



A NEW HORIZON

FULL OF PROMISE, REplete WITH HOPE AND
RIPE WITH CHALLENGES
BECKONS...



SECURITIES AND EXCHANGE
COMMISSION OF SRI LANKA

ANNUAL REPORT 2008

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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.



As we stand on the brink of a dynamic economic resurgence, our role as the capital market regulator must be to foster growth.

Chairman's Review

The unprecedented financial crisis during 2008 gave us a rare opportunity to review the effectiveness of our policies and procedures under volatile market conditions. We concentrated our efforts on ensuring market integrity, effective supervision and strengthened regulation, with the help of a team of professionals here at the Securities and Exchange Commission (SEC). I believe our approach to regulation, supervision, monitoring and enforcement, and market development are very much in line with international best practices.

In the wake of the global financial crisis, regulation has taken the spotlight more than ever before. During the past year, we took steps to introduce changes to important components in the regulatory framework. Against this backdrop, we approved changes to the listing rules, issued guidelines for the regulation of unit trusts funds, and proposed changes to the SEC Act to enhance regulation.

In our attempt to further strengthen market oversight, we intensified our framework for assessing systemic risk, and stepped up our monitoring of market intermediaries. Our focus was to identify potential problems early and ensure they do not escalate into systemic proportions. To further strengthen off-site supervision of market participants, we standardized reporting formats and commenced the development of an electronic filing system for regulatory submissions.

Good corporate governance is a vital pre-requisite to investor protection. We issued standards on corporate governance for mandatory compliance, and introduced requirements for independent directors, non-executive directors, audit committees and remuneration committees. We also introduced a code of best practice for voluntary adoption by listed companies.

Considering the critical long-term needs of the market, and to enable investors to minimise and manage market risks and volatility, we initiated the introduction of exchange-traded financial derivatives. Moreover,

a functioning derivatives market will not only provide additional financial instruments for investors, and allow market intermediaries to expand their range of services, it will more importantly help increase market efficacy, turnovers, and reduce volatility. We laid the foundation to the introduction of derivatives by commissioning two experts to conduct a feasibility study. The creation of a central clearing corporation was identified as an essential prerequisite to handle the clearing and settlement risk component of both the current equities and the proposed derivatives market segments. Therefore, as a first step, we issued a directive to the Colombo Stock Exchange (CSE) to establish a Central Clearing Corporation.

The high transaction costs for stock trading is one of the biggest impediments to improving market liquidity. A study we undertook on the regional transaction costs revealed that Sri Lanka's costs are among the highest in the Asia-pacific region. In view of the detrimental effect on the market, we initiated discussions with stock brokers and the CSE to explore possibilities of reducing the transaction costs for stock trading.

In order to foster greater awareness and education, we successfully included the subject of capital market to the grade eight and nine curricula of government schools. To promote awareness within the university system, we established Capital Market Information Centres within three Sri Lankan universities and created a comprehensive website with trading statistics, research articles and other useful information. The television quiz programme conducted Island wide to encourage knowledge and awareness among school children was a resounding success.

To ensure that the market participants we regulate possess appropriate qualifications and comply with proper ethics and standards, the Financial Services Academy (FSA) of the SEC prepared a qualification framework comprising a certificate programme and a diploma level qualification.

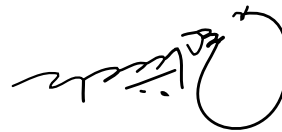
Since a robust financial system requires multiple channels of funding, we plan to encourage the development of a vibrant corporate bond market to meet the long-term financing needs of the government and the private sector. We plan to encourage state-owned enterprises and infrastructural projects to tap the capital market for their funding requirements and to encourage more long-term investments of government controlled pension/trust funds in the capital market.

Traditional member-owned exchanges find it increasingly difficult to respond to new challenges and changes. Demutualization has been identified as an effective way to develop a profit-oriented, efficient and competitive stock exchange. In order to demutualise the CSE, we intend to work closely with them, based on the modalities already developed.

Considering global trends, and changes taking place in the securities market in Sri Lanka, our Mission to

promote, develop and maintain a securities market that is fair, efficient, orderly and transparent has become more important today than ever before. Our Commission Members and our staff have worked tirelessly towards this end, with a high level of professionalism, commitment and passion.

With their help and government support, we will continue to win the confidence of investors and protect them through proficient and proactive securities market regulation. I believe we are making progress towards our Vision of becoming the benchmark in Asia for effective, efficient and proactive securities market regulation.



Udayasri Kariyawasam
Chairman



The SEC remains committed to promoting best practices within the corporate sphere, and is geared to better regulate the capital market.

Director General's Review

In a turbulent and uncertain economic period evidenced globally, local market stability remained unhampered underlying a strong and prudent regulatory framework. During 2008, we were successful in launching several far-reaching strategic initiatives keeping in-line with the 10 year Capital Market Master Plan (CMMP) where the policy rationale and strategy for developing the Sri Lankan capital market is well enumerated. The recommendations encapsulated in the plan range from strengthening and enhancing market micro structure to broad basing and facilitating market awareness and expansion. The initiatives were directed towards enhancing the demand as well as the supply side of the market. These endeavors demonstrate our strong commitment to developing the capital market in Sri Lanka and building capacity.

Capital Market Development

We provided leadership to facilitate the introduction of exchange-traded derivative instruments to our capital market. Introduction of derivatives such as index and stock futures is expected to have far reaching impact on the market and cause a paradigm shift in the way the local capital market has been operating thus far. It will give rise to competition and complement market transactions and information flow, making the whole market more robust, efficient and transparent, impacting trading volumes and turnovers.

As an initial step to achieving this important milestone we issued a directive to the CSE to establish a much-needed Central Clearing Corporation. The introduction of a Clearing Corporation will serve the dual purpose of mitigating settlement and counterparty risk of the current equities segment, as well as paving the way towards facilitating novation of derivative transactions. We have also made arrangements to conduct a high-level study tour to India early next year to further study the operational aspects of derivative markets as well as clearing corporations to help CSE and the required market intermediaries execute this ambitious endeavour. The officials of the SEC, CSE and chief executive officers of stock broking companies will participate in this crucial visit to India.

The corporate bond market is an important alternative conduit for corporates to raise financing for their activities. During the year, the Corporate Bond Development Task Force, which was set up by the SEC comprising of industry experts to encourage the development of a vibrant corporate bond market finalized a strategy paper. An action plan was developed based on the recommendations made by the Task Force and would be implemented in a phased out manner. Included in the plan is an effort to take treasury bills to the urban and rural household through a government investment vehicle "Jathika Isura" which acts as an intermediary in the process. We have proposed a transparent and continued supply of treasury bills through the CSE. "Jathika Isura" could buy treasury bills from the market and be a seller in the CSE engaged in a role of a market maker. This will create a new investment architecture in the country.

We would continue our efforts to demutualise the CSE in order to improve functionality and effectiveness. We are confident that demutualisation of the CSE will give the exchange the opportunity to position itself better to respond to the interests of its stakeholders and become more competitive and customer driven. We intend to work closely with the CSE on demutualization based on modalities already developed.

We encouraged the Unit Trust Association to develop a strategic marketing plan to popularise unit trust products and channel rural savings to the capital market. We further initiated a number of product development initiatives including the introduction of Real Estate Investment Trusts and Exchange Traded Funds.

Education and Awareness

To reap the benefits of the capital market investments, every Sri Lankan needs to be financially literate. Towards this end, we continued to commit substantial resources for education and awareness. We ensured that all segments of the society including school children, teachers, undergraduates, journalists, market participants, and general public are accommodated in our awareness initiatives.

We made use of our 21st anniversary as the launching pad for a number of education and awareness initiatives. Among others, was the signing of Memoranda of Understanding (MOUs) with national universities to promote capital market subjects by annually sponsoring a SEC gold medal along with a substantial cash reward for each student who excels in a subject related to the capital market. This award will be offered in all national universities in the country.

Having recognised the importance of an informed financial services community, we restructured and inaugurated a new qualification framework for the investment advisor certification programme and also conducted a number of workshops for finance professionals. Further, with a view to imparting capital market knowledge within the university system, we took steps to establish Capital Market Information Centres within three universities. These information centres which will be launched in all the national universities will host a dynamic web portal that will consist of research work done on the capital market of Sri Lanka along with historical information that stretches for 10 years including market, industry and stock performances. We will shortly include regional and global stock market performance and commit to continuously improve the information that is provided.

Regulation

We have recognised the need to ensure that the regulatory framework achieves a balance of being sufficiently flexible and at the same time not compromise market integrity. In view of this we launched several key initiatives to further strengthen our regulatory framework during the past year. Steps were taken to amend the SEC Act, facilitate the revision of the listing rules and draft the Securitisation Act. We further issued guidelines for the appointment of external auditors and addressed gaps prevalent in the regulation of unit trusts.

Good corporate governance standards are the basis upon which investor confidence is built. We issued standards on corporate governance for mandatory compliance which included requirements for independent and non executive directors, audit committees and remuneration committees along with certain mandatory disclosures. It is important to note that this is the first time that corporate governance has been made mandatory for listed companies in Sri Lanka. To further ensure an environment conducive for investors, we introduced a code of best practice for voluntary adoption by listed companies.

Oversight and Compliance

With a view to keeping abreast with the latest market supervision methodologies and to attain a high level of compliance we implemented a risk-based supervisory approach for all capital market intermediaries. New standardized reporting formats for all the intermediaries were introduced to bring uniformity in regard to submission of monthly financial statements. We believe the adoption of these formats would bring about higher reporting and oversight standards in the industry. We also initiated development of an on-line filing system for the market intermediaries in order to increase efficiency. We intend to expand this to encompass all listed companies in the future.

Monitoring and Enforcement

We continued to be vigilant in ensuring effective monitoring and enforcement to protect investors and support capital market growth. In 2008, our focus was on proactive market surveillance. In order to make early detections and broaden our surveillance coverage we initiated installing a more sophisticated state of the art automated surveillance system equipped with advanced real-time capabilities for identifying and flagging unusual market behaviour and trading patterns with automatic generation of alerts and

logs. We are convinced that this initiative will push the market integrity to higher levels.

Human Resources

Since the achievement of our goals and objectives depend largely on the knowledge, and competencies of our staff, we created a new human resource division with a Director and support staff. We increased our staff strength significantly by recruiting experienced professionals with the competencies and skills needed to meet the complex challenges in the market. It is critically important to continue our efforts to increase capacity of the SEC to meet the responsibilities and challenges of the future.

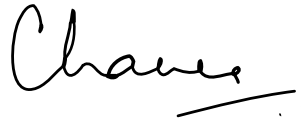
Looking Ahead

We are committed to introducing exchange-traded derivative instruments, and promote day trading. Our future plans also include the linking of the rural economy with urban financial domains.

Conclusion

I am pleased with our achievements during the past year, which posed numerous challenges for all of us. I wish to express my sincere appreciation for the untiring efforts, enthusiasm and commitment of our entire staff, without whom these achievements would not have been possible.

I wish to extend my appreciation to all Commission Members for their continued guidance and support and assistance provided to us at all times. Our sincere appreciation is also extended to all our stakeholders for their continued interest and participation in the capital market. Together we have established the proper foundation for a progressive and vibrant capital market in Sri Lanka.



Channa de Silva

Director General



Standing from left:

Dr. Raneer Jayamaha, Dr. Lalith Priyalal Chandradasa, Mr. Waduge Nishan Indrajith Chulananda Fernando, Mr. Udayasri Kariyawasam, Mr. Graetian Gunawardhana, Mr. D.K. Hettiarachchi.

Absent: Dr. R.H.S. Samarathunga

Members Of The Commission

Mr. Udayasri Kariyawasam (Chairman)

Mr. Udayasri Kariyawasam is a practicing Chartered Accountant by profession, a Fellow Member (FCA) of the Institute of Chartered Accountants of Sri Lanka. He is a Member of the Certified Practising Accountants (CPA) Australia, a Member of the Association of Certified Fraud Examiners (CFE) in the USA, and a Fellow of the Society of Certified Management Accountants Sri Lanka (FSCMA). He is also a Senior Member (SAT) of the Association of Accounting Technicians of Sri Lanka.

He holds a Bachelor of Science Degree in Business Administration (Special) from the University of Sri Jayewardenepura, Sri Lanka and holds a Masters Degree in Business (Accounting) from the RMIT University, Melbourne, Australia. He is also a Registered Company Secretary in Sri Lanka.

Mr. Kariyawasam is the Chairman of the Insurance Board of Sri Lanka. He is the Senior Partner of Udayasri Kariyawasam & Company (Chartered Accountants), and Principal Consultant of U.K. Forensic Accountants (Forensic Accountants and Frauds Examiners).

He has gained vast experience in holding key positions in both the private and the public sectors serving as Chairman in the Ceylon Electricity Board (the largest Electricity Corporation in Sri Lanka), Bank of Ceylon, (the largest Commercial Bank in Sri Lanka), Merchant Bank of Sri Lanka, Property Development Ltd and currently he is the Deputy Chairman of Lanka Hospitals (Apollo) Corporation PLC. He was also a Commission Member of the SEC during the years 2004/05.

Mr. D.K. Hettiarachchi

Mr. D.K. Hettiarachchi is a Law Graduate (L.LB) from the University of Colombo, and is an Attorney-at-Law by profession. 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.

Mr. Hettiarachchi is a member of the Sri Lanka Accounting and Auditing Standards Monitoring Board.

Dr. Rane Jayamaha

Dr. Rane Jayamaha currently holds the post of Deputy Governor, Central Bank of Sri Lanka (CBSL). As the Deputy Governor in charge of the Financial System Stability, she chairs the Financial System Stability Committee of the Bank. She is the Chairperson of the Credit Information Bureau of Sri Lanka, the National Payments Council, the Legal Forum and the SAARC Payments Council. She is a member of the Bank's Monetary Policy Committee, Insurance Board of Sri Lanka, Securities and Exchange Commission of Sri Lanka and the National Economic Council.

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

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.

Mr. Graetian Gunawardhana

Mr. Graetian Gunawardhana was educated at Thurstan College and studied up to Advanced Level and joined the Royal Ceylon Air Force as an Aircraft Engineering Technician for 02 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 3000 workers. He was elected the "Entrepreneur of the year" in 1999/2000, and was also the recipient of the Gold Award for Exports for the Extra Large Category for many years.

Mr. Gunawardhana 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 and was a Director of the American Chamber of Commerce for two years.

Mr. Graetian Gunawardhana was adjudged the "Best Governor in the World" at the Boston Academy Awards Function in 2006. Today he holds the position as Past Board Appointee of the Lions Club International.

Mr. Waduge Nishan Indrajith Chulananda Fernando

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 Federation 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), the former Chairman of the Accounting and Auditing Standards Committee of SAFA and the former Chairman and Member of the Urgent Issues Task Force. At present, he functions in the capacity of the Group Chief Financial Officer at ODEL (Pvt) Ltd.

Dr.R.H.S. Samaratunga

He holds a Bachelor of Arts (Hons.) Degree in Economics from the University of Peradeniya, Sri Lanka; Master of Science (MSc.) in Agri Economics from the University of Wisconsin-Madison, USA; Master of Business Administration (MBA) from the University of Sri Jayewardenepura, Sri Lanka. He also holds a Doctor of Philosophy (Ph.D) from La Trobe University, Australia.

