

## [A](#)

### **All or None Board**

A separate All or None Board has been created in the Colombo Stock Exchange (CSE) in order to give sellers of large parcels of shares an opportunity of obtaining a better price. The minimum value of a trade should be Rs. 10 million and the parcel is subject to a bidding process up to a maximum of 3 days.

### **All Share Price Index (ASPI)**

The value-weighted price index, which incorporates all the voting ordinary shares listed on the Colombo Stock Exchange (CSE). The base year is 1985, and the base value of the index is 100. This is the broadest and the longest measure of the level of the Sri Lankan stock market.

### **Ask**

The price a seller is willing to accept for a security, also known as the offer price. Along with the price, the ask quote will generally also stipulate the quantity of the security to be sold at that price.

### **Automated Trading System (ATS)**

The Automated Trading System (ATS) is an online, real time system which is efficient, fault tolerant and transparent, and provides for the secondary trading of equity.

The ATS provides;

- High speed execution of transactions
- Order matching on Price - Time priority
- Information of price and volumes of securities being traded
- Online reporting of trades being executed & price indices
- Corporate announcements
- Information on status of pending orders
- Information on Client Holdings

## [B](#)

### **Beta**

A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is used in the Capital Asset Pricing Model (CAPM), a model that calculates the expected return of an asset based on its beta and expected market returns. It is also known as "beta coefficient".

A beta of 1 indicates that the security's price will move with the market. A beta of less than 1 means that the security will be less volatile than the market. A beta of greater than 1 indicates that the security's price will be more volatile than the market.

## **Bid**

An offer made by an investor, a trader or a dealer to buy a security. The bid will stipulate both the price at which the buyer is willing to purchase the security and the quantity to be purchased.

## **Block Transactions**

The Colombo Stock Exchange (CSE) provides special procedures for Block Transactions, to facilitate the processing of large blocks of securities without causing a substantial effect on price. There are two types of Block Transactions:

1. Crossings.
2. All or None Blocks.

Block trades, as they are already negotiated trades, must be entered with the contra broker IDs. Until both sides of the order with corresponding contra brokers have been entered, the block trade is deemed inactive.

## **Book Building**

Book Building is essentially a process used by companies raising capital through Public Offerings, to aid price and demand discovery. It is a mechanism where, during the period for which the book for the offer is open, the bids are collected from investors at various prices, which are within the price band specified by the issuer. The process is directed towards both the institutional as well as the retail investors. The issue price is determined after the bid closure based on the demand generated in the process.

## **Book Value (BV)**

The Book Value is the ordinary shareholders' equity or the net worth of the firm. Book Value per share is the net worth divided by the number of common shares.

## **C**

### **Capitalization of Reserves**

Capitalization of Reserves, also known as a bonus issue and / or stock dividend, is the issue of shares by the company to its existing shareholders by capitalizing its revenue reserves. Shareholders receive shares free of charge in proportion to their ownership. Capitalization of reserves issues increase the number of shares outstanding without changing shareholders' equity.

### **Central Depository System (CDS)**

A wholly owned subsidiary of the Colombo Stock Exchange (CSE), the Central Depository System (Pvt) Ltd (CDS) is the depository for all listed securities in Sri Lanka. It provides a safe keeping facility and an electronic record of all listed securities that are dematerialized.

### **Closed-End Fund**

A unit trust fund which after the initial offer period does not, unless otherwise approved by the Securities and Exchange Commission of Sri Lanka (SEC), issue new units or redeem units in issue until the liquidation of such fund. These Funds can be listed and traded like a share on a Stock Exchange.

## **Closing Price**

The Volume Weighted Average Price (VWAP) for every trading day is the official Closing Price for each security.

## **Colombo Stock Exchange (CSE)**

The Colombo Stock Exchange (CSE) is the organization responsible for the operation of the Stock Market in Sri Lanka. The CSE is a company limited by guarantee duly incorporated in Sri Lanka and is licensed by the Securities and Exchange Commission of Sri Lanka (SEC) to operate as a stock exchange in Sri Lanka.

