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No obligation to rescue CLOB investors

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CHIA Boon Sim, a Singaporean who obviously had a lot of money invested in Central Limit Order Book Malaysian shares deserves attention and a good answer.

He is disgusted. And he wants out. And in his letter (NST, Jan 27) he was prepared to be a little rude in expressing his views.

Before someone reacts equally strongly, it is important for Malaysians and the Malaysian authorities to make perfectly clear to people like Chia that Malaysia is not against foreigners or anyone else investing in Malaysian shares.

In fact we love them and we are distressed if they want to dump their Malaysian shares or move away from the Malaysian stock exchange.

Let us not forget that many who invested in CLOB are innocent investors with no bad intentions.

At the same time, when the Kuala Lumpur Stock Exchange decides to make its next move, it is important that it bears the following points in mind.

First, CLOB was a black market in Malaysian shares. It had no legal standing in Malaysia. It was in fact, a black market set up beyond Malaysian shores.

CLOB operated contrary to our rules and regulations not by accident; it operated deliberately beyond the reach of our rules and regulations.

Imagine if, let us say Hong Kong was today to set up a black market dealing in Malaysian ringgit, or Malaysian palm oil, or for that matter, Malaysian bicycle tyres (without the permission and against the strongest protests of the Malaysian Government).

Then, for some reason or other, the black market has to close down and Hong Kong investors find that they can no longer trade in these things. They now cannot sell what they have and exit the black market.

Does the Malaysian Government have any obligation to help out? Does Bank Negara Malaysia or the Malaysian palm oil authorities or the Malaysian association of bicycle tyres (if there is such an organisation) have any obligation to help those with ringgit, palm oil or bicycle tyre paper instruments which are now worthless?

People who do business in the black market do so at their own risk.

A second point; if all those who invested in CLOB (let us not forget that some of them are Malaysians) are angry, they should surely be angry not with the Malaysian stock exchange but with the Singapore authorities, who never warned about the dangers of buying Malaysian shares on the CLOB which they deliberately set up.

Shouldn't there have been warnings about the dangers of trading on or through CLOB?

Why should those who have invested in CLOB be angry with the KLSE?

A third point; Malaysia and the Malaysian authorities have no obligation whatsoever to help out. Obviously, there is no legal obligation. There is in fact not even any moral obligation.

No encouragement whatsoever was ever given by anyone in authority in Malaysia to anyone anywhere to buy Malaysian shares on CLOB.

Indeed, the Malaysian Government and all the relevant Malaysian authorities, from the Prime Minister Datuk Seri Dr Mahathir Mohamad down to lowest functionary in the Kuala Lumpur Stock Exchange criticised the existence and operations of CLOB.

When Singapore launched CLOB, it was intended to frustrate the

objectives of the Malaysian Government and the KLSE.

It was no surprise that the reaction of both was extremely hostile. For other reasons, it can be no surprise that to this day they remain extremely antagonistic towards CLOB.

(From the very beginning, all of them were simply told over and over again in the most condescending terms that they simply did not understand how market economies worked and that the Singaporeans were doing nothing more than letting the free market work its magic.)

A fourth point; the existence of CLOB and its operations did immense damage to the Malaysian stock market.

If we are to believe the rumours spread from the Singapore stock market, our Prime Minister is more than that proverbial cat with nine lives. Dr Mahathir has been killed off by the Singapore rumour mill at least six times a year, on average over the last few years.

The negative rumours spun by the Singapore stock market rumour mill has done tremendous harm to dampen sentiment and damage confidence in the Malaysian stock market and in the Malaysian economy, especially in recent years.

With the closure of CLOB, it is amazing how the number of rumours starting in Singapore have plummeted dramatically. At last, we have regained a near monopoly of rumour-mongering. Almost all of our rumours are now made in Malaysia!

To be a little more serious, it should be noted that short selling was not allowed in Malaysia because speculation and manipulation of stocks and shares cause such horrendous damage. Speculation and manipulation of Malaysian stocks and shares was however, allowed in the CLOB system.

This and other things, done to deliberately make CLOB more attractive and competitive compared to the KLSE, contributed to enormous damage to the Malaysian stock market and to the prices of Malaysian stocks.

A fifth point; as Chia had stated in his letter, there is now the grave danger that the minute the CLOB accounts are listed and the CLOB shares are traded, a large number of CLOB investors "will all simply dump all our shares and get out in disgust".

In acting on the CLOB problem, which we did not create but which has now landed in the KLSE's lap, KLSE should bear in mind that CLOB share dumping could turn the tide on the stock market and turn the present bullish sentiment into a bearish one.

The Composite Index is moving very nicely. Why should we risk the KL stock market in order to help out traders on a black market that is now no longer in business?

Having said all this, and although KLSE has no legal or moral obligation to help out those who are now left stranded, although charity must begin at home, perhaps we should not deviate from the Malaysian tradition of compassion and generosity.

If the consequences are not too grave, although many Malaysians will say "here we go again", we should seriously consider helping out.

Chia says: "In all fairness, let me ask KLSE to list us as soon possible so that we can dump and get out! I am prepared," he says, "to take my losses and even sell at the prevailing price when CLOB was closed down on Sept 14, 1998".

We should let Chia and others like him sell out at the price that prevailed on the day CLOB closed down.

Incidentally, Chia, CLOB closed on Sept 15, not Sept 14.