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ECONOMIC DEVELOPMENT DEPARTMENT

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**Draft Guidelines for the Determination of Administrative Penalties for Failure to Notify a Merger and Implementation of Mergers Contrary to the Competition Act**

The Competition Commission hereby, in terms of section 79(1) of the Competition Act No. 89 of 1998 (as amended), which allows the Competition Commission to prepare guidelines to indicate its policy approach on any matter falling within its jurisdiction, issues these draft guidelines for the determination of administrative penalties for failure to notify a merger and implementation of mergers contrary to the Competition Act, for public comment.

Written comments are invited by the Competition Commission from any interested person.

The Draft Guidelines for the Determination of Administrative Penalties for Failure to Notify a Merger and Implementation of Mergers Contrary to the Competition Act is attached hereto and can also be downloaded from www.compcom.co.za.

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penalties for failure to notify a merger and
implementation of mergers contrary to the
Competition Act**

February 2017

Draft

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PREFACE

These guidelines have been prepared in terms of section 79(1) of the Competition Act No. 89 of 1998 (as amended) (“the Act”) which allows the Competition Commission (“Commission”) to prepare guidelines to indicate its policy approach on any matter falling within its jurisdiction in terms of the Act.

In the recent years, there has been a growing number of cases of failure to notify a merger and/or implementation of mergers contrary to Chapter 3 of the Act (“**prior implementation**”). In light of this and in order to deter firms from failing and prematurely implementing notifiable mergers, the Commission has developed a methodology setting out its approach consider in determining penalties in prior implementation cases.

These guidelines present the general methodology that the Commission will follow in determining administrative penalties for purposes of concluding consent or settlement agreements and seeking an administrative penalty in prior implementation referrals before the Competition Tribunal (“Tribunal”). The Commission recognises that the imposition of administrative penalties is not a precise science. Therefore these guidelines will not preclude the Commission from exercising its discretion on a case-by-case basis. The primary objective of these guidelines is to provide objectivity and transparency in the method of determining administrative penalties in prior implementation cases.

1. DEFINITIONS

1.1. Unless the context indicates otherwise, the following terms are applicable to these guidelines –

1.1.1. **“Acquiring firm”** means a *firm* –

- (a) that, as a result of a transaction in any circumstances set out in section 12, would directly or indirectly acquire, or establish direct or indirect control over, the whole or part of the business of another *firm*;
- (b) that has direct or indirect control over the whole or part of the business of a *firm* contemplated in paragraph (a); or
- (c) the whole or part of whose business is directly or indirectly controlled by a *firm* contemplated in paragraph (a) or (b)

1.1.2. **“The Act”** means the Competition Act No. 89 of 1998 (as amended) and includes the Regulations made under the Act;

1.1.3. **“Administrative penalty”** means a financial penalty that may be imposed by the Tribunal in terms of section 59 of the Act;

1.1.4. **“Affected turnover”** means the turnover of the transferred firm for purposes of calculating the base amount in a case where the prior implementation has an adverse impact on competition;

1.1.5. **“Appropriate turnover”** means the annual turnover of the acquiring firm and transferred firm in the Republic and exports from the Republic;

1.1.6. **“The CAC”** means the Competition Appeal Court as established in terms of section 36 of the Act;

- 1.1.7. **“The Commission”** means the Competition Commission, a juristic person established in terms of section 19 of the Act;
- 1.1.8. **“Duration”** as a factor to be considered when determining an appropriate administrative penalty, refers to the period from the date of prior implementation to the date of conditional approval, approval or a competent decision regarding that decision by the Competition Authorities.;
- 1.1.9. **“Firm”** includes a person (juristic or natural), partnership or a trust. This may include a combination of firms that form part of a single economic entity, a division and/or a business unit of a firm;
- 1.1.10. **“Firm’s annual turnover”** means the firm’s annual turnover in the Republic and its exports from the Republic in a given financial year;
- 1.1.11. **“Merged entity”** means the entity which exists following the merger between the acquiring firm and the target firm;
- 1.1.12. **“Parties”** means the acquiring firm(s) and the target firm(s) which may be party to a notifiable merger in accordance with the Act;
- 1.1.13. **“Prior implementation”** means a Chapter 3 contravention of specifically sections 13A(1) and / or 13A(3) of the Act;
- 1.1.14. **“Target firm”** means a firm –
- (a) the whole or part of whose business would be directly or indirectly controlled by an acquiring firm as a result of a transaction in any circumstances set out in section 12;