## **Companies Act**

Means the Companies Act No. 7 of 2007 and any amendment thereto

## **Compliance Officer**

An independent person appointed by a Member Firm who could ensure strict compliance of all CSE's rules and regulations in an effective and efficient manner. He/she is employed in a senior managerial level and reports directly to the Chief Executive Officer of the Member Firm and has to file a monthly report with the CSE according to the specified guidelines. The reports of the Compliance Officer should be open for inspection by both the CSE and SEC.

## **Convertible Debenture**

A Convertible Debenture is a debt instrument that can be converted into stock at the option of the holder or the issuer. Instead of receiving payment, the buyer of the debenture can chose to take shares in the company.

## **Corporate Bond**

A corporate bond is a long-term debt security issued by a company, with a fixed periodic interest rate and a maturity of more than one year.

## **Crossings**

A Crossing is a block of shares traded, that is more than 5% of the issued number of shares of the security or has a value greater than Rs. 20 million.

## **D**

## **Debentures**

Corporate bonds that are not secured by specific assets are called unsecured bonds or debentures. They are backed only by the general credit worthiness of the issuer.

## **Debt Securities Trading System (DEX)**

An electronic trading system for the secondary trading in Corporate Debt Securities and beneficial interest of Government Treasury Bills and Bonds at the Colombo Stock Exchange since 2004.

## **Dematerialization**

Dematerialization is the process by which physical certificates are replaced by electronic book keeping. Listed securities could be either held in a physical scrip form or in a dematerialized electronic form in the CDS. However, with the introduction of the Central Depository System in 1991, it is mandatory for securities to be in DEMAT form to be traded in the secondary market. Actual share/debenture certificates are slowly being removed and retired from circulation in exchange for electronic recording.

## **Demutualization**

A demutualization of an organization involves the conversion of the organization from a not-for-profit member owned organization to a for-profit shareholder owned corporation.

## **Derivatives**

Derivatives are securities, which derive their value from an underlying security. The underlying security may represent stocks, bonds, foreign exchange, commodities etc. Derivatives are used to hedge against risk in investment positions or to speculate on the future value of the underlying asset so as to earn a profit if the value of the underlying assets moves in the predicted direction.

## **Diversification**

A risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio. Diversification strives to smooth out unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. Therefore, the benefits of diversification will hold only if the securities in the portfolio are not perfectly correlated.

## **Dividend Per Share (DPS)**

The Dividend Per Share is the total dividends to ordinary shareholders during a specific period divided by the number of ordinary shares outstanding.

## **Dividend Yield (DY)**

Dividend Yield indicates the ability to generate dividend income as a percentage of the investment. This is calculated as Dividend Per Share divided by the market price of the share.

## **Dividends**

Dividends are payments made by a company to its shareholders. Dividend payments are proposed by company directors. Payments on preference shares are usually a fixed amount. However, for ordinary shares, the dividend can vary with the financial performance of the company. Therefore, if a company has not had profits or has had low profits, dividends could be withheld from ordinary shareholders.

## **E**

### **Earnings Per Share (EPS)**

The Earnings Per Share is the net income available for distribution to ordinary shareholders divided by the number of ordinary shares outstanding.

### **Entity**

This could be:

- A public company incorporated under the Companies Act or any other previous Companies Acts
- A company incorporated outside Sri Lanka
- A corporate body incorporated under a statute

### **Equity**

A share or any other security representing an ownership interest is collectively known as equity. On a company's balance sheet, the amount of the funds contributed by the owners (the stockholders) plus the retained earnings (or losses) is known as equity. Also referred to as "shareholders' equity".

### **Ex-Capitalization Period ("XC")**

The period from the Market Day after the date of allotment until the date of completion of deposit to the respective shareholders' CDS Accounts is known as the Ex-Capitalization Period. Ex-Capitalization is indicated by the letters "XC" in the stock tables.

### **Ex-Dividend Date ("XD")**

The date on or after which a security is traded without a previously declared dividend. After the ex-date, a stock is said to trade ex-dividend. This is the date on which the seller, and not the buyer, of a stock will be entitled to a recently announced dividend. When shares go ex-dividend, the stock tables include the symbol "XD".

