

**Relationship Between Public Holding and Firm Performance
of
Companies Listed in the Colombo Stock Exchange**

H.K. Chamari Buddhika

May, 2016

**Relationship Between Public Holding and Firm Performance
of
Companies Listed in the Colombo Stock Exchange**

A Research Paper submitted
to the Graduate School of Public Policy,
The University of Tokyo
in partial fulfillment of the requirements for

Master of Public Policy

by
H.K. Chamari Buddhika

Advisor: Professor Kenichi Ueda

May, 2016

Abstract

This study examines the relationship between public holding and firm performance of companies listed on the Colombo Stock Exchange (CSE), in relation to a new rule introduced in 2014, which required the listed companies to maintain a minimum public holding as a continuous listing requirement. In addition, this paper studies the impact of the new regulation on the public holding of the companies listed on the CSE.

The data contains the public holding ratio, return on assets, total assets, and leverage ratio of 286 companies for a period of five years from 2011 to 2015. The relationship between return on assets and the independent variables; public float; total assets; and leverage ratio is measured by regression models.

The findings suggest that the new regulation introduced in 2014 has made a positive impact on the Public Float percentage of companies listed on the CSE. Further, it concludes that by increasing their public holding, the companies could experience a positive impact in their ROAs.

Key Words: Public Holding, Firm Performance, Listed Companies, Sri Lanka

Table of Contents

Page No.

Glossary of Terms.....	i
List of Figures and Tables.....	ii
1. Introduction.....	1
1.1 Current Situation.....	1
1.2 The New Rule.....	2
2. Objectives and Significance of the Study.....	3
3. Review of Literature.....	4
4. Data and Methodology.....	6
4.1 Descriptive Statistics.....	6
4.2 Correlation.....	7
5. Analysis and Results.....	7
5.1 Strategy I.....	8
5.2 Strategy II.....	10
5.2.1 Model 1.....	10
5.2.2 Interpretation of Results.....	12
5.2.3 Model 2.....	12
5.2.4 Interpretation of Results.....	13
5.3 Overall Assessment of the Regression Results.....	14
6. Conclusion and Discussion.....	14
References	17
Appendix	19

Glossary of Terms

CBSL	Central Bank of Sri Lanka
CSE	Colombo Stock Exchange
IFRS	International Financial Reporting Standards
LEV	Leverage Ratio
P/E	Price to Earnings Ratio
PF	Public Float
PH	Public Holding
ROA	Return on Assets
ROE	Return on Equity
SEC	Securities and Exchange Commission of Sri Lanka
TA	Total Assets
UK	United Kingdom
US	United States of America

List of Figures and Tables

Figure 1: Average Public Float percentage of Companies Listed on the CSE, (2011-2015).....	8
Figure 2: Average Public Float percentage of Main Board Companies listed on the CSE - Sectorwise Comparison (2011-2013).....	9
Figure 3: Average Public Float percentage Main Board Companies listed on the CSE - Sectorwise Comparison (2014-2015).....	9
Figure 4: Average Public Float percentage of Dirisavi Board Companies listed on the CSE - Sectorwise Comparison (2011-2013).....	10
Figure 5: Average Public Float percentage of Dirisavi Board Companies listed on the CSE - Sectorwise Comparison (2014-2015).....	10
Table 1: Descriptive Statistics of Variables: 2011-2015.....	6
Table 2: Correlation Matrix of Variables: 2011-2015.....	7
Table 3: Estimation Results for Panel Data Fixed Effect Model 1.....	11
Table 4: Estimation Results for Panel Data Fixed Effect Model 2.....	12

1. Introduction

Public Holding has gained its importance around the world as an important factor that brings about transparency and liquidity in the market for a stock of a company. The term "public holding" is defined in various ways, however, it generally illustrates the proportion of outstanding shares of a company which are available to the public without any restriction for trading.

Sri Lanka is comparatively a small capital market in the Asian region wherein the market capitalization was 26.3% of GDP in 2015 (CBSL, 2015). Historically it has been recording very low figures on public holding of companies listed in the stock exchange. For example, in 2011 the average public holding of companies listed on the Colombo Stock Exchange (CSE) was 29.4% and in 2012 it was 28.9%. Cross country comparisons demonstrate that the developed world and the emerging markets maintain average ratios of 86.4% and 77.5% respectively, as their free floats¹; the UK having the highest free float of 95.1%; the US 93.9% and the Europe 36.93%.

