ASIAN FOCUS ON THE CRASH

ASAC CONFERENCE ROUNDS UP WORLD OPINION

by PETER MacLAREN

Deregulation of Australia's stockbroking industry changed its structure dramatically — and gave it the ability to weather the storm of October 1987. A report on the 1988 ASAC Conference.

Delegates at the 10th Asian Security Analysts' Council (ASAC) Conference had the opportunity to examine trends affecting the worldwide growth of the securities industry and the relevant lessons of the October 1987 crash. Representatives of the financial and business communities of Malaysia, Hong Kong, Japan, Korea, Taiwan, Australia, New Zealand and the US addressed the conference.

The two-day meeting, held at the Shangri-La hotel, Kuala Lumpur, on July 18-19 was the first major function of its type to be held in Malaysia. It attracted 280 delegates from 13 countries, including 11 from Australia.

Mr Charles Cox, a commissioner of the US Securities and Exchange Commission, delivered a major address entitled: "The October 1987 Crash — What Actually Happened? Why?" This was followed by a panel discussion with the theme. "The Crash Nine Months Later — Where Do We Go From Here?"

Mr Ian Roach, chairman of the Australian Stock Exchange, said in his address to the conference that deregulation in Australia had been as significant in scope as it had been breathtaking in impact. Now the Australian finance, securities, banking and foreign exchange markets were probably as free as in any other country.

While the Australian government had removed many regulations, the Australian stock exchange industry had acted voluntarily to free up its own structure and enhance efficiency, both in technology and administration.

The catalyst for the deregulatory changes which had permeated the Australian economy had been the changes to exchange arrangements, he said. The fact that capital could now flow into and out of Australia in the time it takes to press a button on a computer terminal meant that the finance and securities segments of the economy were fully exposed to the rigours of international competition.

Foreign investment into Australian portfolio corporate equities had risen substantially since the freeing up of foreign exchange controls. In 1983/84, investment in Australian portfolio corporate equities was $601 million, compared with $4.1 billion in 1986/87. In the half-year to December 1987 the value of foreign purchases and sales of Australian listed securities was equivalent to more than 40 per cent of the value of equity turnover compared with around 35 per cent in the previous two financial years.

Stock exchange initiatives

From April 1984, fixed brokerage rates between broker and client were abolished, and stockbroking organisations were able to incorporate, departing from the partnership structures previously permitted, Mr Roach told the conference. Almost 80 per cent of

Peter MacLaren is executive director of McKinley Wilson and Co. Ltd and was an Australian delegate at the 1988 conference of the Asian Security Analysts' Association.

Australian brokers had taken the opportunity to incorporate.

From April 1984 until April 1987, non-members of the Australian Stock Exchange could hold up to 50 per cent of the capital of stockbroking corporations. From April 1987, this was raised to 100 per cent.

The opening up of membership of the exchange had produced two major consequences:

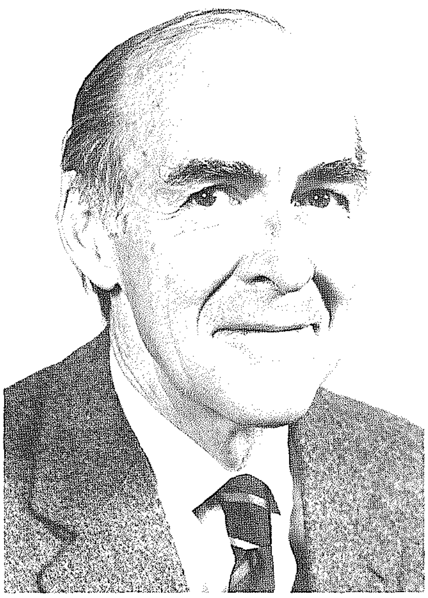
- It enabled the capital base of Australian stockbrokers to increase significantly, providing a foundation for growth as well as a financial cushion at times of falling market activity.
- It enabled foreign interests such as banks, investment banks, stockbrokers and major international companies to forge links with Australian stockbrokers. Through these links, Australian stockbrokers were expanding into other areas of the finance and securities industry.

