

Qualities That Keep  
**Business**  
Moving...



# Vision

To become the benchmark regulator in Asia for effective, efficient and proactive Securities Market regulation.

# Mission

To promote, develop and maintain a Securities Market that is fair, efficient, orderly and transparent.

The Securities and Exchange Commission of Sri Lanka (SEC) was established by the Securities Council Act No.36 of 1987 to regulate the Securities Market in Sri Lanka, grant licenses to Stock Exchanges, Stock Brokers and Stock Dealers who engage in the business of trading in securities. Subsequently, the Act was amended by the securities Council (Amendment) Act No. 26 of 1991 vesting the SEC with the power to license and regulate Unit Trusts. The development and expansion in the Capital Market resulted in an increase of Market Intermediaries performing securities related functions, thus leading to gaps in the regulatory framework. Taking this into consideration Underwriters, Margin Providers Investment Managers, Credit Rating Agencies and Clearing / Depository Houses were brought under the purview of the SEC with Securities and Exchange Commission (Amendment) Act No. 18 of 2003.

Since its creation, the SEC's ultimate responsibility has been to protect investors, and to maintain a fair, efficient and orderly market. Apart from discharging regulatory functions, it is also obliged to encourage and promote the development of the Securities Market. In the year under review the Commission in order to fulfil its responsibilities pertaining to effective market supervision, development, regulation and enforcement embarked on several strategic initiatives.

The activities and accomplishments highlighted in this Annual Report for the year 2007 demonstrate our commitment to developing the Capital Market of Sri Lanka by strengthening regulation and enforcement and thereby promoting investor confidence.

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# Chairman's Review

*We believe our role as a regulator is to identify, reduce and manage risk in the Capital Market, thereby retaining investor confidence and maintaining integrity*



The year 2007 was a year of mixed results for the Securities and Exchange Commission of Sri Lanka (SEC). Relatively speaking, the Stock Market was less vibrant than the previous year, ending the year slightly down. A record Rs. 44.7 Bn. was raised by Listed Companies through rights issues, although no Initial Public Offering's (IPO) took place. High inflation and rising interest rates coupled with the adverse security situation no doubt contributed to the lack of growth and vibrancy in the Market. These factors particularly affected the business exposed to the Tourism and Travel industry segments of the Colombo Stock Exchange (CSE). In spite of high interest rates, the Telecommunication and several other sectors managed to crystallise their investment plans and reported satisfactory profit growth.

Against this backdrop, SEC forged ahead with its efforts to help develop the Capital Market by setting up a Project Team within the SEC to implement

the recommendations of the Capital Market Master Plan. During the year SEC relocated to two new floors at the World Trade Centre. The SEC also continued its work on the Securitisation Act, and set out to completely overhaul the SEC Act to bring it in line with more advanced jurisdictions and principles of the International Organisation of Securities Commissions (IOSCO). As envisaged in the Corporate Plan, an improved version of a Market Surveillance System was identified to be installed at the SEC Surveillance division.

Furthermore, the SEC Supervision division reoriented itself to become a more Risk-Based monitor of intermediaries in the Capital Market. Stemming from this approach, having identified the total credit expansion by the Stockbrokers and Margin Providers, the SEC reduced the margin allowed on initial purchase of shares from 75% to 50% in line with global best practices.

## **Chairman's Review**

Significantly, SEC by a directive shortened and reduced the settlement cycle and the resultant risk by bringing in a single tier T+3 settlement for stock purchases and sales. Together with the CSE we explored the possibility of introducing derivatives as a hedging mechanism for investors. We explored the feasibility of setting up a Clearing Corporation to reduce the settlement risk.

We believe our role as a regulator is to identify, reduce and manage risk in the Capital Market, thereby retaining investor confidence and maintaining integrity of this segment of the financial system. With the support of the Government, the SEC plans to continue to complement its core responsibilities as the regulator, with Market development activity as enumerated in the Capital Market Master Plan.

I would like to take this opportunity to thank my fellow Commissioners, and the staff of the Secretariat for their hard work and cooperation in achieving the objectives outlined for 2007.



**Dr. Gamini Wickramasinghe**

# Acting Director General's Review

*We are committed to improving the effectiveness of regulation and promoting a culture of compliance among regulatees*



The year 2007 has been one of considerable achievement for the Securities and Exchange Commission of Sri Lanka. In keeping with our mandate of providing protection to investors and fostering a fair and efficient Capital Market, we have been able to attain several significant milestones.

The year under review saw the implementation of wide-ranging initiatives under the Capital Market Master Plan. With a view to increasing depth in the Sri Lankan Capital Market, the possibility of introducing derivatives has been considered. In order to facilitate the same, steps were taken to amend the Securities and Exchange Commission of Sri Lanka Act to provide for derivatives as a recognised investment instrument and to provide for the necessary regulatory structure. An Industry Advisory Committee was established in order to obtain advice for this Derivatives Initiative.

Another measure taken has been to set up a dedicated Corporate Bond Development Task Force

in order to explore the development of the domestic Bond Market. Its chief task is to provide a policy direction for the systematic development of the Bond Market and to identify implementation strategies.

We are committed to improving the effectiveness of regulation and promoting a culture of compliance among regulatees. In the year under review, we issued a directive to the Colombo Stock Exchange to amend its member regulations to restrict the credit which Stock Broking firms may grant to their clients to 50% of the market value of the particular client's portfolio. A further directive was issued to reduce the settlement period and for the adoption of a single tier settlement cycle at Trade day + 3 days (T+3). Previously the settlement cycle was two tiered with the buyer settling at T+3 and the seller being settled at T+4. Both measures contributed towards mitigating the systemic risk to the Market due to unsettled trades and the prolonged period available for settlement.



## Acting Director General's Review

A supervision framework based on risk was devised for Stock Broking companies, Unit Trust Management Companies and other Market Intermediaries in a bid to enhance the integrity of the Market through the provision of a structured method for identifying and measuring the exposure of each market participant.

Nurturing knowledgeable investors who are aware of market trends and encouraging continuous education among professionals involved in the Capital Market sector are an integral part of Capital Market development. In 2007, in a pioneering move, the Financial Services Academy was established in collaboration with the Insurance Board of Sri Lanka to provide both investors and the members of the industry an opportunity to obtain access to experts in the field. In the year under review, the Financial Services Academy conducted awareness programmes, specialised and professional training courses for a wide-ranging audience. In collaboration with consultants from the Asian Development Bank the Financial Services Academy commenced formulating a qualification framework for professionals in the Capital Market sector.

Good corporate governance practices in Listed Companies will not only assist the companies to better manage risk but also contribute towards improved transparency and accountability which will in turn result in stability in the Market. Together with the Institute of Chartered Accountants of Sri Lanka and the CSE, we formulated Rules on Corporate Governance, which were incorporated into the Listing Rules of the CSE with respect to Listed Companies. The Rules contain requirements for disclosure and the appointment of independent directors who conform to stated criteria.

One of the most important functions of a regulator in order to generate confidence in the Securities Market is effective enforcement of rules and regulations. At the culmination of the action taken against the companies and the directors of Magpek Exports Ltd. for failing to immediately disclose material information to the Market and for creating a false Market in respect of shares of Magpek Exports Ltd., the Court sentenced four directors to a term of imprisonment of three years and a fine of Rs. 5 Mn.

Subsequently an appeal has been lodged against the judgement and the matter is pending in the High Court holden in the Western Province.

Ensuring that rules and regulations for the Capital Market are abreast with global trends and developments is one of the key tasks in which we are involved. Therefore the SEC has undertaken a substantive review of the SEC Act with a view to introducing necessary amendments. We are also facilitating the drafting of a Securitisation Act for Sri Lanka in order to regulate a currently unregulated segment of the Capital Market and to increase the number of regulated investment instruments which are available.

One of the cornerstones of the SEC has continued to be the trained and competent staff and in keeping with these values the SEC provides its employees with necessary training both locally and internationally. In the past year we have been able to enhance capacity through the employment of several persons in various grades.

I take this opportunity to express my sincere appreciation to the employees of the SEC for their untiring efforts, enthusiasm and dedicated commitment, without which these achievements would not have been possible. Every member of the SEC team, be it the highly qualified professionals drawn from several disciplines or the support staff, has contributed immensely towards the efforts made by the SEC and it is indeed heartening to note the camaraderie with which they undertake the onerous tasks required of them. I hope that the team will consolidate the initiatives already commenced and continue with their efforts with renewed vigour with a view to achieving our shared vision of a Securities Market which is fair, efficient, orderly and transparent.

I further wish to thank the Members of the Commission for the support and encouragement and all our stakeholders for their assistance and continued co-operation.



**Marina Fernando**

# Members of the Commission



## 1. DR. GAMINI WICKRAMASINGHE

Dr. Wickramasinghe graduated with a M.Sc. in Systems Analysis from the University of Aston, Birmingham, UK. With over a decade of extensive senior level experience obtained in the United Kingdom and Belgium, he returned to Sri Lanka in 1983 and founded the Informatics Group of Companies. Considered a pioneering 'Information Technology' company, today Informatics consists of a multitude of companies complementing the national education goals through the introduction of locally based quality British tertiary education in Sri Lanka and creating employment opportunities nationwide as one of the largest software development houses in the country.

Dr. Wickramasinghe obtained his Doctorate in Business Administration from Manchester Metropolitan University, UK and is a Fellow Member of the British Computer Society and the Chartered Management Institute of UK. Apart from

being the Chairman of the Securities and Exchange Commission of Sri Lanka, presently he holds the chairmanship of the Insurance Board of Sri Lanka and the Bank of Ceylon.

## 2. MR. C. P. E. GUNASINGAM

Mr. C. P. E. Gunasingam holds a Bachelor of Science Degree from the University of Madras and a Bachelor of Laws Degree from the University of Colombo. He was admitted to the Bar as an Advocate in 1972. He is a Fellow Member of the Sri Lanka Institute of Taxation and has served as its President for four years. He has served as a Visiting Lecturer in Taxation at the Sri Lanka Institute of Taxation and the Institute of Chartered Accountants of Sri Lanka. He has served as an Assessor of Inland Revenue from 1962 to 1973 and counts 34 years of service as a Tax Practitioner. He has addressed seminars and contributed articles to newspapers and journals on tax related subjects. Mr. Gunasingam served as a Board Member of

## Members of the Commission

Peoples Bank. Presently he serves as a Board Member of the Insurance Board of Sri Lanka and the National Council for Economic Development - Taxation Cluster.

### 3. DR. (MRS.) RANEE JAYAMAHA

Dr. Ranee Jayamaha currently holds the post of Deputy Governor, Central Bank of Sri Lanka. As the Deputy Governor in charge of the Financial System Stability, she chairs the Financial System Stability Committee of the Bank, the Credit Information Bureau of Sri Lanka, the National Payments Council and Technical Committee on Regulation of Share Ownership in Banks. She also chairs the Legal Forum, which is a forum between the business and legal communities of Sri Lanka, the Technical Committee of the Asian Clearing Union and the SAARC Payments Initiative. She is a Member of the Bank's Monetary Policy Committee, Sri Lanka Insurance Board, Securities and Exchange Commission of Sri Lanka and the National Economic Council.

Dr. Jayamaha held the posts of (i) Special Advisor (Economics), Economics & Legal Advisory Services Division, Commonwealth Secretariat, London, UK; (ii) Advisor/Chief Executive, Financial Sector Reform Committee, Ministry of Finance – Colombo; (iii) Secretary, Presidential Commission on Finance & Banking; (iv) Director/Banking Development Department of the Central Bank of Sri Lanka; (v) Deputy Director, Senior Economist and Economist of the Economic Research Department of the Central Bank of Sri Lanka.

She received her Ph.D in Monetary Economics from University of Bradford, UK, M.Sc. in Economics from University of Stirling, UK and BA (Hons.) from University of Peradeniya, Sri Lanka.

### 4. MR. D. K. HETTIARACHCHI

Mr. D. K. Hettiarachchi is an Attorney-at-Law by profession. He is a Law Graduate (LL.B) of the University of Colombo. He joined the Department of the Registrar of Companies in 1986 as an Assistant Registrar and was promoted to the position of Registrar of Companies in 1997. He has been appointed as the Registrar General of Companies under the new Companies Act. He is also an ex-officio member of the Sri Lanka Accounting and Auditing Standards Monitoring Board.

### 5. MR. GRAETIAN GUNAWARDENA

Mr. Graetian Gunawardena was educated at Thurstan College and studied up to Advanced Level and joined the Royal Ceylon Air Force as an Aircraft Engineering Technician for 2 years and thereafter served in the Police Department for 12 years.

He started his own business as the founder Chairman of Hands International (pvt) Ltd., which is an export-oriented company with a staff of 3,000 workers. He was elected the entrepreneur of the year in 1999/2000. Mr. Gunawardena was the recipient of the Gold Award for exports for the extra large category for many years.

He also served as the Chairman of the Exporters Association from 2003-2005. He was also the Chairman of the Sri Lanka Taiwan Friendship Association for five years. Mr. Graetian Gunawardena was a Director of the American Chamber of Commerce for two years.

Presently he is the Lions Governor for District 306 B2 and was adjudged the best Governor in the world at the Boston Academy Awards Function. He is also a new Board Member of the Lions Club International of 2007-2008.



### 6. MRS. SIROMI WICKRAMASINGHE

Mrs. Siromi Wickramasinghe is a senior banker with over 25 years of experience in the industry and presently functions as the General Manager/CEO at Lankaputhra Development Bank Ltd. She has held many positions in the spheres of Credit Development and Investment Management, Procurement & Expense Control and Corporate Relationship Development, Regulation & Corporate Governance and Administration. She has extensive exposure to global industry best practices having taken part in and contributed to many training and development programmes at some of the world's leading financial centres.

Mrs. Wickramasinghe is also an Attorney-at-Law, Notary Public and Commissioner for Oaths and a Fellow of the Chartered Management Institute, UK, where she is the Treasurer of the Executive Council of the Sri Lanka branch.

### 7. MR. YOHAN PERERA

*(Completed his term on 19 December 2007)*

Mr. Yohan Perera is a Partner at KPMG Ford, Rhodes, Thornton & Company since April 1990.

Mr. Perera is the President of the Institute of Chartered Accountants of Sri Lanka for the years 2006 and 2007. He is also a Director of the Confederation of Asian and Pacific Accountants (CAPA), a regional accountancy organisation affiliated to the International Federation of Accountants (IFAC).

Mr. Perera is an ex-officio member of the Governing Council of the Postgraduate Institute of Management (PIM) of the University of Sri Jayewardenepura and the National Institute of Business Management (NIBM). He is also a Member of the Monetary Policy Consultative Committee of the Central Bank of Ceylon and the Inter Regulatory Institutional Council.

He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (FCA) and a Fellow Member of the Chartered Institute of Management Accountants, United Kingdom (FCMA).

### 8. MR. RAVI ABEYSURIYA

Mr. Abeysuriya is a Fellow Member of the Chartered Institute of Management Accountants, United Kingdom and has an MBA from Monash University, Melbourne, Australia. He is one of the very first Chartered Financial Analyst (CFA) Charter Holders in Sri Lanka. As Head of Corporate Finance at JP Morgan/Jardine Fleming he was responsible for international equity placements and corporate restructuring assignments. In 1999 he pioneered the establishment of Sri Lanka's first credit rating agency, Fitch Rating Lanka Ltd. and worked in the capacity of Managing Director and Chief Executive Officer.

As a Member of Sri Lanka's Prime Ministerial Task Force he was responsible for recommending financial sector reforms in Sri Lanka. His work experience also includes senior roles in the private equity investment industry, and consulting for the World Bank and the Government of Sri Lanka. At present, Mr. Ravi Abeysuriya is the Managing Director of Amba Research which is a specialised provider of investment research and analysis support services.

### 9. MR. WADUGE NISHAN INDRAJITH CHULANANDA FERNANDO

*(Appointed on 20 December 2007)*

Mr. Nishan Fernando is the President of the Institute of Chartered Accountants of Sri Lanka. He serves as a Member of the International Accounting Education Standards Board of the International Federations of Accountants (IFAC), a Member of Statutory Accounting Standards Committee and a Member of the Sri Lanka Accounting & Auditing Standards Monitoring Board. He is in the governing councils of the National Institute of Business Management (NIBM) and the Postgraduate Institute of Management (PIM) of the University of Sri Jayewardenepura. Mr. Fernando is also a former Board Member of the South Asian Federation of Accountants (SAFA), former Chairman of the Accounting and Auditing Standards Committee of SAFA and the former Chairman/Member of the Urgent Issues Task Force. At present he functions in the capacity of the Group Chief Financial Officer at ODEL (pvt) Ltd.

