



Session 07

Stock Market

- Programme : Executive Diploma in Accounting, Business & Strategy
(EDABS 2017)
- Course : Corporate Financial Management (EDABS 202)
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Learning Outcomes

- Describe the scale of stock market activity around the world and explain the reasons for the widespread adoption of stock exchanges as one of the foci for a market-based economy;
- Explain the functions of stock exchanges and the importance of an efficiently operated stock exchange;
- Give an account of the stock markets available to Sri Lankan firms and describe alternative share trading systems;
- Demonstrate a grasp of the regulatory framework for the Sri Lankan financial system.

Introduction

Stock exchanges are markets where government and industry can raise long-term capital and investors can buy and sell securities.



Relative Sizes of Global Stock Markets

Rank ↕	Exchange ↕	Economy ↕	Headquarters ↕	Market cap (USD bn) ↕
1	New York Stock Exchange	 United States	New York	19,223
2	NASDAQ	 United States	New York	6,831
3 ^[2]	London Stock Exchange Group	 United Kingdom  Italy	London	6,187
4	Japan Exchange Group – Tokyo	 Japan	Tokyo	4,485
5	Shanghai Stock Exchange	 China	Shanghai	3,986
6	Hong Kong Stock Exchange	 Hong Kong	Hong Kong	3,325
7	Euronext	 European Union	Amsterdam Brussels Lisbon London Paris	3,321
8	Shenzhen Stock Exchange	 China	Shenzhen	2,285
9	TMX Group	 Canada	Toronto	1,939
10	Deutsche Börse	 Germany	Frankfurt	1,762

Importance of Stock Exchange

- Firms can find funds and grow
- Allocation of capital
- For shareholders - Availability of speedy, cheap secondary market
- Status and publicity - Public profile of firms can be enhanced
- Mergers
- Improves corporate behavior

Why List in Multiple Exchanges

- To broaden the shareholder base
- The domestic stock exchange is too small or the firm's growth is otherwise constrained
- To reward employees
- Investors in that particular market may understand the firm better
- To raise awareness of the company
- Discipline
- To understand better the economic, social and industrial changes occurring in major product markets

Colombo Stock Exchange

The Colombo Stock Exchange (CSE) has 295 companies representing 20 business sectors as at 24th April 2017, with a Market Capitalization of Rs. 2,862.8 Bn.

- The CSE is a company limited by guarantee, established under the Companies Act No. 17 of 1982
- 15 Member firms
- 13 Trading member firms
- 8 Debt trading member firms
- The CSE operates 2 main systems
 - The Central Depository System (CDS)
 - Automatic Trading System (ATS)
- Trading opens at 9.30 a.m. and closes at 2.30 p.m.

<https://www.youtube.com/watch?v=GQ-O6KuA4dA>

Primary Market and Secondary Market

Primary market is where a company would issue shares for the first time to the public. New shares are issued with the help of issuing house/investment bank. Possible methods of issuing new shares are offer for sale, by placing, by tender, and by public issue (issuing a prospectus)

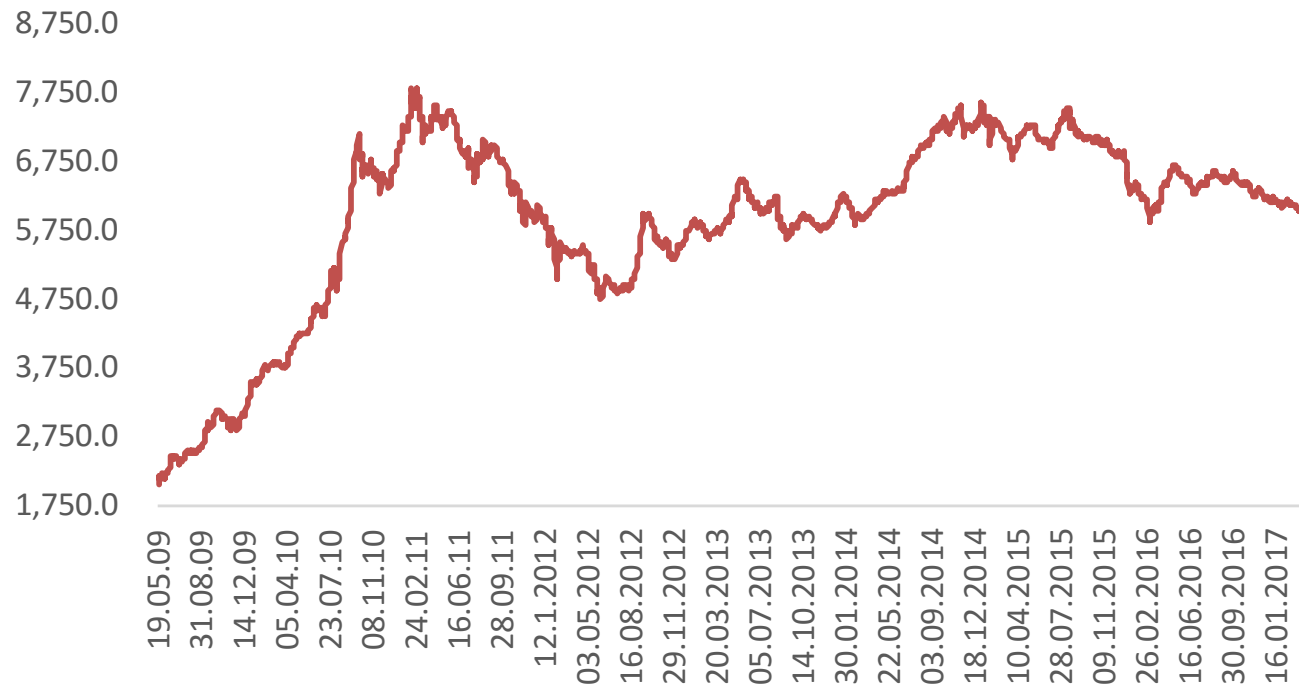
In addition existing companies wishing to raise capital may introduce a **rights issue**. This gives existing shareholders the right to subscribe cash for more shares in proportion to their existing shareholding

