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Restriction on KLCI stocks lifted (HL)

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THE Government has lifted the ruling made a week ago that classified as "designated securities" the 100 blue chip stocks which make up the KLSE Composite Index (KLCI).

However, lending of shares and short selling remain strictly prohibited, Prime Minister Datuk Seri Dr Mahathir Mohamad said at a press conference after chairing an Umno Supreme Council meeting in Kuala Lumpur last night.

The KLSE had moved to designate the 100 stocks from August 28 as part of the Government's efforts to combat stock market manipulation. The following day, Dr Mahathir announced that local funds would be allowed to enter the market in a big way to buy up shares.

On Wednesday, the Prime Minister announced that the Government would pump in RM60 billion to prop up the KLSE.

The activities of fund managers accused by the Government of manipulating the local bourse were believed to have depressed prices.

Dr Mahathir however said three well-known foreign fund managers have come in to help the Government in its effort to shore up the share prices.

In response to a question, Economic Adviser to the Government Tun Daim Zainuddin who was also present, said he would meet several foreign fund managers in Kuala Lumpur today.

Dr Mahathir said last night's decision was made as the Government feels that all measures introduced recently to prevent manipulation and short-selling in the stock market have achieved their objectives.

He said the decision was taken after studying the results of the measures taken to prevent short-selling.

"Our aim to prevent short-selling has been achieved because now manipulators cannot manipulate the market.

"But share prices are still down because of sentiment," Dr Mahathir said.

The KLCI yesterday ended at 731.12, down 19.64 points from Wednesday.

Apart from issues related to Umno, the Supreme Council meeting also discussed the stock and foreign exchange markets.

Dr Mahathir, who is Umno president, said with the decision to lift the classification of the KLCI component stocks, the procedures for KLSE trading will be as they were before last Thursday.

"However, those who want to sell shares must have the shares (deposited at the brokers), and those who want to buy, must have the money.

"There cannot be the old ways, whereby banks can lend their shares, or banks guarantee to deliver the shares when required, which resulted in certain shares being traded over and over again," he added.

"In the past, trade was based on borrowed stocks from banks or brokers. In some cases, banks undertake that when the stocks are really needed, they will deliver. This means when stocks are deposited at banks, they could be borrowed or used by other people to buy and sell repeatedly over a period of time," he explained.

Dr Mahathir said the Government's objective is to prevent short-selling and all forms of manipulation. "(There is) no restriction on foreigners who want to enter the local bourse," he added.

His deputy and Finance Minister Datuk Seri Anwar Ibrahim, who was also at the press conference, said the T+2 and T+5 arrangements with regards to settlement of KLSE transactions are applicable.

"No short-selling, no lending of scrip ... if it means a settlement

period which is longer, that's acceptable, on condition you can ascertain the availability of the scrip," he added.

Anwar said the Government's objective in designating stocks was to prevent manipulation activities, short-selling and lending of scrip.

"Based on detailed information from the Securities Council and the KLSE, and after having held discussions with representatives from the private sector a few days ago, we found that we had met our objectives."

Anwar admitted that the success in checking manipulation of the market in such a short time was unexpected.

"After discussing with all parties, the Prime Minister agreed that we lift the (KLSE) ruling. Effective tomorrow (Friday), business will be conducted as before," he said.

Anwar, however, promised continued "close monitoring of the market" by the SC and the KLSE.

The Deputy Prime Minister, who is Umno deputy president, also said the Cabinet on Wednesday agreed on additional measures to address the nation's current account deficit. These measures will be announced in the 1998 Budget, which he will table next month.

"In the next few days, I will also explain in detail our strategy for the next three years, including this year," he added.

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