## **Members of the Commission**

### **10. MR. SUMITH ABEYSINGHE** *(Absent)*

Mr. Sumith Abeysinghe holds a Bachelor of Arts (Hons.) Degree in Geography (Sri Lanka) and a Masters Degree in Economics (University of New England, Australia).

Mr. Abeysinghe functions as Deputy Secretary to the Treasury since 2004. He previously held senior positions in the Ministry of Finance and Planning, such as Director General of National Budget and Director of Fiscal Policy and Economic Affairs. He is also an ex-officio Director of Insurance Board of Sri Lanka and of Bank of Ceylon. He served as the Treasury nominee Director in various statutory Boards such as Sri Lanka Tea Board, Coconut Development Authority and in non-governmental institutions such as Commercial Bank of Ceylon Ltd. and Elpitiya Plantations Ltd.

# Senior Management



*First Row (from Left):*

Himani Kotagama (Assistant Director, Supervision), Surana Fernando (Director, Corporate Affairs), Marina Fernando (Deputy Director General), Ayanthi Abeyawickrama (Assistant Director, Legal and Enforcement), Ianthie Jayaratne (Director, Finance and Administration)

*Second Row (from Left):*

Vasula Premawardhana (Director, Media and Communications), Malik Cader (Director, External Relations and Market development), Chandu Epitawala (Director, Surveillance and Research), Dhammika Perera (Director, Investigations), Namal Kamalgoda (Director, Capital Market Development Asset management), Toshihisa Iida (Consultant), Vajira Wijegunawardene (Director, Capital Market Development),

*Absent:*

Channa de Silva (Director General), Tharanga Kariyawasam (Director, Supervision), P.M.C. Thilakerathne (Director, Financial Services Academy)

# Staff



*First Row (from Left):*

Dayanthi Panabokke, Kaushalya Kumarage, Madugayanie Balapitiya, Anula Wijesinghe, Kanchana Kumari, Chamila Vithana, Shalini Perera, Nishoka Jayathunga, Christobel Silva, Ruwanganie Gooneratne, Ashoka K Dayarathne, Sheena Goonaratne, Nuala Thevathasan, Ranmini Jayathilake, Thushara Abhayaratne

*Second Row (from Left):*

Kishan Abeygunawardana, Prabashini Samarakoon, Sharmila Panditharatne, Krishanthi Muthuthanthrige, Saumi Kodippily, Sajeewani Bakmedaniya, Carmen de Silva, J.K. Priyadharshani, Mekala Jayapala, Manjula Chandraratne, M. Jayasekera, Chandran Nagendran

*Third Row (from Left):*

D.M.G. Priyantha, S.D. Dharmasiri, W. Ariyaratne, R.K.W. Sunimal, Kumari Siriwardena, Dulani Amarasinghe, Anura Perera, Suneth Perera, Anslam Dias, Pathum Niroshana, Sugath Alwis, Nimal Kumarasinghe, Lakshman Silva, P.W.L. Piyatissa

*Absent*

Hasini Amarathunga, Rupika Bandara, Anusha Nishanthi, Shalini Samarakkody, Dinesha Perera, Lakshmi Wickramanayake, Avanthi Weerasinghe, Prathibhani Herath, Julie AllegaKoen, Dhanesha Rajapura, A.G.I. Priyanganie, P.D. Pathmarani



# THE THRUST OF DEVELOPMENT...



means we seek to adopt innovative global practices... and the development of our Securities Market... all the time.



# Macroeconomic Commentary

***Domestic savings and investments as a percentage of GDP improved to 17.6% and 27.9% respectively in 2007***

Amidst a number of serious challenges including adverse weather conditions, high international oil prices and the unfavourable security situation, in 2007 the economy grew at an impressive 6.8%. This is a reflection of the economy's resilience to the many adverse shocks the country had to face during the year. All three major sectors of the economy recorded considerable growth. The Services sector recorded a growth of 7.1%, contributing to 62.4% of the overall growth. The Industry sector recorded a healthy growth of 7.6% and contributed 31.7% to the growth. Despite setbacks experienced in tea and paddy cultivations, the Agriculture sector grew by 3.3% contributing to 6% of the growth. From the bigger sub-sectors, telecommunications yet again has shown the strongest performance, benefiting from recent developments in the sector, particularly broadband

coverage expansion. The telecommunication sector is projected to grow by 19.5% in 2008 with the entry of a new service provider to the Fixed Access-Wireless local loop phone market and another mobile telephony provider from India<sup>1</sup>.

Persistent high inflation remains the single biggest challenge for the Sri Lankan economic planners and Central Bankers. Inflation erodes the standard of living of mere wage earners much more severely than that of the asset owning segment of society.

The average inflation during the last 30 years has been around 12% per annum in Sri Lanka<sup>2</sup>. As measured by the New Colombo Consumers' Price Index (CCPI(N)), the general price level moved on an upward trend, leading to an annual average increase of 15.8% in 2007. The significant increase

<sup>1</sup> *Recent Economic Developments - Highlights of 2007 and Prospects for 2008*

<sup>2</sup> *ROAD MAP: Monetary and financial sector policies for 2008 and beyond-Central Bank Publication*

in inflation during the last year was mainly driven by phenomenal increase in oil and commodity prices, inadequate supply of key agricultural commodities, financing budget deficit through banking sources and an accelerated expansion in credit to the private sector. High inflationary expectations naturally results in high interest rates. High interest rates has ramifications on the Equity Market as on the one hand it negatively affects company profitability, and on the other investors pull funds out of the Stock Market when debt instruments give them high fixed returns.

Domestic savings and investments as a percentage of GDP improved to 17.6% and 27.9% respectively in 2007. The higher growth in investment activities resulted in the resource shortfall widening further. National savings improved due to higher inflows from remittances received from Sri Lankans working abroad. As these levels of savings and investment are inadequate to raise growth and the standards of living substantially, a concerted effort must be made to raise savings and investment at least up to 30% of GDP. Increased investment can be channelled to improve essential infrastructure and achieve balanced growth and a more equitable distribution of wealth.

The overall budget deficit declined to 7.7 % of GDP in 2007 from 8% recorded in the previous year. Outstanding public sector debt declined to 87.5% of GDP from 90.3% at the end 2006. Current expenditure accounted for approximately 74% of the total Government expenditure. The Government's attempts to broaden the tax base, revise tax rates, modernise tax administration and strengthen the regulatory framework has resulted in enhanced revenue from taxes and it accounted for 90% of total revenue.

Sri Lanka's trade deficit widened to US Dollars 3,560 Mn. The total import expenditure grew by 10.2%, while export earnings grew by 12.5% from last year. Export earnings continued to increase with industrial exports and agricultural

exports, accounting for 76% and 20% respectively, of overall exports. The textile and garment industry was the highest contributor among industrial exports. The concessions given by the government and the several multi-lateral and bilateral trade agreements that Sri Lanka entered into made this growth possible. Taking into consideration the composition of imports the bulk of imports is intermediate goods and was dominated by crude oil and textile imports.

Overall Balance of Payments (BOP) was in surplus as capital inflows (mostly borrowings by the Government and by state-owned banks) increased sharply. The Government partially liberalised its capital account with the gradual opening of the Treasury-Bond Market to external investors in the first half of 2007. At the end of the year foreign external reserves excluding Asian currency units (ACUs) stood at US Dollars 4.5 Bn., or about 3 months of imports. In 2007 Sri Lanka successfully completed its debut international sovereign bond issue amounting to US Dollars 500 million. This will undoubtedly serve as a benchmark for local corporates to gain exposure to the international Capital Market. Weakening Dollar resulted in the currency depreciating by a mere 1% against the Dollar during the period under review.

### CONCLUSION

As in previous years, many similar structural challenges such as high and persistent budget deficit, savings versus investment gap, inadequate investment in physical infrastructure especially express ways, continuing inflation, persistent BOP current account deficit and steady depreciation of the currency still remained. While addressing all such macroeconomic issues, a comprehensive transportation and logistics policy which encompasses expressways, railways, ports, traffic (and parking) management in cities etc. may have to be formulated with adequate financing and investment directed to the sector to leapfrog the Sri Lankan economy to the 21st century. Moreover, vibrant well regulated Capital Markets are a sine

## **Macroeconomic Commentary**

qua non for any country which aspires to develop rapidly as they are proven to be efficient mobilisers of capital for both business and Government. Economic planners and policy makers will do well to recognise this fact and offer every assistance to develop the Sri Lankan Capital Market from its current levels. SEC for its part is doing its best to play a developmental role in the Capital Markets in addition to the traditional regulators role.

**Source: Central Bank Annual Report 2007**

# THE RIGHT COMBINATION...



of qualities, skills and services... facets  
we bring to bear on the job, as a regulator  
protecting investors, offering security and  
operating a Market based on fairness.

# Capital Market Performance

*The Colombo Share Market was largely buoyant during the first quarter of 2007 due to lower interest rates, inflation and better corporate earnings*

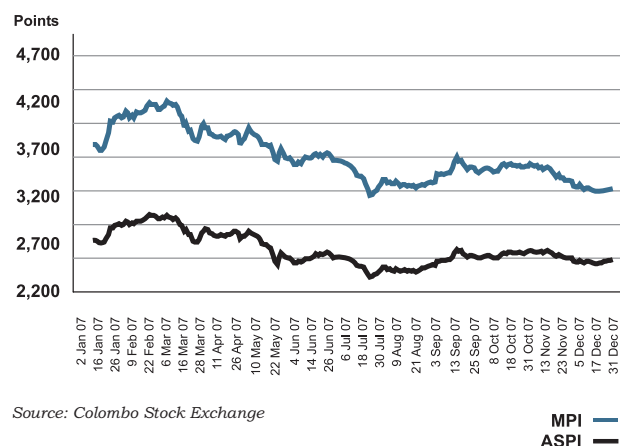
## EQUITY MARKET

A developed Stock Market is crucial for capital mobilisation by Listed Companies for expansion and growth plans. The Colombo Share Market was largely buoyant during the first quarter of 2007 due to lower interest rates, inflation and better corporate earnings.

The Colombo Stock Exchange (CSE) benchmark All Share Price Index (ASPI) commenced the year at 2,722.3 points and reached its highest level of 3016.4 points in February 2007. There was a general decline in activity due to the volatile political and security environment as well as rising inflation and interest rates. Before high interest rates and inflation affected the Stock Market, the average daily turnover was Rs. 746.7 Mn. in January and Rs. 839.5 Mn. in February. But by 2007 December average daily turnover had declined to Rs. 321 Mn.

On a year on year basis the ASPI declined by 181 points or 6.7% and closed the year at 2,540.99 points. The narrower MILANKA Price index closed the year at 3,291.8 points which reflects a drop of 11.3% on a year on year basis. At the end of the year the Market capitalisation stood at Rs. 820.6 Bn. (approximately 23% of GDP). This is a decline of Rs. 14.1 Bn. compared with the previous year.

ASPI & MPI Movements During the Year 2007



Source: Colombo Stock Exchange



Foreign participation in the Colombo Share Market was higher than in 2006. Foreign purchases for the year under review, was Rs. 46.7 Bn. in 2007 compared with Rs. 31.7 Bn. in 2006. The net foreign inflow was Rs. 11.2 Bn. in 2007. Local and foreign participation was 61% and 39% respectively of the annual turnover for 2007. Annual turnover of Rs. 104.9 Bn. was recorded in 2007 compared with Rs. 105.1 Bn. in 2006. The average daily turnover declined marginally by 0.2% to Rs. 435.6 Mn. over a period of 241 Market days.

Rising interest rates, inflation, political sentiment and security conditions are factors that affect corporate earnings and ultimately the Market performance. On the one hand profitability is negatively impacted by the high interest rates and on the other hand there has been a discernible shift by investors to fixed income securities from shares. Treasury securities yields reached around 20% during the latter part of the year, indicating that rates are back at the levels seen during the years 1999/2000.

One of the more positive developments during 2007 was the sharp increase in the plantation sector index. It increased by about 68.7%, recording the highest percentage growth sector-wise in the CSE. The plantation companies had a positive impact with high tea and rubber prices and some companies diversified into palm oil which has a high price in the world market. During the year under review, Price Indices of 11 sectors recorded positive growth, while 9 sectors declined. The highest decline of 20.9% was seen in the Power and Energy sector.

In the year under review there were 21 Rights Issues by Listed Companies that raised Rs. 44.7 Bn. from the investing public. However it is a matter of concern that in the year under review there was not a single new listing at the CSE.

Sri Lanka's Stock Market is bracing itself for tough conditions ahead with a large budget deficit keeping inflation and interest rates high, and corporate earnings expected to be weak in weaker economic conditions. New investments by Listed Companies are also likely to be postponed or scaled down.

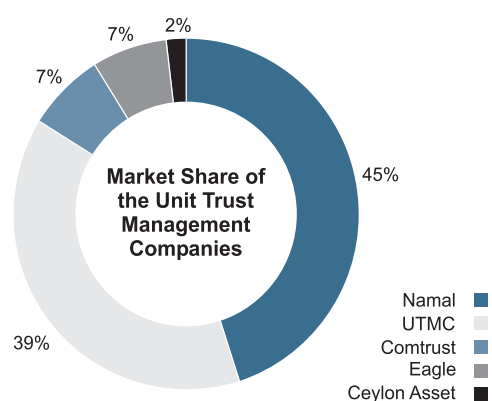
### DEBT MARKET

During the year 8 companies mobilised funds amounting to Rs. 8.2 Bn. by way of debenture issues. This is the highest amount listed on the CSE, in the last 10 years. At the end of 2007, debentures worth Rs. 18.3 Bn. were outstanding.

### UNIT TRUST FUNDS

There were fourteen Unit Trust Funds managed by five Management Companies as at 31 December 2007. During the year 2007, the first Close-Ended Fund was launched. Unlike the other Unit Trusts available in the Sri Lankan Market, which are open ended, a close-ended Unit Trust has a fixed maturity period and issues a limited number of units. The Issue of units in a close-ended Unit Trust is treated as an Initial Public Offer (IPO) and is for a limited period of time. Units are not issued after the IPO is completed.

The market share of each Unit Trust Management Company as at 31 December 2007 is reflected in the following chart:



The Unit Trust Industry recorded a positive growth of 19% in terms of the fund value, 3% in units issued, whilst the number of unit holders recorded a negative growth of 1% when compared to the previous year.

## Capital Market Performance

### THE OVERALL POSITION OF UNIT TRUST FUNDS

	31.12.07	31.12.06	Change %
Net Asset Value			
(NAV) (Rs. Mn.)	6,296	5,352	17.63
No. of Unit Holders	23,191	23,417	(0.97)
No of Units Issued			
(ooo)	469,853	355,553	32.15
Investment in Equity			
(Rs. Mn.)	3,655	3,700	(1.22)
Investment in Treasury			
Bills (Rs. Mn.)	932	956	(2.51)
Investment in other			
Instruments*	1,709	696	145.55
ASPI	2,541	2,722	(6.66)
MPI	3,292	3,712	(11.31)

\* (E.g. Commercial Papers, Trust Certificates, Debentures and Bank Deposits)

At the end of year 2007 fourteen unit trust funds recorded 470 million units in circulation compared to 356 million during 2006. The number of unit holders had decreased from 23,417 as at 31 December 2006 to 23,191 as at 31 December 2007. The overall Net Asset Value of the funds increased by Rs. 945 Mn. (approx.) from Rs. 5.4 Bn. (approx.) to Rs. 6.3 Bn. (approx.) compared to the previous year. The main reason for the increase in the Net Asset Value was due to the introduction of a closed ended unit trust fund. The All Share Price Index and the Milanka Price Index decreased by 6.7% and 11.3% respectively.

It was also observed that 58% (approx.) of the deposited property of Unit Trusts was invested in the Equity Market and 15% (approx.) of their funds in Treasury Bills, whilst 27% (approx.) was invested in other money market instruments.

# TO THE MINUTE

Precision and clockwork like efficiency are qualities we bring to bear in serving our Securities Market.



# Operational Review

*In 2007, a Programme Management Office (PMO) was established to promote and support the development of the Sri Lankan Capital Market*

## Supervision

### STOCK BROKING COMPANIES

The Securities and Exchange Commission (SEC) Act requires all Stock Broking companies to obtain a license in order to be members of a licensed Stock Exchange. The license is granted by assessing the financial position and compliance with the Colombo Stock Exchange (CSE) Member Regulations which has requirements pertaining to liquidity and net capital. In addition, on-site supervision is conducted annually to determine the financial stability and operational viability of the Stock Broking companies.