- (b) that, as a result of a transaction in any circumstances set out in section 12, would directly or indirectly transfer direct or indirect control of the whole or part of, its business to an acquiring firm; or
- (c) the whole or part of whose business is directly or indirectly controlled by a firm contemplated in paragraph (a) or (b)

1.1.15. **“Transferred firm”** means-

- (a) a firm, or the business or assets of the firm, that as a result of a transaction in any circumstances set out in section 12 of the Act, would become directly or indirectly controlled by an acquiring firm; and
- (b) any other firm, or business or assets of the firm, the whole or part of whose business is directly or indirectly controlled by a firm contemplated in paragraph (a); and

1.1.16. **“The Tribunal”** means the Competition Tribunal, a juristic person established in terms of section 26 of the Act.

2. INTRODUCTION

2.1. The Commission regards administrative penalties as an important tool in not only enforcing, but also ensuring compliance with the Act. The primary objective of administrative penalties is deterrence. Prior implementation denies competition authorities the opportunity of investigating transactions and making the determination at the time of the merger whether the merger is likely to give rise to a substantial lessening of competition which may permanently alter the structure of the market. In the context of failure to notify a merger or implementation of a merger contrary to Chapter 3 of the Act, administrative penalties serve as a specific deterrent against non-notifying or prematurely implementing a merger that could result in distortions in the market, which constitute a contravention of the Act. In general, administrative penalties in cases of failure to notify or prior implementation aim at ensuring compliance with merger regulations.

2.2. The Act provides for administrative penalties to be imposed on firms if they are parties to a merger and:

2.2.1. Fail to give notice of the merger as required by Chapter 3 of the Act; and/or¹

2.2.2. Proceeded to implement the merger without the approval of the Commission or Tribunal, as required by the Act.²

2.3. The Tribunal has noted the necessity of issuing guidance on how administrative penalties ought to be determined in cases of non-notification and prior implementation.³ The Tribunal has, however, cautioned against using the exact factors as used in the *Competition*

¹ Section 59(1)(d)(i)

² Section 59(1)(d)(iv)

³ Competition Commission and Fruit & Veg Holdings (Pty) Ltd and others – consent agreement (Case No. FTN131Sep15)

Commission v Aveng (Africa) Ltd and Others Case No: 84/CR/DEC09 (“*Aveng*”) ⁴ six-step methodology for non-notification and prior implementation cases. As a result, the Tribunal has provided guidance on the methodology that should be used in calculating fines in prior implementation cases.⁵ Accordingly, being mindful of the fact that of non-notification and prior implementation cases involve different considerations from cartel and abuse of dominance contraventions, the Commission decided to issue separate guidelines on fining prior implementation which will consider factors specific to prior implementation.

3. OBJECTIVES

- 3.1. The primary objective of these guidelines is to provide some measure of transparency, certainty and objectivity in how the Commission will determine administrative penalties in non-notification and prior implementation cases.
- 3.2. In developing these guidelines, the Commission conducted a review and comparison of guidelines developed by other competition authorities such as India, Brazil, European Commission and the US Fair Trade Commission, the Act, the Tribunal's decisions in prior implementation cases⁶ and the

⁴ The Competition Commission v Aveng (Africa) Limited t/a Steeleedale and others (84/CR/DEC09)

⁵ See Competition Commission v Deican Investments (Pty) Ltd and New Seasons Investments Holding (Pty) Ltd (FTN151Aug15 / Competition Commission v Dickerson Investments (Pty) Ltd and Nodus Equity (Pty) Ltd (FTN127Aug15) and Competition Commission v Standard Bank of South Africa Ltd (FTN228Feb16).

