

## MINORITY SHAREHOLDERS WATCH GROUP

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

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DEVANESAN  
EVANSON

### MIGRATION FRAMEWORK

# THE LEAP TO ACE MARKET

“A journey of a thousand miles begins with a single step” is a famous saying attributed to the ancient Chinese philosopher, Lao Tzu. The proverb reminds us to take that first step in a journey no matter how daunting the task may seem.

Similarly, the introduction of the LEAP Market migration framework recently marks another step for businesses to broaden their funding options and corporate profiles.

#### LEAP Market grouses

There have been two grouses for LEAP Market companies.

Firstly, LEAP Market-listed companies that shared investments in their companies were restricted to sophisticated investors and accredited investors as opposed to all and sundry in the ACE and Main Markets. This restriction resulted in low trading volumes. Trading volumes are a prerequisite to robust price discovery. Thus, many LEAP Market companies are languishing.

Their second grouse was there was no “friendly” framework that allowed them to better themselves by seeking migration to the more prestigious ACE Market.

The only available framework required LEAP Market-listed companies to be delisted before relisting on the ACE Market. They would have to undergo an initial public offering (IPO) assessment process that non-listed companies undergo to be listed

on the ACE Market. This was not considered friendly enough given that LEAP Market companies are not strangers to the regulators.

#### The transfer framework

The exchange introduced a framework for such migration on April 1. The framework is a result of much deliberation and feedback from stakeholders and industry participants.

The end-product thus must be one that is well-considered. It is presumptuous to assume that it is the perfect solution as the effort to build a perfect mouse trap is continuous. Once implemented, over time, there will be areas that are not working as intended. And these can be addressed to build a better framework. The perfect mouse trap will always be an elusive dream given the dynamic world that we live in.

The framework is a laudable first step of such a journey. Currently, new listings on the ACE and Main Markets enjoy substantial premiums on listing day and often sustained share prices for days thereafter. This exuberance is not guaranteed to last forever as they are also determined by market sentiment and dynamics.

Such positive share price performance on the ACE Market also resulted in the clamouring for a transfer framework whereby LEAP Market companies promoted to the ACE Market can enjoy the exuberance and its spin-off benefits.

The catalyst which hastened

the introduction of the LEAP Market framework was probably the March 8 announcement by Prime Minister Datuk Seri Anwar Ibrahim that the Securities Commission, together with Bursa Malaysia, would introduce the LEAP Market transfer framework for companies to migrate from the LEAP Market to the ACE Market. To be fair, Bursa Malaysia and the Securities Commission have already set in motion the process for the introduction of the LEAP market framework much earlier, with engagement with relevant stakeholders and regulators.

#### The transfer to ACE Market

The framework allows aspiring LEAP Market companies listed for at least two years to qualify for a transfer of listing to the ACE Market and undertake a public issue of shares on the ACE Market. There are two challenges to the transfer.

Firstly, it is the price discovery mechanism — how to discover the price at which the LEAP Market aspirant should be listed on the ACE Market — the IPO price.

The tricky part of this exercise is that the prevailing buy, sell and last done prices come from a languishing LEAP Market. Languishing because there is not much volume in the LEAP Market and as we know, volume begets better price discovery. So, there is scant correlation between the last done price in the LEAP Market and the equitable price at which the shares should

be priced and listed on the ACE Market. This responsibility has been put squarely on the LEAP Market aspirant in that it is up to the transfer applicant to demonstrate that there is a clear and transparent price discovery mechanism in place, and that there is fairness and reasonableness of its issue price pursuant to its transfer to the ACE Market.

Secondly, concurrent with the application for a transfer of listing, the transfer applicant must apply to withdraw its listing from the LEAP Market and accord its shareholders an exit offer, or any other alternative exit mechanism, that is equitable to the shareholders. Again, this is tricky in that due to low trading volumes and the consequent lack of robust price discovery, the last done price may not correlate or indicate what the “equitable” exit offer price should be.

Despite these challenges, an advantageous spin-off benefit is that the framework will open up opportunities for small and medium enterprises to have greater access to the capital market.

At the end of the day, it may very well be a case of “all’s well that ends well”. LEAP Market companies can forget about how unpleasant or difficult something was because everything ended in a good way with the introduction of the framework.

The writer is chief executive officer of Minority Shareholders Watch Group

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