The SEC has stipulated that the Stock Broking companies maintain sufficient liquidity and a minimum net capital requirement<sup>3</sup> of Rs. 35 Mn. (increased from Rs. 25 Mn. with effect from

31 December 2007) to ensure that the company is financially stable. They are required to submit monthly unaudited Financial Statements, net capital statements and liquidity position to the Secretariat. We analyse these statements to determine the financial performance of the industry and ensure that these companies are financially viable.

Further, the companies are required to submit Compliance Reports to the Secretariat on a monthly basis. These Reports are reviewed by the Officers of the Supervision Division to ensure that compliance procedures are adhered to and any discrepancies and weaknesses are notified to the company for rectification. During the off-site review, it was revealed that the net capital position of three companies had fallen short during the year. These companies were required to take necessary action and rectify their positions immediately.

<sup>3</sup> A minimum net capital requirement is defined as 'shareholders' funds adjusted by all unsecured amounts.

During 2007, on-site inspections of Stock Broking companies were carried out prioritised by the risks assessed through off-site monitoring and inspections conducted in the previous year, to ensure that they complied with the SEC Act and Rules of the CSE. During on-site supervision, it was observed that a few companies had internal weaknesses such as inadequate Management Information Systems and inaccurate net capital computations. These companies were informed of these weaknesses in order to take necessary action.

During the year, a Stock Broking company was directed to carry out an independent audit through a reputed audit firm to ensure that the company had effective internal controls. Jointly with the CSE, we conducted a special audit on another Stock Broking company to determine its financial stability and operational viability.

On-site inspections of Stock Broking companies that have branch operations in Kandy were also carried out, in order to assess compliance with rules and regulations. Some companies were found to have operational weaknesses and were directed to take corrective action.

We plan to enhance on-site and off-site supervision by identifying relevant risks of the Stock Broking companies and prioritise emerging issues accordingly. For the year under review, we recommended the renewal of registration for all 20 Stock Broking companies.

### **UNIT TRUST MANAGEMENT COMPANIES**

We reviewed the monthly accounts and returns submitted to the Secretariat in respect of the fourteen Unit Trust Funds managed by five Unit Trust Management Companies. In addition exposure levels of the Unit Trusts according to the investment limitations set out in the relevant Trust Deeds and the Unit Trust Code were also monitored and the companies were found to be within acceptable limits.

Furthermore, advertising material, press releases, interim reports and annual Financial Statements of Unit Trust Funds were approved.

### **MARKET INTERMEDIARIES**

During the review of audited Financial Statements and latest un-audited accounts it was revealed that a few Market Intermediaries failed to comply with the minimum net capital and liquid capital requirements. In such circumstances, the renewal of registration of such companies was extended for a few months to allow them to rectify the deficiencies. However, four Market Intermediaries were requested to cease operations due to their non-compliance with the above financial requirements. Further, on-site supervision of a few companies with an internally developed audit programme was conducted and the companies were notified of any short comings. During the year under review four new registrations took place under the categories of Investment Manager, Margin Provider and Underwriter.

We carried out off-site reviews of interim Financial Statements of the twenty-six Market Intermediaries in order to assess the financial stability according to the Rules stipulated under the SEC Act.

### **Registrations and Licensing**

During the year under review licenses of 20 Stock Brokers and 07 Stock Dealers were renewed and the following classes of Market Intermediaries were registered/registration renewed for a period of 12 months. Some companies were engaged in more than one function under the categories of Market Intermediaries.

- 02 Credit Rating Agencies
- 14 Investment Managers
- 13 Margin Providers
- 05 Underwriters
- 01 Clearing House



## Operational Review

### Strengthening the Legal Framework

#### CORPORATE GOVERNANCE

Considerable efforts have been taken towards the facilitation of better standards in Corporate Governance being adopted by Listed Companies. Following the initiative undertaken jointly by the CSE, The Institute of Chartered Accountants of Sri Lanka (ICASL) and the SEC, the standards were formulated and issued as part of the Listing Rules of the CSE in the year under review. Listed Companies are required to affirm compliance with or explain deviation from these minimalist standards by publication of disclosures related thereto in their respective Annual Reports. These standards relate to the constitution of the Board with a specified proportion of non-executive number and/or Independent Directors, the latter defined by specifically formulated criteria to aid companies in determining quantifiable bases against which independence could be gauged. The criteria have however been set out in a flexible manner in seeking to ensure that the spirit of the requirement would not be unduly undermined nor companies unduly restricted thereby.

These Rules require mandatory compliance from the financial year commencing on or after 1 April 2008. These standards will continue to be reviewed and revised to facilitate a phased out movement towards the adoption of adequate standards in Corporate Governance by Listed Companies.

A Code setting out recommended optimal standards of Corporate Governance for Listed Companies was also concluded during the year under review. This too was an initiative carried out jointly with the CSE and ICASL. The Code is recommended for adoption on a voluntary basis by Listed Companies.

We are currently working on the formulation of guidelines for the appointment of external auditors by Listed Companies.

#### AMENDMENTS

##### LISTING RULES

These amendments are being proposed by the CSE under the supervisory jurisdiction of the SEC.

- Listed Companies which are in violation of their obligations in terms of the Listing Rules are placed on the Default Board of the CSE. In order to address the issue of several Listed Companies being on the Default Board for a prolonged period of time, the Listing Rules of the CSE were amended under the guidance of the SEC and a procedure which is to be followed in respect of these companies were introduced into the Listing Rules.
- At present a revision of the Listing Rules is being carried out under the supervision of the SEC, in order to bring the Rules in line with the provisions of the Companies Act No. 7 of 2007 and to address identified lacunae in the said Rules. A preliminary review of the proposed amendments was conducted and discussions in this regard were held with the CSE.

##### MEMBER REGULATIONS

- A directive was issued to CSE with respect to Rule 25 of the Member Regulations to address the issue of the extension of excessive credit by Stock Brokers to their clients. The amendment of Rule 25 (iii) of the Member Regulations is as follows:
  - a. the percentage of credit which may be extended in accordance with Rule 25 (iii) of the Member Regulations to be amended to reflect 50% instead of 75% as was previously stated; and
  - b. the same to be incorporated into the Member Regulations of the Colombo Stock Exchange with effect from 1 January 2008.

### CENTRAL DEPOSITORY SYSTEM RULES

- Approval was granted to amend Rule 8 of the Central Depository Systems (Pvt) Ltd., in connection with the changing of the dates for sending statements to inactive account holders and introducing a procedure for handling statements returned due to incorrect addresses which would result in more effective procedures.
- The CSE was directed to adopt a single tier settlement cycle at Trade Day + 3 days (T+3) subject to a 3-month period of notice to Stock Brokers. Under the previous two tier system of settlement there was a one day gap between the day the buyer of the securities paid the broker and the day the broker paid the seller of the securities. The move to a single tier settlement cycle was made to address this issue and reduce the risk associated with the settlement cycle. This in turn would result in reducing the systemic risk the Market as a whole carries due to the extended period of settlement.

### SEC ACT

An in-depth review of the SEC Act is underway with a view to ensuring global regulatory trends are optimally and relevantly reflected in the legislation.

### SECURITISATION

Under the wider initiative of facilitating the introduction of better regulated products to the Market, we have continued to facilitate the drafting of an Act to regulate securitisation transactions. The scheme proposed in the draft Act is one which enables issuers to 'opt in' to be regulated and thereby obtain the credibility afforded by such regulation. Eligibility to 'opt in' would depend on compliance with the mandatory requirements prescribed under the Act which would include a 'true sale' of the assets underlying the securitisation which has been proposed to facilitate a level of

insulation against some of the risk inherent in the originator. It is also proposed to require that all transactions regulated under the Act and being offered to the public in terms of the Act be rated by rating companies registered with the SEC. The draft is being formulated with the assistance of technical expertise obtained through the World Bank and of the Ministry of Finance, and is being carried out in consultation with industry stakeholders.

### MARKET INTERMEDIARIES/STOCK BROKERS AND DEALERS

All Market Intermediaries, Stock Brokers and Dealers have been informed of the necessity for the appointment of a Compliance Officer and the format of the Suspicious Transactions Report (STR) to be adopted in keeping with the requirements under the Financial Transactions Reporting Act.

The Financial Transactions Reporting Act and Mandatory Know Your Customer/Customer Due Diligence (KYC/CDD) requirements prepared in line with the requirements of the Anti-Money Laundering Legislation has been formulated with the assistance of the Financial Investigations Unit of the Central Bank and introduced for compliance by all Market Intermediaries regulated by the SEC.

### APPOINTMENT OF DIRECTORS TO THE BOARD OF THE CSE

Regulation facilitating the appointment of fit and proper Directors to the Board of the CSE was introduced. In terms of this regulation, proposed appointees to the Board are required to comply with prescribed eligibility criteria.

### UNIT TRUSTS

Guidelines were drafted to provide for the lacunae in the Unit Trust Code pertaining to Rules for Trustees and Management Companies of Unit Trusts. These guidelines were forwarded to the Unit Trust Industry for comments.

## Operational Review

### Approvals

#### MERGERS AND ACQUISITIONS

The Takeovers and Mergers Code of 1995 as amended in 2003, apply to takeovers and mergers where the offeree is a Listed Public Company.

The Code seeks to ensure equal treatment to all shareholders of the same class in the Company sought to be taken over. The Rules of the Code are aimed at ensuring dissemination of sufficient information and advice with adequate time to the shareholders of the target company in order for them to arrive at an informed decision relating to a takeover. The Code deals with three types of offers namely Voluntary Offers, Partial Offers and Mandatory Offers. During the year under review we administered four Mandatory Offers and three Voluntary Offers.

Offeror	Offeree	Type
MTD Capital BHD	Kapila Heavy Equipments Ltd.	Mandatory Offer
Asia Fort Asset Management (Pvt) Ltd. acting in concert with Mr. A.B Khalid and Dato Seri Tiong King Sing.	Asia Capital Ltd.	Mandatory Offer
Lionhart Investments Ltd.	Walker & Greig Ltd.	Mandatory Offer
Asiri Hospitals PLC, Asiri Surgical Hospital PLC, Softlogic Holdings (Pvt) Ltd.	Asha Central Hospitals PLC.	Mandatory Offer
John Keells Hotels PLC	Eden Hotel Lanka PLC.	Voluntary Offer
John Keells Hotels PLC	Confifi Hotel Holdings	Voluntary Offer
John Keells Hotels PLC	Riverina Hotels PLC	Voluntary Offer

#### ISSUANCE OF UNLISTED SECURITIES

Section 29A of the SEC Act requires any Listed Public Company to obtain the prior approval of the SEC before issuing Unlisted Securities. During the year under review the following applications relating to Unlisted Securities issued by Listed Entities were reviewed and approved by the Commission.

Name of the issuer	Characteristics of the security	Amount Approved Rs.
Singer (Sri Lanka) Ltd.	Unsecured, redeemable debentures.	300 Mn.
Sampath Bank Ltd.	Unsecured, subordinated redeemable debentures.	250 Mn.
Merchant Bank of Sri Lanka Ltd.	Unsecured, redeemable debentures.	600 Mn.
Dialog Telecom Ltd.	Cumulative redeemable preference shares.	5,000 Mn.
Hatton National Bank Ltd.	Unsecured, subordinated, redeemable debentures.	2,000 Mn.
National Development Bank PLC.	Unsecured, subordinated, redeemable debentures.	250 Mn.
Merchant Bank of Sri Lanka PLC	Unsecured, redeemable debentures.	300 Mn.
Hatton National Bank PLC	Unsecured, subordinated, redeemable debentures	1,550 Mn.

### DELISTING

Approval was granted to the delisting application forwarded by Ceylon Oxygen Ltd., under Rule 5 of the SEC Rules published in the Gazette Extraordinary No. 1215/2 dated 18 December 2001.

### COUNTRY AND REGIONAL FUNDS

Granted approval in terms of the Gazette Extraordinary No. 720/12 of 24 June 1992 to 110 Regional/Country Funds to invest in Listed Companies in Sri Lanka.

### APPROVAL OF OFF-THE-FLOOR SHARE TRANSACTIONS

Approval was granted for 158 exceptional transfers and 207 gifting of shares during the year under review. The exceptional transfers were in order to facilitate margin trading, fund management, de-listing and restructuring of entities and portfolios where beneficial ownership does not change.

### COMPLIANCE

All Listed Companies are required to submit Annual Reports within six months from the close of the financial year to their shareholders and the CSE. The Annual Reports of Listed Companies were reviewed and matters relating to non-compliance were communicated to respective companies. The responses of Listed Companies were extremely positive in this endeavour.

The objective of this exercise is to enhance the quality of financial reporting and dissemination of information by Listed Companies. Listed Companies are required to disseminate material information promptly in order to establish transparency and accountability in the Securities Market, and to ensure that professional standards are maintained.

In reviewing the Annual Reports focus was vested in the following areas:

- Compliance with CSE Rules, Sri Lanka Accounting Standards (SLAS) and relevant provisions of the Companies Act

- Financial Highlights
- Chairman's Report
- Corporate Governance Practices
- Report of Directors
- Report of Auditors
- Shareholder and Investor Information
- Financial Data

During the year 14 Letters of Caution and 20 Letters of Comment were issued to Listed Companies based on our reviews.

This process will contribute to improving the level of awareness of companies and auditors regarding the obligations placed upon them in the preparation and presentation of Annual Reports and Accounts.

### Market Surveillance

In pursuance of SEC's objectives to ensure investor protection and safeguard market integrity, market surveillance plays an important role. We monitored movements, analysed trading patterns in shares and indices and initiated appropriate preliminary examinations when regulatory breaches were detected. Where appropriate we alerted relevant Market Intermediaries of suspicious activity to prevent them from crystallising into a full blown offence. Some of the more serious violations were referred to the Investigation Committee to ascertain whether further investigation was necessary. We further initiated inquiry into the referrals from the Stock Exchange, complaints from entities and persons. In order to prevent market irregularities, it was felt that a new surveillance system needs to be acquired to protect the interest of investors more effectively. During the year under review a new surveillance system, equipped with investigation tools, market reconstruction facilities and alert management tools etc., to detect market violations was identified. Listed Companies are required to disclose material information in a timely manner. We scrutinised company disclosures, press releases and market rumours to ascertain whether there is any distinct pattern between price movements prior to information being officially disseminated.

## Operational Review

During the year under review we detected 18 cases of possible regulatory breaches and examined these further. These findings were referred to the Investigation Committee for further examination and possible enforcement action.

The analysis of such detections in terms of broad categories of violations are listed below:

Nature of Surveillance	No. of Issues
Insider Trading	8
Market Manipulation	9
Other	1
<b>Total</b>	<b>18</b>

## Litigation

### CASES FILED BY THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

#### 1. SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA VS. MAGPEK EXPORTS LTD. AND ITS DIRECTORS

In terms of the SEC Act (as amended) charges were filed in the Fort Magistrate's Court against Magpek Exports Ltd. and its Directors for failing to immediately disclose material information to the Market and for the creation of a false Market in respect of shares of Magpek Exports Ltd.

Consequent to the investigation conducted by the SEC, legal action was instituted against Magpek Exports Ltd. (1st accused) in 1997 in terms of Section 51 (1) (a) read with Section 51 (2) SEC Act (as amended) for violating Rule 1 (1) of the Continuing Listing Requirements contained in the SEC Rules on account of the Company's failure to disclose information relating to the financial loss incurred by the Company. The SEC also charged the seven Directors of the Company for aiding and abetting Magpek Exports Ltd.

Charges against three of the non-executive Directors were compounded in August 2001 on an application made by them in that respect.

The learned Magistrate found the remaining four accused guilty of the charges and imposed a fine of Rs. 2.5 Mn. on each count and sentenced them to 1½ years imprisonment on each count. As a result, each of the accused was fined Rs. 5 Mn. and sentenced to 3 years of imprisonment and for a further term of 12 months imprisonment in case of default. A warrant was also issued on the 8th accused who was tried in absentia.

An Appeal has been lodged against the judgment and sentence of the learned Magistrate and the matter is pending in the Provincial High Court of the Western Province Holden in Colombo.

#### 2. (I) MC CASE NO. S/64560/ 2006 SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA VS. MR. SUNIL PIYAWARDENE AND MRS. CHANDRA PIYAWARDENE

Charges were filed in the Magistrate's Court, Fort against the above persons for the alleged offence of having traded in the shares of Nawaloka Hospitals Ltd., on the basis of price sensitive information prior to its disclosure to the Market. This matter is pending before Court as at 31 December 2007.

