

Listing a Company in the Colombo Stock Exchange

Chartered Accountancy
Corporate Level
Corporate Law (LAW)

Mohomed Jesmin
LL.B, Attorney at Law

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What are Securities?

A security is a representation of a stake in a company. Securities include debentures, stocks, shares, funds, bonds etc. But it does not include bills of exchange, promissory notes or certificate of deposits issued by a bank.

REGULATION OF SECURITY MARKET

The need to regulate the security market

The Purpose of Securities Regulation is to protect the ordinary investing public from exposure to risks of fraudulent and manipulative practices on the security exchanges and also to provide for a fair and honest market.

Therefore, rules and regulation are needed for the prevention of abusive stock market practices

In Sri Lanka, presently the Securities and Exchange Commission of Sri Lanka Act, No.19 of 2021 regulate the security market.

Market Manipulation

The price of a share depends on how investors value the future prospects of a company. It is the management of the company that has a better knowledge regarding the future prospects of a company than the investors. The investor's knowledge regarding future prospects of a company is very little. Therefore, the management of a company may use this knowledge wrongfully for the purpose of market manipulation.

Market manipulation means creating artificial, false or misleading appearance with respect to the price of a security.

Market manipulation will destroy confidence in the country's stock market.

The Securities and Exchange Commission

By the Securities and Exchange Commission of Sri Lanka Act No.36 of 1987, the Securities and Exchange Commission was established, The Securities and Exchange Commission (SEC) is a body corporate having perpetual succession which may sue and be sued in its own name

The SEC regulates the securities market and deals with granting of licenses to stock exchanges, unit trusts, stock brokers and stock dealers. The SEC is also vested with the authority to prevent fraudulent practices in the security market.

Composition of the SEC

The SEC shall consist of the following persons

- (a) A Deputy Governor of the Central Bank;
- (b) The Deputy Secretary to the Treasury;
- (c) The Registrar of Companies;
- (d) The President of the Institute of Chartered Accountants; and
- (e) Six persons from the private sector possessing professional competency in the fields of law, finance, banking and business.

Objectives of the SEC

- (a) The creation and maintenance of a market in which securities can be traded in an orderly and fair manner;
- (b) The protection of the interests of investors;
- (c) The operation of a compensation fund to protect investors from financial loss arising as a result of any licensed stock broker; and
- (d) The regulation of the securities market and to ensure that professional standards are maintained.

The Colombo Stock Exchange (CSE)

A stock exchange is a market in which shares of Public Listed Companies are issued and traded. It is also known as the equity market.

The CSE is a company limited by guarantee, established under the Companies Act No. 17 of 1982 and is licensed by the Securities and Exchange Commission of Sri Lanka (SEC) to operate as a stock exchange in Sri Lanka.

The members of the CSE are the stock broker companies.

CSE Rules

The Rules and Regulations of the CSE set out

- the requirements for listing,
- the manner in which marketing of securities to be conducted and the obligations of listed companies.

In its day-to day activities, the CSE follows the following CSE Rules

- Stockbroker Rules
- Listing Rules
- Automated Trading Rules & Regulations
- Central Depository System Rules
- Capital Reorganization
- CSE Circulars
- SEC Directives

Role of the CSE

CSE is the main market place for trading in the securities of listed companies.

The Colombo Stock Exchange (CSE) has 296 companies representing 20 Global Industry Classification Standard (GICS) industry groups as at 31st March 2022, with a Market Capitalization of Rs. 3,826.50 Bn

LISTING RULES

There are many rules to be followed by a company in order to list its securities in the CSE; these are known as listing rules.

A company which applies for the listing of its securities should forward to the CSE an undertaking that it will follow the listing rules. Therefore, there is a binding contract between the applicant company and the CSE.

The companies that are eligible for listing is identified in the Act as 'an Entity'. Public Companies incorporated under the Companies Act No.7 of 2007 or any other statutory corporation, incorporated or established under the laws of Sri Lanka or established under the laws of any other state (subject to Exchange Control approval) are eligible to seek a listing on the Colombo Stock Exchange to raise Debt or Equity.

An Entity is referred to as a “Listed Entity” upon its shares and/or Debt Securities being listed on the Exchange.

Companies desiring to be admitted to the official list of the Exchange and to secure a listing of their securities will be required to comply with the relevant provisions of the above act and the Securities & Exchange Commission Act No.36 of 1987 (as amended) and the Listing Rules of the Exchange.

It is the duty of the Board of Directors of an Entity to ensure that all the listing requirements are met on a continuing basis so long as its Securities remain listed on the Exchange. It is the duty of the Board of Directors of a Managing Company of a Fund to ensure that all the listing requirements are met on a continuing basis so long as units of such Fund are listed on the Exchange.

