



Like the guard stones that keep watch, we regulate to

PROTECT



SECURITIES AND EXCHANGE
COMMISSION OF SRI LANKA

Annual Report 2011

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Vision

“To become the benchmark regulator in South Asia for effective, efficient and proactive capital market regulation”

Mission

“To promote, develop and maintain a capital market that is fair, efficient, orderly and transparent”



The Cobra

The cobra was considered the guardian of water and treasure. Zoomorphic sculptures of multi headed cobras have been found at the sluices of reservoirs, and at the four corners of relic chambers enshrined in “dagabas”. The cobras are usually represented around the head as either a five-hooded, seven-hooded or occasionally a nine-headed cobra hood.



CHAIRMAN'S REVIEW



Thilak Karunaratne | Chairman

“During the year under review the Securities and Exchange Commission of Sri Lanka (SEC) continued to provide proper direction and consistency in policies towards fulfilling our mandate of fostering a fair, efficient and transparent capital market.”

Historically, capital markets have played an important role in the development of market economies and therefore the development of efficient regulation of securities too has become increasingly important.

While fostering the development of the economy, the capital markets also play an important equalising role. Viz – it attracts the participation of a large number of people in the economy by investing in securities and other derivatives. Therefore the role of the regulator becomes even more important as there is a large number of stakeholders involved. It follows that a well regulated market will encourage more people to come in as investors

and contribute to the development of the economy.

Sri Lanka's capital market has developed faster and more comprehensively in the last 3 years than any other period in history. It directly accelerated economic growth to a larger extent by providing a boost to domestic savings and increasing the quantity and the quality of investment. During the last three years, the Colombo stock market provided the public an additional avenue of investment even though many did not tread this path carefully by not assessing the risks involved in an appropriate manner.

The high growth in the Colombo stock market seen in 2009, 2010 and in the first quarter of 2011 caused a high degree of price volatility and it also created many regulatory and supervisory issues. The SEC was forced to step in and take several – perhaps not very popular – measures to curb the volatility and to reduce the systemic risk in the capital market.

2011 was a difficult year for the world's stock markets largely due to the European debt crisis. International stocks, measured in US dollars, lost 14.4% in 2011. Losses varied by region and, in spite of the Euro crisis, European stocks fared the best losing 11.9%. Pacific-rim stocks, comprised

mostly of Japan and Australia, lost 14.4%, while emerging markets fared the worst, declining 18.8%. Worldwide stock market capitalisation fell 12.1%. As a consequence of these trends, and also due to factors which were local in nature, the Colombo Stock Exchange (CSE) too recorded a negative growth of 8.5% in 2011.

During the year under review the Securities and Exchange Commission of Sri Lanka (SEC) continued to provide proper direction and consistency in policies towards fulfilling our mandate of fostering a fair, efficient and transparent capital market. In line with our objectives the SEC made significant strides in developing market infrastructure, institutions, intermediaries and investors in order to expand the role of our capital market in financing the growth of the economy.

The regulatory reform process of the SEC is focused on strengthening investor protection and market integrity. We made significant efforts in reforming the legal framework with these objectives in mind. After extensive consultations with all the stakeholders, amendments to the SEC Act were finalised, while the Unit Trust Code was amended and gazetted to enable the regulation of exchange traded funds. The SEC is in the process of finalising the draft bill for the Demutualisation of the CSE to bring our capital market to be in line with those in more mature jurisdictions.

During the year we embarked on a more proactive role to make the capital market accessible to the masses through financial literacy programmes. In association with market participants the SEC conducted a live television series comprising of studio discussions. It also organised Investor Day programmes throughout the country aimed at imparting the required knowledge on investing in the capital market which enabled the public to make better investment

decisions. In addition we published regular articles in news papers in order to make the public better informed of these matters.

The SEC is of the view that for a market to be attractive to potential investors and draw wider participation it must earn investor confidence. In the middle of year 2010, as fears of a speculative bubble grew, we imposed credit restrictions in order to bring sanity in the market. However towards the latter part of year 2011 in order to stimulate the market, these restrictions were relaxed to some extent and further concessions were given at the beginning of 2012.

In the face of changing conditions in the domestic capital market landscape it necessitated us to step up our efforts in the supervisory front to a more proactive risk focused framework. The risk based supervision of the SEC focused on continuous monitoring and evaluation of the risk profiles of regulated entities in relation to their business conduct and financial soundness.

We continued to remain vigilant and maintain robust surveillance of the trading activities to ensure that the market operates in a fair and orderly manner and promote efficient price discovery. The SEC is able to monitor trading activities on a real time basis to detect a wide range of possible market misconduct. This enabled us to act promptly to curb potential market misconduct and enhance investor protection.

