



Pakistan Stock Exchange (PSX)

A Quantum Leap Forward for Capital Market

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The integration will further pave the way for more foreign investment into the country and provide a conduit for the growth of business and national economy, in addition to playing an effective role in enhancing a culture of savings and investments among the people of Pakistan.

The unification and smooth transition of three stock exchanges into a single national trading platform for equity and debt securities has been made possible through the joint efforts of the government under the visionary support of the Federal Finance Minister, the regulatory support of Securities and Exchange Commission of Pakistan (SECP); the avowed cooperation of the owners of the three stock exchanges and the supporting role of the Central Depository Company of Pakistan (CDC) and the National Clearing Company of Pakistan (NCCP). All of them worked in coordination to set up the PSX.

Historical Perspective

On 18th September, 1947, the **Karachi Stock Exchange (KSE)**, which is Pakistan's benchmark stock exchange, was established and later incorporated on 10th March 1949. Initially, KSE had only five listed companies with a paid-up capital of Rs. 37 million. It was first called KSE 50 Index. Computerized trading system which is known as Karachi Automated Trading System (KATS) was launched in 2002.

In October 1970, **Lahore Stock Exchange** was established in Lahore initially with 83 companies. It was the first stock exchange in Pakistan to use the internet and currently 50% of its transactions are via the internet.

In October 1989, **Islamabad Stock Exchange Company** was incorporated as a guarantee-limited company. It was licensed as a stock exchange on 7th January 1992 and started trading in July 1992.

Rationale for Integration

All the three stock exchanges in Pakistan had different management set-up, trading boundary, indexes and listing criteria and even they had no mutual links with each other. All of them were operating as non-profit organizations where members had trading as well as ownership rights. This structure fundamentally created conflict of interest and endangered the interest of investors. Therefore, the Demutualization Act 2012 was adopted by the Government and consequently, these three Stock exchanges were amalgamated to form a new combined Stock exchange named, Pakistan Stock Exchange (PSX). Finally, on August 27, 2016, a Memorandum of Understanding was signed in the presence of the Federal Finance Minister, Mr. Mohammad Ishaq Dar, among Karachi, Lahore and Islamabad stock exchanges for their integration into single platform.

Subsequently, all the Stock Exchanges submitted their schemes of integration under section 17 of the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012 after approval from their respective boards and general bodies which were approved by the Securities and Exchange Commission of Pakistan.

Promulgation of Demutualization Act 2012

Demutualization of stock exchange is a global phenomenon and many developed and developing countries like India, Malaysia, Singapore, USA, UK, Germany, Australia, Hong Kong and Turkey have undertaken demutualization of their stock exchanges in view of global competitions and technical

advancements in stock market operation. **On 7th May 2012**, the Securities and Exchange Commission of Pakistan promulgated the Stock Exchanges (Corporatization, Demutualization and Integration) Act 2012. The demutualization had been supervised by the Demutualization Committee and the Board of Directors of all stock exchanges.

According to the Demutualization Act, 2012, now all members are no more member of PSX and they had been issued Trading right entitlement Certificate (TRECs) and ownership share of PSX's which separate trading rights from ownership rights. TREC represent trading rights whereas PSX share represent ownership rights. Now, there is no need to hold PSX share for TREC holders nor PSX shareholder is mandatory to be TREC holders of PSX.

Due to this structural change, Pakistani capital market is going toward new opportunities and challenges by closing the chapter of members-owned form of stock exchanges and winding up competition of three different stock exchanges. Malaysia, Hong Kong and Singapore have also single stock exchange market for market capitalization and recently India has also merged its all 21 market into on single entity.

Objectives of Demutualization and Integration

The main objectives of both Demutualization and Integration is to address the various problems being faced by stock exchanges and to help them perform their economic role more effectively. However, the broad objectives of a stock exchange are summarized as under:

- a) facilitate capital formation by channeling savings into investments
- b) provide liquidity and price discovery for listed securities
- c) manage systemic risk to safeguard market integrity
- d) protect investors from market abuse, such as price manipulation and insider trading
- e) act as a front line regulator for brokers and listed companies
- f) develop market by offering investors new products and services
- g) provide high-tech information and technology and mechanical trading operations
- h) protect and safeguard the interests of the members, investors and employees

Current Strength of PSX

Pakistan Stock Exchange (PSX) – Facts and Figures	
Total Listed Companies	555
Total Market Capitalization	US\$ 67 billion (as of December 23, 2015)
Total Foreign Institutional Investors	1886
Total Domestic Institutional Investors	883
Total Retail Investors	0.22 million
Total Brokerage Houses	400
Total Asset Management Companies	21

The emergence of a single, national capital market will create a large liquidity pool through which brokers would be able to better serve the existing and prospective investors throughout the country. It is hoped that the integration of three stock exchanges into PSX would help to reduce market fragmentation; provide a nationwide footprint, attract more investors and provide maximum people better access to capital market. We expect the PSX to play a positive role in serving the investors and industry for better economic development of the country.

