PROJECT WORK PLAN
June 1, 1989 — July 31, 1992

Securities Council
Colombo Stock Exchange

USAID/Sri Lanka
August 1989

International Science and Technology Institute, Inc.
Washington, DC
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**PROGRAM ELEMENTS**

**SUPPLY/DEMAND ANALYSIS FOR SECURITIES**

Responsible Advisor - B. Warner

Output reports will generate recommendations to SC and/or CSE which if agreed will form the basis for additional action plans.

Relates to overall contract objective to facilitate growth of capital markets specifically will cause direction in the "Develop Capital Markets" program element.

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Supply/Demand Review and analysis for investment in securities:
- BW initial review (Sept 25 to Oct 6)
- Consultant (Oct 30 to Nov 30)
- Ongoing Review of Fiscal Constraints and incentives
  - Formulate initial recommendations (Coordinate with new commission on investment incentives)
- Ongoing Review of Regulatory and Legal Aspects
  - Formulate initial recommendations
  - Legal counsel input
- Preparation of initial recommendation package (Dec.89 to Jan.90)
  - BW and Ernst & Whinney
- Analysis of stock characteristics upon stock market performance
  - BW and Ernst & Whinney (Nov.89 to Jan 90)
  - Par value impact
  - Investor Preference
    - Yield/capital appreciation etc.
  - Liquidity
  - Overall market returns
  - Preparation of Report and Initial recommendations (Feb.90)

Key: SC/CSE/ISTI

Primary work to be done by ISTI Team and its Consultants
## DEVELOP CAPITAL MARKETS

### Responsible Advisor - B. Warner

Output reports will generate specific recommendations each of which, if agreed, will dictate a specific as yet undefined course of action.

Relates to overall contract objective to facilitate growth of capital markets.

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- **Analysis of needs for new instruments**
  - BW (Nov 89 to Jan 90)
    - In conjunction with SC and CSE members
  - Feasibility study of new instruments
    - Unit Trust
      - With outside consultant
    - Debt Securities
      - With outside consultant
    - Securitized Financings
      - With outside consultant
  - Other instruments
    - ESOP
    - Foreign Investment
  - Preparation of initial recommendations and implementation package

- **Feasibility of Market Makers and Broker Dealers (BW, CSE)**
  - Legislative/Regulatory Review
    - E&W and Legal Counsel
  - Capital Requirements Review
    - SC and CSE
  - Enabling Action
    - SC and CSE

- **Feasibility of Tiered Market**
  - Regulatory Review
  - Enabling Action - Fiscal Impact

- **SC/CSE/ISTI**

- **ISTI/CSE**

- **SC/CSE**

- **SC/CSE/ISTI**

- **Ongoing**
POST TRADE AUTOMATION

(Includes trade clearance settlement and depository features with prospective linkages to future trading and/or market information systems that may be developed later)

Responsible Advisor -
J. Kinnaman

The results of this program will leave the CSE with a modern, internationally acceptable clearance and settlement facility for shares enabling much higher volume of activity to occur with a much higher level of efficiency and investor satisfaction. The operating facility will require a computer system installation. The Central Depository System will require pre-approval by USAID as stipulated in the GSL-USAID contract.

- Document present settlement system, JK and Ernst & Whinney with CSE, members & registrars
- Compile and present system documentation, rules, regulations
- Test against accepted International standards and S.L. capital market goals
- Identify and document settlement deficiencies eg. functions, documentation, rules, regulations, capacity and expansion JK, Ernst & Whinney, Legal counsel
- Develop a Model Solution for Sri Lanka in 1990 with migration strategy for expansion
- Obtain agreement for Model Implementation Strategy incl. hardware, software, operating budget and rule and/or regulatory changes, form industry steering comm.
- Central Depository System DECISION
- Develop hardware/software RFP package, submit for USAID approval and solicit bids, JK and Ernst & Whinney
- Prepare and submit required company law, regulatory, rule and organisational requirements to appropriate agencies/entities; obtain agreement and implement JK w/CSE Legal Counsel and SC