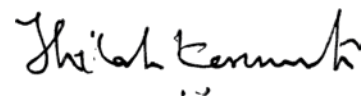
During the year we conducted a Capital Market Development Workshop with the participation of industry participants to discuss issues of mutual interest on the securities market. This workshop enabled us to obtain insights and opinion of stakeholders towards developing the capital market and this forum gave us the opportunity to obtain industry views prior to implementing

new policies. These dialogues had a positive outcome and the SEC shall strive to maintain close interaction with the industry and where possible obtain the concurrence of all stakeholders.

In the coming year we are determined to further strengthen the regulatory and supervisory arrangements in keeping with modern trends. Investigation capability will certainly be enhanced and we expect better performance in this area.

We are of the view that the settlement risk which currently exists between T (Trade Day) and T+3 (Settlement Day) will be fully eliminated by improving equity-market infrastructure such as establishing a Clearing Corporation. We will also pay more attention to improving corporate governance, improving market liquidity, creating a well informed and educated investor base, re-evaluating market volatility controls and developing a long-term listed debt market in the immediate future. Introducing a minimum free float is one measure that the SEC is currently contemplating in order to increase the liquidity of the market.

In conclusion I wish to express my appreciation for the unstinted co-operation of the Commissioners, management and staff of the SEC for their professionalism, commitment and support for the smooth functioning of the Commission. With the support of all those mentioned, I look forward to carrying out our Mission, ie: "To promote, develop and maintain a capital market that is fair, efficient, orderly and transparent" and making it a reality in 2012.



Thilak Karunaratne
Chairman

ACTING DIRECTOR GENERAL'S REVIEW



Prof. Hareendra Dissabandara | Acting Director General

“In the year under review the SEC made considerable progress in ensuring appropriate safeguards for investors as well as provide regulation which allows enough impetus for capital market development.”

In today's interconnected capital markets, regulators have an increasingly difficult role balancing the needs of creating efficient markets, preventing systemic risk and ensuring effective oversight. The evolving securities industry has also necessitated the SEC to deliver responsive regulation and enhance investor protection. The decisions taken by the SEC during the last year were taken keeping these challenges in mind.

In the year under review the SEC made considerable progress in ensuring appropriate safeguards for investors as well as provide regulation which allows

enough impetus for capital market development. In addition during the past year we took many momentous steps to ensure that we support and complement Sri Lanka's economic development programme.

The SEC is committed to strengthening the laws, rules and regulations and reviewing them to ensure that they are brought in line with international standards. During the year we finalised the amendments to the Takeovers and Mergers Code and Unit Trust Code and obtained the assistance of the World Bank to amend the SEC Act. Since the structural reforms as well as

changes in the governance structure subsequent to Demutualisation of the CSE will undoubtedly bring our capital market on par with international jurisdictions, we finalised the provisions to be included in the Draft Demutualisation Act.

In the recent past a decrease was witnessed in foreign participation in the CSE. We believe that it is important to attract foreign investments to fund domestic investments due to the limited pool of domestic savings. To attract external capital we need to take sufficient measures to reduce barriers to access the market, improve market technology and settlement systems,

reduce information asymmetry as well as increase the supply of actively traded stocks in the market. Towards this end the SEC successfully made representations to relax restrictions placed on foreign investments in unit trusts that invest in Government securities.

The Sri Lankan securities market has experienced a rapid increase in the number of licensed and registered entities in the recent past. Therefore the SEC focused its efforts on promoting investor confidence by subjecting market intermediaries to adequate capital and other prudential requirements as well as ensure that individuals who provide investment advice are honest, maintain professional standards and behave ethically. During the year we refined our approach to risk based supervision with particular focus on restricting credit extension by stock broking companies. Since the SEC's objective is to promote effective risk management and not unduly stifle reasonable risk taking, we relaxed this restriction towards the end of the year when prudential requirements were met by stock brokers.

Effective surveillance forms an integral part of our regulatory process and enables us to achieve our mission of investor protection. In order to ensure timely detection of potential breach of regulation the SEC has put in place an effective and integrated surveillance and monitoring system which generates alerts out of unusual market movements. During the year the SEC was able to detect possible market violations and promptly initiated appropriate action whenever warranted.

In order to create financially literate investors and ensure that they make informed investment choices we

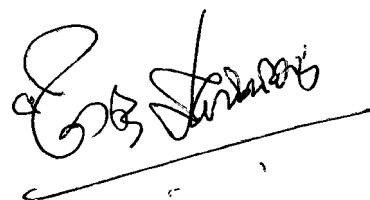
conducted seminars throughout the country, telecast live television programmes in both Sinhala and Tamil medium, and published newspaper articles during the past year. The SEC's awareness activities were designed for various sectors of the community including students, teachers, universities and the general public and structured to assist investors to understand market operations, products and the inherent risks associated with their investments. In addition we remind investors of their responsibility for their investment decisions. The SEC also conducts a long term educational programme series for investors giving in-depth knowledge of the capital market.

A key lesson from the global financial crisis is that capital market regulators must focus on improving market infrastructure and ensuring effective risk management. With this backdrop the SEC will fast track the implementation of the Delivery vs Payment systems and the Central Counter Party (CCP) in the CSE.