Dr.Samaratunga is a Deputy Secretary to the Treasury with over twenty five years of experience in public service in several capacities. He has previously held senior positions in the Ministry of Finance and Planning. Among them were Director, Department of National Planning; Additional Director General, Department of Fiscal Policy and Economic Affairs; and Director General, Department of Trade, Tariff and Investment Policy.

He is on the boards of several public enterprises and government linked companies such as Development Lotteries Board, Bank of Ceylon, Sri Lanka Export Development Board, Sri Lanka Export Credit Insurance Corporation, State Trading (Co-operative Wholesale) Company Limited, Mihin Lanka Limited, Board of Investment of Sri Lanka (Observer), De La Rue Lanka Currency and Security Print (Pvt) Limited and Postgraduate Institute of Management.

Dr. Lalith Priyalal Chandradasa

Dr. Lalith Priyalal Chandradasa received his Bachelor of Medicine and Bachelor of Surgery Degree (MBBS) from the University of Colombo.

He has 15 years of experience in the Ministry of Health and served in Colombo, Badulla and Ratnapura as a medical officer. His areas of expertise include community medicine, administering medical responses in emergencies and disasters, policy formulation, process and system development and advocacy.

He has served as Chairman, Sri Lanka Ports Authority; Chairman, National Aquaculture Development Authority; and Chairman, Ceylon Fisheries Harbours Corporation. He has also served as the General Secretary to the Government Medical Officers Association (GMOA) for two terms.

He is currently Director, Community Health at Lanka Jathika Sarvodaya Shramadana Sangamaya; and Director, Principal Recipient 2 Global Fund Against AIDS, Tuberculosis and Malaria (GFATM) Sri Lanka.

Senior Management



Standing – From Left

Namal Kamalgoda - Director Surveillance

Dr. D.B.P.H Dissa Bandara - Director Financial Services Academy

Chandrasiri Gannile - Director Human Resources

Ayanthi Abeywickrama - Asst. Director Legal and Enforcement

Himani Weerasekera - Asst. Director Supervision

Malik Cader - Director Legal and Enforcement

Ianthie Jayaratne - Director Finance and Administration

Channa de Silva - Director General

Senior Management



Standing – From Left

Marina Fernando - Deputy Director General

Dhammika Perera - Director External Relations and Market Development

Surana Fernando - Director Corporate Affairs

Vasula Premawardhana -Director Product Development and Media

Tharanga Kariyawasam - Director Supervision

Chandu Epitawala - Director Investigations

Vajira Wijegunawardene - Director Capital Market Development and Research

Absent: Toshihisa Iida - Consultant

Staff



First row from left

Miss Lakshmi Atapattu, Mrs Dhanesha Rajapura, Ms Sheena Goonaratne, Miss Ruwanganie Gooneratne, Mrs Lakshmi Wickramanayake, Mrs Anula Wijesinghe, Mrs Ranmini Jayathilake, Miss Shalini Perera, Mrs Nishoka Jayathunga, Miss Thushara Abeyratne, Mrs P D Pathmarani

Second row from left

Mrs Gayathri Weerasinghe, Miss Ranithri Molligoda, Miss Nuala Thevathasan, Mrs Prathibhani Herath, Miss Avanthi Weerasinghe, Mrs Juliet AllegaKoen, Mrs Sithara Tissera, Mrs Manjula Chandraratne, Miss Mehkala Jayapala

Third row from left

Miss Joelene Karunaratne, Miss Dulani Amarasinghe, Miss Dilanka Athapaththu, Mrs Aeshini Bandara, Mrs J K Priyadharshani, Miss Kumari Siriwardena, Miss Sharmila Panditharatne, Mrs Saumi Kodippily, Mrs Sajeewani Bakmeedeniya, Mrs Ashoka K Dayarathne, Miss Christobel Silva

Back row from left

Mr Chandran Nagendran, Mr Kishan Abeygunawardana, Mr M Jayasekera, Mr Lakshman Silva, Mr W Ariyaratne, Mr D M G Priyantha, Mr Pathum Niroshana, Mr S M Jeevaka B Sangakkara, Mr R K Wasantha Sunimal, Mr Rakitha Bandara, Mr Anslam Dias, Mr Amitha Kodituwakku, Mr Suneth Perera, Mr Sugath Alwis, Mr Anura Perera

Absent

Miss Madhugayanie Balapitiya, Mrs Dayanthi Panabokke, Mrs Prabashini Samarakoon, Mrs Kanchana Kumari, Mr Nimal Kumarasinghe, Mrs Krishanthi Muthuthantrige, Mr S D Dharmasiri, Mr P W L Piyatissa

RUN FASTER...

There has never been a better time to do things bigger, better, faster.



Macroeconomic Overview

The economy grew by 6% in real terms... while for the first time in history, the per capita income surpassed the USD 2,000 mark and the unemployment rate fell to a record low of 5.2%.

Despite the global economic downturn and a number of challenges faced in the domestic front, the Sri Lankan economy continued its positive growth trend in 2008. The economy grew by 6.0% in real terms, maintaining its steady growth momentum of over 6.0% for the last 4 years. For the first time in history, the per capita income surpassed the USD 2000 mark and the unemployment rate fell to a record low of 5.2%.

The growth for the year was broad based. Total nominal Gross Domestic Product (GDP) reached Rs. 4,411 billion in 2008 compared to Rs. 3,579 billion in 2007. Driven by the rejuvenation of the Eastern Province, the Agricultural sector grew by 7.5%, contributing to 15.1% of the GDP. Capitalising on the growth of Transport and Communication, Banking, Insurance and Real Estate sub-sectors, the Services sector grew by 5.6% contributing to 56.6% of the GDP. The Industrial sector expanded by 5.9% contributing 28.3% to GDP.

The annual average inflation measured by the Colombo Consumer Price Index (CCPI) was 22.6% for the year 2008. High inflation in the first half of the year peaked to 28.2% on a year-on-year basis in June 2008 due to high crude oil and other commodity prices in the global market. However, tight monetary policy measures taken by the CBSL, along with the easing of commodity prices in the domestic and global markets and an increase in domestic supply helped to restrain inflation to 14.4% year-on-year, by the end of 2008.

Yields on government securities declined during the first three quarters of the year and increased thereafter underlying the investment inflows into both treasury bills and treasury bonds during the first half of the year and subsequent unexpected withdrawals amidst the global financial crisis. The yield of a 364 day treasury bill ended the year at 19.1%.

The overall budget deficit remained at 7.7% of the GDP as in the previous year. Government revenue increased by 16.0% mainly due to an increase in tax revenue which accounted for 89.4% of the total government revenue. The 15.1% increase in tax revenue was due to administrative measures taken to broaden the tax base and strengthen the legal framework. Despite measures taken to curb expenditure, total expenditure and net lending increased by 18.4% year-on-year to Rs. 996 billion due to increases in expenditure on salaries and wages, pension payments, interest payments and counter terrorism activities. The outstanding

government debt reached Rs. 3,578 billion, up by 17.6% in 2008, mainly influenced by an increase in domestic borrowings, which accounted for 59.5% of the total debt. However, due to the higher growth in the nominal GDP, the outstanding government debt to GDP ratio declined to 81.1% in 2008 from 85.0% in 2007.

The external sector was adversely affected by the global slowdown. The overall balance in the Balance of Payment (BoP), which showed a positive trend during the first three quarters of the year reversed to record a deficit of USD 1.2 billion for the year. The trade deficit widened to USD 5.9 billion in 2008 up from USD 3.7 billion in 2007, recording an increase of 60.6%. Expenditure on imports triggered by volatile commodity and petroleum prices grew by 24.0% to USD 14,008 million compared to USD 11,296 million in 2007. Revenue from exports and worker remittances which grew at 6.5% and 16.6% respectively were not adequate to reverse the rapid growth of the overall trade deficit. Unexpected withdrawal of investment in treasury bills and bonds by foreign investors, reduced net inflows of commercial financing and the depreciation in major currencies against the USD further contributed to widening of the overall deficit. Reflecting the adjustments in the BoP, the rupee depreciated by 3.9% against the USD. At the end 2008, the gross official reserves with Asian Clearing Union (ACU) liabilities stood at USD 2,561 million, equivalent to 2.2 months of imports whilst gross official reserves without ACU was USD 1,753 million, equivalent to 1.5 months of imports.

With the intention of reducing the impact on the economy from the global financial crisis, the government unveiled a Rs.16 billion stimulus package in December 2008. This package included a reduction in fuel prices and concessions to the industrial, plantation and tourism sectors that were significantly affected by the global downturn.

Despite negative external shocks emanating from the global slowdown and volatile commodity markets, Sri Lanka is reliant on an imminent end to the conflict in the North and East, which would provide an overall boost to investor confidence and the economy. Concerted effort of an expansive monetary and fiscal policy would further assist in stimulating the domestic demand leading to increased investment and economic growth.

Data source: Annual Report 2008, Central Bank of Sri Lanka

An aerial photograph of a long, multi-lane bridge spanning a wide body of blue water. In the foreground, there is a grassy hillside with several palm trees and a tall metal power transmission tower. The sky is clear and blue. The text is overlaid on the upper left portion of the image.

THERE IS A SPRING IN OUR STEP..

We stand poised on the verge of a new era that will usher in new ideals, new goals, new values and a brand new way of life....

Fact sheet

	2005	2006	2007	2008
Equity				
Annual Turnover (Rs. Mn.)	114,599	105,154	104,985	110,454
- Domestic (Rs. Mn.)	89,959	70,675	63,816	50,797
- Foreign (Rs. Mn.)	24,640	34,479	41,170	59,657
Daily Average Turnover (Rs. Mn.)	482	436	436	464
Shares Traded (No. Mn.)	5,128	3,912	2,952	3,155
- Domestic (No. Mn.)	4,313	3,178	2,050	1,935
- Foreign (No. Mn.)	815	734	903	1,220
Trades (No.)	1,100,451	952,382	876,928	776,244
- Domestic (No.)	1,038,538	908,220	831,663	730,415
- Foreign (No.)	61,913	44,162	45,265	45,829
New Listings (No.)	6	2	-	3
Companies Listed (No.)*	239	237	235	235
Companies Traded (No.)	242	232	231	232
Market Capitalisation (Rs. Bn.)	584.0	834.8	820.7	488.8
Market PER year end (Times)	12.4	14.0	11.6	5.4
Dividend Yield year end (%)	2.7	2.2	2.5	5.6
Price to Book Value year end (Times)	1.7	2.0	1.8	0.8
Market Cap. as a % of GDP	24.6	29.8	22.9	11.1
Price Indices				
All Share	1,922.2	2,722.4	2,541.0	1,503.0
Sensitive / Milanka (since 1999)	2,451.1	3,711.8	3,291.9	1,631.3
Non-National Activity				
Annual Turnover (Rs. Mn.)	24,640	34,479	41,170	59,657
- Purchases (Rs. Mn.)	27,712	37,167	46,797	66,632
- Sales (Rs. Mn.)	21,568	31,790	35,543	52,682
Net Foreign Flow (Rs. Mn.)	6,145	5,377	11,254	13,951
Shares Traded (No. Mn.)	815	734	877	1,220
- Purchases (No. Mn.)	908	808	920	1,286
- Sales (No. Mn.)	722	660	835	1,154
Trades (No.)	61,913	44,162	45,265	45,829
- Purchases (No.)	74,724	48,511	50,518	50,052
- Sales (No.)	49,103	39,813	40,012	41,606

* After adjusting for de-listings

Debt Market**Corporate Debt**

Turnover (Rs. 000)	206,857	405,211	98,903	102,639
Trades (No.)	625	321	144	27
Debentures Traded (No. 000)	2,211	2,421	1,020	954

Government Debt

Turnover (Rs. 000)	326,423	207,080	709,333	195,157
Trades (No.)	522	379	208	69
Debentures Traded (No. 000)	306,955	213,242	742,736	208,183

Unit Trusts

Net Asset Value (NAV) (Rs. Mn.)	4,495	5,352	6,296	6,780
Unit Holders (No.)	23,654	23,417	23,191	22,685
Units Issued (No. 000)	345,528	355,553	469,853	638,112
Investment in Equity (Rs. Mn.)	2,983	3,700	3,655	2,589
Investment in Treasury Bills (Rs. Mn.)	1,327	956	932	2,903
Investment in other Instruments** (Rs.Mn.)	185	696	1,709	1,293

Sources: CSE, regulatory submissions by unit trust managing companies.

** Commercial papers, trust certificates, debentures and bank deposits.

Capital Market Review

Equity market

In 2008, global markets experienced one of the worst financial crises in history. The CSE too was no exception witnessing a downward trend fuelled by both local and international factors. High interest rates associated with high inflation and the volatile security situation contributed to the subdued performance of the CSE. Recent domestic financial scandals further adversely affected the low investor confidence in the market.

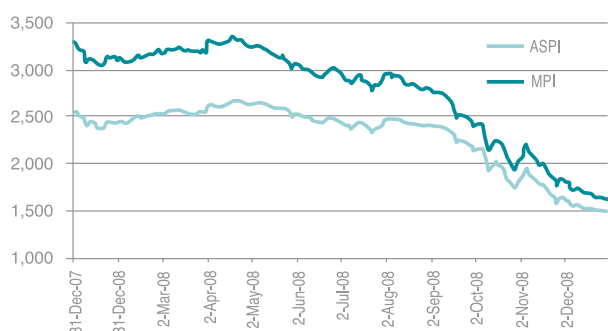
The CSE's benchmark All Share Price Index (ASPI) plunged by 40.9% whilst the more concentrated Milanka Price Index (MPI) fell by 50.4% signifying the loss in value in the shares of many of the blue-chip companies. The total annual turnover improved by 5.2% whilst net foreign inflows for the year increased by 24.0% compared with the previous year. The market capitalisation stood at Rs 488.8 billion at the end of 2008.

The year saw the single largest transaction in Sri Lanka's equity market history, coming from Japan's NTT shedding its 35.2% stake in Sri Lanka Telecom (SLT) to Global Telecommunications Holdings NV. The first ever share re-purchase on the Colombo bourse, with Diesel & Motor Engineering PLC (DIMO) buying back 3.4 million of its own shares from Hayleys PLC was yet another significant event which took place during the period under review. In 2008, three new equity listings took place of Janashakthi Insurance Company PLC, Renuka Holdings Ltd and Ceylinco Insurance PLC, an improvement from the previous year which recorded no new listings.

Performance of ASPI and MPI

The ASPI commenced the year at 2,541.0 points and reached its highest level of 2,681.3 points for the year on the 23 April and closed the year at 1,503.0 points recording a negative growth of 40.9%. The MPI opened the year at 3,291.9 points recorded the highest level of 3,348.9 points for 2008 on 17 April and closed at 1,631.3 points reporting a negative growth of 50.4%.

Chart 1: Performance of the ASPI and MPI for 2008



Source: CSE

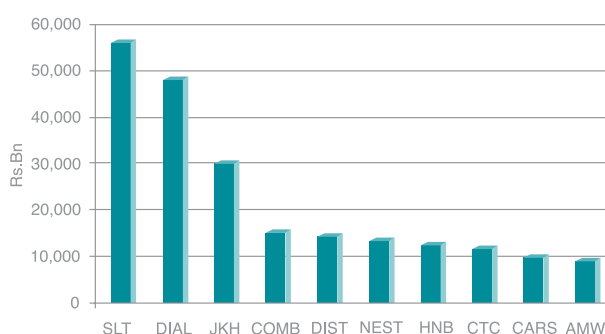
1: Calculated based on the provisional figures stated in Annual Report 2008, Central Bank of Sri Lanka

In the face of the ongoing global financial crisis, the Colombo Stock Exchange was no exception, and yet managed to be resilient, improving total annual turnover by 5%, while net foreign inflows grew by 24%...

