
Consultation Paper 20

**INTRODUCTION AS
A METHOD FOR
LISTING OF EQUITY**

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*Securities and Exchange Commission of Sri Lanka
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Introduction:

'Introduction' as a method of listing securities was introduced at the Colombo Stock Exchange (CSE) in 2000 as a price discovery mechanism through listing the entity and consequently, the companies were permitted to list its securities on the CSE without an Initial Public Offer (IPO). 46 companies have listed their shares on the CSE via Introduction during the period 01st January 2000 to 31st December 2012, out of which currently 33 companies are listed on the DiriSavi Board. Accordingly, it is evident that listing via 'Introduction' has been a popular method for listing equity on the DiriSavi Board of the CSE.

The same was suspended due to certain limitations in 02nd March 2012, but since then there have been requests to restore 'Introduction' as a method for listing equity. Accordingly considering the benefits of introduction as a mechanism for listing, it is proposed to re-introduce with improvements inter-alia in lock-in mechanism, reference price and improved disclosures requirements.

Further, during deliberations, it was also emphasized the importance of increasing the minimum number of 100 Public Shareholders required for listing on DiriSavi Board to 200 Public Shareholders, irrespective of the method of listing in order to increase Liquidity of the shares.

Disclaimer:

The contents of this paper do not constitute legal advice. The finalized rules relating to a minimum public float may change from what is proposed herein consequent to the comments we receive, further deliberations or due to any other reason, as determined by the SEC to be appropriate.

Comments Received:

The comments received would be subject to consideration by the SEC and may be made publicly available and will not be treated as confidential unless a special request is made in this respect. The SEC may consider convening consultative meetings as a further step depending on necessity.

Please send in your comments under the title "**INTRODUCTION AS A METHOD FOR LISTING OF EQUITY**" on or before 04th October 2013 by registered post or e - mail or fax to:

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1.0 RE-INSTATE THE 'INTRODUCTION' AS A METHOD FOR LISTING OF EQUITY WITH BELOW-MENTIONED AMENDMENTS

1.1 Eligibility to list via 'Introduction'

The applicant Entity shall comply with Rule 2.1.2 of the CSE Listing Rules - Eligibility to be listed on the Main Board or Rule 2.1.3 of the CSE Listing Rules - Eligibility to be listed on the DiriSavi Board, as applicable.

Furthermore, not more than 50% of the shares in the hands of the public shareholders at the time of listing should be held by the three (03) largest 'Public' shareholders.

1.2 Lock-in Rules for 'Introduction'

- (i) All shares held by Non-Public Shareholders prior to 12 months from the date of an Initial Listing Application shall be locked-in for a period of 6 months from the date of listing of the entity.
- (ii) All shares held by Public Shareholders prior to 12 months from the date of an Initial listing Application shall not be locked-in.
- (iii) All shares acquired by way of a allotment/transfer from another shareholder (irrespective of being Non-Public Shareholders or Public Shareholders) during the period of 12 months immediately preceding the date of an Initial Listing Application shall be locked in for a minimum of 6 months from the date of listing or 12 months from the date of acquisition of those shares whichever is longer.
- (iv) At the time of listing, if the minimum Public holding percentage is being locked-in as mentioned in (iii) above and if the CSE believes that the adequate shares are not available for trading upon listing the Entity via Introduction, the CSE has the discretionary to reject the listing application of the Entity.

For the purposes of imposition of lock-in periods only;

- Non-Public Shareholders shall mean the following parties who hold, directly or indirectly, shares of the applicant entity;
 - a. its parent, subsidiary or associate companies or any subsidiaries or associates of its parent company;
 - b. its directors who are holding office as directors of the entity and their close family members;
 - c. Chief Executive Officer, his/her close family members;
 - d. Key Management Personnel and their Close Family Members;
 - e. any party acting in concert with the parties set out in (a), (b), (c) and (d) above; or
 - f. any individual or Company holding jointly or severally 5% or more of the shares of the applicant entity
- Public Shareholders shall mean any party who hold shares of the applicant entity other than the parties identified as Non-Public Shareholders abovementioned.
- The date of listing shall be the first date on which shares of an entity is allowed to be traded on the CSE.