1.1 Current Situation

The CSE maintains two Boards, namely; Main Board and Dirisavi Board with two different sets of criteria observed at the time of listing and thereafter. The CSE listing rules require a public listed company to satisfy a specified percentage of public holding in its issued share capital at the time of its initial listing. According to that, companies listed in the Main Board are required to have a minimum public holding of 25% of the total number of shares, in the hands of a minimum 1,000 public shareholders and companies listed in the DiriSavi Board are required to have a minimum public holding of 10% of the total number of its shares in the hands of a minimum 200 public shareholders.

However, there is no written rule which requires the listed companies to maintain its public holding at a certain level after getting listed on the CSE. Consequently, the minimum public shareholding of some companies often falls short of the level required, after the company being listed on the CSE.

¹ In literature free float, in many cases, is considered as a synonym to public float or public holding. However, the author identifies that free float is more loosely defined than public holding when it is compared with the definition of public holding adopted by the SEC, Sri Lanka (See Footnote no.2).

1.2 The New Rule

In order to address this loop hole in Public Holding, a new rule was introduced by the Securities and Exchange Commission of Sri Lanka (SEC Directive dated 20th December 2013) with effect from 1st January 2014. The rule requires all the listed companies to maintain a minimum public holding² on a continuous basis.

According to that Rule;

- companies listed on the Main Board are required to maintain a minimum public holding of **20%** of its total listed ordinary voting shares in the hands of a minimum of 750 public shareholders; and
- companies listed on the DiriSavi Board, are required to maintain a minimum public holding of **10%** of its total listed shares in the hands of a minimum of 200 public shareholders.

In this backdrop, this paper attempts to examine the relationship between public holding and performance of companies listed on the CSE, in relation to the aforesaid new rule.

The rest of the paper is organized as follows. Section 2 describes the objectives and the significance of this study, Section 3 reviews the literature, Section 4 describes the data and the methodology adopted for this study, Section 5 explains the regression results, Section 6 illustrates the conclusions and Section 7 discusses the limitations of the study.

²Public Holding in these rules is defined as the shares of a listed entity held by any person other than those directly or indirectly held by;

a) its parent, subsidiary or associate entities or any subsidiaries or associates of its parent Entity;

b) its directors & their close family members;

c) Chief Executive Officer & his/her close family members;

d) Key Management Personnel and their Close Family Members; and,

e) any party acting in concert with the parties set out in (a), (b), (c) and (d) above;

f) shares that are in a locked account with the Central Depository Systems (CDS) due to a statutory or regulatory requirement other than those which have been subject to a voluntary lock-in at the instance of the shareholder; and

g) shares that have been allotted to employees whereby the shares of a Listed Entity are, directly or indirectly controlled by the management or the majority shareholder of the Entity;

h) any Entity or an individual or individuals jointly or severally holding 5% or more of the shares of the Listed Entity if its a DiriSavi Board Entity and 10% or more of the shares if the Listed Entity is a Main Board Entity except where such shareholder is a statutory institution managing funds belonging to contributors or investors who are members of the public; or an entity established as a unit trust or any other investment fund approved by the SEC or not a related party declared in terms of Sri Lanka Accounting Standards or a party acting in concert declared in terms of the Takeovers and Mergers Code.

2. Objectives and Significance of the Study

The main objectives of this study are to find out;

- whether the new regulation which was introduced in January, 2014 has made any impact on the public holding percentage of listed companies of the CSE;
- &
- the relationship between the public holding and the performance of firms listed on the CSE.

At this juncture this study is of special importance due to the fact that there are numerous discussions amongst the business community and requests to the Securities and Exchange Commission of Sri Lanka to revisit the rules. Moreover, as at January, 2016, six companies have de-listed from the CSE, out of which four companies have cited the difficulty in complying with the minimum public float³ rules as a ground for delisting. Further, some companies have degraded themselves to the second board (Dirisavi Board) to reduce their burden of compliance.

Even though the circumstances are such, it is noteworthy that public holding of a company is an important characteristic in many different aspects. On one hand, it is a criteria of major significance to foreign investors. High public float ratios facilitate attracting foreign investors which is an essential driving force for a less developed capital market like Sri Lanka⁴. On the other hand, high public float ratios improve the overall liquidity in the market with sufficient demand from investors and creates an adequate depth to the market. In addition to that, it is an important indicator of corporate governance of an entity. Lins and Warnock (2004) found out that international investors consider the governance structure of the firm and the country when they are taking investment decisions and they avoid from investing in companies whose governance structure pave the way for expropriation, especially in the countries where investors are less protected.

