

NEWS ROUND UP

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Finance Act amendments presented to House

Aiming to regularise vehicle imports in identified categories and adjust several levies, the Government yesterday moved an amendment to the Finance Act in Parliament.

Minister of Lands and Parliamentary Reforms and Chief Government Whip Gayantha Karunatileka moved the motion.

The Bill will amend the Finance Act No. 25 of 2003, the Finance Act No. 5 of 2005, the Finance Act No. 12 of 2012, the Finance Act No. 16 of 1995 and the Finance Act No. 10 of 2015; and provide for the imposition of the Luxury Tax on Motor Vehicles, Vehicle Entitlement Levy, Annual Company Registration Levy, Debt Repayment Levy, Carbon Tax, Cellular Tower Levy and Mobile Short Message Service Levy.
(AH)
(DailyFt)

Rupee hits record low for 11th session

The rupee fell to an all-time low on Tuesday, marking its 11th straight session of setting fresh record lows.

The rupee, which hit a record low of 161.97 early in the trade, closed at 161.95/162.05 per dollar, compared with Monday's close of 161.60/70.

The currency surpassed its earlier record of 161.65 hit in the previous session.

"There was (dollar) demand from local and foreign banks. We saw some oil and gas import bills," a dealer said, requesting anonymity.

"The depreciation pressure remains as exporters are waiting to see the bottom in the rupee fall."

The rupee will be under depreciation pressure with the year-end seasonal importer dollar demand, dealers said.

Absence of dollar conversions by exporters and outflows from equities and government securities also pushed the rupee lower, analysts have said.

Exporters are holding on to dollars as they expect the local currency to decline further, dealers said.

The Sri Lankan currency is also hurt by weakness in the Indian rupee. India is Sri Lanka's biggest trading partner and the Indian rupee, which also hit a record low on Tuesday, has been one of the worst performers in Asia this year.

Foreign investors bought government securities worth a net Rs. 578.3 million (\$ 3.58 million) in the week ended 29 August, marking the first week of net buying since April. However, they have net sold Rs. 46.9 billion worth securities so far this year, Central Bank data showed.

Govt. won't intervene

in forex market: Eran

Reuters: Sri Lanka will leave the level of its rupee currency to market forces to decide and the Government will not intervene in the foreign exchange market, junior Finance Minister Eran Wickremaratne told Reuters yesterday.

“We will not intervene,” he said. “We have left it to the market. We will just do the right policy and let it sort itself. Never panic about it.”

The currency fell to an all-time low of 161.97 versus the US dollar yesterday, in its 11th straight session of fresh record lows. The rupee, which weakened 1.2% last month, has dropped 5.5% this year. (DailyFt)

Shares hit over 3-week closing high in lean trade

Shares rose for a fifth straight session on Tuesday and marked their highest close in more than three weeks, led by gains in banking and beverage stocks.

However, trading volume was low as investors stayed on the sidelines for want of fresh triggers. The day’s turnover stood at Rs. 181.9 million (\$ 1.12 million), the lowest since 3 August and less than a fifth of this year’s daily average.

The Colombo stock index ended 0.6% higher at 6,128, its highest close since 13 August. It had gained 0.4% last week, its second straight weekly gain.

The index, however, was down 1.1% in August, having hit its lowest close since March 2017 on last Tuesday. The Bourse is down 3.8% so far this year.

“Most investors are awaiting proper direction on economy and taxes,” said Dimantha Mathew, head of research at broker First Capital Holdings.

“The main concern is that foreign selling is still continuing and we don’t think this uptrend can continue for long.”

Foreign investors sold a net Rs. 31.3 million of shares on Tuesday, extending their net outflow so far this year to Rs. 4.2 billion worth of shares.

AIA Insurance Lanka Plc jumped 82%, with around 1,700 shares changing hand, due to a share buyback, dealers said.

Ceylon Tobacco Company Plc shares closed 2.5% firmer while Dialog Axiata Plc gained 0.8% and Hemas Holdings Plc ended 0.5% higher.