#### (II) MC CASE NO. S/64568/2006 SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA VS. MS. CHAMILA PIYAWARDENE; MR. SUNIL PIYAWARDENE AND MRS. CHANDRA PIYAWARDENE

The accused are charged with having traded in the shares of Nawaloka Hospitals Ltd. on the basis of price sensitive information prior to its disclosure to the Market.

The translation of papers to be forwarded to Australia for service of summons to the first defendant resident in Australia, has been tendered to the Registrar of the Magistrate's Court, Fort. The matter is pending before Court as at 31 December 2007.



**3. SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA VS. MR. B. A. JAYASEKERA AND 8 OTHERS**

In terms of the SEC Act (as amended) charges were filed as follows against the parties mentioned below:

- (i) Conspiracy to commit acts to create a false/misleading appearance of an active Share Market (Rule 12 of SEC Rules read with Section 113 B and 102 of the Penal Code)

- 1) B. A. Jayasekera
- 2) D. A. Samaradiwakara
- 3) U. H. Dharmadasa
- 4) K. M. N. Piyarathne
- 5) Michael de Saram
- 6) M. T. Ganhewage
- 7) L. C. Pallegedera
- 8) Mahanama Jayaweera
- 9) Jayantha Dharmadasa

- (ii) Committing acts to create a false/misleading appearance of an active Share Market (Rule 12 of the SEC Rules)

- 1) B. A. Jayasekera
- 2) D. A. Samaradiwakara
- 3) U. H. Dharmadasa
- 4) K. M. N. Piyarathne
- 5) Michael de Saram
- 6) M. T. Ganhewage
- 7) L. C. Pallegedera

- (iii) Aiding and abetting to commit acts to create a false/misleading appearance of an active Share Market (Rule 12 of the SEC Rules read with Section 102 of the Penal Code)

- 1) Jayantha Dharmadasa
- 2) Mahanama Jayaweera

This matter is pending in Court as at 31 December 2007.

**4. SC/FR 158/2007**

Petitioner – Mr. Vasudeva Nanayakkara  
Respondents – Mr. K. N. Choksy, PC & 37 others.

The Director General of the SEC has been cited as the 30th Respondent on the basis of his position as an ex-officio member of Public Enterprise Reforms Commission (PERC).

In this case the Petitioner has challenged the privatisation of the Sri Lanka Insurance Corporation (SLIC) whereby 90% shares of SLIC was sold to a consortium of companies which did not express any interest to buy nor was technically evaluated or approved by the Cabinet Approved Tender Board (CATB). The Technical Evaluation Committee (TEC) had originally approved the sale to a consortium comprising Distilleries Company Ltd. and Aitken Spence Co. Ltd. but the Share Sale & Purchase Agreement had been signed on 1 April 2003 with Milford Holdings (Private) Ltd., an offshore company and Greenfield Pacific EM Holdings (Private) Ltd. incorporated in Gibraltar on 27 March 2003.

The Petitioner is seeking inter alia to have the sale invalidated and for an order on the SEC directing the Director General to conduct investigations and take warranted action in terms of the law into alleged misappropriation of lawful rights and entitlements of Distilleries Company Ltd. and Aitken Spence Co. Ltd. (which are two Public Listed Companies).

This matter was still pending in Court as at 31 December 2007.

**5. SC/FR APPLICATION 179/2007**

Petitioner - Mr. Sripathi Sooriyarachchi, MP  
Respondents - Minister of Finance and 27 others.

## Operational Review

The Director General of the SEC was cited as the 19th Respondent on the basis that he served as a Member of the Cabinet Appointed Committee that went into the suitability of the bid of GTH (Malaysia) to buy 25.3% of SLT shares held by NTT Japan and to draft the Shareholders' Agreement in the event the sale went through.

The Petitioner has challenged the intended sale to GTH, (Malaysia) of 25.3% shares of SLT by NTT Japan.

This matter was still pending in Court as at 31 December 2007.

### 6. SC/FR APPLICATION 209/2007

Petitioner – Mr. Vasudeva Nanayakkara  
Respondents – Mr. K. N. Choksy, PC & 30 Others.

In this case the Petitioner has challenged the sale of 90% shares of Lanka Marine Services Ltd. (LMSL) a subsidiary of the Petroleum Corporation to John Keells Holdings as unlawful on the basis that the Government had been allegedly misled, causing grave loss and damage to the Government including the alleged misappropriation of valuable state lands.

The Petitioner has *inter alia* sought an order directing the Director General of the SEC to conduct investigations and take

warranted action in terms of the SEC Act for the purported wrongful conduct of affairs of John Keells Holdings Ltd. and Lanka Marine Services Ltd.

This matter was still pending in Court as at 31 December 2007.

### CASES FILED AGAINST THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

#### 1. DEBBIE HARDING VS. SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA LABOUR TRIBUNAL (LT) CASE NO. 1/347/02

Termination of services of Ms. Debbie Harding, Confidential Secretary, has been challenged in the Labour Tribunal.

As at 31 December 2007, the trial in this matter was pending before the Labour Tribunal.

#### 2. TOUCHWOOD INVESTMENTS LTD. AND ITS DIRECTORS VS. SECURITIES AND EXCHANGE COMMISSION

Touchwood Investments Ltd. obtained an interim order from the Court of Appeal staying the effect of the Directive of the SEC dated 9 March 2007. The Statement of Objections of the SEC has been filed and the matter is pending in the Court of Appeal, as at 31 December 2007.

## Inquiries and Investigations

A total of 11 investigations were conducted in the year 2007, out of which 7 were completed. One investigation was suspended during the year owing to the reason that the issues relating to the said investigation form the subject matter of a pending litigation.

The details and a brief description of the action taken/current status of the investigations are given below:

Nature of the Investigation	No of Investigations	Action Taken/Current Status
Insider Dealing <sup>4</sup>	04	<p>In the year 2006 a preliminary investigation report pertaining to an investigation was referred to the Attorney General's Department for formal advice and during the year under review, the fully fledged investigation was conducted into the matter in line with the advice received. On concluding this matter, a warning letter was issued to the person suspected to have engaged in Insider Dealing.</p> <p>Subsequent to detailed investigations, a matter was terminated due to lack of evidence to establish charges of Insider Dealing.</p> <p>At the end of the year 2006, a fully fledged investigation relating to a case and a preliminary investigation relating to another case were in progress.</p>
Market/Price Manipulation <sup>5</sup>	05	<p>During the year under review the opinion of the Hon. Attorney General was sought regarding the issue whether it is <i>sub judice</i> for the SEC to proceed with an investigation relating to a particular matter whilst there is on-going litigation in connection with the said matter. At the end of the year 2007, the opinion of the Attorney General was pending.</p> <p>Three investigations were terminated due to lack of evidence to establish charges of Market/Price Manipulation.</p> <p>At the end of the year 2007, an investigation relating to a case was in progress.</p>
Complaints	01	<p>Deliberations relating to a complaint was suspended until the finality of certain on-going litigation since the issues pertaining to the said complaint form the subject matter of another litigation.</p>
Front Running <sup>6</sup>	01	<p>During the year under review, an investigation pertaining to Front Running was conducted. The Final Investigation Report relating to this matter was referred to the Attorney General's Department for a formal opinion and advice was received.</p>

<sup>4</sup> Trading in the securities of a Listed Company whilst in the possession of unpublished price sensitive information in respect of the securities of the said Company.

<sup>5</sup> Causing to create or do anything that is calculated to create a false or misleading appearance or impression in respect of the trading, or the price of any securities listed on a Stock Market.

<sup>6</sup> Trading in securities of a Company ahead of a significant purchase or sale of securities of such Company, for a client, with the intent to profit by trading in the said securities thereafter.

## Operational Review

### COMPLAINTS

35 complaints relating to the following matters were handled during the year under review:

Nature of the Complaint	Number	Resolved	Pending
1 Complaints against brokers & unauthorised transactions	6	6	
2 Breach of CSE Listing Rules	7	7	
3 Rights Issues/ Bonus Issues/ Dividends Payments	8	8	
4 De-listing of Shares	5	5	
5 Improper Conduct of Listed Companies or their Officers	5	5	
6 General	4	3	1
<b>Total</b>	<b>35</b>	<b>34</b>	<b>1</b>

### Implementation of the Capital Market Master Plan

In 2007, a Programme Management Office (PMO) was established to promote and support the development of the Sri Lankan Capital Market. The PMO is responsible for the project management perspective of the development initiatives envisaged in the Capital Market Master Plan (CMMP) and facilitate the implementation of identified recommendations in the said plan.

The implementation of the CMMP commenced in May 2007. Key projects were identified for implementation during the 1st year of operation, in consultation with a team from Ernst & Young, Malaysia. During the year, some projects indicated steady progress. However, PMO decided to hold back certain key projects pending appropriate market conditions to ensure maximum effectiveness.

### STATUS OF KEY PROJECTS

- **DEVELOP A VIBRANT CORPORATE BOND MARKET**

A Corporate Bond Development Task Force (CBDTF) was formed with representation from all market players to formulate strategies and an action plan for this purpose.

- **ESTABLISH JATHIKA ISURA (JI)**

During the year, Jathika Isura was incorporated as a company limited by guarantee under the new Companies Act to advocate the efficient management of state assets and the distribution of wealth amongst the rural masses through the conduit of Unit Trusts. The Jathika Isura plans to commence operations at an appropriate time in consultation with the Ministry of Finance.

- **ENCOURAGE STATE OWNED ENTERPRISES (SOE) TO INCREASE INVESTMENT PORTFOLIO IN THE CAPITAL MARKET**

Treasury approval was obtained for Bank of Ceylon Pension Fund to invest up to 20% (from existing 0%) of its fund assets in the Capital Market.

- **IMPLEMENT AN E-FILING SYSTEM**

A potential service provider to develop an electronic filing system for submissions made by Market Intermediaries was identified.

- **INTRODUCE DERIVATIVES IN SRI LANKA**

During the year, the PMO established an Industry Advisory Committee to advice the SEC's derivatives initiative. The SEC Act was amended to provide for derivatives, derivatives exchanges, and clearing corporations. Negotiations are underway to engage consultants to conduct a study for this purpose.

- **ESTABLISH THE FINANCIAL SERVICES ACADEMY (FSA)**

The FSA was established on 5 March 2007 under the aegis of the SEC and the Insurance Board of Sri Lanka with the primary focus of enhancing knowledge and skills of professionals.

## Market Development Initiatives

### MARKET AWARENESS AND TRAINING

#### SEMINARS, WORKSHOPS AND AWARENESS PROGRAMMES FOR INVESTORS AND POTENTIAL INVESTORS

Event	Target Group	Frequency	Venue
Workshops	Undergraduates	6	University of Uva Wellassa, Rajarata, Jayawardenapura and Sabaragamuwa
	Commerce Stream ALevel students	22	Wattala, Puttalam, Colombo, Katuwana, Deniyaya, Homagama, Ratnapura, Elpitiya and Matugama
	Students of Technical Colleges	15	Anuradhapura, Patha Dumbara, Embilipitiya, Gampaha, Weeerawila, Galle, Balapitiya, Bibile, Moneragala, Dambulla, Matale, Kalutara and Badulla
	Advanced Level Commerce Stream Master Teachers and Teachers	06	National Institute of Education – Maharagama
Seminars	Commerce Stream Teachers of Educational Zones	12	Minuwangoda, Gampaha, Piliyandala, Tangalle, Jayawardenapura, Horana, Kelaniya, Wegama Bibile, Morawaka, Nuwara Eliya, Chilaw and Puttalam
	Volunteer Service Organisations and Professional Bodies	08	Colombo, Anuradhapura, Polonnaruwa and Bandarawela
	Chambers of Commerce and Industry	05	Galle, Anuradhapura, Ratnapura, Hingurakgoda and Nuwara Eliya
	Bank Staff	05	Peoples' Bank Walasmulla, Matugama, Katugastota, Bank of Ceylon Walapane and National Savings Bank, Dambulla
Investor Days	General Public	03	Anuradhapura, Negombo and Badulla
Exhibitions		04	Colombo and Bibile
Awareness Programme on Corporate Governance Rules	Directors of Listed Companies	03	SEC

## Operational Review

### REVISION OF THE SCHOOL CURRICULUM

During the year, the initial foundation was laid to include Capital Markets as a subject in the Grade 8 and 9 curricula. At the same time a revision of the O/L curriculum was carried out together with the National Institute of Education.

### THE FINANCIAL SERVICES ACADEMY

Given below is a synopsis of the Seminars/workshops conducted during the year:

#### CAPITAL MARKET DEVELOPMENT PROGRAMMES

##### (A) STOCK MARKET AWARENESS PROGRAMME

A Stock Market Awareness programme was conducted for senior citizens and for individuals who are interested in enhancing their knowledge with regard to investing in the Stock Market.

##### (B) PROGRAMME ON APPLIED VALUATION

The FSA in collaboration with the Financial Services Institute of Australia (FINSIA) conducted an international training programme on 'Applied Valuation' covering theoretical and practical aspects of share/company valuation.

##### (C) FINANCIAL DATA FORECASTING AND APPLICATION OF ARTIFICIAL NEURAL NETWORK FOR FORECASTING STOCK MARKET BEHAVIOUR

The training programme introduced participants to the key concepts in technical analysis and developed skills in construction, interpretation and application of charts.

##### (D) ESSENTIALS AND ADVANCED CONCEPTS IN PORTFOLIO MANAGEMENT

This programme was conducted in collaboration with the Securities and Investments Institute Asia Pacific, Australia (SiiA). The workshop enabled participants to gain insight into the fundamentals of active and passive portfolio management, selecting suitable investment policies and strategies, balancing asset classes, integrated risk

management and efficient diversification with the aim to offer clear and concise guidance on maximising potential returns from investment portfolios.

##### (E) CONTEMPORARY DEVELOPMENTS AND CHALLENGES OF THE COLOMBO STOCK EXCHANGE

The Central Bank Training Institute in collaboration with the FSA conducted a public seminar on 'Contemporary Developments and Challenges of the Colombo Stock Exchange'.

##### (F) FOUNDATION COURSE IN CAPITAL MARKETS

The FSA prepared a self-study guide for the Capital Market titled 'Foundation Course in Capital Markets'. The objective of the study guide is to give readers a broad understanding of Capital Market education. An on-line exam will be introduced in collaboration with the National Stock Exchange of India (NSE) to award the proposed qualification.

##### (G) THE QUALIFICATION FRAMEWORK FOR THE FINANCIAL INDUSTRY PROFESSIONALS IN SRI LANKA

FSA co-ordinated with an ADB Consultant by providing advice and input in formulating the draft document with regard to the qualification framework for the financial industry professionals in Sri Lanka.

#### INSURANCE INDUSTRY DEVELOPMENT PROGRAMMES

Two insurance related courses were conducted in collaboration with the Singapore College of Insurance (SCI).

- (a) Practical Aspects of Contractors All Risks (CAR) & Erection All Risks (EAR) Insurance
- (b) Enterprise Risk Management and Risk Based Capital in Insurance

#### ACTUARIAL SCIENCE UNIVERSITY PROGRAMME

The FSA provided professional input for the new university programme to be developed in Actuarial Science. A committee was formed to develop the curriculum and to identify resource personnel for the programme.



**RESEARCH**

In our efforts to promote and stimulate high quality research we initiated a project, which invited undergraduates and graduates of Universities to undertake various research assignments pertaining to topics related to the Capital Market of Sri Lanka.

We re-oriented the research focus to identify and quantify, to the extent possible, all types of risks associated with the market and find ways to mitigate them.

We further undertook supportive research mostly to meet the policy-making requirements of the SEC.

**International Relations**

Study visits on regulatory, supervisory and developmental activities of the Capital Market of Sri Lanka were facilitated for the Officials of the Securities and Exchange Commission of Ghana and the Capital Market Development Authority of Maldives, with a view to foster collaborations and knowledge sharing with other jurisdictions.

**Human Resources**

To meet the challenges in implementing the CMMP and to strengthen the Secretariat to discharge its mandate, the SEC recruited appropriately qualified and experienced personnel from diverse disciplines. During the year under review, we successfully recruited a Deputy Director General, 3 Directors, an Assistant Director, 6 Executives, 3 Confidential Secretaries, an Officer and a Librarian to the permanent cadre. On a fixed term contract basis the Secretariat also recruited 1 Director, a Japanese national as a consultant and 2 Support Staff.

