



Media Release

November 15, 2021

Colombo:

Revision of index calculation methodology of All Share Price Index (ASPI) from Full Market Cap basis to Float Adjusted Market Cap basis

The Board of Directors of the Colombo Stock Exchange (CSE) approved the revision of the index calculation methodology of the All Share Price Index (ASPI) at a Board meeting held on 15th November 2021 to change its calculation basis from full Market Capitalization-weighting to free float-adjusted Market Capitalization-weighting with effect from January 2022 following consultations with stakeholders.

The Effective date with the detailed Index calculation methodology will be published in the CSE web site in due course.

The Colombo Stock Exchange (CSE) calculates and disseminates its benchmark pricing index - the All Share Price Index (ASPI) - and a total return version of it - the All Share Total Return Index (ASTRI). The ASPI calculation is based on the total market capitalization of its constituent companies as it considers 100% of the issued quantity of a company's shares for the weighting of the index, irrespective of that company's public holding percentage. The ASPI takes into account both voting and non-voting shares of all listed companies. As such, the impact of each security's price change on the index is presently weighted according to that security's full market capitalization.

However, the present methodology does not consider the liquidity and actual tradability of each security. As a result, the current ASPI can reflect movements that are not consistent with actual price movements experienced by investors and can be subject to significant volatility based on low volume transactions in shares with very little free float. Therefore, it was decided to use an alternate methodology – a free float-adjusted index - commonly used by several exchanges that considers only the tradable portion of the issued quantity of securities, also known as the free float shares, for the calculation of indices. In this method, in the index calculation, each security is weighted based on its free float-adjusted market capitalization.

The CSE commenced work on revising the index calculation methodology in July 2021. In line with internationally accepted industry norms, changing a stock exchange's index methodology requires extensive back testing in order to grasp the impact of the changes. Hence, the CSE followed best practice and conducted reasonable amounts of back testing of the ASPI under the revised index calculation methodology on a pro forma basis dating back to December 2013. This analysis has provided a substantial amount of historical index data observations to understand the impact of a change to a new methodology.

In addition to ASPI, CSE calculates and disseminates a total return version of it namely, All Share Total Return Index (ASTRI). Global financial data provider Standard & Poor (S&P) calculates and disseminates a series of GICS Industry Group Indices of companies listed on the CSE. The ASTRI and GICS indices would

also be converted into free float market capitalization basis simultaneously and all of the back-testing work has meticulously been completed for these indices as well.

Commenting on this effort, the Chairman of the CSE Dumith Fernando said “As the governing body of the CSE, we have a responsibility to investors and other market participants in taking due care when implementing significant changes such as a revision of the market index calculation methodology. As a market operator we cannot rush to make such changes at the cost of prudential management of the market. With the extensive work done over the last few months to back-test the revised index data, the CSE is confident that it has a good understanding of the impact of this proposed revision on the stock market.”

On the implementation date of the revised index calculation methodology, the ASPI will start moving from the same value that it closed on the day immediately prior to the changes. Therefore, when this methodology revision is implemented, the serial continuity of the index will be maintained and there will be no sudden shift of the index level solely due to the launch of the new index.

About CSE

The Colombo Stock Exchange (CSE) operates the only stock market in Sri Lanka and is responsible for providing a transparent and regulated environment where companies and investors can come together. The CSE is a company that is limited by guarantee established under the Laws of Sri Lanka. The CSE is licensed by the Securities and Exchange Commission of Sri Lanka (SEC) and is a mutual exchange consisting of 15 Members and 13 Trading Members. All Members and Trading Members are licensed by the SEC to operate as Stockbrokers. For more information, please visit: www.cse.lk.

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