⁶ The cases include, *inter alia*, The Competition Commission v Aveng (Africa) Limited t/a Steeleedale and others (84/CR/DEC09), Competition Commission v Deican Investments (Pty) Ltd and New Seasons Investments Holding (Pty) Ltd (FTN151Aug15 / Competition Commission v Dickerson Investments (Pty) Ltd and Nodus Equity (Pty) Ltd (FTN127Aug15), Competition Commission and Fruit & Veg Holdings (Pty) Ltd and others (Case No. FTN131Sep15), Competition Commission / Edgars Consolidated Stores Limited and others (95/FN/Dec02), Competition Commission / Structa Technology (Pty) Ltd and others (83/LM/Nov02), Competition Commission / The Tiso Consortium and others (82/FN/Oct04), Competition Commission v Standard Bank of South Africa Ltd (FTN228Feb16).

principles laid out by the Tribunal (and endorsed by the CAC) in the *Averg* case. In doing so, the Commission was mindful of the nuances and variations in each jurisdiction, including the statutory mandate that the competition authorities in these jurisdictions have to impose administrative penalties. The Commission was further mindful of the different considerations for prohibited practices under Chapter 2 of the Act and non-notification/prior implementation contraventions under Chapter 3 of the Act.

4. LEGISLATIVE FRAMEWORK

- 4.1. These guidelines have been prepared in terms of section 79(1) of the Act which allows the Commission to prepare guidelines to indicate its policy approach on any matter falling within its jurisdiction in terms of the Act. These guidelines are aimed at providing guidance in terms of section 79(2)(b) of the Act and are not binding on the Commission, the Tribunal or the CAC in the exercise of their respective discretion, or their interpretation of the Act.
- 4.2. In terms of section 58(1)(a)(iii) and (b) of the Act, read together with section 59, the Tribunal may impose an administrative penalty in cases of, *inter alia*,:
- 4.2.1. Failure to give notice of the merger as required by Chapter 3 of the Act;
 - 4.2.2. Proceeded to implement the merger in contravention of a decision by the Commission or Tribunal to prohibit that merger;
 - 4.2.3. Proceeded to implement the merger in a manner contrary to a condition for the approval of that merger imposed by the Commission in terms of section 13 or 14, or the Tribunal in terms of section 16; or

4.2.4. Proceeded to implement the merger without the approval of the Commission or Tribunal, as is required by the Act.

4.3. Pursuant to sections 49D and 58(1)(b) of the Act, the Commission and the respondent may reach an agreement on the terms of an appropriate order, which may be confirmed by the Tribunal. The terms of such order may include an agreement on the payment of an appropriate administrative penalty.

4.4. Pursuant to section 27 of the Act, the Tribunal may adjudicate on any prohibited conduct and upon making a determination, may impose an administrative penalty as a remedy provided for in the Act.

5. BACKGROUND AND INSTANCES OF PRIOR IMPLEMENTATION

5.1. Section 13A(1) of the Act obliges a party to an intermediate or large merger to notify the Commission of that merger in the prescribed manner and form.

5.2. Section 13A(3) prohibits parties to an intermediate or large merger from implementing that merger until it has been approved, with or without conditions, by the Commission in terms of section 14(1)(b), the Tribunal in terms of section 16(2) or the CAC in terms of section 17.

5.3. Section 59(1)(d)(i) and (iv) of the Act empowers the Tribunal to impose administrative penalties if the parties to a merger have:

5.3.1. failed to give notice to the merger as required by Chapter 3 of the Act; and

5.3.2. proceeded to implement the merger without the approval of the Commission or the Tribunal, as required by the Act.

- 5.4. In respect of section 59(1)(d)(iv), the need for approval only arises if the merger is notifiable under the Act. Approval is thus required prior to implementation.
- 5.5. A contravention of prior implementation is committed where at the point of implementation:
- 5.5.1. the transaction constitutes a merger under the Act;
 - 5.5.2. the transaction meets the thresholds for notification under the Act;
and
 - 5.5.3. the parties implement the merger without prior approval from the Commission, the Tribunal or the CAC, as the case may be.
- 5.6. A contravention of failure to notify is committed where:
- 5.6.1. the transaction constitutes a merger under the Act;
 - 5.6.2. the transaction meets the thresholds for notification under the Act;
and
 - 5.6.3. the parties have failed to notify the Commission of the transaction.
- 5.7. There is an overlap between the contravention of a failure to notify and the contravention of prior implementation of a merger. Failure to notify, can however take place without prior implementation whilst embedded in the contravention of prior implementation is the failure to notify that transaction.
- 5.8. Prior implementation and non-notification can take various forms. Engaging in conduct which amounts to a change of control as listed in section 12(2) of the Act without the approval of the Commission and/or the Tribunal amounts to prior implementation. Section 12(2) provides that a firm controls another firm, if that firm:

