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View from the inside

By Datuk A Salleh Majid

CONGRATULATIONS to Datuk Seri Abdullah Ahmad Badawi for the landslide victory in the March 21 general election. It must be sweet victory winning back Terengganu (and Kelantan nearly) and the seats won by the Opposition in the 1999 general election. Within a short period of taking over office as Prime Minister, Abdullah has successfully won the hearts and minds of the people with his 'work with me' slogan and his 'Mr Clean' image. Congratulations are also in order to those who won their seats. The work has just begun.

For me, it seems like it was only yesterday that I left the exchange. Nineteen years is a long time to be with one organisation. During that time, I saw a number of bull and bear runs. Who can forget the Pan Electric debacle, the missing scrip fiasco, the split with Singapore, Central Limit Order Booking (CLOB) International and the financial crisis of 1997?

When I first joined the exchange in 1984, there were no market reports or business programmes on radio or television, and international fund managers were buying our stocks from Singapore. Even the brokers' annual dinner was held mostly at the Lake Club. The first time I wanted to introduce a singer at the function, the then-chairman nearly fell off his chair. An advertisement with Euromoney was paid in four installments. How things have changed.

One of the challenges facing the exchange before (and maybe even now) was marketing it to investors - both local and foreign. The stigma attached to it as a casino was difficult to shake off, especially when incidents of stocks with no strong fundamentals being chased to the sky occurred. Remember Repco? It was quite clear at times that retail investors thought they knew the market well and did not need to be educated. Yet, over and over again, they were taken to the cleaners.

One could see a pattern when the market was booming those days. Seminars on the market proliferated like mushrooms and retail investors would attend, hoping for tips. There was this famous chartist who charged his rates according to the expected rise in the composite index. Retail investors were not interested in learning the fundamentals of investing but were more interested in rumours and hearsay. In 1994, any initial public offering (IPO) on the second board would start with an opening price of RM10 regardless of what it did. It was not strange to see quite a number of the stocks listed being sold off. I remember some people (usually Malays) whose specialisation was putting together Chinese enterprises for listing and making sure they got the Bumiputera allocation, getting away with a big chunk on listing day. Imagine how much money these people would have made in 1996 when 92 stocks were listed.

On the international front, road shows were carried out. Some fund managers like those from the United Kingdom were familiar with our market and had more criticism than praise each time we were there. Their main complaint? The time taken for company registrars to register their holdings. Some claimed that in-house registrars intentionally delayed the registration to create a false shortage so that prices would be pushed up. I remember a question asked in New York by one of the luncheon attendees, rather sarcastically, whether we had any form of proper accounting system. So, it was good to know the type of accounting they were using when cases like Enron, World Com and many others highlighted the corporate scandals

of America. And they had the nerve to look down on us!

The international road shows were a success because we had the help of former Prime Minister Tun Dr Mahathir Mohamad, who was ever willing to spare his time for an opening ceremony and a dialogue session at most of the road shows held. These sessions were usually attended by the chairmen or CEOs of fund management companies. They were so successful in attracting funds for the market that in 1994 we had to restrict the amount coming in.

One of the significant developments which boosted the image of the Kuala Lumpur Stock Exchange (KLSE) (now Malaysia Securities Exchange Bhd) was the split with Singapore in 1990. Almost two-thirds of the companies listed in Singapore then were Malaysian companies and there was a tendency among international fund managers to bypass the KLSE in favour of the Stock Exchange of Singapore (SES) since they could get most of the Malaysian stocks in Singapore anyway. Quite a number of prominent Malaysian corporate personalities themselves were not in favour of delisting the Malaysian shares from the SES. They argued that our market would crash should we do that. That was how much confidence they had in our market.

Even The Star newspaper was very personal, criticising the decision in its editorial dated July 31, 1989. It said that I was archaic in my thinking. Since nobody wanted to really push the proposal at that time, I had publicly supported the idea and so came the editorial. Finally, I had to convince the-then Finance Minister Tun Daim Zainuddin of the merit of doing so. This led to an announcement during the budget presentation in October that year of the intention of delisting Malaysian shares from SES effective January 1990. The market did not wait till January to explode. Volume shot up 500% in October itself, creating handling problems by the stockbroking companies.

It took 88 meetings conducted everyday by the-then KLSE Executive Chairman Datuk Nik Mohamed Din Nik Yusoff to resolve the 'missing scrip' problem. Nobody expected delisting to raise volume that high. If one were to walk into any stockbroking company at that time, chances were that they would be stepping on share certificates literally scattered all over the place. The scene was the same everywhere. The infrastructure on settlement was not ready for the industry at that time but it was a problem with success.

Of course, what happened then was Singapore introduced CLOB International, a secondary market of Malaysian shares traded in Singapore. I had, at that time, suggested closing it down but as usual my warnings were not heeded. It took the financial crisis of 1997 and 1998 to see the ugly side of such a mechanism and the urgency to close it down.

I had also objected to the setting up of the Kuala Lumpur Options and Financial Futures Exchange (Kloffe), operating as an exchange separately from the KLSE. The same went for the Malaysian Exchange of Securities Dealing & Automated Quotation Bhd (Mesdaq). I thought since the network of broking companies and infrastructure was already in place at the KLSE, it was more prudent to let Kloffe and Mesdaq operate from the KLSE. I was reprimanded by the Securities Commission for saying so, but after nine years of Kloffe and four years of Mesdaq and many million dollars, both had to be brought back to the KLSE under the 'integration of the markets' exercise.

The writer is the former president of the KLSE.

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