Market capitalisation and total annual turnover

The market capitalisation as at 31 December 2008 was Rs. 488.8 billion, a loss of Rs. 331.9 billion compared to Rs. 820.7 billion as at end 2007. The Telecommunication sector was the largest contributor to the total market capitalisation contributing to 21.4% reflecting the dominant position of Sri Lanka Telecom PLC (SLT) and Dialog Telekom PLC (DIAL) in the market. Market capitalisation of the equity market to GDP of the country stood at 11.1%¹.

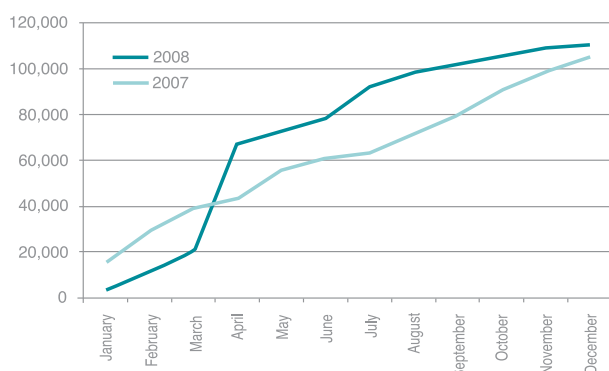
Chart 2: Top 10 contributors to market capitalisation in 2008



SLT - Sri Lanka Telecom PLC
 JKH - John Keells Holdings PLC
 DIST - Distilleries Company of Sri Lanka PLC
 HNB - Hatton National Bank PLC
 CARS - Carsons Cumberbatch PLC
 DIAL - Dialog Telekom PLC
 COMB - Commercial Bank of Ceylon PLC
 NEST - Nestle Lanka PLC
 CTC - Ceylon Tobacco Company PLC
 AMW - Associated Motorways PLC

Source: CSE

The annual turnover for the year 2008 amounted to Rs. 110.5 billion compared with Rs. 105.0 billion in 2007, resulting in a 5.2% improvement. Domestic and foreign participation 46.0% and 54.0% respectively contributed towards the annual turnover for 2008. The average daily turnover for the year amounted to Rs. 464.1 million.

Chart 3: Comparison of accumulated turnover for 2007 and 2008

Source: CSE

Sector performance

Demonstrating the overall decline of the market, nineteen sector indices declined while one sector index gained. Associated Electrical Corporation PLC and John Keells Holdings PLC sold their stake in Associated Motorways PLC to the Dubai based AI - Futtaim Engineering LLC, which enabled the Motors sector index to record the highest gain of 14.3% during the year 2008. The Information Technology sector index experienced the highest decline of 56.3%.

Foreign participation

Net foreign inflow continued its positive trend experienced in the recent years. Rs. 13.9 billion flowed into the country underlying foreign purchases of Rs. 66.6 billion and foreign sales of Rs. 52.7 billion. Foreign participation in the total number of shares traded and the number of trades that took place on the CSE amounted to 38.7% and 5.9% respectively.

Performance in global and regional markets

Most stock markets suffered declines in 2008. The Dow Jones industrial Average of USA fell by 33.8% during the year. On a regional note, the SENSEX Index of Bombay Stock Exchange India and NIFTY Index of National Stock Exchange, India recorded losses of over 50.0%. Similarly, the Stock Index of Thailand (SET) and the Kuala Lumpur Composite Index (KLCI) experienced losses of 47.6% and 39.3% respectively. The CSE outperformed most of the regional countries during the year in that it declined less than most major markets.

Corporate bond market

The corporate bond (debenture) market in Sri Lanka is significantly lagging behind the government securities market and the stock market, accounting for less than 1.0% and 4.0% of the outstanding of government securities and the stock market capitalisation respectively or 0.5% of the GDP at the end of 2008. The market activity is quite limited due to the narrow issuer and investor base. The secondary market hardly has any liquidity.

During the year 2008, 14 debentures issued by 5 companies were newly listed on the CSE. These debentures raised Rs. 6.9 billion at the face value. The table below indicates the details of newly listed debentures:

Table 1: Newly listed debentures in 2008

Issuer	No. of issues	Total raised (Rs. Mn.)
Bank of Ceylon	3	4,272
LB Finance PLC	4	450
Nations Trust Bank PLC	1	1,000
Singer (Sri Lanka) PLC	2	300
Seylan Bank PLC	4	559
Total	14	6,581

Source: CSE

At the end of 2008, total outstanding value of listed debentures on the CSE stood at Rs. 19.0 billion at the face value. Most of these debentures were unsecured subordinated redeemable debentures, with floating or fixed coupon rates issued by the banks and finance companies. A majority of these issues have a maturity between 5 - 10 years with original maturity ranging between 2 - 18 years.

Table 2: Outstanding value of listed debentures by industry

Industry sector	No. of issues	Outstanding value (*) (Rs. Mn.)
Bank & Finance	61	18,718
Power & Energy	1	54
Trading	2	300
Total	64	19,072

Source: CSE

(*) Outstanding is the total of face value (maturity value).

Capital Market Review

Table 3: Outstanding value of listed debentures by original tenure

Original Tenure	No. of issues	Outstanding value (*) (Rs. Mn.)
1-3 years	3	27
3-5 years	9	644
5-10 years	40	14,058
Over 10 years	12	4,343
Total	64	19,072

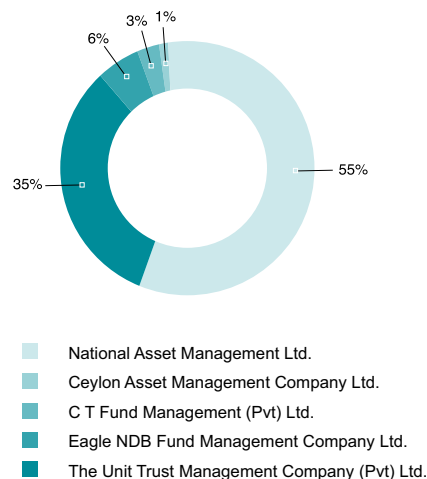
Source: CSE

(*) Outstanding is the total of face value (maturity value).

Unit trust funds

There were seventeen operative unit trust funds managed by five managing companies at the end of the year 2008. The market share of each unit trust managing company in terms of the Net Asset Value in the year 2008 is reflected in the following chart:

Chart 4: Market share of the unit trust managing companies



Source: Regulatory submissions by unit trust managing companies

Table 4: Overall position of unit trust funds

	2008	2007	% Change
Net Asset Value (Rs. Mn.)	6,780	6,296	7.7
Number of unit holders	22,685	23,191	(2.2)
No of units issued (000)	638,112	469,853	35.8
Investment in equity (Rs. Mn.)	2,589	3,655	(29.2)
Investment in treasury bills (Rs. Mn.)	2,903	932	211.5
Investment in other instruments* (Rs. Mn.)	1,293	1,709	(24.3)

Source: Regulatory submissions by unit trust managing companies

* Commercial papers, trust certificates, debentures and bank deposits.

38.1% of the unit trust funds were invested in equity, 42.8% in treasury bills and 19.1% in other money market instruments as at 31 December 2008.

Outlook for the domestic capital market

Sri Lanka's capital market is anticipating a rebound in the wake of peace prospects and easing of international financial market pressures. The dawn of peace is expected to reshape the economic landscape paving the way to entrepreneurial opportunities in all parts of the country, particularly in the North and East. In this backdrop the capital market has the potential to finance Sri Lanka's economic prosperity and infrastructure development.

THINK CLEARER..

There is a fresh wave of optimism that everyone is feeling. It is time to think smarter, long term and clearer....



1. Regulation

Fostering a fair and orderly capital market through responsive regulation is one of our key priorities. To achieve this end we draw on the existing laws, rules and regulations and are committed to developing the regulatory framework to proactively cater to the needs of the dynamic market environment. We grant licences and register market participants based on the prevailing laws, rules and regulations and during the year we took steps to review and draft amendments to the SEC Act, subordinate legislation and approve revision to rules and regulations of the CSE.

1.1 Licensing and Registrations

We grant licences to stock exchanges, stock brokers, stock dealers and managing companies of unit trusts. Further, we register underwriters, margin providers, investment managers, credit rating agencies and clearing houses. The table below indicates the market participant categories with the corresponding number of licences and registrations granted during the year 2008.

Table 1.1: Licensing and registration of market participants

Market Participant	No. of Licences/ Registrations
Stock broking companies	21
Stock dealer companies	8
Managing companies of unit trusts	5
Credit rating agencies	02
Investment managers	16
Margin providers	14
Underwriters	06
Clearing houses	01

Please refer additional information found from page 73 to page 75

1.2 Regulatory Developments

Amendments to the SEC Act

Proposals to amend the eligibility criteria for the appointment of Commission Members and to facilitate the regulation of derivatives were forwarded to the Ministry of Finance (MoF) as matters requiring urgent amendment. Steps have also been taken to refine the SEC Act further.

An internal consultative committee reviewed the existing legal framework, and identified the need to address the issues set out below.

- Regulating public offers of unlisted securities
- Clarifying definitions of offences and the codification of offences as may be required
- Introducing civil sanctions and injunctions
- Filling of gaps in respect of the regulation of clearing corporations and exchanges
- Enabling licensing and regulation of demutualised exchanges
- Redefining the basis of compounding
- Providing required support for the regulation of derivatives etc.

The formulation of policy based on which the amendments would be defined is underway.

Revision of listing rules of the CSE

The listing rules govern the admission of securities, disclosure and continuing listing requirements etc of a company listed on the CSE. A listed corporate is required to abide by these legally enforceable rules.

We approved a revision to the listing rules of the CSE subsequent to an extensive public consultation. The revision facilitates conformity with the newly enacted Companies Act No 7 of 2007 and includes improved regulation in the areas relating to debenture trustees, private placements and share buy backs.

Rules for trading on own account by stock dealers

We approved rules facilitating stock dealers trading on their own account. These rules facilitate the stock dealers to purchase securities on their own account which may be done separately to the operations of a stock broker, which is the buying and selling of securities on behalf of clients. The rules included capital and human resource requirements, restrictions on investments and rules to avoid conflict of interest.

Corporate governance

- Mandatory corporate governance

We formulated the rules on corporate governance together with the Institute of Chartered Accountants of Sri Lanka (ICASL) and the CSE. Compliance with these rules by listed companies was mandated from March 2008.

- Voluntary corporate governance

Pursuant to the issuance of standards on corporate governance for mandatory compliance, we developed a “Code of best practice on corporate governance” in association with the ICASL. These rules were circulated among all listed companies for voluntary adoption and amplify the concepts articulated in the listing rules.

Regulation of securitisation

Securitisation is a process by which a stream of receivables or future cash flows are assigned to a Special Purpose Vehicle (SPV), which issues securities representing interest in the cash-flows/receivables to investors. Assets, which are securitized in this manner include residential mortgages, leases, auto loans, credit card receivables and utility payments.

We facilitated and assisted in the formulation of a draft Securitisation Act for Sri Lanka. This Act will enable regulation over a subsisting industry and therefore, the draft Act proposes an ‘opt in’ policy i.e. parties can choose to be regulated by seeking registration in terms of the Act. This policy was adopted with a view to ensuring that the industry is not disturbed unduly. The Act further endeavors to clarify the concepts of true sale securitisation, applicable tax treatment and it introduces regulation of the intermediaries involved in the securitisation process. In this regard we worked closely with the Legal Draftsman’s Department and the Attorney General’s Department.

Currently, the draft Securitisation Act is with the Legal Draftsman’s Department and is in the process of being translated into the national languages for the submission and approval of the Cabinet of Ministers.

Guidelines for the appointment of external auditors by listed companies

In recognition of the importance of the role undertaken by the external auditor in the financial reporting process, we issued guidelines to listed companies for appointing external auditors. These guidelines were issued for compliance on a voluntary basis and encompass the following areas.

- Managing conflict of interest.
- Qualification framework for external auditors
- Mandatory rotation of the audit partner
- Criteria to determine the independence of auditors
- A list of restricted non-audit services which an external auditor may not perform in connection with the said company
- An undertaking by the executive officers of the company responsible for the preparation of the financial reports, of the manner of preparation and a declaration of compliance by the auditors concerned

Unit trust regulations

We issued directives to address the gaps in the regulation of unit trusts subsequent to a comprehensive review with special reference to the following areas.

- Independence of trustees from managing companies
- Abidance of fit and proper criteria for personnel of trustees and managing companies
- Financial capacity of trustees, disclosure requirements by trustees and managing companies
- Investment restrictions for unit trust management companies
- Minimum net capital requirement to trustees and managing companies of unit trusts

1.3 Approvals

Country and regional funds

As per the Financial Transactions Reporting Act No 6 of 2006, the obligation to ascertain the legitimacy of the source of funds and related matters is vested with the institution which opens the account to conduct financial transactions. As such the function of processing applications for approval to country and regional funds is performed by the Central Depository Systems (Pvt) Limited (CDS). On the recommendation of the CDS, the SEC grants approval for these funds to invest in shares in companies listed in Sri Lanka.

Operational Review

During the year under review, we granted approval for 69 country and regional funds to invest in securities of companies in Sri Lanka and granted approval to the change of name to 14 country and regional funds.

Mandatory and voluntary offers made under the Company Takeovers and Mergers Code 1995, as amended

The Takeovers and Mergers Code of 1995 as amended in 2003 applies to takeovers and mergers where the offeree (target) is a listed company. The rules of the code lay down an orderly framework in relation to the conduct of takeovers, in order to

ensure fair and equal treatment of shareholders. The code deals with three types of offers, namely voluntary, partial and mandatory. The requirement to extend a mandatory offer under Rule 31 of the code is of particular importance in terms of investor protection since it provides an exit mechanism to all the remaining shareholders who do not welcome a change in control.

During the year under review, we administered one voluntary and four mandatory offers. (Refer Table 1.2)

Table 1.2: Offers administered under the Takeovers and Mergers Code

Offeror	Offeree	Type of offer
Kshatriya Holdings PLC	Kotmale Holdings PLC	Voluntary
Global Telecommunications Holdings N.V.	Sri Lanka Telecom PLC	Mandatory
Green Care International Limited	Hotel Services (Ceylon) PLC	Mandatory
Lanka Orix Leasing Company PLC	Commercial Leasing Company PLC	Mandatory
AI – Futtain Engineering LLC	Associated Motorways PLC	Mandatory

Off-the-floor share transactions

In terms of Section 28 of the SEC Act “no person holding securities in a public company listed in a licensed stock exchange shall without the prior approval of the Commission buy, sell, gift or otherwise deal in such securities except in compliance with trading procedure adopted by such licensed stock exchange”

During the year under review, we approved 206 exceptional transfers and 178 gifting of shares. The exceptional transfers were executed in order to facilitate margin trading, fund management, de-listing and restructuring of entities and portfolios, where beneficial ownership did not change.