- 5.8.1. Beneficially owns more than one half of the issued share capital of the firm.
 - 5.8.2. Is entitled to a majority of the votes at a general meeting, or to appoint or veto the appointment of the majority of the directors of a firm.
 - 5.8.3. Is a holding company and the firm is a subsidiary of that company under section 1(3)(a) of the Companies Act.
 - 5.8.4. Controls the majority of the votes of trustees, or can appoint the majority of the trustees, or appoint or change the majority of the beneficiaries of the trust, in a firm that is a trust.
 - 5.8.5. Owns the majority of members' interests or controls directly or has the right to control the majority of members' votes in a close corporation.
 - 5.8.6. Has the ability to materially influence the policy of the firm in a manner comparable to a person who, in ordinary commercial practice, can exercise an element of control as above.
- 5.9. The Tribunal has held that the list of circumstances found under section 12(2) is not an exhaustive list. Whether or not control is acquired is a factual question.
- 5.10. The following are examples of instances where the conduct of certain firms have been regarded as a contravention of non-notification and/or prior implementation:

- 5.10.1. The acquisition of 30% of the issued share capital of a company and the accompanying right to veto strategic decision of the shareholders of that company which requires a special resolution.⁷
- 5.10.2. The increase of shareholding from 25% to 28% and the accompanying right to veto certain strategic decisions of the company.⁸
- 5.10.3. The failure of a financial services institution to inform the Commission of its failure to dispose of its acquisition of control over the business assets of the business of the debtor after the expiry of the twelve (12) month period and to request for an extension of time within which to dispose of the business or asset, in terms of the Practitioner Update.⁹ Conversely, the failure of the financial services institution to dispose of its acquisition of control over the business assets of the business of the debtor following the expiry of the twenty four (24) months period.¹⁰
- 5.10.4. The failure to notify the Commission of the acquisition of a 50% share in a company due to the mistaken belief that the transaction amounts to a small merger because the wrong financial statements was used in determining whether the transaction fell within the requisite thresholds.¹¹

⁷ Competition Commission v Deican Investments (Pty) Ltd and New Seasons Investments Holding (Pty) Ltd (FTN151Aug15 / Competition Commission v Dickerson Investments (Pty) Ltd and Nodus Equity (Pty) Ltd (FTN127Aug15)

⁸ Ibid

⁹ Competition Commission v Standard Bank of South Africa Ltd (FTN228Feb16).

¹⁰ The Commission's Practitioner Update, Issue 4 (as amended)

¹¹ Competition Commission / Structa Technology (Pty) Ltd and others (83/LM/Nov02)

- 5.10.5. The acquisition of 49% of the issued share capital of a company coupled with control in the form of section 12(2)(c) i.e. the right to appoint the majority of the directors in the company.¹²
- 5.10.6. The acquisition by two wholly-owned subsidiaries of certain properties and the failure to notify those acquisition due to the mistaken belief that the transactions amounted to two small mergers.¹³
- 5.10.7. The acquisition of part of a business of a company such as its book debts.¹⁴
- 5.10.8. Where a senior executive of the acquiring firm had been engaging in the day-to-day operations of the target firm and the merging parties were already marketing themselves as a single entity.¹⁵
- 5.10.9. Where the acquiring firm changes the name of the target firm.
- 5.10.10. Where there is a premature integration or consolidation of the operations of the merging firms.
- 5.10.11. Where the acquiring firm becomes involved in the strategic planning of the target firm, identifies target markets, develops new products or services, takes charge of ordering raw materials, amends procurement policies or becomes involved in customer relations.
- 5.10.12. Where there is coordination between the merging parties on prices or terms to be offered to customers for sales after the merger agreements (shareholders agreement) have been concluded but

¹² Competition Commission / WBHO Construction (Pty) Ltd & Edwin Construction (Pty) Ltd (69/AM/Oct10)

¹³ Competition Commission / Pangbourne Properties Limited & Others (016246)

¹⁴ Competition Commission / Edgars Consolidated Stores Limited and others (95/FN/Dec02)

¹⁵ Competition Commission / Nenana Management Services (Pty) Ltd and Others (018689)

prior to obtaining the requisite approval by the Competition authorities.