**ISTI/CSE/SC/USAID**

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**ISTI/CSE**

**ISTI/CSE**

**ISTI/CSE/SC**

**ISTI/CSE/CSE W/Counsel**
POST TRADE AUTOMATION (CONTD.)

- Develop system and operational implementation plan incl. documentation and staffing JK, Ernst & Whinney
- Begin Government, Industry, staff Registrar and broker education/training program in conjunction with steering committee
- Implement in pilot
- Review results and develop and implement necessary corrections in systems and procedures, JK with Ernst & Whinney and CSE
- Begin expansion from Pilot
- Test for volume constraints JK & Ernst & Whinney
- Formulate enhancements for 1992 1st., CSE and Steering Committee with possible assistance from ISTI
**REVIEW CSE ORGANISATION**
**STRUCTURE INCLUDING SUB-COMMITTEES AND FUNCTION RESPONSIBILITIES**

Responsible Advisor - J. Kinnaman

Results of this work will enable the CSE to have a more comprehensive operating structure capable of dealing with a broader market with enhanced regulation.

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- **Document Organisation**
- **Determine CSE objectives with Chairman, Executive Committee, Manager, Consultant and Brokers**
- **Identify functions that need to be added or changed**
- **Review conclusions with CSE Executive Committee and Securities Council, JK, BW**
- **Develop formal Recommendations including committee(s) make up required job descriptions**
- **Examine financing of CSE, JK**
- **Present organisational and financial recommendations to executive committee**
- **Executive Committee reviews with Securities Council as appropriate**
- **Implement changes, CSE with SC and required**
- **Review change impact for any adjustments**
BROAD PUBLIC AWARENESS CAMPAIGN

Responsible Advisors -

B. Warner and John Kinnaman

L. Namasivayam

Full Participation

Relates to facilitation of broader public equity participation in the economy and increased capital resources for investment in new and/or expanding business opportunities

- Preparation of educational materials, organisation of seminars, workshops, conferences and other events for the purpose of improving public and investor familiarity with the benefits and functions of the securities market
  - Survey research, advertising firms, media consultants, textbook authors

- Market research before campaign assess needs and best delivery, Review available research

- Design marketing materials and develop effective campaign strategy

- Begin production of materials:
  - Securities Council Act Booklet
  - Rules of Procedure and By-Laws
  - Textbook in Sinhala and Tamil
  - Public seminars in main commercial centres
  - Editorial type press campaign
  - Documentary type TV film
  - Panel discussions on TV and radio

- Start-up Campaign
Responsibility - Joint
ISTI - B. Warner and J. Kinnaman
SC - L. Namasivayam
CSE - R. Peiris

Relates to the general objective of having market professionals in all sectors with a better understanding of securities industry operations thereby better able to support a broader Sri Lanka Capital Market.

- Review existing professional standards and awareness, e.g., brokers, CSE staff, SC Secretariat, others as appropriate
- Prepare training and needs plan
- Review against programs sponsored by other agencies
- Assess sources of training - education (in country or travel) for all categories
- Identify candidates by type and name
- Submit draft professional training plan to AID
- Modify as required
- Prepare appropriate travel plans for country external programs
- Begin development of in-country training programs

ISTI/SC/CSE ONGOING

ISTI/SC/CSE

TRAVEL

SEMINARS, ETC.
DEVELOPMENT OF EXPANDED SHARE DISTRIBUTION SYSTEM

Responsible Advisors - J. Kinneman and B Warner

Output of this work may well dictate additional programs for 1990, 1991 and 1992

Relates to overall contract objective to facilitate growth of capital markets, broader public equity participation in the economy and increased capital resources for investment in new and/or expanding business opportunities

- Review present distribution system (Sept-Oct 1989)
  - CSE, BW, JK, E&W
  - Focus on incentive commission structure for sale of securities in primary and secondary markets
  - Review Broker/Agent structure - Regional distribution

- Preparation of Report and initial recommendations
  - BW, JK

- Preparation of legal and regulatory actions in conjunction with outside counsel as required

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**REGULATORY/INVESTOR CONFIDENCE BUILDING**

Responsible Advisor - J. Kinnaman

Relate to the overall objective of having a growing capital market, but with specific relevance to the need to have an effective regulatory regime in Sri Lanka for the Capital Markets.