### **Ex-Rights Period ("XR")**

The period from the Market Day after the date of provisional allotment until the last date of acceptance and payment for Rights is known as Ex-Rights Period. Ex-Rights Period is indicated by the letters "XR" in the stock tables.

## **F**

### **Fairly Valued**

If the prevailing Market Value is equal to Intrinsic Value, then the share is Fairly Valued. An investor paying the current Market Value can expect to earn a rate of return that is equal to the required rate of return for that share.

## I

### **Impact Cost**

Impact cost can be defined as the percentage change between the average execution price and ideal price (average of best buy and best sell). It tells us how much extra we have to pay if the market is not perfectly liquid.

The lower the cost, the higher the liquidity and vice-versa. It shows the rise/fall in the stock price (in percent) against buying/selling the desired quantity of the security compared to its ideal price. Impact cost can be calculated for both the buyers' side and sellers' side. In a perfect market, impact cost for any quantity, should be close to 0.

### **Initial Public Offering (IPO)**

The first sale of shares by a private company to the public. IPOs are often issued, seeking capital to expand, but can also be done by large privately owned companies looking to become publicly traded. In an IPO, the issuer may obtain the assistance of an underwriting firm, which helps it determine what type of security to issue, best offer price and time to bring it to market. Also applicable to first sale of debentures and units of closed end funds. An IPO can either be an Offer for Sale or an Offer for Subscription.

### **Intrinsic Value**

The Intrinsic Value is the true or fundamental value of a security given expectations regarding its future cash flows. This value is not observed and has to be estimated using stock valuation methods. The Intrinsic Value represents the maximum price that the investor should pay to purchase a security. This may not necessarily be equal to the current market price.

### **Introduction**

An Introduction is the listing of the Securities of an Entity on the Exchange without the requirement of an Initial Public Offering (IPO).

### **Investment Banks**

The role of investment banks can vary depending on the arrangement between the issuer and the Underwriter. The services of the Investment Bank may include advisory as well as underwriting. They can advise the issuer on the characteristics of the issue, such as pricing and timing of the offering. They can also agree to undertake the selling of shares to investors on some basis. When the investment bank guarantees that the shares not subscribed for by the public will be taken by the investment bank, the issue is said to be an underwritten offering.

## L

### **Limit Order**

A limit order is an order that specifies a price limit. A limit buy order specifies the maximum buy price, and a limit sell order indicates the minimum selling price. The purpose of a limit buy order is to ensure that the price paid to buy a security does not exceed the maximum price the investor is willing to pay. Thus, a limit buy order provides protection to the buyer. Similarly, a limit sell order provides some protection to the seller in that the security will not be sold below the price which the investor has specified.

## **Liquidity**

The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets. In other words, the ability to convert an asset to cash quickly is also called "Liquidity". This is also known as "Marketability"

## **Listed Entity**

An Entity which has its Shares or Debt Securities listed on the Exchange. Also referred to as "Quoted Company."

## **M**

### **Managing Company**

Any company licensed by the SEC for the purpose of managing a Fund.

### **Margin Trading**

The purchase of stocks by borrowing a portion of the investment using stocks as collateral. In other words, margin trading is a leveraged transaction whereby the investor pays for the stock using investor's own money and funds borrowed from the broker. In Sri Lanka, Stockbrokers can provide a margin up to 50%.

### **Market Capitalization**

Market capitalization is calculated by multiplying a company's shares outstanding by the current market price of one share. This figure is used to determine a company's size, as opposed to sales or total asset figures. This is frequently referred to as "market cap".

Market Capitalization is also calculated for the whole market as the total market value of all voting ordinary shares of all listed companies which is the addition of market caps of all listed companies.

### **Market Day**

Any day on which the Exchange is open for trading.

### **Market Order**

A Market Order is an order to buy or sell a stock at the best current market price. A market buy order is an order to buy at the lowest ask price, and a market sell order is an order to sell at the highest bid price. The purpose of a market order is to get a trade executed immediately at the best market price.

### **Market Value**

The Market Value is the value determined by the consensus of market participants. The prices we observe in stock markets are market prices. They are a result of the interaction between the demand for and the supply of shares.

