

Be a part of Sri Lanka's Growth story....

Invest with the
COLOMBO STOCK EXCHANGE

Content

Description	Page
Basics of share trading	
Your investments in the Colombo Stock Exchange (CSE)	03
Who we are	04
Securities Traded at the CSE	04
Primary & Secondary Market	05
Benefits of investing in shares	07
Buying & Selling shares in the secondary market	08
Trading sessions	08
Transaction fees	09
Performance indicators	09
Alternative ways to invest in the Stock Market (Unit Trust)	10
Market Performance	
Why CSE?	11
How do I start investing?	
How to invest in the Colombo Stock Exchange	12
Are you categorized as a foreign investor?	14
Basic Guidelines for Investing	16

Your Investment in the Colombo Stock Exchange

What is Investment?

Investment is purchasing an asset (financial or real), with the intention of earning a return in the future. Financial assets could be shares and debentures issued by a company, or Treasury Bills and Bonds issued by Central Bank of Sri Lanka. Real assets are land, building, equipment and vehicles etc.

Generally, the main objective of individuals or companies who invest in an asset is to earn a sufficient monetary return to grow their income/earnings. However, a wise investor will also improve the knowledge, professional development, necessary skills and attitudes while engaging in investing.

Investing in Shares

As mentioned above, there are many options one can use to invest. However, if you are investing in company shares, you might be aware that it will generally provide a comparatively higher return in long term compared to other classes of assets. Spending money to purchase company shares with the expectation of obtaining a monetary return in the future is known as investing in shares. Here the investor can be an individual, a government or an institution. The investor can purchase the shares listed on the Colombo Stock Exchange at his discretion. However, an investor should always keep in mind that generally investing in shares is riskier than other modes of investments. But the risk shouldn't be a deterrent factor since there are ways of minimizing risk and maximizing returns.

What is a share?

A share is simply a part ownership of a company. It represents a unit in the share capital of the company. When you own one or more shares in a company, you are called a shareholder. In return for investing in the company, shareholders can receive dividends and other benefits such as the right to vote at Annual General Meetings (AGMs) and Extraordinary General Meetings (EGM's) of shareholders, entitlements to rights issues

Who we are

The Colombo Stock Exchange (CSE) is the organization responsible for the operation of the stock market in Sri Lanka. Through CSE, companies and the investors are provided with facilities for meeting each other at a transparent and systematic environment.

The CSE is a company limited by guarantee, established under the Companies Act No. 17 of 1982 (and re-registered under No. 7 of 2007) and is licensed by the Securities and Exchange Commission of Sri Lanka (SEC) to operate as the stock exchange in Sri Lanka.

At present, the CSE functions as a market operator and through its fully owned subsidiary, Central Depository Systems (Pvt.) Limited (CDS), acts as a clearing and settlement system facilitator. The CSE also oversees compliance through a set of rules, promotes standards of corporate governance and is actively involved in investor education.

Securities Traded at the CSE

The CSE provides the platform for trading of a range of securities for investors to choose from, diversifying their investment as well as mitigating risk.

- Ordinary Voting Shares (Normal Shares)
- Ordinary Non-Voting Shares
- Preference Shares
- Rights
- Warrants
- Corporate Debentures
- Units of Closed- End Funds

Ordinary Shares (Normal Shares)

Ordinary shares are by far the most common form of equity securities. Ordinary shares offer the investor both the right to vote at the company's Annual General Meetings or Extra Ordinary General Meetings (EGMs) and the entitlement to a share of dividends, if declared. The combination of entitlement to a share of the company's profits and control means that, ordinary shareholders are the owners of a company. In the event the company is liquidated, shareholders will be settled after all the creditors, depositors and debt holder dues have been settled.

Ordinary Non-Voting Shares

These shares have the same characteristics of ordinary shares, except the right to vote at the AGMs and EGMs of the company.

Preference Shares

These are shares which guarantee priority in the payment of dividends at a predetermined rate. This means that the preference shareholder has a claim on the company's earnings before an ordinary shareholder. Preference shares do not entitle the holder to any voting rights. In the event of liquidation, preference shareholders will have priority settlement over ordinary shareholders.

Rights

A rights issue is an offer made to the existing shareholders of a company that gives them a right (not an obligation) to buy additional shares directly from the company at a discounted price whereby companies raise additional capital without expanding the investor base.

If an investor is not interested in exercising the right s/he can sell the rights in the secondary market hence rights can be considered as security.

