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Change for change's sake

By Datuk Mohd Salleh Majid

RECENTLY, I met a friend who was unaware of the fact that I had left the exchange. He asked me why the name Kuala Lumpur Stock Exchange was changed to Bursa Malaysia. I told him that I had left in May last year and that the exchange had since demutualised and that it is now a company limited by shares instead of guarantee as in the past. The exchange is formally no longer the exclusive club it had been projected to be.

However, I feel there is no need to change its name. Ask anyone about brand building and they would tell you that it takes a lot of time and effort to get a brand recognised. The same goes for the exchange. A lot of effort had been put into establishing its brand name. International road shows were conducted in major financial centres around the world and we even had former Prime Minister Tun Dr Mahathir Mohamad involved in these road shows. Even if the exchange's structure had changed, there was no real need to change its name. After all, almost all exchanges around the world bear the name of the cities they are located in, like London, New York, Buenos Aires, Copenhagen, Frankfurt and so on.

What is even stranger is that the main index is still called the Kuala Lumpur Composite Index or KLCI. It is different for New York and Hong Kong, where the main indices were created by private institutions viz Dow Jones and Hang Seng respectively. Imagine, if not for the name Kuala Lumpur, Kuala Lumpur International Airport would have been called Sepang Airport!

The latest news is that officials from the local exchange and the Securities Commission have been in talks with the Singapore exchange about a possible alliance. This is really interesting as we had taken a lot of trouble to ensure CLOB International was killed off, with several laws being passed in 1998 precisely to do that. If my memory serves me right, there were a number of issues that were of concern to us, including the hot topic of short-selling our stocks. There was a lack of regulatory cooperation from the other side in the event of irregular transactions.

The Singapore exchange was already having liquidity problems in 2002, so much so that six months before I left the exchange, a representative of the Singapore brokers came to see me to ask whether we would be willing to allow all the stocks on the Singapore exchange to be listed on our exchange. Given the steps taken by the government to do away with CLOB, I told him my reservations about the government granting such a request. The request was a reinstatement of the fact that liquidity was a problem in Singapore and that volume was as thin as their brokers' income. After all said and done, we are now talking about an alliance with them!

If someone mentions that forming an alliance is the current trend, then they have to realise that most of the alliances that have taken place are in Europe as a result of the formation of the European Community. Elsewhere, such as in the United States, it has not been successful. However, despite this, I feel there is a strong case for an Asean Stock Exchange, which would incorporate representative stocks from all the stock exchanges in Asean member countries. It would be Internet- and mobile phone-based and function direct from investors to the exchange without brokers, with one standard fee based on trade rather than value. After all, international investors look at Asean as one region, and instead of having six different rules and six different currencies, it would be easier for them to deal with one set of rules and one currency.

Other than stocks, bonds and private debt securities, Islamic instruments and unit and property trusts may also be included. A department assisting countries with no stock exchange but with viable companies to be listed may also be added. Then, there would be no need for the other four member countries presently without any stock exchange to have one in their own country. This can save a lot of effort and resources. If, for some reason, anyone feels threatened, just point out that there are more Nestle shares traded on the London Stock Exchange than the Swiss Exchange and that this does not mean that the trading of that stock on the home exchange will be killed. The same goes for Shell, IBM and Nokia. All are traded on their respective home exchanges and at the same time on a few other exchanges as well. It is national pride that sometimes stands in the way of regional cooperation in Asean.

Much has been said and written about the financial crisis of 1997. Being smack in the middle of what took place was a nightmare for me. It was like whatever efforts that had been put into developing the local market had gone down the drain. Market capitalisation, which had reached a high of RM900 billion at one time in 1996, fell to a low of RM262 billion. It was also double jeopardy for international investors at that time as the ringgit was crushed to as low as RM4.80 to US\$ 1. Unfortunately, that was the time when my son asked for money for his tuition and living expenses in the US. To make matters worse, a neighbouring country was offering interest rates on ringgit deposits as high as 52% per annum.

So, the scenario was a very depressing one. The market was sliding fast and so too was the ringgit. In the meantime, the component stocks of the CI were placed on designation, causing the CI to slide further. For a while, until capital controls were in place, it seemed the whole economy was going down fast. It was a real scary feeling. It was the brave decision of Tun Dr Mahathir to stick to his guns despite national and international criticism that saved the day. The banks at that time were already charging as high as 16% interest and recalling all loans and credit facilities, even those needed to finance the construction sector. The 'eyesores' that we see around today in the form of incomplete buildings are partly due to the banks withdrawing the facilities already extended without warning. Someone was under the mistaken belief that the International Monetary Fund's prescription was the wise dosage to fix the problem at that time.

Prior to this crisis, bankers were very generous. I remember when the crunch came, the companies with the big loans were not the ones that were worried, but the bankers because some of them had extended the facilities without any collateral. Try getting a small overdraft at your local bank and see whether it entertains you without a collateral even though you have proof of a monthly pay packet. A decade of fantastic growth in the late eighties and nineties had flown some corporate chiefs to 'Cloud 9' and growth was, in short, unmanageable. Quite a number of these corporate players had private jets but they (the jets) seem to have disappeared now.

On top of that, national asset management company Danaharta Nasional Bhd had to rescue the bad loans. One by one the troubled companies surfaced, and one by one the corporate chiefs exited the corporate scene, with their bad habits on show. Clearly, our companies lacked corporate governance. Subsequently, there was a frantic rush to come up with a code on corporate governance, an institute of corporate governance, amendments to listing requirements reflecting more corporate governance and so on and so forth. Suddenly, 'corporate governance' was the all-important buzz-word. It was as if nobody had heard of it before. Datuk Megat Najmuddin Megat Khas, the chairman of The Malaysian Institute of Corporate Governance, was one busy man giving lectures here, there and everywhere on what good governance

was.

It would seem that only the rules on good corporate governance have been getting tighter for companies, especially the listed ones, without any self-realisation on their part. One may argue that the extent of negative governance has not stretched to the dimension of the scandals in America, such as that of Enron and World Com, but there is still a lot of room for improvement. Why, we even had a company which had failed to report its accounts for 48 months!

After the bank mergers, which took place after the financial crisis had somewhat settled down, the stockbroking industry was next on the list of mergers. A universal broker category was introduced and to qualify for that status, individual stockbroking companies had to merge with three other stockbroking companies, allowing them to have any number of branches, do corporate finance work, and issue unit trusts without being eligible to obtain an investment banking licence. Strangely, bank-owned broking companies needed to merge with only one stockbroking company to qualify for an investment banking licence. Personally, with the advancement of technology, I wonder whether having branches is a sensible way of preparing ourselves for the impending implementation of negotiated commissions. The same goes for Internet trading. After all, when globalisation fully sets in, there will be no stopping anyone from doing anything.

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