

18/02/1999

A way out of the CLOB predicament

Liang Teh Hai

FOLLOWING the closure of the Central Limit Order Book International by the Stock Exchange of Singapore on Sept 15 1998, many investors (both Singaporeans and Malaysians) were caught holding Malaysian shares worth billions of ringgit.

During the final trading week in early September 1998, many Malaysians were busy capitalising on the heaven sent opportunity by selling shares on Kuala Lumpur Stock Exchange and immediately buying the same shares on the SES at less than half the price quoted on the KLSE.

The KLSE benchmark Composite Index (CI) has recovered from a low of 262 points in early September 1998 to 611 points on Jan 26 1999, an appreciation of 133 per cent within a short period of five months.

For those shares bought on CLOB during the final week of trading, the appreciation is even more mind-boggling.

One can imagine what will happen to the CI if the authorities allow CLOB shares to be sold on the KLSE now.

Many will dump their shares at even half the prevailing market price and yet still realise a substantial profit.

There are also those frustrated investors who will also liquidate their holdings at any price.

So the concern expressed by the authorities and particularly by Prime Minister Datuk Seri Dr Mahathir Mohamad is totally justified.

As the PM puts it, in order to be fair to investors, we cannot be unfair to us.

The handling of the CLOB share predicament not only affects the share market, but also the economic recovery plan as well as the well-being of every Malaysian citizen.

To alleviate the frustration of the CLOB investors, to allow those who are in dire need of cash to sell and to allow the KLSE to continue to operate in an orderly manner, maybe the authorities should consider the setting up of a Third Board to trade CLOB shares which should be insulated from the Main Board and Second Board based on the following guidelines:

1) For the existing CLOB shares, owners are allowed to sell up to 10 per cent of their holdings every fortnight.

2) Buyers of CLOB shares can either:

a) hold the shares for a period of six months and thereafter be subject to the same selling control stipulated in 1); or,

b) hold the shares for a period of one year and have the shares automatically transferred to the Main Board which can then be bought and sold like any other shares.