³ In this paper the author uses public holding and public float as synonyms (as also done in literature).

⁴ Cumulative foreign purchases amounted to Rs. 85.0 billion, while cumulative foreign sales was Rs.90 billion, resulting in a **net outflow** from the market in 2015 (CBSL, 2015).

There are numerous studies on the relationship between firm performance and ownership concentration of listed firms in Sri Lanka. However, only a limited number of studies are done with respect to the relationship between firm performance and public float ratio. To my knowledge, this is the first study in Sri Lanka which analyses the relationship between public float ratio and firm performance in relation to a newly introduced rule.

Under these circumstances, the research questions which this study tries to answer are;

- Has the new regulation made any impact on the public holding of listed companies?
- &
- Is there any relationship between the public holding and the performance of listed companies?

3. Review of Literature

There exists numerous studies which evaluate firm performance using ownership concentration as the independent variable *not the public holding ratio*. In literature ownership concentration is defined and measured in many different ways but basically it reflects the shares held by the major shareholders of a company.

Wu and Cui (2002) found a positive relationship between ownership concentration and accounting profits, indicated by return on assets (ROA) and return on equity (ROE), but the relationship was negative with respect to the market value measured by the price-earnings ratio (P/E) and market-to-book-value ratio (MBV). Yurtoglu (2000) examined the effects of ownership structure on Turkish firm performance and concluded that there is a statistically significant negative relationship between performance measures and the ownership concentration. Ozer and Yamak's (2001) study indicates that ownership characteristics have statistically significant effect only on ROA, ROE and partially on asset turnover (as mentioned in Bostanci & Kilic,

2007) . However, the effect is not significant on performance measures such as sales profitability and sales growth. Gursoy and Aydogan (2002) studied the relationship between ownership structure and the performance of non-financial firms listed on Istanbul Stock Exchange for the period of 1992-1998. Firm performance was measured by both market based (P/E, Stock Returns) and accounting based (ROA, ROE) variables and it was revealed that ownership concentration is positively related with market based variables but negatively related with the accounting based variables. Zeitun and Gary (2007) examined the relationship of ownership concentration and firm performance both in terms of accounting measures and market measures using a sample of public listed companies on the Jordan stock exchange. They found a significant positive relationship between ownership concentration and accounting performance measures.

In Sri Lanka there are numerous studies that examine the impact of ownership structure on bank performance. Manawaduge & Zoysa (2013) studied the relationship using both accounting and market-based performance indicators. The results of the study provide evidence for a strong positive relationship between ownership concentration and accounting performance measures. This suggests that a greater concentration of ownership leads to better performance. "The ownership structure of Sri Lankan listed firms is very much steady and characterized by certain features, such as highly concentrated ownership with a presence of controlling shareholder, holding controlling ownership usually by another corporate entity, holding ultimate ownership by family owners" [Samarakoon, (1999), Senaratne and Gunaratne (2007) as cited in Manawaduge & Zoysa (2013)].

Empirical evidence regarding the relationship between ownership concentration and financial performance has produced mixed results (Agrawal and Knoeber, 1996; Demsetz and Villalonga, 2001; Thomsen et al., 2006). Due to the contextual differences across countries, different relationships between ownership structure and firm performance might be expected.

Public holding ratio is also recognized in literature, as a measurement that gives shortcut information about the ownership concentration of a company (Bostanci &

Kilic, 2007), which means that companies with a high public float have a low ownership concentration and companies with a low public float have a high ownership concentration and a shallow market for the stocks of those companies. In their study Bostanci & Kilic examined the effects of free float ratios on market performance of stocks using daily closing price, price volatility and average daily trading activity and found a significantly positive relationship between stock price returns and free float.

4. Data and Methodology

This paper uses Public Holding Percentage and three accounting based variables; namely; Return on Assets⁵ (ROA); Total Assets (TA); and Leverage Ratio⁶ (LEV); of 286 companies, out of the total 294 companies listed on the CSE for the period 2011 to 2015⁷. The public holding percentages were obtained from Interim Financial Statements and Annual Reports of the companies and the data on the other variables were obtained through Bloomberg Terminal. The analysis was done using STATA/SE 12.1 software.

