign a value to the BMC, or to be more accurate, to both the components of BMC, due to the fact that the TRE certificates issued to the initial shareholders were only transferable once and the new TRE certificates to be issued by the stock exchanges were non-transferable. Accordingly, once a TRE certificate was transferred or in the case of a non-transferable TRE certificate issued by a stock exchange, the TRE certificate in question could not be sold to compensate the investors. Accordingly, in such a case the concerned broker was required to deposit equivalent amount of cash or bank guarantee with the stock exchange. Further, demutualization implied that a TRE certificate holder need not be a shareholder of the stock exchanges. Accordingly, any initial shareholder can sell or transfer the 40% shares allotted to it while remaining a broker. Similarly a broker which has acquired TRE certificate from an initial shareholder or has been issued a new TRE certificate by stock exchange may not hold the shares of



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stock exchanges. In such cases, the concerned broker again had to deposit equivalent amount of cash or bank guarantee to fulfill the BMC requirements.

- (iv) In the absence of any active market for TRE certificates or the shares of stock exchanges, it was decided to value the shares at breakup value whereas the TRE certificate was to be valued at a notional value to be determined by the boards of the stock exchanges on the basis of their knowledge regarding the market value of a TRE certificate. As a result, the BMC requirements were different for the brokers of different stock exchanges.
- (v) In contrast to the earlier practice of lien-marking of membership cards, the BMC model implied that any new broker would have to deposit the amount of BMC with the stock exchange in the form of cash or bank guarantee since the TRE certificate of such broker would be non-transferable and it may not acquire the shares of stock exchanges while obtaining TRE certificate. Hence, a high value of BMC started to act as entry barrier to the brokerage industry.
- (vi) As a consequence of integration of the stock exchanges, all TRE certificate holders of the transferor stock exchanges are to become the TRE certificate holders of the successor stock exchange. Hence, there is a need to specify a uniform requirement of BMC for all brokers. Further, the revised requirement needs to be practical and reasonable considering the size of brokers of all the stock exchanges as well as the existing applicable BMC requirements, to ensure continuity of business through the process of integration of the stock exchanges.
- (vii) Keeping in view the aforementioned facts and considering that majority of investor claims pertain to the misuse of client securities under custody of brokers, it is envisaged that the required amount of BMC to be maintained by a broker shall be calculated with reference to the Asset Under Custody of such broker which represents the value of shares held in the CDC accounts under control of the broker as defined in the relevant CDC regulations.



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(viii) BMC shall be maintained in the form of TRE certificates, cash/bank guarantees/margin eligible securities, shares of the successor stock exchange and shares of surviving entities of the transferor stock exchanges. Further, bank guarantees from the trust funds currently being managed by transferor stock exchanges may also be provided to meet the BMC requirement of TRE certificate holders of the transferor stock exchanges who become TRE certificate holder of the successor stock exchange. Furthermore, 60% shares of the successor stock exchange lying in blocked account may be utilized towards BMC requirement by the respective broker provided the broker furnishes an undertaking to the successor stock exchange to forego its rights on the proceeds from sale of such shares in accordance with requirements of the Act. These requirements for BMC shall be part of the successor stock exchange's regulations after approval of the Commission under the Securities Act, 2015 and shall take effect from the effective date of integration.

18.5. Treatment of TRE certificate holders

(i) As per the section 6.4 of the schemes:

"All existing registered TREC Holders of the Transferor, who are registered as brokers with the Commission, shall become TREC Holders of the Successor Exchange and shall be deemed TREC Holders of the Successor Exchange without payment of any admission fee/cost and the need of execution of any separate instrument or registration with the Successor Exchange and the Commission"

(ii) As per the section 6.5 of the schemes:

"All TREC Holders of the Exchanges shall have and enjoy the same rights and entitlements under the Act as if they were TREC Holders of the Successor Exchange. Provided that, any TREC Holder of the Transferor against whom any disciplinary action or suspension is

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pending shall not become TREC Holder of Successor Exchange unless such action or suspension is removed"

(iii) As per the section 6.6 of the schemes:

All TREC Holders shall be entitled to record and display their status as TREC Holder of the Successor Exchange

(iv) As per the section 6.8 of the schemes:

All TREC Holders of Transferor shall be deemed, in all respects, at par with the existing TREC Holders of the Successor Exchange with respect to all the rights and entitlements to trade or assert trading rights thereat, including but not limited to, in accordance with the Act

(v) In accordance with requirements of the Act, all TRE certificate holders of KSE, LSE and ISE registered as brokers with the Commission on the effective date of integration shall be deemed to be TRE certificate holders of the successor stock exchange unless otherwise provided hereunder. TRE certificate of the successor stock exchange shall be issued to all such existing TRE certificate holders of KSE, to reflect the change in name from KSE to PSX. TRE certificates of successor stock exchange shall be issued to the existing TRE certificate holders of LSE and ISE registered as brokers with the Commission and all TRE certificates issued by LSE and ISE shall stand cancelled on the effective date of integration. The TRE certificates shall be deemed to be issued under section 5 of the Act, subject to the conditions provided herein below. Moreover, all TRE certificate holders, presently registered as brokers with the Commission, shall be deemed registered as brokers of the successor stock exchange. Provided that in the case of any TRE certificate holder who has not applied for renewal of registration as broker or its application for registration is pending with the Commission or with the relevant stock exchange, TRE certificate of successor stock exchange shall be issued however, such TRE certificate shall be valid for

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the period of six months within which such TRE certificate holder shall obtain registration as broker with the Commission and comply with other requirements prescribed in the Act and failure to obtain registration shall result in the lapse of such TRE certificate. The treatment provided in sub-paras F and G below shall be applicable in respect of right to transfer the TRE certificates.

18.5.1 Suspended TRE certificates

- (vi) TRE certificate holders under suspension on the effective date of integration shall be issued TRE certificate of successor stock exchange however their status quo shall be maintained and the TRE certificate shall be retained in the custody of successor stock exchange until the cause of suspension is removed or any further disciplinary action is taken against such TRE certificate holder by the successor stock exchange. However, any suspension on the directions of the Court or any other competent authority shall only be removed on the directions of such authority. The transferor stock exchanges shall provide complete record of any such suspended TRE certificates to the successor stock exchange to enable the successor stock exchange to assess continuity/removal of the cause of suspension.

18.5.2 Expelled Membership or TRE certificates Cancelled/Forfeited

- (vii) TRE certificates of the successor stock exchange shall be issued in lieu of membership/TRE certificates expelled, cancelled or forfeited by the transferor stock exchange(s) if there are any investor claims still pending against such TRE certificate holders. These TRE certificates shall be issued in suspended status and kept under custody of the successor stock exchange. Moreover, the successor stock exchange or the Funds Committee, as the case may be, shall be authorized to utilize sale proceeds of such TRE certificate for settlement of pending investors' claims in accordance with the relevant regulations and any amount left with the successor stock exchange or the Funds Committee, as the case may be, after satisfaction of investor claims will be transferred to the successor stock exchange's Investor Protection Fund.

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18.5.3 Lapsed TRE certificate

(viii) No TRE certificate of the successor stock exchange shall be issued against any TRE certificate which has lapsed due to the operation of the Act. However, such lapsed TRE certificate which has been reinstated by any competent authority or Court of competent jurisdiction shall be treated in terms of the order of such competent authority or Court.

18.5.4 Membership/TRE certificates under Litigation

(ix) In case of any suspended, cancelled or forfeited TRE certificate or a membership of the stock exchange in the pre-demutualization scenario where the membership has been suspended or expelled, and the matter is under litigation in any court of law, a TRE certificate of the successor stock exchange shall only be issued in lieu of the same as per decision of the respective court. The transferor stock exchanges shall provide complete record of any such TRE certificates/memberships to the successor stock exchange to enable the successor stock exchange to remain updated of the status of such TRE certificates/TRE certificate holders.

18.5.5 Issuance of TRE certificate

(x) In order to issue TRE certificate of the successor stock exchange, TRE certificate holders of existing stock exchanges shall after being evaluated in terms of the above policy parameters, be broadly categorized into following categories:

18.5.5.1 Single TRE certificate:

(xi) Any TRE certificate holder who holds a transferrable TRE certificate of either the successor or the transferor stock exchange shall be issued one transferable TRE certificate of successor stock exchange. However, any TRE certificate holder who holds non-transferable TRE certificate of either the successor or transferor stock exchange shall be entitled to only non-transferable TRE certificate of successor stock exchange.



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18.5.5.2 Multiple TRE certificate holders and the right to transfer the TRE certificate

(xii) As per section 6.9 of the schemes:

“Subject to provisions of Section 16(2) of the Act, if, as a consequence of this Scheme of Integration, a person becomes holder of more than one TRE Certificate, such person shall be entitled to hold or sell the additional number of TRE Certificate”

(xiii) In case where a person holds TRE certificates of more than one stock exchange on the effective date of integration, the following treatment will be applicable:

- (a) A person will be issued a TRE certificate of the successor stock exchange against each TRE certificate held by such person. For instance, if a person holds one TRE certificate of the successor stock exchange and one TRE certificate of the transferor stock exchange prior to the effective date of integration, such person will be issued two (2) TRE certificates of the successor stock exchange.
- (b) If a person holds a TRE certificate of the successor stock exchange or the transferor stock exchange prior to the effective date of integration against which the right of one-time transfer as provided in section 16(2) of the Act has not been exercised, the TRE certificate of the successor stock exchange issued in lieu of such TRE certificate shall continue to be transferable once, subject to clause (e) below.
- (c) If a person holds a TRE certificate of the successor stock exchange or the transferor stock exchange prior to the effective date of integration against which the right of one-time transfer as provided in section 16(2) of the Act has already been exercised, the TRE certificate of the successor stock exchange issued in lieu of such TRE certificate shall not be transferable.
- (d) If a person holds TRE certificate of the transferor stock exchange and the successor stock exchange and the right of one-time transfer as provided under section 16(2) of



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the Act has been exercised against both TRE certificates prior to the effective date of integration, only one TRE certificate of the successor stock exchange shall be issued to such person which will not be transferable.

- (c) If, as a result of application of above, a person holds more than one TRE certificate of the successor stock exchange, such person shall indicate to the Commission the TRE certificate against which it intends to maintain its registration as broker with the Commission. If the excess TRE certificate of the successor stock exchange is transferable, the right to transfer such TRE certificate must be exercised within two years of the effective date of integration, after which such TRE certificate will lapse. If the excess TRE certificate is non-transferable, it must be surrendered to the successor stock exchange and shall lapse.

