

# Capital Market Strategy 2020

A comprehensive transformative plan detailing strategic direction and goals for the Sri Lankan capital market



Designed across two core objectives of regulation and capital market development



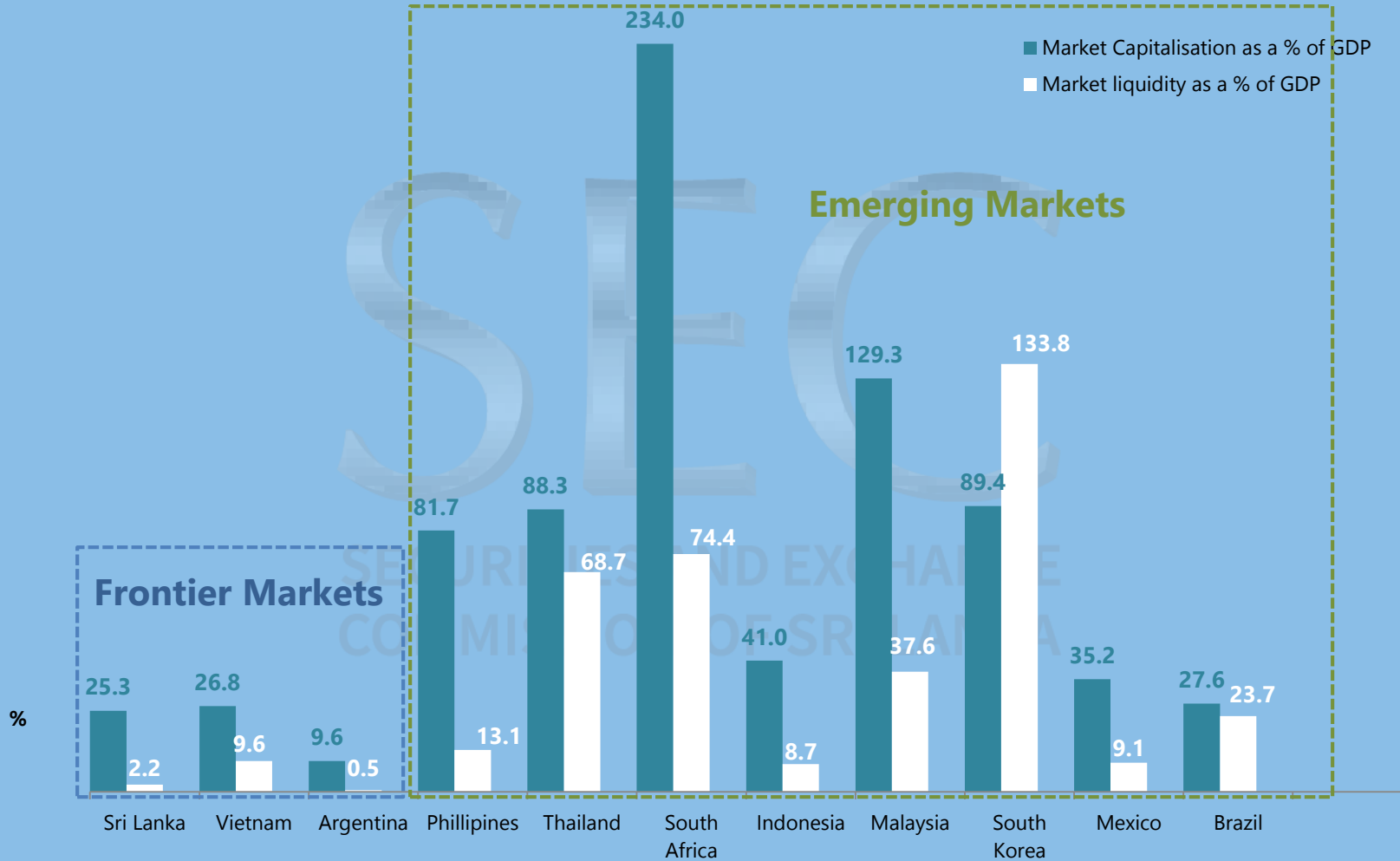
Enhances capital market's competitiveness, resilience and innovation



