

**COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA**

Case no: 96/LM/Nov04

In The Large Merger Between:

JP Morgan Securities South Africa (Pty) Ltd

And

Cazenove South Africa (Pty) Ltd

Reasons for Decision

Approval

On 12 January 2005 the Competition Tribunal issued a Merger Clearance Certificate approving the transaction between JP Morgan Securities South Africa (Pty) Ltd and Cazenove South Africa (Pty) Ltd. The reasons for this decision follow.

The Parties

The primary acquiring firm is JP Morgan Securities South Africa (Pty) Ltd ("JP Morgan Securities"), a wholly owned subsidiary of JP Morgan International Finance Ltd, which in turn is wholly owned by JP Morgan Chase and Co ("JPMC"). JPMC is a public company listed on the New York Stock Exchange, the London Stock Exchange and the Tokyo Stock Exchange. JPMC has several subsidiaries worldwide. In South Africa, JPMC has control over the following entities: JP Morgan Securities, the Johannesburg branch office of JP Morgan Chase Bank; JP Morgan Equities Limited, Sharestock Nominees (Pty) Ltd and Tasc Administration (Pty) Ltd.

The primary target firm is Cazenove South Africa (Pty) Ltd ("Cazenove SA"), which at the time of notification, was one of seven wholly owned subsidiaries of Cazenove International Holdings Limited ("Cazenove International"). Cazenove International is wholly owned by Cazenove and Co Limited, which in turn is owned by the Cazenove Group Plc. The parties however, informed the Tribunal that as part of an internal restructuring, the shares of Cazenove SA had been transferred from Cazenove International to Cazenove & Co.

The Transaction

JP Morgan Securities is acquiring the entire share capital of Cazenove SA. The transaction is prompted by an international transaction in which Cazenove Group Plc and JP Morgan form a UK-based partnership to be called JP Morgan Cazenove.¹ The transaction will combine Cazenove's investment banking business with JP Morgan's United Kingdom-based investment

¹ Parties' competitiveness report - at page 287 of the record.

banking business² in a jointly owned company. According to the parties the South African transaction is separate from the international transaction and the South African operations of the parties will not form part of the international joint venture referred to above.

Rationale for the Transaction

According to the parties, the joint venture will provide Cazenove's clients with access to JP Morgan's global network, capital strength and broad capabilities, while still preserving Cazenove's operational independence. The parties hope to increase their market share since the transaction will enable them to compliment each other through some of their business activities.

The Parties' Activities

Worldwide, the activities of JPMC are internally organized into six major business segments viz. asset and wealth management, card services, commercial banking, investment banking, retail financial services and treasury and securities services. JPMC's activities in South Africa are conducted through its subsidiaries listed below:

- JP Morgan Securities trades primarily in non-government fixed income securities and also markets structured products to its client base, and earns fees on corporate debt origination and securitisation in South Africa.
- The Jhb branch of JP Morgan trades in foreign exchange and capital markets in South Africa. It also offers structured products and advisory service to its client base and has a full banking licence.
- JP Morgan Equities is engaged in equities broking and trading.
- Tasc Administration provides a comprehensive portfolio administration and investment accounting service for local and foreign investments. Additional services include performance management and composite measurement, securities lending, tax services and reporting.
- Sharestock Nominees holds various investments as a nominee company. Income on these investments is credited directly to the beneficial shareholders.

Worldwide, the Cazenove group is involved in investment banking and operates primarily in the United Kingdom. The group's activities include corporate finance, capital markets, equities and fund management. Cazenove SA offers a comprehensive range of financial advice and services including corporate finance and equities research, sales and trading. Ancillary to these services, Cazenove SA also conducts corporate broking activities, including shareholder analysis and sponsorship activities.

Impact on competition

The Commission analysed the transaction on both a broad market for corporate, investment and merchant banking and on the narrower markets for corporate finance services and equities

² This includes the and acquisitions, equity capital markets and debt capital markets businesses of JP Morgan.

research, sales and trading services. The corporate finance market includes mergers and acquisitions advisory services and debt and equity capital markets services. With regard to the geographic market, the parties submit that the relevant services are offered globally. The Commission however, used the national market for its analysis.

The table below shows the parties' 2003 market shares in the corporate finance market:³

Relevant Market	JP Morgan	Cazenove	Combined
Mergers and acquisitions advisory services	17.18%	4.45%	21.63%
Debt and equity capital markets services	8.68%	0% ⁴	8.68%

According to the parties, the nature of the equities research, sales and trading services market is such that it is difficult to obtain market shares. Instead the parties provided the weighted rankings for research, sales and equities dealing. ⁵

Rank	Company	% of points for research	Company	% of points for sales	Company	% of points for equities dealing
1	Deutsch Securities	13.1	Deutsch Securities	17.6	Deutsch Securities	14.4
2	Merrill Lynch	11.3	UBS	15.0	Merrill Lynch	14.3
3	JP Morgan	9.3	Investec	13.7	UBS	13.8
4	Nedcor Securities	9.0	Cazenove	11.7	Investec	11.5
5	UBS	8.9	Merrill Lynch	8.9	JP Morgan	9.3
6	Barnard Jacobs Mellet	8.4	Barnard Jacobs Mellet	8.0	Nedcor Securities / Barnard Jacobs Mellet	8.9 each
7	Investec	7.9	Andisa Securities	6.8	Andisa Securities	6.0
8	Citigroup	7.15	JP Morgan	6.0	Citigroup	5.0
9	Cazenove	6.7	Citigroup	5.7	First South Securities	4.1
10	Andisa Securities	6.5	Nedcor Securities	5.6		

From the above table, JP Morgan is ranked 3rd in research with Cazenove ranked 9th. In sales,

³ Commission's report

⁴ Cazenove SA was last involved in this market in 2001 when they had a market share of 5,5%

⁵ Financial Mail survey in May 2004. These scores take into account the value of the assets under management of each client.

JP Morgan is ranked 8th and Cazenove 4th. While Cazenove SA does engage in dealing, it was not ranked in 2003. JP Morgan on the other hand was ranked 5th.

In the Commission's view the above market shares (and weighted ranking, in the case of equities research, sales and trading services market) are relatively low and unlikely to raise competition concerns in the relevant markets for the following reasons:

- the market for corporate, investment and merchant banking is dynamic and characterized by lumpy demand and bidding markets. The performance of participants therefore varies constantly depending on their deal flow and the size, nature and number of transactions handled in a particular period;
- the market is highly competitive with many players, cross border trade and a number of international banks active in South Africa;
- customers, who are mostly large corporate clients, choose their own bankers according to reputation and expertise they have displayed in previous transactions. According to the Commission clients are not typically loyal to one service provider and are motivated by factors such as price and service levels;
- government organisations also have a policy of rotating their business between the various providers rather than concentrating their activities on one or two favoured providers;
- finally, the market shares of the parties are relatively low and although there are entry barriers in terms of regulation, it is still possible to enter the market if the enterprise has capital, expertise and a reputation for dealing in these markets.

In light of the above, we are of the view that the transaction does not raise any significant competition concerns. Furthermore, there are no public interest concerns. Accordingly, we agree with the Commission's recommendation that the transaction be unconditionally approved.

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15 February 2005
Date

Concurring: D Lewis and M Madlanga

For the merging parties: Phumlani Ngcongco (Webber Wentzel Bowens)
Heather Irvine (Deneys Reitz)

For the Commission: Lindiwe Khumalo (Mergers and Acquisitions)