Pakistan Stock Exchange Merger: A Prudent Move or an Imprudent Impulse

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Abstract

For more than two decades, demutualization has been forcing the way for the concept of stock exchange merger in the global financial markets. In Pakistan, demutualization fostered one-of-its-kind merger that took place with the amalgamation of three domestic exchanges into PSX. It allowed Pakistani exchanges to transfer from member owned to investor owned organizations. With an exploratory approach, the research has assessed PSX merger and its consequences on stock market of Pakistan. To a certain extent, PSX merger has led to effects identical to global mergers; however, its long term consequences are yet to be witnessed. Analysis showed that PSX merger is apparently a good move for Pakistani market as it has promised significant investments that are essential to upgrade and mobilize the market while keeping exchanges' activities under direct surveillance. With key motives to attract private investments to upgrade the exchanges' infrastructure and to mobilize exchange trading activities, PSX is found to have pros and cons that may substantiate in the long run. It is plausible to state that like every decision, PSX move has its foreseeable positive and negative effects that can be well apprehended with a wise approach to managing the demutualization process and it's after effects. To state the fact, PSX decision is turning out to be a sagacious effort until now and if the authorities keep a hawk eye on both sides of the decree then this coin may turn over a new leaf in the history of Pakistani stock exchange.

Key Words: demutualization, stock exchange merger, PSX, effects, investor

Introduction

In a country, capital markets remain a crucial player in channelling and mobilizing the resources that are available domestically in order to increase the level of national productivity. Among these capital markets, stock exchange is an important capital market that helps determine the level of investment efficiency, the level of savings and the ultimate economic growth rate (Finance, 2016). On the international scale, the last two decades have witnessed significant changes in the stock exchange business environment (Charles, Darne, Kim and Redor, 2014). According to Aggarwal and Dahiya (2006), stock exchange consolidation dates back to the late 1990s when numerous stock exchanges merged together in the pursuit of demutualization – a process in which a member-owned organization (non-profit) is transformed into an investor-owned corporation (for profit). As a result of demutualization, securities can be traded in a competitive manner while paving the way for the manifestation of stock exchange consolidation across products and geographic boundaries (Charles et al, 2014).

In the recent years, growing exchanges' merger activities have successfully attracted the attention of empirical and non-empirical researches although the impacts of these mergers are yet unknown. In 2003, Jain emphasized on examining the exchanges' effects related to liquidity by empirically studying 51 different stock exchanges (Jain, 2003). According to the research conducted by Jain (2003), in comparison with a pure dealer system, an e-limit order book system produces better outcomes of liquidity. In contrast, Pagano and Padilla (2005) empirically examined Euronext to infer that stock exchange integration leads to various indirect and direct efficiency gains. In this research Pagano and Padilla (2005) also came to realize that harmonization of Euronext clearing systems led to substantial increase in the liquidity of 100 largest stocks.

Keeping up with the economic, regulatory and liquidity effects, international exchanges' mergers seem to divert the future of trading activities into a new direction. In a report published on August 2011, PWC stated that Western stock exchange consolidations are feared to step on a new trading bloc by possibly shifting potential activities towards emerging markets (PWC, 2011). The PWC report also recognized the scope for accelerating merger and acquisition/alliance (M&A) activities in the emerging markets due to rising network integration and voluminous growth in trading (PWC, 2011). Analogously, new government reforms, changing patterns of trade and investor preferences and enforcement of new Acts and regulations have shaped the current stock exchange markets and information efficiencies in Pakistan. Keeping this into consideration, Pakistan Stock Exchange (PSX) (formerly known as Karachi Stock Exchange KSE) is of special interest to the researcher as it amalgamates the three stock exchanges i.e. Karachi Stock Exchange (KSE), Islamabad Stock Exchange (ISL) and Lahore Stock Exchange (LSE) into one exchange i.e. PSX. Its serves as a platform for digitized trading of shares in a reliable, efficient and orderly manner; with paid-up capital of worth Rs. 37m, PSX has approximately 200 members and 7 quoted indices currently on board (PSX, 2017). With the emergence of PSX, KSE-100 index has sown upward trend on the performance graph (see figure 1) in the past year. A curious comprehension of the KSE-100 index triggers questions about the forces driving market performance and their implied and/or straight relation with the conception of PSX.

Figure 1: Pakistan Stock Market (KSE100)-One Year Performance

(Source: Trading Economics, 2017)

According to an editorial in Dawn Newspaper, PSX is a necessitated step towards the restrained power of large brokers who are engaged in unethical trading practices and market manipulations (Dawn, 2016a). Keeping this into consideration, the paper intends to pioneer research in examining the underlying causes of PSX merger and its related effects on Pakistani market in terms of information efficiency, market performance, raising capital etc.