4.1 Descriptive Statistics

The descriptive statistics of the variables were initially examined and the results are tabulated in Table 1 below. The mean value of ROA is 4.7% with a substantial variation across firms. This is mainly due to the fact that the sample consists of 20 business sectors and ROA varies with the product line and the business type. Similarly, all the other variables also show a high variation across companies. The mean value of PF is 28.7% for the five years (2011-2015) which illustrates and overall level of compliance across the board, given the variation was low; which is not true in this case. The LEV ratio has a mean value of 18.1% which demonstrates a fairly satisfactory level of debt burden on companies in general.

⁵ Indicator of how profitable a company is relative to its total assets, in percentage.

⁶ Defined as total amount of debt relative to assets, in percentage.

⁷ The missing eight companies have very little or no data available with respect to the required variables for the analysis.

Table 1: Descriptive Statistics of Variables: 2011-2015

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	1313	4.696541	12.72385	-211.7199	62.28097
PF	1358	.2873523	.1792733	.0000618	.999925
TA	1343	20516.55	65587.56	0	882183.2
LEV	1348	18.0616	18.07776	0	164.4343

Sample (N) = 286

4.2 Correlation

Table 2 indicates the extent of correlation between the variables used in this study. According to that PF, TA and LEV are negatively correlated with ROA and the strength of the relationship is fairly low. Moreover, the independent variables have positive relationships between each of them which are low in magnitude.

Table 2: Correlation Matrix of Variables: 2011-2015

	ROA	PF	TA	LEV
ROA	1.0000			
PF	-0.1210	1.0000		
TA	-0.0538	0.3808	1.0000	
LEV	-0.2840	0.0529	0.0154	1.0000

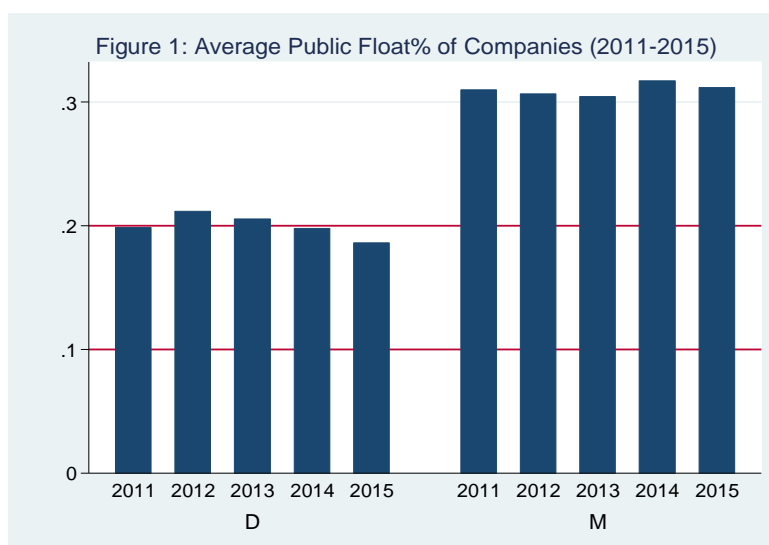
5. Analysis and Results

In order to achieve the objectives of this study the Analysis was carried out under two different strategies.

- Strategy I - Analysis of the impact of the new regulation (which was introduced in January, 2014) on the public holding percentage of the listed companies on the CSE.
- Strategy II - Analysis of the relationship between the public float and the performance of the firms measured by ROA, TA and LEV.

5.1 Strategy I

The annual averages of Public Float percentage of the two boards; Dirisavi and Main; are depicted in Figure 1. The new levels of regulation are marked on the graph by two horizontal lines at 10% (for Dirisavi Board companies) and 20% (for Main Board companies). On average, it is apparent that both the boards are well above the Public Float level required by the legislation. However, this is not the real case due to the fact that there exists a high variance amongst the data for Public Float (See table 1). When the data was analyzed it was found out that across the board 25.17% of companies were not having adequate levels of Public Float as of the end of year 2013 (prior to the introduction of the new regulation). Further, even after the introduction of the new rule, 22.7% of companies were at non-compliant levels as of end of the year 2015. It is also noteworthy that the Public Float of Dirisavi Board companies shows a decreasing trend since 2012.