Issuance of unlisted securities

In terms of Section 29A of the SEC Act, applications relating to issuance of unlisted debt securities by listed companies need to be submitted to the SEC. During the year under review, we reviewed and approved the following applications relating to issuance of unlisted debt securities, by listed entities by way of private placement. (Refer Table 1.3)

Table 1.3: Approvals granted for issuance of unlisted debt securities, by listed entities

Name of the issuer	Characteristics of the security	Amount approved (Rs. Mn.)
Singer Sri Lanka PLC	Unsecured, redeemable debentures	200
Merchant Bank of Sri Lanka PLC	Unsecured, redeemable, non transferable debentures	830
Nations Trust Bank PLC	Unsecured, redeemable, subordinated debentures	1,500
Seylan Bank PLC	Unsecured, redeemable, subordinated debentures	250

The criteria based on which approval is granted for applications relating to issuance of unlisted debt securities by listed companies, were formulated in consultation with the industry and notice thereof given to the industry.

2. Oversight and Compliance

We believe that market discipline is a pre-requisite for a transparent and efficient securities market. In this light, we monitor and examine the activities of all market participants to ensure that the laws, rules, regulations and guidelines laid down are adequately adhered to. To ensure compliance, we scrutinize both financial and operational perspectives of listed companies and the regulatees enumerated under the SEC Act.

2.1 Listed Companies

Listing rules require all listed companies to submit annual reports to their shareholders and the CSE within six months from the end of the financial year. These companies are required to disseminate material information promptly in order to establish transparency and accountability in the securities market, thereby maintaining professional standards. We review these annual reports and communicate any matters relating to non-compliance to the relevant companies.

In reviewing the annual reports we focus on the following areas:

- Compliance with listing 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

The objective of this review is to enhance the quality of financial reporting and dissemination of information by listed companies. This process will contribute to improving the level of awareness of companies regarding the obligations placed upon them in the preparation and presentation of annual reports and accounts in

accordance with CSE listing rules, SLAS and relevant provisions of the Companies Act.

The response of listed companies was extremely positive in this endeavour. During the year we reviewed 67 annual reports and issued 6 Letters of Caution and 26 Letters of Comment.

2.2 Stock Broking Companies

The SEC Act requires all stock broking companies to obtain a licence in order to carry out the stock broking business. The licence is granted by assessing the compliance with the CSE Member Regulations and the SEC requirements pertaining to financial position including liquidity and net capital. We ensure the financial stability and operational viability of licensed entities through on-site and off-site supervision.

We carried out on-site inspections of sixteen stock broking companies adopting a risk focused supervisory methodology, in some instances with the assistance of the Regulatory Affairs Division of the CSE. On-site inspections were conducted using an internally developed Audit Programme under different risk categories such as prudential, liquidity, operational, legal and reputational risk.

We receive financial statements and the compliance officer's report of stock broking companies on a monthly basis. (Refer Table 2.1: Highlights of the stock broking industry in the year 2008) Further, the CSE submits a report to the SEC confirming the stock broking companies that have met the liquidity requirement on a monthly basis. During the year, the off-site review of the monthly financial statements revealed that three companies had fallen below the minimum net capital requirement. These companies were notified to take immediate action to rectify the shortfall, and two companies immediately corrected their positions. The CSE suspended the licence of one stock broking company as they were unable to rectify the short fall or submit an acceptable proposal to rectify the deficit.

Meetings were held with companies considering the seriousness of non compliance and risk impact and necessary corrective action was taken by those companies concerned.

During the year, the formats used for the monthly financial statements were amended and standardized to maintain uniformity of the information submitted. In order to strengthen the off-site supervision we commenced developing an electronic filing system and maintaining a database for stock broking companies. This project is being developed by an external IT company.

Operational Review

Table 2.1: Highlights of the stock broking industry in the year 2008

	(Rs. 000)
Turnover	968,251
Net brokerage	926,043
Operating profit/loss	(130,959)
Other income	429,972
Net profit before tax	103,284
Total assets as at 31/12/2008	3,208,050
Total liabilities as at 31/12/2008	1,524,010

2.3 Unit Trust Managing Companies

All unit trust managing companies under the SEC Act are required to obtain a licence to operate. During the year, two closed-end gilt edged funds were launched increasing the number of funds to seventeen in 2008. These funds were managed by five unit trust managing companies.

In the year 2008, we adopted a risk based approach to supervising the operations of unit trust funds managed by the unit trust managing companies towards ensuring compliance with the provisions of the Unit Trust Code, relevant directives issued by the Commission and the trust deed.

We completed on-site supervision of four unit trust managing companies which managed thirteen unit trust funds. The companies were found to be satisfactorily compliant with the relevant rules and regulations.

We scrutinized the monthly financial statements and returns submitted in respect of the unit trust funds managed by the unit trust managing companies. Exposure levels of the unit trusts according to the investment limitations as set out in the Unit Trust Code, trust deeds and directives were also monitored and the companies were found to be within acceptable exposure limits. Further, advertising material, press releases, interim reports and annual financial statements of unit trust funds were approved.

We believe that communication and co-operation with the industry is an essential part of the regulatory process to raise the standards of compliance culture. During the year 2008, we conducted meetings with the senior management of a few unit trust managing companies to discuss regulatory concerns and to obtain feedback and updates on their business strategies.

2.4 Trustees of Unit Trusts

We supervise trustees of unit trusts to ensure that the trustees have taken reasonable care to ensure that the managing companies manage the unit trust funds in accordance with the provisions of the Unit Trust Code, trust deed and directives issued by the Commission. In addition we require the Trustees to maintain financial independence and adequacy of systems to ensure that their duty as a trustee towards the investors is discharged adequately.

We conducted on-site supervision of two trustees and found that they had performed their duties in a satisfactory manner.

2.5 Market Intermediaries

All Market Intermediaries are required to register with the SEC and comply with applicable rules and regulations. We perform on-site and off-site supervision of registered market intermediaries. In the year 2008, four new registrations took place under the categories of investment manager, margin provider and underwriter. Two investment managers ceased operations.

We carried out on-site supervision of twelve investment managers, five margin providers and one underwriter in the year 2008. During inspection, it was revealed that a few market intermediaries, who are registered as investment managers, had accepted funds from the public as borrowings and made those investments in the name of the company, thus not complying with the rules applicable for investment managers. The companies were informed of the non compliance and they undertook to comply with all necessary rules.

We further discovered that a few investment management companies had raised funds from the public and shown those funds as borrowings in the balance sheet which were raised through a different line of business undertaken by the company. These funds had been invested in government securities and corporate debt. Since deposits could only be mobilized by entities licensed under the Banking Act or registered and licensed under the Finance Companies Act, the companies were required to cease the said line of business or obtain concurrence of the CBSL.

The off-site review of audited financial statements and unaudited monthly financial statements revealed that a few market intermediaries failed to comply with the minimum net capital and liquid capital requirements. In such circumstances, the registration of such companies was extended for a few months to allow them to rectify the deficiencies.

During the year, reporting formats for submission of monthly unaudited financial statements of market intermediaries were finalized and implemented. The formats were adopted by the market intermediaries commencing from October 2008 except for investment managers and credit rating agencies who are required to submit financial statements quarterly commencing from first quarter 2009.

3. Monitoring and Enforcement

We strive to maintain equality and market integrity in the securities market. Thus, we conduct market surveillance activities on a real time basis and attend to third party complaints in a timely and consistent manner. Activities which warrant inquiry are subject to further investigation, and if deemed necessary legal proceedings are initiated.

Table 3.1: Details of complaints

Nature of the complaint	Number	Resolved	Pending
Complaints against stock brokers & unauthorized transactions	11	11	-
Breach of CSE listing rules by improper conduct of listed companies or their officers	15	11	4
Rights issues/bonus issues/dividend payments	2	2	-
Market manipulations	1	1	
Policy matters	3	2	1
Total	32	27	5

3.2 Market Surveillance and Investigations

We scrutinize any unusual or suspicious price movements in the market, referrals received by the CSE and complaints from third parties. A well established written procedure to handle surveillance detections assist us to arrive at, consistent and objective decisions upon detection of violations of regulatory requirements. Such detections are referred to the Surveillance/Investigations Committee comprising of senior officials who collectively determine the necessity of a full investigation prior to the final recommendations made to the Commission.

3.1 Complaints

We handled 32 complaints during the year 2008. These complaints related to the following matters: (Refer Table 3.1)

Surveillance

During the year under review, we detected 21 cases of possible breaches of regulatory requirements and examined these further. These findings were referred to the Surveillance/Investigations Committee for further examination and possible enforcement action.

Table 3.2: Surveillance detections

Detections	No. of issues
Insider trading ²	11
Market manipulation ³	5
Front running ⁴	3
Others	2
Total	21

² Insider Dealing: Trading in the shares of a listed company whilst in the possession of unpublished price sensitive information in respect of the securities of the said company

³ Market/Price Manipulation: Creation of a false or misleading appearance in respect of the trading, or the price of any securities listed on a stock market.

⁴ Front Running: 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

In order to achieve higher surveillance effectiveness, arrangements were finalized to install a new automated surveillance system to replace the existing system by early 2009. The new automated system will have capabilities of providing enhanced solutions for market surveillance, such as market replay, matching of databases of company insiders and spouses etc. with trading patterns, alert parameters and automatic alert of unusual market behavior.

Investigations

We conducted a total of 09 investigations in the year 2008.
(Refer Table 3.3 Details of investigations)

Table 3.3: Details of investigations

Nature of the investigation	Action taken/current status
Insider dealing (No. of investigations 04)	<ul style="list-style-type: none"> Subsequent to detailed investigations three matters were terminated due to lack of evidence to establish charges of insider dealing. During the year under 2008, the opinion of the Hon. Attorney General was sought regarding one case and the advice of the Hon. Attorney General was pending at the end of the year.
Market/price manipulation (No. of investigations 02)	<ul style="list-style-type: none"> The opinion of the Hon. Attorney General was sought regarding the issue whether the SEC could conduct an investigation relating to a particular matter whilst there was on-going litigation in connection with the said matter, during the year 2007, The Hon. Attorney General advised to suspend the investigation until the finality of the pending litigation. Hence the matter was suspended. We conducted a fully fledged investigation into one matter and concluded that the entity concerned (a licensee of the SEC) and/ or the managing director of the said entity was guilty of certain irregular trading activities/malpractices. The action to be taken regarding this was pending at the end of the year.
Complaints (No. of investigations 01)	<ul style="list-style-type: none"> Deliberations relating to a complaint were suspended until the finality of certain on-going litigation since the issues pertaining to the said complaint form the subject matter of a pending litigation.
Front running (No. of investigations 01)	<ul style="list-style-type: none"> We initiated an investigation pertaining to front running during the year 2007. The final investigation report relating to this matter was referred to the Attorney General's Department for a formal opinion and the advice was received. In line with the Attorney General's advice Notice of Action was issued during the year to the investment advisor who had committed the offence of front running. Subsequently, vide a request made by the said investment advisor, the offence was compounded upon payment of a sum of Rs. 1 Mn. towards the Compensation Fund.
Submission of fictitious/false financial statements (No. of investigations 01)	<ul style="list-style-type: none"> During the year under review, we conducted a fully fledged investigation relating to submission of fictitious/false financial statements to the CSE by a listed company. The enforcement action to be taken regarding this matter was pending at the end of the year.

3.3 Litigation

We believe regulation without a strong enforcement mechanism is ineffective. We have made clear and steady strides to strengthen capacity in this area to vigorously explore all legal avenues vis-à-vis violators.

Prosecutions by the SEC

MC Case No. S/64721/2006

SEC vs. B. A. Jayasekera and others

The SEC filed the following charges against 9 persons:

- (i) conspiracy to commit acts to create a false/misleading appearance of an active share market (Rule 12 of SEC Rules read with Section 113B and 102 of the Penal Code)
- (ii) committing acts to create a false/misleading appearance of an active share market (Rule 12 of the SEC Rules)
- (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)

The SEC has compounded the offence against three of the accused on the payment of Rs. 3.3 million by each of them towards the Compensation Fund. This matter is scheduled to be taken up for trial against the six other accused.

MC Case No. S/64560/2006

SEC vs. Sunil Piyawardene & Chandra Piyawardene

AND MC Case No. S/64568/2006

SEC vs. Chamila Piyawardene

The accused in the above cases are charged with having traded in the shares of Nawaloka Hospitals Limited on the basis of price sensitive information prior to its disclosure to the market.

The SEC has agreed to compound the action against the accused in terms of the provisions in the SEC Act provided a sum of Rs.3.3 million is paid by the accused to the Compensation Fund maintained by the Commission.

Prosecutions against the SEC

Action filed by National Development Bank (NDB)

- a) DC Colombo Case No. 8003/SPL – NDB vs. Fast Gain International Limited of Singapore
- b) DC Colombo Case No. 8004/SPL – NDB vs. Catana Limited of Bahamas, and

- c) DC Colombo Case No. 8005/SPL – NDB vs. Anand Prakash Jagaiya of Malaysia.

The National Development Bank has filed three applications in the District Court of Colombo seeking the Court's opinion in respect of the beneficial interests accruing to shareholders who have bought shares in the Bank, triggering the restrictions imposed by the Banking Act No. 30 of 1988 (as amended) in respect of public quoted licensed commercial banks. The Bank has also added The Central Depository Systems (Pvt) Limited, The Securities & Exchange Commission and the Honourable Attorney General as the first, second, and third Respondents respectively, to assist the Court in the matter.

Written submissions on behalf of the SEC have been filed and these cases have been transferred to the Commercial High Court of Colombo for determination.

Writ Application No. 322/2007

Touchwood Investment Limited vs. SEC

The Commission issued a directive in 2007 to Touchwood Investments Limited, a company listed on the CSE, to comply with the determination of the Sri Lanka Accounting and Auditing Standards Monitoring Board to prepare the financial statements for the years ended 31 March 2005 and 31 March 2006 on a cost basis in terms of International Accounting Standard 41 - Agriculture.

Touchwood Investment Limited thereupon filed a Writ Application in the Court of Appeal seeking to quash the said directive of the SEC. An interim order staying the effect of the directive of the SEC dated 09 March 2007 has been issued by the Court. The matter is pending in the Court of Appeal.

SC FR 209/2007

Vasudeva Nanayakkara vs K. N. Choksy and 33 others

Petitioner Mr. Vasudeva Nanayakkara challenged the sale of a 90% stake of Lanka Marine Services (Pvt) Ltd Limited to John Keells Holdings PLC, and the transfer of state land surrounding the Port of Colombo, amounting to over 8 acres in extent.

The Director General of the SEC was cited as the 25th respondent on the basis that the SEC is statutorily mandated to investigate into the conduct of affairs of listed companies.

The Supreme Court gave judgment setting aside the Presidential

Operational Review

Grant of state land and directed all parties to the proceedings to take necessary action on the basis of its findings.

HCMA/217/2007

Magpek Exports Limited vs. SEC

The SEC filed charges in the Fort Magistrate's Court against Magpek Exports Limited and the eight directors of the company for not immediately disclosing certain material information in contravention of the SEC Rules and the Court gave judgment in favour of the SEC upholding its position.

Pursuant to the above judgment, the directors of Magpek Exports Limited appealed against the decision of the learned Magistrate and the matter is pending before the Provincial High Court of the Western Province Holden in Colombo.

4. Awareness and Education

We believe that benefits of the capital market investments should flow into the hands of all Sri Lankans. Thus, we are committed to impart capital market knowledge and build awareness across all sections of the society, using appropriate tools and techniques. In our awareness and education initiatives, we cater to a wide spectrum of communities including school children, teachers, undergraduates, journalists, market participants, finance professionals, and general public. We tailor these initiatives to suit the level of education/financial literacy of target audience and utilize a variety of communication channels such as electronic media, press, publications, workshops, seminars, exhibitions, dedicated lectures, web portals and one-to-one meetings. A few such initiatives are given below.