Tactical initiatives yield long-term benefits across capital market stakeholders

- ✓ **Government policy and action**
- ✓ **Systemic risk management**
- ✓ **Regulatory readiness and strength**
- ✓ **Effective governance, enforcement and compliance**
- ✓ **Efficiency and commercial orientation of market institutions**
- ✓ **Extant Market characteristics - size, liquidity and diversification constraints**
- ✓ **Capacity building**
- ✓ **Market infrastructure and technology gaps**
- ✓ **Investor protection**

# Comparative Market Development Indicators

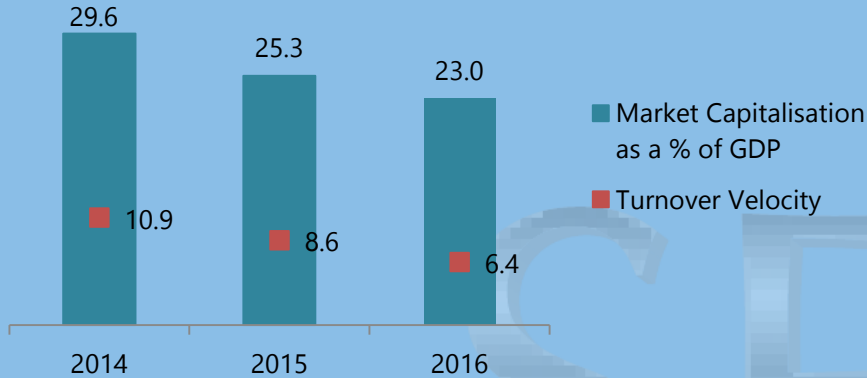


Source: The World Bank, Stock Market Capitalization to GDP for World [DDDM011WA156NWDB]. Deflation methodology for Market Capitalisation as a percentage of GDP :  $\{(0.5) * [F_t / P_{e_t} + F_{t-1} / P_{e_{t-1}}]\} / [GDP_t / P_{a_t}]$  where F is stock market capitalisation, P\_e is end-of period CPI, and P\_a is average annual CPI. End-of period CPI (IFS line 64M..ZF or, if not available, 64Q..ZF).

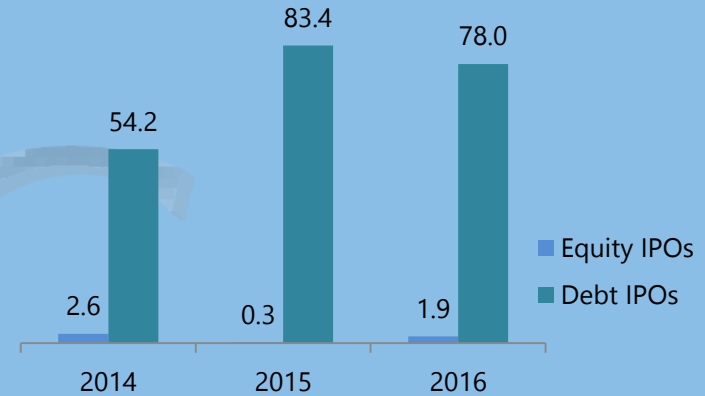
**Sub optimal liquidity and contribution to GDP by the capital market.**

**Low primary market equity flows.**

**Market Cap to GDP % and Turnover to Market Cap %**



**Equity and Debt IPO Volumes, LKR Bn**

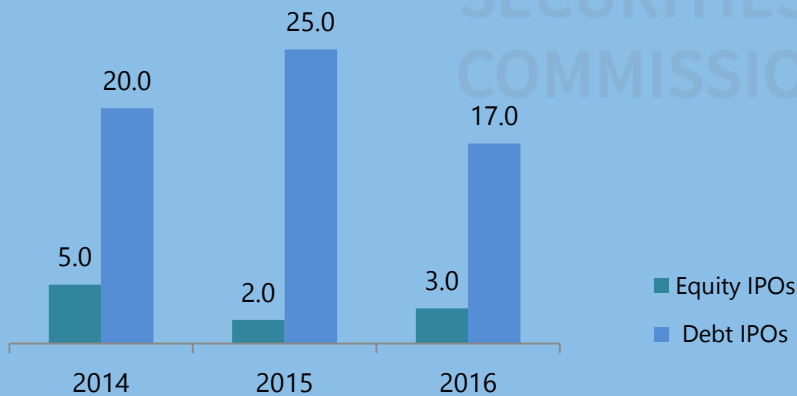


Note: Market Capitalisation as a % GDP for 2014 and 2015 are based on The World Bank methodology. See slide 3. Due to unavailability of 2016 data from this source, Market Capitalisation as a % GDP in 2016 is based on provisional data released by the Department of Census and Statistics with no deflation basis applied as per the CSE calculation methodology.