Warrants

Warrant is a certificate giving the holder the right (but, not an obligation) to purchase ordinary shares at a stipulated price at a future date. When the holders can exercise the warrants, they can make money if the pre stipulated purchase price is less than the prevailing market price of a share by then. If the market price is lower holders can let the warrant expire without exercising, hence it is a right not and obligation.

Corporate Debentures

A security that is issued by listed companies to raise debt capital. Corporate debenture holders receive fixed or floating rate interest payments (referred to as coupons or coupon payments) as agreed at the time of the issue. The face value of the debenture will be returned to the holder at the maturity. There are different types of Corporate Debentures depending on the type of protection offered to investors.

Units of Closed-End Funds

Closed End Funds are a type of a unit trust (pool of funds collected from a number of investors) that is usually listed on an exchange and has a maturity date. Its units are traded like shares and investors are entitled to receive dividends.

Primary & Secondary Markets

An investor can purchase shares in two ways. Namely, through

1. Primary Market
2. Secondary Market

Primary Market

Where new securities are issued to the market (public) by companies to raise funds. In the Primary Market, the securities are purchased directly from the issuer, in a process called the Initial Public Offering (IPO). This activity is facilitated by financial intermediaries, such as stockbrokers and investment banks.

The company floating the IPO are required to release a document termed as the "Prospectus" which consists of financial & non-financial information with regard to the company, its history, present standing and its future plans.

The Prospectus, application and other related documents to the IPO can be found on the CSE website through the following link ([IPO](#)) once the IPO is announced. Prospective investors are advised to read the Prospectus which helps to make an informed decision, prior to investing in the company.

Investors having CDS accounts (explained elsewhere in this document) may download the application from the CSE website and send across the duly filled form with the relevant payment to the company or may apply at their leisure reworded to through the CSE mobile app.

Secondary Market

This is where previously issued securities are traded among investors. While securities are purchased directly from the issuer in the Primary Market, in the Secondary Market, investors purchase securities from (and sell to) other investors. The transactions among investors are generally carried out through an intermediary called a stockbroker.

It is mandatory to open a CDS account through a stockbroker firm or a custodian Bank to start investing in the stock market (Primary market or Secondary market). Opening a CDS account is free of charge using any number of stockbroker firms/custodian Banks.

Similar to investing in the primary market, you should understand about the company and the business sector before investing in shares in the secondary market. You should select shares that will ensure achievement your ultimate investment goals.

Role of a Stock Broker

Stockbroker firms act as intermediaries in trading at the CSE. Their services range from providing investment advice, research reports and online trading platforms etc. Investors who open CDS accounts through Custodian Banks also have to place their orders through a registered stock broker firm due to the fact that it is only the stock broker firms that have access to the CSE's Automated Trading System (ATS).

Once the CDS account is opened, an Investment advisor will be assigned to oversee the relevant account. The investor is advised to coordinate with the relevant investment advisor in relation to all activities of the account.

Benefits of Investing in shares

- Capital Gains
- Dividends
- Rights Issues
- Capitalization of Reserves
- Liquidity

Capital Gains (Tax Free)

Capital gain is the increase in the price of an assets over time. People invest in shares because they offer the possibility that share prices will rise. It is an accepted fact that as a long term investment, shares have provided greater returns than most other forms of savings or investments. Owning a share with a rising price allows you to grow your investment.

In Sri Lanka, Capital gains made in share trading at CSE is exempted from tax which makes it a very attractive form of investment.

Dividends

Dividends are returns paid to shareholders out of the company's net profits or other reserves in terms of cash or shares. It is a way in which shareholders are rewarded for providing capital. Dividends are usually paid once or twice a year depending on the company's dividend distribution policy. The rate of dividend paid too can vary depending on whether the company is trying to establish itself, in which case the rate could be lower. A mature company may opt to pay a higher dividend subject to its policy of dividend payment.

Dividends paid by listed companies are also currently exempted from withholding tax.

Rights Issues

When a company issues new shares only to existing shareholders at a pre-determined ratio to existing shareholding, it is called a Rights issue. After a rights issue, existing shareholders will be able to increase the number of shares owned by them if they have purchased the rights. In simple terms, through a rights issue, company will invite existing shareholders to purchase new shares of the company enabling the company to raise additional capital for expansion purposes. However, existing shareholders can decide whether to subscribe for the rights issue or not.

