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FRACTIONAL SHARES

FOSTERING INCLUSIVE TRADE



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THE Securities Commission (SC), on Sept 7, revised its guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licenced Representatives (SBC Guidelines) to allow stockbroking companies to offer fractional share trading services for shares listed on Bursa Malaysia.

The revised guidelines take immediate effect.

Recall that this was one of the capital market initiatives announced by Prime Minister Datuk Seri Anwar Ibrahim earlier in June to make share trading on Bursa Malaysia more accessible, affordable and inclusive for retail investors.

There are “expensive” counters listed on Bursa Malaysia. Typically, such companies would undertake a share split to make their shares more affordable, especially to minority and retail shareholders. Some companies do not do so and perhaps take pride in the fact that their shares are so expensive — that their shares are out of the reach of minority and retail shareholders. Maybe they prefer not to deal with the minority and retail shareholders.

Otherwise, what could possibly be the reason for keeping their shares so expensive instead of spreading the wealth and ownership to more investors than lesser investors.

Going forward, investors can buy fractional shares. These are portions of a stock that are less than one standard board lot. Investors will not be constrained to buy shares in multiples of standard board lots, which is 100 shares.

There is an odd-lot market, for shares less than a board lot but the prices of the shares have too wide a spread — you can offer to sell an odd lot at any price and likewise offer to buy an odd lot at any price.

When it comes to pricing, the difference between the odd lot market and fractional trading is that with fractional shares trading, the prices should be at prevailing market prices. The SBC guidelines specifically state that stockbrokers are to execute all customers’ orders for listed shares at the prevailing market price.

They should ensure price transparency and that customers’ orders are executed at the prevailing market price through regular monitoring of price display.

The guidelines are applicable only when a stockbroking company provides fractional share trading service on shares listed on Bursa Securities. As such, there may be stockbrokers who may decide not to provide such services. If too many stockbrokers so decide, it would defeat the purpose of having fractional trading in the first place.

Also, there are many penny stocks traded on Bursa Malaysia. Fractional shares in such penny stocks will result in fractional prices for fractional shares.

In such instances, one possibility is to have a tranche or strata of two types of shares — those that are eligible for fractional shares trading and those that are not based on share prices.

The low-price stocks, including penny stocks, may not justify fractional shares trading.

Facilitate broader market participation

SC chairman Datuk Seri Dr Awang Adek Hussin said the introduction of fractional share trading would make share trading more accessible and affordable for retail investors, particularly the younger generation.

Already, studies show only seven per cent of investors in the stock market are under the age of 45, with the number of those in the 20-30 years bracket expected to be even lower.

He said the mechanism would allow retail investors to diversify their portfolio, while creating a more inclusive capital market for all Malaysians.

Therefore, to support the orderly development of the capital market, stockbroking companies must have the necessary controls and systems to safeguard the interests of investors.

Fair treatment, transparency and supervision

On the investor protection front, the SBC guidelines require stockbroking companies to implement adequate systems, policies, and procedures to ensure fair treatment of customers’ orders, price transparency and proper supervision of the fractional share trading service.

One area that needs to be addressed is the brokerage fee for buying fractional shares.

The commissions payable should not exceed the cost of purchasing the fractional shares. As such, there should be a pricing matrix to ensure this.

On top of that, stockbrokers should provide adequate disclosures relating to their entitlement to participate in corporate actions, dividend payments, voting rights, et cetera.

The guidelines on fractional share trading have been issued by the SC. Now it is time for brokerage houses and Bursa Malaysia to provide more clarity as to how things are going to pan out.

There is much more to be done before minority and retail shareholders can nibble at the expensive shares and indulge in the joys of fractional share trading.

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

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