
Some helpful thoughts to develop Sri Lankan capital market

Prof. Hareendra Dissabandara

Senior Professor in Finance & Corporate Governance

University of Sri Jayewardenepura

Former Director General of SEC,

Former Deputy Secretary-General (Financial Affairs), National Economic Council

Executive Secretary, Sri Lanka Finance Association

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DEPARTMENT OF FINANCE
FACULTY OF MANAGEMENT STUDIES AND COMMERCE
UNIVERSITY OF SRI JAYEWARDENEPURA



July 12, 2021

ASPI & S&P 20 From 1985 – 2021 [36 Years]

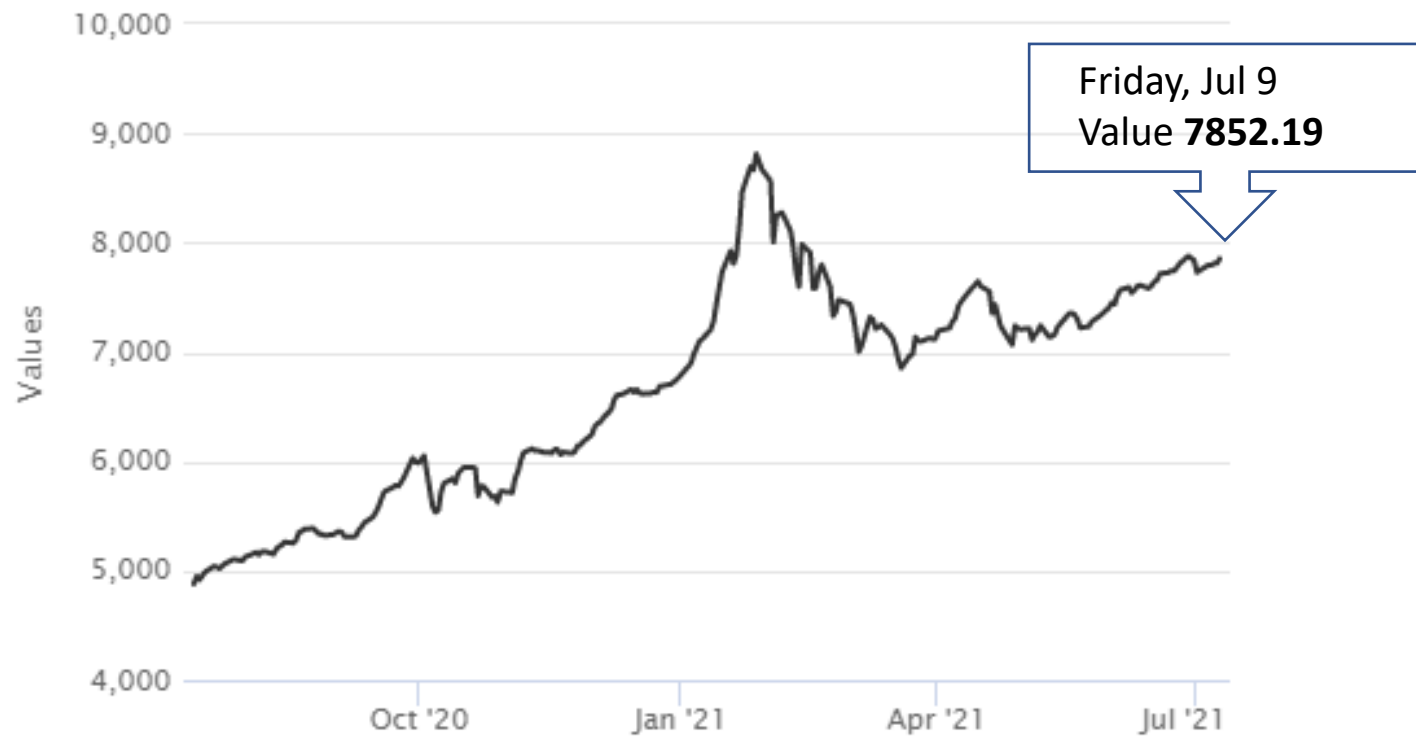


Source: Dissabandara\Capital Market Data Based on CSE

ASPI – 2021/21

ASPI Statistics

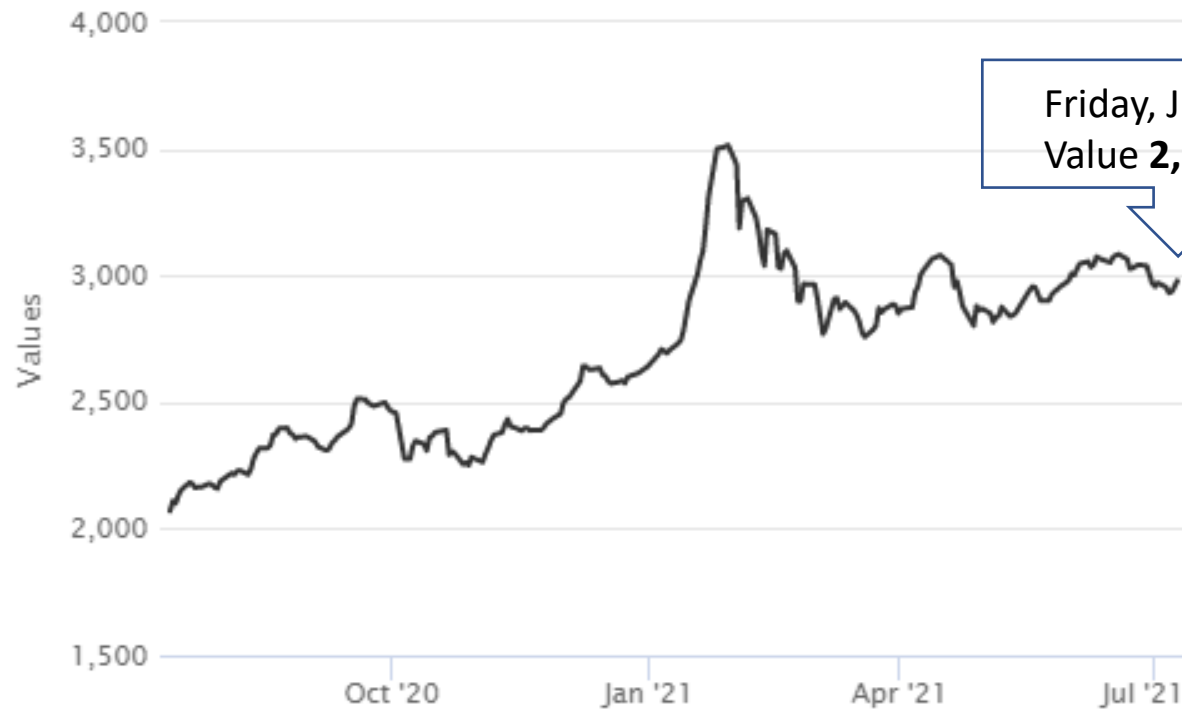
One year ▼



S&P20 – 2021/21

S&P SL20 Statistics

One year



Global Market Performance



Digitalization Projects Implemented

E statements and SMS Alerts

Introduction of E -Dividends

Introduction of Digital Front Desk

