CHAPTER 1

INTRODUCTION

Trading suspension is the period when trading (buying or selling) of a security is not permitted. The period of suspension runs from the date and time of suspension to the date and time of requotation. The reason for suspension is to enable information that was not already reflected in the stock prices to be conveyed to investors during the suspension period. This will avoid monopoly of information by certain investors and improve investor equity by ensuring that all investors have equal and costless access to all relevant information.

Unlike the closure of the whole market that is brought about if the index trips a "circuit breaker", trading suspensions in individual stocks are based solely on discretion rather than rule. The analysis in this study of all trading suspension that occurred in the KLSE during the period 1993 to 1997 reveals that suspensions occur when either the company request for temporary trading suspension or the Exchange impose suspension of an individual security. Therefore, trading suspension can be viewed as a privilege or discrimination of a security depending on who call for the suspension, the company or the Exchange. Most often, the company will request for trading suspension when it is undergoing some activities that will have a material effect on the stock prices. This privilege will enable the company to avoid unnecessary price movement of it's security. During the period of suspension, the company is required to make an announcement to convey information to investors. The market should respond by impounding the new publicly available information into the opening stock prices on the dates of trading reinstatement. The directions of this price movement will depend upon whether the market assess the new information as being "favourable" or "unfavourable".

On the other hand, the Exchange can discriminate a company by imposing trading suspension if they believe that the security is being traded with inadequate or poorly dispersed corporate information and the management of the affected firm is either unable or unwilling to comply with the request for the public dissemination of that information.

Although the KLSE is moving to become a self-regulated market with the full-disclosure based regulation, it is imminent for the Exchange under certain circumstances to sanction interruptions in the normal trading activity of listed securities. The KLSE can officially suspend trading in an individual security when either one of the following events occurs. (Investor Digest)

TABLE 1 – EVENTS FOR TRADING SUSPENSION

1. At the request of the company/company's solicitors
2. Consequent upon the acquisition of all or practically all the securities in question by another company or group of companies.
3. Pending clarification of affairs.
4. Reorganisation of the company.
5. To facilitate redemption/entitlement/general offer to acquire the company's shares or stocks.
6. For various reasons.

Trading suspension can be treated as a signal by the Exchange that a temporary disequilibrium in the market for a security may exist. Thus, trading suspensions may provide unique opportunities to observe the adjustment of security prices in disequilibrium situations. In this period of suspension, it is hoped that more equitable information can be disseminated to the public on that particular security to avoid excessive speculation.

This study will analyze the price adjustments occurring over the suspension period and the short-run price behavior prior to and subsequent to the suspension for a sample of nearly 500 individual security suspensions. In addition to the analysis of price behavior associated with trading suspension of the overall sample, the following sub-samples will be created to better grasp the understanding of these various subgroups.

i. Suspension classified by the nature of suspension i.e. voluntary suspension versus non-voluntary suspension
ii. Suspension classified by the length of the suspension period i.e. standard suspension (suspension of less than or equal to 10 market days) versus non-standard suspension (suspension of more than 10 market days).
iii. Suspension classified by volatility i.e. main board suspension versus second board suspension.
iv. Suspension classified by the "favourableness" of the information disseminated i.e. favourable suspension versus non-favourable suspension.

The most common type of suspension in the KLSE is the first event in Table 1 above – at the request of the company or company's solicitors. In this study, we will call this type as voluntary suspension. Normally, these companies seek suspension when they are involved in negotiations or are about to announce major developments or when any leak in formation on such developments could affect the price of their shares.

Previously, there was no limit on the duration of voluntary suspension. To deter companies from seeking or extending suspension with the aim of either minimising losses or making gains, the KLSE has imposed the 10 market day limit on voluntary suspension of trading.

This ruling came into effect on 18 April 1995. Interim announcement must be made by these companies after the 4th market day of suspension. However, if there is no announcement made by the 10th market day, the suspension will be lifted on the 11^{th} market day. After the lifting of the suspension by the exchange, no request for suspension will be entertained until a lapse of another 10 market days.

In the case of Reverse Take-Over (RTO), the suspension period may be extended to 18 market days and full announcement must be made on the 18^{th} market day.

However, further suspension may be requested for another 3 market days for all cases. Failure to comply with this ruling will subject the firm to disciplinary action by the exchange.

This study will examine the impact of the suspension on the suspended securities as evidenced by its abnormal returns. If a trading suspension occurs together with a disequilibrium in a security's price, abnormal returns may occur prior to and after the suspension period.