Sri Lankan companies posted an average 4% earnings growth in the June quarter from a year earlier, helped by financials, beverages, telecommunications and power and energy sectors, CT CLSA Securities Ltd. said in a research note. (DailyFt)

Roles of SMEs and sponsors on the Empower Board of CSE

The Colombo Stock Exchange (CSE) and the Securities and Exchange Commission of Sri Lanka (SEC) recently launched the “Empower Board,” a listing platform fostering capital raising and growth opportunities for Sri Lankan Small and Medium Enterprises (SMEs).

SMEs around the country now have at their disposal a range of new capital-raising methods, and entities listing on this platform will be offered guidance during the listing process by both the CSE and an independent sponsor.

SMEs listing on the Empower Board are therefore required to submit such applications through an independent sponsor registered with the CSE, a party defined as a company or individual with experience in investment banking or corporate finance, and in handling listing applications for issuers in

the past. Specifically, sponsors will be required to hold, at minimum, five years' of experience in the field of investment banking or corporate finance, out of which a year of experience is required to be in handling listing applications of issuers.

Sponsors are set to be pivotal to obtaining a listing on the Empower Board, in terms of offering SMEs direction, and the CSE is presently in the process of evaluating potential sponsors to be registered and endorsed by the exchange to facilitate listings on the Empower Board. The participants were offered a comprehensive perspective on the requirements to be a sponsor and the registration process. The CSE also invited individuals and companies interested in pursuing a registration as a sponsor for the Empower Board to participate at the event.

Giving an introduction to the Empower Board, the benefits of being a listed entity, and the role of sponsors in the Empower Board, CSE CEO Rajeeva Bandaranaike said, "The CSE presently gives the opportunity for large companies to be listed on the Main Board, and the second tier companies to be listed on the D'Iri Savi Board, but there is no forum for the SME sector to make use of the capital market. This is our aim with establishing the Empower Board. A listing board for SMEs is nothing new worldwide. The Empower Board is about empowering entrepreneurs, and the SME sector."

Benefits of listing on

the Empower Board

"SMEs presently have various ways of raising capital. Reaching out to venture capitalists, angel investors, and other choices. What we have done through the SME platform is to provide an alternate source for those SMEs to raise capital. The CSE is not here to compete with banks or other financial institutions but to complement their services," said Bandaranaike.

Highlighting the key benefits of a SME being listed on the Empower Board, Bandaranaike said, "One key benefit of the platform is the ability to raise capital. This would give them opportunity to convert some of their debt into equity. Secondly, it also provides an exit mechanism for private equity investors, and venture capitalists. Through that process, we find that the investors can attract a larger and better number of investors if the investors have an option of exiting."

The listing process can also be used as a valuation for the company. An entity may not raise any capital but may wish to discover a price for the shares of the company, and by listing the company, the market will place a valuation, or a market price per share.

"In addition to the key benefits, there is a whole range of intangible benefits that an SME can obtain by listing it on the market. For example, by being listed, you are exposed to a larger community, consisting of brokers, analysts, who will talk about your company. You can get better publicity and exposure. Being a listed company, adhering to minimum corporate governance standards, and rules, you will be able to find that the stature of the company is also enhanced so that there is better perception of the company among customers, suppliers, and stakeholders," he added.

Bandaranaike also noted that listing an entity on the Empower board can also help in enhancing marketing aspects, aligning shareholder, management, and employee interests, acquiring support on capital structuring, and when returning to the market to fund the next phase of growth.

Eligibility to list on

the Empower Board

CSE CEO Rajeeva Bandaranaike also pointed out the eligibility requirements for an SME to be listed on the Empower Board, highlighting the state of capital that should be possessed, and the amount of assets in possession of the entity, said, “The requirements are fundamentally different when compared to the requirements of the Main board and the Diri Savi board, because we have tailor-made it for SMEs. The primary requirement is that the state of capital should be between Rs. 25 million and Rs. 100 million. In the case of an Initial Public Offering (IPO), the state of capital should be a minimum amount of Rs. 10 million, but then you have to raise another Rs. 15 million to come up to the minimum of Rs. 25 million.”