During the year 2020, listed companies have raised Rs. 29, 893.40Mn by way of rights issues alone.

Capitalization of Reserves

Converting the listed company's retained earnings (which represent the profits held in the business over time) to capital by issuing new shares to the existing shareholders. The shareholders do not have to pay a consideration for these shares.

Liquidity

Many investments are reasonably illiquid, which means they cannot be immediately sold and easily converted into cash. Shares give an investor a considerable amount of financial control because of their flexibility and liquidity. Unlike assets such as property, one does not incur significant transaction cost or have to spend a considerable amount of time to buy and sell shares. A share transaction takes three days to settle.

There is also the convenience of divisibility in shares. For example, if you own 5,000 shares, a portion of 1,000 shares can be sold. Fixed assets on the other hand, are not easy to section up in this manner.

Buying & Selling shares in the Secondary Market

The investor may place orders to buy/sell securities by communicating same to the relevant investment advisor through a convenient form of communication, i.e. through a written communication or over the phone. The investor also has the option of requesting the stockbroker firm to provide an online trading platform for him/her to place orders direct to the Automated Trading System (ATS).

Trading Sessions

In accordance with CSE Circular No. 09-05-2020 dated 25th May 2020, the trading hours of the CSE will be as follows with effect from 26th May 2020, until further notice.

Market phase	Hours
Open auction call	10.30 am-11.00 am
Regular trading	11.00 am-2.30 pm
Market close	2.30 pm

Transaction fees

Transaction fees payable on a trade are as follows as at the date of this publication.

Fees for Share transactions up to Rs.100.0Mn	
Brokerage Fees	0.640%
CSE Fees	0.084%
CDS Fees	0.024%
SEC Cess	0.072%
Share Transaction Levy	0.300%
Total	1.120%

Fees for Share transactions over Rs.100.0Mn	
Minimum Brokerage <small>(floor)</small>	0.2000%
CSE Fees	0.0525%
CDS Fees	0.0150%
SEC Cess	0.0450%
Share Transaction Levy	0.3000%
Total	0.6125% (minimum)

Settlement

Settlement will happen on T + 3 basis. When you are buying shares, you need to make the payment for the shares on or before 3rd market day of the purchase. When you sell shares, you will receive money from the broker on the 3rd market day of the sale.

Performance Indicators

Usually, the performance of a stock market is reflected by its price indices. The CSE has two main price indices, the All Share Price Index (ASPI) and the S&P Sri Lanka 20 Index (S&P SL20). The CSE also publishes Sector Indices, Total Return Indices (TRI) and S&P/CSE Industry Group Indices.

The All Share Price Index (ASPI) is a market capitalization weighted index where the weight of any company is taken as the number of ordinary shares listed in the market. This weighting system allows the price movements of larger companies to have a greater impact on the index. Such a weighting system was adopted on the assumption that the general economic situation has a greater influence on larger companies than on smaller ones.

The S&P Sri Lanka 20 covers the largest and most liquid stocks from the Sri Lankan equity market and is designed to be the basis for tradable products. The index is based on S&P Indices' global index methodology, which provides consistency, transparency and liquidity. Index constituents are the 20 largest blue chip companies chosen from the universe of all stocks listed on Colombo Stock Exchange. The indices are calculated using a capped market capitalization weighting scheme (capped at 15%).

Total Return Indices (TRI) are calculated to track the market performance on Total Return basis. TRI exceeds the scope of existing price indices (ASPI & S&P SL20) and incorporates returns as dividends into its computation. CSE publishes TRI based on ASPI & S&P SL20 and each of the 20 business sectors based on ASPI. S&P/CSE Industry Group Indices are calculated from April 2016.

These index values are calculated on an ongoing basis during the trading session, with the closing value published at the end of each Trading Day.

Alternate ways to invest in the stock market (Unit Trusts)

Whilst the CSE provides a solid platform for investors in the form of over 280 listed companies to invest in coupled with a robust trading system, there may be investors who, although wanting to invest in the stock market, but do not have time to spare or may not want to take the risks associated in directly investing in the stock market.

Investing in Unit Trusts which are registered with the Securities and Exchange Commission of Sri Lanka (SEC) and managed by professional Fund management companies is an alternate option available for investors of the above two categories which paves the way for them to still enter the stock market addressing their concerns.