1.1. Research Statement of Problem

With new waves of technological advancements and business innovation, global stock markets seem to underway a rapid consolidation process. Examples of such domestic and cross border consolidations can be collected across the globe with popular activities including the NASDAQ-OMX merger, the Euronext merger, Australian stock exchange, Pakistan stock exchange, Borsa Italiana and LSE merger (Charles et al, 2014). On the international scale, exchanges' mergers have accelerated international cooperation and integration among stock exchanges while the performance results of PSX are yet to be witnessed.

Since the inauguration of PSX, market analysts and practitioners have specifically focused on highlighting the pros and cons of this, one-of-its-own-kind Pakistani merger; however, the academic research seems to be less fervent about this idea. Contrastingly, the research paper distillates the attention of the readers towards this nearly new happening of Pakistani stock market. Given the political and economic importance of PSX, this research endeavours to explore the event of PSX in comparison with the existing literature on the global exchange mergers in the pursuit of:

What are the positive and negative effects of PSX merger for Pakistani markets? Is it a prudent move in time?
With reference to existing investigation of Aggarwal and Dahiya (2006) and Charles et al (2014), the stock exchange merger can lead to numerous positive effects such as market efficiency and/or improved liquidity as well as it may prone markets to negative end results in the form of decreased service quality, increase exchange vulnerability to global events and crisis and/or rise in the fee structures. In a quest to understand the phenomenon of stock exchanges' merger, the research centres on exploring the positive and negative upshots of stock exchange merger for Pakistani markets and determine whether it is a prudent decision for Pakistani markets or not.

1.2. Research Objectives

In accord with the stated research problem, this research paper aims to investigate plausible reasoning for PSX merger. The research articulates inferences and conclusions in accord with the following objectives:

- To understand the concept of stock exchange merger, especially PSX merger
- To identify the reasoning and/or motives of PSX merger
- To determine and comprehend positive and negative effects of PSX merger on Pakistani markets
- To recommend practitioners and regulatory bodies and pinpoint scope for future research

The first objective creates a context for the reader to be aware of the stock exchange merger concept in the discipline of finance and financial markets. The concept comprehension in the light of existing literature floors the way for seeking and classifying possible intentions and purposes that instigate this phenomenon in the real markets. Subsequently, evidence from prior researches is aligned to settle on the possible consequences of PSX merger with respect to Pakistani markets. Lastly, the research inferences are summarized to pin down possible actions that can be taken by practitioners and regulators to remedy potential negative consequences of PSX merger. The research also recognizes scope for further research to be carried out in this discipline.

1.3. Research Scope and Rationale

This is an exploratory research with scope broadened to the landscape and dimensions of a particular financial market i.e. stock exchange. In the West and especially in Europe, exchange mergers have gained considerable academic as well as practitioner attention; however, in Asia particularly in Pakistan, this topic still remains undiscovered. To a justifiable length, constrained access to resources and restricted analytical interchange with the real market scenarios has mainly led to the lack of academic evidence on the notion. Interestingly, lack of prior evidence and changing economic needs with twisted political attentiveness motivate and necessitate this research. In a curiosity to unveil the true aspect of exchanges' merger, this research explores the concept of exchanges' merger to help investigate the pros and cons of PSX merger. With the evidence located in accessible secondary data, this research infiltrates the possible positive and negative effects of PSX merger on Pakistani markets to assist practitioners and respective government bodies see the real picture and its shadow effects in the coming future.

1. Literature Review

In theory, capital markets are categorized as a broad term for markets that facilitate the trading of financial investments (Raghunathan and Rajib, 2007). Especially, these markets are involved in the buying and selling of two financial instruments named as debt (such as debt) and equity (such as stock) securities (Burton and Brown, 2014). In today's globalized economy, capital markets are largely inter-connected to create a rippling effect which unfortunately, is a draw back with inevitable results like the ones witnessed in the global financial meltdown of 2007-2009 (Finance, 2016). To prevent such cases, the Securities Exchange Commission (SEC) regulates and monitors the activities and performance of capital markets (Higgins, 2016); however, the changing regulatory and legal requirements have paved the way for various developments in the stock exchanges of Pakistan, USA, UK and rest of the globe.