By virtue of Rule 3 of the SEC Rules, 2001 published in the Extraordinary Gazette No. 1215/2 dated December 18, 2001, a violation of these Rules would be considered as a violation of the SEC Rules.

INITIAL LISTING

An applicant (the company) for a listing of Securities must comply with the Listing Rules. The applicant is required to forward to the Exchange a listing undertaking which shall constitute a binding contract between the applicant and the Exchange. The Listing Rules create obligations, which are additional and complementary to statutory obligations.

Methods of Listing

1. Securities (Shares and Debt)

The listing of shares and debentures can be initiated in one of the following methods.

(a) OFFER FOR SUBSCRIPTION

An Offer for Subscription is an invitation to the public by or on behalf of an Entity to subscribe for its Securities.

(b) OFFER FOR SALE

An Offer for Sale is an invitation to the public by, or on behalf of holder(s) or allottee(s) to subscribe for its Securities already in issue.

(c) INTRODUCTION

An Introduction is the listing of the Securities of an Entity on the Exchange without the requirement of an initial public offering.

2. Funds

Units of a Fund may be listed on the Exchange through an Offer for Subscription to the Public or through an Introduction in terms of the Rules. The Rules for listing units of Funds are set out in Rule 4 of the Rules.

TYPES OF BOARDS

The Equity Securities of a public company can be listed on either the Main Board or the Diri Savi Board of the CSE. The Main Board consists of companies with a larger capital base while medium to small companies and start-up companies are listed on the Diri Savi Board. Therefore, the Main board is for the larger companies while the Diri Savi Board is for the relatively smaller companies.

In addition to those two, the Alternate Market Segment includes the Empower Board and the Multi Currency Board. The Empower Board is the CSE's newest listing platform brought into operation in 2018 and it is dedicated to Small & Medium Enterprises (SMEs). A foreign entity desirous of being listed on the CSE can be listed on the Multi Currency Board (MCB) of the CSE.

Eligibility Criteria for Listing

The eligibility criteria to be listed on the Main Listing Segment, comprising the Main Board and the Diri Savi Board, are provided for in Rule 2 of the Listing Rules in the following manner:

Eligibility to be listed on the Main Board

To be eligible to be listed on the Main Board an Entity must possess/fulfill the following:

- a) Stated Capital of not less than Rupees Five Hundred Million (Rs.500,000,000/-) at the time of listing;
- b) Net profit after tax for three (3) consecutive years immediately preceding the date of application;
- c) Positive Net Assets as per the consolidated audited financial statements for the last two (2) financial years immediately preceding the date of application; and
- d) On the date of listing, the applicant Entity shall meet the Minimum Public Holding Requirement. (Refer study pack).

Eligibility to be listed on the Diri Savi Board

To be eligible to be listed on the Diri Savi Board an Entity must possess/fulfill the following:

- a. Stated Capital of not less than Rupees Hundred Million (Rs.100,000,000/-) at the time of listing;
- b. Positive Net Assets as per the consolidated audited financial statements for the financial year immediately preceding the date of application;
- c. On the date of listing, the applicant Entity shall meet the Minimum Public Holding Requirement.

Continuing Listing Requirements

The responsibilities and compliance requirements placed on the Entities do not cease upon listing. The compliance of a range of requirements, which are known as the Continuing Listing Requirements, is essential for an Entity to remain listed on the CSE. The compliance of the Entities with the aforesaid requirements is closely monitored by the regulators. The duty of such compliance is primarily vested with the Board of Directors of each Entity. Rule 7 of the Listing Rules stipulates the Continuing Listing Requirements.

There are several Continuing Listing Requirements stipulated under Rule 7 including the steps should be taken for the

- payments of dividends,

- notification of any shareholder resolutions,
- circulation of circular to shareholders,
- matters relating to preparation and submission of interim financial statements,
- circulation and contents of annual reports,
- disclosure of dealings by directors and the CEOs of the listed Entity,
- Corporate Governance Rules and
- steps and procedure for repurchase, redemption and minority buyouts.

The Central Depository System (CDS)

Central Depository Systems (Pvt) Ltd is wholly owned Subsidiary of the CSE, which has taken over the functions of Clearing, Settlement and Registration from the Stock Exchange. The CDS is registered with the SEC as a 'market intermediary'.

To conduct share transactions through the Colombo Stock Exchange, an investor should open a Securities Account in the CDS through a Participant organization (a stockbroker).

The investors CDS account is operated only through the stockbroker. The investor cannot issue instructions directly to the CDS.

Functions of the CDS

The main function of the CDS is to act as depository, namely to hold securities in trust on behalf of shareholders of listed companies.