Online Account Openings via App

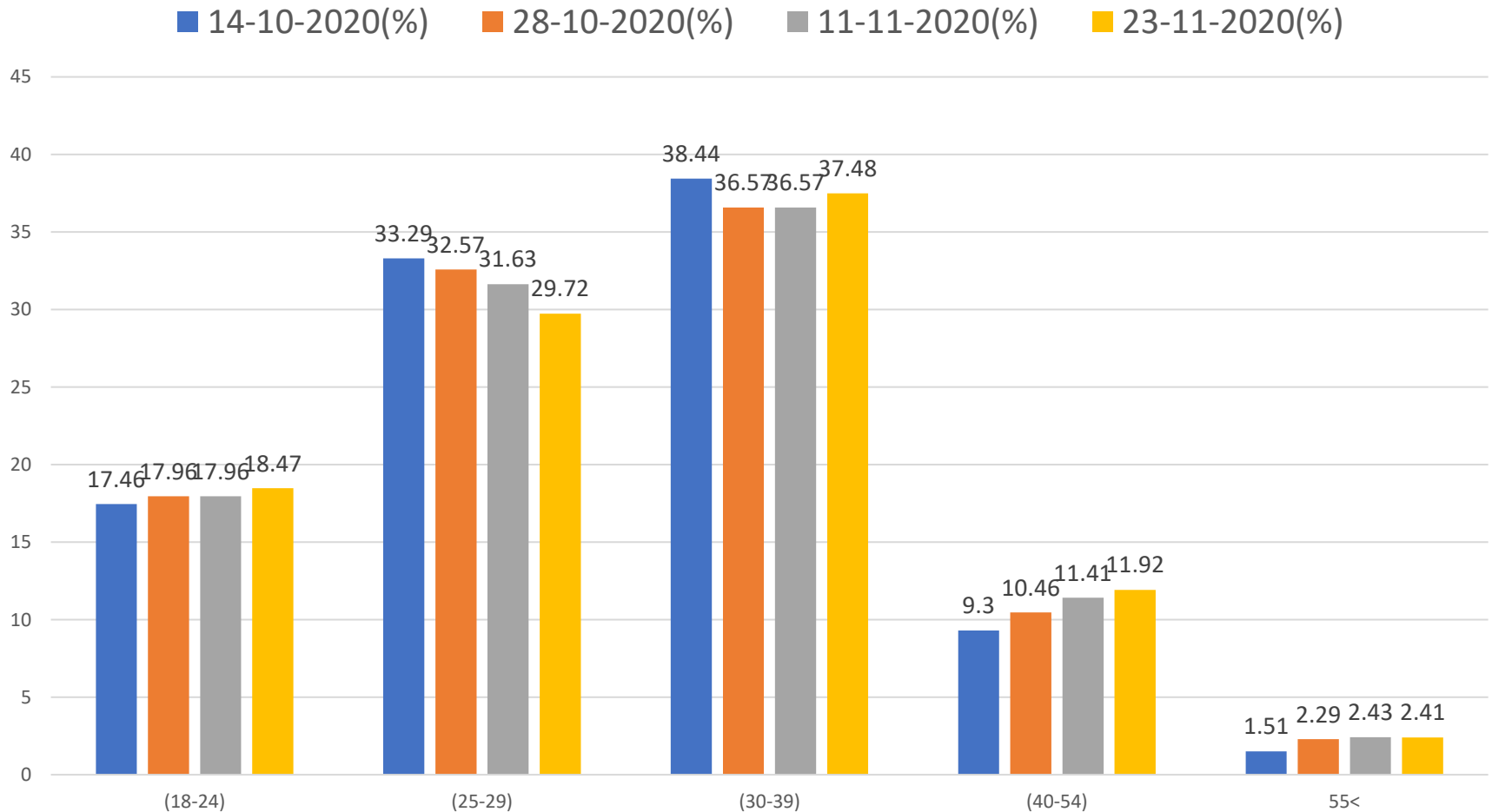
New Data packages

Robotics Process Automation

Rights Allotment

Digital KYC

Age Group Analysis



Financial Sector Asset Composition - 2020



Deposit taking
financial
institutions

69%



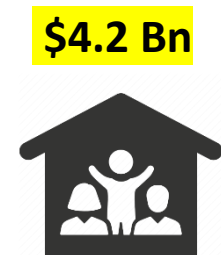
Superannuation
funds

16%



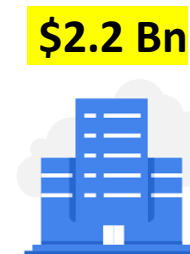
Central Bank

10%



Insurance
companies

3%

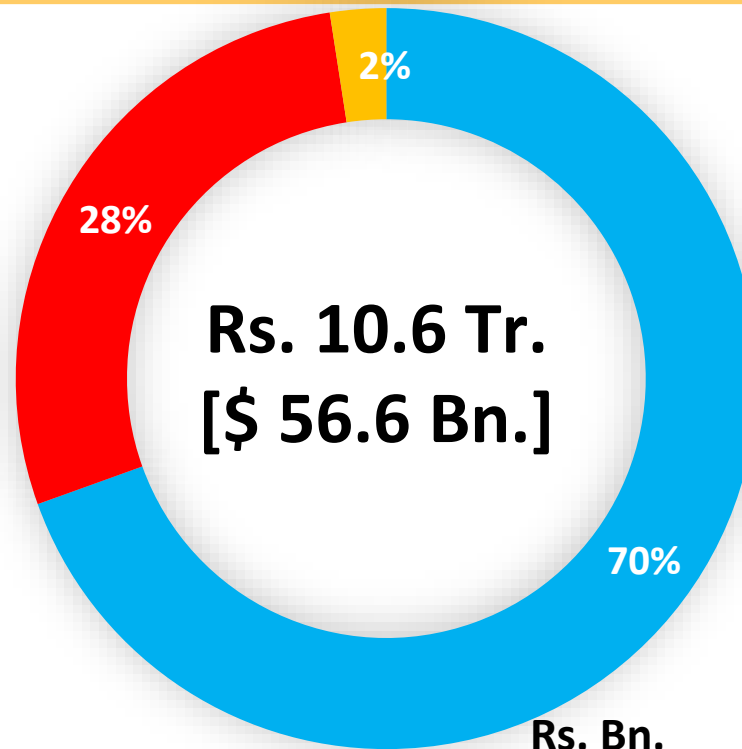


Specialized
financial
institutions

2%

Value of Sri Lankan Financial Sector = \$126.4 Bn = Rs. 23.6 Tr. = 157.4% of GDP

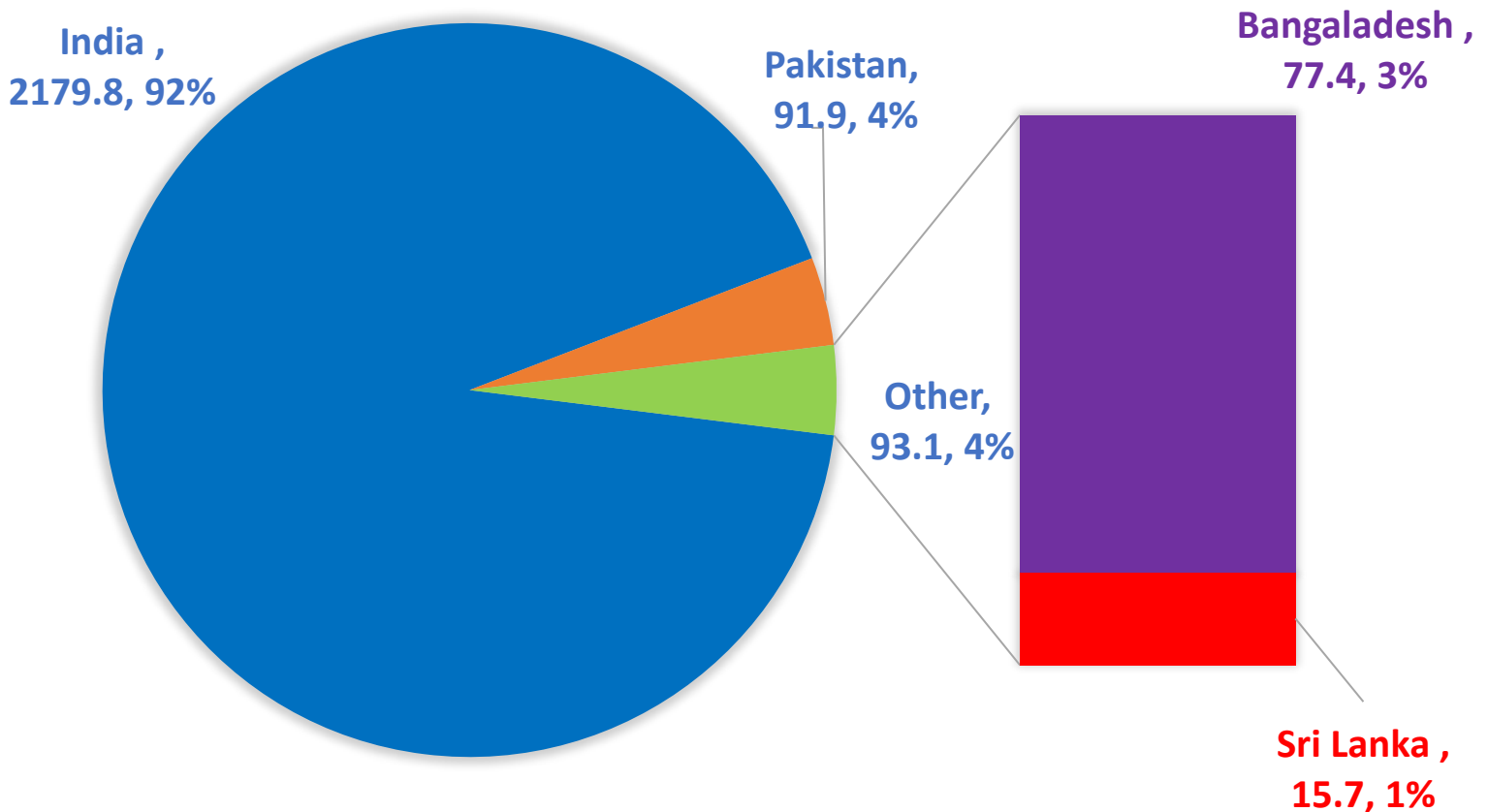
The Size and Composition of the Sri Lankan Capital Markets in 2020



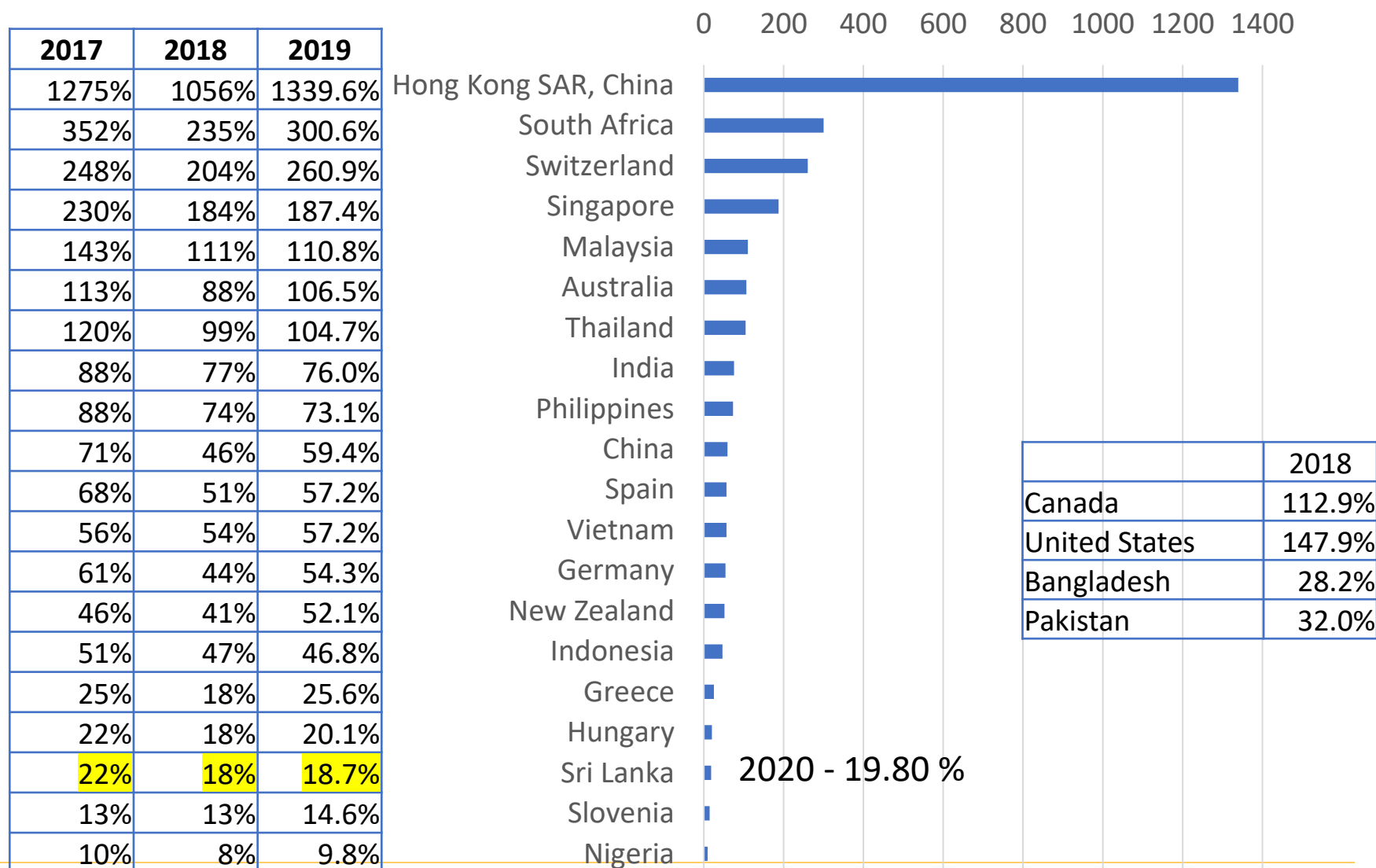
	Rs. Bn.	USD Bn.	% of GDP
1. Government Securities	7,334.0	39.3	49.0%
2. Stock Market Capitalization	2,960.7	15.9	19.8%
3. Corporate Debt Market Capitalization	257.9	1.4	1.7%
TOTAL SRI LANKAN CAPITAL MARKETS	10,552.6	56.6	70.5% ⁹