18.6. Treatment of listed companies

- (i) As per section 6.13 of the schemes:

"All securities or companies listed on the Transferor Exchange shall be deemed listed on the Successor Exchange without the need to comply with any further requirements of the Successor Exchange, provided, always, that the status of such securities or companies vis-a-vis default or otherwise shall not be changed or affected in any manner. To the extent, such securities or companies are or were liable to any action or proceedings before the Transferor in Transferor's capacity as frontline regulator, all administrative functions and settlement powers for recovery of monies or charges due to the Transferor shall be undertaken in accordance with the directions of the Commission"

- (ii) As per section 6.14 of the schemes:



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“Any securities or company deemed listed under Section 6.13 above, however, shall be subject to the listing regulations and other rules and regulations of the Successor Exchange as may be framed by the Successor Exchange from time to time”

(iii) Details and analysis of securities listed on all three stock exchanges:

In terms of requirements of the Act, securities listed at the transferor stock exchange shall become listed at the successor stock exchange. Considering that some of these securities are listed on one or more than one stock exchange, and a few are in default of the respective stock exchange's regulations, adequate treatment needs to be specified for these securities to be listed at the successor stock exchange pursuant to integration of the stock exchanges.

Aggregate number of securities listed on the three stock exchanges is 1,435 as per information provided by the stock exchanges. However, this number goes down to 774 when cross listing is taken into account. The breakup of these listed securities by type and stock exchange is tabulated below:

Type of Security	Listed on all three exchanges	Solely Listed on KSE	Solely Listed on LSE	Solely Listed on ISE	Listed on KSE & LSE	Listed on KSE & ISE	Listed on LSE & ISE	Total
Companies (Ord.)	179	108	3	-	219	18	-	527
Companies (Pref.)	2	10	2	-	1	-	-	15
Open end Mutual Funds	4	51	64	48	2	-	-	169
Closed end Mutual Funds	3	4	-	-	1	1	-	9
Modarabas	14	6	1	1	6	-	-	28
REITs	1	-	-	-	-	-	-	1
Debt Securities	3	17	4	-	-	1	-	25
Total	206	196	74	49	229	20	0	774



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(iv) Out of 776 securities 455 (59%) are listed at KSE along with other two stock exchanges either jointly or singly. However, this figure goes up to 651 (84%) when securities solely listed at KSE are accounted for. Out of the total 123 securities solely listed at either LSE or ISE, 112 (91%) are open end mutual funds which are technically listed and are not traded on the relevant stock exchange. Instead, units of these mutual funds are issued and redeemed by respective fund manager through appointed trustees at declared Net Asset Value (NAV). Analysis of remaining 11 securities solely listed at either LSE or ISE shows that there has been nil to negligible trading in these securities during the period June 2014 till November 2015. For the same period, it has been observed that more than 99% of traded value and volume of 455 securities (listed at KSE along with other two stock exchanges either jointly or singly) was at KSE. Listing dates provided by the stock exchanges of these 455 securities, reveals that KSE has been a preferred choice of companies for listing as only 13 securities listed at LSE prior to listing at KSE.

(v) Treatment of Securities listed at KSE along with other two stock exchanges either jointly or singly:

Listing of such securities shall stand cancelled on the effective date of integration at the transferor stock exchange(s) and shall be governed under applicable regulations of the successor stock exchange.

(vi) Treatment of Securities Listed solely at LSE or ISE:

In case of securities solely listed at LSE or ISE, such securities shall be deemed listed at the successor stock exchange while their listing at LSE or ISE shall stand cancelled on the effective date of integration. However, if such securities are included in defaulter segment due to non-compliance with the regulations of their respective transferor stock exchange, such securities shall be listed at the successor stock exchange and accordingly placed on its

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defaulter segment on the effective date of integration and shall be governed under applicable regulations of the successor stock exchange.

- (vii) Since NCCPL issues unique trade symbols of the securities listed at all stock exchanges, the securities transferred to the successor stock exchange by virtue of integration will retain their unique symbol codes.

18.7. Treatment of employees

- (i) As per clause 6.19 of the schemes:

“Transferor’s employees concerned with the Undertaking as identified by the Successor Exchange (“Undertaking Employees”), shall be offered employment by the Successor Exchange and the employment of the Undertaking Employees shall be terminated by the Transferor and all their salaries, employment and other dues including terminal dues shall be fully paid and settled by the Transferor before the Effective Date. All employees of the Transferor (other than Undertaking Employees) as of the Effective Date, shall continue to remain the employees of the Transferor, who shall be liable for all such salary, employment and redundancy benefits entitled to them in accordance with the terms of their employment. This Scheme of Integration does not create any new right or entitlement or any benefit in favour of any employee of the Transferor”

- (ii) As per the information provided by the transferor stock exchanges under the Regulations, 21 employees were identified by the LSE as “concerned with the undertaking”. Out of these, 5 employees were offered employment by the Commission and other capital market intermediaries, which they accepted. The remaining 16 employees were offered employment by the successor stock exchange which they accepted. 1 employee resigned since the submission of scheme of integration. 26 employees of LSE decided to accept the



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voluntary separation package and remaining 26 employees were retained by LSE for the business of NBFC from the effective date of integration.

- (iii) Further, ISE identified 14 employees as "concerned with the undertaking". Out of these, 5 employees were offered employment by the Commission and other capital market intermediaries, which they accepted. The remaining 9 employees were offered employment by the successor stock exchange which they accepted. 45 employees of ISE decided to accept the voluntary separation package and remaining 35 employees were retained by ISE for the business of NBFC from the effective date of integration.

18.8. Treatment of Undertaking and Assets of the Transferor Stock Exchanges

- (i) In terms of requirement of the Act and as proposed in the schemes, the undertakings and assets of the transferor stock exchanges are to be transferred to the successor stock exchange in accordance with the schemes.
- (ii) The Act defines *undertaking* as "*any trade or business of a stock exchange*". The term *stock exchange* is defined under the Act as "*a stock exchange registered under section 5 of the Ordinance [Securities and Exchange Ordinance, 1969] at the time of commencement of this Act and includes a stock exchange after corporatization, demutualization or integration as the case may be*". Further, the Securities and Exchange Ordinance, 1969 defines a *stock exchange* as "*any person who maintains or provides a market place or facilities for bringing together buyers and sellers of securities or for otherwise performing with respect to securities the functions commonly performed by a Stock Exchange, as that term is generally understood, and includes such market place and facilities.*" (Emphasis is added).
- (iii) In view of the above, the term *undertaking* is defined in the schemes as follows:



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"Undertaking" bears the meaning ascribed under Section 2(xxix) of the Act

Explanation: For purposes of this Scheme, Undertaking of the Transferor comprises stock exchange business, that is, the trading and listing services relating to the provision of the market place for bringing together buyers and sellers of securities or otherwise performing trading functions of a stock or securities exchange in accordance with license issued by the Commission under the Securities and Exchange Ordinance, 1969 and the Securities Act, 2015. Provided, however that the Undertaking shall not include any liability of the Transferor on any account whatsoever nor shall include any obligation of the Transferor to its employees, creditors or Shareholder". [ref: section 2.2.14 of the schemes]

- (iv) Accordingly, section 5 of the schemes provide the scope of the schemes as *"This Scheme is intended to provide the treatment in respect of the Undertaking only"*. [ref: section 5.1 of the schemes]
- (v) The treatment of the Undertakings proposed under the schemes are, as follows:

"The Undertaking of the Transferor shall be transferred to and vest in and/or deemed to have been so transferred to and/or vest in the Successor Exchange without any further act, deed or instrument or matter to be undertaken" [ref: section 6.1 of the scheme]

- (vi) The Act defines assets as:

"assets" means all immovable and movable properties (whether actual or contingent, tangible or intangible) and include all land, building, machinery and equipment, shares, securities, deposits, cash, bank balances, profits, dividends, fees, commissions, receivables, claims, contracts, licenses, privileges, reserve funds, investments and all other rights and interests in and arising out of such property in the ownership, possession, power or control of a stock exchange at any given time"



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- (vii) The schemes do not envisage the transfer of complete assets of the entities of LSE and ISI into the successor stock exchange, rather, proposes the transfer of *Stock Exchange Business Assets* which is defined in the schemes as:

“Stock Exchange Business Assets” means such physical and/or IT infrastructure related assets of the Transferor that may be transferred at commercial terms to be agreed between the Transferor and the Successor Exchange pursuant to this Scheme

- (viii) The treatment of Stock Exchange Business Assets as provided in the schemes is as follows:

“The Stock Exchange Business Assets of the Transferor may be transferred, on mutually agreed commercial terms, to the Successor Exchange prior to the Effective Date”

- (ix) In this regard, section 17 of the Act provides the scope of the integration as follows:

“Any two or more stock exchanges may, upon filing of a scheme of integration, and after compliance with such procedures as may be prescribed, be integrated by an order of the Commission, so as to transfer and vest in successor stock exchange (“the successor stock exchange”) all the assets, undertakings and liabilities of any stock exchange which, upon such integration, is propose to cease to exist.” (Emphasis is added).

- (x) Moreover, section 18(6) of the Act stipulates that:

“Notwithstanding anything to the contrary contained in any other law for the time being in force, with effect from the date of the order approving the scheme of integration, all the assets, undertakings and liabilities of the transferor stock exchange shall, in accordance with the scheme of integration, stand transferred to, and vest in, the successor stock



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exchange, and the transferor stock exchange shall, with effect from the date of such order, cease to exist" (Emphasis is added).

(xi) The schemes propose to transfer and vest the "Undertaking" of the transferor stock exchanges into the successor stock exchange. The proposed transfer is in accordance with the requirements of section 18(6) of the Act and from the date of this order, all the Stock Exchange Business Assets as mutually agreed by the transferor stock exchanges and the successor stock exchange shall be transferred in accordance with the schemes approved by the Commission. Accordingly, pursuant to this order the stock exchange business of LSE and ISE, which includes providing the services to the issuers of securities to list their securities and providing a trading platform to their respective TRE certificate holders for trading of securities, shall be transferred and vest in the successor stock exchange. It is noted that the stock exchange business directly affects and is affected by the relevant assets, particularly relevant IT infrastructure; TRE certificate holders; relevant employees and the listed securities. The schemes also provide for the treatment in respect of these elements. The securities listed at the transferor stock exchanges and the employees are included in the definition of stakeholders and this order provides for their treatment in the relevant paras.