With a view to further strengthening the SEC, the approval of the Ministry of Finance was sought to increase its cadre by creating positions for a Director to manage Human Resources, 5 Managers, 7 Executives and a Support Staff.

Two members of the SEC were assigned duties to the Financial Services Academy. The staff seconded to the Insurance Board of Sri Lanka and the Financial Intelligence Unit reverted back to the SEC.

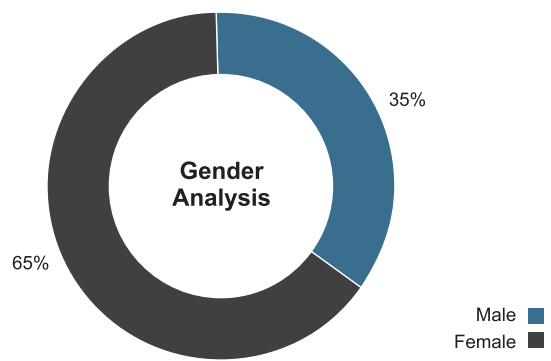
The approved cadre and the Human Resource strength of the Secretariat as at 31 December 2007 are depicted below:

Category	Approved Cadre	In Employment
Director General	01	01
Deputy Director		
General	01	01
Directors	10	08
Assistant Directors	04	02
Executives	30	27
Non-Executives	17	14
Support Staff	07	07
<b>Total</b>	<b>70</b>	<b>60</b>

As at 31 December 2007, 60 members attached to the permanent cadre served the SEC consisting of 21 males and 39 females.

The gender, age and the period of service of the staff in the permanent cadre at the end of the year under review is depicted below:

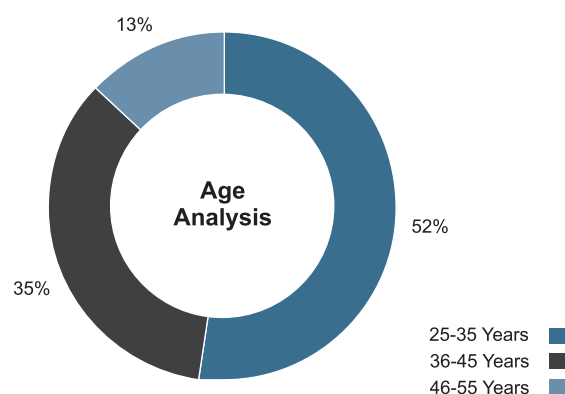
**GENDER ANALYSIS**



## Operational Review

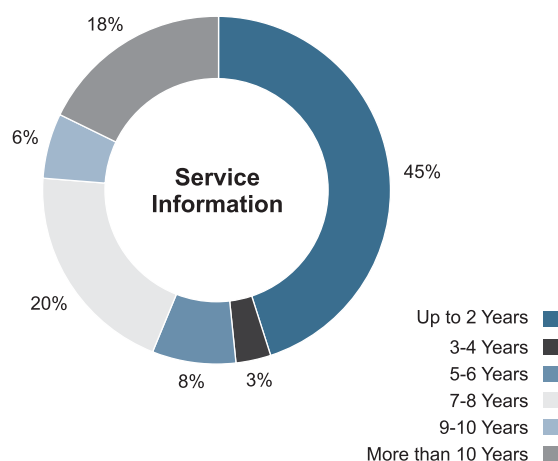
### AGE ANALYSIS

Age Group	Number of Employees falling within the age group expressed as a percentage
25-35 Years	52%
36-45 Years	35%
46- 55 Years	13%



### SERVICE INFORMATION

Service Periods	Number of Employees falling within the respective service periods
Up to 2 Years	45%
3-4 Years	3%
5-6 Years	8%
7-8 Years	20%
9-10 Years	6%
More than 10 Years	18%



### TRAINING

We continued to place emphasis on the development of technical skills of the staff. The foreign training provided during the year covered programmes such as the Summer School Programme conducted by the Australian Securities and Investments Commission, the Annual Programme of the US SEC, the Financial Regulators Training Programme of the Asia Pacific Economic Co-operation, Indonesia, the Emerging Markets Programme, Malaysia, the Securities Supervisory Programme organised by the Toronto Centre, Canada etc. Local training was provided to all levels of staff; this included programmes such as Applied Valuation, Financial Data Forecasting, Portfolio Management, New Companies Act, Sri Lanka Stock Market Today and its Future etc. A residential programme on 'Leadership' for staff coupled with a brain storming session prior to the preparation of the Corporate Plan of the SEC 2008-2010 was held at the Amaya Resort Hotel in Dambulla. The total cost incurred on local and foreign training and travel during the year under review amounted to Rs. 6.1 Mn.

### Staff Welfare

Secretariat offers its staff a range of benefits such as indoor and outdoor medical schemes, personal accident insurance cover, vehicle and distress loan schemes, festival advances, educational grants and reimbursement of membership fees to professional bodies etc.

The Secretariat continuously provide opportunities to the staff and their families to interact whilst advocating harmonious relationships between families by organising an Annual Sports Day, residential training programme, a Pirith Ceremony and Annual Christmas Party.

For the second consecutive year the staff shared their joy on the sports day by visiting the under privileged children and treating them to a meal and gifts.

## Information Technology

A website was launched for the Financial Service Academy. An Intranet page was created for the benefit of the staff, it enables them to access the e-library and e-news letter, to share knowledge gained by the staff in participating in training programmes, to access research papers related to current developments etc.

## Relocation of the Secretariat

The Secretariat was relocated to the 28th and 29th floors of the East Tower, World Trade Center. The state-of-the-art office has an environment conducive to professionals, which includes a project room to facilitate the implementation of the Capital Market Master Plan and an auditorium to house about 80 participants.

## Statutory Funds

### CESS FUND

In Sections 14 A and 14 B of the SEC Act No. 36 of 1987 as amended by Act, No. 26 of 1991 and Act, No. 18 of 2003 states as follows:

14 A (1) There shall be charged, levied and paid a Cess at such rates as may be specified by the Minister by Order published in the Gazette on every purchase and sale of securities recorded in a licensed stock exchange or notified to it under its rules by both the purchaser and the seller. Different rates may be specified in respect of different classes of securities.

- (1) The Cess imposed under this Section shall be in addition to any other tax or Cess levied under any other written law.

14B (1) There shall be established a fund called the Cess Fund to which shall be credited the proceeds of the Cess imposed under section 14 A.

(2) There shall be paid out the Cess Fund such sums as may be authorised by the Commission for the purpose of -

- (a) developing the securities market;
- (b) enhancing monies lying to the credit of the Compensation Fund established under Section 38; and
- (c) exercising, performing and discharging the powers, duties and functions of the Commission for the purpose of achieving its objects.

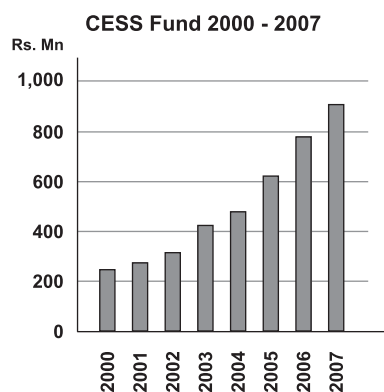
- (3) The money lying to the credit of the Cess Fund may be invested by the Commission in such a manner as may be determined by the Commission.

The rate of Cess charged by the SEC was reduced from 0.1% to 0.09% per transaction with effect from 1 December 2003. Cess on Intra day trading – Intra day trade is where a client buys and sells or sells and buys the same security on the same day through the same broker. From February 2006 Cess on Intra day trades of clients was not charged on one side of the transaction as set out below:

- (a) In the event the number of shares purchased does not equal the number of shares sold, the transaction fees will not be levied on the lower quantity of shares either purchased or sold.
- (b) In the event the quantity purchased is equal to the quantity sold transaction fees will not be levied from the second transaction whether it be a purchase or sales transaction.

## Operational Review

The balance lying to the credit of the Cess Fund as at 31 December 2007 amounted to Rs. 891 Mn. The growth of the fund during the period 2000-2007 is depicted below:

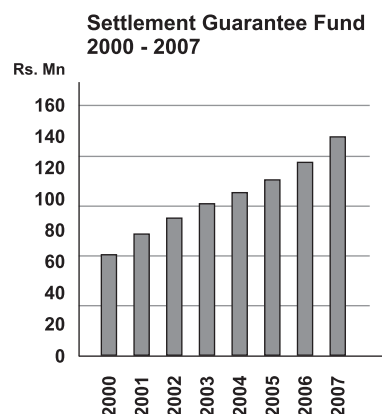


### THE SETTLEMENT GUARANTEE FUND (SGF)

The SGF was launched on 22 May 1998. The Fund was established for the purpose of guaranteeing the settlement of trades between participants of the Central Depository System of the Colombo Stock Exchange (CSE). The operation of the SGF is described below:

- From 10 December 2007 the CSE adopted a single-tier settlement cycle. Ownership of shares traded is transferred no sooner a trade is executed.
- The Trustees of the Fund hold office of ex-officio and comprise the Chairman of SEC, the Chairman of CSE, the Deputy Secretary to the Treasury, the Director General of SEC and the Director General of CSE.
- The Government of Sri Lanka has contributed a sum of Rs. 50 Mn. to the said Fund. This money has been invested in Government securities in terms of the Trust Deed. SGF can also receive donations, gifts and endowments as replenishments. The broker/custodian banks are presently not required to contribute to the Fund.
- The balance lying to the credit of the fund as at 31 December 2007 amounted to approximately Rs. 140 Mn.

The growth of the Fund between 2000 and 2007 is depicted in the following graph:



### COMPENSATION FUND

The Compensation Fund came into operation along with the establishment of the SEC in 1987. Section 38 of the Securities and Exchange Commission Act No. 36 of 1987 as amended states as follows:

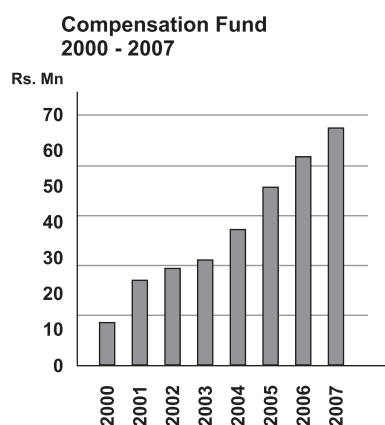
- There shall be established a fund called the Compensation Fund, for the purpose of granting compensation to any investor who suffers pecuniary loss as a result of any licensed stock broker or licensed stock dealer being found incapable of meeting his contractual obligations.
- The Compensation Fund shall consist of -
  - such sums of money as may be voted upon by Parliament for the purpose of the Fund.
  - Such sums of moneys may be credited to the Fund under Section 51 A; (Section 51A is on compounding offences).
- Such sums of money as may be credited from Cess Fund under Section 14 B.
- Moneys belonging to the Compensation Fund may be invested by the Commission in such manner as may be determined by the Commission. The Minister shall appoint from among the Members of the Commission Three Members who shall comprise the Compensation Committee.

The Committee shall be responsible for assessing and awarding compensation in respect of any application made and the decision of such Committee on any such assessment or award shall be final and conclusive for the purpose of this Act.

The Act also provides for the procedure for applying for compensation. According to the Act, the Committee may, after examination of the documents and other evidence produced in support of the claim by an applicant, or in any case where an inquiry was held on the conclusion of such inquiry, allow or disallow such claim for compensation. Up-to-date, there have been no claims made from the Compensation Fund.

The balance lying to the credit of the Compensation Fund as at 31 December 2007 amounted to approximately Rs. 66 Mn..

The growth of the Fund during the 2000 to 2007 is depicted below:







# SCRUTINY...

more than a word, it is an action that pervades every facet of our work... it is what let's us see clearly and act clearly with a great degree of impartiality.

# Financial Statements

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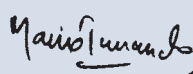
# Balance Sheet

As at 31 December

	Note	2007 Rs.	2006 Rs.
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, Plant & Equipment	1	44,601,053	19,870,853
Cess Fund	2	16,024,926	7,782,473
<b>CURRENT ASSETS</b>			
Inventories	4	352,901	304,944
Receivables	5	1,506,092	975,707
Cess Fund	2	890,696,588	767,937,088
Compensation Fund	3	66,375,422	58,139,793
Deposits, Advances and Prepayments	6	1,068,253	1,741,350
Cash & Cash Equivalents	7	1,628,298	17,114,102
<b>TOTAL ASSETS</b>		<b>1,022,253,533</b>	<b>873,866,310</b>
<b>FUNDS AND LIABILITIES</b>			
<b>FUNDS EMPLOYED AND RESERVES</b>			
Reserves	8	–	26,407
Accumulated Fund	9	(7,860,746)	5,027,338
Cess Fund	10	906,721,514	775,659,191
Compensation Fund	11	66,375,422	58,120,097
<b>NON-CURRENT LIABILITIES</b>			
Lease Creditor	12	8,314,512	5,360,241
Grant - Capital Expenditure from Cess Fund	13	28,740,264	12,821,739
Retirement Benefit Obligation	14	7,992,341	5,848,892
<b>CURRENT LIABILITIES</b>			
Cess Fund	2	–	60,370
Compensation Fund	3	–	19,696
Creditors & Accruals	15	6,541,088	7,936,325
Receipts in Advance		1,517,820	514,122
Current Portion of Lease Creditor	12	3,911,318	2,471,892
<b>TOTAL FUNDS AND LIABILITIES</b>		<b>1,022,253,533</b>	<b>873,866,310</b>

The Accounting Policies and Notes appearing on pages 46 to 57 form an integral part of the Financial Statements. The Members of the Securities & Exchange Commission of Sri Lanka are responsible for the preparation and presentation of these Financial Statements.

For and on behalf of the Securities and Exchange Commission of Sri Lanka.



**Marina Fernando**  
Acting Director General



**Gamini Wickramasinghe**  
Chairman

Colombo.  
8 May 2008

# Income and Expenditure Statement

For the year ended 31 December

	Note	2007 Rs.	2006 Rs.
<b>INCOME</b>			
Broker License Fees		956,302	603,307
Administration Levy		526,143	1,210,999
Sale of Publications		14,570	13,500
Management Fee		80,000	380,429
Sundry Income		78,497	115,962
Profit on Disposal of Fixed Assets		1,024,519	1,969,494
Recognition of Grants	13	10,299,480	7,884,970
		<b>12,979,511</b>	<b>12,178,661</b>
Less:			
<b>EXPENDITURE</b>			
Personnel Costs	16	67,748,020	43,824,404
Administration & Establishment Expenses	17	58,420,075	36,539,145
Capital Market Development Expenses	18	26,427,335	18,113,715
Grant to FSA	19	4,000,000	-
Finance Charges	20	280,567	144,679
<b>Total Expenditure</b>		<b>156,875,997</b>	<b>98,621,943</b>
Excess Expenditure over Income		(143,896,486)	(86,443,282)
Transfers from Cess Fund to meet Operational Expenses		130,981,995	91,562,575
<b>Excess/(Deficit) for the year</b>		<b>(12,914,491)</b>	<b>5,119,293</b>

The Accounting Policies and Notes appearing on pages 46 to 57 form an integral part of the Financial Statements.

# Statement of Changes in Reserves

*For the year ended 31 December*

	<b>Reserves</b>	<b>Accumulated Fund</b>	<b>Total</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Balance as at 1 January 2006	1,731,840	(1,797,388)	(65,548)
Decrease due to Disposal of Revalued Assets	(1,705,433)	1,705,433	–
Net Surplus/(Deficit) for the Period	–	5,119,293	5,119,293
<b>Balance as at 31 December 2006</b>	<b>26,407</b>	<b>5,027,338</b>	<b>5,053,745</b>
Balance as at 1 January 2007	26,407	5,027,338	5,053,745
Decrease due to Disposal of Revalued Assets	(26,407)	26,407	–
Net Surplus/(Deficit) for the Period	–	(12,914,491)	(12,914,491)
<b>Balance as at 31 December 2007</b>	<b>–</b>	<b>(7,860,746)</b>	<b>(7,860,746)</b>

The Accounting Policies and Notes appearing on pages 46 to 57 form an integral part of the Financial Statements.