Generally, stock exchanges across the globe have provided listed companies with a common platform to host various services that may include liquidity, clearance and settlement of transactions and service execution (Akhtar, 2002; Siddaiah, 2011). Being a brokers' club, stock exchanges used to follow a mutual structure to govern their monopolistic operations. However, simultaneous convergence of certain powerful developments has urged stock exchanges to restructure their operations and business models (Akhtar, 2002; Ramaswamy, Roldos, Mathieson and Ilyina, 2004). For example, globalization and increasing market integration has forced stock exchanges to rethink their business strategy to ensure their survival. As a consequence, the process has led to the emergence of demutualization and/or stock exchanges' merger (Zanotti, 2012). Below is the review of literature on stock exchange merger and factors that instigate it along with its positive and negative effects.

2.1. Stock Exchanges' Merger

The term stock exchanges' merger refers to a process in which a typical government-owned exchange is converted into a publicly listed exchange. This is a demutualization process that transforms member associations into for-profit organizations (Akhtar, 2002; Qureshi, 2016).

The internationalized financial markets and globalization has pressurized stock exchanges to directly compete with each other. Akhtar (2002) is of the view that stock exchanges face market competition by strengthening their governance through new business, corporate and legal models. On the other hand, Galpher (1999) claimed that technological advancements have also enabled the stock exchanges to reduce the exchange members' intermediary role while overcoming the national boundaries. Simultaneously, it affects the income sources (such as listing fees, company data sale, membership fees) of stock exchanges by losing the ties between individual trading activity and the related limitations such as geographical location. As a consequence, Lee (2002) and Otchere (2006) argue that stock exchanges need to look for other ways to generate revenues.

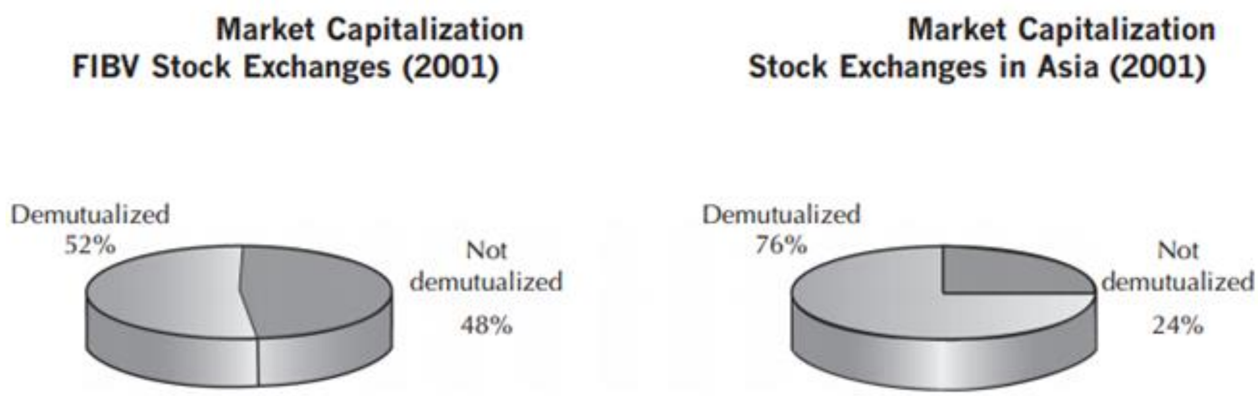


Figure 2: Market Capitalization Comparison between International Federation of Stock Exchanges (FIBV) and Asian Exchanges

(Source: Akhtar, 2002)

According to a research conducted by Akhtar (2002), since 1993 the number of exchanges engaging in listing or privatizing has significantly increased. Evidence to the notion can be collected from figure 2 showing that in 2001, demutualized stock exchanges accounted for 52% of the total market capitalization of FIBV while in Asia, 76% of the market capitalization of the region was accounted for demutualized exchanges. Since 2001, the process of demutualization and/or conflation of stock exchanges has gradually increased in the international and Asian markets.

2.2. Motives and Forces behind Stock Exchanges' Merger

Akhtar (2002) argued that proliferation of Electronic Communication Networks (ECNs) and Alternative Trading Systems (ATS) in support of technological improvements has put stock exchanges in a position where they no longer operate as the only makers of the secondary and primary markets. Hence, these markets need to come up with forces that drive their revenues while helping them sustain the competitive pressures.