4.1 Qualification Framework for the Financial Industry Professionals in Sri Lanka

The Investment Advisor Certification Programme, formerly conducted by the CSE was restructured in accordance with a new qualification framework. The framework sets out three levels of qualifications, Certificate in Capital Markets (CCM), Registered Investment Advisor (RIA) and Diploma in Capital Markets (DCM). This new qualification framework was inaugurated in May 2008..

The CCM encompasses three course modules i.e. Equity Securities, Debt, and Financial Regulations & Ethics. Upon the successful completion of the CCM along with six months industry experience, the candidates will be eligible to obtain the

RIA licence to function as an investment advisor.

In order to facilitate the examinations for the CCM we plan to implement a state-of-the-art computer based testing system.

4.2 Investment Day

In order to commemorate the 21st anniversary of the SEC, we declared October 24th as the "Investment Day" and arranged several events island wide to encourage investments and create awareness on the capital market. The activities / events organized comprised of the following.

- Publishing newspaper supplements and articles in all three languages.
- Live television and radio programmes
- Launching of the Capital Market Information Centre at the University of Sri Jayewardenepura
- Conducting a capital market debate at the University of Sri Jayewardenepura
- Investment Day promotions at the CSE branches (Matara, Kurunegala, Kandy, Negombo).

Further, Memoranda of Understanding (MOUs) were signed with eight national universities on the Investment Day. The purpose of this project is to introduce or identify capital market related programmes and/or subjects offered by the national universities, and award the best performers with gold medals and cash prizes. The MOUs were signed at a seminar conducted at the Hotel Galadari on "Investing Basics – Getting Started".

On the same day, a gold medal and a cash prize was awarded to the candidate who completed the best research project pursuant to a research competition we conducted during the year on capital markets. In order to stimulate high quality research among undergraduates and graduates of universities in Sri Lanka, we plan to continue this research competition on an annual basis.

4.3 Market Awareness

Table 4.1: Events organized to build awareness

Event	Target group	No. of programmes	Venue
Workshops	Teachers	06	National Institute of Education, Maharagama
	Undergraduates	03	University of Colombo
			University of Sabaragamuwa University of Sri Jayewardenepura
Technical Colleges	14	Nuwara Eliya, Homagama, Matara, Beliatta, Kuliypitiya, Badulla, Bandarawela, Kandy, Matale, Dambulla	
Seminars	Commerce stream teachers and students of Educational Zones	45	Conducted in all the provinces except the North
	Bank staff	08	Hasalaka, Kuliypitiya, Mahawa, Wilgamuwa, Akuressa, Wellawaya, Ambalangoda, Kaduruwela
	Chambers of Commerce and Industry	05	Moneragala, Nuwara Eliya, Matale, Anuradhapura, Middeniya
Exhibitions	General public & students	05	Colombo, Belihuloya, Kalutara
Investor Days	General public	04	Gampaha, Kurunegala, Embilipitiya, Negombo
Awareness programmes	Market participants	02	Colombo
	Offences under the SEC Act		
	Corporate Governance Code		

4.4 Programmes for the Financial Services Industry

Table 4.2: Details of programmes conducted for the financial services industry

Programme	Learning outcomes
International workshop on Enterprise Risk Management (ERM) and Financial Risk Management (FRM)	The programme assisted the participants to improve the understanding of Enterprise Risk Management by broadening the risk assessment perspective to cover all significant internal and external business risks, benchmarking risk management tools and practices, identifying the myths of risk management etc.
Workshop on Statistics for Investment Professionals	The workshop assisted the participants to analyse data using appropriate statistical techniques, draw conclusions from such analyses, improve their problem solving ability, manipulate and analyse data using EXCEL and the statistical packages Minitab/E-views etc
Awareness lecture on “Options”	The lecture provided insight in to concepts such as: how to make money in a flat market, how to protect stock price declines in a market downturn, how to increase income on current stock holdings without selling out, how to benefit from a stock price’s rise or fall without actually owning any or selling any etc
Workshop on Financial Statement Analysis	The workshop assisted the participants to analyse a business and components of a business, explain business activities and their relation to financial statements, describe the purpose of each financial statement and linkages between them, analyse and interpret financial statements as a preview to more detailed analysis etc.

4.5 Publications on the Securities Market

We facilitated the launch of an English publication “Sri Lanka’s Securities Market” authored by Mr. Y. W. Gunawardana. This publication highlights the practical aspects of share trading, and is mainly targeted at investors. We also finalized the Sinhala publication on the “Financial Market in Sri Lanka” authored by Professor Lalith Samarakoon. This could now be used as a handbook for school and university students in Sri Lanka.

4.6 Revision of the School Curriculum

After several deliberations with the National Institute of Education (NIE) we were successful in including the subject of Capital Market into the grade eight and nine of the government school curriculum under the subject of Practical Training Skills. Subsequently, we commenced workshops to train the teachers who are teaching the subject for grade eight and nine.

The G.C.E. Ordinary Level curriculum and the G.C.E. Advanced Level curriculum pertaining to the subject of Statistics was also

revised to accommodate capital market related material. Further we initiated deliberations to include the capital market subject at the primary level of government schools. In this regard, a study tour to Thailand was arranged for the NIE officials to get insights into the successful inclusion of the subject to the school curriculum at the primary level.

4.7 Capital Market Information Centres

In order to promote capital market knowledge and awareness among Sri Lanka’s university populace, we initiated the establishment of Capital Market Information Centers (CMIC) within the Sri Lankan university system. The first three centers were launched at Sabaragamuwa, Rajarata and Sri Jayewardenepura universities. Discussions have already been held with the University of Ruhuna to establish the fourth center in the near future. We developed a comprehensive website for this purpose which includes trading statistics, research articles and other useful information on capital markets.

4.8 Quiz Programme 2008

We successfully conducted a quiz programme for G.C.E. Advanced Level students and took steps to broadcast it on ITN Sri Lanka. The preliminary examination to select students for the quiz programme was conducted in 12 examination centers island wide. Six students who scored highest marks from each province were selected to participate in the provincial quiz programme. Winners of the provincial contest competed in the grand finals for the SEC Trophy. A student representing Ananda College, Colombo emerged the winner. All participants of the provincial level were awarded attractive cash and other prizes.

5. Capital Market Development

In our bid to “nurture” the development of the Sri Lankan capital market, we embarked on implementing the Capital Market Master Plan (CMMP). The CMMP, which is phased out over a period of 10 years from 2006 to 2015, encompasses 44 recommendations pertaining to the development of the capital market. The successful implementation of CMMP requires the support and commitment of other key stakeholders such as the Ministry of Finance, CBSL and the CSE.

5.1 Implementation of Key Projects Identified under the CMMP

Formulate a strategy to develop a vibrant corporate bond market

The Corporate Bond Development Task Force (CBDTF) set up by the SEC comprising of industry experts, finalized a strategy paper along with its recommendations to create a vibrant corporate bond market. The action plan developed based on the recommendations and the proposed implementation schedule were approved by the Commission. The implementation will be phased out during the period from 2009 to 2014 with the support of relevant agencies.

Demutualisation of the CSE

An efficient stock exchange is a prerequisite of a vibrant capital market. World over demutualisation is recognized as an effective mechanism to rejuvenate an existing mutual/ member driven exchange into a profit oriented efficient corporate entity whilst improving its governance structure to reflect the interest of all stakeholders. Having identified the need to demutualise the CSE we commenced and completed a study on demutualisation

experiences in other jurisdictions. Based on this study, the modalities for demutualization of the CSE were developed and negotiations with stakeholders are underway.

Introduce derivatives to Sri Lanka

Introduction of exchange traded derivative products to the Sri Lankan market is a key recommendation of the CMMP. During the year, a study on derivatives was commissioned and completed by two Indian derivatives policy experts, Dr. Ajay Shah and Dr. Susan Thomas according to a comprehensive Terms of Reference specified by us. In line with the recommendations of the study, we have decided to take steps to establish a clearing corporation as a first step towards introducing derivatives.

Develop the unit trust industry in Sri Lanka

We believe that the best conduit to mobilize savings in to the capital market is the unit trust industry. In this light, we encouraged the Unit Trust Association to develop a strategic marketing plan to populate unit trust products in Sri Lanka. During the year, the findings of a survey, which provides the basis for the strategic marketing plan, was presented to the Commission. We intend to support selected initiatives of this plan once developed. In addition, we facilitated a number of product development initiatives in relation to unit trusts including the introduction of Real Estate Investment Trusts (REITs) and exchange traded unit trusts i.e. both open and closed end mutual funds.

Explore possibilities of reducing transaction costs

Transaction costs in Sri Lanka are among the highest in the Asia-pacific region. High transaction costs for stock trading is one of the biggest obstacles to improving market liquidity. In this context, we undertook a benchmark transaction cost structures study of several countries. It was noted that Sri Lanka's turnover/volume levels are significantly lower than its regional counterparts, which would be a key consideration in deciding on a reduction of transaction costs. Introduction of a fully negotiable brokerage scheme would therefore be considered at a time when market activity is more buoyant and market volumes are rising.

Operational Review

5.2 Research

The development of capital market is inevitably associated with building knowledge and awareness on investments and capital market issues among all communities. In view of this, we promote high quality research work undertaken both internally and externally on a project basis. The research work undertaken internally is mainly targeted at supporting the regulatory and policy making requirements of the SEC whereas the external research project persuades undergraduates and graduates to undertake research on broad capital market related issues. Accordingly, the first external research project was concluded and the SEC Capital Market Research Award was presented to the successful researcher during the year under review.

6. Our strengths

6.1 Human Resources

Human resources (HR) is our most important strategic asset. We believe that achievement of our goals and objectives is largely dependant on knowledge, skills, competencies and attitudes of our people. Thus, we strive to build a work environment in which all employees can achieve their professional and personal goals and aspirations.

Having identified that developing a highly skilled and enthusiastic team of professionals is a major challenge, we created a Human Resources Division at SEC in October 2008. As a first step in developing an organization wide HR system, we evolved our HR mission and objectives, in line with the redefined corporate value system of the organization. Further, Key Performance Indicators (KPIs), and targets were developed for all employees in order to keep the entire organization aligned with the corporate vision and mission.

During the year, we recruited suitably qualified and experienced personnel i.e. 02 directors, 05 executives and 02 receptionists cum telephone operators for the permanent cadre. On a fixed term contract basis, we recruited a director and an executive.

We plan a number of key projects for the organizational development including a comprehensive Performance Management System and a Training & Development (T&D) Policy.

6.2 Cadre Information

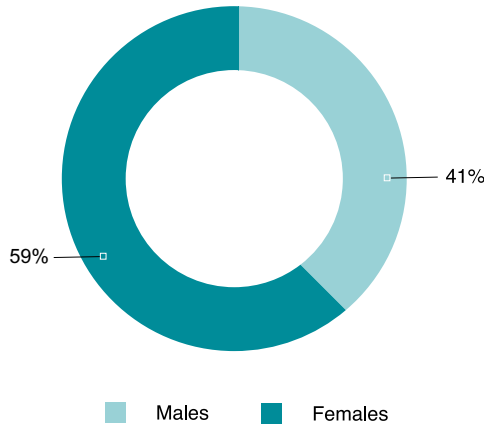
The approved cadre and the human resources strength of the secretariat as at 31 December 2008 are given in the Table: 6.1 below.

Table 6.1: Cadre composition

Category	Approved cadre	In employment
Director General	1	1
Deputy Director General	1	1
Directors	11	11
Assistant Directors	4	2
Managers	5	0
Executives	37	27
Non-executives	17	14
Support staff	8	8
Total	84	64

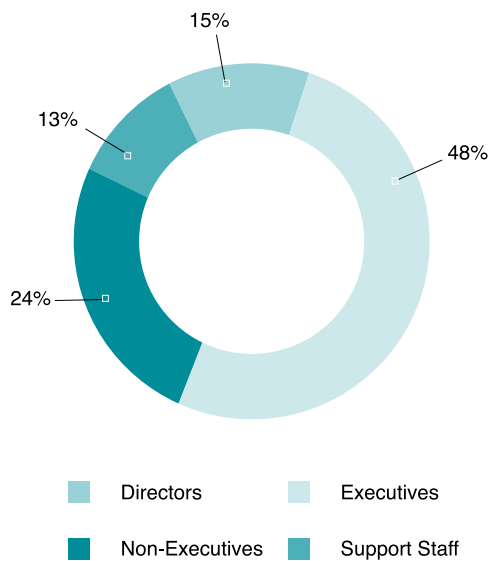
Cadre information according to gender at the end of 2008 is depicted below:

Chart 6.1: Gender analysis



Cadre information according to employee grades at the end of 2008 is depicted below:

Chart 6.2: Cadre information based on employee grade



6.3 Training and Development

The function of T&D is to partner the organization towards achieving its vision. We develop leaders at various levels by equipping them with required skills and competencies through need based T&D. Our T&D policy is focused on enhancing technical know-how, soft skills and personal development.

We make substantial investments in providing our staff with valuable training opportunities both local and foreign. We are fortunate to receive many training opportunities sponsored by International Organization of Securities Commissions (IOSCO) member countries such as Japan, Hong Kong South Korea, China and Malaysia etc. Also, our staff was afforded training opportunities in the United States, Philippines, India, Thailand, France, Turkey and Singapore. Local Training was given to all levels of staff at recognized academic/professional and industry establishments including the Institute of Chartered Accountants of Sri Lanka, the British Council, The Employers Federation of Ceylon, Association of Corporate Lawyers and the Center for Banking Studies of the CBSL.

We encourage our staff to pursue continued professional development by providing them financial assistance for higher studies.

6.4 Staff Welfare

We have continued to provide a range of benefits such as indoor and outdoor medical schemes, personal insurance benefits, vehicle and distress loan schemes, festival advances, interest subsidy facilities, educational grants and reimbursement of membership fees to professional bodies etc. We promote and ensure work place health and safety in line with best practices.

We encourage our staff and their families to interact through numerous social events. These include New Year celebrations, annual sports day, residential training programme, a pirith ceremony, and annual Christmas party amongst many others. In 2008, we shared our Christmas party celebrations with less fortunate children.

6.5 Information Technology

During the year, we successfully launched an Intranet and a Time & Attendance Management System for the staff of the Secretariat.

Operational Review

6.6 International Relations

We participated in the verification team 06 of IOSCO, which was entrusted with the responsibility of perusing the applications forwarded by different jurisdictions, with the objective of obtaining the signatory status of the IOSCO memorandum of understanding on information sharing. Romania, Cayman Island and Brazil forwarded applications with the intention of obtaining signatory status in the past year. Further, we completed a comparative study of Credit Rating Agency Rules drafted by us with the recommended code of conduct published by IOSCO for credit rating agencies.

During the year, we signed a bilateral agreement with IOSCO in order to gain access to the International Financial Reporting Standards (IFRS) database, which comprises of decisions made by different member jurisdictions on financial reporting standards. However, the access is yet to be received.

We facilitated study tours for officials from the Bhutan Ministry of Finance and Kenyan Capital Market Authority.

7. Performance of Statutory Funds

7.1 Cess Fund

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

14A (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.

(2) 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 14A.

(2) There shall be paid out the Cess Fund such sums as may be authorized 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 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.

From February 2006 Cess on Intra day trades of clients was not charged on one side of transactions as set out below.