A Unit Trust is a pool of funds collected from a number of investors who share a common financial goal. Funds collected from the investors are invested in various financial assets such as shares, treasury bills, treasury bonds, debentures and other securities. The income earned from these investments and the capital appreciation is shared with unit holders by way of dividends.

Investors may choose a suitable fund that invests in the stock market also known as Equity Funds, based on its past performance to help you reach your investment goals. The link to the Unit Trust Association of Sri Lanka (UTASL) can be found [here](#).

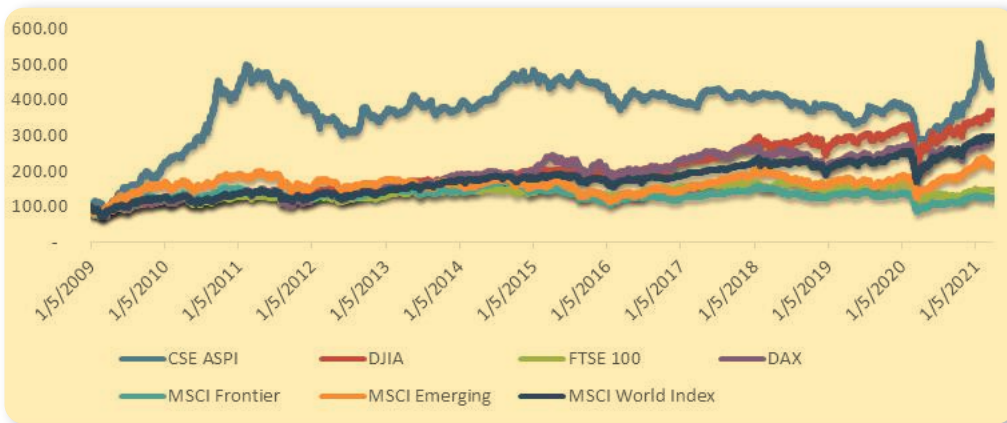
Why CSE?

CSE has witnessed a solid trajectory of growth in recent years. In an era of global market turmoil and lackluster economic prospects for most popular investment destinations; the Sri Lankan capital market offers an exceptional alternative to investors. Backed by the country's fast growing economy, the Sri Lankan capital market is well set to offer attractive returns to investors who are keen to be a part of this emerging market success story. There are several strong incentives for entering the Sri Lankan capital market.

An attractive long term investment destination

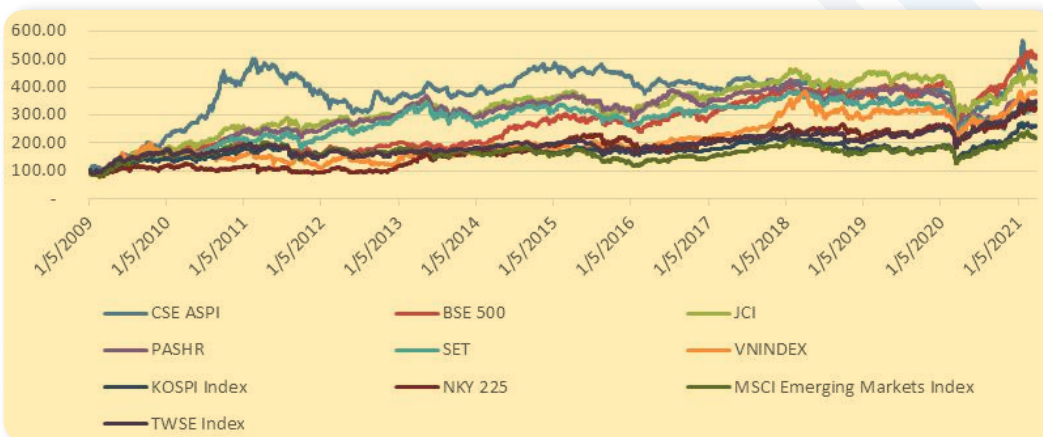
The CSE's benchmark index, the All Share Price Index (Bloomberg: CSEALL) has performed better (since Jun 2009) than major global indices and some of the best-performing regional indices.

