

# Present conditions good for M&As, says SC chief

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*Star:* One of the recommendations of the recent *Capital Market Masterplan* is that the KLSE should pursue appropriate strategic alliances internationally. Has any such alliance been identified, and what is the progress here?

**Ali:** This question needs a little bit of explaining. The recommendation as per the recent *Capital Market Masterplan* is that a single Malaysian exchange should be set up and, second, it should be demutualised. We didn't say that the KLSE should be demutualised. We said the single Malaysian exchange should be demutualised.

The single Malaysian exchange would comprise all the exchanges here being unified or merged into one. This has been helped quite lately by the merger of Kloffie and Commex into one unit and the recent signing of the MoU between Mesdaq and the KLSE. In the future there will be just one exchange, where you can trade in futures and everything...on just one exchange, so it will be very efficient. Even the clearing system will be very efficient. This is ongoing.

There is also an ongoing process now to think about how to demutualise the single exchange. A mutual organisation is like a club, with mutual benefits.

A demutualised exchange would have a broad range of shareholders and they would have their M&As and so forth. It would be a profit organisation, for the profit of the shareholders, not a club anymore. Being for profit, they must be more reactive to market changes, more progressive and must provide better service. Then only will they look towards the second part, which is to have strategic alliances

**IN THE FIRST** part of the *Star Business Q&A* with the Securities Commission (SC) chairman Datuk Ali Abdul Kadir, which was published yesterday, he spoke of his concern about the slow pace of consolidation within the stockbroking industry and the need for self-regulation by the industry players.

**In the second and final part of this exclusive interview, Ali tells city editor DAVID CHOW of his expectations, the SC's aims and goals for the Malaysian capital market and the challenges it will face in the years ahead.**

## DEMUTUALISATION OF SELECTED INTERNATIONAL EXCHANGES

Exchange	Demutualised status	Listing
Stockholm	Demutualised in 1993	Listed
Helsinki	Demutualised in 1995	Has not been listed
Copenhagen	Demutualised in 1996	Has not been listed
Amsterdam	Demutualised in 1997	Has not been listed
Borsa Italiana	Demutualised in 1997	Has not been listed
Australia	Demutualised in 1998	Listed
Singapore	Demutualised in 1999	Listed
Hong Kong	Demutualised in 2000	Listed
Toronto	Demutualised in 2000	Has not been listed
Nasdaq	In progress and expected to be fully demutualised in 2000	-
London	Demutualised in 2000	Listed
Tokyo	In progress and expected to be fully demutualised in 2001	-
NYSE	In progress and expected to be fully demutualised in 2001	-

*Sources: Kuala Lumpur Stock Exchange; Lehman Brothers, October 1999; TowerGroup, August 1999; Financial Times, November 1999; Morgan Stanley Capital International Handbook of World Stocks 1999; respective exchanges*

solid companies that are priced well below their NTAs, and some companies do not have a majority shareholder situation. If the market were going down, people would be more cautious about making a bid for a company because share prices could be lower after that. Second, companies that are profitable, and not heavily priced, would be worthwhile making a bid for, because there is strong underlying value.

**Star:** I think the trigger appeared to be the bid for UEM...

**Ali:** Some may imagine that UEM was the trigger but I don't think so, because a lot of work has to be done before one makes a takeover bid. So it's quite clear that a lot of research has been done well before that, by foreign investors, for example.

Alliance had made the conditional offer to the shareholders of MBA, followed by Telenor making a conditional offer for DiGi Com. So, don't forget, actually the foreign investors were already alert to this opportunity - they knew that they wanted to invest more and they made the first moves.

man since March 1999. How would you describe your more than two-and-a-half years in office?

**Ali:** I must say that when I first came to the SC, it was with some apprehension. First, because I was leaving public practice and putting on the hat of a regulator. Second, I took up the challenge because it was an opportunity to serve the country, and I think it's an honour to be given such an opportunity. Since then, I have found my two-and-a-half years here to be very interesting.

While I had some ideas about how I wanted the capital market to be going, for example, the regulatory framework for e-commerce in the capital market which we have published, and the *Capital Market Masterplan* which I have driven, I must say that a lot of credit must go to the staff of the SC who provided me with such a strong team. Also, to my deputy then, Datuk Seri Ainum Saaid, who has now been promoted to Attorney-General. The team has been instrumental in carrying out all these plans and we would not have succeeded without them.