Equity Market

Market Capitalization of the South Asian Stock Markets - 2019

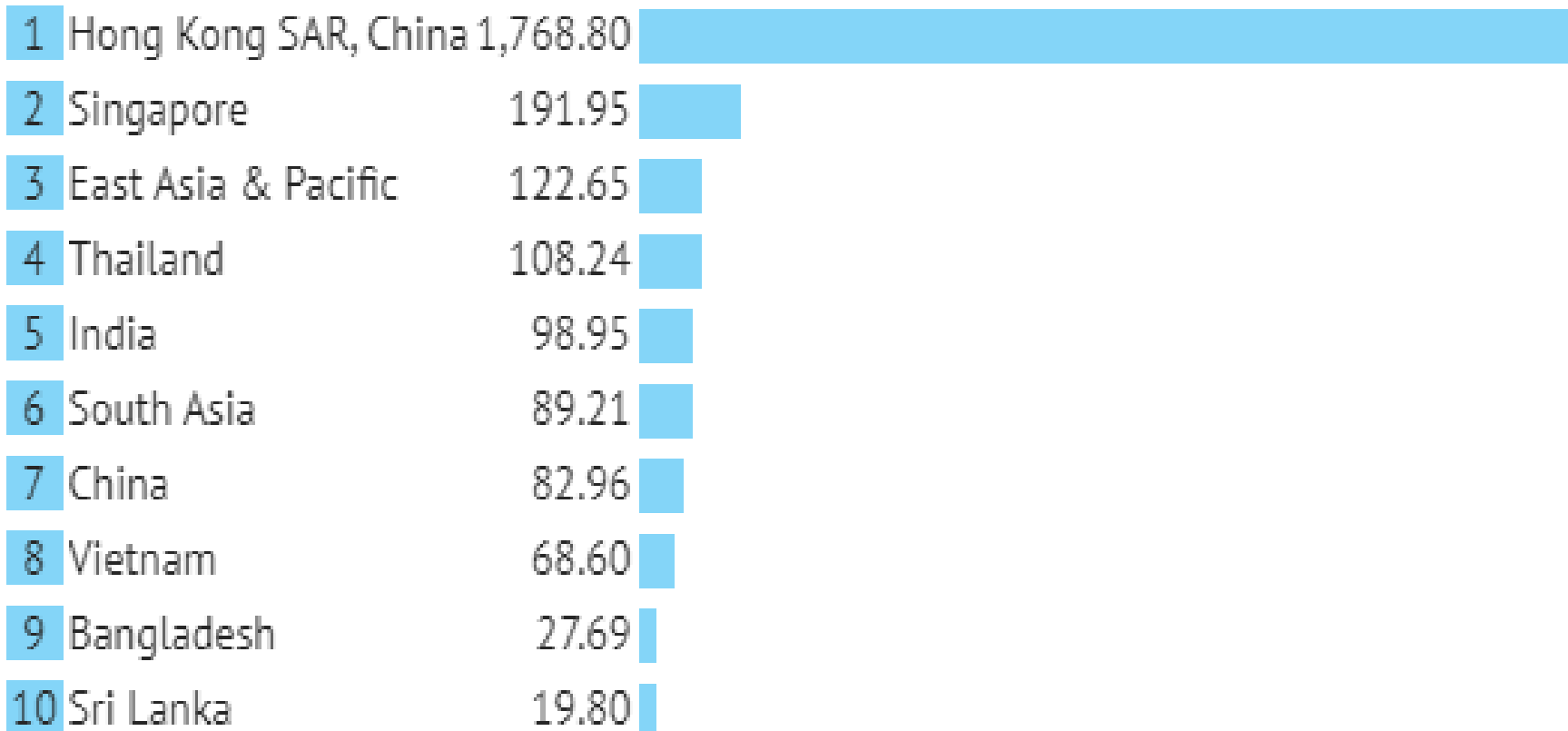


Market Capitalization as a % of GDP in 2019



Source: WB, World Development Indicators (WDI) & Knoema.com

Market Capitalization as a % of GDP in 2020



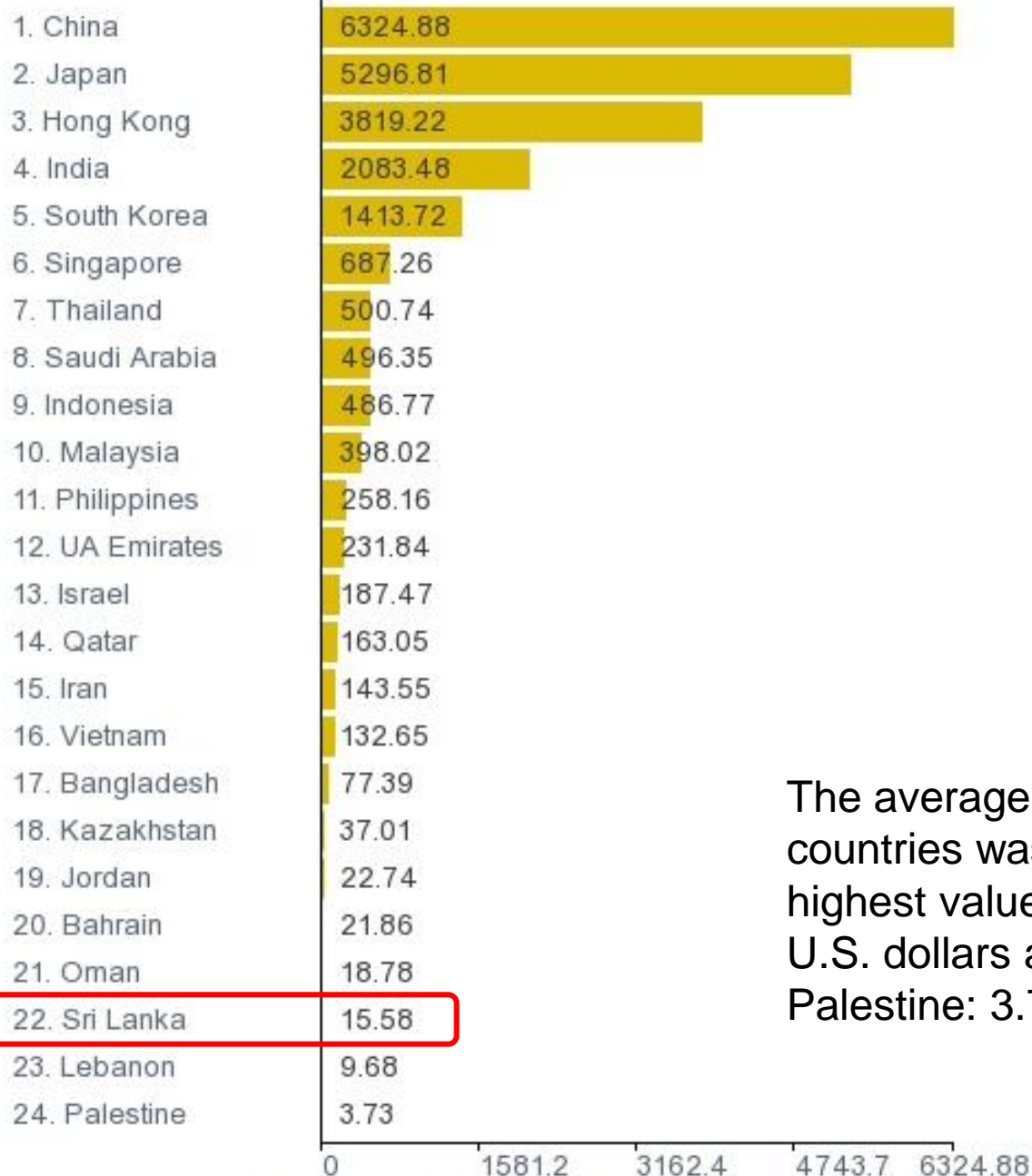
Number of Companies Listed on the Exchange



The average for 2019 based on 22 countries was **825 companies**. The highest value was in China: 3777 companies and the lowest value was in Lebanon: 10 companies.