# Cash Flow Statement

For the year ended 31 December

	Note	2007 Rs.	2006 Rs.
<b>Cash Flows from Operating Activities</b>			
Net Increase/(Decrease) after transfers from Cess Fund		(12,914,491)	5,119,293
Adjustment for			
Depreciation	1	13,086,056	9,760,309
(Profit)/Loss on Disposal of Property, Plant & Equipment		(1,024,519)	(1,969,494)
Recognition of Grant	13	(10,299,480)	(7,884,970)
Provision for Gratuity	14	2,573,714	1,223,314
Net Increase/(Decrease) before Working Capital Changes		(8,578,720)	6,248,452
<b>Change of Working Capital</b>			
(Increase)/Decrease of Stocks		(47,957)	95,844
(Increase)/Decrease of Receivables		(530,385)	(121,121)
(Increase)/Decrease of Deposits, Advances & Prepayments		673,097	(807,415)
Increase/(Decrease) of Receipt in Advance		1,003,698	104,393
Increase/(Decrease) of Creditors & Accruals		(1,370,872)	5,315,044
		(272,419)	4,586,745
Cash Generated from Operating Activities		<b>(8,851,140)</b>	<b>10,835,197</b>
Gratuity Paid During the Year		(430,265)	(536,223)
Net Cash from Operating Activities		<b>(9,281,404)</b>	<b>10,298,974</b>
Interest Earned on the Life Insurance Claim Placed on REPO Investment		–	180,651
		<b>(9,281,404)</b>	<b>10,479,625</b>
<b>Cash Flows from Investing Activities</b>			
Purchase of Property, Plant & Equipment	1	(39,086,715)	(6,237,425)
Proceeds from sale of Property, Plant & Equipment		2,270,613	2,669,496
Net Cash from Investing Activities		<b>(36,816,102)</b>	<b>(3,567,929)</b>
<b>Cash Flows from Financing Activities</b>			
Capital Transfer from Cess Fund	13	26,218,005	2,437,425
Life Insurance along with Interest Paid as per the Testamentary Court Order		–	(5,817,279)
Increase/(Decrease) in Finance Lease		4,393,697	902,667
Net Cash from Financing Activities		<b>30,611,702</b>	<b>(2,477,187)</b>
Net Increase/(Decrease) in Cash and Cash Equivalents		(15,485,804)	4,434,509
Cash and Cash Equivalents at Beginning of Period (Note a)		17,114,102	12,679,593
Cash and Cash Equivalents at End of Period (Note b)		<b>1,628,298</b>	<b>17,114,102</b>
<b>Note (a)</b>			
<b>Cash and Cash Equivalents at Beginning of Period</b>			
Cash at Bank		17,094,102	7,022,966
Cash in Hand		20,000	20,000
REPO Investments		–	5,636,627
		<b>17,114,102</b>	<b>12,679,593</b>
<b>Note (b)</b>			
<b>Cash and Cash Equivalents at End of Period</b>			
Cash at Bank	7	1,588,298	17,094,102
Cash in Hand	7	40,000	20,000
		<b>1,628,298</b>	<b>17,114,102</b>

The Accounting Policies and Notes appearing on pages 46 to 57 form an integral part of the Financial Statements.

# Cess Fund Cash Flow Statement

For the year ended 31 December

	2007 Rs.	2006 Rs.
<b>Cash Flows from Operating Activities</b>		
Net Increase of Cess Fund	131,062,323	157,064,903
Net Increase before working capital changes	131,062,323	157,064,903
Change of Working Capital		
(Increase)/Decrease of Staff Loans	(1,787,410)	38,674
(Increase)/Decrease of Receivables	(1,953,784)	52,349
(Increase)/Decrease of Interest Receivable on Treasury Bills	(39,891,267)	(20,639,468)
Increase/(Decrease) of Other Payables	(60,369)	60,370
(Increase)/Decrease of Rent Deposit	(6,798,792)	-
	(50,491,622)	(20,488,075)
Net Cash from Operating Activities	80,570,700	136,576,828
<b>Cash Flows from Investing Activities</b>		
Investment of Treasury Bills	(84,112,855)	(129,955,473)
Net Cash from Investing Activities	(84,112,855)	(129,955,473)
Net Increase/(Decrease) in Cash and Cash Equivalents	(3,542,155)	6,621,355
Cash and Cash Equivalents at Beginning of Period (Note c)	6,873,778	252,423
Cash and Cash Equivalents at End of Period (Note d)	<b>3,331,623</b>	<b>6,873,778</b>
<b>Note (c)</b>		
<b>Cash and Cash Equivalents at Beginning of Period</b>		
Cash at Bank	6,873,778	252,423
REPO Investments	-	-
	<b>6,873,778</b>	<b>252,423</b>
<b>Note (d)</b>		
<b>Cash and Cash Equivalents at End of Period</b>		
Cash at Bank - Placed on Overnight REPO Investments	3,331,623	6,873,778
	<b>3,331,623</b>	<b>6,873,778</b>

The Accounting Policies and Notes appearing on pages 46 to 57 form an integral part of the Financial Statements.

# Compensation Fund Cash Flow Statement

For the year ended 31 December

	2007 Rs.	2006 Rs.
<b>Cash Flows from Operating Activities</b>		
Net Increase of Compensation Fund	8,255,325	8,661,008
Net Increase before Working Capital Changes	8,255,325	8,661,008
Change of Working Capital		
(Increase)/Decrease of Interest Receivable on Treasury Bills	(2,660,525)	(913,318)
Increase/(Decrease) of Other Payables	(19,696)	19,696
	(2,680,221)	(893,622)
Net Cash from Operating Activities	5,575,104	7,767,386
<b>Cash Flows from Investing Activities</b>		
Investment in Treasury Bills	(5,595,300)	(7,740,594)
Net cash from Investing Activities	(5,595,300)	(7,740,594)
<b>Cash Flows from Financing Activities</b>		
Net Increase/(Decrease) in Cash and Cash Equivalents	(20,196)	26,792
Cash and Cash Equivalents at Beginning of Period (Note e)	92,381	65,589
Cash and Cash Equivalents at End of Period (Note f)	<b>72,185</b>	<b>92,381</b>
<b>Note (e)</b>		
<b>Cash and Cash Equivalents at Beginning of Period</b>		
Cash at Bank	76,022	48,229
Call Deposits	16,359	17,360
	<b>92,381</b>	<b>65,589</b>
<b>Note (f)</b>		
<b>Cash and Cash Equivalents at End of Period</b>		
Cash at Bank	55,825	76,022
Call Deposits	16,360	16,359
	<b>72,185</b>	<b>92,381</b>

The Accounting Policies and Notes appearing on pages 46 to 57 form an integral part of the Financial Statements.

# Accounting Policies

## 1. SIGNIFICANT ACCOUNTING POLICIES

### 1.1 STATEMENT OF COMPLIANCE

The Financial Statements of the Securities and Exchange Commission of Sri Lanka have been prepared in compliance with the Sri Lanka Accounting Standards and are in compliance with the said standards.

### 1.2 BASIS OF PREPARATION

The Financial Statements of the Commission are presented in Sri Lankan Rupees rounded to the nearest Rupee.

The Financial Statements are prepared on accrual basis under the historical cost convention. Where appropriate accounting policies are disclosed in succeeding notes.

### 1.3 FOREIGN CURRENCY TRANSACTIONS

Foreign exchange transactions are converted to Sri Lankan Rupees at the rate of exchange prevailing at the time of the transaction.

### 1.4 EVENTS AFTER THE BALANCE SHEET DATE

All material events after the Balance Sheet date are considered and appropriate adjustments or disclosures are made in the Financial Statements, where necessary.

### 1.5 COMPARATIVE FIGURES

Comparative figures have been adjusted to conform to the changes in presentation in the current financial year.

## 2. ASSETS AND BASES OF THEIR VALUATION

### 2.1 PROPERTY, PLANT & EQUIPMENT

#### OWNED PROPERTY, PLANT & EQUIPMENT

Property, Plant & Equipment together with any incidental expenses thereon are stated at cost or as per the revaluation and depreciated at their respective useful lives. Fixed assets received as grants, were accounted at cost and depreciation thereof is charged against the respective reserve account. In respect of disposal of revalued assets the balance remaining in the revaluation reserve is

charged to the Accumulated Fund. The depreciation is provided on the straight-line basis applying following rates:

Motor Vehicles	25.00%
Furniture, Fixtures and Fittings	12.50%
Office Equipment & EDP Equipment	25.00%
Training Equipment	25.00%

Depreciation is provided for all assets purchased when it is available for use. In the year of disposal depreciation is provided up to the date the asset is de-recognised.

### 2.2 LEASED MOTOR VEHICLES

The assets on finance lease which effectively transfer to the Commission substantially all of the risk and benefits incidental to ownership of the leased item is capitalised at the capital value of lease obtained. Depreciation and finance charges arising out of such leasehold assets are charged to the Income & Expenditure Account whilst the payments of lease rental are recognised to reduce the lease liability.

As part of the remuneration package higher categories of the managerial staff are entitled to a vehicle under the contributory lease scheme. Whilst the SEC pays the lease rental the staff concerned contributes towards the lease rental. In addition the staff should bear all expenditure in full pertaining to comprehensive insurance, licence and maintenance. The ownership of the vehicle will be transferred to the member of the staff who participated in the contributory lease scheme at the expiration of the lease period i.e., after 48 months or upon settlement of the lease liability by the staff concerned in full.

### 2.3 INVESTMENTS

Government Treasury bills are stated at cost.

### 2.4 INVENTORIES

Inventories are valued at a lower cost and net realisable value. The cost of inventories is valued on first-in, first-out (FIFO) basis.

### 2.5 RECEIVABLES

Receivables are stated at the estimated realisable value.

### 3. LIABILITIES & PROVISIONS

#### 3.1 RETIREMENT BENEFITS

In terms of Gratuity Act No. 12 of 1983 the liability to an employee arises only upon completion of 5 years of continued service. To meet the liability a provision is made, equivalent to half a month's salary based on the last month of the financial year for all employees who have completed one year of service.

#### 3.1.2 DEFINED CONTRIBUTION PLANS

All permanent employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Commission contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

#### 3.2 ACCOUNTS PAYABLE

Payables are stated at cost.

#### 3.3 GRANT

Capital Expenditure transferred from the Cess Fund is treated as a grant and recognised in the income & expenditure statement as revenue on systematic basis over the useful life of the related asset.

### 4. INCOME & EXPENDITURE

#### 4.1 REVENUE RECOGNITION

Revenue is recognised on accrual basis.

#### 4.2 EXPENDITURE RECOGNITION

All expenditure incurred in maintaining the Commission has been recognised on accrual basis and charged to revenue in ascertaining the income over expenditure.

#### 4.3 CASH FLOW STATEMENT

The Cash Flow Statement has been prepared using the indirect method. For the purpose of the Cash Flow Statement, Cash and Cash Equivalents consist of cash and deposits held at call with banks.



# Notes to the Financial Statements

## 1. PROPERTY, PLANT & EQUIPMENT

	Motor Vehicles	Furniture, Fixtures & Fittings	Office Equipment (EDP & Others)	Training Equipment	Assets on Finance Lease Motor Vehicles	Total
<b>COST</b>						
Balance as at 1 January 2007	16,055,900	4,402,402	18,369,771	2,017,982	10,500,000	51,346,055
Additions During the Year	–	18,721,953	11,758,205	1,026,557	7,580,000	39,086,715
Disposals During the Year	–	(3,053,432)	(2,165,121)	(229,600)	(1,400,000)	(6,848,153)
<b>Balance as at 31 December 2007</b>	<b>16,055,900</b>	<b>20,070,923</b>	<b>27,962,855</b>	<b>2,814,939</b>	<b>16,680,000</b>	<b>83,584,617</b>
<b>ACCUMULATED DEPRECIATION</b>						
Balance as at 1 January 2007	10,302,950	2,738,807	13,648,830	1,784,615	3,000,000	31,475,201
Depreciation Charge for the Year	2,876,475	2,017,735	4,013,020	265,911	3,912,915	13,086,056
Accumulated Depreciation on						
Disposal of Assets	–	(2,024,682)	(2,215,085)	(229,594)	(1,108,333)	(5,577,694)
<b>Balance as at 31 December 2007</b>	<b>13,179,425</b>	<b>2,731,860</b>	<b>15,446,765</b>	<b>1,820,932</b>	<b>5,804,582</b>	<b>38,983,564</b>
<b>Written Down Value as at</b>						
<b>31 December 2007</b>	<b>2,876,475</b>	<b>17,339,063</b>	<b>12,516,090</b>	<b>994,007</b>	<b>10,875,418</b>	<b>44,601,053</b>
<b>Written Down Value as at</b>						
<b>31 December 2006</b>	<b>5,752,950</b>	<b>1,663,595</b>	<b>4,720,941</b>	<b>233,367</b>	<b>7,500,000</b>	<b>19,870,853</b>

## Notes to the Financial Statements

	Note	2007 Rs.	2006 Rs.
<b>2. CESS INVESTMENT AND OTHERS</b>			
<b>NON-CURRENT ASSETS</b>			
Staff Loans		4,401,102	2,957,441
Rent Deposits		11,623,824	4,825,032
		<b>16,024,926</b>	<b>7,782,473</b>
<b>CURRENT ASSETS</b>			
Invested in State Institutions Temporary Surplus Fund		398,621,839	300,000,000
Investment in Treasury Bills		390,463,765	404,972,749
		789,085,604	704,972,749
Staff Loans receivable within 12 months		1,991,599	1,647,850
Withholding Tax Receivable		400,341	400,341
Interest Receivable on Treasury Bills		92,206,505	52,315,238
Cess Receivable		3,680,916	1,727,132
Balance at Bank - Placed on Overnight REPO Investment		3,331,623	6,873,778
		101,610,984	62,964,339
		<b>890,696,588</b>	<b>767,937,088</b>
Total Assets		<b>906,721,514</b>	<b>775,719,561</b>
<b>LIABILITIES</b>			
Custodian Fees Payable		-	60,370
		<b>906,721,514</b>	<b>775,659,191</b>
<b>3. COMPENSATION INVESTMENT AND OTHERS</b>			
<b>ASSETS</b>			
Investment in Treasury Bills		59,900,816	54,305,516
<b>CURRENT ASSETS</b>			
Withholding Tax Receivable on Call Deposit		72,445	72,445
Interest Receivable on Treasury Bills		6,329,976	3,669,451
Investment in Call Deposits		16,360	16,359
Balance at Bank		55,825	76,022
Total Assets		<b>66,375,422</b>	<b>58,139,793</b>
<b>LIABILITIES</b>			
Custodian Fees Payable		-	19,696
		<b>66,375,422</b>	<b>58,120,097</b>
<b>4. INVENTORIES</b>			
Stock of Stationery & EDP Consumables		352,539	301,885
Stock of Publications		362	3,059
		<b>352,901</b>	<b>304,944</b>
<b>5. RECEIVABLES</b>			
Sundry Debtors Including Debit Notes		47,174	269,888
Withholding Tax Receivable		5,399	5,399
Staff Recoveries		302,435	238,420
Festival Advances		770,000	462,000
Insurance Board of Sri Lanka		1,250	-
Financial Services Academy	19	379,834	-
		<b>1,506,092</b>	<b>975,707</b>

## Notes to the Financial Statements

	2007 Rs.	2006 Rs.
<b>6. DEPOSITS, ADVANCES &amp; PRE-PAYMENTS</b>		
Safe Vault Deposit - Bank of Ceylon	40,000	20,000
Deposit for Cellular Phones	40,000	80,000
Fuel Deposit	60,000	35,000
Deposit for Vehicle Maintenance	500	500
Deposits with Telecom Ltd.	42,125	42,125
Hot & Cold Dispenser	18,000	8,000
Employer Federation of Ceylon	19,993	-
University of Colombo - Library Deposit	10,000	-
Advances to Suppliers	837,635	1,011,972
Registration Fees - Foreign Training	-	543,753
	<b>1,068,253</b>	<b>1,741,350</b>
<b>7. CASH</b>		
Cash at Bank	1,588,298	17,094,102
Cash in Hand	40,000	20,000
	<b>1,628,298</b>	<b>17,114,102</b>
<b>8. RESERVES</b>		
<b>REVALUATION SURPLUS</b>		
Balance at the beginning of the period	26,407	1,731,840
Less: Disposal of Assets	(26,407)	(1,705,433)
Balance at the end of the period	-	<b>26,407</b>
<b>9. ACCUMULATED FUND</b>		
Balance at the beginning of the period	5,027,338	(1,797,388)
Add: Revaluation Adjustment	26,407	1,705,433
Net Surplus/(Deficit) for the period	(12,914,491)	5,119,293
Balance at the end of the period	<b>(7,860,746)</b>	<b>5,027,338</b>
<b>10. CESS FUND</b>		
Opening Balance	775,659,191	618,594,288
Add: Cess Received during the year	184,424,924	185,014,391
Interest on Investment	105,316,354	66,316,820
	1,065,400,469	869,925,499
Less: Transfers to Operational & Capital Expenditure - SEC	157,700,000	94,000,000
Grant to FSA	1,000,000	-
Expenses	3,750	1,700
Custodian Fees	(24,796)	264,608
	<b>158,678,954</b>	<b>94,266,308</b>
Closing Balance	<b>906,721,514</b>	<b>775,659,191</b>