Some of the other services offered by the CDS

- Opening of client accounts
- Deposit, withdrawal and Transfer of shares
- Takeovers & mergers
- Providing monthly statements
- Record keeping

Share Trading in CSE

There are two ways to purchase shares

1. In the Primary market from the company (IPO)

Shares can be purchased directly from the issuing company. The company publishes a prospectus with information about the company and the investor applies for the shares directly to the company.

2. On the Secondary market through a Stockbroker

In the secondary market, investors trade previously-issued securities without the involvement of the issuing-companies. The secondary market is the stock market.

How to buy Shares in Colombo Stock Exchange (CSE)?

Local Investors can go to any member (stock broker) of CSE and open CDS Account. Once your CDS Account is opened you are ready to buy and sell shares.

Foreign Investors should at first go to any commercial bank operating in Sri Lanka and should open a Share Investment External Rupee Account then contact a broker to open CDS account with his Passport Copy.

When a person buys shares in a listed company, the shares purchased will be transferred into a CDS account. Similarly before he sells the shares, those shares must be deposited in to a CDS account. When he sells these shares it will be taken out of his account and transferred into the buyers account instantly.

To open a CDS account, an account opening form has to be filled. All stock brokers have this form with them. The completed form will be forwarded to the CDS by the stock broker and an account will be opened in the investor's name.

The CDS provides the investor's details to the company stating that the investor is the shareholder and such companies would pay dividends and send notices annual reports etc to the investor (shareholder).

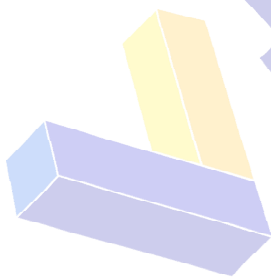
When buying shares in the Primary Market the investor has the option of asking for the shares in paper format (Share Certificates) or requesting the shares to be directly deposited in the CDS account (in electronic form).

It is always advisable to deposit the securities in the CDS as it will be easy to sell the securities at a later date instead of attending to share certificate deposit formalities.

Dematerialisation (Deposit) of Securities

Dematerialization is the process of converting the physical share certificates of an investor to an equivalent number of securities in electronic form and credited in the investors securities account in the CDS.

In this regard, share certificates are first handed over to the relevant CDS participants (broker firms and custodian banks) from the respective client. The participant will thereafter deliver the share certificate to the CDS for dematerialisation. The CDS will make an electronic record of the shares in the respective account holder's account subsequent to which share certificates are sent to the relevant company secretary for verification. Subsequent to verification, the shares will be available for trading.



Listing a Company in the Colombo Stock Exchange

Primary bodies related to listing a company in Sri Lanka

- **The Securities & Exchange Commission**
- **The Colombo Stock Exchange**
- **The Central Depository Systems**

The Securities and Exchange Commission

- By the [Securities and Exchange Commission of Sri Lanka Act No.36 of 1987](#), the Securities and Exchange Commission has been established.
- The Securities and Exchange Commission (SEC) is a **body corporate** having perpetual succession which may sue and be sued in its own name
- The SEC **regulates** the securities market and deals with **granting of licenses** to stock exchanges, unit trusts, **stock brokers** and stock dealers
- The SEC is also vested with the authority to prevent fraudulent practices including **market manipulation** in the security market

Objectives of the SEC

- (a) the creation and maintenance of a market in which securities can be traded in an orderly and fair manner;
- (b) the protection of the interests of investors;
- (c) the operation of a compensation fund to protect investors from financial loss arising as a result of any licensed stock broker; and
- (d) the regulation of the securities market and to ensure that professional standards are maintained.

The Colombo Stock Exchange (CSE)

- A **stock exchange** is a market in which shares of **Public Listed Companies** are issued and traded. It is also known as the **equity market**
- The Colombo Stock Exchange (CSE) is licensed by the Securities and Exchange Commission of Sri Lanka (SEC) to operate as a stock exchange in Sri Lanka.

- The Colombo Stock Exchange (CSE) has 296 companies representing 20 Global Industry Classification Standard (GICS) industry groups as at 31st March 2022, with a Market Capitalization of Rs. 3,826.50 Bn
- The **Rules and Regulations** of the CSE set out
 - the requirements for listing,
 - the manner in which marketing of securities to be conducted and
 - the obligations of listed companies

- The CSE is a **company limited by guarantee** and it has **fifteen Members** and **fourteen Trading Members**. Twenty six (26) of the said Members operate as **Stockbrokers for both Equity & Debt** and **three (3) members** are appointed by the CSE as Trading Members **only for Debt**.