283 Companies at the end of 2020

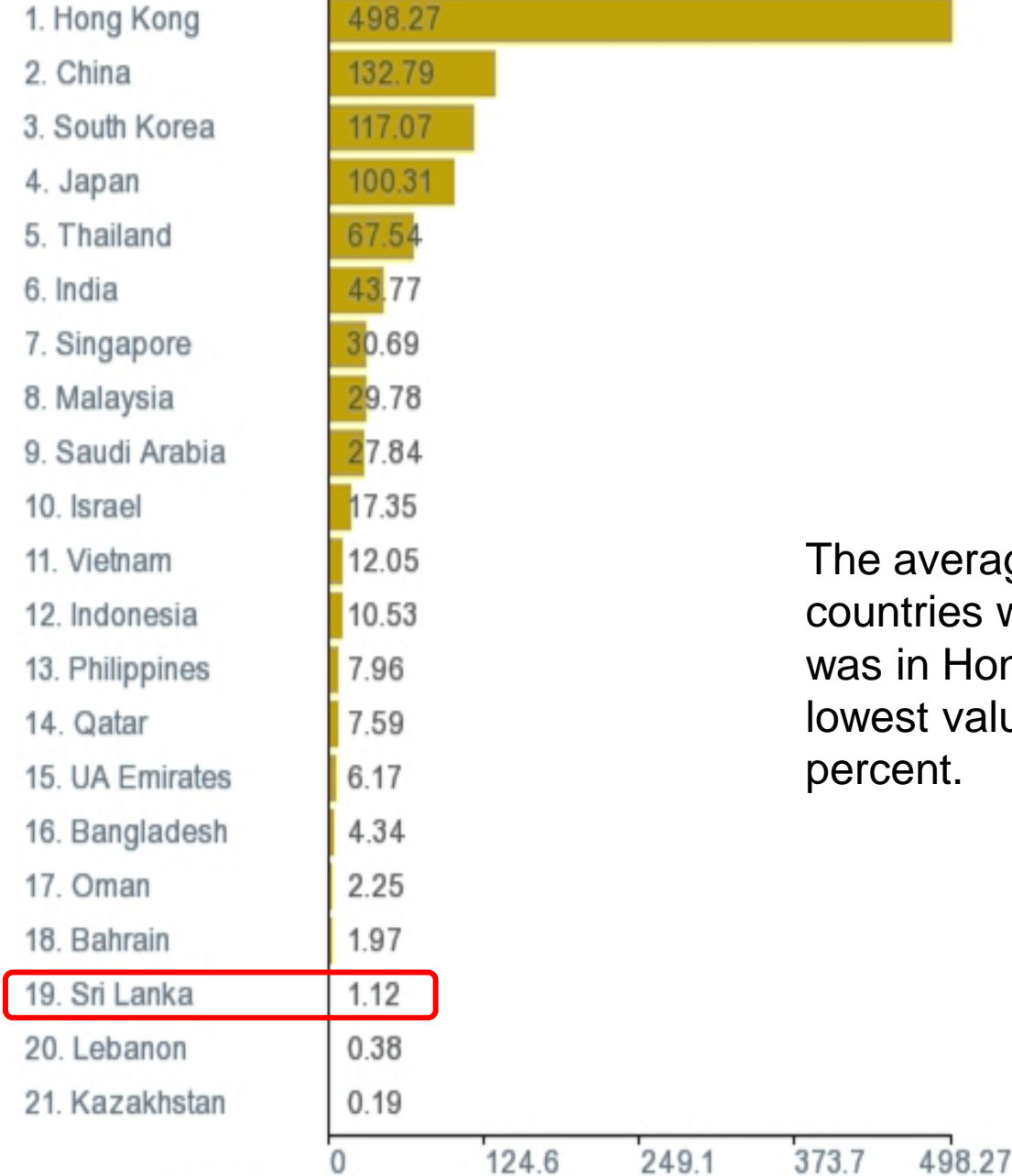
Source: TheGlobalEconomy.com, The World Bank, TheGlobalEconomy.com



Market Size

Stock market capitalization, billion USD in Asia

The average for 2018 based on 24 countries was **US\$ 951.28 billion**. The highest value was in China: 6324.88 billion U.S. dollars and the lowest value was in Palestine: 3.73 billion U.S. dollars.



Stock market value traded, % of GDP in Asia

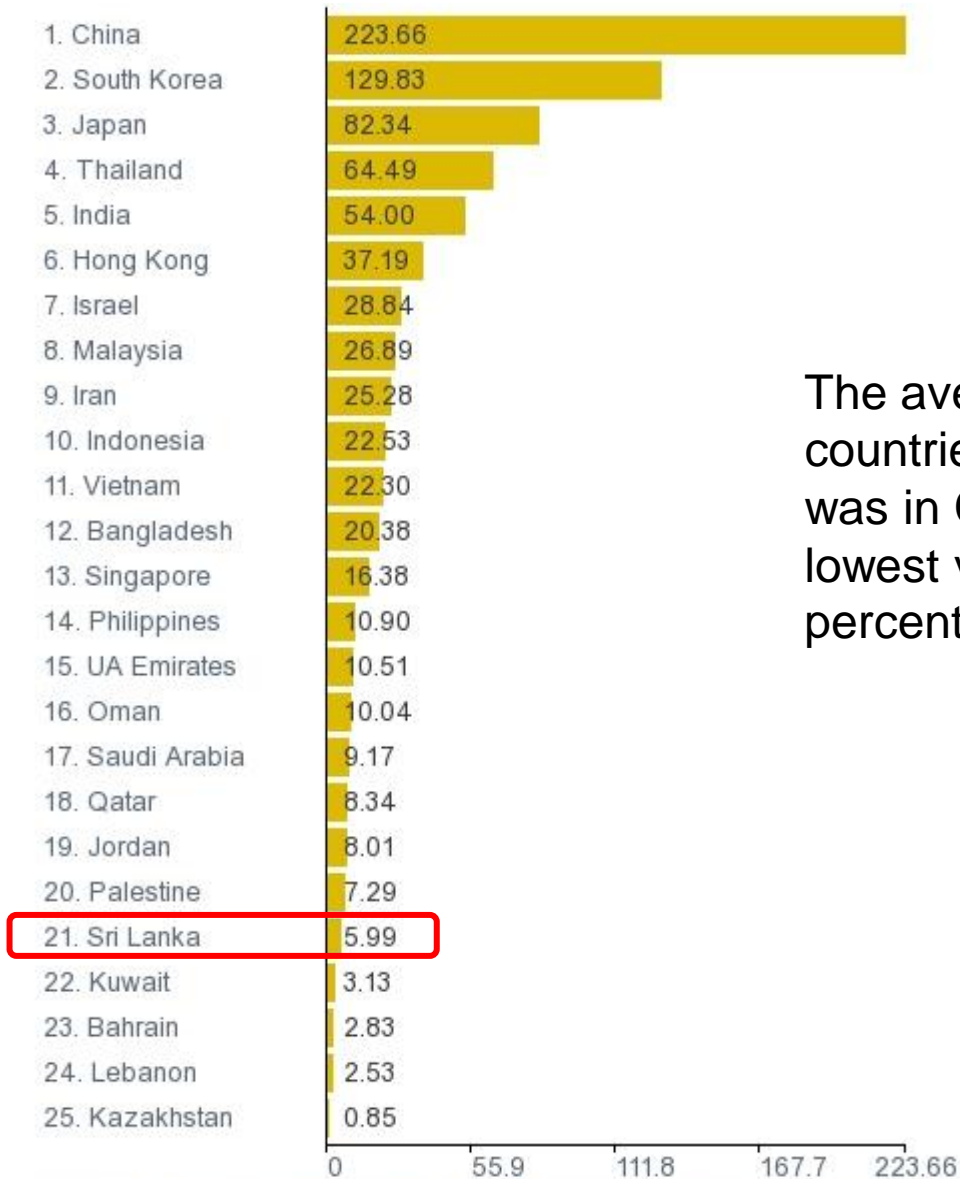
The average for 2019 based on 21 countries was **53.33%**. The highest value was in Hong Kong: 498.27 percent and the lowest value was in Kazakhstan: 0.19 percent.

Source: TheGlobalEconomy.com, The World Federation of Exchanges, TheGlo

Market Liquidity

Stock market turnover ratio in Asia:

The average for 2019 based on 25 countries was **33.35%**. The highest value was in China: 223.66 percent and the lowest value was in Kazakhstan: 0.85 percent.