## Notes to the Financial Statements

	2007 Rs.	2006 Rs.
<b>11. COMPENSATION FUND</b>		
Opening Balance	58,120,097	49,459,089
Compounding Fees Received During the Year	–	3,850,000
Add : Interest on Investment - Treasury Bills	8,255,825	4,866,953
	<b>66,375,922</b>	<b>58,176,042</b>
Less: Custodian Fees	–	40,603
Bank Charges	500	15,342
	<b>500</b>	<b>55,945</b>
Closing Balance	<b>66,375,422</b>	<b>58,120,097</b>
<b>12. LEASE CREDITOR</b>		
Gross Lease Liabilities	14,704,168	9,713,220
Interest in Suspense	(2,478,338)	(1,881,087)
	12,225,830	7,832,133
Less: Payable within one year	(3,911,318)	(2,471,892)
Payable after one year	<b>8,314,512</b>	<b>5,360,241</b>
<b>13. GRANT - CAPITAL TRANSFERS FROM CESS FUND</b>		
Balance Brought Forward	12,821,739	18,269,284
Transfers During the Year	26,218,007	2,437,425
Less: Transferred to Income for Assets Depreciation	(10,299,480)	(7,884,970)
	<b>28,740,266</b>	<b>12,821,739</b>
<b>RECOGNITION OF GRANT</b>		
Capital Transfers from Cess Fund	10,299,480	7,884,970
	<b>10,299,480</b>	<b>7,884,970</b>
<b>NOTE</b>		
<b>RECOGNITION OF GRANT</b>		
<b>CAPITAL TRANSFER FROM CESS FUND</b>		
Recognition of Grant in accordance with the SLAS 24 at the following rates.		
Motor Vehicles	25.00%	25.00%
Office Equipment - Electronic Data Processing & Others	25.00%	25.00%
Training Equipment	25.00%	25.00%
Furniture, Fixtures & Fittings	12.50%	12.50%
<b>14. RETIREMENT BENEFIT OBLIGATION</b>		
Balance Brought Forward	5,848,892	5,161,801
Charge for the Year	2,573,714	1,223,314
Gratuity Paid During the Year	(430,265)	(536,223)
	<b>7,992,341</b>	<b>5,848,892</b>

## Notes to the Financial Statements

	2007 Rs.	2006 Rs.
<b>15. CREDITORS AND ACCRUALS</b>		
Telephone Expenses	334,160	167,960
Electricity	100,000	80,768
Fuel Expenses	6,800	33,292
Staff Medical Reimbursements	291,191	200,000
Fuel Reimbursement	131,521	-
Staff Welfare	87,999	179,084
Staff Training - Local	-	122,117
Leave Encashment	275,000	237,656
Interest Subsidy	-	4,424
Security Charges	-	27,900
Office Upkeep	-	13,031
Overtime	91,373	51,096
Foreign Travel	158,833	123,036
External Audit Fees	400,000	350,000
Internal Audit Fees	60,000	150,000
Annual Report Printing	1,000,000	1,251,471
Newspapers & Periodicals	6,860	5,675
Trade Tax	5,000	-
VAT Payable	-	24,365
Other Payables	-	15,265
Legal Fees	35,000	-
Members Fees	-	6,000
Courier Charges	-	5,000
Professional Charges	180,000	166,395
Document Scanning	-	581,790
Developmental Assistant - Internet Trading	-	4,140,000
Governors Interior	3,377,351	-
	<b>6,541,088</b>	<b>7,936,325</b>
<b>16. PERSONNEL COSTS</b>		
Staff Salaries	39,568,414	21,965,040
Chairman's Allowance	360,000	328,052
Overtime	1,261,225	727,334
EPF & ETF	5,775,537	3,374,638
Staff Gratuity	2,573,714	1,223,315
Annual Bonus	2,586,218	1,901,260
Leave Encashment	355,652	332,298
Staff Medical Expenses & Insurance	2,147,946	1,371,615
Personnel Accident Insurance Cover	283,828	206,421
Compensation	-	158,061
Staff Housing Loan Interest Subsidy	422,769	355,812
Staff Welfare	1,746,689	1,046,907
Executive Subsistence	29,000	-
Reimbursement of Fuel - Directors	1,408,131	821,706
Lease Finance Charges	1,473,689	580,622
Foreign Travel & Training - Staff	5,027,452	6,089,293
Foreign Travel - Commission Members	623,704	1,862,740
Staff Training - Local	1,131,983	996,397
Subscription of Membership	217,559	-
Sponsorship for Studies	674,510	-
Temporary Allowance paid for IBSL work	80,000	380,429
Interns Allowance	-	102,464
	<b>67,748,020</b>	<b>43,824,404</b>

## Notes to the Financial Statements

	Note	2007 Rs.	2006 Rs.
<b>17. ADMINISTRATION &amp; ESTABLISHMENT EXPENSES</b>			
Rent & Car Park Rental		21,054,575	10,242,460
Electricity Charges		1,908,276	973,354
Office Upkeep		446,122	234,921
Security Charges		189,900	280,920
Office Equipment, Maintenance & Insurance		952,267	607,821
Telephone, Internet, E-mail & Web		2,633,541	2,089,943
Motor Vehicle Fuel, Maintenance, License & Insurance		1,209,635	915,561
Legal Expenses		274,511	442,529
Investigation Expenses		3,886	-
Inspection Expenses		4,481	-
Professional Fees		1,230,014	2,006,220
Member Fees		81,000	71,000
Meeting Expenses		278,057	177,158
Entertainment		353,790	271,658
International Membership Fees - International Organisation of Securities Commissions (IOSCO)		1,436,119	1,259,036
Depreciation	1	13,086,056	9,760,309
Cost of Publication		13,552	9,588
Obsolete Stocks		-	38,300
Advertising		1,353,169	982,926
Market Surveillance Cost		2,392,320	1,183,652
Library Books		229,120	146,900
Printing & Stationery		2,349,337	1,150,937
Travelling - Local		245,847	92,034
Insurance - Fire		191,148	62,248
Newspapers & Periodicals		108,726	107,649
Postage and Stamp Duty		855,706	41,884
Courier Charges		94,355	75,077
Audit Fees - Internal		335,823	301,913
Audit Fees - External		200,000	200,000
General Expenses		193,538	50,476
Trade Tax		5,000	5,000
VAT Expenses		4,710,204	2,757,671
		<b>58,420,075</b>	<b>36,539,145</b>
<b>18. CAPITAL MARKET DEVELOPMENT</b>			
Capital Market Master Plan		19,585,358	-
Capital Market Development		1,462,962	2,880,000
Developmental Assistant - Internet Trading		507,395	7,371,187
Public Awareness Programmes		4,871,620	7,862,528
		<b>26,427,335</b>	<b>18,113,715</b>



## Notes to the Financial Statements

	2007 Rs.	2006 Rs.
<b>19. GRANT TO FINANCIAL SERVICES ACADEMY (FSA)</b>		
Expenses paid by SEC	8,013,989	-
Less: Income Received	3,634,155	-
	4,379,834	-
Grant to FSA	<b>4,000,000</b>	-
Balance receivable from FSA	379,834	-

The total grant to FSA amounted to Rs. Five Million. The balance Rs. One Million was transferred to the FSA from the Cess Fund.

### 20. FINANCE CHARGES

Bank Charges	96,563	54,209
Debit Tax	184,004	90,470
	<b>280,567</b>	<b>144,679</b>

### 21. TAXATION

The Commission is not liable for income tax in terms of the Inland Revenue Act No. 28 of 1979 as amended.

### 22. CAPITAL COMMITMENTS

Capital expenditure approved by the Commission and contracted as at 31 December 2007 for an Uninterrupted Power Supply unit costing Rs. 845,572/- for which a provision has not been made in the Financial Statements.

### 23. CONTINGENT LIABILITIES

As a Capital Market development initiative the SEC entered into a Memorandum of Understanding with the Unit Trust Association of Sri Lanka in response to its proposal to support its marketing plan with an overall contribution of Rs. 13.05 Mn. within a period of 12 months commencing 16 May 2007 subject to certain criteria stipulated therein. Accordingly, a balance sum of Rs. 11,598,556/- may be payable within the specified period.

### 24. EVENTS AFTER THE BALANCE SHEET DATE

No material events have occurred after the Balance Sheet date necessitating any adjustments or disclosure in the Financial Statements.

### 25. RELATED PARTY DISCLOSURES

Dr. G. Wickramasinghe (Chairman), Mr. D. K. Hettiarachchi, Dr. (Mrs.) Ranee Jayamaha, Mr. Sumith Abeysinghe, Mr. C. P. E. Gunasingham, Mr. Greatian Gunawardene and Mrs. Siromi Wickramasinghe held office as Member of the Commission during the year 2007.

Mr. Ravi Abeysuriya was appointed as a Member of the Commission on 21 February 2007.

Mr. Yohan Perera's term as Ex-Officio Member of the Commission concluded on 19 December 2007 after completing his term of office as President Institute of Chartered Accountants of Sri Lanka.

Mr. W. I. C. Nishan Fernando was appointed to the Commission as Ex-Officio Member on 20 December 2007 by virtue of him holding office as President of the Institute of Chartered Accountants of Sri Lanka established by the Chartered Accountants Act No. 23 of 1959.

## Notes to the Financial Statements

The following table depicts the relationships held by the Members of the Commission during the year:

Name	Name of Related Institution	Relationship
Dr. G. Wickramasinghe	Informatics (Pvt) Ltd.	Director
	Informatics Institute of Technology Ltd.	Director
	Informatics Information Systems (Pvt) Ltd.	Director
	Informatics Agrotech (Pvt) Ltd.	Director
	Visual Computing Systems (Pvt) Ltd.	Director
	Informatics International Ltd.	Director
	Informatics Hospitality Systems Ltd.	Director
	Informatics International Lanka (Pvt) Ltd.	Director
	Informatics Holdings Ltd.	Director
	Charles Exports (Pvt) Ltd.	Director
	Industrial and Financial Systems Solutions Ltd.	Director
	Systems Integrators (Pvt) Ltd.	Director
	Informatics Trading (Pvt) Ltd.	Director
	Industrial and Financial Systems Sri Lanka Ltd.	Director
	Bank of Ceylon	Chairman w.e.f. 23.05.07
	Property Development Ltd.	Chairman w.e.f. 09.07.07
	Merchant Bank of Sri Lanka Ltd.	Chairman w.e.f. 09.07.07
	Merchant Credit of Sri Lanka Ltd.	Chairman w.e.f. 25.07.07
	Ceylease Financial Service Ltd.	Chairman w.e.f. 14.08.07
	BoC Travels (Pvt) Ltd.	Chairman w.e.f. 09.07.07
	Mireka Capital Lanka (Pvt) Ltd.	Director w.e.f. 23.07.07
	Insurance Board of Sri Lanka	Chairman
	Settlement Guarantee fund	Trustee
Financial Services Academy	Trustee w.e.f. 30.03.07	
Mr. D. K. Hettiarachchi	Sri Lanka Accounting Standard Monitoring Board	Member
Dr. (Mrs.) Raneer Jayamaha	Insurance Board of Sri Lanka	Ex-Officio Member
	Credit Information Bureau	Chairperson
	National Council for Economic Development - Financial Sector Cluster	Co-Chairperson w.e.f. 9 July 2004 to July 2007 and continue as Member thereafter
	National Payments Council	Chairperson
	Technical Committee on Regulation of Share Ownership in Banks	Chairperson
Mr. S. Abeysinghe	Bank of Ceylon	Director (Treasury Nominee)
	Insurance Board of Sri Lanka	Member (Treasury Nominee)
	Settlement Guarantee Fund	Trustee
	De-La Rue Lanka	Director (Treasury Nominee)
	President Fund	Member

## Notes to the Financial Statements

Name	Name of Related Institution	Relationship
Mr. Yohan Perera	Postgraduate Institute of Management (PIM)	Member, Board of Management
(Ceased to be a Member of the Commission on 19 December 2007)	National Institute of Business Management (NIBM)	Member, Governing Council
	KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants	Partner
	FRT Holdings (Pvt) Ltd.	Director
	Industrial & Commercial Consultants Ltd.	Director
	E Business Exchange Lanka (Pvt) Ltd.	Director
	KPMG Executive Search (Pvt) Ltd.	Director
Mr. C. P. E. Gunasingam	Jaguar (Pvt) Ltd.	Director
	Insurance Board of Sri Lanka	Member of the Board
Mr. Graetian Gunawardena	National Development Health Fund	Member of the Board of Trustee
	Insurance Board of Sri Lanka	Member of the Board
	Hands International (Pvt) Ltd.	Chairman/Managing Director
Mrs. Siromi Wickramasinghe	–	–
Mr. Ravi Abeysuriya	Amba Research Lanka (Private) Ltd.	Managing Director
	CFA, Sri Lanka	Director
	Information Technology Enabled Services Association of Sri Lanka	President w.e.f. July 2007
	Financial Services Academy	Trustee w.e.f. 30.03.07

The following Members of the SEC were also Members of the Insurance Board of Sri Lanka (IBSL) during the year under review except Mr. Channa de Silva who is the Director General of the SEC.

Dr. Gamini Wickramasinghe	Chairman of IBSL
Dr. (Mrs.) Ranee Jayamaha	Member of IBSL
Mr. S. Abeysinghe	Member of IBSL
Mr. C. P. E. Gunasingam	Member of IBSL
Mr. Graetian Gunawardena	Member of IBSL
Mr. Channa de Silva	Member of IBSL

The Commission received the following amounts from the IBSL for goods and services provided during the year under review at cost:

	Rs.
Remuneration for Seconded Staff from SEC to IBSL	383,792.92
Management Fee	80,000.00
Vehicle Hires	34,718.25
<b>Total</b>	<b>498,511.17</b>

## Notes to the Financial Statements

The Financial Services Academy (FSA) the training arm of the SEC and IBSL was incorporated under the Trust Ordinance. The following Members of the SEC also held office as Trustee of the FSA except Mr. Channa de Silva who is the Director General of the SEC.

Dr. Gamini Wickramasinghe	Trustee FSA
Mr. D. Ravi Abeysuriya	Trustee FSA
Mr. Channa de Silva	Trustee FSA

The Commission incurred the following amounts of expenditure on behalf of the FSA and recovered same at cost from the grant payable to the FSA.

	Rs.
Capital Expenditure	1,343,925.00
Administration Expenses	916,501.00
Seminar Expenses	2,936,627.00
Remuneration of the staff of the SEC assigned with duties of FSA	2,816,936.00
<b>Total</b>	<b>8,013,989.00</b>

The Financial Services Academy utilised office space, furniture and connected facilities of the SEC for administrative convenience without a charge.

Other than the transactions in the ordinary course of business at market rates and the above mentioned no transactions were recorded with the said institutions during the year.

# Report of the Auditor General



## විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அறிப்பித் திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය  
எனது இல  
My No

LP/F/SEC/2008/01

ඔබේ අංකය  
உமது இல  
Your No.

දිනය  
திகதி  
Date

29 May 2008

The Chairman,  
Securities and Exchange Commission of Sri Lanka.

### Report of the Auditor General on the Financial Statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31st December 2007 in terms of Section 14(2)(c) of the Finance Act No. 38 of 1971.

The audit of Financial Statements of the Securities and Exchange Commission of Sri Lanka (SEC) for the year ended 31st December 2007 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 37(2) of the Securities and Exchange Commission Act No. 36 of 1987 and Section 13(1) of the Finance Act No. 38 of 1971. My comments and observations which I consider should be published with the annual report of the Commission in terms of Section 14(2)(c) of the Finance Act appear in this report.

#### 1.2 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting an applying appropriate accounting polices; and making accounting estimates that are reasonable in the circumstances.

