

MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia – Company No. 524989-M)

The Star – StarBiz - 27 September, 2012 (C)

Bankers mum on IA ruling

Additional rules may cause shake up in corporate advisory industry

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PETALING JAYA: Investment bankers have remained largely silent on the new rules requiring them to do more extensive work when producing independent advice (IA) in situations involving takeovers of listed companies.

Several heads of banks who act as IAs have either declined to comment or not replied to text messages and phone calls from *StarBiz*. Others were not able to reply at press time.

One industry executive, however, called the introduction of the guidelines, tagged as additions to Practice Note 15 (PN15) of the Code on Takeovers and Mergers 2010, a “good and healthy” development as it would compel IAs to be clearer in their rationale and evaluation of a company.

“Currently, IAs and investment bankers can be vague in their use of the terms ‘fair’ and ‘reasonable’. We need to clearly define what is ‘fair’,” Astramina Advisory managing director Wong Muh Rong said.

“It is time the market gets clarity

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on how the evaluation process is derived. For many years, there was no need for IAs to form a valuation on their recommendation.

“The evaluation is more quantitative with the new measures. However, IAs would also have to take on more onerous responsibilities. Fees will go up and corporate exercises will be costlier as IAs need to form opinions on the valuation.”

The additional rules, she added, would cause a shake up in the corporate advisory industry.

“Once it comes into effect, advisors would not be able to say the valuation of the company is such and such based only on the market

price. They would need to really derive a value and not state a certain amount simply due to a lack of liquidity or trading interest,” Wong said.

Another investment banker who declined to be named said the guidelines could make mergers and acquisitions (M&A) more cumbersome.

“IA fees will have to be higher and it will take longer to conclude a takeover, especially in cases where the valuation involves specialised assets such as plantation or property,” he said.

The regulator had on Tuesday issued an expanded PN15 addressing requirements for independent advice circulars for take-over offers in a bid to enhance the quality of independent advice as well as to protect shareholder interests, an initiative it first embarked on two years ago.

This is scheduled to take effect on Nov 1.

For a deal to be deemed as “fair” under the refreshed guidelines, the offer price should be equal to or higher than the market price and also equal to or higher than the value of the securities.

If the offer price is equal to or higher than the market price but lower than the value of the securities, a takeover is considered “not fair”.

When contacted, Minority Shareholders Watchdog Group chief executive officer Rita Benoy Bushon said the enhanced rules were still “not clear enough” as she had expected more certainty on the need for a company facing an acquisition to have its assets valued.

“We were hoping to see something closer to the Australian regulations which state that an independent valuation report must be commissioned when the 20% threshold is crossed,” she explained.

On whether a rigorous valuation would lead to a spike in the cost of M&A, she said that was unlikely to happen.

“Takeovers can already cost billions of ringgit. The price of any valuation is miniscule in comparison, besides being the right thing to do for shareholders.

“A valuation on property, for example, can be done cost-effectively and in as short as three weeks to a month,” she said.