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### **Halim Securities Sdn Bhd**

The Kuala Lumpur Stock Exchange (KLSE) has duly consulted the Securities Commission (SC) on the developments at Halim Securities Sdn Bhd (Halim Securities) and the SC fully endorses the exchange's actions against its member company. The decision to invoke Rule 15B (1) (a) of the KLSE Rules was made after due consideration of investor protection and systemic stability concerns in the current turbulent financial markets. By taking control of Halim Securities, the SC is confident that KLSE, as a frontline self regulatory organisation, will ensure that the stockbroking firm's business is conducted in an orderly manner subject to KLSE's restricted trading conditions.

Since Halim Securities has violated the trading restriction conditions imposed by the KLSE, the SC is determined to see to the recapitalisation of Halim Securities to standards expected of stockbroking firms as soon as possible. This includes through the merger or acquisition of the firm by a third party. The SC has directed the KLSE to inform Halim Securities that an agreement in principle must be reached between the firm and an acquirer, identified by the SC, within two weeks of tomorrow and within six weeks thereafter the agreement must be finalised. If Halim Securities is unable to meet these deadlines, the SC will take steps to suspend or revoke its stockbroking licence.

The SC also wishes to state it will investigate into any breaches of the securities laws if the results of the current examination and audit of the firm warrant it.

The SC would like to reiterate the KLSE's assurance to the public that the situation arising from the actions of Halim Securities is contained and that investors should be reassured that both the SC and the KLSE are exercising due care in addressing the concerns of Halim Securities' clients.

Since last year, the SC has developed standards instituted through KLSE rules to check on the financial position of stockbroking firms not only to ensure that systemic risk concerns are addressed but also, equally importantly, to ensure that investors are protected. The new gearing standards, single client and single security limits and the winding down of margin financing were prudential measures developed by the SC, in consultation with central bank, and effected through the KLSE rules. Apart from ensuring that all brokers have a trust account for their clients, the SC has required the KLSE to introduce Rule 19A to enhance the protection of client assets as provided for in Section 44 of the Securities Industry Act, 1983. Investors should be aware that under Rule 19A, selling brokers are required to transfer client's monies into the trust account not later than the next bank business day on which they were received. In the case of purchase of securities, brokers are required to transfer client's monies into the trust account not later than the next bank business day on which they were received by the KLSE member company.

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### **Status of Stockbroking companies under Restricted Trading**

Since April 1997, the SC and KLSE have heightened surveillance on stockbroking firms. Under the parameters handed down by the SC to the KLSE, the SC described the situations which would require enhanced monitoring of brokers' financial position. The criteria were developed after SC had studied the impact of realised contra losses and potential losses due to outstanding purchases, insufficient margin coverage, proprietary trades, off-balance sheet trades and contingent liabilities on shareholders funds. Continuous assessment of all 60 stockbroking firms resulted in brokers being classified under "highly critical", "critical", "watch list" and "non-classified" categories.

Since December 1997, five stockbroking firms have been placed under restricted trading and a further four since February 1998. KLSE put these firms under restricted trading with the following conditions:

1. To conduct or execute selling transactions only;
2. To conduct or execute purchase transactions only upon receipt of 100% upfront payment;
3. To prohibit margin purchases;
4. To prohibit direct business transactions; and
5. To prohibit any other form of activities which increases the potential risk or exposure of the member companies.

### **Stockbroking Firms under Restricted Trading**

Name of Company	Effective Date
1. Capitalcorp Securities Sdn Bhd	1 Dec 1997
2. MBf Northern Securities Sdn Bhd	1 Dec 1997
3. Khin Khoon & Co Sdn Bhd	1 Dec 1997
4. Labuan Securities Sdn Bhd	1 Dec 1997
5. Sime Securities Sdn Bhd	1 Dec 1997 Lifted 16 Dec 1997 Reimposed 4 Feb 1998
6. MGI Securities Sdn Bhd	4 Feb 1998
7. Halim Securities Sdn Bhd	4 Feb 1998
8. Omega Securities Sdn Bhd	17 Feb 1998
9. Alor Setar Securities Sdn Bhd	18 Feb 1998

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### **Mergers of Stockbroking Firms**

Apart from the immediate action that the SC will take on Halim Securities, the SC is forcing the other eight firms under restricted trading to step up their efforts to regularise their financial position.

Of the four firms placed under restricted trading since 1 December 1997, one (Capitalcorp) had initiated merger negotiations which has not been successful and it will therefore have to report on its next course of action to the KLSE.

For the firms placed on trading restriction since December 1997, the SC had directed the KLSE, in a letter dated 19 February 1998, to inform these firms that they will be given until the end of March to submit their plans to regularise their financial positions and to finalise their plans, including possible merger or acquisition, by the end of June. The KLSE duly informed the respective member companies on 10 March 1998.

If these firms fail to come up with specific plans by the end of March, the SC will manage the process of ensuring that these firms take the necessary steps to address their financial position. The SC will initiate steps to identify suitable merger parties or acquirers for them. The potential acquirers are not confined to other stockbroking firms but will include public listed companies that meet the criteria set by the SC or, with the assistance of the central bank, commercial banks or merchant banks. The SC has identified the qualification of potential acquirers from among strong stockbroking companies, banks and bodies corporate. If no agreement on a merger or acquisition is reached within the time-frames set, the SC will initiate moves to revoke or suspend the licences of those stockbroking firms.

However, with the recent turn of events at Halim Securities, the SC has revised the deadlines originally set in the case of those firms placed under trade restrictions since December. If no concrete proposals are made at the end of March, a merger or acquisition will be forced upon them, with an agreement in principle to be reached within two weeks and a final agreement six weeks thereafter. Failure to reach agreement will result in moves to suspend or revoke the licence.

In the case of Sime Securities, which was placed under trading restrictions on 1 December, had its trading restrictions lifted on 16 December and subsequently put under trading restriction again, the SC will monitor the developments of the Rashid Hussain merger with Sime Bank before it decides on what course of action to take. With respect to the other three stockbroking firms under restricted trading since February this year, KLSE will be informing them that they will have to come up with their specific plans before 15 April 1998, failing which merger or acquisition will be forced upon them within the set time-frame, with licence suspension or revocation being the final alternative.

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For merger negotiations, the acquirer and acquiree are required to appoint an independent auditor to perform due diligence audits. The SC will assess merger proposals based on the following terms:

1. To rescue stockbroking firms in critical financial difficulties, and not as a means to "bail out" shareholders of the firms;
2. To ensure that the client/investor assets are protected at all times;
3. To improve the liquidity and capital position of the firms; and
4. To enhance management and resource capabilities.

With regard to stockbroking licences, the SC does not have a preconceived view of the continued validity or otherwise of licences in a merger as it should be part and parcel of the negotiations between potential acquirer and acquiree. The SC will consider the proposals with respect to the licences when they are submitted as there can be many possibilities on how the licence can be viewed by the acquirer and acquiree, e.g. a public listed company may view the value of the licence differently from a stockbroking firm. The final proposal would have to be negotiated by the two parties and any policy implications to the merger would be assessed by the SC. The SC will advise the Minister of Finance to take an open view in respect to the treatment of licences as well as of branching in any proposal relating to any merger proposal.

To reiterate, in the event that a merger or acquisition of a stockbroking firm placed under restricted trading does not materialise, the SC will take steps to secure a suspension or revocation of the firm's licence. In the event that the licence is revoked or suspended, the KLSE would ensure that the client's assets of the firm are protected.

**SECURITIES COMMISSION**  
**23 March 1998**