(xii) It is worth noting that the arrangement between the transferor and successor stock exchange which is the subject matter of this order is a proposed merger and not an amalgamation, as these terms are generally understood. The term "Integration" is defined in the Act as:

"integration" means the merger of two or more stock exchanges

(xiii) The term "merger" has been used to describe the process of integration of stock exchanges but is not defined under the Act. It can be either a full or partial merger. In the case of a full merger all the assets and liabilities of the transferor entity are merged into the





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successor entity and the transferor entity ceases to exist. Whereas in the case of a partial merger, the assets, undertakings and liabilities are transferred to the extent and manner provided in the scheme of merger and the transferor entity may continue to exist. Section 18(6) of the Act envisages that the assets, undertakings and the liabilities of the transferor stock exchanges shall be transferred to the successor stock exchange in accordance with the scheme. According to the proposed schemes, only the Undertakings or the stock exchange business are proposed to be transferred to the successor stock exchange. Further, as per the schemes, the transferor stock exchanges shall cease to exist as stock exchanges but shall continue to exist as entities. Accordingly, the assets of the transferor stock exchange shall be transferred to the extent and manner envisaged in the schemes to the successor stock exchange and the remaining assets shall continue to be held by the surviving entities. Hence, the transaction under contemplation is a merger whereby only the Stock Exchange Business Assets shall be transferred from the transferor stock exchanges to the successor stock exchange on the mutually agreed commercial terms.

- (xiv) In accordance with the schemes, therefore, KSE, LSE and ISE through mutual agreement have identified assets that would be necessary to carry out the stock exchange business pursuant to integration. As per the information submitted by the stock exchanges under the Regulations, Stock Exchange Business Assets of LSE as on September 30, 2015 shall be acquired by KSE at the agreed value of Rs.4,223,180. Similarly the Stock Exchange Business Assets of ISE as on September 30, 2015 shall be acquired by KSE at the agreed value of Rs.12,283,408.

18.9. Investment in other companies:

- (i) As per section 6.22 of the schemes

"The Transferor shall continue to hold its investments, without any reduction or disinvestment, in associated or other companies without restrictions. No reduction in



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shareholding of the Transferor in associated or other companies, as at Effective Date, shall be allowed except with the prior approval of the Commission. However, the Transferor shall be at liberty to sell part or all of its shareholding to any entity on its own volition provided, however, that such entity has been approved by the Commission."

- (ii) The transferors having shareholding in associated or other companies as on the date of integration shall have to comply with the relevant regulatory framework in place, from time to time.

18.10. Any consequential actions taken or instructions issued by the Commission regarding operational matters to give effect to the schemes and ensure seamless integration of the stock exchanges and continuity of operations shall supersede regulations of the stock exchanges, CDC and NCCPL, where applicable.

19. Statutory and Regulatory Levies

- (i) As per section 7.3 of the schemes:

"All past, present and future taxes, duties levies and other expenses, if any, including costs incurred in respect of this Scheme of Integration, up to the Effective Date, by either of the Exchanges shall be borne exclusively by each"

- (ii) The stock exchanges are responsible for collection and deposit of statutory and regulatory levies that include government taxes and Commission's fee. The stock exchanges have provided relevant information under the Regulations and confirmed that they are current on payment of capital value taxes (CVT) and withholding taxes except CVT to be deposited by KSE since August 19, 2015. KSE has intimated that CVT for this period has been collected and is in process of depositing the same.



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- (iii) Transferor stock exchanges and the successor stock exchange shall continue to be liable to pay applicable statutory and regulatory levies due till the effective date of integration.

20. Unblocking of shares

- (i) From the effective date of integration, the shares of transferor stock exchanges held in the blocked account shall be un-blocked and shall be dealt with in accordance with the regulatory framework applicable to NBFCs and shall only be utilized against BMC requirements of the successor stock exchange, in the following manner:
- (a) Shares held in the names of TRE certificate holders of the transferor stock exchanges registered as brokers shall be transferred to the CDC sub-accounts of the respective TRE certificate holders under the participant umbrella of the successor stock exchange. All shares so transferred shall be held in freeze status to ensure compliance with the regulatory framework applicable to NBFCs. Provided that the requisite number of shares required to fulfill the requirements of BMC applicable for such TRE certificate holders shall be pledged in favor of the successor stock exchange.
- (b) Shares held in the name of TRE certificate holders whose TRE certificates are suspended shall be unblocked and transferred to the respective CDC sub-accounts of such TRE certificate holders under the participant umbrella of the successor stock exchange, where they will be kept in freeze status to ensure compliance with the regulatory framework applicable to NBFCs. If the suspension is subsequently removed, the shares may be pledged against the BMC requirements in accordance with the regulations of the successor stock exchange. In the case of any disciplinary action taken against such TRE certificate holder, the shares shall be dealt with in accordance with the regulations of the successor stock exchange.



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as per the instructions of the Funds Committees, where applicable, and subject to approval of the Commission.

- (c) The shares of expelled/ defaulted members/ TRE certificate holders/ forfeited TRE certificates against which there are pending investor claims and no ongoing litigation shall be kept in freeze status by the CDC in the respective sub-accounts of such TRE certificate holders under the participant umbrella of the respective transferor stock exchange and shall be utilized as per the instructions of the Funds Committees, subject to the prior approval of the Commission.
- (d) In case of any suspended, cancelled or forfeited TRE certificate, or membership of the stock exchange in the pre-demutualization scenario where the membership has been suspended or the member has been expelled, and the matter is under litigation in any court of law, the shares shall be kept in freeze status in the respective sub-account under the participant umbrella of the respective transferor stock exchange and will be dealt with in accordance with the directions of the Court and Fund Committee where applicable.
- (e) The shares of those shareholders of the transferor stock exchange which are not TRE certificate holders and do not fall in any of the above category shall be transferred to their CDC accounts, and will be kept in freeze status to ensure compliance with the regulatory framework applicable to NBFCs.
- (f) In the case of promoter of a corporate TRE certificate holder, where the shares are in his name, the shares may be transferred to the CDC sub-account of such TRE certificate holder under the participant umbrella of the successor stock exchange as per the instructions of the respective shareholder. All shares so transferred shall be held in freeze status to ensure compliance with the regulatory framework applicable to NBFCs. Provided that the requisite number of shares



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required to fulfill the requirements of BMC applicable for such TRE certificate holder shall be allowed to be pledged in favor of the successor stock exchange

- (ii) The shares of the transferor stock exchange which are pledged in favor of the transferor stock exchange in compliance with BMC requirements immediately prior to the effective date of integration shall be transferred to the sub-account of the respective TRE certificate holder maintained with the successor stock exchange and will be pledged in favor of the successor stock exchange.
- (iii) All shares of the transferor stock exchange not utilized towards BMC shall be kept in freeze status to fulfill the regulatory requirement applicable to NBFCs.

21. Preservation of Record

The surviving entities of the transferor stock exchanges shall maintain such record relating to their business as stock exchanges in their possession and shall not under any circumstances destroy, move, transfer, tamper with or carry out any activity which would constitute tampering with, destruction, transfer or moving the records until expressly permitted in writing by the Commission. Such record shall be made available to the Commission or to such other entity identified by the Commission as and when instructed in writing.

22. Transferor Stock Exchanges to function as Non-Banking Finance Companies

With the effective date of integration, the transferor stock exchanges shall undertake business as NBFCs under the relevant regulatory framework with appropriate amendments in their respective Memorandums and Articles of Associations in terms of section 21 and



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section 28 of the Companies Ordinance, 1984, and section 20 (1) of the Act, and shall cease to conduct business as stock exchanges.

Approval of the Schemes of Integration

23. In view of the foregoing, the Commission is satisfied that:

- (i) KSE, LSE and ISE have complied with the procedures prescribed under section 17(1) of the Act (see paras. 4 & 6);
- (ii) the schemes have been approved by a special resolution of the shareholders of KSE, LSE and ISE pursuant to section 17(2) of the Act (see para. 5);
- (iii) the schemes were published in two daily newspapers of national coverage, requiring the stakeholders to intimate directly to the Commission in writing, within the 15th day from the date of such publication, the reasons, if any, why the Commission should not approve the schemes (para. 8) and the Commission has provided a reasonable opportunity of being heard to the objectors of the schemes pursuant to section 18(1) of the Act (see para. 10, 11 & 12);
- (iv) the stock exchanges have answered all the queries raised by the Commission and provided all further information required by it pursuant to section 18(2) of the Act (see paras. 6 & 7);
- (v) the prescribed procedures (see para. 6) have been complied with as required by section 18(3) of the Act; and
- (vi) the schemes are in the interest of the capital and stock markets, stakeholders, investors and general public (see paras. 13, 14, 15 & 16).

24. The Commission hereby, in exercise of its powers under section 18(3) of the Act, approves the scheme of integration of KSE with LSE (attached herewith as Annexure A) and KSE

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with ISE (attached herewith as Annexure B) which shall be read as an integral part of this Order, and specifies January 11, 2016 as the effective date of integration. Consequently, with effect from the date of this Order, (i) the schemes shall have effect and shall be binding on all persons interested in LSE, ISE, KSE or PSX including all shareholders, stakeholders of LSE, ISE and KSE and all persons having an interest in any asset, undertaking or liability, as specified in the schemes, of LSE, ISE, KSE or PSX; (ii) all the assets, undertakings and liabilities of LSE and ISE shall, in accordance with the schemes and as agreed between the transferors and successor stock exchanges, stand transferred to, and vest in, PSX, and LSE and ISE shall cease to exist as stock exchanges; and (iii) the stakeholders of LSE and ISE, as specified in the schemes and as agreed between the transferors and successor stock exchanges, shall become the stakeholders of PSX, as provided in section 18(5)(6)&(7) of the Act).

25. With effect from the effective date of integration, all the existing rules, regulations etc. promulgated or made by ISE and LSE (as the case may be) under any applicable enactment shall cease to exist. However, nothing in this Order shall affect or be deemed to affect anything done, action taken, investigation or proceedings commenced, orders passed under or pursuant to any such rules or regulations by ISE and LSE (as the case may be) and all and any such things, actions, investigations, proceedings, orders passed prior to the effective date of integration shall continue to be in force and have effect.
26. As a consequence of approval of the schemes integration, all TREC holders of PSX and issuers of securities listed at PSX shall be bound to comply with the regulatory framework of PSX with the effective date of integration.
27. The Commission may make such further or consequential orders or give such directions, as it deems necessary, in order to effect the integration of the stock exchanges in accordance with the approved schemes of integration in terms of section 18(8) of the Act.