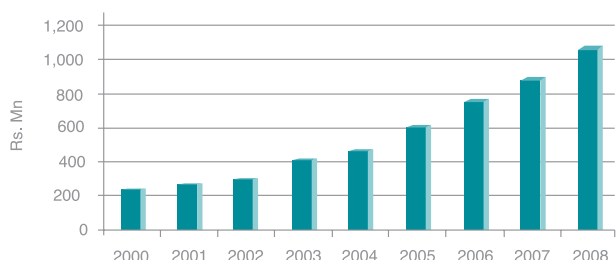
(a) In the event the number of shares purchased does not equal the number of shares sold, the transaction fees will not be levied on the lower quantity of shares either purchased or sold.

(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.

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.

The balance lying to the credit of Cess Fund as at 31 December 2008 amounted to Rs.1,088.0mn.

Chart 7.1: Growth of the Cess Fund during the period 2000-2008



7.2 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 CDS of the CSE. The operation of the SGF is described below.

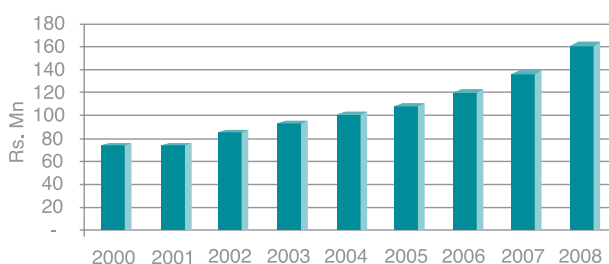
- Ownership of shares traded is transferred no sooner a trade is executed. From 10 December 2007 the CSE adopted a single tier settlement cycle. The buyer is required to pay on T+3 i.e. on the 4th Market day including the day of trading, and the seller to receive the settlement on T+3 i.e. on the 4th Market day. The relatively long interval between transfer of ownership and receipt of proceeds leaves the settlement risk uncovered which in turn necessitated the establishment of the SGF.

- 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 million 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.

However, since the SGF is found to be inadequate to properly address the issue of settlement risk we are looking at the feasibility of establishing a clearing corporation to effectively address the settlement risk.

The balance lying to the credit of the fund as at 31 December 2008 amounted to Rs 166 million.

Chart 7.2: Growth of the SGF Fund during the period 2000-2008



7.3 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 51A of the SEC Act; (Section 51A is on compounding offences).

- Such sums of money as may be credited from Cess Fund under section 14B of the SEC Act.

- Moneys belonging to the Compensation Fund may be invested by the Commission in such manner as may be determined by the Commission.

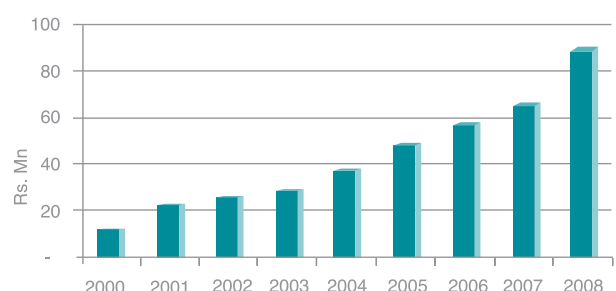
The Minister shall appoint from among the members of the Commission three members who shall comprise the Compensation Committee.

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 2008 amounted to Rs.90 million including Rs.10.9 million received as compounding offences pertaining to market/price manipulation and insider dealing during the year under review.

Chart 7.3: Growth of the Compensation Fund during the period 2000-2008





WORK SMARTER...

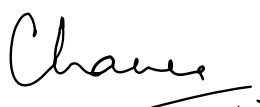
It's an era to look at the big picture, challenge the world, demonstrate our capabilities. It is time to work smarter.

Balance Sheet

As at 31 December	Note	2008 Rs.	2007 Rs.
ASSETS			
NON-CURRENT ASSETS			
Property plant & equipment	1	44,228,075	44,601,053
Cess Fund	2	18,900,381	16,024,926
CURRENT ASSETS			
Investment in treasury bills-FSA		1,750,000	-
Inventories	4	406,719	352,901
Receivables	5	1,299,576	1,506,092
Cess Fund	2	1,069,813,093	890,696,588
Compensation Fund	3	90,113,597	66,375,422
Deposits, advance and prepayments	6	1,643,743	1,068,253
Cash & cash equivalents	7	18,704,896	1,628,298
TOTAL ASSETS		<u>1,246,860,080</u>	<u>1,022,253,533</u>
FUNDS AND LIABILITIES			
FUNDS EMPLOYED AND RESERVES			
Reserves	8	-	-
Accumulated Fund	9	9,145,665	(7,860,746)
Cess Fund	10	1,088,677,827	906,721,514
Compensation Fund	11	90,113,597	66,375,422
NON-CURRENT LIABILITIES			
Lease creditor	12	5,510,253	8,314,512
Grant - Capital expenditure from Cess Fund	13	28,770,718	28,740,264
Retirement benefit obligation	14	8,897,837	7,992,341
CURRENT LIABILITIES			
Cess Fund	2	35,647	-
Creditors & accruals	15	8,082,206	6,541,088
Receipts in advance		1,653,957	1,517,820
Current portion of lease creditor	12	5,972,373	3,911,318
TOTAL FUNDS AND LIABILITIES		<u>1,246,860,080</u>	<u>1,022,253,532</u>

The Accounting Policies and Notes appearing on pages 48 to 60 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.



Channa de Silva
Director General



Udayasri Kariyawasam
Chairman

Colombo 14 May 2009

Income and Expenditure Statement

For the year ended 31 December	Note	2008 Rs.	2007 Rs.
INCOME			
Broker licence fees		2,413,863	956,302
Administration levy		1,223,228	526,143
Seminar income-FSA		413,842	-
Seminar income-SEC		262,000	-
Interest on treasury bills		116,963	-
Sale of publications		6,750	14,570
Management fee		-	80,000
Sundry Income		55,209	78,497
Profit on disposal of fixed assets		746,903	1,024,519
Recognition of grants	13	10,956,638	10,299,480
		16,195,396	12,979,511
Less:			
EXPENDITURE			
Personnel costs	16	82,803,120	67,748,020
Administration & establishment expenses	17	68,101,149	57,420,075
Capital Market development expenses	18	11,058,015	27,427,335
Grant to FSA	19	500,000	4,000,000
Finance charges	20	176,357	280,567
Total Expenditure		162,638,641	156,875,997
Excess expenditure over income		(146,443,245)	(143,896,486)
Transfers from Cess Fund to meet operational expenses		163,091,162	130,981,995
Excess/(Deficit) for the year		16,647,917	(12,914,491)

The Accounting policies and notes appearing on page 48 to 60 form an integral part of the Financial Statements.

Statement of Changes in Reserves

For the year ended 31 December	Reserves Rs.	Accumulated fund Rs.	Total Rs.
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)
Balance as at 31 December 2007	-	(7,860,746)	(7,860,746)
Balance as at 1 January 2008	-	(7,860,746)	(7,860,746)
Decrease due to disposal of revalued assets	-	-	-
Net surplus/(deficit) for the period	-	17,006,411	17,006,411
Accumulated fund - FSA as at 29 July 2008	-	358,494	358,494
Balance as at 31 December 2008	-	9,504,159	9,504,159

The Accounting policies and notes appearing on page 48 to 60 form an integral part of the Financial Statements.

Cash Flow Statement

For the year ended 31 December	Note	2008 Rs.	2007 Rs.
Cash Flows from Operating Activities			
Net increase/(decrease) after transfers from Cess Fund		16,647,917	(14,377,503)
Adjustment for:			
Depreciation	1	15,749,342	14,556,914
(Profit)/loss on disposal of property, plant & equipment		(746,903)	(1,024,519)
Recognition of grant	13	(9,910,472)	(10,299,480)
Provision for gratuity	14	1,781,629	2,573,714
Net increase/(decrease) before working capital changes		23,521,513	(8,570,875)
Change of Working Capital			
(Increase)/decrease of stocks		(53,818)	50,654
(Increase)/decrease of receivable		225,158	(530,385)
(Increase)/decrease of deposit advances & prepayments		(575,490)	673,097
Increase/(decrease) of receipt in advance		136,137	1,003,698
Increase/(decrease) of creditors & accruals		1,442,178	(1,375,872)
		1,174,165	(280,116)
Cash generated from operating activities		24,695,678	(8,850,991)
Gratuity paid during the year		(876,133)	(430,265)
Net cash from operating activities		23,819,545	(9,281,255)
Cash Flows into Investing Activities			
Purchase of property, plant & equipment	1	(15,661,272)	(39,086,713)
Proceeds from sale of property, plant & equipment		39,950	2,270,613
Investment in treasury bills		(116,964)	-
Net cash from investing activities		(15,738,286)	(36,816,100)
Cash Flows from Financing Activities			
Capital transfer from Cess Fund	13	9,698,392	26,218,005
Increase/(decrease) in finance lease		(743,204)	4,393,697
Net cash from financing activities		8,955,188	30,611,701
Net increase/(decrease) in cash and cash equivalents		17,036,448	(15,485,654)
Cash and cash equivalents at beginning of period (Note a)		1,668,448	17,114,102
Cash and cash equivalents at end of period (note b)		18,704,896	1,628,448
(Note a)			
Cash and Cash Equivalents at beginning of period			
Cash at bank		1,588,448	17,094,102
Cash in hand		40,000	20,000
REPO investments		40,000	-
		1,668,448	17,114,102
Note (b)			
Cash and Cash Equivalents at end of period			
Cash at bank	7	18,664,896	1,588,448
Cash in hand	7	40,000	40,000
		18,704,896	1,628,448

The Accounting policies and notes appearing on page 48 to 60 form an integral part of the Financial Statements.

CESS Fund Cash Flow Statement

For the year ended 31 December	2008	2007
	Rs.	Rs.
Cash Flows from Operating Activities		
Net increase of Cess Fund	181,956,313	131,062,323
Net increase before working capital changes	181,956,313	131,062,323
Change of working capital		
(Increase)/decrease of staff loans	(2,785,791)	(1,787,410)
(Increase)/decrease of receivables	3,044,037	(1,953,784)
(Increase)/decrease of interest receivable on treasury bills	(50,091,703)	(39,891,267)
Increase/(decrease) of other payables	35,647	(60,369)
(Increase)/decrease of rent deposit	(430,512)	(6,798,792)
	<u>(50,228,323)</u>	<u>(50,491,622)</u>
Net cash from operating activities	131,727,991	80,570,700
Cash Flows into Investing Activities		
Investment in treasury bills	(128,081,239)	(84,112,855)
Net cash from investing activities	<u>(128,081,239)</u>	<u>(84,112,855)</u>
Net increase/(decrease) in cash and cash equivalents	3,646,752	(3,542,155)
Cash and cash equivalents at beginning of period (Note c)	3,331,623	6,873,778
Cash and cash equivalents at end of period (Note d)	<u>6,978,375</u>	<u>3,331,623</u>
Note (c)		
Cash and Cash Equivalents at beginning of period		
Cash at bank	3,331,623	6,873,778
	<u>3,331,623</u>	<u>6,873,778</u>
Note (d)		
Cash and Cash Equivalents at end of period		
Cash at bank	578,375	-
REPO investments	6,400,000	3,331,623
	<u>6,978,375</u>	<u>3,331,623</u>

The Accounting policies and notes appearing on page 48 to 60 form an integral part of the Financial Statements.

Compensation Fund Cash Flow Statement

For the year ended 31 December	2008	2007
	Rs.	Rs.
Cash Flows from Operating Activities		
Net increase of compensation Fund	23,738,175	8,255,325
Net increase before working capital changes	23,738,175	8,255,325
Change of working capital		
(Increase)/decrease of interest receivable on treasury bills	(3,820,710)	(2,660,525)
Increase/(decrease) of other payables	-	(19,696)
	(3,820,710)	(2,680,221)
Net cash from operating activities	19,917,465	5,575,104
Cash Flows into Investing Activities		
Investment in treasury tills	(19,902,137)	(5,595,300)
Net cash from investing activities	(19,902,137)	(5,595,300)
Cash Flows from Financing Activities		
Net increase/(decrease) in cash and cash equivalents	15,328	(20,196)
Cash and cash equivalents at beginning of period (Note e)	72,185	92,381
Cash and cash equivalents at end of period (Note f)	87,513	72,185
Note (e)		
Cash and Cash Equivalents at beginning of period		
Cash at bank	55,825	76,022
Call deposits	16,360	16,359
	72,185	92,381
Note (f)		
Cash and Cash Equivalents at end of period		
Cash at bank	69,032	55,825
Call deposits	18,482	16,360
	87,513	72,185

The Accounting policies and notes appearing on page 48 to 60 form an integral part of the Financial Statements.

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 AND EQUIPMENT

OWNED PROPERTY PLANT AND EQUIPMENT

Property, Plant & Equipment together with any incidental expenses thereon are stated at cost 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. 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 derecognized.

2.2 LEASED MOTOR VEHICLES

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

As part of the remuneration package the Directors and above 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, license 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 lower of cost or net realizable value. The cost of inventories is valued on first-in, first-out (FIFO) basis.

2.5 RECEIVABLES

Receivables are stated at the estimated realizable 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 salary based on the last month of the financial year for all employees who have completed one year of service.

3.2 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 Employee's Provident Fund and Employee's Trust Fund respectively.

3.3 ACCOUNTS PAYABLE

Payables are stated at cost.

3.4 GRANT

Capital Expenditure transferred from the Cess Fund is treated as a grant and recognized in the Income and Expenditure Statement as revenue on systematic basis over the useful life of the related asset.

4. INCOME & EXPENDITURE

4.1 REVENUE RECOGNITION

Revenue is recognized on accrual basis.