Source: TheGlobalEconomy.com, The World Bank, TheGlobalEconomy.com

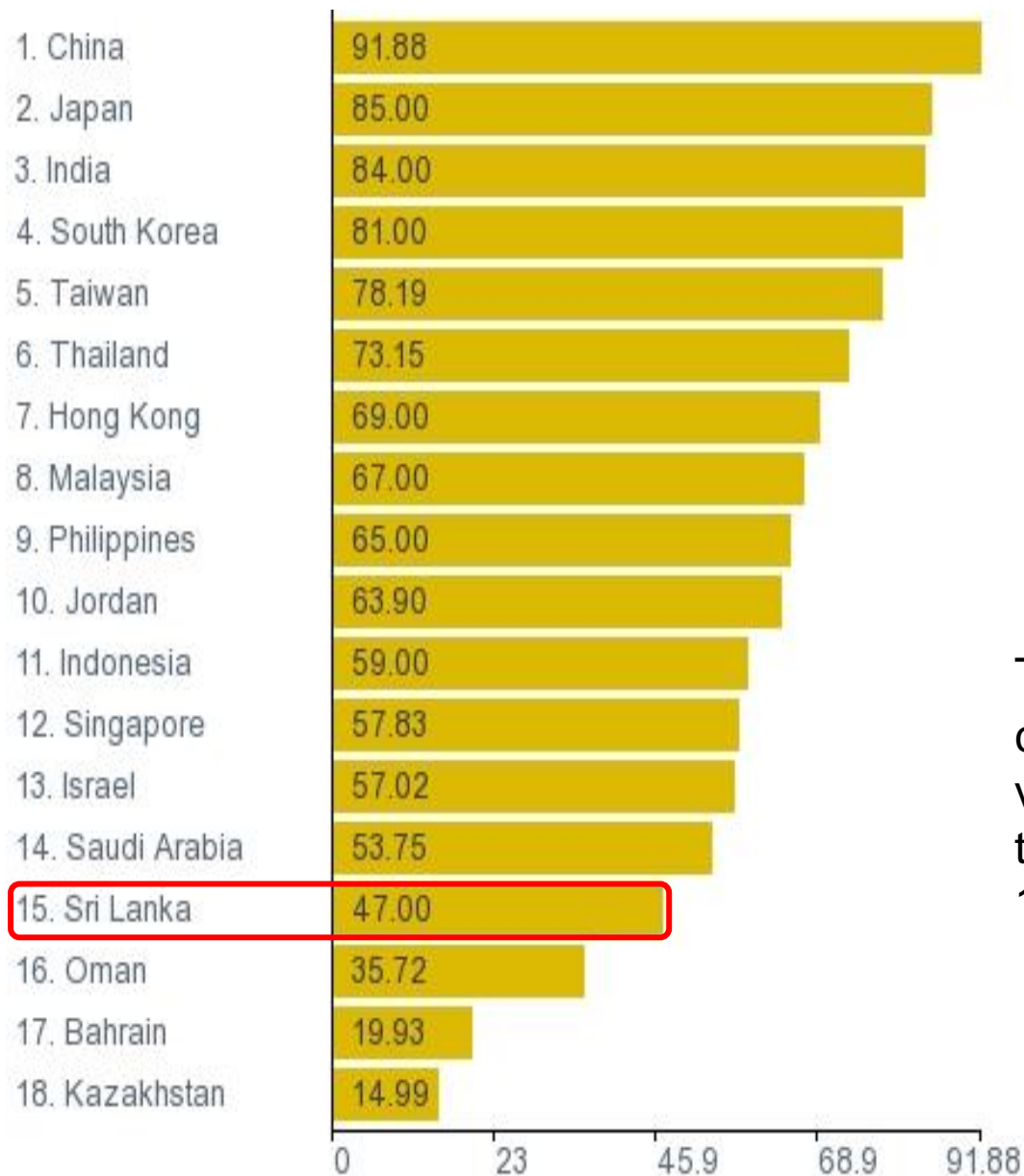


Source: TheGlobalEconomy.com, The World Federation of Exchanges, TheGlo

Stock market access for smaller firms:

Stock market capitalization without top 10 firms, percent of total market cap in Asia

The average for 2017 based on 19 countries was **54.48%**. The highest value was in China: 91.03 percent and the lowest value was in Kazakhstan: 13.36 percent.

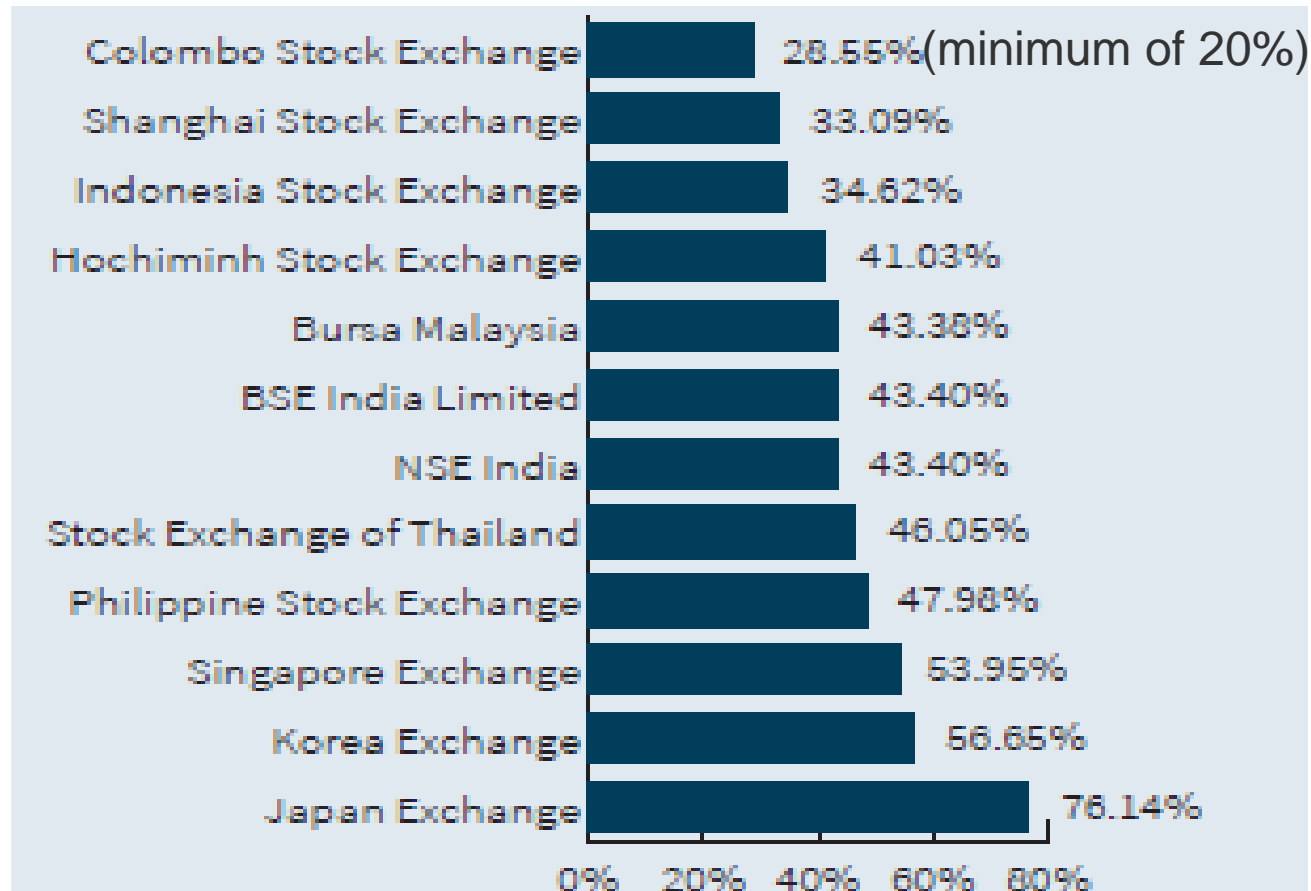


Stock market value traded without top 10 firms, % of total value traded in Asia

The average for 2017 based on 18 countries was **61.3%**. The highest value was in China: 91.88 percent and the lowest value was in Kazakhstan: 14.99 percent.

Source: TheGlobalEconomy.com, The World Federation of Exchanges, TheGl

Free Float % of Listed Equity



Source: Bloomberg

IPO Proceeds US\$ Mn.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Bangladesh	39	102	237	196	149	128	171	61	83	19	64
Cambodia	0	0	0	0	23	0	20	6	9	28	0
China	18 799	53 354	116 571	60 616	23 416	18 177	65 583	49 378	44 839	46 712	59 514
Hong Kong (China)	2 097	3 146	27 331	7 348	493	1 519	1 870	2 794	3 991	2 784	2 047
India	5 607	4 782	9 461	1 523	1 405	384	310	2 306	4 309	10 825	4 689
Indonesia	2 976	512	3 651	2 544	1 156	1 749	782	903	1 064	687	1 294
Japan	1 380	694	17 107	2 327	10 563	6 188	10 167	15 741	8 576	4 879	27 835
Korea	1 064	3 120	9 603	3 771	1 294	1 294	4 432	3 821	5 163	6 980	2 275
Malaysia	444	4 039	7 246	2 033	8 182	3 083	1 603	1 166	315	1 905	244
Mongolia	35	0	862	0	0	0	0	0	0	0	10
Pakistan	78	10	61	20	6	27	50	73	26	105	50
Philippines	321	0	863	296	856	1 496	313	119	1 047	476	153
Singapore	487	136	4 975	757	521	980	956	275	1 357	1 545	390
Sri Lanka	5	16	26	239	9	8	14	8	8	22	0
Chinese Taipei	294	243	1124	476	366	592	475	653	397	681	469
Thailand	786	234	220	194	806	1 542	1 991	1 426	981	3 253	906
Viet Nam	4 955	3 168	3 076	575	122	188	167	130	183	1 494	1 998

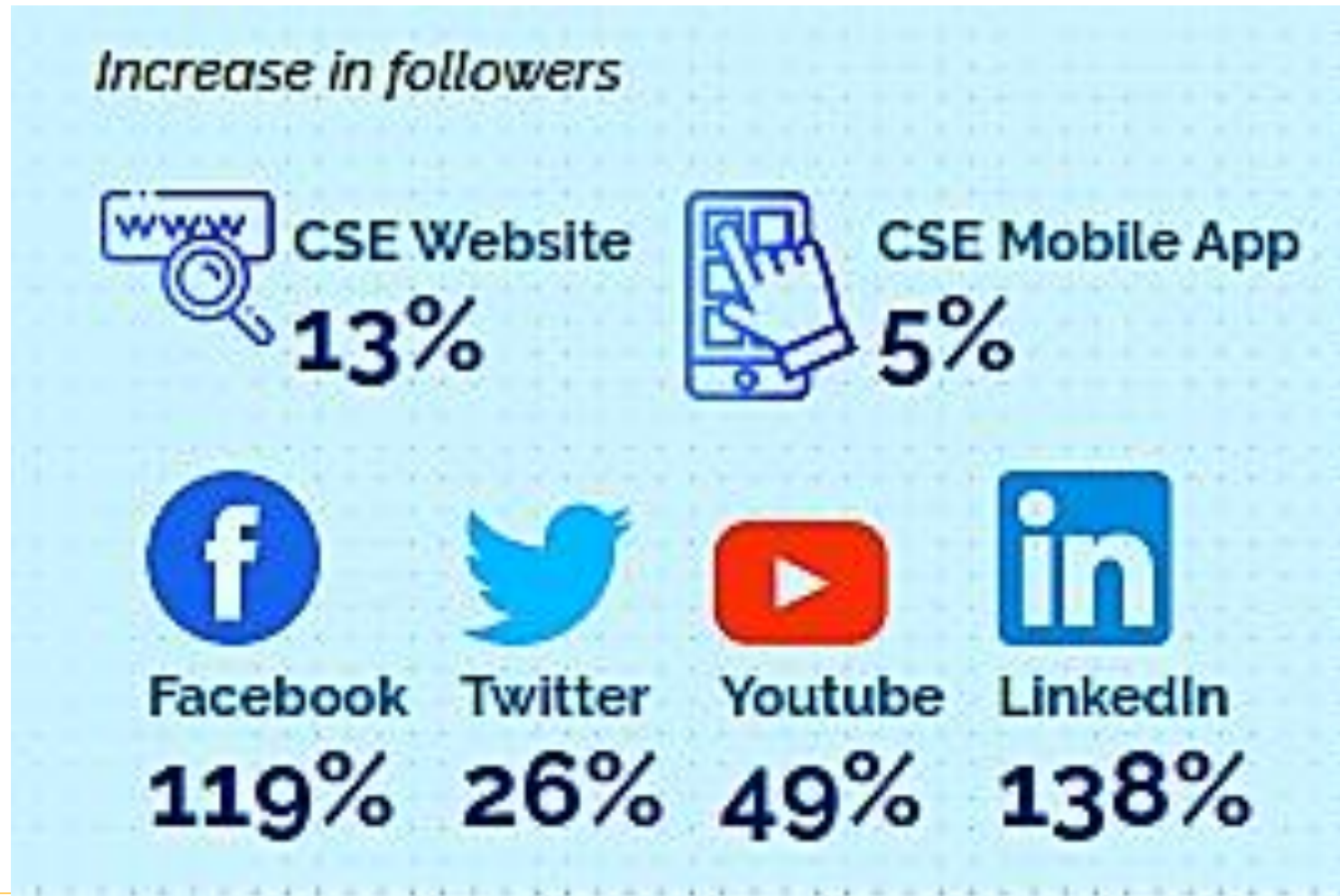
Source: OECD Capital Market Series dataset, see Annex 2 for details.

