

03 DEC 1997

BE PROFESSIONAL IN BUSINESS CONDUCT, SC TELLS MERCHANT BANKS

KUALA LUMPUR, Dec 3 (Bernama) -- Merchant banks should be professional when making judgements on proposals regarding the issue of new shares by companies, said Securities Commission executive chairman, Datuk Dr Mohd Munir Majid.

"I won't discourage them (from making proposals for new shares issues), merchant bankers got to do their job and make judgements...that is what free market is all about," he told reporters after delivering luncheon address at the Malaysian Institute of Economic Research National Outlook Conference.

"They (merchant banks) should be professional on how to conduct their business and not just think in term of business in its own sake."

He was asked to comment on rumours that the SC had discouraged merchant banks from making proposals for new issues of shares through proposals such as initial public offers, rights issues and bonus issues.

Dr Mohd Munir also said that SC would not take back the role in determining the IPO pricing.

He said it would be let pricing to primary market (underwriters), who have to do it in the context of market conditions.

He said the merchant banks should not just look at IPOs for corporate activities as there were others such as mergers and acquisitions.

Previously, many company issued new shares because the price earning (PE) ratios were low and therefore even new shares issues can get good PEs.

But he said he was asked by someone who managed a Middle East fund on why he should be willing to pay for the same growth rate when the PE in London was 12 times while in Tokyo the PE was 40 times.

On the proposed circuit breaker for the local stock market, he said SC was not against nor for it at the moment.

"It is not something we will rush into. There should be a reasonable degree of regional consultation so that there would be a commonality of rules," he said.

Dr Mohd Munir said the financial turbulence or instability that had been experienced had eroded that confidence.

"When financial turbulence is prolonged, there is a risk of systematic instability and financial integrity," he added. "We should recognise that financial turbulence and instability erode confidence...we must try to fight that."

Dr Mohd Munir said SC had monitored and would continue to monitor financial turbulence to ensure that the risk of disruption "to our market system's stability and financial integrity are kept within acceptable limits."

"But everyone (including market participants) has a role to play...supervisory regulators themselves cannot do the job alone, particularly in Malaysia which is moving toward full disclosure environment."

He said the regulators cannot guarantee that the financial turbulence would not happen but they could take measures to minimise such risks.

This could be achieved by developing early warning signals through monitoring of weak spots, having an efficient trading system, co-ordinating market surveillance, having risk management, putting a contingency plan in place and through education, he said.

Dr Mohd Munir said to protect the system, the regulators must also

willing to intervene in the market before disruption can occur.

"If necessary and in extreme cases, they (regulators) must be prepared to allow market participants to fail in order for the greater good of the market and minimise systemwide disruption.

But this required careful handling of market expectations and minimise moral hazards, he added.

On the currency turbulence, Dr Mohd Munir said Prime Minister Datuk Seri Dr Mahathir Mohamad had a point when he lambasted the present practice of international currency trading.

He said there has been lack of consistency on the rules applied to such trading because of the vested interests involved.

The principle that has been applied elsewhere internationally such as transparency, disclosure standards and capital adequacy are not present in the currency market, he said.

"Here we are talking about the importance of disclosure standards and nobody knows about what hedge funds, offshore hedge funds or any kind of offshore investment funds do with the money they collect because they don't have to report to any regulatory authorities."

They do not even account except in term of returns that they give at the end of the financial year, he said.

On the issue being highlighted by Malaysian leaders, Dr Mohd Munir asked whether it was wrong of them to do so especially when the country had suffered from the crisis. "When can we speak about it?" he asked.

He pointed out that after the US stock market crash in 1987, new regulations were introduced and what little regulatory requirement regarding hedge funds in the US today came about as a result of the activity on the New York Stock Exchange that caused that crash. -- BERNAMA

MSL SHY