In a research, Aggarwal (2002) claimed that key reasons that motivate stock exchanges to demutualize are economic gains, standardized exchange regulations, growing economic competition, the related costs and advancement in the technology. Contrasting to this, Charles et al (2014) are of the opinion that stock exchanges' merger is likely to result in increased liquidity of stocks which are traded on the merging exchanges. This opinion can be backed with a research conducted by Nielsson in 2009; in this research, Nielsson (2009) stated that typically bid-ask spread of a stock remains high if it has low trading volume; hence such stocks are less liquid. In case of exchange merger, prospective investor base is expected to increase with the potential to reduce the transaction cost and fill-up the order book. In addition to this, Qureshi (2016) argued that exchanges' merge together to attract new investors, to implement new rules of listings and most importantly, to separate the rights from ownership. Another important force behind stock exchanges' merger is the need to generate sufficient funds and resources for infrastructure development and better governance (Shadman, 2016). Nevertheless, stock exchange merger can be led by various forces and motives depending on landscape and economic and political situation of the region where these markets are located.

2.3. Positive and Negative Effects of Stock Exchanges' Merger

In line with the research conducted by Pagano and Padilla (2005), merger of two exchanges is likely to produce economic gains in terms of increased market share, increased liquidity and economies of scale. Malkamaki (2000) and Klein (2005) stood to the view that merger of two stock exchanges can lead to economies of scale as it is likely to provide a common platform for offering same services and/or products at a relatively low cost. On the other hand, Charles et al (2014) claimed that if a commodity exchange merged with a stock exchange then the resultant is expected to be economies of scope; where the combined organizations are privileged to produce and offer different services and/or products at a comparatively low cost. Charles et al (2014) well supported this notion by the findings of a research conducted by Kokkoris and Olivares-Caminal (2008) in which they found that the European financial markets' merger was expected to benefit the corporate sector by offering low trading costs via synergy effects and positive economic scales. Similarly, Khan and Vieito (2012) found that as a result of exchanges' merger integration (especially Euronext mergers), the market reported improved efficiencies.

Opposing to the stated positive effects, Neven (2005) claimed that stock exchanges' merger may create a room for monopolistic rent exploitation. Thus in support, Nielsson (2009) observed that the post-exchanges' merger situation may lead to lower liquidity in the face of a potential monopolistic pressures. In addition to this, research showed that exchanges' merger may have negative impact on the industrial competition; hence with the absence of a competitor, the newly formed stock firm may exploit the increased market power and affect the market efficiencies. For example, the newly formed exchange may lessen the post-exchanges' merger efficiency by reducing the service quality or increasing the fees (Charles et al, 2014).

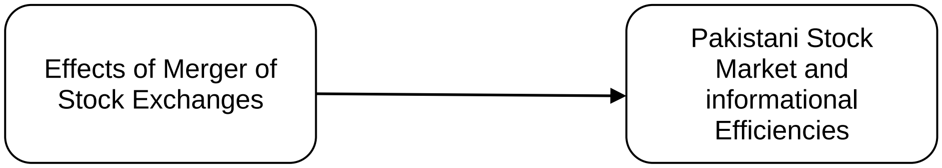
2.4. Research Gap

Existing literature on the merger and/or alliance of two or more stock exchanges brought cases as old as 1990s into focus to determine changes in the liquidity, economic and regulatory conditions and informational efficiencies. However, only a few of these researches highlighted empirical significance of the issue at hand. Another pressing concern is that the existing literature failed to assess the changing patterns of global capital flow and their related effects on the international trade and leading stock markets' position. In Pakistani context, the research gap is extensively wide as negligible academic attention has been diverted towards the matter that may have potential to shape the future of trading activities in Pakistan. Assessment of published and electronically available relevant literature provided nearly no evidence on the fruitfulness and consequences of Pakistani stock exchanges' merger. Prior research also failed to identify the implications of such stock exchange transformation for practitioners, and governing and regulatory bodies. To state the fact, shallow academic attention has created a plausible basis for conducting this research to explore and understand PSX and its consequences.

2.5. Theoretical Framework

The research gap identified above pinpoints the areas that remain uncovered till to date. For example, the research fell short on supplying empirical evidence to possible reasons and impacts of stock exchange merger activities; hence, review of available literature provided constrained findings on outcomes and consequences of stock exchange mergers. The research conducted by Aggrawal (2006) and Charles et al (2014) helped create the theoretical foundation of this research paper.

In accord with the identified literatures, the research has investigated the reasons and forces that drove demutualization of stock exchanges over time and then it has examined the positive and negative impact of such merger of stock exchanges on the Pakistani market.



2. Materials and Methods

The research has chosen exploratory research design for investigating the phenomenon of stock exchanges' merger and to determine that whether it is a prudent decision for the involved markets to merge together or not. Rationale for choosing exploratory design is that the stated research problem remains unattended in the Pakistani context with no prior evidence on the reasons and/or effects of PSX merger.

