

# Experts warn against erosion of governance in the market



*MSWG's Devanesan Evanson (left) points out that perception of independence is just as important as reality, while Carmelo Ferlito likens governance in Malaysian markets as its Achilles heel.*

PETALING JAYA: The decision to allow CTOS Digital Bhd to acquire a controlling stake in RAM Holdings Bhd will send the wrong signals to investors, according to experts.

Centre for Market Education (CME) chief executive officer Carmelo Ferlito said this could be perceived as a problem in the governance system.

Ferlito told FMT that governance is Malaysia's Achilles heel, as evident by its low rank in the International Property Rights Index.

In 2021, the country was ranked 29th out of the 129 countries examined by the index, but in the legal and political framework which relates to governance it came in at 42nd.

Ferlito said the fact that Bursa Malaysia Bhd is dominated by government-linked companies (GLCs) also outlines Malaysia's problem with capital and governance.

"The move raises questions on the ratings agency's reliability and it does not bode well for the local market," he said.

Minority Shareholders Watch Group (MSWG) chief executive officer Devanesan Evanson concurred with Ferlito's view, noting that the ratings agency's shareholding structure should reflect its independence.

"Here, perception is just as important as reality," he told FMT. "Any change to the shareholding structure that compromises such independence creates potential for conflicts of interest."

Evanson said the previous structure, which limits each shareholding to 20%, does not allow any one party control.

He elaborated that if one party controls the ratings agency there is a risk of it influencing RAM Holdings' decision.

In such instances, he said, there must be a strong system of controls, and checks and balances to mitigate the risk.

To ensure the credibility of ratings agencies, the Securities Commission's (SC) "Guidelines on the Registration of Credit Rating Agencies" requires any change in shareholding that results in one entity controlling 20% or more be approved by the regulator.

On April 28, the SC granted approval for CTOS Digital to raise its stake in RAM Holdings to more than 51% subject to the outcome of a vote on a special resolution to amend Clause 12.1 of the agency's constitution at its annual general meeting (AGM) today.

At the AGM, 93.86% of its shareholders approved the resolution while 6.14% voted against.

In a statement issued late this evening, CTOS Digital pointed out that the shareholders of RAM Holdings had voted "strongly" in favour of its bid to increase its shareholding in the ratings agency.

The company said it would appoint one person to the RAM Holdings board to ensure "continued independence and governance" of the ratings agency.

"CTOS Digital will work with the board of directors of RAM to preserve and strengthen its internal controls, processes and governance framework," the statement said.

It also gave an assurance that it would not be involved in any ratings-related decision-making process.