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28. KSE shall publish the approved schemes of integration in two daily newspapers of national circulation as required by section 18(4) of the Act. The same shall be complied with within five working days of the date of issuance of this Order. Additionally, this Order shall immediately be posted on the KSE/PSX official website.
29. This Order of approval of the schemes of integration is dated January 11, 2016 and shall be posted on the Commission's website as well as published in the official Gazette.

(Fida Hussain Samoo)
Commissioner

(Akif Saeed)
Commissioner

(Zafar Abdullah)
Commissioner

(Tahir Mahmood)
Commissioner

(M. Zafar-ul-Haq Hijazi)
Chairman

Order Number: 01/2016

KARACHI STOCK EXCHANGE LIMITED

And

LAHORE STOCK EXCHANGE LIMITED

SCHEME OF INTEGRATION

Under Section 17

The Stock Exchanges (Corporatisation, Demutualization and Integration) Act,
2012



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SCHEME OF INTEGRATION

(Karachi Stock Exchange Limited & Lahore Stock Exchange Limited)

1. PREAMBLE

- 1.1. All three stock exchanges in Pakistan, having been duly corporatized and demutualized under the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012, validly exist as public limited companies under the Companies Ordinance, 1984, each registered to operate as a stock exchange under the provisions of the Securities and Exchange Ordinance, 1969 and the Securities Act, 2015.
- 1.2. Subsequent to the demutualization of the stock exchanges, the stock exchanges were required to procure strategic investment, which they have been unable to do even during the extended period. To further the objectives of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 and keeping in due perspective the development and benefits to the capital market and in the national interest, all three registered stock exchanges in Pakistan resolved to enter into a Memorandum of Understanding dated 25 August 2015 outlining their mutual understanding to proceed with arrangement of induction of the TRE Certificate Holders of Lahore Stock Exchange Limited (LSE) and Islamabad Stock Exchange Limited (ISE) into Karachi Stock Exchange Limited (KSE) to be renamed as 'Pakistan Stock Exchange Limited' (PSE) or such other name as may be approved by the Securities and Exchange Commission of Pakistan.
- 1.3. The Securities and Exchange Commission of Pakistan has agreed to facilitate the above arrangement agreed by all three stock exchanges and required the stock exchanges to submit proposed scheme of integration after it is considered and approved by the respective board of directors, and the shareholders in general meeting.
- 1.4. Accordingly, this Scheme of Integration is being proposed in respect of the induction of LSE TRE Certificate Holders as the TRE Certificate Holders of PSE; consequently LSE shall cease to operate as a stock exchange and PSE shall emerge as the single securities exchange providing both the trading and listing services at the national level.
- 1.5. Subsequently, subject to sanction of this Scheme of Integration by the Securities and Exchange Commission of Pakistan, LSE shall continue as a public limited company entitled to undertake business as a modarba management company/non-banking finance company.



The bottom section of the document contains several handwritten signatures in blue ink. On the left, there is a signature and a circular stamp of the Karachi Stock Exchange Limited. In the center, there is a large, stylized signature. On the right, there is another signature and a circular stamp of the Lahore Stock Exchange Limited. The stamps are circular with the text 'Karachi Stock Exchange Limited' and 'Lahore Stock Exchange Limited' around the perimeter, and a star in the center.

2. DEFINITIONS

- 2.1. In this Scheme of Integration, unless the context otherwise requires or admits, the following expressions shall bear the meaning as under:
- 2.1.1. "Act" means the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012, as may be amended, from time to time.
- 2.1.2. "Board" or "Board of Directors" means the board of directors of the Transferor or the Successor Exchange, as the case may be.
- 2.1.3. "Commission" means the Securities and Exchange Commission of Pakistan.
- 2.1.4. "Effective Date" means the date on which integration of the Exchanges is specified by the Commission to become effective in terms of Section 18(3) of the Act.
- 2.1.5. "Exchanges" means the Karachi Stock Exchange Limited and the Lahore Stock Exchange Limited.
- 2.1.6. "Registrar" bears the meaning ascribed in Section 2(1)(31) of the Companies Ordinance, 1984.
- 2.1.7. "Regulations" means the Stock Exchanges (Corporatisation, Demutualization and Integration) Regulations 2012, as amended from time to time.
- 2.1.8. "Scheme" or "Scheme of Integration" means this Scheme of Integration embodying the arrangement between the Transferor and the Successor Exchange, in its present form or as may be modified and approved by the Shareholders or by the Commission under Section 18(3) of the Act, as the case may be.
- 2.1.9. "Shareholder" or "Shareholders" means member of the Transferor or the Successor Exchange, as the case may be.
- 2.1.10. "Stock Exchange Business Assets" means such physical and/or IT infrastructure related assets of the Transferor that may be transferred at commercial terms to be agreed between the Transferor and the Successor Exchange pursuant to this Scheme.
- 2.1.11. "Successor Exchange" or "KSE" or "PSE" means the Karachi Stock Exchange Limited, to be renamed pursuant to this Scheme.
- 2.1.12. "Transferor" means the Lahore Stock Exchange Limited, as it may continue with revised objects and renamed pursuant to this Scheme.
- 2.1.13. "TRE Certificate Holder" or "TREC Holder" bears the meaning ascribed in Section 2 (xxviii) of the Act.



2.1.14. "Undertaking" bears the meaning ascribed under Section 2(xxix) of the Act.

Explanation: For purposes of this Scheme, Undertaking of the Transferor comprises stock exchange business, that is, the trading and listing services relating to the provision of the market place for bringing together buyers and sellers of securities or otherwise performing trading functions of a stock or securities exchange in accordance with license issued by the Commission under the Securities and Exchange Ordinance, 1969 and the Securities Act, 2015. Provided, however that the Undertaking shall not include any liability of the Transferor on any account whatsoever nor shall include any obligation of the Transferor to its employees, creditors or Shareholders.

2.2. Capitalised terms used in this Scheme and not defined in Section 2.1 shall, unless the context otherwise requires, have the meanings ascribed to them under the Act, the Securities Act, 2015, the Companies Ordinance, 1984 and other applicable laws, rules and regulations, as amended from time to time, as the case may be.

3. PURPOSE OF SCHEME OF INTEGRATION

This Scheme of Integration shall afford benefits to the capital markets in general and investors in particular and also add shareholder value for Shareholders of the Successor Exchange, *Inter alia*, for the following reasons:

- 3.1. The Exchanges would stand integrated to enable a purposeful consolidation of trading and listing services across the country. The integration is consistent with regional and international trends.
- 3.2. The resultant economies of scale shall bring in greater efficiency in the administration, maintenance, governance, regulatory supervision as well as rationalisation of costs associated with core exchange functions, and provide added benefit to the issuers who will be assured consolidated regime governing listing duly regulated by the Commission.
- 3.3. Shareholder value of the Successor Exchange may be enhanced significantly thereby increasing prospects of strategic investment, including foreign direct investment, in the post de-mutualization/integration scenario as noted in Section 1.2 above.
- 3.4. The financial position of the Successor Exchange may be bolstered thereby rendering improved liquidity and also provide greater comfort to investors.
- 3.5. TRE Certificate Holders of Transferor shall become TRE Certificate Holders of the Successor Exchange at no additional cost or expense to them, and are intended to have access to a much larger pool of liquidity and opportunity for efficient price discovery.



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- 3.6. Incongruent base minimum capital requirements across the country shall stand rationalised thereby affording level playing field to all TRE Certificate Holders.
- 3.7. The emergence of a single securities market shall be in the best interests of the investors and the general public. This market will also foster high standards of professionalism among market participants for the eventual growth of the domestic capital market.
- 3.8. Consistent with the provisions of the Act, and subject to regulatory approvals to be procured in due course, the Successor Exchange shall be enabled to list its own securities, and the investors would enjoy benefits attaching thereto.
- 3.9. The proposed Scheme will enable optimal utilization of available resources; rationalization of overlapping facilities, infrastructure and regulatory mechanism; improve overall competitiveness of the business at the national as well as regional level; and help the Successor Exchange to better face the current and future challenges and opportunities.
- 3.10. The Transferor would be well poised to conduct business as a modarba management company/non-banking finance company and contribute to the development of the national economy, thereby enhancing prospects, including shareholder value, for the Transferor.

4. ENHANCEMENT OF COMPETITION

The contemplated integration, from a competition law perspective, benefits competition and allays any anti-competitive concerns, as indicated below:

Contribute substantially to the provision of services

- 4.1. The proposed integration is most likely to produce a number of efficiency benefits, which can accrue directly or indirectly to the users of the integrated exchange; intermediaries (brokers), final investors and issuers (listed companies).
- 4.2. The integration process would also increase the liquidity of the Successor Exchange and, therefore, reduce the implicit costs of trading for investors by centralizing the trading activities. It will reduce bid-ask spreads insofar as it helps intermediaries to defray fixed order processing costs, namely, the costs of access to the trading platform and of maintaining a continuous market presence; reduce adverse-selection costs, due to the presence of informed traders; reduce the inventory-holding costs of market makers.
- 4.3. The proposed integration is likely to have a positive impact on volume through increased trading.



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- 4.4. Accessing a single trading platform instead of two (or more) allows market professionals to save on the hardware, software and focus on more skilled human capital.

Such efficiency is Integration-specific

- 4.5. The proposed integration would directly benefit the users and final investors in several ways, such as: apart from broadening trading opportunities for brokers' and investors by offering them access to national level securities market.
- 4.6. The harmonization of rules and procedures across the Pakistan markets would simplify TREC Holders' processes and operations. For large TREC Holders, who are already active on the different exchanges, single trading platform would provide the opportunity to rationalize their trading policy and, to rationalize their back-office function by concentrating these operations in a single location and more broadly, to re-organize their trading activities and the staff resources required to perform these operations can be reduced.
- 4.7. The proposed integration ensures continuation of business by TRE Certificate Holders, who would have been at risk on account of consequent inability to encourage strategic investment. Considering the market depth and potential enhanced trading volumes, the proposed integration offers TRE Certificate Holders of the Transferor to continue playing an effective role in developing the core stock exchange business.
- 4.8. Presently, each market has varying trading rules (e.g., specific trading hours or local rules, base minimum capital or paid up capital requirements). The proposed integration intends to offer the TRE Certificate Holders of the Transferor an opportunity to trade at national level securities exchange.
- 4.9. Also, smaller markets tend to deter large foreign investors from participating in these markets. Following integration, all markets would use the same rules, thus eliminating an obstacle to foreign investment. The proposed integration would result in a liquid market, thus leading to lower volatility.