## **Milanka Price Index (MPI)**

The value-weighted price index, which incorporates only 25 selected stocks listed on the CSE. These stocks represent the largest and the most liquid 25 stocks. The base date is December 31, 1998, and the base index value is 1000. The constituent stocks in the index are revised bi-annually.

## **N**

### **Non-Voting Shares**

A non-voting share entitles a shareholder to all ordinary share rights except voting rights. These shares can be a proportion of the issued capital of a company.

### **Normal Lot**

An order for 100 Shares or its increments.

### **Number of Traded Companies**

The number of companies trading on the CSE on any market day.

### **Number of Trades**

The total number of transactions of a company's shares on the Stock Exchange on a particular day.

## **O**

### **Odd Lots**

An Odd Lot is an order for less than 100 shares. Odd lots are traded on a separate order book and do not affect Market Indices or the Volume Weighted Average Price (VWAP).

### **Offer for Sale**

An Offer for Sale is an invitation to the public by, or on behalf of holder(s) or allottee(s) to subscribe for its Securities already in issue.

### **Offer for Subscription**

An Offer for Subscription is an invitation to the public by or on behalf of an Entity to subscribe for its Securities.

### **Order**

The instruction, by a customer to a brokerage, for the purchase or sale of a security with specific conditions. There are several different types of orders, each offering different conditions.

### **Ordinary Shares**

An ordinary share represents the equity ownership of a company. This entitles the shareholder to a proportion of the company's profits, Capitalization of Reserves and Rights Issues. Other privileges include

receiving interim financial statements and annual reports, and participation at Annual General Meetings. However, ordinary shareholders are at greater risk in the event of liquidation, having the last call on the assets of the company, after all company liabilities have been met. Also known as “Common Shares”.

### **Overvalued Share**

If the Market Value is greater than the Intrinsic Value, the Share is overvalued. An Overvalued Share is a sell candidate if an investor already owns that share in the Portfolio and should not be bought if someone is evaluating it as a possible addition to the portfolio. It would not make sense to have Overvalued Shares in a Portfolio since such Shares are expected to earn a rate of return less than the required return.

## **P**

### **Parcel of Shares**

A fixed number of shares which are sold as a group and treated as a unit.

### **Portfolio**

A grouping of financial assets such as stocks, bonds and cash equivalents, as well as their mutual, exchange-traded and closed-end fund counterparts. Portfolios are held directly by investors and/or managed by financial professionals.

### **Preference Shares**

Preference Shares also represent ownership interest in a company. Preference shareholders do not have voting rights but have priority over ordinary shareholders in terms of payment of dividends. The dividend rate on preferred stocks is fixed. In the event of the liquidation of the company, preferred shareholders have priority in distribution of any surplus assets.

### **Present Value**

Present Value indicates today's value of a sum to be received in the future. This is the addition of a future stream of payments discounted at a given interest rate or required rate of return.

### **Price Band**

Price Bands are pre-specified upper and lower limits within which stock prices are allowed to fluctuate in a single day. The main purpose of price limits is to moderate excessive volatility that may result from market manipulation and excessive speculation. Price limits have the effect of reducing daily volatility, and spreading volatility over long periods of time.

### **Price Earnings Ratio (PER) or P/E multiple**

A valuation ratio of a company's current share price divided by its Earnings Per Share (EPS). EPS is usually from the last four quarters (trailing P/E), but sometimes it can be taken from the estimates of earnings expected in the next four quarters (projected or forward P/E). A third variation uses the sum of the last two actual quarters and the estimates of the next two quarters.

In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. It's usually more useful to compare the P/E ratios of one company to other companies in the same industry, to the market in general or against the company's own historical P/E.

The P/E is sometimes referred to as the "multiple", because it shows how much investors are willing to pay per unit of earnings.

### **Price to Book Value (PBV)**

A ratio used to compare a stock's market value to its Book Value. It is calculated by dividing the current share price by the book value per share. A lower PBV ratio could mean that the stock is undervalued. However, it could also mean that something is fundamentally wrong with the company. As with most ratios, this varies by industry.