1.3 Contents of Introductory Document

In addition to the disclosure requirements mentioned under section 3.3 of the CSE Listing Rules, the Entity shall make the following disclosures in the Introductory Document:

1.3.1 Reference Price

- An Entity applying to list its shares by way of Introduction shall determine the initial listing price of shares to be listed (Reference Price), which shall be duly supported by a fairness opinion prepared by a suitably qualified and an independent valuer acceptable to CSE.
- The Reference Price and the basis for determining such Reference Price shall be disclosed in the Introductory Document. Furthermore, the copy of the fairness opinion shall be enclosed as an annexure to the Introductory Document.

1.3.2 Details pertaining to the Non-Public Shareholders

- The following information with regard to the Non-Public shareholders shall be prominently disclosed in a separate section in the Introductory Document -
 - Names of Non-Public Shareholders; and
 - Relationship with the applicant Entity.
- Furthermore, an Entity at the time of making an application for a listing shall be required to make adequate disclosures pertaining to locked-in / not locked-in shares in the 'Introductory Document' in the format Annexed hereto as Annexure 1 in addition to the conditions already specified by the listing Rules of the Colombo Stock Exchange and prescribed by the Companies Act No. 07 of 2007.

1.3.3 Financial Information

In addition to the disclosures required under section 3.3.7 of the CSE Listing Rules, the Exchange shall have the discretion to require disclosure of the following financial disclosures in the Introductory Document:

- Dividend policy of the Entity - Classes of Securities and rights attached to the respective classes of Securities regarding dividends, rates of the dividends, if any, paid by the Entity in respect of each class of shares for three (03) financial years immediately preceding the issue of the Introductory Document (as applicable).
- For companies with limited operating history, the Exchange shall have the discretion to require disclosure of the following in the Introductory Document –
 - (i) A statement showing the forecast profit and loss account, balance sheet and cash flow statement for a three (03) year period together with the assumptions and risk factors on which such statements are based, or
 - (ii) A sector study including the details of how the Entity intends positioning itself in the market stating assumptions and risk factors.
- Any other complete and accurate information that would have a material impact on the decision making among stakeholders in the understanding of the financial information provided in this Section.

- Particulars of Debt and Loan Capital –
 - (i) Particulars of loan capital outstanding as at the date of application or an appropriate negative statement.
 - (ii) Particulars of term loans, other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptance (other than normal trading bills) or acceptance credits or an appropriate negative statement.
 - (iii) Leasing, lease purchase and hire purchase commitments, or an appropriate negative statement.
 - (iv) Guarantees and other material contingent liabilities or an appropriate negative statement.
 - (v) A statement of mortgages and charges on the assets of the Entity, as at the date of application or an appropriate negative statement.

1.4 Other Requirements

The Introductory Document and the Articles of Association of the Entity shall be hosted on the Entity's website and/or the Exchange's web site for a period of not less than seven (07) market days prior to the date of listing on the Exchange and not less than fourteen (14) days from the date of listing.

2.0 AMEND TO RULE 2.1.3 (C) OF THE CSE LISTING RULES (PUBLIC HOLDING REQUIREMENT OF DIRI SAVI BOARD)

A minimum Public Holding of 10% of the total number of shares for which the listing is sought which shall be in the hands of a minimum number of **200** Public Shareholders (*amended from existing 100 Public Shareholders to 200 Public Shareholders*).

ANNEXURE I

Category of shareholders (Pre-Listing)	Locked-in Shares	The months after which shares will be available for trading	No. of shares	Total no. of shares as a percentage of Issued capital
Non Public	Locked-in	6 th month		
Non Public	Locked-in	7 th month		
Non Public	Locked-in	8 th month		
Non Public	Locked-In	9 th month		
Non Public	Locked-in	10 th month		
Non Public	Locked-in	11 th month		
Non Public	Locked-in	12 th month		
Public	Locked-in	6 th month		
Public	Locked-in	7 th month		
Public	Locked-in	8 th month		
Public	Locked-in	9 th month		
Public	Locked-in	10 th month		
Public	Locked-in	11 th month		
Public	Locked-in	12 th month		
Public	Not Locked-in	Not applicable		
Total				
<i>The Company hereby confirms that the information furnished herewith shall remain unchanged till the date of listings.</i>				