Benefits outweigh lessening of competitors in the market

- 4.10. The benefit of integration is that it would allow all TRE Certificate Holders direct access to a national level securities market. Integration would avoid the previous intermediation costs and with harmonized trading rules resulting in TREC Holders benefitting from reduced internal operating costs. The wider range of trading opportunities would result in greater inter-broker competition.
- 4.11. The integration of exchanges eliminates the duplication of costly infrastructure, thus reducing the average cost of processing a trade. Additionally, in the post-integration scenario, listing fee regime shall be rendered uniform across the country under supervision of the Commission.
- 4.12. Without prejudice to the respective positions of the parties in the matter, the Competition Commission of Pakistan has already given its explicit observation



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in the matter of M/s Karachi Stock Exchange (Guarantee) Limited (File No. 12/ISE/Sec.3/CCP/2007) that the subject matter of competition in the securities market is that the 'members' (TREC Holders) of stock exchange compete with each other for trading orders and nothing else. Furthermore, the Competition Commission of Pakistan itself has a stated position that a unified trading platform (as would also be the outcome of this proposed integration) will result in *numerous benefits to the investors in terms of greater liquidity, better price discovery, security and greater transparency in terms of entire transaction being documented and traceable. Moreover it discourages the practice of "arbitrage".* In proposing the integration, there is a clear recognition of the principle that insofar as competition aspects in mergers/ integration are concerned, focus remains to protect competition and not the competitors.

5. SCOPE & EFFECTIVE DATE

- 5.1. This Scheme is intended to provide the treatment in respect of the Undertaking only.
- 5.2. This Scheme of Integration, in its present form or as may be modified by the Shareholders, shall become effective on the Effective Date subsequent to completion of procedural requirements specified under Section 9 to the satisfaction of the Commission.

6. INTEGRATION

Subject to the provisions of this Scheme and pursuant to the order of the Commission under Section 18 of the Act and other enabling provisions of law, and the resulting operation of law, from the Effective Date:

Undertaking

- 6.1. The Undertaking of the Transferor shall be transferred to and vest in and/or deemed to have been so transferred to and/or vest in the Successor Exchange without any further act, deed or instrument or matter to be undertaken.
- 6.2. The Stock Exchange Business Assets of the Transferor may be transferred, on mutually agreed commercial terms, to the Successor Exchange prior to the Effective Date.

Change of Name

- 6.3. The name of the Successor Exchange shall become "Pakistan Stock Exchange Limited" or such other name as may be approved by the Commission without any further act, deed or instrument or matter to be undertaken. The name of Transferor exchange shall be as determined by Transferor and as approved by the Commission without any further act, deed or instrument or matter to be undertaken.



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Rights of TREC Holders

- 6.4. All existing registered TREC Holders of the Transferor, who are registered as brokers with the Commission, shall become TREC Holders of the Successor Exchange and shall be deemed TREC Holders of the Successor Exchange without payment of any admission fee/cost and the need of execution of any separate instrument or registration with the Successor Exchange and the Commission.
- 6.5. All TREC Holders of the Exchanges shall have and enjoy the same rights and entitlements under the Act as if they were TREC Holders of the Successor Exchange. Provided that, any TREC Holder of the Transferor against whom any disciplinary action or suspension is pending shall not become TREC Holder of Successor Exchange unless such action or suspension is removed.
- 6.6. All TREC Holders shall be entitled to record and display their status as TREC Holder of the Successor Exchange.
- 6.7. Any base minimum capital, paid up capital or any other regulatory requirement at the Successor Exchange shall be assessed and decided by the Commission for all TREC Holders to ensure continuity of business of TREC Holders of Transferor.
- 6.8. All TREC Holders of Transferor shall be deemed, in all respects, at par with the existing TREC Holders of the Successor Exchange with respect to all the rights and entitlements to trade or assert trading rights thereat, including but not limited to, in accordance with the Act.

Multiple TREC Holders

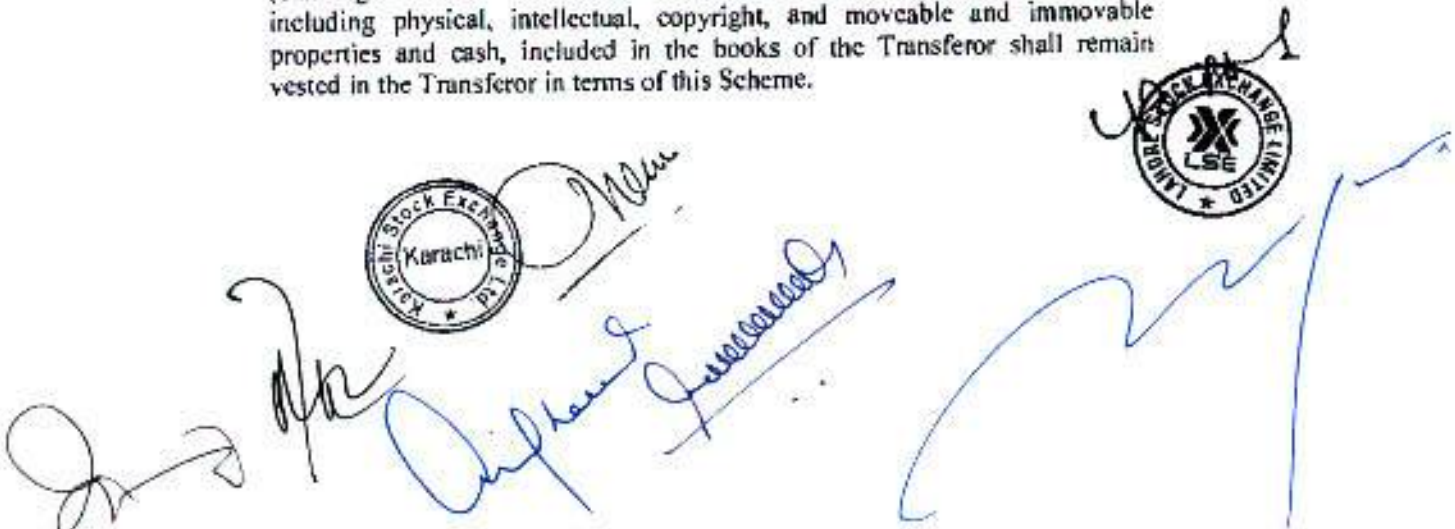
- 6.9. Subject to provisions of Section 16(2) of the Act, if, as a consequence of this Scheme of Integration, a person becomes holder of more than one TREC Certificate, such person shall be entitled to hold or sell the additional number of TREC Certificate.

No Change in Shareholding

- 6.10. There shall be no change in the shareholding of the Transferor or the Successor Exchange as a consequence of this Scheme of Integration.

Ownership of Properties

- 6.11. Except for the Undertaking, all properties (movable or immovable), accounts (banking or investment or otherwise), and other assets of the Transferor, including physical, intellectual, copyright, and moveable and immovable properties and cash, included in the books of the Transferor shall remain vested in the Transferor in terms of this Scheme.

The bottom of the page features several handwritten signatures in blue ink. On the left, there are three distinct signatures. In the center, there is a circular stamp from the Karachi Stock Exchange Limited (KSE) with the word 'Karachi' in the middle. To the right of this stamp is another signature. On the far right, there is a larger circular stamp from the Lahore Stock Exchange Limited (LSE) with 'LSE' in the center and 'LAHORE' at the bottom. A large, sweeping blue signature or scribble extends across the bottom right corner of the page.

- 6.12. All liabilities of Transferor, present or contingent recorded or unrecorded on whatever account and all the obligations of the Transferor shall continue to be liabilities of the Transferor in terms of this Scheme with no obligation whatsoever on part of the Successor Exchange in relation to such liabilities or obligations of the Transferor.

Listing of Securities

- 6.13. All securities or companies listed on the Transferor Exchange shall be deemed listed on the Successor Exchange without the need to comply with any further requirements of the Successor Exchange, provided, always, that the status of such securities or companies *vis-a-vis* default or otherwise shall not be changed or affected in any manner. To the extent, such securities or companies are or were liable to any action or proceedings before the Transferor in Transferor's capacity as frontline regulator, all administrative functions and settlement powers for recovery of monies or charges due to the Transferor shall be undertaken in accordance with the directions of the Commission.
- 6.14. Any securities or company deemed listed under Section 6.13 above, however, shall be subject to the listing regulations and other rules and regulations of the Successor Exchange as may be framed by the Successor Exchange from time to time.

Continuation of Business







- 6.15. Pursuant to sanction of this Scheme by the Commission, the Transferor shall continue to be company duly authorised to undertake business as per its Memorandum and Articles of Association, and shall become a modarba management company/non-banking finance company, provided, however, that the floating of any scheme shall be subject to the regulation by the Commission.

Handling of Claims

- 6.16. All pending claims in respect of any violation by any TREC Holder of the Transferor or relating to the dealings on the Transferor prior to the Effective Date shall be determined in accordance with the directions of the Commission.
- 6.17. All claims relating to the dealings on the Transferor prior to the Effective Date shall continue to be handled by the Transferor, and shall be met out of the corresponding trust funds established by the Transferor in accordance with the terms of the trust funds.
- 6.18. All monies due and payable to the Transferor as per its books shall be a debt due and payable to the Transferor from the indebted entity or person.

Treatment of Employees

- 6.19. Transferor's employees concerned with the Undertaking as identified by the Successor Exchange ("Undertaking Employees"), shall be offered

employment by the Successor Exchange and the employment of the Undertaking Employees shall be terminated by the Transferor and all their salaries, employment and other dues including terminal dues shall be fully paid and settled by the Transferor before the Effective Date. All employees of the Transferor (other than Undertaking Employees) as of the Effective Date, shall continue to remain the employees of the Transferor, who shall be liable for all such salary, employment and redundancy benefits entitled to them in accordance with the terms of their employment. This Scheme of Integration does not create any new right or entitlement or any benefit in favour of any employee of the Transferor.