5.10.13. Where the merging parties agree on the allocating customers for sales to be made.

5.10.14. Where the merging firms cease marketing in order not to compete with each other.

5.10.15. Where the acquiring firm receives profits or other payments connected with the performance of the target firm.

5.10.16. Acquiring firms appointing directors to the board of the target firm as the appointment of even one or two directors might give material influence and thus control.

5.10.17. Where there is a contractual clause in a sale agreement requiring the acquiring firm to make full or partial payment of the purchase price in advance for the target, which is non-refundable. Except in cases of deposits in escrow and trust accounts, break-up fee clauses or other similar arrangements.

5.11. The above mentioned instances do not constitute an exhaustive list of instances of prior implementation but merely serves as guidance on instances where the Commission will find that certain conduct constitutes a prior implementation of a merger.

6. METHODOLOGY - IMPLEMENTATION OF A MERGER CONTRARY TO CHAPTER 3 OF THE ACT

6.1. As a general approach, the Commission will apply the following methodology when determining the administrative penalty that a firm will be liable to pay for contravening sections 13A(1) and 13A(3) of the Act. This methodology will be applied in the following way:

- 6.1.1. Step 1: Determination of the nature or type of contravention;
- 6.1.2. Step 2: Determining the range of the administrative penalty;
- 6.1.3. Step 3: Considering factors that might mitigate and/or aggravate the amount reached in step 2, and
- 6.1.4. Step 4: Rounding off this amount if it exceeds the cap provided for in section 59(2) of the Act.

6.2. Where appropriate and in light of the above, the Commission may apply an adjustment for ability to pay in exceptional circumstances.

Step 1: Determination of the nature or type of contravention

6.3. As a general approach, the Commission will first look at the nature of the conduct which gave rise to the prior implementation or non-notification contravention. A prior implementation contravention can take different forms and the Commission will consider how the prior implementation occurred.

Step 2: Ranges of the administrative penalties

- 6.4. The Act requires that an intermediate or large merger must be notified to the Commission and such merger may not be implemented until it has been approved, with or without conditions, by the relevant competition authorities.
- 6.5. An "intermediate merger" is where the combined turnovers/asset values of the acquiring group and the target firm and the target firm's turnover/asset value falls between R560 million and R6,6 billion vis-à-vis the combined turnover and / or asset value of the merging parties and between R80 million and R190 million vis-à-vis the turnover or asset value of the transferred firm.
- 6.6. A "large merger" is where the combined turnovers/asset values of the acquiring group and the target firm exceeds R6.6bn and where the target firm's turnover/asset value exceeds R190m.
- 6.7. Notice 216 of 2009 of the Department of Trade and Industry, on the Determination of Merger Thresholds and Calculation published in the Government Gazette, 6 March 2009, No. 31957 sets out the requisite merger thresholds which need to be met in order for a transaction to be deemed notifiable.
- 6.8. In terms of rule 10(5) of the Rules for the conduct of proceedings in the Competition Commission, the current fee for filing a Merger Notice is –
- 6.8.1. R100 000 (one hundred thousand rand) for an intermediate merger;
or
 - 6.8.2. R350 000 (three hundred and fifty thousand rand) for a large merger.

- 6.9. For prior implementation of intermediate mergers, the minimum penalty will be an amount equal to double the applicable filing fee for an intermediate merger and the maximum penalty will be equal to R5 000 000 (five million rand).
- 6.10. For prior implementation of large mergers, the minimum penalty will be an amount equal to double the applicable filing fee for a large merger and the maximum penalty will be R20 000 000 (twenty million rand).
- 6.11. The ranges set out above in these guidelines will not fetter the discretion of the Commission from seeking the maximum administrative penalty in terms of section 59(2) of the Act, in exceptional circumstances.

