



# Securities and Exchange Commission of Pakistan

12<sup>TH</sup> FLOOR, NIC BUILDING, 63-JINNAH AVENUE, BLUE AREA, ISLAMABAD

## ***PRESS STATEMENT***

### **Press Statement as Read Out by the SECP Chairman, Razi-Ur-Rehman Khan during Press Conference**

**ISLAMABAD – JANUARY 23, 2008:** The federal Cabinet in its meeting held on January 22, 2008 approved 'The Stock Exchanges (Corporatization, Demutualization and Integration) Ordinance, 2008'. The draft Ordinance has been drafted by the Securities and Exchange Commission of Pakistan ('SECP') in consultation with the three stock exchanges along international lines to facilitate the process of corporatization, demutualization and integration.

In order to bring about an improvement in the governance structure and to make the stock exchanges more competitive, SECP has been pursuing the process of demutualization of stock exchanges since 2002. In this regard, SECP set up an Expert Committee on February 17, 2004 comprising of national and international securities market experts, to examine the feasibility of demutualization, integration and transformation of stock exchanges. The committee submitted its report on September 15, 2004 and fully supported the demutualization of the stock exchanges.

Demutualization is a well established global trend. It is the process of converting a non-profit, mutually owned organization to a for-profit entity owned by the shareholders. The process involves not only corporatization, which is conversion of a stock exchange limited by guarantee into an entity limited by shares but also it segregates ownership and trading rights. Hence demutualization brings balance among interest of different stakeholders in the corporate and governance structure of a stock exchange. Demutualization also helps the stock exchanges in attracting foreign shareholding/ strategic investors.

The draft law includes enabling provisions for the conversion of company limited by guarantee to a company limited by shares and the mechanism and process of corporatization and demutualization of a stock exchange. Moreover, the law empowers SECP to approve scheme of integration of two or more stock exchanges without recourse to the High Court. Under existing legal framework, any scheme of mergers/ integration is required to be approved by the High Court, which is a time consuming process. With the enactment of special legislation, integrations/ mergers of the stock exchanges shall be effected in relatively much lesser time.

The draft law also contains provisions relating to governance structure of the demutualized stock exchange to ensure segregation of its regulatory function from its commercial function, placing restriction on sale and purchase of shares held by various categories of shareholders and empowers SECP to supervise self listing of a demutualized stock exchange.

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The shareholding structure of a demutualized stock exchange shall be as follows: - strategic investor and Local Financial Institutions: 40%, general public: 20%; and existing brokers: 40%. The Ordinance further restricts any initial shareholder, a member of general public or Trading Right Entitlement (TRE) certificate-holders to hold more than 1% of the shares of stock exchange and Financial Institutions to hold more than 5% of shareholding.

After demutualization, 60% of the board of the demutualized stock exchange shall comprise of independent directors. Moreover, as per draft Ordinance, TRE certificate-holders can not hold majority on Board of a stock exchange. The Ordinance also restricts any TRE certificate-holder to become the Chairman of a Demutualized stock exchange.

After demutualization, only corporate entities will be registered as broker on the stock exchange. The existing TRE certificates can only be transferred once. All other TRE certificates shall be non-transferable. A stock exchange cannot issue new TRE certificates till June 30, 2010 unless two third majority of TRE certificate holders decide otherwise. Subsequently, till December 2019, every stock exchange shall be required to offer for issuance 15 TRE certificate each year. Thereafter there will be no restriction on trading rights.

With the promulgation of the Ordinance, the process of corporatization and demutualization will start and will be completed within a period of 119 days. The stock exchanges shall be required to submit the necessary information within 45 days of the promulgation. Subsequently, the Registrar shall issue a certificate of re-registration after the stock exchanges meet all the requirements of the law. The stock exchange shall stand corporatized and demutualized from the date of issuance of certificate of re-registration.

Furthermore, the Ordinance provides for the divestment of up to 40% shares to the strategic investor and local financial institutions and 20% to the general public. The local financial institutions shall get shares if any are remaining after sale of shares to the strategic investor and the general public. A strategic investor may acquire additional shares from the general public (after three years of the initial acquisitions) to increase its shareholding to 51% by making a public offer.

The draft law as approved by the Federal Cabinet is placed on SECP website.