

Malaysia Now – Tuesday, June 7, 2022 (C) Part 1

SC green light for CTOS to take over RAM criticised ahead of June 9 AGM

Analysts and market observers warn that the company's credibility as a debt rating agency will come under question.



The Securities Commission Malaysia headquarters in Mont Kiara, Kuala Lumpur. The Securities Commission has been urged to review its approval for CTOS Digital to acquire RAM Holdings amid concerns that the move would have negative consequences on market perception.

The prospect of a single commercial entity owning a majority stake in RAM Holdings has been met with criticism from analysts and market observers who warn that the company's credibility as a debt rating agency will come under question.

This follows the move by the credit rating agency to [defend a plan by CTOS Digital](#) to increase its share in the company at RAM's annual general meeting (AGM) this Thursday.

The controversial approval for the increase in CTOS shares came from the Securities Commission Malaysia (SC), [MalaysiaNow revealed last week](#), citing a proposal attached to the AGM notice – a move which some players said could affect RAM's credibility as a reference for the debt capital market.

It was reported that in order to increase its stake, CTOS would first need to clear a legal hurdle by getting the AGM to approve a constitutional amendment to lift a ban on any single entity owning more than 20% of the shares in the rating agency.

RAM had defended the plan, saying there were “key safeguard measures” in its day-to-day operations.

“The SC would not grant approval to any party to exceed this limit if it deems this to be detrimental to the best interest of the credit rating agency and the bond market,” RAM Holdings CEO Chris WK Lee said in a response to MalaysiaNow's report.

“All directors including its chief executive, deputy chief executive and members of the rating committee are subject to the approval of the SC,” he added.

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RAM, established by Bank Negara Malaysia (BNM) in 1990 to support the local debt capital market, is accepted as the industry leader in credit ratings by many fund managers. Its credit opinions are a crucial reference for banks as well as financial regulators.

The takeover bid by CTOS, however, has prompted questions about how fairly RAM would be able to play this role.

“As a rating agency, RAM’s shareholding structure should be such that its independence can be preserved,” Devanesan Evanson, who heads the Minority Shareholders Watchdog Group (MSWG), a body formed as part of a broader capital market framework to protect the interests of minority shareholders, told MalaysiaNow.

Devanesan said any changes to the current shareholding structure that compromise such independence “create the potential for conflicts of interest”.

“The previous structure does not allow any one party to control by limiting ownership to 20%. If one party controls RAM, there is a risk that that party can influence RAM to do what the controlling party wants to do.

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

Meanwhile, those familiar with the local equity market said the composition of RAM’s shareholders was already the talk among industry players, who feared the increasing control of the rating agency by a single entity.

One of them pointed out a web of share ownerships linking back to an individual.

“At least two companies are linked to this person, and both these companies combined already have significant stakes in RAM,” it said, asking if the SC was aware of this.

“In such a case, it is already in clear breach of RAM’s constitution,” it added.

Reacting to RAM’s defence of the plan, it said the SC’s approval for CTOS to increase its share ownership of RAM had set a “troubling precedent”.

“There is nothing to prevent any new owner from asset-stripping and selling on to someone else once the flood gates are open.”

It also called for case-by-case approval for each new significant shareholder.

“But now, it will be anyone going forward.”

MalaysiaNow has contacted the SC and CTOS for a response.

When contacted, meanwhile, a spokesman for BNM replied: “We have no comments on this matter.”

Last week, MalaysiaNow reported that the SC on April 28, 2022 gave its approval for CTOS to own majority shares in RAM, as well as any subsequent increase in shares.

CTOS is already planning to increase its paid-up capital in RAM to 19.25%, up from the mere 4.625% it acquired last year.

The request to amend RAM's current ownership limit will be placed under "special business" at the AGM.

The proposal was met with alarm by several fund managers and bankers, one of whom said there had been a "gradual subversion of RAM" over the years, pointing to non-banking as well as foreign entities which make up about a dozen shareholders in the agency.

Adding to the fear is the potential conflict of interest by individuals in CTOS.

"We know for a fact that at least one CTOS non-executive director is sitting on the SC board of directors," a capital market analyst told MalaysiaNow, adding that as RAM's credit reports have implications in the bonds market, the latest development points to conflict of interest as well as "the death of integrity in Malaysia's financial sector".

In April, CTOS bought 910,000 ordinary shares from RAM for RM25.06 million, changing hands from OCBC Bank, Affin Bank and Affin Hwang Investment Bank.

A senior economist meanwhile urged the SC to review its approval for CTOS to acquire RAM, saying it would have negative consequences on market perception.

Zulkiply Omar, of Universiti Malaya's Social Wellbeing Research Centre, said there was a potential for bias on the part of the rating agency.

"If the holding is limited to 20% or less, it will be a minority vote, hence having to rely on a majority vote (other shareholders)."

"But if only one entity is the majority, then it gets to the final say," said Zulkiply, who was previously a senior research fellow with the Malaysian Institute of Economic Research.