

Media Release

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SEC Welcomes Market Performance and Spells Out Processes in Place

The Securities and Exchange Commission of Sri Lanka (SEC) welcomes the record-breaking performance of the Colombo Stock Exchange (CSE). Bloomberg has identified the CSE as the second best performing equity market in the world.

On 15th January 2021, the CSE saw 61,722 trades which is the highest number of trades ever in a single day and the All Share Price Index (ASPI) gained 291.34 points which is the highest ever points gain in the ASPI history. The CSE also saw its highest ever Market Capitalization of Rs 3.38 Trillion. The turnover for the day was a staggering Rs. 12.4 Billion.

The ASPI of the CSE has recorded a significant growth of 75% during the last 8 months. The Blue-Chip S&P SL 20 Index has surged by almost 65% since May 2020. The Average Daily Turnover of the CSE during the first fifteen days of the month of January 2021 is Rs 7.94 Billion compared to Rs. 1.8 Billion during the year 2020. It is a huge leap from the daily average turnover of Rs.711 Million recorded during 2019.

This phenomenal performance of the CSE indicates the strong confidence the investors have on the Market. It is heartening to note that local investors have stepped in at a time when there has been a foreign outflow and their contribution amounted to 80% of the total market turnover in 2020.

There have been several contributory factors to this unprecedented performance of the stock market and main amongst them was the slashing of Bank interest rates by the Central Bank of Sri Lanka last year. The stock market has become the preferred choice of a large number of investors due to this prevailing low interest rate regime. Political stability coupled with progressive steps taken by the government to develop the capital market too has had its positive effects. The creation of a State Ministry for Capital markets in August of last year as well as the salutary proposals introduced by the November Budget aimed at providing relief to the stakeholders of the capital market are noteworthy signals sent out by the government to demonstrate its commitment.

Digitalization of the end to end operations of the CSE in September 2020, spearheaded by the Joint Committee of the SEC and CSE appointed by the Chairman of the SEC which created a

paradigm shift in the way the CSE operated, is the other most significant factor that has contributed to the present performance of the CSE. The Mobile App that was introduced with multiple features enabled investors to open a Central Depository System (CDS) Account from the comfort of their homes or on the move using their mobile phones. The ease with which one could open an account and start trading has resulted in the opening of a large number of CDS accounts online during the past few months. Out of the total number of new accounts opened by resident individuals during the period September – December 2020, 92% have been opened online through the Mobile App. A feature that safeguards the interests of the investors is that the Stock Broker Firm takes steps to inform the client by way of a SMS alert, details of transactions effected during each day.

The second phase of digitalization which will be completed by March of this year will enable the decentralization of the account opening process of company accounts and foreign accounts, the introduction of a smart wallet, enable accountholders to make certain changes to master file accounts as well as the introduction of an E portal where clients can directly access and view their accounts.

The restriction in movement due to the Covid 19 pandemic has seen an increase in the usage of social media amongst the general public in the country and the inclusion of content relating to the stock market in social media has created greater awareness of the CSE and its activities. This too has contributed in attracting more investors to the market.

Since the pandemic situation has prevented the SEC from conducting its island wide educational and awareness programs physically, it has turned to social media in addition to the print and electronic media in disseminating information to the general public. The SEC launched its own social media platform with a Facebook Page, Twitter Account and a YouTube Channel in mid last year attracting a large viewer base. The SEC realized the need to step in and offer proper guidance to new investors since not all content appearing in the social media was conducive towards creating awareness and guidance to them.

The SEC through its social media platforms has educated investors on different aspects of investing and the need to make an informed investment decision. With the view of protecting investors, the SEC has highlighted the importance of following the official channels of the SEC and the CSE and other accredited investment advisors in making decisions to invest in the stock market. The SEC has also uploaded a list of Registered Investment Advisers (RIAs) attached to Stock Broker Firms on its website www.sec.gov.lk. Steps have also been taken to enlighten the investors on prohibited conduct in order to ensure that they stay away from conduct that would amount to market offences.

The SEC has had a continuous dialog with all stakeholders of the market including the CSE and has emphasized on the need to take aggressive measures to develop the market in order to ensure that it is the preferred place to raise capital. The Commission at its meeting held last Wednesday approved a new framework for listing of companies, affording complete autonomy

to the CSE in the process and has also relaxed the Listing Rules in order to encourage more listings. This is expected to attract SMEs and Startups and many other initiatives are in the pipeline.

At a meeting had with the Board of Directors of the CSE in mid-December last year, the SEC has requested the CSE to implement a comprehensive program to attract companies to list and to educate the potential companies on the simplified processes that will be introduced as well as the incentives granted by the government by way of the Budget proposals. The SEC has impressed upon the need to have a time bound plan and has promised its fullest support towards such an endeavor. The SEC is awaiting the response of the CSE in this regard.

In order to ensure the integrity of the market and to protect the large number of investors in the face of the surge in the daily number of transactions, the regulatory and supervisory framework of the SEC have been strengthened by enhancing the capability and capacity of the Supervision and Surveillance Divisions.

At a meeting held recently with the Chief Executive Officers (CEOs) of the Stock Broking Firms, the SEC re-iterated the need for self-regulation of the broking industry especially with regard to extending broker credit and other market activities. The need to introduce a set of supervision guidelines for broker firms with the aim of maintaining industry best practices was also discussed and it was agreed at this meeting to finalize the draft that had been prepared jointly by the CSE and SEC. At the Commission meeting of SEC held last Wednesday, approval was granted to implement these guidelines. Further, at the request of the Stock Broker Firms, a surveillance handbook has been prepared by the CSE which sets out in detail, conduct that is prohibited in the entire process of trading. After discussions with the CSE, this handbook was finalized and approved by the SEC.

The CEOs of the Stock Broker Firms highlighted the need to have more accredited investment advisors in the light of the increased client base and the SEC agreed to conduct a shortened course pertaining to the Certificate of Capital Markets (CCM) program which grants accreditation to Investment Advisors. The course will begin shortly and will be completed within a period of three months.

The new SEC Act, which the SEC believes will be enacted within the first quarter of this year, has several salutary features which will amongst others, strengthen and streamline the regulatory regime, enable the development of the market, provide protection to the investors as well as provide for the Demutualization of the Stock Exchange.

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