CAPITAL MARKET GOVERNANCE IN SRI LANKA: A CASE STUDY OF THE COLOMBO STOCK EXCHANGE

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ABSTRACT

The purpose of this study was to identify whether governance issues including enforcement gaps is hindering the progress of Sri Lanka's capital markets. The study covered the status of the Colombo Stock Exchange (CSE) and the Securities Exchange Commission (SEC) of Sri Lanka. The study used interviews with capital market stakeholders to collect data and thereafter the narratives were analyzed to understand the scope of the issues. The study found that although the SEC and CSE have put in place a state-of-the-art surveillance system to detect market malpractices, there is a lack of a strong enforcement mechanism which indicates that the system is dysfunctional. Negative perception about the stock market is also widespread among potential investors, which hinder participation. Failure on the part of the SEC and CSE to correct this perception and to take legal action against wrongdoers has exacerbated the situation, and has kept the investors away. On the other hand the litigations involving capital market offences are found to be difficult as the cases have to go through a criminal procedure. This study proposes reforms to the process of litigation making it feasible for the regulators to deal with malpractices faster. The study has mentioned an example from the USA, which could be used as a platform to improve the regulatory and enforcement environment in Sri Lanka. Furthermore, the study recommends reforms to effect changes in the decision making process of the regulator to minimize undue influence of certain stakeholders with vested interests.