I think my reward is hearing

with other exchanges. At this stage, it would be premature to look at that because the exchange hasn't been demutualised. We don't want an alliance forged now to compromise incoming parties in the future. One has to carefully think this out because one cannot simply forge a strategic alliance and then next year say, 'Oh, I don't want you.' It's almost like a marriage, it has to be permanent.

**Star:** Do you see that the KLSE will go the way of the Hong Kong Stock Exchange or like Singapore?

**Ali:** That is the recommendation. The recommendation is to demutualise like Hong Kong, Singapore and Australia. The strategic alliance would depend on the single exchange after it has been created. The exchange would have to think carefully about it as the alliance should bring some benefit to it, whether it be an alliance in terms of time zones, so that you can have 24-hour trading, or in terms of a particular niche market like the Islamic capital market. Or we can have a few alliances – one for the time zones, one for Islamic capital markets and so on.

**Star:** Coming back to this demutualisation of the exchange. Are there any positive efforts being made in this direction?

**Ali:** The SC has appointed a Capital Market Advisory Council comprising 15 senior domestic and foreign capital market participants and specialists, representing a spectrum of capital market activities. We have had our meetings. One of the sub-committees is look-

ing at the consolidation of the exchanges into a Malaysian entity that will eventually demutualise.

We feel that it is better for the private sector to be advising them. It may be too prescriptive if the SC is solely doing it. We want to hear what the market has to say. The process is already ongoing, and the SC is helping to facilitate that and various models of demutualisation are being looked at.

**Star:** Is there a time frame set for demutualisation?

**Ali:** Well, we hope to have a plan presented by the end of the year so that the schedule for a single Malaysian exchange to be demutualised and listed by 2003 as outlined in the *Capital Market Masterplan* will be realised.

**Star:** That's very soon...

**Ali:** Having made the decision, we cannot be sitting here and waiting for something. We make a decision and we get on with it.

**Star:** So by the end of the year we can expect an announcement?

**Ali:** Well, the MoU between the KLSE and Mesdaq has been announced – that was a few weeks ago. So we expect the formal agreement to be signed and the demutualisation process to be

firmly outlined. The target is before the end of the year.

**Star:** What would have been achieved by the end of the year?

**Ali:** A merged single entity with firm plans towards demutualisation, and the flotation of the entity will follow after that, not before. The entity will encompass the KLSE, Mesdaq and MDEX. The consolidation into a single exchange will take a bit more time.

**Star:** What is the time frame for the flotation of the merged entity?

**Ali:** We haven't set a time frame for the flotation. The flotation is subject to the first two steps of merging and demutualising. Then only can we have a flotation.

**Star:** There has been a sudden flurry of mergers and acquisitions and corporate restructuring exercises recently, encouraged by the authorities. This is obviously good for the market, evident in the rise in the KLSE. But why was this delayed until quite recently? Obviously, the market was looking for some moves to restructure the companies.

**Ali:** I think there are a lot of factors there and the most important factor is that in a rising market, there is growing interest in good

**Star:** But there's no way we can say that UEM and Sime Darby didn't change the picture?

**Ali:** I think the public excitement may be because of UEM. However, the MBA and DiGi offers were launched much earlier than UEM's, so too were the Palmco offers. People just noted UEM as a matter of interest. But I'm sure that well-managed companies like Sime Darby also saw the potential and they were probably making their own analysis before making the bid.

Subsequently, of course, we had Metacorp after UEM, then Amanah Capital. So there is now a lot more interest, with some people suddenly aware that there are a lot of companies which are not subject to takeovers but are good buys and good investments, because they are good companies and underpriced.

**Star:** Do you foresee that there will be a lot more of these restructurings and mergers and acquisitions taking place?

**Ali:** As I said, the conditions at the moment are ideal for mergers and acquisitions because of the rising capital market, the underpriced issues, because there are some shareholders that do not have the controlling block, and because there are now companies flush with funds, which are going around looking at what acquisitions they can make that will add strategic value to their companies.

**Star:** You have been the SC chair-

from people that they are so happy that the capital market has now recovered and they think that the SC has done very well.

**Star:** The SC has achieved many things during these two-and-a-half years. What would you regard as the high points or highlights during this period?

**Ali:** We have done quite a lot but if I were to just pick a couple, I would say that the launch of the *Capital Market Masterplan* was the highlight. I felt strongly that I needed a Masterplan for all the industry players – from the front-line regulators to the intermediaries and the issuers – to know where they are going for the next 10 years. They must see how the Malaysian capital market is being developed at least, and then they will say, 'Okay, I'm willing to raise capital in this market because they are doing all these to raise liquidity, good corporate governance, I will be well treated here, I can raise capital through equities, through bonds and so forth.'