- Review existing regulatory framework for investor protection against malfeasance or fraud
- Review standards for Company reporting; quality and quantity
- JK with Institute of Chartered Accountants
- Develop incentive scheme for Company Reporting/Disclosure
- Establish monitoring and enforcement facility eg. SC or CSE for company compliance
- Recommend investor complaint adjudication process, test the process and adjust as required
- Recommend broker firm complaint - adjudication process in conjunction with CSE rules and SC oversight
- Review the state of investor and regulatory protection from fraud, rule breaking and malfeasance
- Review results of company reporting incentive scheme
ENSURE ENFORCEMENT
CAPABILITY EXISTS FOR A
GROWING RESPONSIBLE
MARKET

Responsible advisor - Joint
B. Warner and J. Kinnaman

Relates to the overall objective
of having a growing capital
market with the inherent capability
to properly enforce rules and
regulations in keeping with
modern regulatory standards on
an international basis.

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- Review surveillance and enforcement capacity of CSE, SC, MOF against existing rules, regulations and laws
- Review enforcement relationships between CSE/SC/MOF
- Recommend functional changes of authority ISTI for formulate changes and SC/CSE implement as appropriate
- Develop program for monitoring compliance by companies, broker firms (any agent dealing with the public) CSE and any other emerging capital market participants
- Reviewed enhanced enforcement program for possible further enhancement ISTI to lead with SC and CSE
EXCHANGE/BROKER
PARTICIPATION IN THE
PRIVATIZATION PROGRAM

Responsible Advisors -
J. Kinnaman and
B. Warner to monitor

Relates to contractual objectives
of increased capital resources
for investment

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- Develop presentations to lobby the PCP and Government to obtain membership by CSE representative on a consulting basis by issue

- Determine candidates and qualifications

- Develop monitoring function for performance of privatized issues

ISTI/SC/CSE
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<td>ESTABLISH AN INVESTOR PROTECTION/COMPENSATION FUND</td>
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<td>Relates to the broad objective of having a sound operating regulatory agency with the ability to provide investor confidence in the capital market</td>
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<td>o Review GSL plan for compensation fund including funding issues</td>
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<td>o Review current efforts by ADB to implement a compensation fund</td>
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<td>o Review responsibility for development of rules and systems for proper operation of the fund</td>
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<td>o Ensure fund meets emerging market requirements of GSL and is in keeping with FIBV and group of 30 approach</td>
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<td>o Provide training to the SC as required for operation of the fund as trustee, eg. SIPC in US, SIB/ISA in UK, MAS in Singapore</td>
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ORGANISATION OF THE SECURITY COUNCIL SECRETARIAT

Responsible Advisor - B. Warner

Relates to development of appropriate regulatory environment and broad educational campaign.

- Identify staffing needs (L. Namasivayam)
- Training staff in consultation with USAID and ISTI - Study Tours
- Office Equipment Procurement (J. Kinneman - 1989)
  (B. Warner - 1991)

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**SECURITIES COUNCIL AND COLOMBO SECURITIES EXCHANGE - OFFICE EQUIPMENT**

**Responsible Advisor**  
J. Kinnaman - 1989/90  
B. Warner - 1991/92

Relates to an overall objective to provide computer and office equipment sufficient to have modern operating environments in both the SC and CSE to support a growing capital market.

- Review immediate office automation, production, communication and meeting requirements for each organisation.
- Review USAID procurement procedure and prepare waiver requests if necessary.
- Prepare initial RFQs as required and order directly as appropriate for agreed purchases.
- Review RFQ responses, select and order.
- Obtain SC and CSE agreement.
- Accept delivery, ensure proper installation and training of user staff.
- Review subsequent office equipment requirements, repeat above as agreed with SC, CSE and USAID.

X ISTI/SC/CSE