Step 3: Aggravating and Mitigating Factors

- 6.12. Once the applicable range amount has been determined, the Commission will adjust this figure by considering the relevant factors listed in section 59(3)¹⁶ of the Act which assesses the aggravating and mitigating circumstances of the acquiring and target firms.
- 6.13. The aggravating and mitigating circumstances evidenced in a particular case will determine whether the penalty amount will be in the higher or lower ranges. This approach must consider all of the factors listed under section 59(3).
- 6.14. The following factors will be seen as aggravating:

¹⁶ See Competition Commission v Standard Bank of South Africa Ltd (FTN228Feb16) at para 27 and the remaining factors listed under section 59(3) of the Act.

- 6.14.1. If the merging parties failed to notify the merger transaction in order to take advantage of a time-bound merger deal or to obviate the merger approval process at the outset.
- 6.14.2. If the merging parties were negligent or deliberate and wilful in their failure to notify the transaction.
- 6.14.3. If the merging parties were trying to avoid scrutiny of the regulator.
- 6.14.4. If the duration of the contravention was long.
- 6.14.5. If the transaction resulted in the substantial lessening of competition or raises public interest concerns.
- 6.14.6. If there was an undue and unexplained delay by the merging parties in approaching the Commission once the parties had become aware of their contravention of section 13A.
- 6.14.7. If there was any exercise of the rights acquired through the prior implementation.
- 6.14.8. If the merging parties were competitors.
- 6.14.9. If the merging parties derived profits from the contravention of section 13A(1) and (3) which profits they were not entitled to unless they had obtained prior approval from the Commission or Tribunal.
- 6.14.10. If the merging parties have previously been found to have contravened any other provisions of the Act.
- 6.14.11. If the merging parties delayed, obstructed, the investigation and litigation process.

6.14.12. If the merger was terminated without first consulting the Commission.

6.15. The above does not constitute an exhaustive list of circumstance that the Commission regards as aggravating.

6.16. The following factors will be seen as mitigating:

6.16.1. If the merging parties were proactive in approaching the Commission with information of the possible contravention of section 13A of the Act.

6.16.2. If the merging parties sought competition law advice on the transaction.

6.16.3. If the merged firms were *bona fide* in their failure to notify the transaction.

6.16.4. If the merging parties exhibited a high degree of transparency in their dealings with the Commission;

6.16.5. If the merging parties co-operated through tangible actions to facilitate the speedy resolution of the case.

6.16.6. If the merging parties provided full evidence, such as documents, under their control and/or possession of the contravention which was relevant to the Commission.

6.16.7. If the merging parties demonstrated willingness to expeditiously conclude settlement with the Commission.

6.16.8. If the outcome of the merger hearing regarding the transaction was ultimately an unconditionally approved, this would be indicative that no harm or undue profit arose as a result of the pre-implementation of the merger.

6.17. The above does not constitute an exhaustive list of circumstance that the Commission regards as mitigating

Step 4: Consideration of the Statutory Limit

6.18. As stipulated in section 59(2) of the Act, the administrative penalty may not exceed 10% of the firm's annual turnover in the Republic and its exports from the Republic during the firm's preceding financial year.

6.19. The Commission, as a general approach, will have regard to the acquiring and transferred firms' combined turnover during their preceding year.

6.20. The Commission will have regard to the firms' audited financial statements. Where audited financial statements are not available, the Commission may consider any other reliable records reflecting the merged entities' turnover or estimate the turnover based on available information.

6.21. Where the administrative penalty determined above exceeds the maximum allowable limit of 10% of the combined annual turnover of the acquiring and transferred firms during their preceding financial year, the Commission will apply the maximum allowable administrative penalty.

6.22. The preceding financial year that the Commission will generally consider for the purposes of the statutory cap, will be the financial year preceding that in which the administrative penalty is imposed. If there is no turnover

in that preceding financial year it shall be the year in which the parties last traded.

7. GENERAL AND SPECIAL PROVISIONS

Notwithstanding the imposition of an administrative penalty, the Commission may consider other remedies that seek to address the harm caused to competition as a result of the contravention including divestiture.

8. DISCRETION

The above process presents the general methodology that the Commission will follow in the determination of administrative penalties. Notwithstanding the above, this will not fetter the discretion of the Commission and/or the Tribunal and/or the CAC and other courts to consider administrative penalties on a case-by-case basis should a need arise.

9. EFFECTIVE DATE AND AMENDMENTS

These guidelines become effective on the date indicated in the Government Gazette and may be amended by the Commission from time to time.