

25/10/2001

KLSE circuit breakers by March 2002

Shahriman Johari

THE Kuala Lumpur Stock Exchange (KLSE) will introduce a mechanism in the first quarter of next year for automatic temporary suspension of trading in the event of excessive volatility.

The circuit breakers are aimed at providing some measure of comfort and defence for investors, and have been adopted by markets like New York, Seoul and Bangkok, among others.

The mechanism is designed to "temporarily halt abrupt severe market declines", but will not affect long-term trends determined by market forces, said KLSE deputy president Ungku A. Razak.

"It will allow people to cool down and take stock of developments... so that they can make informed decisions," he told reporters at a briefing to announce details of the mechanism yesterday.

The circuit breakers will be triggered at pre-determined falls of 10, 15 and 20 per cent in the 100-stock KLSE Composite Index (KLCI), from the previous day's close.

Trading will be stopped for one hour if the benchmark KLCI drops by 10 per cent before 11.15am in the day's first session, or before 3.45pm in afternoon trading. For any falls of the same margin at a later time, trading will discontinue for the rest of the session.

The market will also halt trading by one hour if the KLCI falls 15 per cent before 11.15am and 3.45pm. A similar drop after those times will result in trading being stopped for the rest of the session.

If the index plunges 20 per cent or more, trading will be halted for the day.

Such KLSE suspensions will also automatically cause a halt in the trading of stock index futures and options contracts on the Malaysia Derivatives Exchange as they are based on the movements of the KLCI.

"For investors and stockbroking companies, the circuit breakers are an opportunity to restore stability as the trading halt will allow dissemination of information to all market participants," said Datuk Mohaiyani Shamsuddin, chairman for the Association of Stockbroking Companies Malaysia.

The KLSE, together with the Securities Commission and the National Economic Action Council, had started working on the mechanism in 1997.

A task force was formed to work out the details and it consulted seven exchanges worldwide, including the New York Stock Exchange, the Korean Stock Exchange, Stock Exchange of Thailand and Brazil's Bovespa. And in his presentation of the Budget 2002 to Parliament last week, Prime Minister Datuk Seri Dr Mahathir Momamad said global developments were causing "significant fluctuations" on the local stock market, thus requiring circuit breakers to be installed.

The KLCI fell almost 4 per cent on September 13 when the KLSE resumed trading after a one-day suspension following the September 11 terrorist attacks in the US.

In the last 16 years, the key index had on 10 occasions dropped more than 10 per cent in intraday trading.

In 1985, it lost more than 11 per cent due to the Pan Electric crisis, and most recently on September 8 1998, the KLCI plunged almost 24 per cent as investors reacted negatively to the imposition of selective capital control measures announced a week earlier.

(END)

