

INTERNATIONAL BANKING - MONETARY AUTHORITY OF SINGAPORE AND JARDINE FLEMING
(SINGAPORE) PTE LTD*

On 4 Oct 84, the Monetary Authority of Singapore ("th Authority") withdrew its approval for JFS to operate as a merchant bank in Singapore. This decision was taken following a review of JFS's operations in Singapore and after careful consideration of the explanations given by JFS.

Breach of Section 133 of the Companies Act and Inadequacy of Internal Controls

2. In late 1981 and early 1982, the Authority conducted an inspection on JFS. Besides weaknesses in the credit administration and internal control procedures, JFS was found to have granted substantial clean credit facilities to its then Managing Director in contravention of Section 133 of the Companies Act. These serious breaches would have warranted the withdrawal of the approval for JFS to operate as a merchant bank. However, in view of JFS's assurance to improve its internal controls, no legal action was instituted against it, except the withdrawal of its Asian Currency Unit (ACU) permit.

Inadequate Advice to the Minority Shareholders of Singapore Land (SLL)

3. In 1981, SLL proposed to acquire 5 cargo vessels from the Ocean Shipping Group which was effectively controlled by SLL's major shareholders. The minority shareholders of SLL however protested against the acquisition. Despite the depressed condition in the shipping industry and the consequent doubt as to the vessels' long term profitability, JFS, as an adviser to the minority shareholder, had recommended that the vessels, then aged 4 - 7 years, be bought at a total price of US\$53 million compared to an original cost of US\$52 million to the vendor. SLL later withdrew the transaction at the insistence of the Securities Industry Council.

4. The Authority has found little reason to believe that JFS had arrived at its recommendation after due and careful consideration of all pertinent factors. In particular, JFS had failed to take full account of the prevailing market conditions, future industry trend and the potential earning capacity of the vessels, and to ensure that possible conflict of interest of the controlling shareholders of SLL

* (This is the text of a Press Release dated 4 October 1984 made by the Monetary Authority of Singapore. The decision of the Authority was reported widely in the financial press)

and Ocean Shipping Group was sufficiently mitigated JFS contended that "it is normal practice in transactions of this type for the acquisition price to be based on present-day market value rather than some indeterminate future value".

5. JFS also argued that its obligation was to ensure compliance with mandatory stock exchange requirements such as the provision of an independent valuation, disclosure of interests of any interested parties and disfranchisement of the latter's voting rights. The Authority cannot agree that a minority adviser's role is confined to ensuring technical compliance with regulations. Nor can the Authority accept that the adviser should seek refuge in valuation technicalities without satisfying itself that the acquisition price takes into account the prevailing and prospective market conditions.

Poor Standard of Advice to Keppel Shipyard Ltd (Keppel)

7. In May 1983, JFS was appointed to advise Keppel on negotiations to acquire a 58% stake in Straits Steamship Co Ltd (Straits). As adviser, JFS delivered 2 reports dated 28 Apr 83 and 4 Jun 83 to Keppel. These reports contained serious deficiencies.

8. In the April Report, JFS estimated Straits to be worth between \$2.71-\$2.94 per share. The estimate was inflated by some S\$81 million (or 32 cents per share) because JFS omitted to exclude the minority interests in properties not 100% owned by Straits. JFS disclaimed responsibility for this gross oversight on the ground that the April Report was an internal document prepared for its own use. The Authority considers it quite unacceptable professional behaviour that a merchant bank should deem it proper to furnish a client with documents that have not been properly researched. Even if the documents might be of some use to the client, the adviser is expected to expressly point out to the client that the documents contain data that had not been fully investigated into and could be erroneous.

9. The June Report also contained another gross error in that JFS's valuation of Straits' holdings in Bukit Timah Plaza at S\$127 million was some 200% higher than the property's book value as at 31 Dec 82. It was also some 200% higher than a professional valuation of the same property made in June 1983. JFS's valuation of Straits'

properties was thus inflated by some S\$72 million (or 29 cents per share). JFS admitted that its estimate was too high but again disclaimed responsibility on grounds that it was not a professional valuer and that at no time did it become financial adviser to Keppel - its role was confined to providing assistance to Keppel as and when requested. The Authority finds these disclaimers difficult to accept; not only does it call into question JFS's professional competence, but it also stretches credulity to believe that JFS was to be paid a fee of S\$400,000 merely to assist Keppel in the collation of facts synthesized with meagre commentaries without being expected to advise on the worth of Straits and be responsible for the accuracy of information furnished to Keppel.

10. In both Reports, JFS had estimated Straits' pre-tax profit for the year ended 31 Dec 83 to be S\$35 million, a 6% increase over 1982's profit of S\$33 million. The actual 1983 profit turned out to be only S\$3.9 million, 1/9th of JFS's estimate! Although merchant bankers are not expected to be clairvoyant, it is difficult to see how JFS could have justified forecasting an increase in Straits' 1983 profit when difficult business conditions were noted in JFS's June Report.

11. The Authority is satisfied that JFS's conduct of its merchant banking activities has been unsatisfactory in that it failed to meet the high standards of professional competence and care expected of a merchant bank. In the circumstances, the Authority considers it appropriate, in the public interest, to take the unusual step of withdrawing its support for JFS to continue operating as a merchant bank in Singapore.

4 October 1984