CSEALL's Performance against global indices. CSEALL continues to outperform major global indices



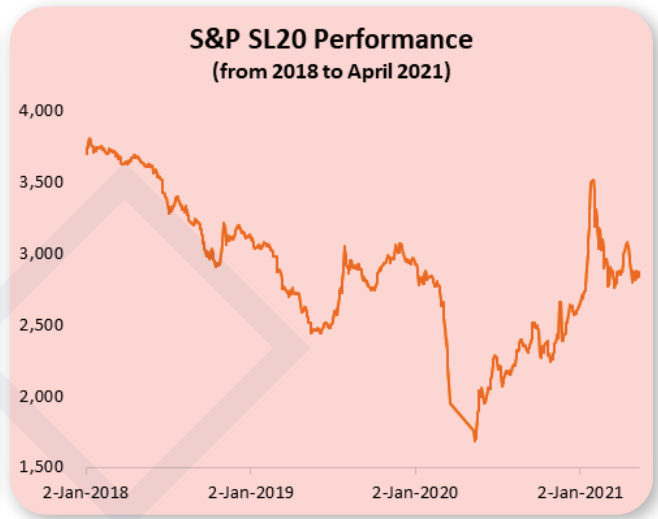
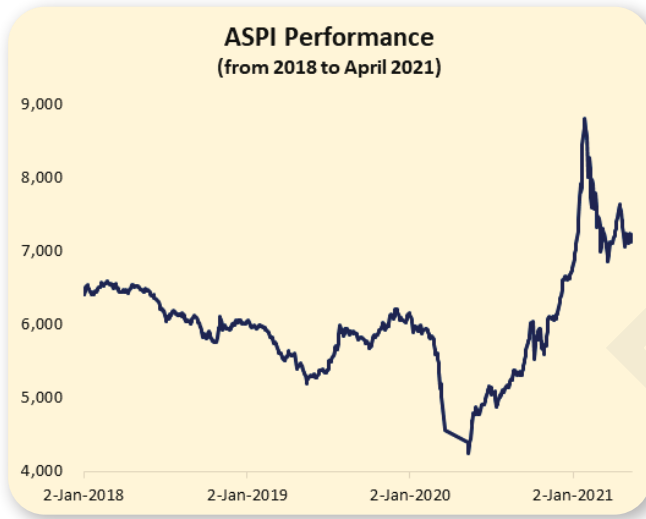
Source: Bloomberg

CSEALL's Performance against regional indices. CSEALL has significantly outperformed most regional markets