Number of IPOs

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Bangladesh	12	8	8	7	16	10	20	10	7	5	12
Cambodia	0	0	0	0	1	0	1	1	1	1	0
China	99	169	454	336	190	71	208	296	306	489	206
Hong Kong (China)	22	31	36	39	23	42	42	55	68	81	99
India	40	23	65	39	29	40	56	72	101	179	173
Indonesia	18	14	22	25	21	28	23	16	15	35	55
Japan	48	20	22	35	51	55	76	91	82	86	92
Korea	48	63	71	67	30	39	57	83	62	61	75
Malaysia	20	11	29	22	15	17	15	12	18	19	28
Mongolia	4	0	1	0	0	0	0	0	0	0	4
Pakistan	8	3	5	3	3	3	5	4	3	5	3
Philippines	2	1	3	6	5	8	5	4	4	4	1
Singapore	17	17	21	19	18	21	22	13	19	30	25
Sri Lanka	3	3	8	16	3	2	5	2	2	4	0
Chinese Taipei	12	15	16	22	13	24	12	20	20	22	26
Thailand	11	18	11	10	19	28	36	31	23	39	20
Viet Nam	50	67	79	40	14	9	8	5	21	14	18

Source: OECD Capital Market Series dataset, see Annex 2 for details.

Expand CSE Reach



Market Performance in 2020

132%

HIGHER THAN 2019
MARKET TURNOVER

167%

HIGHER THAN 2019
DAILY AVERAGE TURNOVER

Highest reached since 2011.

70%

INCREASE
INVESTOR DEPOSITORY
ACCOUNTS

*Increase in CDS account openings
compared to last year.*

192%

INCREASE
INVESTOR
SENTIMENTS

*Increase in the trading activity
of local investors.*

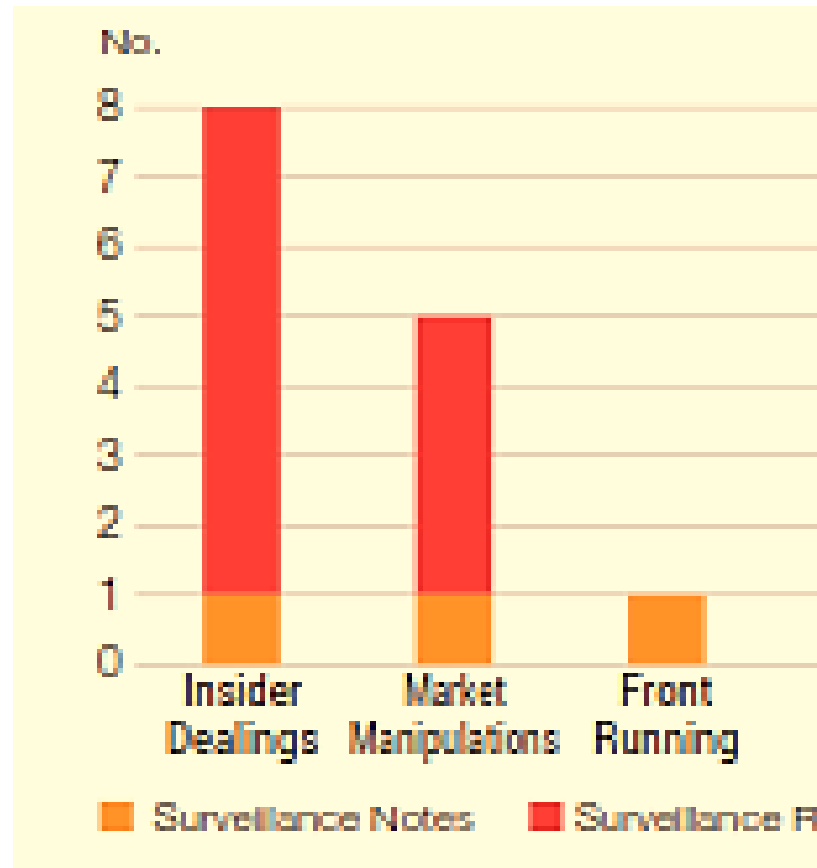
INVESTOR
DIVERSITY

ACTIVE PARTICIPATION OF BUDDING
INVESTORS IN THE CAPITAL MARKET

PERFORMANCE
OF PRICE INDEX

CSE ASPI WAS CLASSIFIED AS THE BEST
PERFORMING INDEX IN THE WORLD
DURING SEPTEMBER 2020

Surveillance Referrals / Suspected Offences



Source: SEC Annual Report 2019

Still Unable to Attract at least 1% of the Population Actively to the Market

May - 2009

Now

Total no. of CDS
Accounts

375,491
[1.88%]

650,000
[3.25%]

Operating no. of CDS
Accounts

140,491
[0.70%]

150,000
[0.75%]

Active no. of CDS
Accounts

9,000
[0.05%]

25,000
[0.13%]

Still Unable to Attract at least 1% of the Registered Companies Actively to the Market

50% of Companies
Registered
(as @June 2021)

283 Listed
Companies as
a %

Total no. of
Companies

40,000

0.71%

Equity Market

Objectives

- Increase market size
- Increase liquidity
- Strengthen the brokerage industry competitiveness and financial stability

Strategies

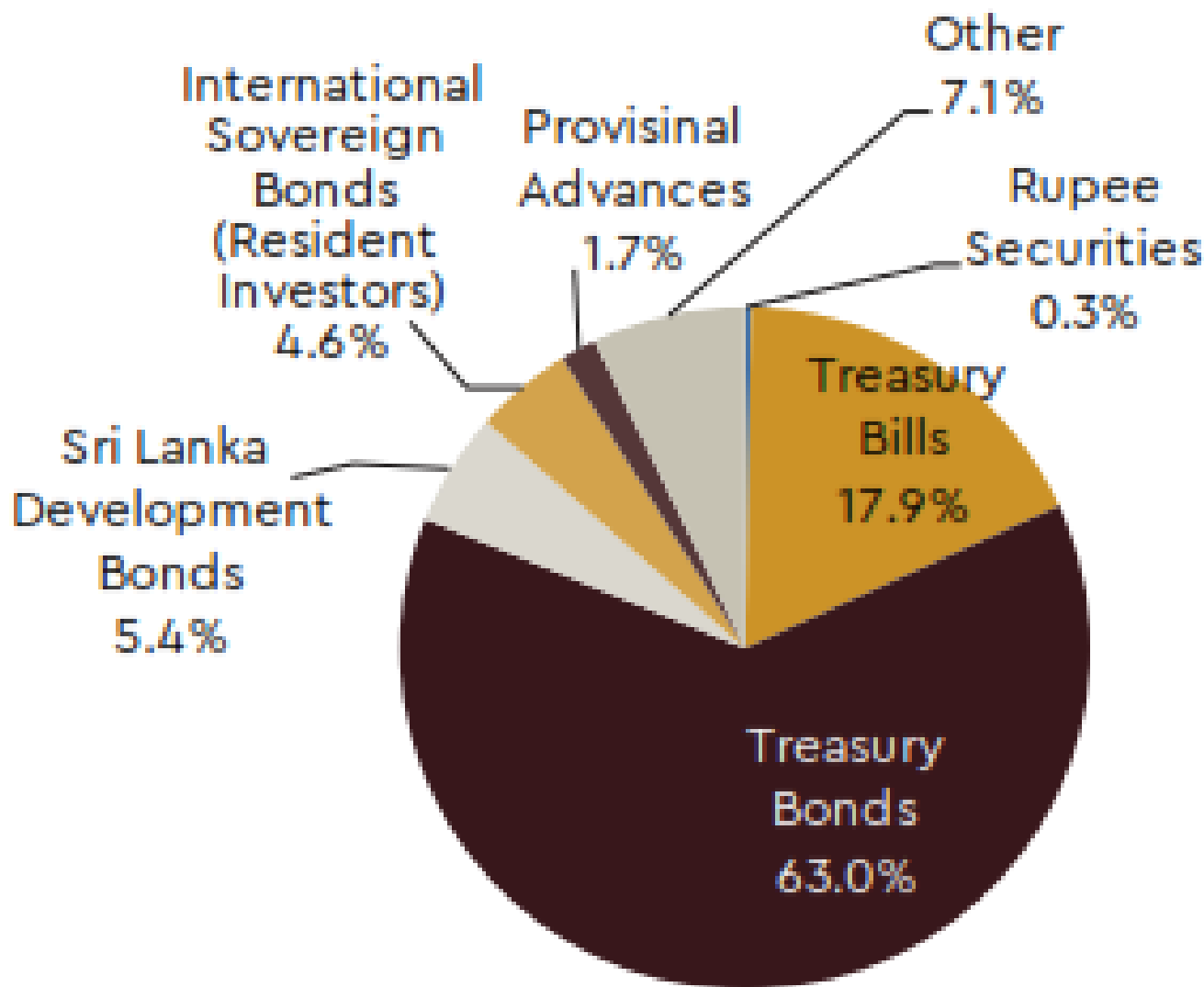
Short term

- BOI & Multi-Currency boards
- Increase public float
- Introduce market making
- Risk-based capital requirements for brokers

