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MARGIN CALLS WILL NOT BE STOPPED TOTALLY, SAYS DR. MAHATHIR

KUALA LUMPUR, Nov 21 (Bernama) -- Prime Minister Datuk Seri Dr. Mahathir Mohamad says that margin calls will not be stopped totally as this would lead the banking sector into trouble.

"We need to be judicious in this matter for if margin calls are not allowed altogether, the banks might be in trouble," he said in response to questions by reporters as to whether margin calls would be stopped altogether after chairing a special meeting of the Barisan Nasional Supreme Council here today.

At the meeting, the council gave its full backing for the National Economic Action Council (NEAC) to be set up to overcome the effects of the weakened ringgit and the bearish stock market.

Dr Mahathir said "prudent banking practices must always be followed" but at the same time banks must safeguard their clients' interests ... "I believe they know what they need to do."

A margin call is the demand by a broker or a bank to the client to increase his margin or the deposit which is required to make a transaction because the potential loss seems more likely or larger than previously expected.

Owing to continued manipulation which has caused a sharp drop in the currency and stock markets here, investors are facing problems related to margin calls where the shares' value would have dropped to below the value at which they were pledged to the banks as collateral to obtain loans.

In contrast, when the prices rise, the value of the shares might be 80 percent above the value at which they pledged to the banks.

But with prices falling over the past four months, investors would be hardpressed by banks to meet the shortfall in the value of the pledged shares, or in other words, banks would make a margin call. -- BERNAMA

AD MR SHY