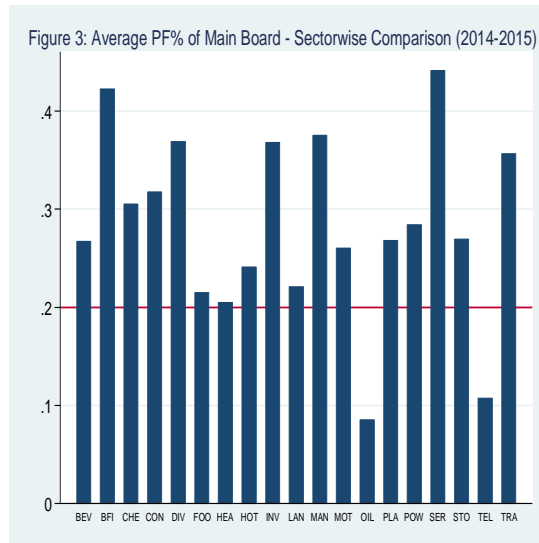
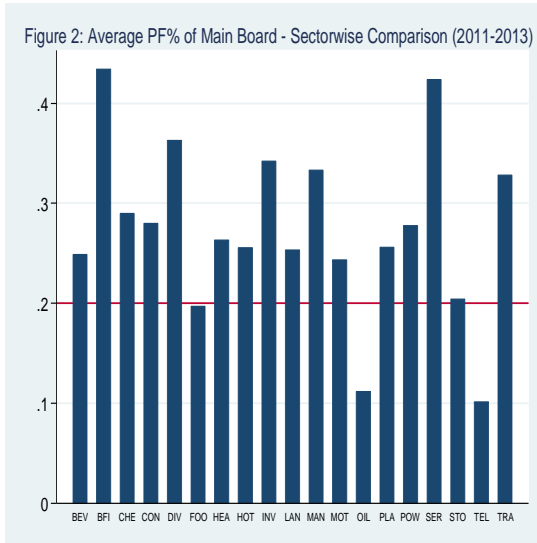


*D=Dirisavi Board, M=Main Board

Figures 2 and 3 illustrate the change in average Public Float Percentage of Main Board companies before and after the introduction of the new regulation across all sectors⁸ of the CSE. All the sectors except five (Healthcare, Hotels & Travels, Land &

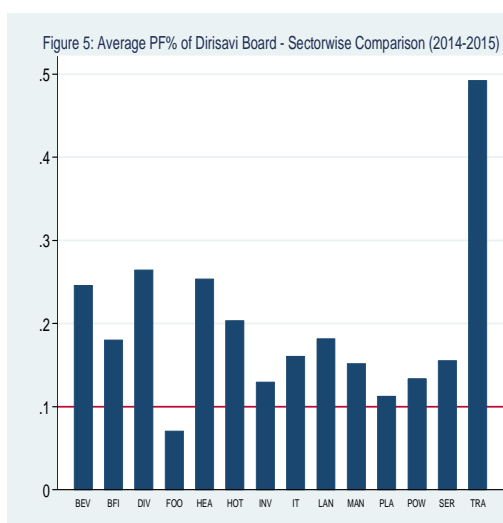
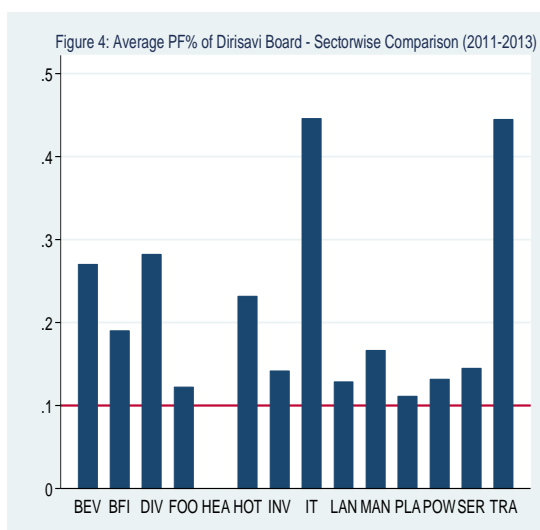
⁸ The companies listed on the CSE represent twenty business sectors namely; Banking Finance & Insurance (BFI), Beverages Food & Tobacco (BEV), Chemicals & Public Holding armaceuticals (CHE), Construction & Engineering (CON), Diversified Holdings (DIV), Footwear & Textiles (FOO), Healthcare (HEA), Hotels & Travels (HOT), Information Technology (IT), Investment Trusts (INV), Land & Property (LAN), Manufacturing (MAN), Motors (MOT), Oil Palms (OIL), Plantations (PLA), Power & Energy (POW), Services (SER), Stores Supplies (STO),