In the quest for finding answers, the research has utilized secondary sources to create an understanding of demutualization and how it leads to the merger of two exchanges. Keeping constrained access to data and factual results into perspective, the research has mainly focused on secondary qualitative information to determine the underlying motives that paved the way for merging three domestic exchanges into one national exchange i.e. PSX. The research paper approached electronic and non-electronic sources of reliable and published information mainly obtained from international journals, government publications, books, newspaper editorials, and stock exchange publications. Under a deductive approach, the research has strived to answer the research problem by providing a broad perspective on PSX and its related effects on the information efficiency. Since the research has mainly focused on qualitative secondary data rather than making human involvement; hence, inferences drawn in this research are well aligned with the basic ethical considerations of an academic research.

3. Results

In this research, qualitative analysis of published information stated stock exchange merger as a crucial decision with profound effects on the overall market performance, its international linkage and informational efficiencies. In agreement with Akhter (2002), demutualization has anteceded the process of shifting stock exchange ownership from a government owned to a publicly owned organization. According to qualitative analysis, the concept is well served in the merger of three domestic Pakistani stock exchanges into one formal national stock exchange of the country i.e. PSX. With the enforcement of 2012 Act of the Stock Exchanges, demutualization process has been initiated to ensure that the major proportion of stock exchange ownership is segregated from its right to trade. Market information on this demutualization process indicated the transient legitimate right of each exchange to sell 40% share of its stocks to a private investor to be called as a strategic investor (Alam, 2015). The research also found that 40% shareholding in PSX merger is controlled by the original member of the integrated exchanges while the rest 20% is traded with the general public under the scheme of demutualization. A key motive behind this piece of legalized demutualization is to guarantee that the strategic investors play active role in the stock markets by bringing in advancing technologies, latest products and new investments.

In the pursuit of research objectives, understanding of the concept indicated that PSX merger is going to be a wise choice as it is intended to create a single profound pool of liquidity with an integrated platform to enhance the system and market operations (Dawn, 2016a). Following the same line practices of USA, India, Germany, UK, and Singapore; PSX is taking Pakistani capital market towards the best global practices while encouraging Pakistani companies to raise global and cross listing capital (Qureshi, 2016). Likewise, PSX merger is opening new doors of trade for domestic and foreign investors by making PSX the main trade forum in Pakistan. Analysis of qualitative secondary data showed that Pakistani capital market is structured with the key players naming Central Depository Company (CDC), Securities and Exchange Commission of Pakistan (SECP), PSX and more (Finance, 2016).

Since the 1969 Ordinance of Securities and Exchange have been substituted with the 2015 Act of Securities, the Pakistani capital market has undergone more than a few layers of development. A key motive behind PSX merger is better market control and appliance of new reforms.

Given this, the Dawn News editorial declared that the new Act enforcement is entitled to implement advanced reforms so as to help prevent unethical practices such as manipulation and market abuse (Dawn, 2016a). A proof to this claim has been recorded with the seizure of a leading brokerage house's senior management members. To state the fact, these arrests had no abnormal effect on the market performance and informational efficiencies as Pakistani market did not respond to these detentions with abrupt volatility (Dawn, 2016a).

Keeping in line with the above statement, the analysis revealed beginning of a new era in the Pakistani capital markets. Similar to exchanges' merger examples of the NASDAQ-OMX merger and the Euronext merger, PSX has served as the pioneering stone for stock market demutualization in Pakistan. According to secondary data analysis, exchanges' integration is recognized as an essential step for creating a transparent, fair and efficient national stock market (Alam, 2015). Additionally, review of a Dawn Newspaper editorial recognized this PSX merger as an essential move to navigate the Pakistani stock market in the right direction where foreign and private investors can act as active market players (Dawn, 2016a).

Another unveiling motivation for PSX merger is the creation of a common platform for brokers and investors to engage in buying and selling of shares in compliance with a cohesive regulatory system. In agreement with the article published in Dawn, data analysis illustrated domestic exchanges' integration as a way to condense the fragmentation of the market (Dawn, 2016b).

This exchanges' merger has also been expected to attract necessary strategic partnerships for acquiring technological assistance and expertise. Evidence to the notion can be collected from the fact that PSX merger is allowing foreign and domestic investors and brokers to trade under one set of rules determined and enforced by one main stock exchange. In this manner, the unified PSX is likely to produce economic gains by attracting feasible investments from different countries of the world (Dawn, 2016a; Qureshi, 2016).

