

1987's Black Monday revisited

Sir Piers relies on history

FORMER financial secretary Sir Piers Jacobs says history has vindicated the rescue and reform packages his government put in place following the closure of the stock exchange in October 1987.

"It has all worked. I haven't seen anyone giving government much credit for it but the truth of the matter is, the rescue of the stock exchange didn't cost the public a cent."

Following the market crash, the Government organised a \$4 billion rescue package based on commercial loans. Most have been repaid through trading levies.

The Government also set up a review committee headed by British accountant Ian Hay Davison to draft a blueprint for the overhaul of the stock and futures exchanges. That report laid the basis for the modern systems.

Sir Piers said the crash and closure of the market

had provided the catalyst for reform: "All markets tend to move forward because there has been a crisis or some major event. It is very difficult to develop the political will to do anything about a market that is just trundling along and performing. You don't get the opportunity to do anything dramatic unless something dramatic happens. It is not as though anyone enjoyed it — it is just a fact."

The exchange was closed on Tuesday, October 20 after a 420-point fall in the Hang Seng Index on October 19, dubbed Black Monday.

The closure had been defended for insulating Hong Kong from the global crash but it bottled up selling pressure and when the market reopened the following Monday, it crashed a further 1,120 points, or 33 per cent.

Sir Piers said the current stock exchange and regulatory system was a vast improvement on the situation in 1987: "People forget. They say the closure did terrible damage to the reputation of the Hong Kong stock market. The fact of the matter is, it didn't have a terribly good reputation at the time."

"The Hay Davison report described it as a club. A

Crisis talks called over futures fears

THE Government held a series of crisis talks on Monday in an effort to work out a package of measures to avert the market.

Closure reflects cockroach mentality

BY VICTOR PENDRAGON

AS ONE PERSON AS HAS ALREADY BEEN MARKED WITH JUDICIAL VERDICT



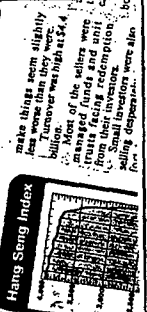
Brokers slammed

AS HONG KONG STOCK MARKET REBOUNDED OVER THE WEEKEND, MANY BROKERS WERE CALLED TO ORDER BY THE SECURITIES AND FUTURE COMMISSION.

Hang Seng Index beating in panic sell

BY HOWARD WINN

THE STOCK MARKET IN HONG KONG REBOUNDED OVER THE WEEKEND, BUT MANY BROKERS WERE CALLED TO ORDER BY THE SECURITIES AND FUTURE COMMISSION.



lot of people were trading it of course, it had a large volume, but its reputation was nothing like it is today."

Sir Piers said the speed of the Government's response to the crisis was critical to its success: "We didn't dither; we acted quickly. Hay Davison came over quickly and produced his report

working for the Kadoorie family since his retirement in 1992, says the Government lacked the legal power to force the exchange to remain open. The decision to close it was made by the exchange committee headed by chairman Ronald Li.

Well known for his financial conservatism, Sir Piers

said the Government was concerned about taking on an unknown liability if it tried to pressure Mr Li to keep the market open.

"The chairman could have said: 'Look, if you want to support it financially, it would have amounted to opening the public purse to

an unknown and unlimited liability. It would have been quite honestly, completely nutty. You don't do that sort of thing in government, you try to limit the ability of the public purse."

Soon after the market closed in 1987, Sir Piers defended the actions of the exchange committee as sound

and legal. He sticks to his view today but says he tried to alter the terms of the closure proposed by its chairman.

"I thought four days was too long. My idea was we should look at it again the morning before the exchange opened, but the committee made its decision. Both I and the Securities Commission at the time suggested to him that if he decided to close it, he should take it one day at a time."

"But I think frankly, with the benefit of hindsight, it really would not have made much difference. Once you close the market, the impact is felt whether it is one day or four. The Government's main responsibility then was to ensure that when it opened again it was in an orderly manner. That is why we had to raise a great deal of money."

Mr Li, who closed the exchange and was later convicted on two charges of corruptly receiving shares, had paid the price for his crimes and should be remembered as much for his positive contributions to the stock exchange, Sir Piers said.