Property, Oil & Palms and Plantations) shows increases in Public Float percentage after the introduction of the new regulation. However, two sectors, namely; Oil & Palms and Telecommunications are far below the level required by the regulation. This is mainly due to the fact that most of the companies in those sectors have highly concentrated ownership structures.



Figures 4 and 5 below illustrate the change in average Public Float percentage of Dirisavi Board companies before and after the introduction of the new regulation across all sectors of the CSE. All the sectors except Footwear/Textiles are above the level required by the new regulation as of 2015. The Information Technology sector, even though still is in compliance with the new rule, has shown a dramatic decrease in its Public Float Percentage.

Telecommunications (TEL), Trading (TRA).



5.2 Strategy II

Under this strategy the relationship between dependent and independent variables are tested using two panel data fixed effect regression models. Fixed effect models are utilized in order to analyze the impact of the changing Public Float overtime, specially because, fixed effect models control for all time invariant differences among individual companies. Thus, the estimated coefficients of these fixed effect models cannot be biased due to omitted time invariant characteristics. Further, both the models are controlled for heteroskedasticity.

5.2.1 Model 1

In the first model ROA is taken as the dependent variable and the lagged public float (L.PF), is taken as the independent variable. The lagged value is taken due to the fact that the impact of a particular year's public float is not experienced in the same year but is expected to have an impact on the company's financials in the next year. *PFdummyAnnual* in this model illustrates the dummy variable which takes the value "1" if a company is below the threshold level of Public Float prescribed by the new regulation for the years 2014 & 2015, and "0" otherwise.

$$ROA_{ijt} = \alpha_i + \beta L.PF_{ijt} + \delta PFdummyAnnual_{ijt} + \eta (L.PF_{ijt} * PFdummyAnnual_{ijt}) + \varepsilon_{ijt}$$

- ROA_{ijt} = Return on assets of company i of sector j in year t
 α_i = Firm specific fixed effect
 β, δ, η = coefficients
 $L.PF_{ijt}$ = Lagged public float of company i of sector j in year t
 $PFdummyAnnual_{ijt}$ = Dummy variable of PF
 ε_{ijt} = Error term

Table 3: Estimation Results for Panel Data Fixed Effect Model 1

Fixed-effects (within) regression	Number of obs	=	1030
Group variable: companyno	Number of groups	=	273
R-sq: within = 0.0075	Obs per group: min	=	1
between = 0.0135	avg	=	3.8
overall = 0.0132	max	=	4
	F(3,272)	=	2.30
corr(u_i, Xb) = -0.0701	Prob > F	=	0.0775

(Std. Err. adjusted for 273 clusters in companyno)

ROA	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
PF						
L1.	-11.11762	15.45722	-0.72	0.473	-41.54861	19.31337
PFdummyAnnual	-3.29517	1.297656	-2.54	0.012	-5.849897	-.7404426
PFmodel5	21.6295	9.475095	2.28	0.023	2.975657	40.28335
_cons	7.596491	4.532025	1.68	0.095	-1.325814	16.5188
sigma_u	9.4140795					
sigma_e	8.2809945					
rho	.56377244	(fraction of variance due to u_i)				

*PFModel5 in tables 3 & 4 refers to $(L.PF_{ijt} * PFdummyAnnual_{ijt})$

5.2.2 Interpretation of Results

In this model the probability value of the F test is 0.0775, which is less than 0.1. Therefore, it can be said that this model is significant at 10% level (90% confidence interval). The p-values for the independent variables are also less than 0.1 (except in the case of lagged Public Float percentage), thus those variables are significant at 10% level. According to the coefficients obtained for the regressors it can be said that the Public Float percentage has a negative relationship with ROA. The rho value demonstrates that 56.4% of the variance is due to the differences across panels.