### **Primary Market**

The market for the issue of new securities by companies or governments to investors to raise funds. In the Primary Market, the securities are purchased directly from the issuer. The Primary Market serves to channel funds from savers to borrowers. This activity is facilitated by financial intermediaries, such as brokers and investment banks.

### **Private Placement**

The sale of securities directly to an institutional investor, such as a bank, unit trust, insurance company, pension fund, foundation or retail investor, without an Initial Public Offering (IPO). Usually, the securities are bought for investment purposes rather than resale.

### **Profit After Tax**

It is the net profit earned by the company after deducting all expenses such as interest, depreciation and tax. Profit After Tax can be fully retained by a company to be used in the business. However, Dividends are paid to the shareholders from this residue.

### **Prospectus**

A formal legal document which companies issue when conducting an Initial Public Offering and is required by and filed with the Stock Exchange. A prospectus should contain the facts that an investor needs to make an informed investment decision such as the details of the offer, the business activities of the company, its financial standing, future plans, its directors and management and for what purpose the company is raising capital.

Also known as an "Offer Document".

### **Public Holding**

Shares of a Listed Entity held by any person other than those directly or indirectly held by;

- Its parent, subsidiary or associate companies or any subsidiaries or associates of its parent company; and

- Its directors who are holding office as directors of the Entity, their spouses and children under 18 years of age; and
- Chief Executive Officer, his/her spouse and children under 18 years of age; and
- Any single shareholder who holds 10% or more of the shares

## R

### **Rating**

An evaluation of a corporate or municipal bond's relative safety from an investment standpoint. Basically, it scrutinizes the issuer's ability to repay principle and make interest payments. Bonds are rated by rating organizations and range from AAA or Aaa (the highest), to C or D, which represents a company that has already defaulted.

### **Rights Issues**

A Rights Issue is the issue of shares by the company to its existing shareholders at a price less than the current market price of the share. Each shareholder is given the option to purchase a number of shares in proportion to the number of shares already held by the shareholder.

The list of shareholders entitled to a Rights Issue is taken as of the Market Day before the XR date.

## S

### **Scrip Dividend**

A dividend paid as additional shares or stock rather than as cash.

### **Secondary Market**

The Secondary Markets are the markets in which previously issued securities are traded among investors. Stock and bond exchanges, are examples of secondary markets for securities. While securities are purchased directly from the issuer in the Primary Market, in the Secondary Market, investors purchase securities from other investors. The transactions among investors are generally carried out through an intermediary, such as a Stockbroker or dealer.

### **Sector Price Indices**

The listed companies of Colombo Stock Exchange (CSE) are divided into 20 sectors and a price index for each sector is calculated on a daily basis. Each index indicates the direction of the price movement of the sector.

### **Secured Debentures**

Corporate Bonds that are secured by a legal claim on some specific physical assets of the issuing company.

### **Securities**

Refers to debentures, stocks, shares, funds, bonds or notes issued or to be issued by any Government or of any body, whether corporate or unincorporated, including any rights, options or interests (whether

described as units or otherwise), but does not include bills of exchange or promissory notes or certificate of deposits issued by a bank.

### **Securities and Exchange Commission of Sri Lanka (SEC)**

The Securities and Exchange Commission of Sri Lanka (SEC) was established in pursuance of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 as amended by Act No. 26 of 1991 and Act No. 18 of 2003.

The Commission's objectives include:

- the creation and maintenance of a market in which securities can be issued and traded in an orderly and fair manner;
- the protection of the interest of investors;
- the operation of a Compensation Fund to protect investors from financial loss arising as a result of any licensed stock broker or licensed stock dealer being found incapable of meeting his contractual obligations; and
- the regulation of the securities market and to ensure that professional standards are maintained in such market.

### **Share**

A unit of ownership interest in a company or financial asset. While owning shares in a business does not mean that the shareholder has direct control over the business's day-to-day operations, being a shareholder does entitle the possessor to an equal distribution in any profits, if any are declared in the form of Dividends.

### **Share Allotment**

The process of allocating shares between shareholders, usually pro rata or according to some prior agreement, in an initial public offering.