Establishment of Branch Office and Rebranding of Premises

- 6.20. The Successor Exchange shall open a branch office at the existing premises of the Transferor. Such premises shall be rebranded as 'Pakistan Stock Exchange Limited' without creation or assumption of any right, interest or title or any proprietary interest in the property owned or possessed by the Transferor. Without prejudice to the operation of this Scheme, the Transferor and Successor Exchange shall agree to commercial terms for the usage or transfer of Stock Exchange Business Assets of the Transferor or other assets on or before the Effective Date.

Change of Status of Transferor

- 6.21. The Transferor shall continue to exist as public limited company by shares with an amended Memorandum of Association to undertake the business of modarba management company/non-banking finance company.

Investment in Other Companies







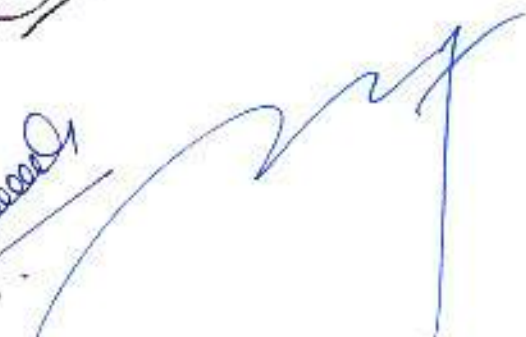
- 6.22. The Transferor shall continue to hold its investments, without any reduction or disinvestment, in associated or other companies without restrictions. No reduction in shareholding of the Transferor in associated or other companies, as at Effective Date, shall be allowed except with the prior approval of the Commission. However, the Transferor shall be at liberty to sell part or all of its shareholding to any entity on its own volition provided, however, that such entity has been approved by the Commission.

De-registration of Transferor Exchange

- 6.23. The registration of Transferor as stock exchange by the Commission shall cease to exist/lapse on the Effective Date.

All of the above matters shall be deemed to have occurred in due sequential order or concurrently, as the case may require, and deemed concluded as at the Effective Date.

Treatment of Creditors

6.24. For purposes of Section 18(7) of the Act, all creditors of the Transferor, as of the Effective Date, shall continue to remain creditors of the Transferor with no obligation whatsoever on part of the Successor Exchange in relation to such creditors.

7. SAVINGS

7.1. Any matter, assets or liability not comprising or connected to the Undertaking and not specifically treated under or pursuant to this Scheme is deemed not to constitute the Undertaking or Stock Exchange Business Assets of the Transferor and is excluded from the scope and operation of this Scheme, with no obligation whatsoever on part of the Successor Exchange in relation to any liabilities or obligations of the Transferor.

7.2. This Scheme of Integration shall not be construed or interpreted or deemed to have taken away, abridged or otherwise curtailed or be considered to the disadvantage of the TREC Holders of the Transferor insofar as trading rights vesting in such TREC Holders under the Act, as at the Effective Date, is concerned.

7.3. All past, present and future taxes, duties levies and other expenses, if any, including costs incurred in respect of this Scheme of Integration, up to the Effective Date, by either of the Exchanges shall be borne exclusively by each.

8. AUTHORISATIONS

8.1. The Board of Directors of the Transferor granted approval to this Scheme of Integration through resolution passed in meeting of the Board on 23 September 2015, and the Shareholders of the Transferor granted approval to this Scheme of Integration through resolution passed in extraordinary general meeting of the Transferor on **28 October, 2015**.

8.2. The Board of Directors of the Successor Exchange granted approval to this Scheme of Integration through resolution passed in meeting of the Board on 22 September 2015, and the Shareholders of the Successor Exchange granted approval to this Scheme of Integration through resolution passed in extraordinary general meeting of the Successor Exchange on **26 October, 2015**.

9. PROCEDURAL REQUIREMENTS

This Scheme of Integration shall be binding on the Exchanges but shall not become effective until the last of the following events, consents, approvals, resolutions and orders have been obtained or received:

9.1. Approval of the Registrar confirming change of name of:



A collection of handwritten signatures in blue ink. One signature is written over a circular stamp of the Karachi Stock Exchange Limited, which has "KARACHI STOCK EXCHANGE LIMITED" and "Karachi" written on it. Another signature is written below it, and a third signature is written to the right.

- 9.1.1. Karachi Stock Exchange Limited to 'Pakistan Stock Exchange Limited' under Section 39 of Companies Ordinance, 1984, or such other name as may be approved by the Commission without any further act, deed or instrument or matter to be undertaken and issuance of certificate of incorporation evidencing such change of name.
- 9.1.2. Lahore Stock Exchange Limited to such name as may be approved by the Commission under Section 39 of Companies Ordinance, 1984, and issuance of certificate of incorporation evidencing such change of name.
- 9.2. Approval of the Commission under Section 21 and Section 28 of the Companies Ordinance, 1984 confirming amendments in the Memorandum and Articles of Association of the Transferor entitling the Transferor to undertake business as a modarba management company/non-banking finance company and after the Effective Date cease to conduct business as a stock exchange.
- 9.3. Receipt of approval from the Competition Commission of Pakistan under Section 11 of the Competition Commission of Pakistan Act, 2010.
- 9.4. Satisfaction of the Commission that all TREC Holders of the Transferor (except those suspended) and the Successor Exchange (except those suspended) shall have access to and are assured seamless and real time access to the trading system of the Successor Exchange so as not to cause any disruption of trading activity by any TREC Holder, and that all branch offices of Transferor and/or web portals and social media pages including the email and exchange servers shall have been disabled and cease to operate.

10. DIRECTIONS BY THE COMMISSION

In order to ensure smooth and seamless integration of the Undertaking of the Transferor within the Successor Exchange and to preserve the trading rights of the TREC Holders, the Commission is requested to issue directions that:

- 10.1. No variation in TREC Holder rights shall be effected so as to deprive or render TREC Holders of the Transferor at any disadvantage from the position and rights enjoyed by them as at the Effective Date, except with prior permission of the Commission.
- 10.2. The Successor Exchange shall not implement any scheme or arrangement to classify TREC Holders into different class or category on the basis of their previous history or association with the Transferor.
- 10.3. The Commission shall issue instructions for the de-freezing of the blocked shares of Transferor under the Act, provided, however, that the said shares shall be dealt with in accordance with the regulatory framework applicable to modarba management company/non-banking finance company.



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- 10.4. The Commission shall, for purposes of and consistent with this Scheme of Integration, issue directions in respect of any third party claim or action against the Successor Exchange in relation to any action taken by the Transferor or any Shareholder or stakeholder of the Transferor for any action, event or transaction prior to the Effective Date.
- 10.5. In case of any dispute with regard to the status of a person as a TREC Holder of the Transferor, the Commission will determine the status of such person as a TREC Holder or otherwise.

11. REMOVAL OF DIFFICULTIES

In the event there is any impediment in implementation of the Scheme or there is any disagreement between the Transferor and the Successor Exchange or any other person interested in the Transferor or the Successor Exchange, including shareholders, stakeholders and employees of the Exchanges and any person having any interest in the assets, undertaking or liability of either Transferor or the Successor Exchange has any grievance, the Commission may, on application, address or resolve such matters in the overall interest and benefit of the securities market provided that while doing so, the commercial interests of the Transferor as well as Successor Exchange shall not be adversely affected. In any manner, whatsoever.

12. MISCELLANEOUS

Publication

Each of the Transferor and the Successor Exchange shall independently discharge their respective obligations, including the publication of the Scheme in accordance with the Act.



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KARACHI STOCK EXCHANGE LIMITED
And
ISLAMABAD STOCK EXCHANGE LIMITED

SCHEME OF INTEGRATION

Under Section 17
The Stock Exchanges (Corporatisation, Demutualization and Integration) Act,
2012



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SCHEME OF INTEGRATION

(Karachi Stock Exchange Limited & Islamabad Stock Exchange Limited)

1. PREAMBLE

- 1.1. All three stock exchanges in Pakistan, having been duly corporatized and demutualized under the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012, validly exist as public limited companies under the Companies Ordinance, 1984, each registered to operate as a stock exchange under the provisions of the Securities and Exchange Ordinance, 1969 and the Securities Act, 2015.
- 1.2. Subsequent to the demutualization of the stock exchanges, the stock exchanges were required to procure strategic investment, which they have been unable to do even during the extended period. To further the objectives of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 and keeping in due perspective the development and benefits to the capital market and in the national interest, all three registered stock exchanges in Pakistan resolved to enter into a Memorandum of Understanding dated 25 August 2015 outlining their mutual understanding to proceed with arrangement of induction of the TRE Certificate Holders of Lahore Stock Exchange Limited (LSE) and Islamabad Stock Exchange (ISE) into Karachi Stock Exchange Limited (KSE) to be renamed as 'Pakistan Stock Exchange Limited' (PSE) or such other name as may be approved by the Securities and Exchange Commission of Pakistan.
- 1.3. The Securities and Exchange Commission of Pakistan has agreed to facilitate the above arrangement agreed by all three stock exchanges and required the stock exchanges to submit proposed scheme of integration after it is considered and approved by the respective board of directors, and the shareholders in general meeting.
- 1.4. Accordingly, this Scheme of Integration is being proposed in respect of the induction of ISE TRE Certificate Holders as the TRE Certificate Holders of PSE; consequently ISE shall cease to operate as a stock exchange and PSE shall emerge as the single securities exchange providing both the trading and listing services at the national level.
- 1.5. Subsequently, subject to sanction of this Scheme of Integration by the Securities and Exchange Commission of Pakistan, ISE shall continue as a public limited company entitled to undertake business as a non-banking financial company.



The bottom of the document features several handwritten signatures in blue ink. On the left, there is a circular official seal of the Karachi Stock Exchange Limited. On the right, there is a circular official seal of the Islamabad Stock Exchange Limited, with the acronym 'ISE' prominently displayed in the center. The signatures appear to be from representatives of both exchanges.

