

## **Chapter 2**

### **The Kuala Lumpur Stock Exchange**

#### **2.1 Historical Development**

The first known recorded trading in securities in Malaysia was traced back to 1870, when the British companies then were involved in the rubber and tin trades. However, it was only on 9th May 1960 that public trading of stocks and shares was actually carried out, a result of the Central Bank's initiative. Prior to the public trading, the Malayan Stockbrokers' Association formed in 1937 was reorganised into The Malayan Stock Exchange on 21st March 1960. The stock exchange continued its existence until 6th June 1964 when the Stock Exchange of Malaysia was launched. It was later renamed the Stock Exchange of Malaysia and Singapore in August 1965 when Singapore seceded from Malaysia. The decision to split the Stock Exchange of Malaysia and Singapore led to the formation of the Kuala Lumpur stock Exchange Berhad (KLSEB) on 2nd July 1973. This was then followed by the formation of The Kuala Lumpur Stock Exchange (KLSE) on 27th December 1976 when the Securities Industry Act, 1973 came into force, succeeding the KLSEB.

#### **2.2 Types of Securities**

The types of securities which are presently traded on the KLSE are:-

- Ordinary Shares/Stocks

- Preference Shares
- Bonds
- Debentures
- Loan Stocks
- Loan Notes
- Property Unit Trusts
- Warrants
- Transferable Subscription Rights (TSR)

### 2.3 Size of the Market

The KLSE grew steadily over the years as reflected in the increase in the number of companies listed from 262 (53 Singapore companies were delisted on 1.1.90) in 1973 to 529 in 1995. Of the 529 companies, 369 are listed on the Main Board with a market capitalisation value of RM542.8 billion as at 31 December 1995 while the remaining 160 are listed on the Second Board with a market capitalisation value of RM22.7 billion as at 31 December 1995, constituting 4 percent of the total KLSE market capitalisation value of all listed companies.

### 2.4 Regulatory Developments

The last 35 years have seen many changes in the Malaysian securities market where the Government has instituted various legal and regulatory reforms pertaining to the issuance of new securities to raise equity and the day to day trading of securities in order to build public confidence and to ensure an orderly market. Some of the significant steps taken by the Government included the enactment of the Companies Act, 1965 to provide for proper supervision of the operations of companies in Malaysia, the establishment of the Capital Issues Committee (CIC) in 1968 to oversee the issuance of securities by public listed companies, the promulgation of the Securities Industry Act, 1973 to ensure that the securities business was

conducted within the legal framework and in an orderly manner. In a move to further strengthen the securities industry, the Government replaced the 1973 legislation with a new Securities Industry Act, 1983 to more closely supervise and monitor the securities industry as well as the stock exchange. The Government felt that the country's stockbroking houses needed to further improve their financial strength and expertise, and therefore implemented the corporatisation of the broking house in 1987. The move was also to attract *more attention* from the foreign fund managers to the KLSE. In March 1993, the Securities Commission (SC) was established to streamline the regulatory function for the securities industry with its main responsibilities to promote Kuala Lumpur as a key financial centre in the region and encourage the orderly development of the securities and financial markets in the country

## **2.5 KLSE Reforms and Developments**

The Kuala Lumpur Stock Exchange on its own initiated certain reforms to complement the moves by the Government to strengthen the securities industry. In order to improve the process and time for share script clearing, the KLSE implemented the first phase of the computerised share scripts clearing system in November 1983. The whole process to computerise the clearing system was completed in March 1984. In May 1985, the Research Institute of Investment Analysts Malaysia (RIIAM) was launched to raise the level of security analysis and research. The KLSE Composite Index was launched in 1986 to better reflect the movement of share prices. In 1987, KLSE implemented several improvements and reforms, amongst them, the real time stock price reporting system (MASA) to improve the efficiency of price reporting, the Advanced warning and Surveillance Unit (AWAS) to provide early warning of stockbroking companies and public listed companies facing problems, and a new

Listing Manual which devoted an entire section on corporate disclosure, policies and penalties.

On 11th November 1988, KLSE launched the Second Board to enable small to medium companies with minimum issued and paid-up capital of RM5-20 million, with good track record and strong growth potential to raise funds from the market for expansion. In 1989, the listing of warrants and Transferable Subscription Rights (TSR) was permitted.