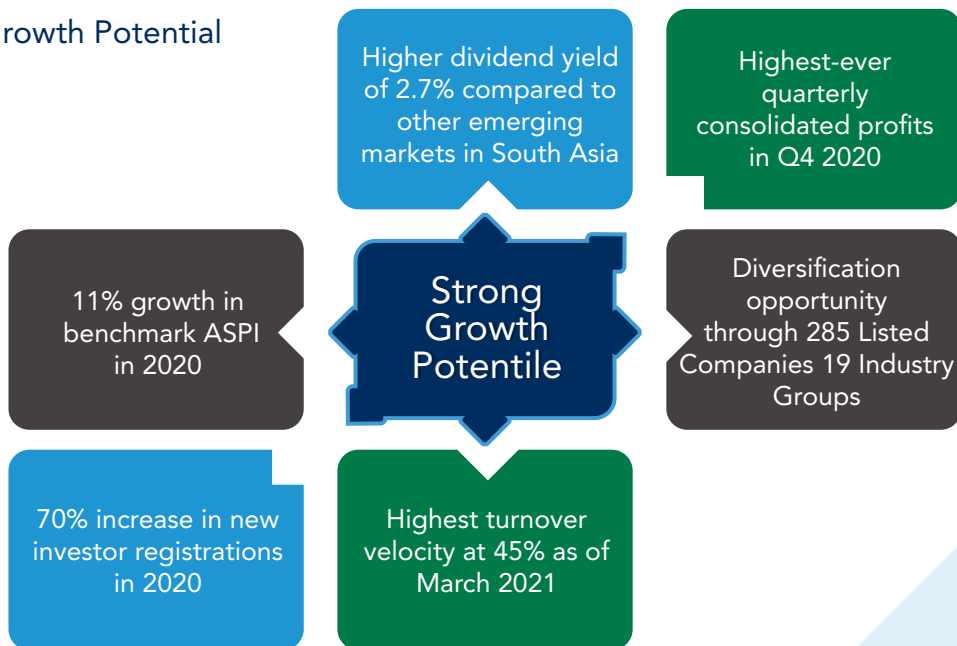


Source: Bloomberg

Robust Market performance in 2021



Strong Growth Potential



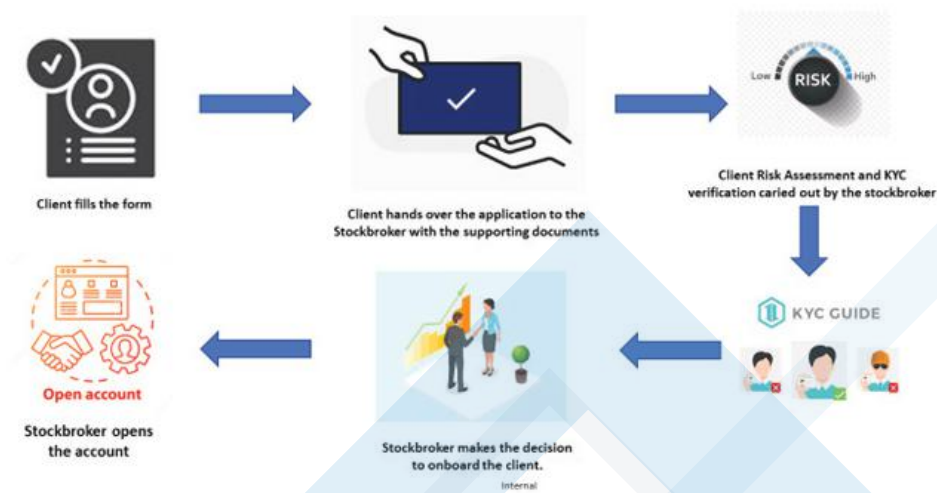
How to invest in the Colombo Stock Exchange

It is mandatory for an investor wishing to purchase securities through an IPO or conduct share transactions through the secondary market, to open a securities account in the Central Depository Systems (Pvt) Ltd (CDS), a wholly owned subsidiary of the CSE which acts as the

depository and the clearing arm of the CSE, through a participant organization (a Stockbroker or a custodian bank). The applicant has to submit the duly completed Client Account Opening Forms, together with the relevant supporting documents, to the participant.

After scrutinizing the account opening documents, including the supporting documents, the Participant, in the case of Stockbroker firms, and the CDS, in the case of custodian banks will register the applicant in the CDS system.

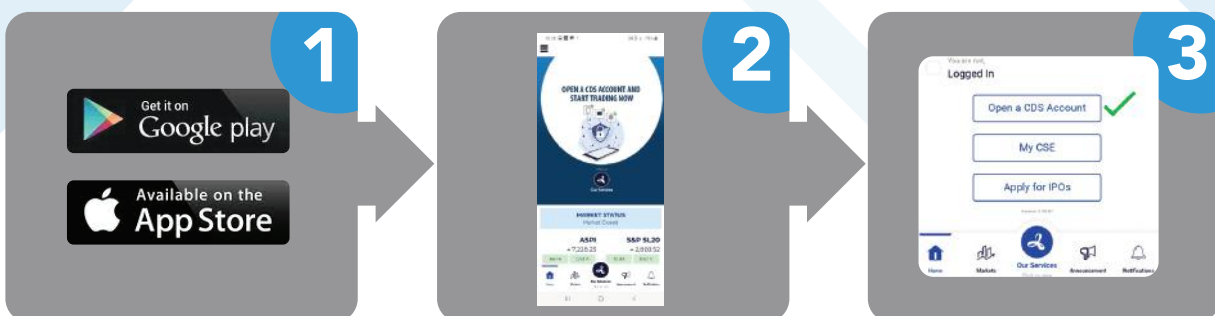
Account Opening Process



Ease of process

Alternately, prospective investors can download the CSE app from the Google Play store or Apple app store and open a CDS account by submitting the online application through the app. CSE strongly recommend the use of the App, which is the most convenient & hassle free way to open a CDS account.

Easy 3 step process:



Are You Categorized as a Foreign Investor?

Foreign Investment in Shares

Foreign investment in Sri Lanka is permissible for approved country funds, approved regional funds, corporate bodies incorporated outside Sri Lanka and individual residents outside Sri Lanka (inclusive of Sri Lankans residing outside Sri Lanka) subject to certain limitations and conditions imposed by the Laws of Sri Lanka.

Who is categorized as a Foreign Investor?