A **secondary market** exists for buying and selling of existing shares. This does not bring in money for the company but it raises the liquidity of company shares and also the worth of the company can be calculated from its share price

All Share Price Index (ASPI)

- The All Share Price Index is one of the principal stock indices of the CSE
- ASPI measures the movement of share prices of all listed companies
- It is based on market capitalization
- The base year is 1985

ASPI Performance



S&P SL 20 Index

- Follows the performance of 20 leading publicly traded companies listed in the CSE
- All S&P SL20 listed stocks are classified according to S&P and MSCI's Global Industry Classification Standard
- It is based on market capitalization

S&P SL20 Performance



Securities Traded on CSE

- Voting Shares
- Non Voting Shares
- Warrants
- Debentures
- Close Ended Funds

Boards

- Main Board
- Diri Savi Board
- Default Board

Listing

- **Offer for Subscription**

An invitation to the public, by or on behalf of the issuer, to subscribe for its securities

- **Offer for Sale**

An invitation to the public, by or on behalf of holders, to subscribe for shares already in issue

- **Introduction**

The company is listed on the CSE without having a public issue of securities

Listing Rules

Equity

- Main Board
 - Stated Capital of not less than LKR500.0 mn
 - Net profit after tax for three (3) consecutive years
 - Positive Net Assets last two (2) financial years
 - A minimum Public Holding of 25%

- Diri Savi Board
 - Stated Capital of not less than LKR100.0 mn
 - Positive Net Assets for one (1) year
 - A minimum Public Holding of 10%

Listing Rules

Debt

- Main Board

The applicant company shall provide a guarantee for the repayment of capital and interest from a bank licensed by the Central Bank of Sri Lanka, having an A- rating (equivalent or better)

OR

The Debt Security shall have an investment grade rating for the Securities to be listed obtained from a rating agency registered with the SEC

- Second Board

- The applicant Company shall have been in business for a minimum period of 3 years
- Shall obtain a rating for the Securities to be listed from a rating agency

Transaction Cost

- Equity

Transactions up to Rs. 50 Million - 1.12%

Divided as follows:

Brokerage Fees	0.640%
CSE Fees	0.084%
CDS Fees	0.024%
SEC Cess	0.072%
Share Transaction Levy	0.300%

Transactions over Rs. 50 Million

Divided as follows:

Minimum brokerage (floor)	0.200%
CSE Fees	0.0525%
CDS Fees	0.0150%
SEC Fees	0.0450%
Share Transaction Levy	0.300%

Transaction Cost

- Corporate Debt

Brokerage - Negotiable

Fees (SEC, CSE & CDS) - 2 Basis Points (Divided equally amongst the three institutions)

- Government Debt

Brokerage - Negotiable

- Close Ended Funds

Fees based on a Percentage (%) of the Transaction value

Brokerage	Negotiable with a Cap of 1 %
CSE Fee	0.02%
CDS Fee	0.01%
SEC Cess	0.02%

Settlement

- Equity

Settlement for the equity shares traded in all the Boards will occur on the third market day after the trade date (T+3).

- Debt

The first Market Day after the Trade Day (T+1) for Debt Securities transacted on the Tom Board

The second Market Day after the Trade Day (T+2) for Debt Securities transacted on the Spot Board

- Custodian Settlement

Custodian banks have the right to reject any transaction executed for any of their clients by a Member Firm of the CSE provided such a rejection of a trade is notified to the CDS by 14.30 on T + 1

Central Depository System (CDS)

The Central Depository Systems (Pvt) Limited (CDS) is a wholly owned subsidiary of the Colombo Stock Exchange (CSE) and is licensed as a Market Intermediary and Clearing House by the Securities and Exchange Commission of Sri Lanka (SEC).

In its diurnal operations the CDS interacts with 51 market participants comprised of 15 Member firms, 20 Trading Members and 16 Custodian Banks

Securities and Exchange Commission (SEC)

The Securities and Exchange Commission of Sri Lanka (SEC) was established in pursuance of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 as amended by Act No. 26 of 1991, Act No. 18 of 2003 and Act no. 47 of 2009.

Objectives

1. The creation and maintenance of a market in which securities can be issued and traded in an orderly and fair manner;
2. The protection of the interest of investors;
3. The operation of a Compensation Fund to protect investors from financial loss arising as a result of any licensed stock broker or licensed stock dealer being found incapable of meeting his contractual obligations;
4. The regulation of the securities market and to ensure that professional standards are maintained in such market

Dividends

Record Date when you must be on the company's books as a shareholder to receive the dividend. Companies also use this date to determine who is sent proxy statements, financial reports, and other information.

Ex-Dividend Date is usually set for stocks two business days before the record date.

If you purchase a stock on its ex-dividend date or after, you will not receive the next dividend payment. Instead, the seller gets the dividend. If you purchase before the ex-dividend date, you get the dividend.

Declaration Date	Ex-Dividend Date	Record Date	Payable Date
Friday, 7/26/2013	Thursday, 8/8/2013	Monday, 8/12/2013	Tuesday, 9/10/2013

ANY
QUESTIONS
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