2. DEFINITIONS

- 2.1. In this Scheme of Integration, unless the context otherwise requires or admits, the following expressions shall bear the meaning as under:
- 2.1.1. "Act" means the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012, as may be amended, from time to time.
- 2.1.2. "Board" or "Board of Directors" means the board of directors of the Transferor or the Successor Exchange, as the case may be.
- 2.1.3. "Commission" means the Securities and Exchange Commission of Pakistan.
- 2.1.4. "Effective Date" means the date on which integration of the Exchanges is specified by the Commission to become effective in terms of Section 18(3) of the Act.
- 2.1.5. "Exchanges" means the Karachi Stock Exchange Limited and the Islamabad Stock Exchange Limited.
- 2.1.6. "Registrar" bears the meaning ascribed in Section 2(1)(31) of the Companies Ordinance, 1984.
- 2.1.7. "Regulations" means the Stock Exchanges (Corporatisation, Demutualization and Integration) Regulations 2012, as amended from time to time.
- 2.1.8. "Scheme" or "Scheme of Integration" means this Scheme of Integration embodying the arrangement between the Transferor and the Successor Exchange, in its present form or as may be modified and approved by the Shareholders or by the Commission under Section 18(3) of the Act, as the case may be.
- 2.1.9. "Shareholder" or "Shareholders" means member of the Transferor or the Successor Exchange, as the case may be.
- 2.1.10. "Stock Exchange Business Assets" means such physical and/or IT infrastructure related assets of the Transferor that may be transferred at commercial terms to be agreed between the Transferor and the Successor Exchange pursuant to this Scheme.
- 2.1.11. "Successor Exchange" or "KSE" or "PSE" means the Karachi Stock Exchange Limited, to be renamed pursuant to this Scheme.
- 2.1.12. "Transferor" means the Islamabad Stock Exchange Limited, as it may continue with revised objects and renamed pursuant to this Scheme.
- 2.1.13. "TRE Certificate Holder" or "TREC Holder" bears the meaning ascribed in Section 2 (xxviii) of the Act.



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2.1.14. "Undertaking" bears the meaning ascribed under Section 2(xxix) of the Act,

Explanation: For purposes of this Scheme, Undertaking of the Transferor comprises stock exchange business, that is, the trading and listing services relating to the provision of the market place for bringing together buyers and sellers of securities or otherwise performing trading functions of a stock or securities exchange in accordance with license issued by the Commission under the Securities and Exchange Ordinance, 1969 and the Securities Act, 2015. Provided, however that the Undertaking shall not include any liability of the Transferor on any account whatsoever nor shall include any obligation of the Transferor to its employees, creditors or Shareholders.

2.2. Capitalised terms used in this Scheme and not defined in Section 2.1 shall, unless the context otherwise requires, have the meanings ascribed to them under the Act, the Securities Act, 2015, the Companies Ordinance, 1984 and other applicable laws, rules and regulations, as amended from time to time, as the case may be.

3. PURPOSE OF SCHEME OF INTEGRATION

This Scheme of Integration shall afford benefits to the capital markets in general and investors in particular and also add shareholder value for Shareholders of the Successor Exchange, *inter alia*, for the following reasons:

- 3.1. The Exchanges would stand integrated to enable a purposeful consolidation of trading and listing services across the country. The integration is consistent with regional and international trends.
- 3.2. The resultant economies of scale shall bring in greater efficiency in the administration, maintenance, governance, regulatory supervision as well as rationalisation of costs associated with core exchange functions, and provide added benefit to the issuers who will be assured consolidated regime governing listing duly regulated by the Commission.
- 3.3. Shareholder value of the Successor Exchange may be enhanced significantly thereby increasing prospects of strategic investment, including foreign direct investment, in the post de-mutualization/integration scenario as noted in Section 1.2 above.
- 3.4. The financial position of the Successor Exchange may be bolstered thereby rendering improved liquidity and also provide greater comfort to investors.
- 3.5. TRE Certificate Holders of Transferor shall become TRE Certificate Holders of the Successor Exchange at no additional cost or expense to them, and are intended to have access to a much larger pool of liquidity and opportunity for efficient price discovery.









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- 3.6. Incongruent base minimum capital requirements across the country shall stand rationalised thereby affording level playing field to all TRE Certificate Holders.
 - 3.7. The emergence of a single securities market shall be in the best interests of the investors and the general public. This market will also foster high standards of professionalism among market participants for the eventual growth of the domestic capital market.
 - 3.8. Consistent with the provisions of the Act, and subject to regulatory approvals to be procured in due course, the Successor Exchange shall be enabled to list its own securities, and the investors would enjoy benefits attaching thereto.
 - 3.9. The proposed Scheme will enable optimal utilization of available resources; rationalization of overlapping facilities, infrastructure and regulatory mechanism; improve overall competitiveness of the business at the national as well as regional level; and help the Successor Exchange to better face the current and future challenges and opportunities.
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4. ENHANCEMENT OF COMPETITION

The contemplated integration, from a competition law perspective, benefits competition and allays any anti-competitive concerns, as indicated below:

Contribute substantially to the provision of services

- 4.1. The proposed integration is most likely to produce a number of efficiency benefits, which can accrue directly or indirectly to the users of the integrated exchange; intermediaries (brokers), final investors and issuers (listed companies).
- 4.2. The integration process would also increase the liquidity of the Successor Exchange and, therefore, reduce the implicit costs of trading for investors by centralizing the trading activities. It will reduce bid-ask spreads insofar as it helps intermediaries to defray fixed order processing costs, namely, the costs of access to the trading platform and of maintaining a continuous market presence; reduce adverse-selection costs, due to the presence of informed traders; reduce the inventory-holding costs of market makers.
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- 4.4. Accessing a single trading platform instead of two (or more) allows market professionals to save on the hardware, software and focus on more skilled human capital.

Such efficiency is Integration-specific

- 4.5. The proposed integration would directly benefit the users and final investors in several ways, such as: apart from broadening trading opportunities for brokers' and investors by offering them access to national level securities market.
- 4.6. The harmonization of rules and procedures across the Pakistan markets would simplify TREC Holders' processes and operations. For large TREC Holders, who are already active on the different exchanges, single trading platform would provide the opportunity to rationalize their trading policy and, to rationalize their back-office function by concentrating these operations in a single location and more broadly, to re-organize their trading activities and the staff resources required to perform these operations can be reduced.
- 4.7. The proposed integration ensures continuation of business by TRE Certificate Holders, who would have been at risk on account of consequent inability to encourage strategic investment. Considering the market depth and potential enhanced trading volumes, the proposed integration offers TRE Certificate Holders of the Transferor to continue playing an effective role in developing the core stock exchange business.
- 4.8. Presently, each market has varying trading rules (e.g., specific trading hours or local rules, base minimum capital or paid up capital requirements). The proposed integration intends to offer the TRE Certificate Holders of the Transferor an opportunity to trade at national level securities exchange.
- 4.9. Also, smaller markets tend to deter large foreign investors from participating in these markets. Following integration, all markets would use the same rules, thus eliminating an obstacle to foreign investment. The proposed integration would result in a liquid market, thus leading to lower volatility.

Benefits outweigh lessening of competitors in the market

- 4.10. The benefit of integration is that it would allow all TRE Certificate Holders direct access to a national level securities market. Integration would avoid the previous intermediation costs and with harmonized trading rules resulting in TREC Holders benefitting from reduced internal operating costs. The wider range of trading opportunities would result in greater inter-broker competition.
- 4.11. The integration of exchanges eliminates the duplication of costly infrastructure, thus reducing the average cost of processing a trade. Additionally, in the post-integration scenario, listing fee regime shall be rendered uniform across the country under supervision of the Commission.
- 4.12. Without prejudice to the respective positions of the parties in the matter, the Competition Commission of Pakistan has already given its explicit observation

KARACHI STOCK EXCHANGE
Karachi

PAKISTAN STOCK EXCHANGE

in the matter of M/s Karachi Stock Exchange (Guarantee) Limited (File No. 12/ISE/Sec.3/CCP/2007) that the subject matter of competition in the securities market is that the 'members' (TREC Holders) of stock exchange compete with each other for trading orders and nothing else. Furthermore, the Competition Commission of Pakistan itself has a stated position that a unified trading platform (as would also be the outcome of this proposed integration) will result in *numerous benefits to the investors in terms of greater liquidity, better price discovery, security and greater transparency in terms of entire transaction being documented and traceable. Moreover it discourages the practice of "arbitrage"*. In proposing the integration, there is a clear recognition of the principle that insofar as competition aspects in mergers/ integration are concerned, focus remains to protect competition and not the competitors.

5. SCOPE & EFFECTIVE DATE

- 5.1. This Scheme is intended to provide the treatment in respect of the Undertaking only.
- 5.2. This Scheme of Integration, in its present form or as may be modified by the Shareholders, shall become effective on the Effective Date subsequent to completion of procedural requirements specified under Section 9 to the satisfaction of the Commission.

6. INTEGRATION

Subject to the provisions of this Scheme and pursuant to the order of the Commission under Section 18 of the Act and other enabling provisions of law, and the resulting operation of law, from the Effective Date:

Undertaking

- 6.1. The Undertaking of the Transferor shall be transferred to and vest in and/or deemed to have been so transferred to and/or vest in the Successor Exchange without any further act, deed or instrument or matter to be undertaken.
- 6.2. The Stock Exchange Business Assets of the Transferor may be transferred, on mutually agreed commercial terms, to the Successor Exchange prior to the Effective Date.

Change of Name

- 6.3. The name of the Successor Exchange shall become "Pakistan Stock Exchange Limited" or such other name as may be approved by the Commission without any further act, deed or instrument or matter to be undertaken. The name of Transferor exchange shall become "ISE Towers REIT Management Company Limited" without any further act, deed or instrument or matter to be undertaken.



The bottom of the page features several handwritten signatures in blue ink. A circular stamp of the Karachi Stock Exchange Limited is visible, with the text "Karachi Stock Exchange Limited" around the perimeter and "Karachi" in the center. The signatures are written over and around the stamp.

Rights of TREC Holders

- 6.4. All existing registered TREC Holders of the Transferor, who are registered as brokers with the Commission, shall become TREC Holders of the Successor Exchange and shall be deemed TREC Holders of the Successor Exchange without payment of any admission fee/cost and the need of execution of any separate instrument or registration with the Successor Exchange and the Commission.
- 6.5. All TREC Holders of the Exchanges shall have and enjoy the same rights and entitlements under the Act as if they were TREC Holders of the Successor Exchange. Provided that, any TREC Holder of the Transferor against whom any disciplinary action or suspension is pending shall not become TREC Holder of Successor Exchange unless such action or suspension is removed.
- 6.6. All TREC Holders shall be entitled to record and display their status as TREC Holder of the Successor Exchange.
- 6.7. Any base minimum capital, paid up capital or any other regulatory requirement at the Successor Exchange shall be assessed and decided by the Commission for all TREC Holders to ensure continuity of business of TREC Holders of Transferor.
- 6.8. All TREC Holders of Transferor shall be deemed, in all respects, at par with the existing TREC Holders of the Successor Exchange with respect to all the rights and entitlements to trade or assert trading rights thereat, including but not limited to, in accordance with the Act.

