

## **PRESS RELEASE**

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### **Demutualization: Key Milestone for the Karachi Stock Exchange**

The Caretaker cabinet, in a meeting on January 22, 2008 approved the draft Stock Exchanges (Corporatization, Demutualization and Integration) Ordinance, 2007. The Ordinance is expected to be signed by President Musharraf in the next ten days.

The approval of the draft Demutualization Ordinance is a significant milestone for the stock exchanges of Pakistan; in particular, for the Karachi Stock Exchange (KSE) which is the largest and premier stock exchange of the country with 652 companies listed, a market capitalization of Rs. 4234.05 billion as of January 24, 2008. Demutualization refers to the transformation of the KSE from a not-for-profit concern limited by guarantee (i.e. owned by 200 members) to a shareholder owned for-profit entity where members, investors and the general public will be able to buy and sell shares of the exchange.

The Demutualization Ordinance provides for the forty percent of the shares to be retained by existing members, twenty percent to be issued to the general public through an IPO and the remaining forty percent to be sold to a set of strategic international investors (such as global stock exchanges and or financial institutions).

There are a number of benefits of demutualization and corporatization. First, demutualization allows the exchange to partner with a strategic international investor who is recognized as a market leader in offering a fair, transparent and efficient securities market. This will allow the exchange to benefit from a transfer of technology and products that are yet to be introduced in Pakistan's "nascent" capital markets. Second, the involvement of a global strategic investor will help add credibility to the Pakistani Capital markets-thereby facilitating the entrance of new participants into the market. Third, better technology, access to better training, funds and staff will allow the KSE to be more competitive in the financial services market by introducing innovative new products and services that already exist in the developed markets – where the strategic investor is based. Fourth, certain market activities, such as mergers and acquisitions may be facilitated because of demutualization. The KSE itself may be acquired or be involved in foreign acquisitions in order to diversify its revenues. Fifth, by demutualizing and converting to a listed company, an ethical dilemma no longer exists whereby the brokers are also owners of the exchange and responsible for approving regulations that govern their trading. A demutualized exchange would ensure that the exchange would not work in the interest of members only, but for all market participants and remove any doubts amongst critics. Sixth, allowing the exchange to demutualize would enable the exchange to raise capital that would allow the exchange to expand and improve its operations. Its conversion from a not-for-profit concern to a for-profit concern creates an incentive for the exchange to employ more cost effective and efficient ways to operate. Seventh, a public exchange would increase transparency and improve the image of the exchange thereby becoming a magnet for experienced and well qualified professionals to monitor and regulate the market thereby improving the exchanges services.

There are approximately twenty de-mutualized exchanges in the world representing advanced capital markets. Karachi Stock Exchange will become part of a handful of advanced exchanges that operate in a de-mutualized structure – an achievement that the entire country can take pride in.