

# Duties and responsibilities of Shareholders.

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When we invest in the equity market we become shareholders of a company. Shareholders are the real owners of a company. When the company performs well they benefit through dividends and capital appreciation. They could also be instrumental in the decision making process of the company by exercising their voting rights. As an owner of the company, a shareholder is entitled for certain rights as stated above. On the other hand a shareholder is also vested with certain duties.

## **Rights of a shareholder**

- To receive the shares on allotment. In the Primary Market, the amount of shares allotted to an investor is decided by the company based on the aggregate demand for the shares and the total number of shares issued at the Initial Public Offering (IPO). The investors will receive their shares after this process.
- To receive copies of the Annual Report containing the Balance Sheet, Profit & Loss Account and Auditor's Report. Usually the listed entity sends it to shareholders prior to the AGM. You will also be able to download it from the website of the Colombo Stock Exchange. Interested parties could also request for the reports from their Stock Brokering Firm.
- To receive dividends in due time once approved. Dividends are usually paid annually while some other companies would pay more frequently.
- To receive corporate benefits like rights and bonus after it is approved.
- To receive offers in case of a takeover, delisting or buyback. It is disheartening to note how certain investors are unable to exercise these rights due to negligence from their part. When they receive documents pertaining to the aforesaid they fail to take prompt action on the matter. As a shareholder it is vital for you to be informed on the actions, omissions and decisions of the company. If you need assistance you could always contact the Company Secretary of the company or even your Investment Advisor.
- To participate/vote in general meetings either personally or through a proxy. If a shareholder intends to nominate a proxy for an AGM he/she should do so by submitting the form that is sent with the Annual Report.
- To proceed against the company by way of civil proceedings if the Board of Directors were involved in fraud or any form wrongdoing.
- To receive the residual proceeds in case of winding up.

### **Rights as a debenture holder (listed debt)**

- To receive interest/redemption in the stipulated time.
- To apply for winding up of the company if the company fails to pay its debt. Creditors can go to courts claiming that the company has defaulted payment.

### **Rights as a buyer/seller of securities to get**

- The best price. There is usually an order book which has the prices with the relevant quantities people have demanded or supplied. It is important to refer to the order book to get an idea on the price you can sell/buy .
- Statement of accounts from the broker, depository etc. The Stock Broker Firm will send Contract Notes when transactions are done. Statements of Accounts are sent monthly by the Stockbroker firm if transactions have taken place during the said month. The Central Depository System (CDS) will also send out statements to investors. When you get these documents make sure you read them and update yourself. If there is any discrepancy contact the Compliance Officer of the firm at your earliest.

In life many of us are prompt to exercise our rights and at times even demand for it. We fail to understand that we also have obligations and responsibilities in life. We would be able to exercise are rights only when another performs his duties. The same principle applies in the Stock Market. Hence the article will touch some vital obligations.

### **Obligations as a buyer/seller of securities**

- Enter into proper agreements with the Stock Brokering Firm. You should be vigilant about the documents you sign at the point of opening the account. Carefully read and understand the terms and conditions of the documents you sign. Investors have complained of certain actions/omissions of the Stock Brokering Firms without their consent. Investigating to the matter revealed that investors have given their consent by blindly signing these documents.
- To make payment on time. Usually payments should be done within three days of the transaction. If you don't pay during the stipulated time you become a creditor to the Stock Brokering Firm. In such a situation they have the right to force sell the stock or charge an interest on the money you owe the firm. However the situation will be different if you have signed a Credit Agreement.
- To act with utmost responsibility when exercising voting rights as well as trading. Engage in ethical trading practices and make informed rational decisions.
- To remain informed. Investing in a company is a continues process. You shouldn't purchase it and ignore it. Continuously monitor your investment. Ignorance or negligence could bring about financial losses and at times even have an adverse impact on the market.

If you intend to be a successful shareholder you will have to make wise decisions in the market. Given below are a few tips that will guide you in your journey of investing.

## **Do's and Don'ts in the market**

### **Primary Market**

#### ***DO's***

Usually a Prospectus is issued at an Initial Public Offering (IPO). It includes vital information on the offer and the company. Read it carefully, with special attention to:

- Risk factors
- Background of promoters
- Company history
- Outstanding litigations and defaults
- Financial statements
- Object of the issue
- Basis of Issue price
- Instructions for making an application

If you don't critically evaluate the document and make a wise decision you might be a shareholder of a company that does not perform that well. Invest in a business you know and understand. Remember that well known brands will not always be good investments.

#### ***DON'Ts***

- Don't be influenced by any implicit/explicit promise made by the issuer or anyone else. Your decisions should be based on solid reasoning.
- Don't invest only based on the bull run of the market. The index might go up but always make sure that the stock you buy is not overpriced.
- Don't expect the price of the shares of the issuer company to necessarily go up upon listing and forever. It is true that certain IPOs performed extremely well as soon as it was listed. Yet it couldn't sustain the upward trend. Buying shares is an investment. Allow your portfolio to grow and with time you will earn profits through capital gain and at times even dividends.

### **Secondary Market**

#### ***DO's***

- Before investing, please check about the credentials of the company, its management, fundamentals and recent announcements made by them and other disclosures made under various regulations. The sources of information are the websites of the exchange and companies, databases of data vendors, business newspapers and magazines etc.

- Adopt trading/investment strategies commensurate with your risk-bearing capacity as all investments carry some risk, the degree of which varies according to the investment strategy adopted.
- Assess the risk-return profile of the investment as well as the liquidity and safety aspects before making your investment decision.
- Transact only through Stock Brokers/ Investment Advisors licensed by the Securities and Exchange Commission of Sri Lanka( SEC).
- Give clear and unambiguous instructions to your Investment Advisor.
- Insist on a contract note for each transaction and verify details in the contract note, immediately on receipt.
- Keep copies of all investment documents. Ask all relevant questions and clear your doubts before transacting.

### ***DON'Ts***

- Don't forget to take account of the potential risks that are involved in any investment.
- Don't fall prey to promises of unrealistic returns or guaranteed returns. The equity market is a form of investment. Hence it is irrational to always expect quick returns.
- Don't invest on the basis of hearsays, rumors and tips.
- Don't be influenced into buying into fundamentally unsound companies based on sudden spurts in trading volumes or prices or favourable articles/stories in the media.
- Don't follow the herd and don't play on momentum.
- Don't blindly follow investment advice given on TV channels/websites/SMS.
- Don't invest under peer pressure or blindly imitate investment decisions of others who may have profited from their investment decisions.
- Don't try to time the market.
- Don't hesitate to approach the proper authorities to complain your doubts/grievances.