In the past year, the decision of creating a unified exchange has posted positive results even in the face of increasing external pressures and on-going India-Pakistan cross border situation (Karnik, 2016). The research found PSX merger as a positive move with promising valuations and double digit growth in the earnings of listed companies (BR, 2017). Market analysis also showed that the market is expected to earn additional support in the form of millions of dollars reinvested by brokers in the equity market. The trend of investment from local and foreign investors is expected to continue rising in the year 2017 (BR, 2017).

Every decision has positive as well as negative effects on its by-products so does the PSX merger move. In line with the secondary data analysis, PSX move is likely to have positive effects on the overall market performance and information efficiencies as it now follows a mechanism that allows Pakistani exchanges to trade their shares to a foreign investor even upto 40%. In other words, positive effect of PSX merger can be witnessed in terms of drastically improved market capitalization; however, a negative side to this decision is increased vulnerability of Pakistani markets. If Pakistani exchanges become open to foreign investors and keep up to globalized best practices of trade then it is more likely to have negative effects on the market as a whole, as PSX would be prone to international manipulations and continuously changing global trends. To sum up this consequence, Pakistani markets are likely to become vulnerable to what is happening globally and severity of these consequences will highly depend on the direct or indirect proportion of these vulnerabilities.

An additional positive effect of PSX merger is analyzed to be the tumbling power of large brokers who historically victimized the market by sheer drops lest the authorities and/or regulators should move ahead in their direction. Analysis showed that enforcement of the new Act has put a hold to market irregularities engineered by such brokers and the demutualization process is also likely to eradicate the practices of manipulation and unethical trading (Dawn, 2016a). However, a pressing concern at hand is the continued political influence and partisan outreach of these large brokers that is certainly affecting the flourishing path of Pakistani exchanges and repelling foreign investments with negative effects on market efficiencies.

With a way for stimulating foreign investments, PSX merger is likely to result in economic gains by fostering, across country retail to help achieve economies of scale and economies of scope and so far, the approach is working fine. The integration has led to improved informational and operational efficiencies of the market and centralization has enhanced the transparency with improved liquidity. Conversely, a negative effect of PSX merger is seen to be well coated with an effervescent expectation that it conflating the three exchanges will help curb the aftershocks of financial crisis that destabilized the KSE in 2007-2009 (Shadman, 2016).

A lucent critique of this bubbly anticipation has divulged the fact that PSX merger may help Pakistani market to stand on par with the international markets and it may also boost its resilience; however, espousal of global market practices will only make PSX susceptible to global turmoil and the global rippling effect of economies.

Additionally, PSX merger is also found to neglect the interests and true value contribution of one of the three participants of this conflation. Apparently, news to the event declared mutual gains and increasing worth for all three exchanges; however, the true reality pictures it differently. As per the secondary data analysis, an underestimated negative effect of PSX merger is lying in the diluted value of KSE brokers and it is seen to be used as a mere replacement for creating a new face of the exchange by promising genuine value increases to ISE and LSE. This is an issue that might have wandered off in the chanting and celebrations of PSX announcement; however, if not provisioned and addressed in time, this issue may turn into a problem that can have prolong and profound impact on the credibility and the anticipated long-run performance of PSX.

According to an article published by Qureshi (2016), PSX will potentially draw negative effect on the ability of brokers and investors to maximize their profits because PSX merger and new regulations will lead to higher costs and incompetent attention on supervisory responsibilities. In addition to this, analysis found that in case, risk management is compromised then PSX may impose unfair penalties for revenue and strict the surveillance on revenues and trading activities. Moreover, there is an increasing trepidation about potential creation of monopoly in PSX as concerns over this issue were also pinpointed by the former SECP Chairman (Qureshi, 2016).

Contrary to these effects, PSX merger is expected to overcome potential issues by drawing positive effects on the market efficiencies and liquidity. Creation of a common trade platform is creating a balance between various stakeholders' interests and increasing transparent system of trading. In a nut shell, creation of PSX market has its pros and cons and in time, these issues may be dealt with; however, the point for consideration is that, PSX is directing Pakistani markets and the economy ahead in a new direction of prosperity and the authorities should be supported in their endeavour to portray Pakistan as a feasible investment destination for foreign investors.