Mr Roach said the capital base of Australian stockbrokers was $730 million, compared with a mere $20 million in 1976/77. The increase in the year to December 1987 alone was 100 per cent.

Of the 92 corporate stockbrokers operating in Australia, about half had overseas interests. Of these overseas stockholders, about half had links with overseas stockbrokers, one third links with overseas banks, and one fifth links with overseas merchant banks. Financially powerful outside shareholders in Australian stockbrokers had enabled expansion of the equity base as well as the possibility of the speedy injection of subordinated debt, with more of the attributes of equity than debt. There were direct and indirect benefits from the increased capital base of Australian stockbrokers, Mr Roach said. The direct benefits related to the ability to overcome the financial vagaries of the market, and to expand and diversify. The indirect benefits arose from enhanced investor protection and increased availability of funds for industry development.

The direct benefit of the enhanced capital base of brokers had been emphasised in the months following October 1987, when brokers had shown a much greater ability to withstand large and sudden movements in the market.

"Indeed, it is a favourable reflection on the state of the industry that the Australian exchange was able to report by the end of the week of the October collapse that the Australian industry had come through without any major problems." Mr Roach said.



Australian Stock Exchange chairman Ian Roach: benefits of brokers' increased capital base.

Apart from the advantages of an enlarged capital base for stockbrokers when the market was under pressure, more generally it helped meet the financial needs of brokers in a growing market, Mr Roach said.

Specifically, it provided the infrastructure to help cope with the enormous increase in business done over recent years.

Revenue derived by brokers from underwriting fees had almost trebled since the late 1970s and early 1980s. Capital raisings underwritten by Australian stockbroking organisations rose to $11.8 billion in 1986/87, compared with $155 million in 1976/77.

The indirect effects of the increased capital base of Australian stockbroking organisations had bolstered investor protection through the larger absolute financial size of stockbroking organisations, which ultimately underwrote the protection afforded by the National Guarantee Fund, which guaranteed the performance of all contracts made on the exchange.

Under a National Guarantee Fund provision enabling the use of certain funds for industry development, about $10 million had been used for approved purposes which include the automated trading system and the proposed new clearing-house system.

Referring to the automated trading system introduced on a trial basis in October last year, Mr Roach said it was among the most advanced in the world. A committee of the exchange was reviewing the operation of the automated system.

Development and testing would extend over some months. However, the board of the ASE was confident that the expense and effort would result in a trading system with widespread support. It would provide investors in Australian securities with a market which would be both efficient and competitive by world standards, as well as serving the interests of the listed companies. Speaking of the proposed modernisation of the clearing house system known as "STARS", Mr Roach said the emphasis would be on maximising the use of electronic information between all participants in the system — direct holders, brokers, registries and the clearing house.

The electronic transfer of securities between buyer and seller, as an alternative to the need for physical movements of certificates and scrip, would be an enormous leap forward, Mr Roach said.

Malaysian economy surges

The growth of the commodity-dependent Malaysian economy, along with other ASEAN economies, was highlighted at the conference. ASEAN, of which Malaysia is the centre, is a fast-developing region with a population of 270 million and an annual growth rate of 3 per cent.

The deputy director-general (operations) of the Malaysian Development Authority, Mr Geh Sim Hong, predicted a growth rate in Malaysia for 1988 of 5.3 per cent in real terms. The collapse of commodity prices in 1983 had caused GNP to fall 1 per cent in that year; however, the economy experienced growth of 1.2 per cent in 1986, rising to 4.7 per cent in 1987 and climbing still further into 1988. □

SEOUL IN 1989

The next ASAC conference will be held in Seoul, Korea, in August — September 1989. Bangkok will be the host city for the following conference in 1990. SIA members will be provided with full details of the arrangements as they are made by the organising committee. ASAC conferences provide an economical opportunity for SIA members to meet and exchange views with securities industry specialists from other Asian countries. □