“In terms of assets, total assets in possession by the SME at the time of applying to be listed should be below Rs. 600 million. There is also a requirement that the company should have positive net assets. In terms of duration of operations and financial statements, an operating history of two years is required and there’s a requirement that SMEs that want to be listed should have a minimum of one sponsor. This is for the simple reason because, SME companies may not have that knowledge and the skills to submit a listing application, go through an IPO process, and as an ongoing basis to comply and conform to all the rules of the CSE. A sponsor will guide, direct, and advise them with these aspects,” he elaborated.

“We don’t expect this board to be really liquid. There are some other general requirements too. In terms of a prospectus and an introductory document required for an IPO, a company can prepare the prospectus or the introductory document in a soft copy form. This should be made available on the websites of the company, the sponsor, and the CSE.”

In terms of other requirements, financial statements, there is no requirement for a quarterly financial statement to be presented, only a half yearly statement, but the company should submit a supplementary disclosure statement for the first and third quarters. The supplementary disclosure document will give the health of the company. In terms of the annual report, this can be submitted in a soft copy format. Fairly easy conditions have been put in place for the SME board.

A listing entity should also contain an audit committee, a remuneration committee, and a related party transactions review committee, or a single committee that carries out all these tasks. The chairman of this committee should be a member of a recognised accounting body.

An unmodified audit opinion for the financial year, immediately preceding the date of the initial listing application, or an audit opinion which does not contain emphasis of matter on “going concern”, as set out in the independent auditor’s report of the audited financial statements obtained in the annual report of the company, should be submitted.

The cost of listing

The initial listing fee for the Empower Board will be Rs. 75,000, with an annual listing fee of 0.003% of the market capitalisation of the ousted entity as at 31 December of the year immediately preceding. The CSE may waive the annual listing fee payable by a company on the board in respect of the year immediately after the initial listing. As per the Ceylon Depository System (CDS) clearing fees, an annual payment at the rate of Rs. 15 per transaction, subject to a minimum of Rs. 25,000 and a maximum of Rs. 750,000 per annum has to be made. CSE CEO Bandaranaike also gave a presentation on the requirements to be a sponsor on the Empower Board, highlighting that a corporate body or an individual can be a sponsor on the board with ease.

The role of sponsors

in the Empower Board

As the Empower Board is a living platform, fostering capital raising and growth opportunities for Sri Lankan SMEs, sponsors are set to be pivotal to obtaining a listing on the board in terms of offering SMEs

direction. The CSE is responsible for the appointment of corporates or individuals as sponsors to facilitate listings on the Empower Board.

The role of a sponsor will involve advertising, guiding, and assisting the SMEs in relation to both listing activities and post-listing activities. Bandaranaike also noted that the sponsor is expected to engage the SME for a period of two years at minimum, essentially until the release of the second annual report of the entity upon listing on the Empower Board. The sponsor will also be able to charge the listing entity a professional fee for initial and post-listing services provided, upon agreeing the specific scope of services with the entity.

“The sponsors will be obliged to assess the sustainability of the applicant company seeking a listing, guide the entity and its directors regarding their initial and continuous listing obligations and ensure compliance, ensure that the initial listing application and relevant documents are prepared in conformity with regulatory requirements and are submitted in a timely manner, perform duties independently without conflicts of interests with the entities sponsored, and liaise with the CSE on matters regarding the obligations of the sponsor and other relevant matters. The sponsors are also obliged to submit accurate, and credible information to the CSE at all times and make updated documentations available,” he elaborated.

Both corporate bodies and individuals are eligible to be appointed as Empower Board sponsors. “If you are a corporate body, it must be incorporated in Sri Lanka. The body must also include at least one staff member with a minimum of five years’ experience in investment banking / corporate finance out of which one year experience should be in handling listing applications or capital raising services. The directors or key management personnel of the said corporate body should not have been declared bankrupt and/or convicted of fraud, misappropriation or breach of trust or any other similar offences which the CSE considers as grounds for disqualification. The corporate body must also hold adequate facilities, equipment, appropriate systems, and controls in place to deliver sponsor obligations,” he added.

