

CSE approves Revision of index calculation methodology of ASPI

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The Board of Directors of the Colombo Stock Exchange (CSE) approved the revision of the index calculation methodology of the All Share Price Index (ASPI) at a Board meeting held on November 15, to change its calculation basis from full Market Capitalization-weighting to free float-adjusted Market Capitalization-weighting with effect from January 2022 following consultations with stakeholders.

The Effective date with the detailed Index calculation methodology will be published in the CSE web site in due course.

The Colombo Stock Exchange (CSE) calculates and disseminates its benchmark pricing index - the All Share Price Index (ASPI) - and a total return version of it - the All Share Total Return Index (ASTRI). The ASPI calculation is based on the total market capitalization of its constituent companies as it considers 100% of the issued quantity of a company's shares for the weighting of the index, irrespective of that company's public holding percentage.

The ASPI takes into account both voting and non-voting shares of all listed companies. As such, the impact of each security's price change on the index is presently weighted according to that security's full market capitalization.

However, the present methodology does not consider the liquidity and actual tradability of each security. As a result, the current ASPI can reflect movements that are not consistent with actual price movements experienced by investors and can be subject to significant volatility based on low volume transactions in shares with very little free float. Therefore, it was decided to use an alternate methodology – a free float-adjusted index - commonly used by several exchanges that considers only the tradable portion of the issued quantity of securities, also known as the free float shares, for the calculation of indices. In this method, in the index calculation, each security is weighted based on its free float-adjusted market capitalization.

The CSE commenced work on revising the index calculation methodology in July 2021. In line with internationally accepted industry norms, changing a stock exchange's index methodology requires extensive back testing in order to grasp the impact of the changes. Hence, the CSE followed best practice and conducted reasonable amounts of back testing of the ASPI under the revised index calculation methodology on a pro forma basis dating back to December 2013. This analysis has provided a substantial amount of historical index data observations to understand the impact of a change to a new methodology.