4.2 EXPENDITURE RECOGNITION

All expenditure incurred in maintaining the SEC has been recognized 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
COST						
Balance as at 1 January 2008	16,055,900	20,070,923	27,962,855	2,814,939	16,680,000	83,584,617
Additions during the year	-	398,362	10,339,996	269,080	5,700,000	16,707,438
Disposals during the year	-	(44,890)	(48,000)	-	(4,400,000)	(4,492,890)
Balance as at 31 December 2008	16,055,900	20,424,395	38,254,851	3,084,019	17,980,000	95,799,165
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2008	13,179,425	2,731,860	15,446,765	1,820,932	5,804,582	38,983,564
Depreciation charge for the year	2,876,475	2,530,684	5,211,237	340,113	4,790,833	15,749,342
Accumulated depreciation on disposal of assets	-	(32,567)	(47,999)	-	(3,081,250)	(3,161,816)
Balance as at 31 December 2008	16,055,900	5,229,977	20,610,003	2,161,045	7,514,165	51,571,090
WRITTEN DOWN VALUE AS AT 31 DECEMBER 2008	-	15,194,418	17,644,848	922,974	10,465,835	44,228,075
WRITTEN DOWN VALUE AS AT 31 DECEMBER 2007	2,876,475	17,339,063	12,516,090	994,007	10,875,418	44,601,053

Notes to the Financial Statements

	Note	2008 Rs.	2007 Rs.
2 CESS FUND INVESTMENTS AND OTHERS			
NON-CURRENT ASSETS			
Staff loans		6,846,045	4,401,102
Rent deposits		12,054,336	11,623,824
		18,900,381	16,024,926
CURRENT ASSETS			
Invested in State Institutions Temporary Surplus Fund		468,682,449	398,621,839
Investment in treasury bills		448,484,393	390,463,765
		917,166,843	789,085,604
Staff Loans Receivable within 12 months		2,332,447	1,991,599
Withholding tax receivable		400,341	400,341
Interest receivable on treasury bills		142,298,208	92,206,505
Cess receivable		636,880	3,680,916
Balance at bank - placed on overnight repo investment		6,978,375	3,331,623
		152,646,250	101,610,984
		1,069,813,093	890,696,588
Total Assets		1,088,713,474	906,721,514
LIABILITIES			
Other Payables		35,647	-
		1,088,677,827	906,721,514
3 COMPENSATION FUND INVESTMENTS AND OTHERS			
ASSETS			
Investment in treasury bills		79,802,953	59,900,816
CURRENT ASSETS			
Withholding tax receivable on call deposits		72,445	72,445
Interest receivable on treasury bills		10,150,686	6,329,976
Investment in call deposits		18,482	16,360
Balance at bank		69,032	55,825
		10,310,644	66,375,422
Total Assets		90,113,597	66,375,422

Financial Statements

	Note	2008 Rs.	2007 Rs.
4 INVENTORIES			
Stock of stationery & EDP consumables		398,561	352,539
Stock of publications		8,158	362
		406,719	352,901
5 RECEIVABLES			
Interest receivable on treasury bills		43,615	-
Sundry debtors including debit notes		293,164	47,174
With holding tax receivable		5,399	5,399
Staff recoveries		225,398	302,435
Festival advances		732,000	770,000
Insurance board of Sri Lanka		-	1,250
Financial Services Academy	19	-	379,834
		1,299,576	1,506,092
6 DEPOSITS, ADVANCES & PRE-PAYMENTS			
Safe vault deposit - Bank of Ceylon		40,000	40,000
Deposit for cellular phones		40,000	40,000
Fuel deposit		60,000	60,000
Deposit for vehicle maintenance		500	500
Deposits with Telecom Ltd		42,125	42,125
Hot & cold dispenser		38,000	18,000
Employer Federation of Ceylon		19,993	19,993
University of Colombo-library deposit		10,000	10,000
Advances to suppliers		1,393,125	837,635
		1,643,743	1,068,253
7 CASH			
Cash at bank		18,664,896	1,588,298
Cash in hand		40,000	40,000
		18,704,896	1,628,298
8 RESERVES			
REVALUATION SURPLUS			
Balance at the beginning of the period		-	26,407
Less: Disposal of assets		-	(26,407)
Balance at the end of the period		-	-
9 ACCUMULATED FUND			
Balance at the beginning of the period		(7,860,746)	5,027,338
Add: Revaluation adjustment		-	26,407
Net surplus/(deficit) for the period		17,006,411	(12,914,491)
Balance at the end of the period		9,145,665	(7,860,746)

	Note	2008 Rs.	2007 Rs.
10 CESS FUND			
Opening balance		906,721,514	775,659,191
Add: Cess received during the year		196,041,284	184,424,924
Interest on investment & others		158,924,765	105,316,354
		1,261,687,562	1,065,400,469
Less: Transfers to operational & capital expenditure-SEC		173,000,000	157,700,000
Grant to FSA		-	1,000,000
Expenses-bank charges		9,735	3,750
Custodian fees		-	(24,796)
		173,009,735	158,678,954
Closing balance		1,088,677,827	906,721,514
11 COMPENSATION FUND			
Opening balance		66,375,422	58,120,097
Compounding fees received during the year		10,900,000	-
Add : Interest on investment - treasury bills		12,843,604	8,255,825
call deposit		6,021	-
		90,125,047	66,375,922
Less: Bank charges & debit tax		11,450	500
		11,450	500
Closing balance		90,113,597	66,375,422
12 LEASE CREDITOR			
Gross lease liabilities		14,061,333	14,704,168
Interest in suspense		(2,578,707)	(2,478,338)
		11,482,626	12,225,830
Less: Payable within one year		(5,972,373)	(3,911,318)
Payable after one year		5,510,253	8,314,512
13 GRANT - CAPITAL TRANSFERS FROM CESS FUND			
Balance brought forward		28,740,266	12,821,739
Transfers during the year		10,987,090	26,218,007
Less: Transferred to income for assets depreciation		(10,956,638)	(10,299,480)
		28,770,718	28,740,266
RECOGNITION OF GRANT			
Capital transfers from Cess Fund		10,956,638	10,299,480
		10,956,638	10,299,480

Financial Statements

	Note	2008	2007
		Rs.	Rs.
NOTE			
RECOGNITION OF GRANT			
CAPITAL TRANSFER FROM CESS FUND			
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%
14 RETIREMENT BENEFIT OBLIGATION			
Balance brought forward		7,992,341	5,848,892
Charge for the year		1,781,629	2,573,714
Gratuity paid during the year		(876,133)	(430,265)
		8,897,837	7,992,341
15 CREDITORS AND ACCRUALS			
EPF payable		766,765	-
Rent charges-FSA		136,800	-
Telephone expenses		198,657	334,160
Electricity		180,000	100,000
Fuel expenses		37,120	6,800
Staff medical reimbursement		270,662	291,191
Fuel reimbursement		318,006	131,521
Staff welfare		78,280	87,999
Leave encashment		347,937	275,000
Interest subsidy		4,424	-
Office upkeep		12,000	-
Overtime		50,396	91,373
Foreign travel		-	158,833
External audit fees		400,000	400,000
Internal audit fees		100,000	60,000
Printing		3,000,000	1,000,000
Advertising		71,963	-
Newspapers & periodicals		8,355	6,860
Trade tax		5,000	5,000
Legal fees		-	35,000
Members fees		7,000	-
Courier charges		5,000	-
Professional charges		2,052,000	180,000
Governors interior		-	3,377,351
VAT payable		12,816	-
Stamp duty payable		19,025	-
		8,082,206	6,541,088

	Note	2008 Rs.	2007 Rs.
16 PERSONNEL COSTS			
Staff salaries		48,567,204	39,568,414
Chairman's allowance		360,000	360,000
Overtime		1,055,778	1,261,225
EPF & ETF		6,740,093	5,775,537
Staff gratuity		1,797,863	2,573,714
Annual bonus		3,421,562	2,586,218
Leave encashment		457,739	355,652
Staff medical expenses & insurance		2,542,712	2,147,946
Personnel accident insurance cover		369,568	283,828
Staff housing loan interest subsidy		525,750	422,769
Staff welfare		1,943,130	1,746,689
Executive subsistence		68,000	29,000
Reimbursement of Fuel - directors		2,518,846	1,408,131
Lease finance charges		1,367,602	1,473,689
Foreign travel & training - staff		7,711,336	5,027,452
Foreign travel - commission members		288,169	623,704
Staff training - local		1,494,211	1,131,983
Subscription of membership		224,172	217,559
Sponsorship for studies		1,276,298	674,510
Temporary allowance paid for IBSL work		-	80,000
Interns allowance		73,087	-
		82,803,120	67,748,020
17 ADMINISTRATION & ESTABLISHMENT EXPENSES			
Rent & car park rental		25,922,288	21,054,575
Electricity charges		2,148,953	1,908,276
Office upkeep		147,654	446,122
Security charges		-	189,900
Office equipment maintenance & insurance		842,646	952,267
Telephone, internet, e- mail & web		2,074,303	2,633,541
Motor vehicle fuel, maintenance, license & insurance		1,674,576	1,209,635
Legal expenses		120,280	274,511
Investigation expenses		8,814	3,886
Inspection expenses		-	4,481
Professional fees		4,052,135	1,230,014
Member fees		118,958	81,000
Meeting expenses		351,312	278,057
Entertainment		148,741	353,790
International membership fees - IOSCO		1,624,080	1,436,119
Depreciation	1	15,749,342	13,086,056
Cost of publication		13,898	13,552

Financial Statements

	Note	2008 Rs.	2007 Rs.
Advertising		1,175,380	1,353,169
Market surveillance cost		2,232,465	2,392,320
Library books		199,003	229,120
Printing & stationery		1,319,614	1,349,337
Travelling local		246,378	245,847
Insurance- fire		73,714	191,148
News papers & periodicals		186,101	108,726
Postage and stamp duty		154,009	855,706
Courier charges		76,550	94,355
Audit Fees -internal		295,000	335,823
Audit Fees -external		200,000	200,000
General expenses		75,765	193,538
Trade tax		5,000	5,000
VAT expenses		5,996,728	4,710,204
Seminar expenses-FSA		867,462	-
		68,101,149	57,420,075
18 CAPITAL MARKET DEVELOPMENT			
Capital Market Master Plan		-	19,585,358
Capital market development		231,115	1,462,962
Developmental assistant - internet trading		-	507,395
Public awareness programmes		10,826,900	5,871,620
		11,058,015	27,427,335
19 GRANT TO FINANCIAL SERVICES ACADEMY(FSA)			
Balance receivable from FSA as at 01 January 2008		379,834	-
Expenses paid by SEC during the year		3,072,680	8,013,989
Less: income received		(221,800)	3,634,155
Total receivable as at 29 July 2008		3,230,714	4,379,834
Less: Grant to FSA		500,000	4,000,000
Balance receivable as at 29 July 2008		2,730,714	379,834
Less: Net assets received from FSA		(2,372,220)	-
Accumulated Fund FSA-as at 29 July 08		(358,494)	-
Balance receivable from FSA		-	379,834

The Financial Services Academy was established in accordance with the Trust Ordinance on 30 March 2007 as the education and training arm of the Securities and Exchange Commission of Sri Lanka (SEC) and the Insurance Board of Sri Lanka (IBSL). The Trustees were the Chairman SEC, Director General SEC, Chairman IBSL, Director General IBSL, Commission Member of SEC and Board Member IBSL. On the 29 July 2008 the Members of the SEC and IBSL along with the concurrence of the Trustees decided to dissolve the Trust in terms of the Trust Deed. In terms of the Trust Deed the IBSL had not contributed the sum of Rs. 5 million to the Trust in terms of its agreement as a settler of the Trust, and that as such, liquidation of the Trust will not have any implication for the IBSL. Therefore the SEC absorbed all assets and liabilities of the Trust at book value.

	Note	2008	2007
		Rs.	Rs.
20 FINANCE CHARGES			
Bank charges		11,108	96,563
Debit tax		165,249	184,004
		176,357	280,567
21 SEMINAR EXPENSES			
Lecture fee-local		131,250	-
Refreshments for participants		16,958	-
Advertising expenses		652,454	-
Hall hire charges		30,250	-
Printing & stationery		36,550	-
TOTAL SEMINAR EXPENSES		867,462	-

22. TAXATION

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

23. CAPITAL COMMITMENTS

No Capital commitments as at 31 December 2008.

24. CONTINGENT LIABILITIES

No Contingent liabilities as at 31 December 2008.

25. EVENTS AFTER THE BALANCE SHEET DATE

No material events have occurred after the Balance Sheet date necessitating any adjustments to the financial statements except the following disclosure.

With a view to strengthen the Settlement Guarantee Fund and the Compensation Fund the Securities and Exchange Commission of Sri Lanka at its 243rd Commission meeting held on 31 December 2008 decided to transfer a sum of Rs.100 million and Rs. 50 million respectively from the Cess Fund in the year 2009.

26. RELATED PARTY DISCLOSURES

Dr. G Wickramasinghe (Chairman), Mr. DK Hettiarachchi, Dr. (Mrs) R Jayamaha, Mr. C P E Gunasingam, Mr Greatian Gunawardene, Mrs. Siromi Wickramasinghe, Mr. Ravi Abeysuriya, Mr. W I C Nishan Fernando held office as Members of the Commission during the year 2008.

Mr. Sumith Abeysinghe ceased to be a Members of the Commission upon assuming duties as Secretary to the Treasury on 18 September 2008.

Mr. Lalith R de Silva Deputy Secretary to the Treasury assumed duties as a Member of the Commission on 7 October 2008.

Financial Statements

The following table indicates corporate relationships of 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 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 (Pvt) Ltd	Director
	Informatics Trading (Pvt) Ltd	Director
	Industrial and Financial Systems Sri Lanka Ltd	Director
	Bank of Ceylon	Chairman
	Property Development Ltd	Chairman
	Merchant Bank of Sri Lanka Ltd	Chairman
	Merchant Credit of Sri Lanka Ltd	Chairman
	Ceylease Financial Services Ltd	Chairman
	BOC Travels (Pvt) Ltd	Chairman
Mr. D. K.Hettiarachchi	Mireka Capital Land (Pvt) Ltd	Director
	Settlement Guarantee Fund	Trustee
	Insurance Board of Sri Lanka	Chairman resigned w. e. f.05.08.08
	Financial Services Academy	Trustee resigned w. e. f. 29.07.08
Dr. (Mrs.) R. Jayamaha	Sri Lanka Accounting and Auditing Standards Monitoring Board	Member
	Insurance Board of Sri Lanka	Ex-officio Member
	Credit Information Bureau	Chairperson
	National Payments Council	Chairperson
	Technical Committee on Regulation of Share Ownership in Banks	Chairperson
National Economic Council	Member	

Mr. S. Abeysinghe (Ceased to be a Member of the Commission on 18 September 2008)	Bank of Ceylon	Director (Treasury Nominee) resigned w. e. f. 18.09.08
	Insurance Board of Sri Lanka	Director (Treasury Nominee) resigned w. e. f. 18.09.08
	Settlement Guarantee Fund	Trustee resigned w. e. f. 18.09.08
	De-La Rue Lanka	Director (Treasury Nominee) resigned w. e. f. 13.10.08
Mr. C P E Gunasingam	Jaguar (Pvt) Ltd	Director
	Insurance Board of Sri Lanka	Member of the Board
Mr. Graetian Gunawardhana	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 (Pvt) Ltd	Managing Director
	CFA, Sri Lanka	Public Awareness Head
	Information Technology Enabled Services Association of Sri Lanka	President
	Financial Services Academy	Trustee resigned w.e.f. 29.07.08
Mr. Nishan Fernando	Post Graduate Institute of Management (PIM) University of Sri Jayewardenepura	Member, Board of Management
	National Institute of Business Management (NIBM)	Member, Governing Council
	Sri Lanka Accounting and Auditing Standards Board	Member
Mr. Lalith R de Silva (Appointed as a Member of the Commission on 7 October 2008)	Insurance Board of Sri Lanka	Ex-officio Member
	Sri Lanka Accounting Service	Senior Member

NOTES TO THE FINANCIAL STATEMENTS

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 (Resigned with effect from 05.08.08)
Dr. (Mrs) R Jayamaha	Member of IBSL
Mr. S. Abeysinghe	Member of IBSL (Resigned with effect from 18.09.08)
Mr. C. P. E. Gunasingam	Member of IBSL
Mr. Graetian Gunawardhana	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.
Window Blinds	13,500
Vehicle Hire	8690
Total	<u>22,190</u>

The Financial Services Academy arm was incorporated under the Trust Ordinance. In terms of the Trust Deed the Trustees dissolved the FSA on 29 July 2008. All assets and liabilities of the Trust were taken over by the SEC.

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 until the Trust was dissolved on 29 July 2008.

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 at cost up to 29 July 2008.

	Rs.
Remuneration of the staff of the SEC assigned with duties of FSA Administration and other expenses	1,717,435
	<u>1,355,245</u>
Total	<u><u>3,072,680</u></u>

The Financial Services Academy utilized office space, furniture and connected facilities of the SEC 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.



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கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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எனது இல } EF/J/SEC/2008
My No. }

ඔබේ අංකය }
உமது இல }
Your No. }

දිනය }
திகதி } 13 May 2009
Date }

Report of the Auditor General

The audit of Financial Statements of the Securities and Exchange Commission of Sri Lanka ("Commission") for the year ended 31 December 2008 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.

