

Media Release

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SEC APPROVES NEW ADMISSION REQUIREMENTS TO ATTRACT SMEs & START -UPS

The Securities and Exchange Commission of Sri Lanka (SEC SL) approved introduction of new Rules and amendments to the existing Listing Rules of the Colombo Stock Exchange (CSE) and granted approval in principle to proceed with certain other important initiatives.

Setting and enforcing appropriate Listing Standards are central to a well – functioning securities market. These Rules, which underwent an extensive review to assess the potential impact on the market, are expected to enable the Listing Framework of the CSE to align with market trends, improve regulatory efficiency, and streamline the process for more companies such as SMEs and Start –ups to list and access capital.

The SEC granted approval in terms of Section 24 of the SEC Act No.36 of 1987 (as amended) to the following:

- I. Listing of Shares and Debentures
 - a. At present, the eligibility requirements for obtaining a listing are based on stated capital, net profit and positive net assets. The SEC approved the expansion of the current eligibility criteria by allowing applicant entities to satisfy any one of the following tests:
 - Method I: Profit and Net Assets test
 - Method II: Revenue and market capitalization test
 - Method III: Positive operating Cash Flow and Market capitalization test

These eligibility criteria will facilitate companies who do not have a large asset base but have substantial revenue and cash flows (such as companies in the IT sector) to consider the capital market for their funding requirements.

b. Provide flexibility to the issuer to decide on the allotment basis when the value of an Initial Public Offering (IPO) is more than Rs. 3 Billion subject to CSE agreeing to the proposed allotment basis.

c. Reduce the timeframe for an applicant entity to refund payments due on fully/partly rejected IPO applications and credit investors' Central Depository System (CDS) accounts with the securities allotted to improve efficiency.

d. Extend the timeframe to open the Subscription List for an IPO from existing requirement to allow the applicant to select the most opportune time to proceed

II. Introduced new Listing Rules on amalgamation to improve regulatory efficiency.

The SEC granted approval to the following initiatives in principle.

- Policy revision to consider removal or relaxation of the present Listing Rule, which imposes a restriction on total value of other class of shares that can be issued to accommodate the interest of certain investors who prefer other class of shares outside ordinary voting shares.
- Extend the Multi Currency Board (MCB) facilities to local companies intending to list Debt in foreign MCB to allow more avenues to raise capital via CSE.
- Other requirements applicable to overseas companies to be listed on the MCB specifically applicable to selected overseas jurisdictions.
- Extend timelines in relation to Enforcement Rules on the Empower Board and permit companies affiliated to external audit firms of the applicant entity to act as sponsors subject to meeting criteria.

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