#### 1.3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. Sub-sections (3) and (4) of the Section 13 of the Finance Act No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

සිලෝන් විදුරලය,  
කොළඹ 07, ශ්‍රී ලංකාව

දුරකථන  
தொலைபேசி  
Telephone. } 2691151

சதந்திர சதுக்கம்,  
கொழும்பு 07, இலங்கை

ලැයිස් අංකය  
பகல் இல  
Fax No. } 2697451

INDEPENDENCE SQUARE,  
COLOMBO 07, SRI LANKA

දුරකථනවෙතින් ලැබුණු  
E-mail } oaggov@sltnet.lk

## Report of the Auditor General

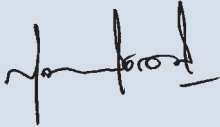
### 2. Financial Statements

#### 2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Securities and Exchange Commission of Sri Lanka had maintained proper accounting records for the year ended 31st December 2007 and the Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards give a true and fair view of the state of affairs of the Securities and Exchange Commission of Sri Lanka as at 31st December 2007 and the financial results of its operation and cash flows for the year then ended.

#### 2.2 Report to Parliament

My report to Parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course.



**S. Swarnajothi**  
AUDITOR GENERAL



# Settlement Guarantee Fund Balance Sheet

As at 31 December

Note

2007  
Rs.

2006  
Rs.

## ASSETS

### CURRENT ASSETS

Investment in Treasury Bills		124,260,223	112,697,178
Receivables	2	15,339,347	10,088,582
Cash at Bank		35,325	35,325
<b>TOTAL ASSETS</b>		<b>139,634,895</b>	<b>122,821,085</b>

## RESERVES AND LIABILITIES

### RESERVES

Capital Grants - Treasury		50,000,000	50,000,000
Accumulated Fund		89,509,895	72,663,340
		<b>139,509,895</b>	<b>122,663,340</b>


### CURRENT LIABILITIES

Payables	3	125,000	157,745
		125,000	157,745
<b>TOTAL NET ASSETS AND LIABILITIES</b>		<b>139,634,895</b>	<b>122,821,085</b>

The Notes appearing on pages 64 to 67 form an integral part of the Financial Statements.

The Trustees of the Settlement Guarantee Fund are responsible for the preparation of these Financial Statements.

For and on behalf of Settlement Guarantee Fund.



**Gamini Wickramasinghe**

Chairman, Securities & Exchange Commission of Sri Lanka  
Trustee



**Sumith Abeyasinghe**

Deputy Secretary to the Treasury  
Trustee

Colombo.

28 March 2008

# Settlement Guarantee Fund Income and Expenditure Statement

For the year ended 31 December

	Note	2007 Rs.	2006 Rs.
<b>INCOME</b>			
Interest on Investments - Treasury Bills		16,813,810	11,131,267
		<b>16,813,810</b>	<b>11,131,267</b>
Less:			
<b>EXPENDITURE</b>			
General Expenses		-	223
Custodian Fees		-	43,374
Audit Fees		25,000	17,933
Total Expenditure		<b>25,000</b>	<b>61,530</b>
Add: Prior Year Over Provision of Custodian Fees	4	57,745	-
Excess Income over Expenditure for the Year		<b>16,846,555</b>	<b>11,069,737</b>

The Notes appearing on pages 64 to 67 form an integral part of the Financial Statements.

# Settlement Guarantee Fund

## Statement of Changes in Net Assets

For the year ended 31 December

	2007 Rs.	2006 Rs.
<b>Accumulated Fund</b>		
Balance at the beginning of the period	72,663,340	61,593,603
Net Surplus for the period	16,846,555	11,069,737
Balance at the end of the period	<b>89,509,895</b>	<b>72,663,340</b>

The Notes appearing on pages 64 to 67 form an integral part of the Financial Statements.

# Settlement Guarantee Fund Cash Flow Statement

For the year ended 31 December

	Note	2007 Rs.	2006 Rs.
<b>Cash Flow from Operating Activities</b>			
Net Surplus for the year		16,846,555	11,069,737
Adjustment for			
<b>Change of Working Capital</b>			
(Increase)/Decrease of other receivable	2	(5,250,765)	(3,133,218)
Increase/(Decrease) of other payable	3	(32,745)	17,104
		(5,283,510)	(3,116,114)
<b>Net Cash Flow from Operating Activities</b>		<b>11,563,045</b>	<b>7,953,623</b>
<b>Net Cash Flow from Financing Activities</b>		-	-
<b>Cash Flow from Investing Activities</b>			
Investment in Treasury Bills		(11,563,045)	(7,933,900)
<b>Net Cash Flow from Investing Activities</b>		<b>(11,563,045)</b>	<b>(7,933,900)</b>
Net Increase/(Decrease) in Cash and Cash Equivalents		-	19,723
Cash & Cash Equivalents at the beginning of the period		35,325	15,602
Cash & Cash Equivalents at the end of the period		<b>35,325</b>	<b>35,325</b>

The Notes appearing on pages 64 to 67 form an integral part of the Financial Statements.

# Settlement Guarantee Fund

## Notes to the Financial Statements

### 1. ACCOUNTING POLICIES

#### 1.1 STATEMENT OF COMPLIANCE

The financial statements of the Settlement Guarantee Fund have been prepared in compliance with the Sri Lanka Accounting Standards (SLAS) issued by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the said standards.

#### 1.2 BASIS OF PREPARATION

The financial statements of the Fund are presented in Sri Lankan Rupees rounded to the nearest Rupee and are prepared on accrual basis under historical cost convention. Where appropriate accounting policies are disclosed in succeeding notes.

#### 1.3 COMPARATIVE FIGURES AND NARRATIONS

Comparative figures have been adjusted to conform with changes in presentation in the current financial year where necessary.

#### 1.4 ASSETS & BASES OF VALUATION

##### 1.4.1 INVESTMENTS

Investments are made in Government Treasury Bills only and stated at cost.

##### 1.4.2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the Cash Flow Statement comprise cash at bank, cash in hand and call deposits.

#### 1.5 LIABILITIES & PROVISIONS

##### 1.5.1 RETIREMENT BENEFIT

Retiring gratuities payable under the payment of Gratuity Act No. 12 of 1983 do not arise since the Settlement Guarantee Fund is administrated by the Trustees and there are no permanent staff employed by the Fund.

##### 1.5.2 ACCOUNTS PAYABLE

Payables are stated cost.

#### 1.6 INCOME & EXPENDITURE

##### 1.6.1 REVENUE RECOGNITION

Interest income is accounted on accrual basis

##### 1.6.2 EXPENDITURE RECOGNITION

All expenditure incurred in maintaining the Fund has been charged to revenue in arriving at income over expenditure.

**Settlement Guarantee Fund  
Notes to the Financial Statements**

	2007 Rs.	2006 Rs.
<b>2. RECEIVABLES</b>		
Treasury Bill Interest Receivable	15,339,347	10,088,582
	<b>15,339,347</b>	<b>10,088,582</b>
<b>3. PAYABLES</b>		
Custodian Fees	-	57,745
Audit Fees	125,000	100,000
	<b>125,000</b>	<b>157,745</b>

**4. PRIOR YEAR ADJUSTMENT**

Over provision of Custodian Fees Payable of Rs. 57,745/- was treated in terms of Sri Lanka Accounting Standard No. 10- Accounting Policies, Changes in Accounting Estimates and Errors.

**5. CAPITAL COMMITMENTS**

There were no capital commitments as at 31 December 2007.

**6. CONTINGENT LIABILITIES**

There were no contingent liabilities as at 31 December 2007.

**7. EVENTS AFTER THE BALANCE SHEET DATE**

No material events have occurred after the Balance Sheet date necessitating any adjustments or disclosure in the Financial Statements.

**8. RELATED PARTY TRANSACTIONS**

The Trustees of the Fund are the Chairman and the Director General of the Securities & Exchange Commission of Sri Lanka (SEC), the Chairman and the Director General of the Colombo Stock Exchange (CSE) and the Deputy Secretary to the Treasury.



## Settlement Guarantee Fund Notes to the Financial Statements

The following table depicts the Directorships held by the present Trustees of the Fund during the year.



Name of the Trustee	Name of Institution	Position	
Dr. G. Wickramasinghe	Informatics (Pvt) Ltd.	Director	
	Informatics Institute of Technology Ltd.	Director	
	Informatics Information Systems (Pvt) Ltd.	Director	
	Informatics Agrotech (Pvt) Ltd.	Director	
	Visual Computing Systems (Pvt) Ltd.	Director	
	Informatics International Limited	Director	
	Informatics Hospitality Systems Ltd	Director	
	Informatics International Lanka (Pvt) Ltd.	Director	
	Informatics Holdings Limited	Director	
	Charles Exports (Pvt) Ltd.	Director	
	Industrial and Financial Systems Solutions Ltd.	Director	
	Systems Integrators (Private) Ltd.	Director	
	Informatics Trading (Private) Ltd.	Director	
	Industrial and Financial Systems Sri Lanka Ltd.	Director	
	Bank of Ceylon	Chairman w.e.f. 23.05.07	
	Property Development Ltd.	Chairman w.e.f. 09.07.07	
	Merchant Bank of Sri Lanka Ltd.	Chairman w.e.f. 09.07.07	
	Merchant Credit of Sri Lanka Ltd.	Chairman w.e.f. 25.07.07	
	Ceylease Financial Service Ltd.	Chairman w.e.f. 14.08.07	
	BoC Travels (Pvt) Ltd.	Chairman w.e.f. 09.07.07	
	Mireka Capital Lanka (Pvt) Ltd.	Director w.e.f. 23.07.07	
	Securities and Exchange Commission of Sri Lanka	Chairman	
	Insurance Board of Sri Lanka	Chairman	
	Financial Services Academy	Trustee w.e.f. 30.03.07	
	Mr. Sumith Abeysinghe	Bank of Ceylon	Ex-officio Director
		Securities and Exchange Commission of Sri Lanka	Ex-officio Member
		Insurance Board of Sri Lanka	Ex-officio Member
De-La Rue Lanka		Director (Treasury Nominee)	
President's Fund		Member	
Mr. A. Nihal Fonseka	DFCC Bank	Director	
	DFCC Consulting (Pvt) Ltd.	Chairman	
	DFCC Stockbrokers (Pvt) Ltd.	Chairman	
	Lanka Industrial Estate Ltd.	Chairman	
	Lanka Ventures Ltd.	Chairman	
	Synapsys Ltd.	Chairman	
	Colombo Stock Exchange Ltd.	Chairman	
	National Asset Management Ltd.	Director	
	Commercial Bank of Ceylon Ltd.	Director	
	Commercial Bank Primary Dealer Ltd.	Director	
	ONEZero Company Ltd.	Director	
	Credit Information Bureau of Sri Lanka	Director	
	National Institute of Business Management	Member Governing Board	
	Postgraduate Institute of Management	Member Board of Management	

**Settlement Guarantee Fund  
Notes to the Financial Statements**

<b>Name of the Trustee</b>	<b>Name of Institution</b>	<b>Position</b>
Mr. Channa De Silva	Insurance Board of Sri Lanka	Ex-officio Member
	Public Enterprises Reforms Commission of Sri Lanka	Ex-officio Member
	Sri Lanka Accounting & Auditing Standards Monitoring Board	Ex-officio Member
	Construction Guarantee Fund	Trustee
	National Payment Council	Member
	Securities and Exchange Commission of Sri Lanka	Director General
Ms. Surekha Sellahewa	Colombo Stock Exchange	Director General

Other than the transactions in the ordinary course of business at market rates no transactions were recorded with the said institutions during the year.

# Settlement Guarantee Fund Auditor's Report

	<b>විගණකාධිපති දෙපාර්තමේන්තුව</b> <b>கணக்காய்வாளர் தலைமை அறிப்பி திணைக்களம்</b> <b>AUDITOR GENERAL'S DEPARTMENT</b>	
මගේ අංකය எனது இல My No } LP/F/SGF/2008/01	ඔබේ අංකය உமது இல Your No. }	දිනය திகதி Date } 22 April 2008

The Chairman  
Settlement Guarantee Fund  
Securities and Exchange Commission of Sri Lanka

## Report of the Auditor General on the Financial Statements of the Settlement Guarantee Fund for the year ended 31st December 2007

The audit of Financial Statements of the Settlement Guarantee Fund for the year ended 31st December 2007 was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with paragraph 11 (d) of the Deed of Trust No. 1376 dated 21/22 May 1998 in respect of Settlement Guarantee Fund created by the Securities and Exchange Commission of Sri Lanka.

### 1.2 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintain internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### 1.3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these Financial Statements based on my audit. Audit opinion, comments and findings in this report are based on review of the Financial Statements presented to audit and substantive tests of sample of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the Financial Statements are free of material misstatements. The Audit includes the examination on a test basis of evidence supporting the amounts and disclosures in Financial Statements and assessment of accounting principles used and significant estimates made by the management in the preparation of Financial Statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit. I therefore believe that my audit provides a reasonable basis for my opinion.

සිලෝන් විලර්ලා, කොළඹ 07, ශ්‍රී ලංකාව  දුරකථන தொலைபேசி Telephone. } 2691151	சுதந்திர சதுக்கம், கொழும்பு 07, இலங்கை  ෆැක්ස් අංකය பகல் இல Fax No. } 2697451	<b>INDEPENDENCE SQUARE, COLOMBO 07, SRI LANKA</b>  දුරකථනවලින් ලැබෙන්නේ n- ලැබෙන්නේ E-mail. } oaggov@sltnet.lk
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**1.4 Opinion**

So far as appears from my examination and to the best of my information and according to the explanations given to me, I am of opinion that the Settlement Guarantee Fund had maintained proper accounting records for the year ended 31st December 2007 and the Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards give a true and fair view of the state of affairs of the Fund as at 31st December 2007 and the financial results of its operation and cash flows for the year then ended.

**2. Financial and Operating Review**

**2.1 Financial Results**

According to the Financial Statements presented, the activities of the Fund for the year ended 31st December 2007 had resulted in a surplus of Rs. 16,846,555 as compared with the corresponding surplus of Rs. 11,069,737 for the preceding year.

**2.2 Functions of the Fund**

Disputes between Clearing Members of the Central Depository System had not been reported from the inception of the Fund though the paragraph 5(a) of the Deed of Trust No. 1376 dated 21/22 May 1998 provides for settlement of such disputes.

**2.3 Investments**

Action had not been taken to transfer the investments held in Treasury Bills as at 31st December 2007 amounting to Rs. 124,260,223 to the "State Institutions Temporary Surplus Trust Fund" in terms of the Public Enterprises Circulars No. PED 33 of 19th December 2005 and No. 30 of 13th July 2005.



**W. D. Hemarathne**  
*Acting Auditor General*

# Responses of the Commission to the matters raised by the Auditor General

## AUDITOR'S COMMENTS

## SEC RESPONSES

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### 2. FINANCIAL & OPERATING REVIEW

#### 2.2 FUNCTIONS OF THE FUND

Disputes between Clearing Members of the Central Depository System had not been reported from the inception of the Fund though the paragraph 5(a) of the Deed of Trust No 1376 dated 21/22 May 1998 provides for settlement of such disputes.

Your comment is correct. Since the inception of the Settlement Guarantee Fund no disputes were reported to the Commission between the Clearing Members of the Central Depository System.

---

#### 2.3 INVESTMENTS

Action had not been taken to transfer the investments held in Treasury Bills as at 31 December 2007 amounting to Rs. 124,260,223/- to the 'State Institutions Temporary Surplus Trust Fund' in terms of the Public Enterprises Circulars No. PED 33 of 19 December 2005 and No. 30 of 13 July 2005

The Settlement Guarantee Fund (SGF) was established for the purpose of guaranteeing the settlement between participants of the Central Depository System of the Colombo Stock Exchange. Therefore, it was decided not to transfer the surplus money of the SGF since the said Fund was created for a specific purpose and the money should be at the command of the Trustees to honour any exigencies that may arise in the future. The Funds have been invested in risk free investments namely Treasury Bills under the name of SGF to facilitate speedy liquidation if the need arises.

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#### ADDRESS

# 28 & 29 East Tower, World Trade Center,  
Echelon Square, Colombo 1, Sri Lanka.

#### TELEPHONE

2331013-6, 2439144-8

#### FAX

2439149

#### E-MAIL

mail@sec.gov.lk

#### WEB

www.sec.gov.lk

#### LEGAL FORM

Securities & Exchange Commission of Sri Lanka (SEC) incorporated by  
Act No. 36 of 1987 as amended by Act No. 26 of 1991 and Act. No 18 of 2003.

#### ACCOUNTING YEAR END

31 December

#### AUDITORS

The Auditor General

#### BANKERS

Bank of Ceylon | Sampath Bank | Standard Chartered Bank |  
Hongkong & Shanghai Banking Corporation Limited.



**SECURITIES AND EXCHANGE  
COMMISSION OF SRI LANKA**  
ANNUAL REPORT 2007