Securities presently traded at the CSE:

- Ordinary Shares
- Preference Shares
- Warrants
- Corporate Bonds

CSE Rules

In its day-to day activities, the CSE follows the following CSE Rules

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- CSE Circulars
- SEC Directives

Listing Rules

- There are many rules to be followed by a company in order to list its securities in the CSE, these are known as listing rules
- A company which applies for the listing of its securities should forward to the CSE **an undertaking** that it will follow the listing rules.
- It is the duty of the Board of Directors to ensure that all the listing requirements are met on a continuing basis so long as its Securities remain listed on the Exchange

Eligible Entities

The companies that are eligible for listing are identified as '**Entities**'. They are:

- **Public Companies** incorporated under the Companies Act No.7 of 2017
- **Statutory corporations** established under any other laws of Sri Lanka
- **Companies** or corporations established under the laws of **any other state**

An Entity is referred to as a "**Listed Entity**" upon its shares and/or Debt Securities being listed on the Exchange.

Methods of Listing

1. Securities (Shares and Debt)

The listing of shares and debentures can be initiated in one of the following methods.

(a) OFFER FOR SUBSCRIPTION

- An invitation to the public by company to subscribe for its Securities.

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Types of Boards for listing

A company can be listed in any of the followings:

- **Main Board** - companies with a larger capital base - Stated Capital above Rs.500, 000,000/-
- **Diri Savi Board** - medium to small companies and start-up companies - Stated Capital above Rs.100, 000,000/-

Alternate Market Segments

- **Empower Board** - dedicated to Small & Medium Enterprises (SMEs) Stated Capital between Rs.25,000,000- Rs.100,000,000/-
- **Multi Currency Board (MCB)** – for foreign entities- Capital equivalent to an amount of not less than USD ten million (USD 10 Mn.)

The Initial Listing Application of Shares Documents, to be submitted along with the Initial Listing Application

- a. Certificate of Incorporation
- b. Articles of Association
- c. Board Resolution to the effect that consideration for which the shares are issued is fair and reasonable
- d. Board Resolution authorising the Initial Listing
- e. The 'Listing Undertaking'.
- f. Certified copy of every letter, report, balance sheet, valuation, contract or other document referred to in the Prospectus / Introductory Documents.

Continuing Listing Requirements

- The responsibilities and compliance requirements placed on the Entities do not cease upon listing.
- There are a range of requirements, which are known as the Continuing Listing Requirements, for an Entity to remain listed on the CSE.
- Rule 7 of the Listing Rules stipulates the Continuing Listing Requirements.

The Central Depository System (CDS)

- Central Depository Systems (Pvt) Ltd is a wholly owned Subsidiary of the CSE which has taken over from the Stock Exchange functions of Clearing, Settlement and Registration of securities.
- They hold the stocks in custody on behalf of companies and investors.
- To conduct share transactions through the Colombo Stock Exchange, an investor should open a Securities Account in the CDS through a Participant organization (a stockbroker)

- The CDS is registered with the SEC as a 'market intermediary'.
- The investors CDS account is operated only through the stockbroker. The investor cannot issue instructions directly to the CDS.

Functions of the CDS

- The main function of the CDS is to act as depository, namely **to hold securities in trust** on behalf of shareholders of listed companies.

Some of the services offered by the CDS

- Opening of client accounts
- Deposit, withdrawal and Transfer of shares
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There are two ways to purchase shares

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In the secondary market, investors trade **previously-issued securities** without the involvement of the issuing-companies. The secondary market is the stock market.

How to buy Shares in Colombo Stock Exchange ?

- Local Investors can go to any member (stock broker) of CSE and open CDS Account. Once a CDS Account is opened he can buy and sell shares.
- Foreign Investors should at first go to any commercial bank operating in Sri Lanka and should open a Inward Investment Account (IIA) then contact a broker to open CDS account with his Passport Copy.

- When a person buys shares in a listed company, the shares purchased will be transferred into a CDS account.
- Similarly before he sells the shares, those shares must be deposited in to a CDS account, it will be then taken out of his account and transferred into the buyers account instantly.
- To open a CDS account, an account opening form has to be filled, all stock brokers have this form. The completed form will be forwarded to the CDS by the stock broker and an account will be opened in the investor's name.

- The CDS provides the investor's details to the company stating that the investor is the shareholder and such companies would pay dividends and send notices annual reports etc to the investor (shareholder).

Insider Trading

- Under the new act for Insider Trading criminal as well as civil proceedings can be instituted.
- The Act provides that any person regardless of a connection or a relationship with the company or entity whose shares being traded can be found guilty of this offence if the person is found to have misused non-public information. The mere act of improperly using price sensitive information is sufficient.

The End



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