Elaborating on the requirements for an individual to be eligible as a sponsor on the Empower Board, the CSE CEO said, “If you are an individual, you must be a resident of Sri Lanka to be eligible to be considered as a sponsor on the Empower Board. The individual must also possess a minimum of five years’ experience in investment banking / corporate finance out of which he/she must have a year of experience in handling listing application of issuers. The persons in need of being appointed as an Empower Board sponsor also should not have been declared bankrupt and/or convicted of fraud, misappropriation or breach of trust or any other similar offences. The individual must also hold adequate facilities to deliver sponsor obligations.” (DailyFt)

Bond market activity picks up as yields edge up ahead of weekly auction

Activity in the secondary bond market picked up yesterday as yields were seen increasing marginally on the back of local and foreign selling interest.

The yields of the maturities 2021’s (i.e. 01.03.21, 01.05.21, 01.08.21, 15.10.21 and 15.12.21), 01.10.22, 15.07.23 and 01.08.24 were seen increasing to intraday highs of 9.50% each, 9.56%, 9.60%, 9.65%, 9.85%, 9.95% and 10.15% respectively against its previous day’s 9.47/50, 9.48/52, 9.52/58, 9.58/63, 9.60/65, 9.80/84, 9.90/93 and 10.00/02. Furthermore, a limited amount of activity was witnessed on the 2019’s (i.e. 15.01.19, 01.07.19 and 15.09.19) and 01.06.26 at levels of 8.52%, 8.97% to 8.98%, 9.00% and 10.12%.

At today’s weekly bill auction, a total amount of Rs. 11 billion will be on offer consisting of Rs. 4 billion on the 91 day and Rs. 7 billion of the 364 day maturities. At last week’s auction, the weighted average

yields on the 91 day and 364 day maturities decreased by six and one basis points respectively to 8.03% and 8.99%. The 182 day bill was not on offer.

The total secondary market Treasury bond/bill transacted volumes for 3 September 2018 was Rs. 1.00 billion.

The net surplus in the money market was seen dipping to a one-and-a-half-month low of Rs. 4.98 billion yesterday as the Open Market Operations (OMO) Department of Central Bank refrained from conducting any auctions. The overnight call money and repo rates averaged 7.89% and 8.00% respectively.

Rupee depreciates

to new low

The USD/LKR rate on spot contracts was seen depreciating further yesterday to close the day at a new low of Rs. 161.95/00 against its previous day's closing of Rs. 161.65/70 on the back of continued importer demand and foreign selling in rupee bonds.

The total USD/LKR traded volume for 3 September was \$ 74.27 million.

Some of the forward USD/LKR rates that prevailed in the market were one month - 162.75/95; three months - 164.25/55 and six months - 166.70/00.
(DailyFt)

ADB unveils first scorecard to boost access to trade finance

The Asian Development Bank (ADB) yesterday launched the Trade Finance Scorecard – Regulation and Market Feedback, a new tool to address market gaps stemming from the unintended consequences of global measures to fight money-laundering and terrorism.

“Preventing criminals and terrorists from exploiting the global financial system is critically important,” said ADB’s Head of Trade and Supply Chain Finance Steven Beck. “But these regulations can also undermine jobs and growth at small businesses and developing countries. This new scorecard will open a channel of dialogue among stakeholders to help prevent crime and terrorism while financing growth and job creation.”

Creating, implementing, and complying with global measures to prevent financial illegal activity is challenging. While bankers can relatively easily determine that a large company isn’t involved in crime, getting the same assurances from small and medium-sized businesses and companies in developing countries can be difficult and costly. This contributes a \$1.5 trillion global market gap for trade finance, according to ADB’s 2017 Trade Finance Gaps, Growth, and Jobs Survey. Bankers surveyed for the study identified unintended consequences of measures to stop criminals abusing the financial system as a key impediment to closing gaps. Accordingly, the Trade Finance Scorecard focuses on issues related to the interpretation, implementation, and compliance with regulations designed to curb money laundering and the financing of terrorism in the context of correspondent banking and trade financing.

Scores are assigned on two levels. Firstly, at a macro level, to identify characteristics of effective regulation that could be strengthened. Secondly, at a micro transactional level, to highlight specific challenges that can be addressed in the shorter term. Elements of effective regulation outlined in the first level are scored out of 10 on seven criteria: consistency (4), risk alignment (3), design (2), stakeholder communication (5), technology and data (5), enforcement (4), and quality control (3). These criteria are used to assess five working-level issues in the second level.

