

**THE IMPACT OF CASHCALLS ON THE STOCK MARKET
(IN THE CASE OF RIGHTS ISSUES & PUBLIC ISSUES)**

**A PROJECT PAPER SUBMITTED TO THE
MARA INSTITUTE OF TECHNOLOGY FOR
THE PARTIAL FULFILLMENT OF THE REQUIREMENTS
OF ADVANCED DIPLOMA IN ACCOUNTANCY**

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CHAPTER ONE

INTRODUCTION

In recent years, equity financing can be considered a popular way of financing in comparison to debt financing. There are several reasons as to why equity financing has become popular lately.

In line with the buoyant economy, companies in the midst of expansion are in need of additional financing. Equity financing as oppose to debt financing is cheaper especially now that the interest rate is on up trend.

In addition, the response towards cashcalls in a buoyant economy is usually overwhelming. This is a cost-effective way of raising funds.

With the rapid growth of the local stock market, there is a need to analyse the impact of the heavy cashcalls on the stock market as a whole. Upon completion of the study, it can be determine whether the KLSE could absorb excessive cashcalls in the near future.

Definition of a Cashcall

Cashcall is being defined as the offer to the public or existing shareholders, to subscribe new issue of shares offered by a company¹. The interested parties will have to pay a certain amount of money in order to subscribe

¹ Dawson, S.M., "Bank Financing, Equity Capital and Financial Management in the South East Asia", The Credit Journal, 1981/82, page 36.

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DEFINITION

The following definitions apply throughout this Project Paper:-

"CIC"	Capital Issue Committee
"Cost of Capital"	The minimum rate of return that a company must earn on the equity-financed portion of its investment.
"Cum-Date"	The date when the buyer of the share which is entitled for the rights issue.
"Cum-Rights"	Shares bought prior to the ex-date which give the right to subscribe the new issue.
"Debt Financing"	The financing of operations by way of obtaining bank loans or debt instrument i.e. debentures and preference shares.
"Efficient Market"	When the share prices reflect the availability of public information about the economy, stock market and the specific company involved.
"Equity Financing"	The financing of operations by way of issuing new ordinary shares.
"Ex-Date"	The date when all the quoted shares are not entitled for the rights offer.
"Ex-Rights"	Shares quoted where the buyers are not entitled for the new issue.
"FIC"	Foreign Investment Committee.
"KLSE"	Kuala Lumpur Stock Exchange.
"MTI"	Ministry of Trade and Industry.
"NUS"	National University of Singapore.
"NYSE"	New York Stock Exchange.
"OTC"	Over The Counter.
"ROC"	Registrar of Companies.
"SES"	Stock Exchange of Singapore.
"SESDAQ"	SES Daily Automated Quotation.