

Minority Shareholders

- Typically, Minority interest is considered as the ownership position wherein such shareholders do not form part of the majority shareholding of the company. The opposite of a minority shareholder is the majority shareholder/s holding the majority of the ownership in the company.

Public shareholders

- CSE listing rules have defined public shareholder by identifying who is not considered as public (*Ref: CSE listing Rules Definition*).

For Ex: directors of the company, parent company, subsidiary company, CEO, close family members, Key Management Personals, etc. are considered nonpublic and categories of shareholders other than non-public are considered as public (*Ref note 1 for full detailed definition*)

Retail investors

- Many sources also refer to “retail” investors. Retail investors are typically non-professional market participants who generally invest smaller amounts than larger investors, institutional investors and qualified investors. Many IPO prospectus in CSE indicates a value threshold for retail investors.
- Even though the CSE listing rules do not provide a value threshold for public shareholders, some references are there in the listing rules to identify a “qualified” investor.

For Ex: Individual investors are who subscribe for Shares up to a value of Sri Lanka Rupees One Hundred Thousand (LKR 100,000/-) (i.e., up to 100,000 Shares) are considered as retail. (*Source: UB Finance prospectus*)

For Ex: LKR 5 Mn threshold for qualified investors to invest in BASEL investments (*listing rule 2.2.1 L, Where BASEL 3 debentures are limited to qualified investors.*)

Importance of public shareholders in a listed company

- When a privately held company is listed, it is expected and required by rules to have a minimum number and percentage of non-related/ non-controlling public shareholders. For Ex: main board companies listed in the CSE are required at the time of listing to have a minimum of 20% of shares and a minimum of 500 number of public shareholders, when the float adjusted market capitalization of the company is less than 2.5 Bn.

How to calculate float adjusted Market Cap

Market price X public float % X Total no. of shares = float adjusted Market Cap

Ex: LKR 10/- X 17% X 100,000,000 = LKR 170,000,000/-

Companies Act Perspective

- As per the provisions in the Companies Act, all the shareholders in a particular class of shares including majority and minority shareholders are to be treated equally (*pari-passu*).
 - For Ex: When dividends are paid, both major and minority shareholders in the same class of shares are entitled to the same value of dividend per share. Companies Act identifies minority shareholders under certain circumstances and has provided few additional rights (*Ref note 2, Section 93-98: Minority Buy-out Rights*)
- However, the Companies Act also provides additional privileges to the major shareholder, depending on the major shareholder's percentage holding.
 - For Ex: section 135 of the Companies Act recognizes more than 90% shareholder's voting to cure a shorter notice period for calling a meeting
 - Section 246 of the Companies Act provides power to a shareholder/s who has more than 90% to acquire shares of shareholders dissenting from a scheme or a contract approved by the majority

Advantages of Minority Shareholding voting shares	Disadvantages of Minority Shareholding voting shares
1. Free from involvement in business meetings and the burden of decision-making processes unless decided to attend and vote at AGM. However, it is considered very important for all the shareholders to attend the AGM.	1. Limited control over the company's decision-making process/ require more voting power to block majority's decisions.
2. As any other shareholder, minority shareholders possess rights to request certain documents from the company. For Ex: Audited financial statements.	2. In rare instances may fall victim to the abuse of majority shareholders' power and therefore Companies Act has provided certain relief (<i>Ref note 3, Section 224 onwards: Prevention of Oppression and Mismanagement</i>)
3. As shareholders of the same class, minority shareholders are not personally liable for the company's debts or legal issues beyond the full share value.	
4. As shareholders of the same class, minority shareholders are entitled to a proportionate share of the company's profits (dividends) or any other distributions equally, based on their ownership.	

Public Shareholders Impact on the share market Index

- At present the All-Share Price Index (ASPI) is calculated based on the market cap adjusted to the public float of listed companies. If a company has a higher public float, it will provide a higher representation in the index compared to a company with a lower public float %.
- At present the Almas Whitelist Index (AWLI) is also calculated on the same basis of float adjusted market cap of the white listed companies.

Non-Compliance with public shareholding

- If a company is not having the required number of minimum numbers of public shareholders or minimum % of public shareholders, such companies are considered as non-compliant and if that is the only non-compliance, the company is transferred to the second board. If there are other non-compliances along with public float non-compliance, they are to be transferred to the Watch List.
- Investing/trading in shares of public float non-compliant companies will have additional risks due to the non-compliances.

Notes

Note 1 (Extracted from CSE Listing Rules)

Public Holding shall mean 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 who are holding office as directors of the Entity and 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 shareholders exempted under (h) below and those which have been subject to a voluntary lock-in at the option of the shareholder.
- 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 the Entity is a Diri Savi Board Entity and 10% or more of the shares if the Listed Entity is a Main Board Entity except where such shareholder is;
 - i. a statutory institution managing funds belonging to contributors or investors who are members of the public; or
 - ii. an entity established as a unit trust or any other investment fund approved by the SEC; or
 - iii. 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.

Note 2 (Extracted from Companies Act, No. 7 of 2007)

MINORITY BUY – OUT RIGHTS

93. Shareholder may require company to purchase shares
94. Notice requiring purchase
95. Purchase by company
96. Purchase of shares by third party
97. Court may grant exemption
98. Court may grant exemption if company is insolvent
99. Alteration of shareholder rights
100. Shareholder may require company to purchase shares
101. Action not invalid

Note 3 (Extracted from Companies Act, No. 7 of 2007)

PREVENTION OF OPPRESSION AND MISMANAGEMENT

224. Oppression
225. Mismanagement
226. Who may make an application
227. Power of court to act under section 224 or section 225 during winding up proceedings.