4. Discussion

Inferences drawn from secondary qualitative data analysis indicated stock exchange merger as an initiative to host transparent mechanism for buying and selling of shares in accord with international standards. Corresponding to first objective, the research extrapolated that stock exchange merger is a process instigated by demutualization to help authorities choose between a public limited company and a for-profit organization. Consonant with Ahmed et al (2011), the analysis presented PSX merger as a step taken to help Pakistani stock markets compete with the international markets and to contest with the global pressures. Findings of the research defined PSX merger as a concept that has practically provided foreign and domestic investors with a common exchange that conforms to international stock trading standards. In the history of Pakistani capital markets, PSX merger is a pioneer of demutualization process and it has given a paradigm for enticing private and foreign investments to elevate the infrastructure of stock exchange and help it meet the global standards.

Findings of the research necessitated the integration of domestic stock exchanges as an important development towards the revival of Pakistani economy by emphasizing on all industrial sectors of the country. In other words, stock exchanges' merger is a vital step towards creating a unified country index i.e. PSX and to offer a common trading platform with same rules and standards for foreign and domestic investors. Research found that PSX merger is envisaged to introduce new products and listings and to bring in capital by attracting potentially new investors. Additionally, ensuing the footsteps of neighbouring countries such as India, Malaysia and eye-witnessing international examples of stock exchanges such as the Nasdaq Stock Market, Bombay Exchange, and London Exchange, domestic exchanges of Pakistan have been conflated to benefit from a shareholder owned organization.

Analysis of news editorials and market information brought to light the underlying motives and forthcoming outcomes of PSX merger. Consistent with Qureshi (2016), the research inferred that the demutualization process has a tendency to help Pakistani markets gain better access to resources such as human and economic capital with improved structure of governance to be followed by PSX. The exchanges' merger has also unlocked the membership card value and improved the ability of the exchange to engage in international alliance and to attract new listings with better recognition on international and domestic levels. In addition to this, review of secondary information uncovered liquidity performance as another motivating factor to derive PSX merger.

In line with the review published by BR (2017), the above research results stated that PSX merger has helped improve the market capitalization and volume of traded shares and it is likely to improve the overall liquidity performance of PSX market. Thus, expanded liquidity will attract more investors to make investments in PSX and assist it in operating on international scale. Evidence to the notion can be taken from the last year performance of PSX. According to analysis, the market reported significant rise in the liquidity in response to lowering rate of interest and broker divestment. Despite external pressures, the market continued to attract investments sufficient for reporting positive flows in the growth of economy and listed companies.

In agreement with Shadman (2016), findings of the research have recognized PSX merger as a crucial step towards economic revival of Pakistan. In response to second objective, the research surmised that this step is needed to take Pakistan out of its financial and economic issues. These issues are strived to be solved by attracting foreign investors to assume the frontline regulatory responsibility of PSX and to portray Pakistan as a safe investment choice. On an individual exchange level, this statement may hold true as ISE and LSE have turned up gigantic gains from the integration; however, the third integrating exchange partner i.e. KSE has signalled negative vibes on the integration as PSX merger handed KSE brokers with nothing but minute benefits. The research paper has inferred that prior to PSX, KSE was a vital and relatively large size market of Pakistan to magnetize foreign capital and private investments; therefore, long run success of PSX can only be assured if the concerns and pragmatic views of KSE brokers are also taken into consideration along with ISE and LSE brokers.

In relation to third objective, secondary information analysis concluded that PSX merger has drawn positive effects on the market performance by increasing trading volumes and resulting in improved market efficiencies. In proportionate with the report published by SECP (2016), centralization of trading activities has certainly reduced the implicit cost of trade for investors and it has increased the liquidity performance of PSX exchange. However, creation of a unified exchange is also likely to birth loopholes in the system that might be reparable if taken care of on time. Among these loopholes, one is recognized as improper focus on the regulatory accountability. For example, Qureshi (2016) claimed that PSX merger will relax the listing standards for maximizing listing revenues and fresh listings. Another negative effect of PSX merger is identified as monopoly apprehension as a result of unified exchange; thus nullifying one of the primary motives of PSX merger i.e. to restrict brokers with supreme power. Additionally, PSX merger may onus listed firms, brokers and investors with higher costs for increasing profits; thus a con of PSX merger is that it may potentially serve as a de-motivating force for brokers and investors. Opposing to this, PSX merger analysis propounded the claim that these are only apprehensions as the exchanges' merger will lead to good governance and transparency which was somehow overshadowed in the individual stock exchange system (Finance, 2016). Discussion of results revealed that the stock exchanges' merger will also help to overcome conflict of interest as the exchange and its participants are conforming to unified standards and practices of trade and in this way, investors' interest will be confronted in an effective manner.