The scorecard is based on feedback from industry leaders and regulators and will complement existing tools such as the Financial Action Task Force's recommendations against money laundering and terrorist financing.

"The scores are illustrative and directional," said Beck. "We need better ways of addressing these issues, and we see the scorecard as the start of a process of engagement on this difficult subject."

ADB's Trade Finance Program (TFP) closes market gaps by providing guarantees and loans to over 200 partner banks to support trade, helping companies across Asia to engage in import and export activities. In 2017, TFP supported \$4.5 billion in trade through 3,505 transactions. Its financial support is complemented by regular workshops and seminars to increase knowledge and expertise in trade finance products, anti-money laundering, and risk management.

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 67 members—48 from the region. In 2017, ADB operations totalled \$32.2 billion, including \$11.9 billion in cofinancing.

(DailyFt)

Asian Stocks Drop Amid EM Turmoil; Dollar Declines: Markets Wrap

Asian stocks fell as continued pressure in many emerging markets intensified and trade tensions persisted. The yen and dollar slipped.

Equities declined from Japan to Australia, with the steepest slide in the Philippines and Indonesia. The dollar pared earlier gains on the back of robust U.S. economic data, while U.S. Treasury yields hovered around 2.90 percent. Emerging-market currencies stabilized around the lowest in more than year. The Australian dollar jumped after second-quarter economic growth beat expectations.

Investors remain cautious as turmoil in developing nations grips traders' attention, with many pondering whether the troubles will spill into developed markets. Inflation in the Philippines exceeded 6 percent for the first time in nine years in August, joining Turkey as another emerging market with soaring prices.

"I think it has to get a lot worse before it gets better," Kay Van-Petersen, global macro strategist at Saxo Capital Markets in Singapore, told Bloomberg Television. "When you get full contagion everything gets thrown out and I don't think we are there yet. Before people talk about structurally buying EM you need to get some kind of comfort on the end of U.S. dollar strength and the end of the Fed tightening and I still think that plays out for a lot longer."

Investors Are Really Focusing on Fundamentals, Says Abbot Downing's Schleif

Carol Schleif, deputy chief investment officer at Abbot Downing, discusses markets.

Source: Bloomberg

Elsewhere, the Indonesian rupiah remained close to approaching 15,000 per dollar, while India's rupee is bracing for more record lows. The South African rand sunk to its weakest in more than two years after the economy slumped into recession on Tuesday. Oil held losses amid the stronger dollar and a potential build at the Cushing, Oklahoma, storage hub.

Here are some key events coming up this week:

Executives from Facebook, Twitter and Google on Wednesday testify on social media, Russia meddling. The monthly U.S. employment report for August is due Friday.

These are the main moves in markets:

Stocks

- Japan's Topix index fell 0.8 percent as of the break in Tokyo.
- Australia's S&P/ASX 200 Index lost 0.8 percent.
- Hong Kong's Hang Seng fell 1.6 percent.
- Shanghai Composite Index fell 0.6 percent.
- The S&P 500 Index futures were down less than 0.1 percent. The index lost 0.2 percent Tuesday.

Currencies

- The yen fell 0.1 percent to 111.51 per dollar.
- The offshore yuan held at 6.8504 per dollar.
- The Aussie dollar advanced 0.3 percent to 71.98 U.S. cents.
- The Bloomberg Dollar Spot Index fell 0.1 percent after rising 0.4 percent Tuesday to the highest in almost three weeks.
- The euro rose 0.2 percent to \$1.1600.
- The MSCI Emerging Markets Currency Index slipped 0.1 percent after sinking 0.5 percent Tuesday, the lowest since May 2017.

Bonds

- The yield on 10-year Treasuries held at 2.90 percent.
- Australia's 10-year bond yield rose four basis points to 2.57 percent.

Commodities

- West Texas Intermediate crude dropped 0.7 percent to \$69.40 a barrel.
- Gold added 0.2 percent to \$1,193.96 an ounce.

(Bloomberg)