

MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M))

New Straits Times, Business Times – Thursday, 18 August 2022



DEVANESAN
EVANSON

PROPOSED LEAP MARKET TRANSFER FRAMEWORK

MORE CHOICES FOR INVESTORS

THE local bourse offers three listing options for companies – the Main Market, the ACE Market and the LEAP Market. There exists a framework for aspiring ACE Market-listed companies to elevate themselves to the more prestigious Main Market.

But no framework is available for LEAP Market companies to elevate themselves to the ACE Market. It has long been a lament of LEAP Market-listed companies for such a framework so that there is a way for them to transfer their listings to the ACE Market.

The LEAP Market Listing Requirements, issued by Bursa Malaysia Securities Bhd, came into effect on June 16, 2017. There are currently 49 companies listed on the LEAP Market. The desire for the status elevation is fuelled by the fact that the LEAP Market is a qualified market that is designed for sophisticated investors. Retail investors are not permitted to invest in LEAP Market companies.

The rationale being that these companies come with relatively greater risk that only sophisticated investors will understand.

Sophisticated investors are high net-worth individuals and entities which have deeper pockets and are able to “absorb” downside risks.

Thus, companies listed on the LEAP Market are not “public”-listed companies (PLCs) but merely listed companies.

Another downside to being listed on the LEAP Market is that there is hardly any vibrancy and liquidity. The trading volumes are relatively low and the spread between the buy and sell prices tend to be wider and there are

limited investors. These will impact robust price discovery.

A framework on the horizon

Bursa Malaysia has recently sought public feedback on its proposed amendments to the ACE Market Listing Requirements to facilitate the transfer of eligible listings from the LEAP Market to the ACE Market (the proposed LEAP Market Transfer Framework).

Bursa has stated “since the launch of the LEAP Market in July 2017, the exchange has observed how most of the LEAP Market-listed corporations have... grown in terms of size and profitability. In this regard, the exchange proposes to formalise the LEAP Market Transfer Framework to facilitate the transfer of eligible listed corporations from the LEAP Market, which is a qualified market accessible to only sophisticated investors, to the ACE Market, which offers a more robust listing environment and is open to the public.”

Bursa continued that the proposed LEAP Market Transfer Framework is underpinned by two regulatory principles:

i) there is no regulatory arbitrage on the standards and quality of corporations listed on the ACE Market; and,

ii) there will be adequate disclosure of the business, financial condition, management and other matters pertaining to the transfer applicant for informed investment decision-making by investors.

Bursa also said any LEAP Market-listed entity seeking a transfer of listing must meet the suitability assessment by a sponsor under the ACE Market listing

rules, have been listed for at least two years on the LEAP Market, and completed its business plan and fully used the proceeds raised from its LEAP Market listing.

The third requirement may be a bit tricky in that there may be cash left over from the proceeds raised from its LEAP Market listing, after completing its business plan. Surely the aspirant should not be penalised for not using all its cash. After all, at the time of its listing on the LEAP Market, the amount of cash raised for the business plans is at best an estimation – a budget. If they can complete their business plans without depleting their cash coffers, it should be well and good and should not be held against them.

The aspiring LEAP Market company must also comply with existing requirements and procedures for admission to the ACE Market, and put in place a clear price discovery mechanism for its shares to be transferred. And rightfully so. The framework is not a short-cut to bypass the exacting listing standards of the ACE Market. Bursa has alluded to this in its first regulatory principle that there should not be any regulatory arbitrage. Because the public has never invested in LEAP Market companies, the prices on the LEAP Market are not subject to robust price discovery.

So, what should be the price at which the company should be listed on the ACE Market? The onus will be on the aspiring company to put in place a clear price discovery mechanism for the shares to be transferred to the ACE Market.

The aspirant is expected to go through the process to determine the initial public offering price, just like any other company which wishes to list on the ACE Market.

Some concessions may be granted as the aspiring companies are not strangers to the exchange as they would have had to be listed on the LEAP Market for at least two years. Surely, that familiarity, if favourable, should warrant some concessions from Bursa. These are still early days and the shape and structure of the transfer framework will very much depend on the public feedback.

A welcome boost

The framework will be a welcome boost for two main reasons. First, the LEAP Market will become more popular as a listing destination due to a structured framework that will allow aspirants to migrate to the ACE Market and tap public funds. Second, the public can now invest in the newly promoted companies when they are listed on the ACE Market.

The minority shareholders will have more PLCs to choose from. Their participation will give rise to greater liquidity, vibrancy and price discovery and all these will augur well for both the promoted companies and public investors.

And then, the promoted LEAP Market companies can strategise how to leap from the ACE Market to the Main Market as they prepare for their next stage of growth.

The writer is chief executive officer of Minority Shareholders Watch Group.

These are still early days and the shape and structure of the (LEAP Market) transfer framework will very much depend on the public feedback.