To further improve its efficiency, be more transparent in its operations and improve market liquidity, KLSE implemented the semi-automated trading system called SCORE (System on Computerised Order Routing and Execution) in 1989 to do away with the open outcry system in matching and executing orders. The system was fully computerised by November 1992. In a move to provide a more efficient settlement system, measures were implemented to reduce physical delivery of scripts between broking companies and SCANS (Securities Clearing Automated Network Services Sdn. Bhd.), the clearing house. In February 1990, the Fixed Delivery and Settlement System (FDSS) was implemented to improve script movement and enhance cash flow among the stockbroking companies.

An important step towards bringing the KLSE on par with other world class stock exchange is the implementation of the scriptless trading system. The first phase of the Central Depository System (CDS) was launched on November 1992 and up to December 1995 a total of 152 companies on the Main Board and all 159 companies on the Second Board were placed under the CDS.

## 2.6 KLSE Second Board

The Government recognised the importance of private sector participation in the economy and therefore the need to promote the growth of small and medium size companies. The KLSE Second Board was therefore launched in November 1988 with the aim to provide an avenue for the viable small and medium size companies to seek alternative source of funding to implement growth and expansion plans.

Since its inception, the Second Board grew at a tremendous pace, from only 2 companies listed in 1989 to 160 companies listed in 1995. In terms of nominal value and market capitalisation, the growth has also been in tandem i.e. from RM30 million and RM100 million respectively in 1989 to RM3.9 billion and RM22.7 billion respectively in 1995. The Second Board also attracted increased interest from investors as reflected by the volume and value of the securities traded. In 1989 the volume and value of the stocks traded on the Second Board was 20 million unit and RM60 million respectively. This constituted 0.2% and 0.3% respectively of the entire trading volume and value on the KLSE. However, by 1995 the volume and value of the stocks traded have increased to 3.08 billion units and RM20.88 billion respectively. This constituted 9.1% and 11.7% respectively of the entire volume and value of stocks traded on the KLSE.

In terms of daily average volume and value of stocks traded, the Second Board has also grown by leaps and bounds from 100 million units and RM300 million in 1989 to 12.7 billion and RM85.9 billion in 1995. This gives a cumulative growth percentage of 127% and 286% respectively.

2.7 Listing Requirement for KLSE

2.7.1 Main Board

Companies that wish to be listed on the Main Board have to meet the following requirements:

A. Pre-requisites for Admission

- Minimum paid-up capital of RM20 million (after 1 January 1996, the minimum is RM40 million);
- shareholding spread of at least 25% but less than 50% in the hands of the public and a minimum percentage in the hands of 500 shareholders holding 500-10,000 shares as follows:

<u>Issued and Paid-up</u>	<u>Minimum %</u>
Not exceeding RM50 million	15%
Not exceeding RM100 million	12.5% or RM8 million whichever is the greater.
RM100 million and above	10% or RM15 million whichever is the greater.

- Issue of a prospectus regardless of the method of flotation and the advertisement of the prospectus in full;
- track record of 3-5 years (from 1.1.96, a minimum after-tax profit of RM5 million for 5 consecutive years);

b. Corporate Disclosure Policy

- policy on immediate public disclosure of material information;
- policy on thorough public dissemination;

- policy on clarification or confirmation of rumours and reports;
- policy on response to unusual market action;
- policy on unwarranted promotional disclosure;
- policy on insider trading.

### **2.7.2 Second Board**

In order to be considered for listing on the Second Board, companies must meet the following requirements:

- must be a Malaysian incorporated company;
- paid up capital of minimum of RM5 million and a maximum of RM20 million (from 1st January 1996 the minimum paid-up capital will be raised to RM10 million);
- track record of 2-3 years (from 1.1.96, listing requirement based on after-tax position - after-tax profit of RM2.5 million for 3 consecutive years);
- shareholding spread of at least 25% but less than 50% in the hands of the public with at least 15% of the issued and paid-up capital in the hands of 500 shareholders holding 500-10,000 shares each;
- continuity of management (from 1.1.96, the minimum period is 3 years);
- the major contributor or core company must be in business for at least 5 years before initial public offering (from 1.1.96);
- only a summary of the prospectus to be advertised
- major shareholder(s) are not allowed to dispose of their shares within the first year and up to 15% per annum after the first year.