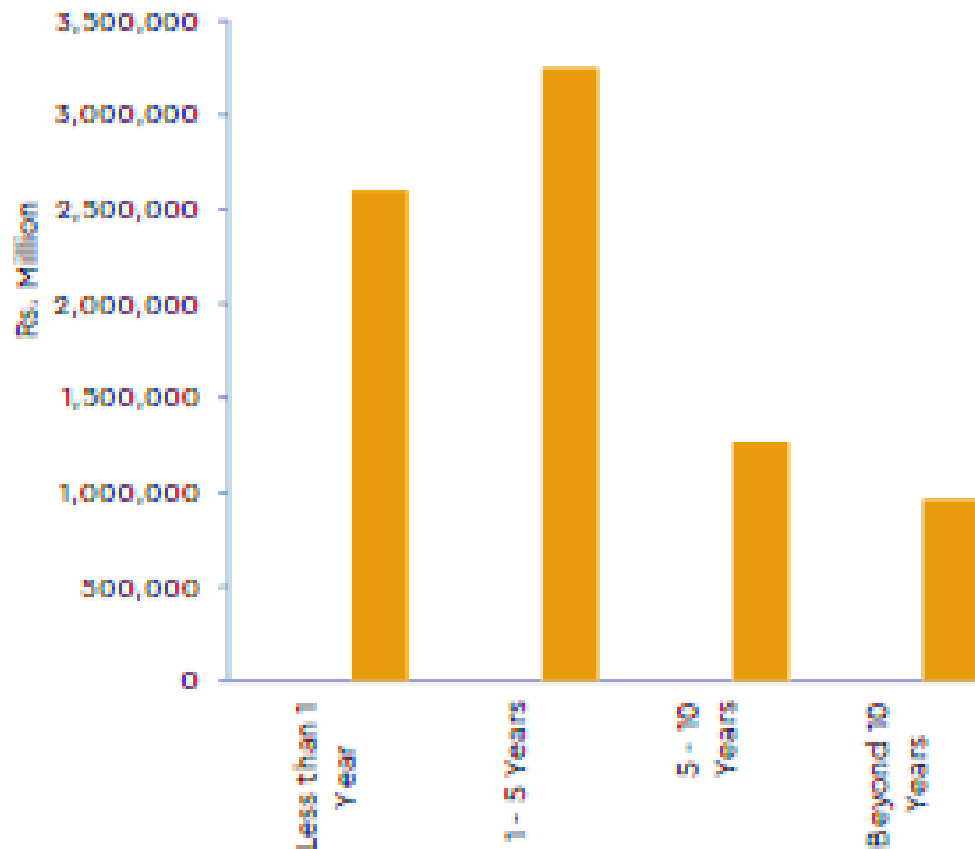
Medium term

- Public enterprise reforms
- List key commercial SOEs
- Transaction cost reforms
- Universal brokerage

Composition of Domestic Debt by Type - 2020



Domestic Debt Maturity Profile



Government Securities Market

Objectives

- Establish an efficient benchmark yield curve
- Enhance credibility and predictability of Treasury auctions
- Enhance primary market competition
- Strengthen price discovery process

Strategies

Short term

- Publish Treasury auction calendar
- Adhere to market-based auction practices
- Secondary market trading system reforms

Medium term

- Establish a consistent maturity structure and benchmark securities
- Broaden primary market participants

Corporate Bond Market

Corporate Debt Trading Statistics

Year	Turnover (Rs Mn.)	No of Trades	No of Debentures Traded (Mn.)
2000	425	1,701	25.1
2005	207	625	2.2
2010	72	92	0.7
2011	2,691	62	25.9
2012	76	39	0.7
2013	2,229	173	20.0
2014	7,140	401	56.9
2015	4,714	220	42.2
2016	2,932	291	28.3
2017	3,593	529	35.7
2018	4,541	293	44.0
2019	5,677	234	55.6
2020	5,856	243	54.2

Corporate Bond Market

Objectives

- Increase market size
- Increase market liquidity

Strategies

Short term

- Increase institutional investor participation in the listed corporate debt market
- Promote issuances by a broader spectrum of industries
- Introduce repos on listed corporate debt
- Lower transaction costs

Unit Trusts

Key Data on Unit Trusts in Sri Lanka as at December 31, 2020

Year	Net Asset Value (NAV) (Rs. Mn.)	Growth in NAV (%)	No. of Unit Holders	Growth in Unit Holders (%)	No. of Unit Trusts	No. of UTMCS
2005	4,495		23,654		13	6
2006	5,352	19.1	23,417	-1	13	5
2007	6,296	17.6	23,191	-1	14	5
2008	6,780	7.7	22,685	-2.2	17	5
2009	9,952	46.8	23,117	1.9	18	5
2010	22,228	123.4	24,649	6.6	21	5
2011	24,059	8.2	26,636	8.1	33	6
2012	31,062	29.1	27,952	4.9	48	11
2013	54,304	74.8	29,648	6.1	62	11
2014	1,27,356	134.5	32,619	10	74	14
2015	1,28,850	1.2	37,526	15	72	14
2016	1,03,469	(19.7)	41,191	9.8	75	14
2017	1,27,597	23.3	40,897	(0.7)	74	14
2018	64,225	(49.7)	42,093	2.9	69	14
2019	1,04,790	63.2	46,481	10.4	66	14
2020	2,00,918	91.7	51,606	11.0	64	15
Average Annual Growth Rate (%)		38.1		5.5		33

Unit Trusts

- Distribution of Unit Trust Subscribers as at December 31, 2020

No. of Subscribers	No. of Funds	Cumulative No. of Funds	Cumulative % of Funds
1 to 50	6	6	9
51 to 100	25	31	48
101 to 200	6	37	58
201 to 500	11	48	75
501 to 1,000	8	56	88
1,001 to 2,000	5	61	95
2,001 to 5,000	0	61	95
5,001 to 10,000	1	62	97
10,001 to 15,000	2	64	100

Unit Trusts

Objectives

- Increase investor participation
- Strengthen unit trust industry
- Broaden mutual fund products

Strategies

Short term

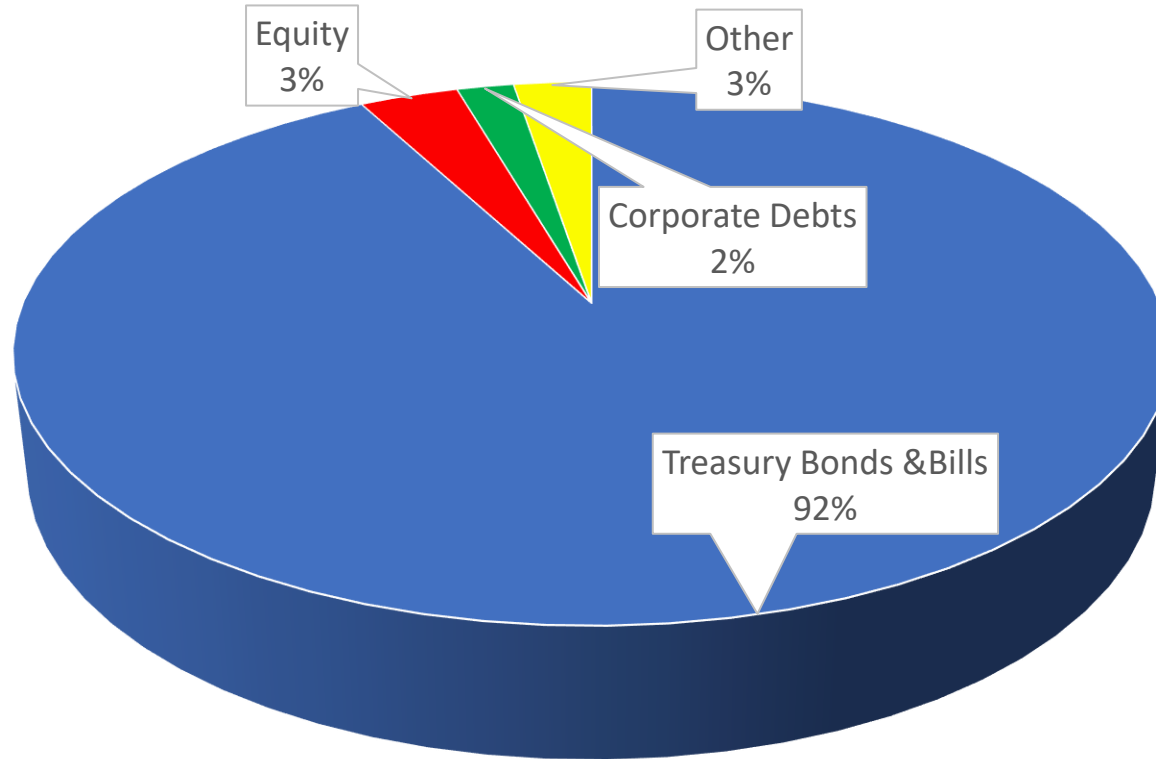
- Launch a broader investor education and marketing campaign
- Establish a wider distribution network

Medium term

- Industry consolidation
- Introduce new products such as closed-end funds, ETFs [exchange-traded funds] and REITs [real estate investment trusts]