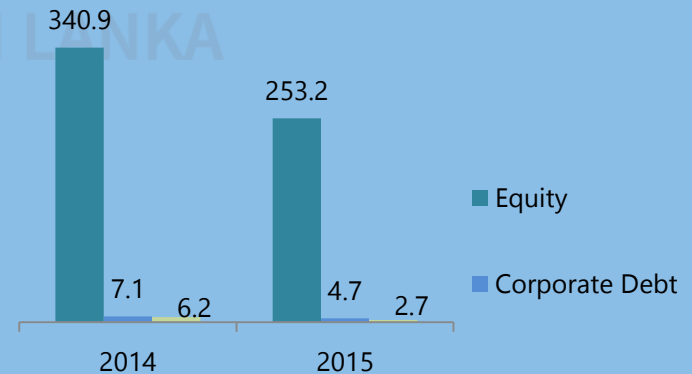
**Increased new entrants in the debt market due to recent tax concessions.**

**Limited product offering. Traditional reliance on Equity.**

**Number of New IPO Listings/Issues**



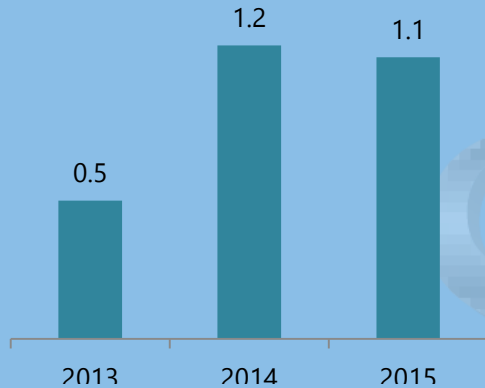
**Annual Turnover by product , LKR Bn**



Source: The World Bank, Central Bank of Sri Lanka and Colombo Stock Exchange

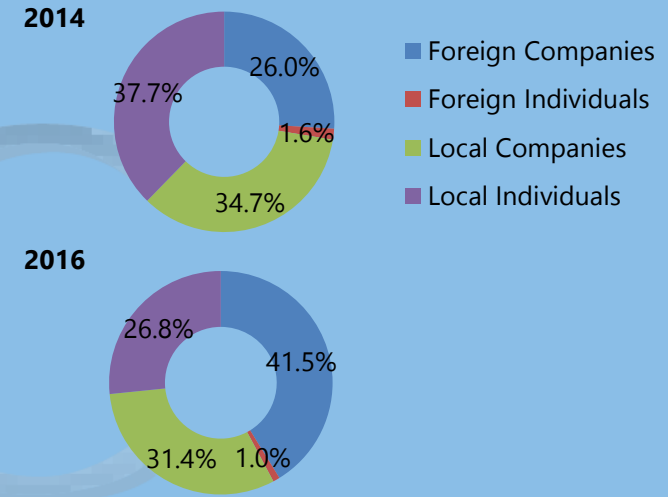
**Proliferation of Unit Trusts low.**

**Unit Trusts Assets Under Management as a % of GDP**



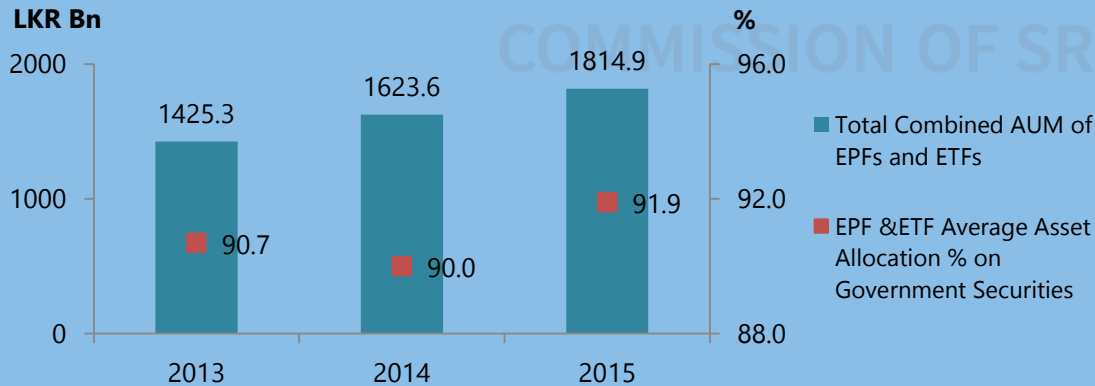
**Anticipates broad-basing of investor participation.**