If you fall into any of the categories listed below you would be considered a foreign investor:

- Foreign citizens above 18 years of age (irrespective of whether they are resident in Sri Lanka or overseas)
- Citizens of Sri Lanka who are residing outside Sri Lanka and above 18 years of age
- Corporate bodies incorporated or established outside Sri Lanka
- Regional and country funds approved by the SEC

Inward Investment Account (IIA)

If you fall into any one of the above foreign investor categories, please note that you must open an Inward Investment Account (IIA) through a licensed Commercial Bank / Custodian Bank in Sri Lanka. The IIA is a rupee account through which eligible investors can invest in Government Securities (Treasury Bills and Treasury Bonds), equity capital of companies incorporated in Sri Lanka and units of unit trust companies in Sri Lanka.

Investors are permitted to invest and repatriate investments in any currency through an IIA, without violating any exchange control regulations and will not be subject to any taxes. Please contact a [stockbroker](#) or a [Custodian Bank](#) on opening your IIA and CDS account. If you are already interacting with a licensed commercial bank in Sri Lanka, please contact your relationship manager who would advise you on international banking services that complement your needs, in particular with regard to services related to opening of IIA.

For more information with regard to IIA account, please [click here](#).

Important Notes:

Change of residency of a CDS account holder/opening of accounts for non-resident Sri Lankans:

- If an investor requests a change to his/her residential address in the CDS from Sri Lanka to another country, such investors are required to open a new CDS account to carry out future transactions and all such purchases and sales of shares should be operated

through an IIA. This new CDS account would be classified by the CDS as a Foreign Individual Account (FI).

- If a non-resident shareholder has obtained a certificate while being a resident of Sri Lanka, the shareholder is not able to deposit the said shares with the support of an IIA account; since the share certificate was not obtained with foreign remittance (Since the sales proceeds cannot be deposited to IIA account). In such cases, the shareholder should contact the 'Migrant Fund Transfer Division of the Exchange Control Department of Central Bank' and obtain necessary instructions to open a "non-resident blocked account" or an applicable another account.
- Transfer of securities from an existing CDS account to a new FI account opened as a non-resident will only be carried out upon the investor obtaining Exchange Control approval. As per the Exchange Control Act, repatriation of sales proceeds of securities in the existing CDS account is subject to Exchange Control approval.
- It will not be possible to repatriate funds arising out of corporate actions such as Dividends and Capitalization of Reserves, applicable to securities held in the resident account unless Exchange Control approval is obtained.
- Any rights provisionally allotted in respect of shares in a resident account can be purchased only through an IIA and deposited to CDS account opened as a non-resident.

A CDS account holder wishing to change his /her residential address from Sri Lanka to another country needs to provide the following information to the CDS in order to accommodate the change of address:

1. Account opening form duly signed by the account holder.
2. Proof of current residential address
3. IIA details with documentary proof
4. Portfolio of shares up to the time of changing the residence
5. Copy of the passport
6. Declaration from the account holder on adherence to Exchange Control regulations.

Responsibility of Foreign Investors

When investing, you should be aware that you are affected by the laws of the country you are residing. It is your responsibility to seek advice and comply with the laws of your country of residence.

CDS account opening process for Foreign Investor Category



Few Basic Guidelines for Investing

- **Understand your risk appetite**

Investing in shares involves a certain level of risk. Do not invest in shares beyond your appetite for taking risk.

- **Think long term**

Some people speculate on short-term share price movements. Short-term speculative gains could be very high at times, but so are the speculative losses. Therefore, speculating is a very high risk activity compared to investing. Investing involves analyzing company fundamentals and longer term holding periods as against speculating

- **Diversify**

Diversify your investments across asset classes such as shares, debentures etc., and when buying shares, invest within different industries in order to mitigate your risk.

- **Get professional advice**

Seek the support of Stockbrokers & Analysts, and also refer Research reports which would help you make informed investment decisions.

- **Study company fundamentals**

A better understanding of Industry, company strengths/weaknesses and the management would pave the way for sound decision making.

- **Don't panic in a crisis**

At different times unexpected or extreme events take place causing the market to fluctuate beyond usual. Do not overreact – analyze the situation, wait till the market settles before you make your move.

Information sources

Investors are encouraged to visit the official website of the CSE www.cse.lk or download the CSE app from [Google Play Store](#) or [apple app store](#) which provides live and historical market data and, other up to date information with regard to Listed Companies, helping investors to make informed investment decisions

In addition, as detailed elsewhere in this publication, the CSE app provides facility to open CDS accounts as well as apply for IPOs.



Our Social Media Platforms keeps you updated round the clock on all events and other developments at CSE.

You can also reach out to us via email at info@cse.lk