

COMPETITION TRIBUNAL OF SOUTH AFRICA

Case NO: 45/LM/Apr08

In the matter between

PSG Financial Services

Primary Acquiring firm

And

ZS Rational Holdings (Pty) Ltd

Quince Scripfin (Pty) Ltd

Primary Target Firms

Panel : N Manoim (Tribunal member); Y Carrim (Tribunal member) and
M Mokuena (Tribunal member)

Heard on : 11 June 2008

Decided on : 11 June 2008

Reasons Issued : 14 July 2008

Reasons for decision

Approval

[1] On 11 June 2008 the Competition Tribunal issued a Merger Clearance Certificate approving the merger between PSG Financial Services Ltd and ZS Rational Holdings (Pty) Ltd and Quince Scripfin (Pty) Ltd unconditionally. The reasons for the approval appear below.

Parties

[2] The primary acquiring firm is PSG Financial Services Ltd ("PSG Financial Services"). PSG Financial Services is controlled by PSG Group Ltd ("PSG Group"), a public company listed on the JSE Securities Exchange. PSG Group is not controlled by a single shareholder.

[3] The primary target firms are ZS Rational Holdings (Pty) Ltd (“ZS Rational”) and Quince Scripfin (Pty) Ltd (“Quince Scripfin”). Both ZS Rational and Quince Scripfin are wholly owned subsidiaries of Quince Capital Holdings Ltd. ZS Rational controls Quince Property Finance (Pty) Ltd (“Quince Property”) and Quince Scripfin does not control any firm.

Transaction

[4] The parties to the transaction submit that they want to unwind their interest and return all shareholders to their respective position.¹ This unwinding entails PSG Financial Services acquiring 79.91% shareholding and the trustees for the time being of the Kalander Trust (“the Kalander Trust”) acquiring 20.09% in ZS Rational. This would be followed by ZS Rational acquiring the entire issued share capital of Quince Scripfin. On completion, PSG will own ZS Rational and ZS Rational will own Quince Scripfin.

Rationale

[6] The parties submit that when Reunert, PSG Financial Services and the Kalander Trust formed a joint venture, i.e. Quince Capital, the intention was to convert it into a bank and also serve as a niche asset based financing alternative to its clients. However, due to the subprime crisis which has increased the cost of funding the joint venture, the parties decided to unwind and restore themselves to their original position.

Parties Activities

The acquiring group

[8] PSG Group is a financial services investment company and does not sell any products or provide any services. Its portfolio of companies provide a wide selection of financial services and products, including corporate finance, asset management,

¹ This transaction is also related to the Reunert/Quince Capital transaction, filed under case no: 44/LM/Apr08. The Reunert/Quince Capital transaction entailed Reunert acquiring the remaining 52.8% shares in Quince Capital from PSG Financial Services and the Kalander Trust (Reunert already had 47.2% share in Quince Capital). Post-merger, Quince Capital became Reunert’s wholly owned subsidiary.

stock broking, local and off-shore investment, life insurance, short and long-term insurance, portfolio management, private equity investments and retail banking. PSG Group holds all its investments through PSG Financial Services.

[9] PSG Financial Services is a holding company and does not sell any products or provide any services. It holds a number of strategic and controlling stakes in a range of private and public financial services companies. The company relevant for purposes of this transaction is Online Securities Ltd (“PSG Online”).²

[10] PSG Online is involved in online trading services to private clients for trading in JSE listed instruments as well as other financial instrument derivatives, via the PSG Online website and trading systems provided by PSG Online. In addition, PSG Online provides trading systems and back office services to registered financial services providers such as PSG Konsult and other Financial Services Board registered asset managers.

The primary target firms

[10] ZS Rational is the holding company of Quince Property and conducts business through it. Quince Property is involved in the business of providing bridging finance for purposes of immovable property transactions.

[11] Quince Scripfin provides loan finance to clients who pledge and cede their share portfolios as security for the financing. Share portfolio that serve as security for the loans are managed by PSG Online on behalf of the client. Quince Scripfin, in order to safeguard its security, rely on PSG Online to compete certain activities on its behalf in relation to the share portfolio.

Competitive analyses

[12] There is no horizontal overlap in the activities of the merging parties as the acquiring firm does not provide bridging finance for purposes of immovable property related transactions. There is, however, a vertical relationship between the activities of the merging parties in that PSG Online provides services on behalf of Quince

² PSG Online is a subsidiary of PSG Konsult, a subsidiary of PSG Financial Services.

Scripfin. These services include ensuring that documentary requirements of the Financial Intelligence Centre Act have been complied with by Quince Scripfin prior to it making loans available to clients.

[13] PSG Online's upstream market share for online stock broking services to retail clients is estimated to be 15-20% and Quince Scripfin's downstream market share for providing loan finance is less than 1%. According to the Commission, this vertical relationship is unlikely to give rise to any foreclosure concerns as there are alternative players in both the upstream³ and downstream⁴ markets that will serve as an alternative in the unlikely event of the merging parties engaging in a foreclosure strategy.

[14] We therefore agree with the Commission that proposed transaction is unlikely to substantially prevent or lessen competition in the affected markets.

Public interest

[15] The transaction does not give rise to any public interest issues and is accordingly approved without conditions.

N Manoim
Tribunal Member

14 July 2008

Date

Concurring: Y Carrim and M Mokuena

Tribunal Researcher : I Selaledi
For the merging parties : Edward Nathan Sonnenbergs Inc
For the Commission : Xolela Nokele (Mergers and Acquisitions)

³ Upstream market participants include Standard Bank, BOE Stockbrokers, Nedbank, Barnard Jacobs Mellet and ABSA Bank.

⁴ These include firms such as ABSA, Standard Bank, First National Bank, Nedbank and others.