**Investor Mix 2014 Vs. 2016**



**Employee Provident Fund (EPF) and Employee Trust Fund (ETF) portfolio allocation favours Government Securities.**

**EPF and ETF Assets Under Management**

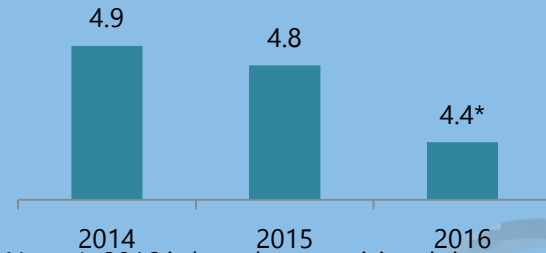


Note: Total market turnover for equity and debt in 2014 and 2016 is LKR 348.0 Bn and LKR 179.8 Bn, respectively.

**Increased participation by long-term investors such as EPFs and ETFs would improve market stability and sustainability**

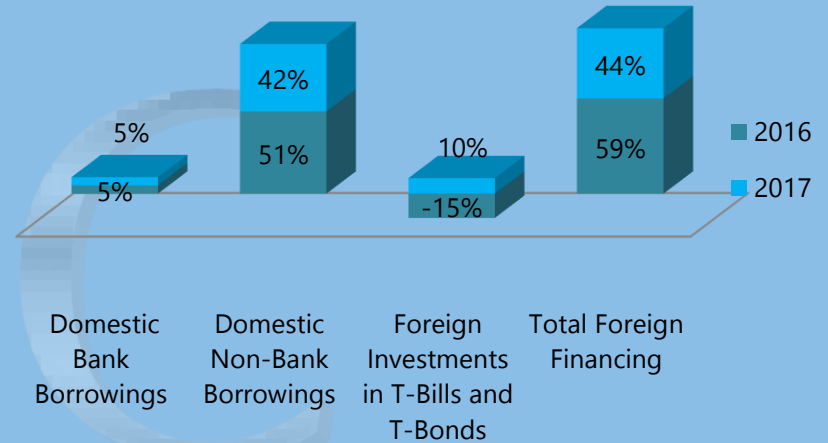
Source: Central Bank of Sri Lanka, Colombo Stock Exchange

### Growth of Real GDP %

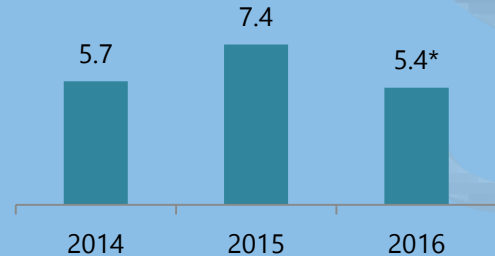


Note: \* 2016 is based on provisional data

### Contributions by Source to Financing the Budget Deficit, LKR Bn

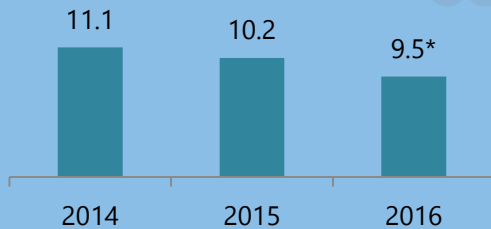


### Fiscal Deficit as a % of GDP



Note: \* 2016 is based on provisional data

### Export Earnings, USD Bn



Note: \* Provisional data as at November 2016

**GDP growth( 2010-2016)**  
**CAGR 5.8%**

**GDP growth forecast by  
Supra-National Organisations**

**2017 4.8% to 5.5%**

**Opportunities for listing of  
strategic SOEs across  
different sectors**

**Hotels and Travels  
Power and Energy  
Manufacturing**

**Investment to GDP  
(5 yr average)**

**33.6%**

**Of which Public Investment  
(5 yr average)**

**5.1%\***

**Budget deficit as % of GDP**

**5.4%\***

**Public Debt as % GDP**

**76.0%\***

\*At December 2015

\*National Budget 2017

- Fiscal discipline, policy coherence and credibility and performance relative to peers create a supportive foundation for revised sovereign rating.
- Need to consider high public debt level limiting fiscal space.
- Public investment approximated 5.1% on average in recent years.
- Continued need to tap private sector for investment.
- Enabling environment for PPP a necessity.
- Enabling environment for portfolio investment a necessity.
- Capital Market Strategy 2020 to enable market to complement the banking sector and align with funding and growth needs of national economy.