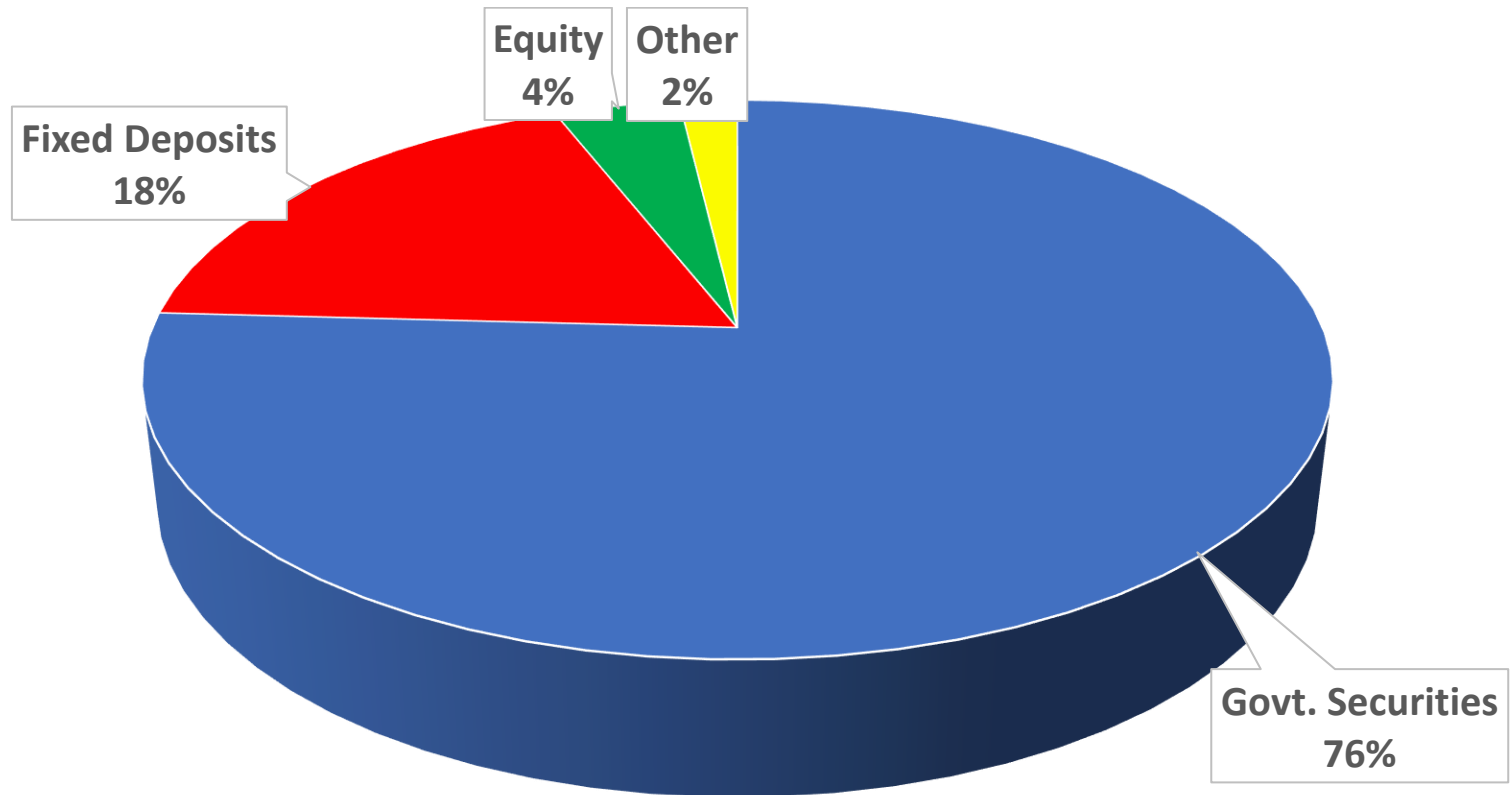
Pension Funds

Investment Portfolio of EPF



■ Treasury Bonds & Bills ■ Equity ■ Corporate Debts ■ Other

Investment Portfolio of ETF



■ Govt. Securities ■ Fixed Deposits ■ Equity ■ Other

Performance of EPF & ETF

Item	EPF		ETF	
	2019 (a)	2020 (b)	2019 (a)	2020 (b)
Total Assets (Rs. bn)	2,540.4	2,824.3	343.3	380.4
Total Member Balance (Rs. bn)	2,497.6	2,767.8	339.2	347.6
Number of Member Accounts (mn)	19.4	19.4	15.3	15.9
Number of Active Member Accounts (mn)	2.9	2.0	2.6	2.5
Number of Employers Contributing	94,171	70,552	82,375	75,756
Total Contributions (Rs. bn)	157.2	150.7	27.5	27.0
Total Refunds (Rs. bn)	126.3	109.7	19.8	18.6
Total Investments Portfolio (Rs. bn)	2,548.7	2,829.5	335.2	358.4
o/w : Government Securities (%)	93.8	93.4	77.7	81.0
Gross Income (Rs. bn)	259.3	285.6	32.1	34.5
Profit Available for Distribution (Rs. bn)	223.0	245.1	25.5	27.8
Return on Investments (%)	10.7	10.6	9.1	8.8
Interest Rate Paid on Member Balances (%)	9.3	9.0	8.0	8.0
(a) Revised (b) Provisional	Sources: Central Bank of Sri Lanka Employees' Trust Fund Board			

Pension Funds

Objectives

- Enhance risk and returns to subscribers through diversified portfolios
- Strengthen professional fund management capacity

Strategies

Short term

- Policy framework for gradual portfolio diversification
- Build technical and ICT capacity via training and investment

Medium term

- Enable subscriber choice for asset allocation
- Strengthen fund management

Derivatives Markets

Objectives

- Establish regulatory, trading, settlement and clearing **regulations and infrastructure** to enable introduction of financial derivatives
- Enhance **institutional and professional knowledge and competency** for investing, trading and dealing in financial derivatives

Strategies

Short term

- Enable financial derivatives (futures and options on stocks and bonds) through the new SEC Act
- Build trading, clearing and settlement systems

Medium term

- Assess feasibility and prepare a roadmap for introducing derivatives
- Draft derivatives regulation
- Introduce education, training and licensing on financial derivatives

Education, Training and Licensing

Objectives

- Enhance professional knowledge and skills
- Build investor confidence and trust
- Safeguard investor interests

Strategies

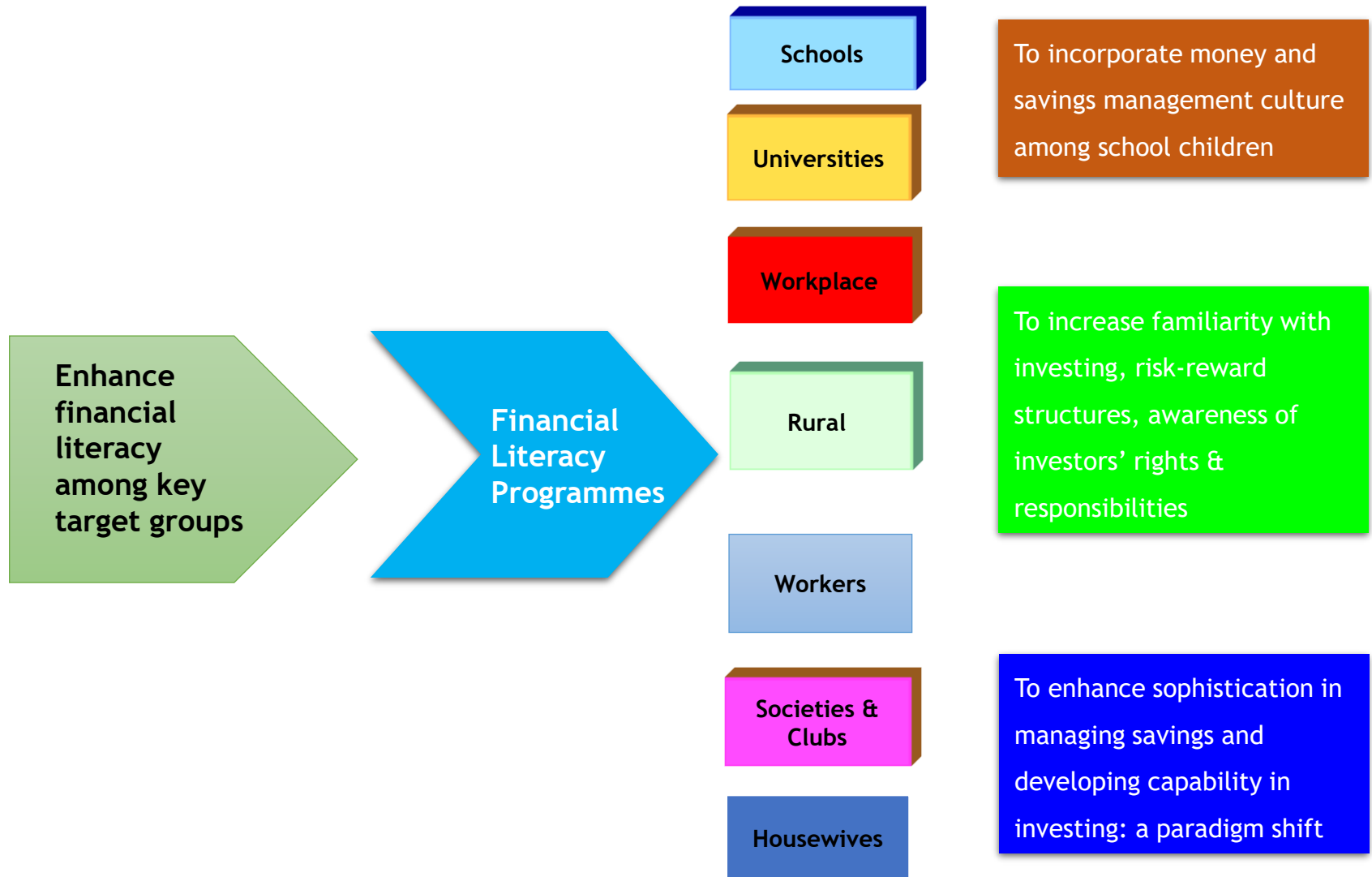
Short term

- Develop a multi-layered capital market training and licensing framework to accommodate all asset classes

Medium term

- Develop a comprehensive set of training resources covering all asset classes

Public Awareness & Investor Education



Some research problems/areas for Capital Market Research Agenda

(Based on the above discussion)

- How to strengthen the brokerage industry competitiveness and financial stability?
- How to enhance primary market competition for Government Securities?
- How to increase market size and liquidity in the corporate bond market?
- Whether we can increase investor participation in Unit Trusts and how?
- How to strengthen professional fund management capacity?
- How to enhance institutional and professional knowledge and competency for investing, trading and dealing in financial derivatives?
- How to build investor confidence and trust?