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**SHARE PRICE REACTION TO THE RIGHTS ISSUE
ANNOUNCEMENTS AT COLOMBO STOCK
EXCHANGE- SRI LANKA (CSE)**

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Degree of Master of Financial Mathematics

Department of Mathematics

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Declaration

I wish to declare that the entire content of this text is my effort and work, and I have not incorporated any material or publication which has been previously published for any educational or academic purpose, without express acknowledgement.

Signature:

Date: 29/06/2025

The student mentioned above carried out the research for the Master's thesis under my supervision and confirm that the declaration made by the student on his own work is correct.

Name of the Supervisor: Mr. A R Dissanayake

Signature:

Date:29/06/2025

Dedication

To my wife and two sons, whose patience made my journey a success and to my supervisor Mr. Rohana Dissanayake whose kind guidance made this work, a success.

A special thank goes to Anuruddhika for the unwavering support given to me in completing this project

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Abstract

The study investigates the reaction of the share prices due to the Rights Issue announcement on the Colombo Stock Exchange (CSE) from 2012 to 2021 and tests its semi-strong form efficiency. Event Study Methodology combined with a basic t-testing model and Crude Dependence Adjustment Method (CDAM) to capture the event clustering effects have been used in the analysis. Private capital asset evaluation through CAPM generates abnormal return computations. The researcher analyzed 63 valid Rights Issue announcements, separating them into trading volume, issue size, and industry classification. A 50-day estimation period is considered with a 36-day testing phase which includes a 10-day pre-event window, the event day, and a 25-day post-event window. The study's findings denote a negative trend in share prices for most sub-sample data with an Average Abnormal Return (AAR) and Cumulative Abnormal Return (CAAR) on announcement day dipping towards negatives. The share price does not show a negative significant reaction in relation to two sub-samples [instead it shows a positive movement], which contained companies with low trading days and medium trading days, as both these subgroups contained little data. The results of CDAM tests further reject the null hypothesis, which shows that Rights Issue announcements significantly affect stock prices. Overall results show that CSE displays the traces of semi-strong efficiency, indicating that new information quickly affects share prices. In such a scenario, it is hard to earn profits if someone has insider information. Increasing in market efficiency can be achieved through technological improvements, better access to information, and market maturity.

Keywords: Colombo Stock Exchange; Rights Issue announcement; Semi-strong form efficiency; Stock price reaction

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List of abbreviations

CSE	: Colombo Stock Exchange
GICS	: Global Industry Classification Standards
MSCI	: Morgan Stanley Capital International
ASPI	: All Share Price Index
MAAR	: Mean Adjusted Abnormal Return
AAR	: Average Abnormal Return
CAPM	: Capital Asset Pricing Model
CAAR	: Cumulative Abnormal Average Return
CADM	: Crude Dependence Adjustment Method