# Strategy In Detail

SECURITIES AND EXCHANGE  
COMMISSION OF SRI LANKA

Regulatory and Governance Strategies	Development Strategies
Strengthening Regulatory and Governance Environment	Creating an Enabling Environment for Capital Formation
Increasing Accountability and Market Oversight	Deepening Liquidity and Broad-basing Market Participation
Raising the Standards and Competencies of Capital Market Participants	Developing Infrastructure and Enabling New Products
Managing and Mitigating Systemic Risk	Building Domestic Capabilities

1.	Submission of the proposed draft Securities Exchange Act to Parliament
2.	Appraisal and revision of the Listing Rules of the Colombo Stock Exchange (CSE)
3.	Review of all rules pertaining to market intermediaries
4.	Completion of a Country Review of securities regulation by the International Organisation of Securities Commissions (IOSCO)
5.	Review of Corporate Governance Code in line with principles set out by the Organisation for Economic Cooperation and Development (OECD)
6.	Review of the Unit Trust Code
7.	Finalisation of the new Takeovers and Mergers Code
8.	Formalisation of the legal structure of securitisation

1.	Procurement of a new surveillance system with advanced functionalities for the effective monitoring of trading
2.	Development of a comprehensive framework of financial surveillance for Listed Entities
3.	Casting duties on supplementary service providers to ensure accountability
4.	Enhancing SEC oversight of all capital market institutions and intermediaries
5.	Introduction of an effective deterrence mechanism for curbing capital market misconduct
6.	Prompt investigation of market offences

1.	Enhancement of fit and proper standards for capital market institutions, market intermediaries, and listed companies
2.	Standardisation of documentation pertaining to market participants
3.	Review and upgrade prevailing qualification criteria for capital market participants
4.	Development of a multi-layered licensing framework to accommodate all asset classes
5.	Evaluation of the feasibility of introducing Global Investment Performance Standards (GIPS) for unit trust managing companies and investment managers
6.	Enhancement of know-your-customer (KYC) requirements applicable to regulatees of the SEC to address money laundering
7.	Categorisation and disclosure of financially-challenged companies
8.	Development of guidelines for share valuation with respect to regulatory requirements

1.	Facilitation of the implementation of a Central Counterparty (CCP) mechanism
2.	Development of a risk-weighted capital adequacy framework for capital market institutions and intermediaries
3.	Development of a risk-based assessment framework for on-site supervision

1.	Creation of a platform for entities with size, scale and liquidity to tap the capital market
2.	Development of the market for corporate debt
3.	Introduction of a framework for infrastructure financing via the capital market
4.	Establishment of alternative listing boards which cater to new market segments
5.	Ascension to the Morgan Stanley Capital International (MSCI) Emerging Market status

1.	Develop the unit trust industry as a channel for small investors to access the market
2.	Increasing the participation of pension funds in the capital market
3.	Enabling a conducive environment to attract foreign portfolio investors
4.	Formulation of a methodology for the introduction of short selling, securities borrowing and lending
5.	Implementation of higher public float requirements to increase liquidity



1.	Enhancement of the e-filing system for regulatory reporting
2.	Implementation of consistent back office and order management systems across the stock broking industry
3.	Introduction of a standardised digital business reporting platform
4.	Formulation of policies and rules for new products such as Exchange-traded Funds (ETFs) and Real Estate Investment Trusts (REITs)
5.	Creation of a platform for the introduction of risk-hedged products

Exchange Capacity Building		
1.	Demutualisation of the CSE to enhance efficiency and global acceptability	
Community Capacity Building		
1.	Ensuring the responsiveness of the SEC to carry out its objectives in an effective, efficient and timely manner	Enhancement of the financial literacy and capital market exposure of all stakeholders in relation to the capital market
2.	Building the competencies of the regulator by having measures in place to recruit and retain a proficient workforce with unquestionable integrity, appropriate technical knowledge, and demonstrable professionalism	Conduct of continuous investor education and public awareness programmes which equip investors with the knowledge required to make informed investment decisions