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Parliament-Mahathir (rating)

MALAYSIA TO INTRODUCE MECHANISM TO OVERSEE RATING AGENCIES

KUALA LUMPUR, Sept 29 (Bernama) -- The government will introduce a mechanism to regulate local rating agencies so that they can help the currency market and not weaken companies, banks and even the country, Prime Minister Datuk Seri Dr Mahathir Mohamad told the Dewan Rakyat today.

Although Malaysia has its own rating agencies, "they too copied what the foreign agencies have designed", he said.

"We are therefore thinking of a way of overseeing rating agencies so that they can help the market and not function to undermine companies, banks or the country to the extent of worsening the economy instead of making it better.

"There are ways which we are considering but we have not yet crystalise our approach. InsyaAllah, (God willing) one day we'll find the ways and introduce them in this House," he said replying to points raised during debate on the Securities Industry Bill (Amendment) 1998 tabled today.

The bill seeks to ensure that trading of all shares listed on the Kuala Lumpur Stock Exchange (KLSE) is only done at the KLSE or other legally recognised bourses.

According to Dr Mahathir, there was also a need to review the role of rating agencies and for them to revert to their original role of coming up with a rating only upon being requested to do so.

He said rating agencies were another of the instruments of the West to impoverish countries which would later pose as their competitors in the world market.

"With our credit rating lowered, we would have to pay high interest rates if we intend to borrow. Rating begins with the agency, upon being requested by particular party for an appraisal, carries out the task and gets paid by those who commissioned them for a rating based on information gathered by the assessors," he said.

However, he said, in the case of Moody's and Standard & Poor (which both gave low ratings to Malaysia), they came up with the rating without anyone asking them to do so.

He said:"They did the rating at their whims and fancies. When they realised that they have brought about much effect on those that they have rated, they become arrogant as they reckoned they could decide the fate of a company, bank or country.

"If a country wants to impose controls, they can bring down the country's rating and that country has to pay high interest for loans.

"That happened when we announced we would set up the asset management company (Danaharta Sdn Bhd) to ease pressure on banks from non-performing loans. They were aware we would have to borrow from abroad. So when they came up with a rating, they discredited Malaysia so that we'll have to pay exorbitant interest when we borrow," he said.

Dr Mahathir said, following ratings by these agencies, Malaysia faced difficulty in securing loans.

As such, he said, Malaysia had to engage the services of the United States financial consultancy Salomon Smith Barney to dismiss the ratings.

Moreover, the consultancy was the only firm bold enough to challenge the assessments of these agencies, he said.

Replying to Dr Tan Seng Giaw (DAP-Kepong), the lone opposition member in the House during debate on the bill, Dr Mahathir said the economic crisis faced by South Korea was not because it hosted the 1988 Olympiad

but because of problems arising from currency manipulations by Hedge Funds.

The prime minister believed South Korea should not have gone bankrupt as it was headed to becoming an industrialised nation.

"Like other East Asian countries, the way business is conducted in Korea depended on excessively high savings. When they borrow excessively and currency manipulation occurs, they find it difficult to repay their debts. When Korean companies face problems, the country inevitably faces problems too," he said.

In Malaysia for instance, he said, savings made up 38 per cent of the Gross National Product and the money was being used to provide loans for business purposes.

Replying to Tan's contention that a country with strong reserves would unlikely go bankrupt, Dr Mahathir said even countries with massive reserves could not possibly fight the Hedge Funds's leverage capability.

"For example, the Hedge Funds now have a capital of US\$180 billion. If their leverage is 20 times this means they will have US\$3.6 trillion in funds. Malaysia for instance only has reserves totalling US\$21 billion, so when we try to take them on we have to buy ringgit in order to jack the ringgit's value until we have no more ringgit to challenge their might," he said.

Asked how Hong Kong could defend itself whereas it was also in a similar situation, Dr Mahathir said Hong Kong pegged its dollar to the United States dollar to the extent of destroying its own economy as it had to bear high costs.

"Its interest rates had sky-rocketed causing plunging property value and bankrupting many of its businessmen. We can defend to the best of our ability but the costs are too high..," he said.

Dr Mahathir likened hedge funds to "blood-suckers who would incessantly drink the blood of their victims and then move to other countries in the hope that their earlier victims could recover".

He cited the case of a US hedge fund company, Long Term Capital Management (LTCM), which loaned out US\$1 trillion and its failure to recover the money had forced the US Federal Reserve to order 16 of its banks to bail out LTCM.

"While this has not been settled yet, another hedge fund is now bankrupt and several other banks are facing problems. The activities of hedge fund are so bad that even developed countries are not spared the problems," he said.

Earlier, when tabling the bill, Second Finance Minister Datuk Mustapa Mohamed said the proposed amendments seek to ban off-market trading of shares such as the Central Order Limit Book (CLOB).

He said to enhance transparency in shares trading, Sub-section 4(8) in Clause 3 would have to be amended to waive the exemption granted to bare trustees.

Therefore, non-interest nominees whose security holdings exceed the optimum level determined by law would have to declare them to the Securities Commission.

He said an amendment to Section 11 of the Act would also give the KLSE more bite enforcement-wise as it could act swiftly against violators of its procedures.

The bill also proposed to enhance the penalty on violators be enhanced to RM1 million as the current penalty of RM250,000 was not deterrent enough, he said.

The bill was later passed unanimously.

-- BERNAMA

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