

## **Chapter 2**

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

#### **2.1 Historical Development**

In 1930, the first formal securities industry organization was established when 15 stockbrokers formed the Singapore Stockbrokers' Association, which later re-registered as Malayan Stockbrokers' Association to reflect the Pan-Malayan character of its membership. This Association continued in existence until a stock exchange was formally instituted with the constitution of the Malayan Stock Exchange on 21<sup>st</sup> March, 1960.

The Malayan Stock Exchange was renamed the Stock Exchange of Malaysia with the formation of the Federation of Malaysia in 1963. In 1965, the Exchange was renamed again to the Stock Exchange of Malaysia and Singapore after the separation of Singapore from the Federation of Malaysia. Following the termination of the Currency Agreement on 8<sup>th</sup> May 1973, the joint Exchange was split and the Kuala Lumpur Stock Exchange Berhad (KLSEB) was incorporated as a limited liability company on 2<sup>nd</sup> July, 1973. On 27<sup>th</sup> December 1976, The Kuala Lumpur Stock Exchange (a company limited by guarantee without a share capital and incorporated under the Companies Act, 1965), was formed in conjunction with the Securities Industry Act, 1973 being brought into force. On 26<sup>th</sup> April 1994, The Kuala Lumpur Stock Exchange changed its name to Kuala Lumpur Stock Exchange.

## **2.2 The Growth of the KLSE**

The KLSE has grown rapidly since 1973. The market capitalization of the KLSE grew at an average rate of 34.2 percent per annum during the period from 1973 to 1985. Similarly, the turnover of shares on the KLSE rose from 391 million units valued at RM 722 million in 1974 to 4 billion units, with a total value of RM 6.8 billion in 1988. For the period 1974-1988, the annual turnover averaged about 1.8 billion units, with an average annual value of about RM 4.3 billion.

Trading activity was growing exceptionally fast in 1989, setting the pace for rapid growth on the KLSE in 1990s. During the period from 1989 to 1993, the overall market sentiment was generally buoyant, supported by favourable local economic fundamentals and strong corporate earnings growth. Annual turnover on the KLSE rose to 10.2 billion units valued at 18.5 billion in 1989, more than 2 ½ times the volume and value traded in 1988, as the various price indices rose to historical levels. The annual turnover surged to a record high of 19.3 billion units valued at RM 51.5 billion in 1992. Similarly, share prices also scaled new heights during the same period. In 1993, the local bourse experienced a super and extended bull run, resulting in an unprecedented trading volume of 107.8 billion units valued at RM 387.3 billion. In recent months, the turnover has even outperformed some of the major overseas bourses.

## **2.3 Size of the Market**

As of 1995, there were 529 companies listed in KLSE compared to 262 companies in 1973. 53 Singapore companies were delisted on 1<sup>st</sup> January, 1990. For the 529 companies listed in 1995, 369 companies were from the KLSE Main Board, with a

market capitalization value about RM 542.8 billion and the other 160 companies were listed on the KLSE Second Board, with a market capitalization value around RM 22.7 billion, as at 31<sup>st</sup> December, 1995.

#### **2.4 Types of Securities**

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

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

#### **2.5 Regulatory Developments**

For the past 35 years, the government has undertaken various legal and institutional measures to instill public confidence and promote an orderly market in regards to new security issuance and trading activities. Amongst the major measures that were implemented include the enactment of the Companies Act, 1965 to provide a better and more comprehensive legal framework in monitoring the operations of companies; the formation of the Capital Issues Committee (CIC) in 1968 for supervising and providing guidelines, criteria and standard in security issuance by public companies and the valuation of public limited companies; the enactment of the Securities Industry Act, 1973 to ensure an orderly securities business; the enforcement of a new Securities Industry Act, 1983 for the purpose of replacing the 1973 Act to enable a

more effective monitoring and control of securities business and stock trading activities; and the corporatisation of the stockbroking industry in 1987 to improve the financial strength of the broking houses, ensure greater expertise and professionalism, and to attract foreign interest to the KLSE.

The government also established The panel on Takeover and Mergers in 1986 to ensure all takeovers and mergers are conducted in an orderly manner and the interest of small shareholders is protected. In 1993, the Securities Commission (SC) was formed to combine the functions of the CIC and the Panel of Takeovers and Mergers to effectively enable a more orderly and well regulated securities market.

## **2.6 KLSE Reforms and Developments**

The KLSE had also initiated several reforms to improve and strengthen the Stock Exchange. In November 1983, the KLSE implemented the first phase of its share scrips clearing system to speed up the scrip clearing process. It established the Research Institute of Investment Analysis Malaysia (RIIAM), in May 1985. It constructed the KLSE Composite Index (KLCI) in the following year, in 1986, to replace the Industrial Index to better reflect the movements of share prices. For a faster and better reporting of share prices, the real-time share price reporting system (MASA) for brokers and Advanced Warning and Surveillance Unit (AWAS), for the purpose to alert the KLSE of those stockbroking and public listed companies that faced problems, were both installed by KLSE in 1987. In July of the same year, the KLSE also introduced a new Listing Manuals with an entirely new section on corporate disclosure policies and penalties. On 11<sup>th</sup> November 1988, in a historical move, the KLSE launched the Second Board to encourage smaller companies with

capital in RM 5-20 million range and strong growth potential, to raise funds from the stock market.

To cope with the rapid growth and larger trading volume, the KLSE implemented a semi-automated trading system called System on Computerized Order Routing and Execution (SCORE), to provide market visibility on share prices and transactions and to improve liquidity in the market. In order to provide an efficient settlement system, the Securities Clearing Automated Network Services Sdn. Bhd. (SCANS) was introduced to reduce the physical delivery of shares between broking companies and the clearing house. In February 1990, the Fixed Delivery and Settlement System (FDSS) was implemented to establish a more ordered system of scrip movements and improve cash flow management among the stockbroking firms. In November 1992, the first phase of Central Depository System (CDS), the scripless trading system was implemented to improve the efficiency of trading and settlement activities to handle larger volume of trading and, more importantly, to transform KLSE into a world class stock exchange within 3 to 5 years.

In 1989, KLSE amended its listing requirements to enable the listing of property unit trusts, warrants or transferable subscription rights (TSRs), and the equity-linked derivatives.

## **2.7 Listing Requirement for KLSE**

### **2.7.1 Main Board**

The requirements that must be met for companies to be listed on the KLSE Main Board are :-

#### A. Pre-requisites for Admission

- Minimum paid-up capital of RM 20 million (before 1<sup>st</sup> January, 1996)
- Share holding 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 Percentage</u>
Not exceeding RM 50 million	15%
Not exceeding RM 100 million	12.3% or RM 8 million whichever is the greater
RM 100 million and above	10% or RM 15 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<sup>st</sup> January 1996, a minimum after-tax profit of RM 5 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**

Companies must meet the following requirements to be listed on the KLSE Second Board :-

- Must be a Malaysian incorporated company;
- Paid up capital of a minimum of RM 5 million and a maximum of RM 20 million (from 1<sup>st</sup> January 1996 the minimum paid-up capital was raised to RM 10 million);
- Track record of 2-3 years (from 1<sup>st</sup> January 1996 listing requirement based on after-tax position - after-tax profit of RM 2.5 million for 3 consecutive years);
- Share holding 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<sup>st</sup> January 1996, the minimum period is 3 years);
- The major contributor or core business must be in business for at least 5 years before initial public offering (from 1<sup>st</sup> January 1996);
- 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.