5.2.3 Model 2

This model is a variation of model 1 wherein lagged TA and lagged LEV are included to the model as control variables.

$$ROA_{ijt} = \alpha_i + \beta L.PF_{ijt} + \delta PFdummyAnnual_{ijt} + \eta (L.PF_{ijt} * PFdummyAnnual_{ijt}) + \gamma L.TA_{ijt} + \theta L.LEV_{ijt} + \varepsilon_{ijt}$$

ROA_{ijt}	= Return on assets of company i of sector j in year t
α_i	= Firm specific fixed effect
$\beta, \delta, \eta, \gamma, \theta$	= coefficients
$L.PF_{ijt}$	= Lagged public float of company i of sector j in year t
$PFdummyAnnual_{ijt}$	= Dummy variable of PF
$L.TA$	= Lagged total assets of company i of sector j in year t
$L.LEV$	= Lagged leverage ratio of company i of sector j in year t
ε_{ijt}	= Error term

Table 4: Estimation Results for Panel Data Fixed Effect Model 2

Fixed-effects (within) regression	Number of obs	=	1018
Group variable: companyno	Number of groups	=	271
R-sq: within = 0.0055	Obs per group: min =		1
between = 0.0141	avg =		3.8
overall = 0.0131	max =		4
	F(5,270)	=	2.04
corr(u _i , X _b) = -0.0613	Prob > F	=	0.0736

(Std. Err. adjusted for 271 clusters in companyno)

ROA	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
PF						
L1.	-7.807002	16.13084	-0.48	0.629	-39.56523	23.95123
PFdummyAnnual	-3.161345	1.324293	-2.39	0.018	-5.768599	-.554091
PFmodel5	21.40112	9.730331	2.20	0.029	2.244151	40.55809
TA						
L1.	-.0000131	7.76e-06	-1.68	0.093	-.0000283	2.21e-06
LEV						
L1.	-.0120739	.037054	-0.33	0.745	-.0850254	.0608776
_cons	7.172859	4.626119	1.55	0.122	-1.934994	16.28071
sigma_u	9.3764518					
sigma_e	8.2963699					
rho	.560888	(fraction of variance due to u _i)				

5.2.4 Interpretation of Results

In this model the probability value of the F test is 0.0736, which is less than 0.1. Therefore, it can be said that this model is also significant at 10% level. The p-values for the independent variables are also less than 0.1 (except in the case of lagged Public Float percentage and lagged LEV), thus those variables are significant at 10% level. According to the coefficients obtained for the regressors it can be said that the Public Float percentage, TA and LEV has negative relationships with ROA. The rho value demonstrates that 56.1% of the variance is due to the differences across panels.

5.3 Overall Assessment of the Regression Results

According to the results obtained for both the models the following approximate relationship between ROA and Public Float percentage can be derived. It illustrates how Public Float percentage change affects each firm's ROA, over time.

$$\textit{Effect on ROA} = -3 + 20*PF\%$$

The dummy variable used in both the models takes the value "1" if a firm is below the threshold after the introduction of the new regulation. The new regulation requires the Main board companies to maintain a Public Float percentage of 20%, which translates into;

$$\textit{Effect on ROA} = (-3) + (20 * 0.2) = (+1)$$

which means, a firm can experience 1% increase in ROA if they increase their Public Float percentage to 20%. For Dirisavi Board companies, in which the required level is 10%;

$$\textit{Effect on ROA} = (-3) + (20 * 0.1) = (-1)$$

which means, a firm may experience 1% decrease in ROA if they fail to increase their Public Float percentage.

6. Conclusion and Discussion

As per the analysis done above, it can be concluded that; the new regulation introduced in 2014 has made a positive impact on the Public Float percentage of companies listed on the CSE. In fact, the non-compliance level has dropped from 30% to 22%; and by increasing the Public Float percentage in adhering to the new regulation, the companies could experience a positive impact in their ROAs.

The new regulation grants time for companies to increase their Public Float percentage to the required levels. When it was introduced in January, 2014, it granted a transitional period for the companies which were below the threshold level, to reach the required compliance level. This transitional period is to be ended by 31st December 2016. Further, 20 companies are granted extra time to comply with the new levels of Public Holding out of which 4 are given time even until the end of the year 2017. Therefore, a more accurate picture could be observed after the expiration of these transitional periods.