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 and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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.

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கொழும்பு 07, ශ්‍රී ලංකාව

சுதந்திர சதுக்கம்,
கொழும்பு 07, இலங்கை

INDEPENDENCE SQUARE
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பக்ஸ் இல } 2697451
Fax No. }

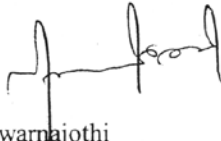
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#- மெயில் } oaggov@sltnet.lk
E mail. }

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 31 December 2008 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 Commission as at 31 December 2008 and the financial results of its operation and cash flows for the year then ended.

Report to Parliament

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



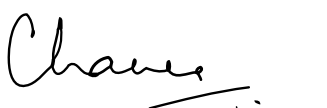
S.Swarnajothi
Auditor General

Settlement Guarantee Fund Balance Sheet

As at 31 December	Note	2008 Rs.	2007 Rs.
ASSETS			
CURRENT ASSETS			
Investment in treasury bills		141,751,603	124,260,223
Receivables	5	24,221,613	15,339,347
Cash at bank		35,325	35,325
TOTAL ASSETS		166,008,541	139,634,895
RESERVES AND LIABILITIES			
RESERVES			
Capital grants - treasury		50,000,000	50,000,000
Accumulated fund		115,878,272	89,509,895
		165,878,272	139,509,895
CURRENT LIABILITIES			
Payables	6	130,269	125,000
		130,269	125,000
TOTAL NET ASSETS AND LIABILITIES		166,008,541	139,634,895

The notes appearing on pages 67 to 70 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



Channa de Silva
Director General
Securities and Exchange Commission of Sri Lanka
Trustee



Udayasri Kariyawasam
Chairman
Securities and Exchange Commission of Sri Lanka
Trustee

Colombo.
14 May 2009

Settlement Guarantee Fund Income and Expenditure Statement

For the year ended 31December	Note	2008 Rs.	2007 Rs.
Income			
Interest on investments - treasury bills		26,373,646	16,813,810
		26,373,646	16,813,810
Less			
EXPENDITURE			
Audit fees		25,000	25,000
Total expenditure		25,000	25,000
Add: Prior year over provision of custodian fees	7	-	57,745
Add: Prior year over provision of audit fees		19,731	-
Excess income over expenditure for the year		26,368,377	16,846,555

The notes appearing on pages 67 to 70 form an integral part of the Financial Statements.

Settlement Guarantee Fund Statement of changes in Net Assets

For the year ended 31 December	2008 Rs.	2007 Rs.
Accumulated Fund		
Balance at the beginning of the period	89,509,895	72,663,340
Net surplus for the period	26,368,377	16,846,555
Balance at the end of the period	115,878,272	89,509,895

The notes appearing on pages 67 to 70 form an integral part of the Financial Statements.

Settlement Guarantee Fund Cash Flow Statement

For the year ended 31 December	Note	2008 Rs.	2007 Rs.
Cash Flow from Operating Activities			
Net surplus for the year		26,368,377	16,846,555
Adjustment for			
Change of Working Capital			
(Increase)/decrease of other receivables	2	(8,882,266)	(5,250,765)
Increase/(decrease) of other payables	3	5,269	(32,745)
		(8,876,997)	(5,283,510)
Net Cash Flow from Operating Activities		<u>17,491,380</u>	<u>11,563,045</u>
Net Cash Flow from Financing Activities		-	-
Cash Flow from Investing Activities			
Investment in treasury bills		(17,491,380)	(11,563,045)
Net Cash Flow from Investing Activities		<u>(17,491,380)</u>	<u>(11,563,045)</u>
Net Increase/(decrease) in cash and cash equivalents		-	-
Cash & dash equivalents at the beginning of the period		35,325	35,325
Cash & dash equivalents at the end of the period		<u>35,325</u>	<u>35,325</u>

The notes appearing on pages 67 to 70 from 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 (SGF) have been prepared in compliance with the Sri Lanka Accounting Standards 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.

2. ASSETS & BASES OF VALUATION

2.1 INVESTMENTS

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

2.2 CASH AND CASH EQUIVALENTS

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

3. LIABILITIES & PROVISIONS

3.1 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.

3.2 ACCOUNTS PAYABLE

Payables are stated cost

4. INCOME & EXPENDITURE

4.1 REVENUE RECOGNITION

Interest income is accounted on accrual basis.

4.2 EXPENDITURE RECOGNITION

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

5. RECEIVABLES

	2008	2007
	Rs.	Rs.
Receivable from Cess	35,648	-
Treasury bill interest receivable	24,185,965	15,339,347
	-----	-----
	24,221,613	15,339,347
	=====	=====

6. PAYABLES

	2008	2007
	Rs.	Rs.
Audit fees	130,269	125,000
	-----	-----
	130,269	125,000
	=====	=====

7. PRIOR YEAR ADJUSTMENT

Over provision of Audit Fees Payable of Rs.19,731 was treated in terms of Sri Lanka Accounting Standard No. 10-Accounting Policies, Changes in Accounting Estimates and Errors.

8. CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2008.

9. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 December 2008.

10. EVENTS AFTER THE BALANCE SHEET DATE

No material events have occurred after the Balance Sheet date necessitating any adjustments in the financial statements except the following disclosure.

With a view to strengthen the SGF the Securities and Exchange Commission of Sri Lanka at its 243rd Commission meeting held on 31 December 2008 decided to transfer a sum of Rs.100 million from the Cess Fund to the SGF during the year 2009. In line with this decision the Colombo Stock Exchange is also expected to transfer Rs.100 million during the year 2009.

11. 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.

Mr Sumith Abeysinghe upon receiving a promotion as Secretary to the Treasury ceased to be a Trustee of the SGF on 18 September 2008. Mr Lalith R de Silva assumed duties as a Trustee on 7 October 2008 by assuming duties as Deputy Secretary to the Treasury.

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

Settlement Guarantee Fund

Notes to the Financial Statements

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 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 (Pvt) Ltd	Director
	Informatics Trading (Pvt) Ltd	Director
	Industrial and Financial Systems Sri Lanka Ltd	Director
	Bank of Ceylon	Chairman
	Property Development Ltd	Chairman
	Merchant Bank of Sri Lanka Ltd	Chairman
	Merchant Credit of Sri Lanka Ltd	Chairman
	Ceylease Financial Services Ltd	Chairman
	BOC Travels (Pvt) Ltd	Chairman
Mireka Capital Land (Pvt) Ltd	Director	
Securities and Exchange Commission of Sri Lanka	Chairman	
Insurance Board of Sri Lanka	Chairman resigned w. e. f. 5.08.08	
Financial Services Academy	Trustee resigned w. e. f. 29.07.08	

Settlement Guarantee Fund Notes to the Financial Statements

Mr A Nihal Fonseka	<ul style="list-style-type: none"> • DFCC Bank • Acuity Partners (Pvt) Ltd • DFCC Consulting (Pvt) Ltd • DFCC Stockbrokers (Pvt) Ltd • Lanka Industrial Estate Ltd • Lanka Ventures Ltd • Synapsys Ltd • Colombo Stock Exchange • National Asset Management Ltd • Commercial Bank of Ceylon Ltd • Commercial Bank Primary Dealer Ltd • ONEZero Company Ltd • Credit Information Bureau of Sri Lanka • National Institute of Business Management • Postgraduate Institute of Management 	<p>Director Chairman w. e. f. February 2008</p> <p>Chairman Chairman Chairman Chairman Chairman Chairman Director Director Director Director Member of Governing Board Member, Board of Management resigned w. e. f. November 2008</p>
Mr Sumith Abeysinghe	<ul style="list-style-type: none"> • Bank of Ceylon • Securities and Exchange Commission of Sri Lanka • Insurance Board of Sri Lanka • De-La Rue Lanka 	<p>Director (Treasury Nominee) resigned w. e. f. 18.09.08</p> <p>Member (Treasury Nominee) resigned w. e. f. 18.09.08</p> <p>Director (Treasury Nominee) resigned w. e. f. 18.09.08</p> <p>Director (Treasury Nominee)</p>
Mr Channa de Silva	<ul style="list-style-type: none"> • Insurance Board of Sri Lanka • Sri Lanka Accounting & Auditing Standards Monitoring Board • Construction Guarantee Fund • National Payment Council • Securities and Exchange Commission of Sri Lanka 	<p>Ex-officio Member Ex-officio Member</p> <p>Trustee Member Director General</p>
Ms Surekha Sellahewa	<ul style="list-style-type: none"> • Colombo Stock Exchange 	Chief Executive Officer
Mr Lalith R de Silva	<ul style="list-style-type: none"> • Securities and Exchange Commission of Sri Lanka • Insurance Board of Sri Lanka 	<p>Ex-officio Member Ex-officio Member</p>

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



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கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය } EF/J/SGF/2008
 எனது இல }
 My No. }

මගේ අංකය }
 உமது இல }
 Your No. }

දිනය } 14 May 2009
 திகதி }
 Date }

Report of the Auditor General

The audit of Financial Statements of the Settlement Guarantee Fund (Fund) for the year ended 31 December 2008 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 22 May 1998 in respect of Settlement Guarantee Fund created by the Securities and Exchange Commission Act.

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 and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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.

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 Settlement Guarantee Fund had maintained proper accounting records for the year ended 31 December 2008 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 31 December 2008 and the financial results of its operation and cash flows for the year then ended

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சுதந்திர சதுக்கம்,
 கொழும்பு 07, இலங்கை

INDEPENDENCE SQUARE,
 COLOMBO 07, SRI LANKA

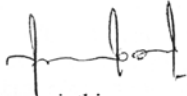
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 #- மெயில் } oaggov@sltnet.lk
 E-mail. }

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

Licensed stock brokers and dealers

Company	Stock Broker	Stock Dealer
Amana Securities Limited	X	X
Asha Phillip Securities Limited	X	
Asia Securities (Pvt) Limited	X	
Bartleet Mallory Stockbrokers (Pvt) Limited	X	X
Capital Alliance Securities (Pvt) Limited	X	X
Ceylinco Stockbrokers (Pvt) Limited	X	
CT Smith Stockbrokers (Pvt) Limited	X	
DFCC Stockbrokers (Pvt) Limited	X	
DP Global Securities (Pvt) Limited	X	
First Guardian Equities (Pvt) Limited	X	X
HNB Stockbrokers (Private) Limited	X	
JB Securities (Pvt) Limited	X	X
John Keells Stockbrokers (Pvt) Limited	X	
Lanka Orix Securities (Pvt) Limited	X	
Lanka Securities (Pvt) Limited	X	
N D B Stockbrokers (Pvt) Limited	X	
S K M Lanka Holdings (Pvt) Limited	X	
SC Securities (Pvt) Limited	X	
SMB Securities (Pvt) Limited	X	X
Somerville Stockbrokers (Pvt) Limited	X	
Taprobane Securities (Pvt) Limited	X	X

Additional Information

Market Intermediaries

Registered as at 31 December 2008

Registered market intermediaries under the categories of margin provider, investment manager and underwriter are set out below:

Company	Margin	Investment Providers	Underwriters Managers
01 Aegis Fund Management (Private) Limited	-	X	-
02 Amana Capital Limited	-	X	-
03 Bartleet TransCapital Limited	-	X	-
04 Capital Alliance Securities (Private) Limited	-	X	-
05 Capital Reach Credit Limited	X	-	-
06 Ceylinco Shriram Asset Management Limited *	X	X	-
07 Commercial Bank of Ceylon PLC	X	-	X
08 DFCC Vardhana Bank Limited	X	-	-
09 DP Capital Management (Private) Limited	X	X	-
10 First Capital Asset Management Limited	-	X	-
11 First Capital Markets Limited	X	-	-
12 First Global Investments (Private) Limited	-	X	-
13 Guardian Fund Management Limited	-	X	-
14 Hatton National Bank PLC	X	-	X
15 JB Financial Services (Private) Limited	-	X	-
16 Lanka Orix Finance Company Limited	X	-	-
17 Merchant Bank of Sri Lanka PLC	X	X	X
18 National Development Bank PLC	X	-	X
19 Nations Trust Bank PLC	X	X	-
20 National Wealth Corporation Limited	-	X	-
21 Orion Fund Management (Private) Limited	-	X	-
22 Sampath Bank PLC	X	-	X
23 Seylan Bank PLC	X	-	-
24 SMB - Kenanga Investment Corporation Limited	-	-	X
25 Waldock Mackenzie Limited	X	X	-
26 WealthTrust Corporation (Private) Limited	-	X	-
Registered market intermediary under the category of a clearing house:			
27 Central Depository Systems (Private) Limited			
Registered market intermediaries under the category of a credit rating agency:			
28 Fitch Ratings Lanka Limited			
29 RAM Ratings (Lanka) Limited			

The below mentioned companies have been licensed to operate the unit trusts set out below:

1. Ceylon Asset Management Company Limited
 - Ceylon Index Fund
 - Treasury Savings Fund of Ceylon Asset Management (formerly known as Ceylon Income Fund)
2. CT Fund Management (Private) Limited
 - Comtrust Equity Fund
3. Eagle NDB Fund Management Company Limited
 - Pyramid Unit Trust
 - Eagle Gilt Edged Fund
 - Eagle Income Fund
 - Eagle Growth Fund
4. National Asset Management Limited
 - NAMAL Income Fund
 - NAMAL Money Market Fund
 - NAMAL Flexi Income Fund
 - National Equity Fund
 - NAMAL Growth Fund
 - NAMAL Amana Equity Fund
 - NAMAL Gilt Edge Fund 1
5. The Unit Trust Management Company (Private) Limited
 - Ceybank Unit Trust
 - Ceybank Century Growth Fund
 - Ceybank Gilt Edged Fund

Notes

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Web

www.sec.gov.lk

Legal Form

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

Accounting Year

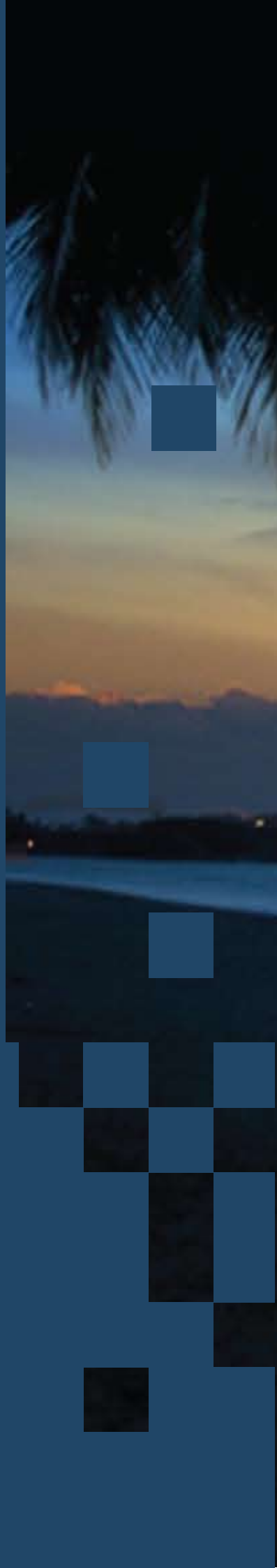
31 December

Auditors

The Auditor General

Bankers

Bank of Ceylon
Sampath Bank
Standard Chartered Bank
Hongkong & Shanghai Banking Corporation Ltd



SECURITIES AND EXCHANGE
COMMISSION OF SRI LANKA