

Information Content of Right Issue Announcements and Information Efficiency in Sri Lankan Stock Market

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This study analyzed the information content at the announcements of the right issue of the companies listed on the Sri Lankan Stock Market (SLSM) and tested the information efficiency by using event study methodology. The sample consisted of 38 listed companies, which made 40 public announcements of the right issues on the SLSM from 2005-2013. The Mean Adjusted Model, the Market Adjusted Model, and the Market Model along with proxy of the SLSM All Share Price Index (ASPI) were used in this study in generating abnormal returns in and around right issue announcements. Specifically, the Market model was used by incorporating volatility clustering effect and information asymmetric effects to get a strong result. Further, Time Series Models such as AR, MA, ARMA, GARCH, TARCH and EGARCH in relation to the stylized facts of each company returns within the sample specially to minimize the use of bias of the SLSM All Share Price Index as a proxy in generating abnormal returns. Overall results of the market response to right issue announcements based on each model show that the market reacts negatively to information subsequent to the right issue announcements in the SLSM. In addition, the analysis shows that there are delayed reactions to information subsequent to a public announcement of this event. It confirms that the Sri Lankan Stock Market is inconsistent with information efficiency subsequent to the information contained in the announcement of right issue announcements. These findings are important to all parties interested in the Share Market. Especially, it is more important to the investors, the managers of the companies and the Stock Exchange regulatory agencies in their decision-making process.

Keywords: Colombo Stock Exchange; Event Study; Information Efficiency; Right Issues