Multiple TREC Holders

- 6.9. Subject to provisions of Section 16(2) of the Act, if, as a consequence of this Scheme of Integration, a person becomes holder of more than one TRE Certificate, such person shall be entitled to hold or sell the additional number of TRE Certificate.

No Change in Shareholding

- 6.10. There shall be no change in the shareholding of the Transferor or the Successor Exchange as a consequence of this Scheme of Integration.

Ownership of Properties

- 6.11. Except for the Undertaking, all properties (movable or immovable), accounts (banking or investment or otherwise), and other assets of the Transferor, including physical, intellectual, copyright, and moveable and immovable properties and cash, included in the books of the Transferor shall remain vested in the Transferor in terms of this Scheme.

- 6.12. All liabilities of Transferor, present or contingent recorded or unrecorded on whatever account and all the obligations of the Transferor shall continue to be liabilities of the Transferor in terms of this Scheme with no obligation whatsoever on part of the Successor Exchange in relation to such liabilities or obligations of the Transferor.

Listing of Securities

- 6.13. All securities or companies listed on the Transferor Exchange shall be deemed listed on the Successor Exchange without the need to comply with any further requirements of the Successor Exchange, provided, always, that the status of such securities or companies vis-a-vis default or otherwise shall not be changed or affected in any manner. To the extent, such securities or companies are or were liable to any action or proceedings before the Transferor in Transferor's capacity as frontline regulator, all administrative functions and settlement powers for recovery of monies or charges due to the Transferor shall be undertaken in accordance with the directions of the Commission.
- 6.14. Any securities or company deemed listed under Section 6.13 above, however, shall be subject to the listing regulations and other rules and regulations of the Successor Exchange as may be framed by the Successor Exchange from time to time.

Continuation of Business

- 6.15. Pursuant to sanction of this Scheme by the Commission, the Transferor shall continue to be company duly authorised to undertake business as per its Memorandum and Articles of Association, and shall become a non-banking finance company, provided, however, that the floating of any REIT Scheme shall be subject to the regulation by the Commission.

Handling of Claims

- 6.16. All pending claims in respect of any violation by any TREC Holder of the Transferor or relating to the dealings on the Transferor prior to the Effective Date shall be determined in accordance with the directions of the Commission.
- 6.17. All claims relating to the dealings on the Transferor prior to the Effective Date shall continue to be handled by the Transferor, and shall be met out of the corresponding trust funds established by the Transferor in accordance with the terms of the trust funds.
- 6.18. All monies due and payable to the Transferor as per its books shall be a debt due and payable to the Transferor from the indebted entity or person,

Treatment of Employees

- 6.19. Transferor's employees concerned with the Undertaking as identified by the Successor Exchange ("Undertaking Employees"), shall be offered employment by the Successor Exchange and the employment of the

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Undertaking Employees shall be terminated by the Transferor and all their salaries, employment and other dues including terminal dues shall be fully paid and settled by the Transferor before the Effective Date. All employees of the Transferor (other than Undertaking Employees) as of the Effective Date, shall continue to remain the employees of the Transferor, who shall be liable for all such salary, employment and redundancy benefits entitled to them in accordance with the terms of their employment. This Scheme of Integration does not create any new right or entitlement or any benefit in favour of any employee of the Transferor.

Establishment of Branch Office and Rebranding of Premises

- 6.20. The Successor Exchange shall open a branch office at the existing premises of the Transferor. Such premises shall be rebranded as 'Pakistan Stock Exchange Limited' without creation or assumption of any right, interest or title or any proprietary interest in the property owned or possessed by the Transferor. Without prejudice to the operation of this Scheme, the Transferor and Successor Exchange shall agree to commercial terms for the usage or transfer of Stock Exchange Business Assets of the Transferor or other assets on or before the Effective Date.

Change of Status of Transferor

- 6.21. The Transferor shall continue to exist as public limited company by shares with an amended Memorandum of Association to undertake the business of non-banking finance company.

Investment in Other Companies

- 6.22. The Transferor shall continue to hold its investments, without any reduction or disinvestment, in associated or other companies without restrictions. No reduction in shareholding of the Transferor in associated or other companies, as at Effective Date, shall be allowed except with the prior approval of the Commission. However, the Transferor shall be at liberty to sell part or all of its shareholding to any entity on its own volition provided, however, that such entity has been approved by the Commission.

De-registration of Transferor Exchange

- 6.23. The registration of Transferor as stock exchange by the Commission shall cease to exist/lapse on the Effective Date.

All of the above matters shall be deemed to have occurred in due sequential order or concurrently, as the case may require, and deemed concluded as at the Effective Date.

Treatment of Creditors

- 6.24. For purposes of Section 18(7) of the Act, all creditors of the Transferor, as of the Effective Date, shall continue to remain creditors of the Transferor with no

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Handwritten signature and blue ink stamp of Pakistan Stock Exchange Limited. The stamp is circular with the text 'Pakistan Stock Exchange Limited' and 'Karachi' in the center. There is a handwritten signature in blue ink over the stamp.

obligation whatsoever on part of the Successor Exchange in relation to such creditors.

7. SAVINGS

- 7.1. Any matter, assets or liability not comprising or connected to the Undertaking and not specifically treated under or pursuant to this Scheme is deemed not to constitute the Undertaking or Stock Exchange Business Assets of the Transferor and is excluded from the scope and operation of this Scheme, with no obligation whatsoever on part of the Successor Exchange in relation to any liabilities or obligations of the Transferor.
- 7.2. This Scheme of Integration shall not be construed or interpreted or deemed to have taken away, abridged or otherwise curtailed or be considered to the disadvantage of the TREC Holders of the Transferor insofar as trading rights vesting in such TREC Holders under the Act, as at the Effective Date, is concerned.
- 7.3. All past, present and future taxes, duties levies and other expenses, if any, including costs incurred in respect of this Scheme of Integration, up to the Effective Date, by either of the Exchanges shall be borne exclusively by each.

8. AUTHORISATIONS

- 8.1. The Board of Directors of the Transferor granted approval to this Scheme of Integration through resolution passed in meeting of the Board on 23 September 2015, and the Shareholders of the Transferor granted approval to this Scheme of Integration through resolution passed in extraordinary general meeting of the Transferor on **October 27, 2015**.
- 8.2. The Board of Directors of the Successor Exchange granted approval to this Scheme of Integration through resolution passed in meeting of the Board on 22 September 2015, and the Shareholders of the Successor Exchange granted approval to this Scheme of Integration through resolution passed in extraordinary general meeting of the Successor Exchange on **October 26, 2015**.

9. PROCEDURAL REQUIREMENTS

This Scheme of Integration shall be binding on the Exchanges but shall not become effective until the last of the following events, consents, approvals, resolutions and orders have been obtained or received:

- 9.1. Approval of the Registrar confirming change of name of:

9.1.1. Karachi Stock Exchange Limited to 'Pakistan Stock Exchange Limited' under Section 39 of Companies Ordinance, 1984, or such other name as may be approved by the Commission without any further


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act, deed or instrument or matter to be undertaken and issuance of certificate of incorporation evidencing such change of name.

9.1.2. Islamabad Stock Exchange Limited to 'ISE Towers REIT Management Company Limited' under Section 39 of Companies Ordinance, 1984, and issuance of certificate of incorporation evidencing such change of name.

- 9.2. Approval of the Commission under Section 21 and Section 28 of the Companies Ordinance, 1984 confirming amendments in the Memorandum and Articles of Association of the Transferor entitling the Transferor to undertake business as a non banking finance company and after the Effective Date cease to conduct business as a stock exchange.
- 9.3. Receipt of approval from the Competition Commission of Pakistan under Section 11 of the Competition Commission of Pakistan Act, 2010.
- 9.4. Satisfaction of the Commission that all TREC Holders of the Transferor (except those suspended) and the Successor Exchange (except those suspended) shall have access to and are assured seamless and real time access to the trading system of the Successor Exchange so as not to cause any disruption of trading activity by any TREC Holder, and that all branch offices of Transferor and/or web portals and social media pages including the email and exchange servers shall have been disabled and cease to operate.

10. DIRECTIONS BY THE COMMISSION

In order to ensure smooth and seamless integration of the Undertaking of the Transferor within the Successor Exchange and to preserve the trading rights of the TREC Holders, the Commission is requested to issue directions that:

- 10.1. No variation in TREC Holder rights shall be effected so as to deprive or render TREC Holders of the Transferor at any disadvantage from the position and rights enjoyed by them as at the Effective Date, except with prior permission of the Commission.
- 10.2. The Successor Exchange shall not implement any scheme or arrangement to classify TREC Holders into different class or category on the basis of their previous history or association with the Transferor.
- 10.3. The Commission shall issue instructions for the de-freezing of the blocked shares of Transferor under the Act, provided, however, that the said shares shall be dealt with in accordance with the regulatory framework applicable to non-banking finance company.
- 10.4. The Commission shall, for purposes of and consistent with this Scheme of Integration, issue directions in respect of any third party claim or action against the Successor Exchange in relation to any _____ by the

Karachi Stock Exchange

Islamabad Stock Exchange Limited

Transferor or any Shareholder or stakeholder of the Transferor for any action, event or transaction prior to the Effective Date.

- 10.5. In case of any dispute with regard to the status of a person as a TREC Holder of the Transferor, the Commission will determine the status of such person as a TREC Holder or otherwise.

11. REMOVAL OF DIFFICULTIES

In the event there is any impediment in implementation of the Scheme or there is any disagreement between the Transferor and the Successor Exchange or any other person interested in the Transferor or the Successor Exchange, including shareholders, stakeholders and employees of the Exchanges and any person having any interest in the assets, undertaking or liability of either Transferor or the Successor Exchange has any grievance, the Commission may, on application, address or resolve such matters in the overall interest and benefit of the securities market provided that while doing so, the commercial interests of the Transferor as well as Successor Exchange shall not be adversely affected, in any manner, whatsoever.

12. MISCELLANEOUS

Publication

Each of the Transferor and the Successor Exchange shall independently discharge their respective obligations, including the publication of the Scheme in accordance with the Act.



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