### **Share Transaction Levy**

A government levy on share transactions taking place in the Colombo Stock Exchange. The current rate applicable is 0.2% on the seller on the disposal value of the shares and 0.2% on the buyer on the purchase value of the shares.

### **Share Warrant**

A Share Warrant is like an option. It gives the holder the right but not the obligation to buy shares at a certain price, quantity and future time. A Share Warrant is issued by a company, and trades as an instrument of the Stock Exchange.

### **Stated Capital**

Stated Capital in relation to a company means the total of all amounts received by the company or due and payable to the company in respect of the issue of shares and calls on shares.

## **Stock**

Please refer “Share”.

## **Stock Market**

The market in which shares are issued and traded either through exchanges or over-the-counter markets. Also known as the equity market, it is one of the most vital areas of a market economy as it provides companies with access to capital and investors with a slice of ownership in the company and the potential of gains based on the company's future performance.

## **Stockbroker**

A stockbroker is a firm that acts as an intermediary for stock market transactions, offering investors a variety of services in addition to investment advice and executing buy and sell orders of investors. The Stockbrokers' fee is the brokerage. Stockbroker firms that operate on CSE are generally known as Member Firms and Trading Member Firms.

## **Sub division of shares**

Sub division of shares is where a company subdivides its outstanding shares so as to increase the number of shares. For example, in a 1-for-1 split, each shareholder receives an additional share for each share he or she holds. The company does not receive any funds, and hence, there is no change in the value of the firm. Since the firm has more shares now, the price per share will decline to reflect this.

## **T**

## **Tick Size**

The tick size of a trading instrument is its minimum price movement; in other words, it is the minimum increment by which prices can change. Presently, the tick size at CSE is 10 cents.

## **Total Return Indices (TRI)**

The Total Return Indices reflect returns due to both price changes and dividend income. In computing the TRI, it is assumed that dividends earned from a share are re-invested in the market.

The ASPI computed on total returns is known as ASTRI and the MPI computed on total returns is known as MTRI. TRI values are also calculated for the 20 Sector Indices.

## **Trading Halt**

A temporary suspension in the trading of a particular security on an exchange, usually in anticipation of a news announcement/clarification or to disseminate a news announcement/clarification. Trading in the security will resume as soon as the announcement/clarification from the company is disseminated to the market.

## **Treasury Bills (T-Bills)**

Treasury bills are short-term securities issued by the government. They are issued on a discount basis and in three maturities: 3-month (91-day), six-month (182-day) and 12-month (364-day) bills. These are issued to

the public through a weekly auction conducted by the Department of Public Debt of the Central Bank of Sri Lanka on behalf of the Treasury.

### **Treasury Bonds (T-Bonds)**

Treasury bonds are long-term government debt securities. They can be issued with any maturity greater than one-year. The Sri Lankan government has issued bonds with 2, 3, 4, 5, 6, 10, 15 and 20-year maturities. These are also sold to the public through a competitive auction held by the Department of Public Debt of the Central Bank of Sri Lanka on behalf of the Treasury.

## **U**

### **Undervalued Share**

If the Market Value is less than the Intrinsic Value, then the share is undervalued. An Undervalued Share is considered a good candidate for purchase or a good buy, and an investor can expect to earn a rate of return in excess of the required rate of return.

### **Unrealized Profit or Loss**

A profit or loss that results from holding on to an asset rather than cashing it in and using the funds.

### **Unsecured Debentures**

Corporate Bonds that are not secured by any specific physical assets of the issuing company. They are backed only by the general credit worthiness of the issuer.

## **V**

### **Value of Turnover**

Value of turnover of any market day consists of the total value of shares traded on that date. The turnover of each company is determined by summing up the value of each transaction.

### **Volume of Turnover**

The volume of turnover is the total number of securities traded on a market day. Both equities and debentures contribute to turnover.

### **Volume Weighted Average Price (VWAP)**

The VWAP is arrived at by dividing the total value traded during the period by the total volume of shares traded during the same period of every traded security. The CSE publishes the volume weighted average price (VWAP) based on trades executed during the last one hour of trading. The VWAP is taken as the Closing Price for each security at the end of each trading day.