With key motives to attract private investments to upgrade the exchanges' infrastructure and to mobilize exchange trading activities, PSX is found to have pros and cons that may substantiate in the long run. It is plausible to state that like every decision, PSX move has its foreseeable positive and negative effects that can be well apprehended with a wise approach to managing the demutualization process and it's after effects. To state the fact, PSX decision is turning out to be a sagacious effort until now and if the authorities keep a hawk eye on both sides of the decree then this coin may turn over a new leaf in the history of Pakistani stock exchange.

5. Conclusions

For more than two decades, demutualization has been forcing the way for the concept of stock exchange merger in the global financial markets. It is a technique that has allowed international markets to engage in domestic as well as cross border conflation of stock exchanges. Similar to America, Europe and UK, Asian countries such as Singapore, India and Malaysia have also been touched by the fascinations of demutualization. Subsequently, Pakistan has followed the steps of the neighbouring countries to engage in the process of stock exchange merger. Findings of the research described demutualization as an active force behind the process of exchanges' merger while allowing exchanges to merge with the domestic as well as cross border exchanges. In Pakistan, one-of-its-kind merger took place with the amalgamation of three domestic exchanges into PSX. Demutualization allowed Pakistan exchanges to transfer from member owned to investor owned organizations. With the exchanges' merger, foreign investors are now allowed to become an active trade member of the exchange and to equally enjoy the trading facilities like domestic investors under the same set of rules.

Among these causes, another key motive to derive the PSX merger is found to be the accelerating pace of economic competition. There is no doubt about the fact that today's capital markets are continuously hard-hit by the globalization and convergence of international trade and commerce. Consequently, growing economic pressures have necessitated it for the global economies to pace up with the changing waves of development by embracing it and doing what needs to be done. Likewise, Pakistani government has taken an indispensable action towards the realization of an old dream of making Pakistani markets to be owned and operated privately.

At present, it would be too early to declare the state of this move as prudence/imprudence of this decision will only be determined in times to come. So far, this exchanges' merger decision is turning out well for the Pakistani investors and markets. Over the last year and a half, PSX merger has shown an overall good performance with better trade opportunities for domestic and foreign investors. A review of the available information depicted improving performance figures of stock exchange trading activities. Constructively, this move has enticed good amount of foreign investments; thereby helping the authorities improve overall market image of Pakistan on an international scale. PSX merger decision has also empowered the respective regulatory bodies and authorities to sense and preclude any unethical trade practice in the market.

To a certain extent, PSX merger move has led to effects identical to global mergers; however, its long term consequences are yet to be witnessed. In conclusion, PSX merger is apparently a good move for Pakistani market as it has promised significant investments that are essential to upgrade and mobilize the market while keeping exchanges' activities under direct surveillance. Nonetheless, this research infers that stock exchanges' integration has served as viable means to an end with the motive to seek a keen private investor for the acquisition of exchanges' ownership rights with the assumed responsibility for serving as front-line regulator. Corresponding to the summarized research findings, here are few recommendations made for practitioners and governing bodies.

6.1. Recommendations for Practitioners and Governing Bodies

For practitioners and governing bodies, following recommendations are made to:

1. Take proactive approach in developing the PSX governance structure with strict legislation to prevent the fear of potential monopoly
2. Avoid potential conflict of interest by ensuring that the concerns and apprehensions of all stakeholders and exchanges' partners, especially KSE brokers are addressed in time and given due consideration
3. Ensure transparency by enforcing laws upto their roots and ward off political influences that may shackle the smooth transition of three exchanges into a mutually supported unified stock exchange
4. Carry preventive measures to lessen PSX vulnerability to severe consequences of global events
5. Enforce listing standards in accord with the new Act and SECP legislation with counter approach for mishandling and regulatory slowdown that may incite unethical practices parenting unfair imposition of necessitate penalties

6.2. Recommendations for Further Research

In spite of these findings, limitations cease the ability of the researcher to inculcate the empirically proven effects of PSX merger on Pakistani markets and informational efficiencies, which in turn paves the way for further research to be conducted and validate on this pressing research issue. In line with these research constraints, following are the recommendations made for advancing research in this discipline.

1. To empirically test the negative and positive effects of PSX merger on the stock market information efficiencies
2. To study the relationship between PSX merger and economic growth of Pakistan
3. To investigate the degree to which PSX merger has shaped and enhanced market image of Pakistan in the eyes of foreign investors from Gulf and Europe
4. To conduct cause-and-effect study on stock exchanges' merger and corporate governance
5. To examine the impact of PSX merger on the short run performance of domestic stocks

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