The other highlight, I suppose, would be May last year when our peers voted us in to be the chair for the Asia-Pacific region of IOSCO (International Organisation of Securities Commissions). For such developed markets in the Asia-Pacific region, which includes Japan, Australia, New Zealand, Hong Kong, China, Taiwan, South Korea and India, to regard a Malaysian organisation as having the ability to be the chair for the

● See next page

# SC job fulfilling, says chairman

STAR 18 AUG 2001

## ● From previous page

whole region is, I think, a recognition by fellow regulators that Malaysia's SC is a premier regulatory authority. Because of our appointment there, we also sit on the executive committee of IOSCO.

**Star:** What do you think are the challenges facing the SC in the years ahead?

**Ali:** I think to some extent we have looked at the possible challenges when we drafted the *Capital Market Masterplan*. Second, in order to be sure that we have not missed out on anything, we had extensive consultation with the industry, academia, and also with fellow regulators around the world, before we came up with the *Capital Market Masterplan*. So the first challenge, I think, must be the commitment to implement the *Capital Market Masterplan* which is far-sighted, non-political and designed to bring the Malaysian capital market to the forefront of the world.

It's far-sighted in the sense that we even say that we will allow foreign listings in Malaysia and so forth. We also proposed the upliftment of the levy in the short-term and this has been done. To progress, we think we need to open our doors as well, so that is why we allow foreign listings.

There must be some commitment to keep up with the recommendations of the Masterplan. In implementing it, the authorities, I hope, will be savvy enough to know when to implement. It's the timing thing. It can be earlier or later.

We can allow foreign listings if there is more than enough demand in our capital market and foreign buyers are also coming in. When there are not enough issues, we should allow foreign listings. We

don't want a set time when we allow foreign listings and foreigners just come and tap our Malaysian buyers and there is not enough foreign interest and then all our funds are flowing overseas.

That is why at this moment we still regulate the acquisition of foreign assets by Malaysian companies; in order to control that. The main challenge must be to implement the *Capital Market Masterplan* with commitment, but tempered with some maturity and savviness in making the decisions.

The second challenge must be to be alert to the changing environment that is being brought about a lot by ICT (information and communications technology) and globalisation. ICT removes all borders, and globalisation will remove it physically as well. With the advent of ICT, every player in the capital market must also think about other challenges. There might come a situation where, because of ICT, the market becomes totally global...who knows? People could be from Wisconsin, the US, and buy shares in Malaysia. So we must be ready to be a regional, if not a world, player.

**Star:** What about personal goals which you hope to achieve?

**Ali:** I suppose I have achieved my personal goal in wanting to set up my own firm and to build it up to be the biggest firm, and to be one of the leading accountants in the country. The next step I guess is to do something for the country, as I have done for my own profession.

**Star:** Do you miss any part of your previous working life?

**Ali:** Yes, I miss it a little bit. I had less of a profile when I was in accounting and I'm not one who seeks a high profile, so that's the

part that I miss. I do find it a little stressful to be a little bit recognised, not that I am recognised all over the place, but sometimes I like to go fishing, golfing and drive fast cars with my buddies.

**Star:** But has it been rewarding and fulfilling?

**Ali:** Yes, it has been fulfilling and rewarding to feel that you have contributed to the country. That is not something everyone has the chance to do and I was given the opportunity to do that. I want to make sure that my time at the SC has been usefully spent.

I feel that when the time comes for me to leave the SC, if I were to look back and see that there have not been changes, then I would regard it as a failure. I have to make sure that I make good, revolutionary changes to the capital market and to mould the SC into an institution which people can be proud of. That's what I want to do. I want to make sure that I do enough during my period of service.

It's up to the Minister (of Finance) whether there's a need for me to carry on here but if the Minister feels so, then I would be honoured to serve the country. One can't be just spending one's time making money, so I'm happy to do my time. If the Prime Minister (Datuk Seri Dr Mahathir Mohamad, who is also Finance Minister) wants me to continue, I will do so.

**Star:** Your contract has just been renewed, I understand?

**Ali:** It's been renewed to Feb 28, 2002. There's six months to go, so I have to do a lot more before that time.

Transcribed by Darshini M. Nathan