



SEC on a roll: Sanctions fund raising and shell company frameworks

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SEC Chairman Viraj Dayaratne

It is indeed early Christmas for the capital market in the form of new products and frameworks giving a wide choice for investing, deviating from the same old in a bid to entice new investors.

The Securities and Exchange Commission (SEC) is forging ahead with a host of initiatives as never seen before such as crowd funding for equity/ debt and giving the go ahead for Special Purpose Acquisition Company (SPAC).

“We have developed a framework to facilitate fund raising through online platforms such as crowdfunding which is soliciting small amounts of funds from multiple investors through a web-based platform or social networking site for a specific project, business venture etc. Currently, the possibility of introducing equity/debt crowdfunding and peer to peer lending through the E-Wallet

which is expected to be introduced as part of the second phase of digitisation initiative are being evaluated jointly with the Colombo Stock Exchange (CSE) which will reduce the cost of capital and other intermediary cost involved,” Viraj Dayaratne, Chairman SEC told the Business Times in an interview on Tuesday.

A consultative meeting was held with the CSE and they will further study the initial concept paper prepared by the SEC and revert with their feedback for the same in order to take the initiative forward, he said.

In a bid to further broad-base listing requirements to facilitate new listings to the market, the SEC intends to enable listing of SPACs – with proper safeguards. A SPAC is a shell company set up by investors with the sole purpose of raising money through an IPO to eventually acquire another company. It has no existing operations or underlying business that is founded by one or a group of sponsors, being well-known entrepreneurs, private equity or industry experts with the objective of making one or more acquisitions.

“The policy for listing SPACs has been finalised and the CSE listing rules (including eligibility criteria for the SPAC and promoters etc will be amended accordingly to facilitate it,” Mr. Dayaratne added.

SPAC features are that only qualified investors are allowed to invest in them and SPAC shares will be traded in the Over The Counter (OTC) board, the IPO funds will be kept in a trust structure until the target firm is acquired and shareholder approval is required to carry out the target acquisition and exit mechanism will be provided for the shareholders who are not in agreement with the acquisition. A SPAC is required to conclude its first acquisition within a stated timeframe and in the event if a SPAC is unable to do so, the SPAC will be liquidated according to the provisions of the Company’s Act. The lock-in period for promoters and other safeguards will be introduced accordingly, Mr. Dayaratne added. “Upon acquisition, the SPAC will be merged with the target company in line with the Company’s Act provisions and the merged entity will operate as an ordinary listed entity at the CSE.”

Having successfully launched the first phase of the digitalisation initiative, the SEC and the CSE embarked on the second phase which has now reached near completion and will be launched this month. Under the soon to be launched second phase, new features such as use of CSE mobile application for Central Depository Systems (CDS) account opening for local companies and foreign individuals will be enabled.

Mr. Dayaratne added that new features such as the launch of CDS E-connect will enable viewing of CDS account information, viewing of balances, transaction history, free of charge monthly statement for the last six months, facility to request for reports, sending information requests to CDS/stockbroker, ability to give instructions to change CDS account details of the logged in user account, intra account transfer requests, access for brokers online trading apps, corporate action alerts such as dividends/rights and other corporate actions, access to research reports.

E-IPOs, E-Rights, E-Portal for online company registration, E-wallet (in order to bring in seamless transfer of funds between asset classes) will be introduced on top of features such as the “chat bot” feature that would be added to enhance the user experience and convenience by providing account opening assistance and investor portfolio information assistance.

He said the CDS account opening process for both foreign individuals and foreign companies are being digitised which would expedite the entry process by foreign investors to the Sri Lankan market.

As at last September when it was launched, there have been more than 20,000 new CDS accounts opened via the mobile app and 50,000 plus mobile app downloads. More than 90 per cent of the new CDS accounts have been opened via the new mobile app.