One of the main limitations in this study is that the time span of analysis is very short, which was mainly due to the unavailability of data. The analysis could have produced more robust results provided that data was available for a longer time duration. Thus, as a matter of priority, the author suggests the initiation of proper databases of Public Holding of listed companies at the Securities and Exchange Commission of Sri Lanka and/or at the Colombo Stock Exchange.

Another limitation is the use of accounting-based performance variables in the analysis. It is important to note that irrespective of the fact that the financial statements are prepared based on generally accepted accounting standards, accounting process is dominated by subjective interpretation of standards and the application of firm-specific accounting rules and policies (Manawaduge & Zoysa, 2013). However, this issue is partially offset since in Sri Lanka most of the firms follow somewhat similar accounting standards which are currently in line with the IRFS standards.

Prior to the introduction of the new regulation, Public Float percentage was an endogenous matter for a particular firm. However, after 2014, it became an exogenous factor since companies are compelled to increase their Public Float percentages if they fall short of the required levels. Therefore, these kinds of studies carry particular importance to regulators as well as regulatees and therefore, should be taken care of by future studies.

Finally, but most importantly, the author suggests the development of a mechanism to statistically evaluate the prior & post impacts of regulatory actions on the securities market of Sri Lanka. This is of an utmost significance to a developing capital market like Sri Lanka since, solid regulatory actions backed by comprehensive studies facilitate building market confidence which ultimately stimulate market activities and boost the local economy.

References

- Agrawal, A. & Knoeber, C. (1996) Firm Performance and Mechanism to Control Agency Problems between Managers and Shareholders, *Journal of Financial and Quantitative Analysis*, Vol. 31.
- Bostanci, F. & Kilic, S., (2007), The Effects of Free Float Ratios on Market Performance: An empirical study on the Istanbul Stock Exchange, *The ISE Review* Vol. 12 No: 45
- Central Bank of Sri Lanka, Annual Report 2015, Available at http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/12_Chapter_08.pdf [Accessed on 12th May 2016]
- Cui, R. & Wu, Y. (2002) *Disentangling Liquidity and Size Effects in Stock Returns: Evidence from China*, 2007, Available at <http://ssrn.com/abstract=910248> [Accessed 5th February 2016].
- Demsetz, H. & Villalonga, B. (2001) Ownership Structure and Corporate Performance, *Journal of Corporate Finance*, Vol. 7.
- Gursoy, G. & Aydogan, K., (2002) Equity Ownership Structure, Risk Taking and Performance: An Empirical Investigation in Turkish Companies, *Russian and East European Finance and Trade*, 38, 2002.
- Lins, K. V. & Warnock, F. E.,(2004) *Corporate Governance and the Shareholder Base*, FED International Finance Discussion Papers, 816, 2004, Available at www.federalreserve.gov/pubs/ifdp [Accessed 18th March 2016].
- Listing Rules of the Colombo Stock Exchange Available at http://www.cse.lk/listing_rules.do [Accessed on 10th January 2016]

Manawaduge, A., Zoysa, A., (2013) The Structure of Corporate Ownership and Firm Performance: Sri Lankan Evidence. *Corporate Ownership & Control*, 11(1).

Ozer, B., Yamak, S.,(2001) The Role of Market Control on the Relation between Ownership and Performance: Evidence from Turkish Market, *EFMA 2001 Lugano Meetings 2001*, Available at <http://ssrn.com/abstract=268089>, [Accessed 10th March 2016]

SEC Directive dated 20th December 2014, issued to all public listed companies and CSE (REF: SEC/LEG/13/12/37) Available at <http://www.sec.gov.lk/wp-content/uploads/SEC-LEG-1312-37.pdf> [Accessed on 09th January 2016]

Senaratne, S. & Gunaratne, P.S.M. (2007) Ownership Structure and Corporate Governance of Sri Lankan Listed Companies, *The 4th International Conference on Business Management*, Faculty of Management Studies and Commerce, University of Sri Jayewardenepura Sri Lanka.

Thomsen, S., Pedersen, T. & Kvist, H. (2006) Block holder Ownership: Effects on Firm Value in Market and Control Based Governance Systems, *Journal of Corporate Finance*, Vol. 12.

Yurtoglu, B., (2000) Ownership, Control and Performance of Turkish Listed Firms, *Emprica*, 27, 2000.

Zeitun, R. & Gary, G.T. (2007) Does ownership affect a firm's performance and default risk in Jordan? *Corporate Governance*, Vol. 7.

Appendix