In conclusion, I wish to thank the former Chairperson Mrs. Indrani Sugathadasa, the current Chairman Mr. Thilak Karunaratne and Commission Members for their tremendous commitment and dedication throughout the year. All our achievements were possible due to the hard work and professionalism of the staff of the secretariat and I am grateful to them for their assistance in meeting the objectives of the Commission.

Our vision is to have a market that engenders investor confidence, has breadth and depth in terms of product offerings, is characterised by market integrity, has a sound regulatory framework, a strong and transparent disclosure and accountability regime, fosters good corporate governance

and is a fair robust and efficient market place. In addition to support national economic growth we envisage formulating a comprehensive long term capital market master plan in line with the strategic plans of the financial market to map the future direction of the capital market. To achieve this, the SEC requires the support of all the stakeholders in the capital market.



Prof. Hareendra Dissabandara
Acting Director General

MEMBERS OF THE COMMISSION



Mr. Thilak Karunaratne - *Chairman*



Mr. D K Hettiarachchi



Mr. Lolitha Abeysinghe



Mr. Priyantha Jayawardana



Mr. Mohamed Zuraish Hifaz Hashim



Mr. Sanjay S. Kulatunga



Mr. B. D. W. A. Silva



Mr. Sujeewa Rajapakse



Dr. Prathiba Mahanamahewa



Mr. Sajith R. Attygalle

Mr. Thilak Karunaratne – Chairman

After completion of his secondary education at Ananda College, Colombo, he entered the (then) University of Ceylon, Colombo Campus and graduated with a BSc. in Chemistry. In the pre-MBA era, he obtained a Postgraduate Diploma in Business Management. He is also a Chartered Chemist. Mr Karunaratne participated in many training programs in Marketing and General Management in the UK, USA, Japan, India, Singapore, Thailand and other countries. He also successfully completed, the AOTS Top Management Course 1991 in Japan, a Strategic Management Course (IIM Alahabad, India 1993), and Advanced Management Program AIT at the University of Reading, England in 1997.

Mr. Karunaratne started his career as a Commissioned Officer in the (then) RCyAF and later joined a multinational company as a Management Trainee and rose up to be a Senior Manager in a short span of time. He subsequently started his own business which after 35 years is an acknowledged leader in its field. He won a special award for marketing excellence from Plastics and Rubber Institute [PRI (SL)]. He is also the recipient of many awards for business achievement and community service.

Mr. Karunaratne was a member of the Investment Promotion Mission sponsored by the Ceylon Chamber of Commerce to Scandinavian countries, way back in 1983. He was a Member of Parliament for 12 years up to year 2000 when he resigned on his own to rejoin the private sector. He is a life member of the Sri Lanka Institute of Directors, a Past President of the Alumni Association University of Colombo, a Past Deputy District Governor of Lions, and currently the President of Ananda College OBA. He is also a council Member of the University of Colombo since 2008 and was also the President of the Bridge Federation of Sri Lanka, the governing body of the game of bridge, during the period 2009 –2011. He is an avid Bridge player. He is also a keen wildlife enthusiast and an environmentalist.

Mr. D.K. Hettiarachchi

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

Mr. Lolitha Abeysinghe

Mr. Lolitha Abeysinghe is a career Business Consultant and leads a Consulting House predominantly involved in project development under various models (i.e., public, private PPP etc.) under the name Chelina Capital Corporation (Pvt.) Ltd. He is also the Managing Director of Vingrows Business Solutions (Pvt.) Ltd., China Science & Technology International Supply Corporation Lanka Ltd., Chelina-National Engineering Bureau of Dubai Lanka Ltd., all of which are registered under Board of Investment of Sri Lanka (BOI).

He currently serves as a Consultant to the Chairman, National Gem and Jewelry Authority and has served as the Management Consultant to the Minister of State Transport as well as a Consultant to the Chairman, National Handicrafts Board.

Mr. Abeysinghe holds a MBA from the University of Rochville, USA and a Diploma in Marketing from the Sri Lanka Institute of Marketing (SLIM/SLIDA). He also holds a Certificate in Intentional Trade from the Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL), a Certificate in Advanced Operational aspects of Intentional Trade and a Certificate in Operational aspects of Intentional Trade from the Export Development Board (EDB). At present he is studying law at the Sri Lanka Law College.

He has served the National Apprenticeship and Industrial Training Authority (NAITA) as a Director.

Mr. Abeysinghe has served either as a Director or serves/served as a Consultant in the following concerns : Four Seasons Hospitals (Pvt.) Ltd., Canton Energy (Pvt.) Ltd., AGSS International Consultants (Pvt.) Ltd., Nobel Freight (Pvt.) Ltd., and SLN Packaging Industries (Pvt.) Ltd., Management Education Development Agency, Medismart/UAK Suppliers, Impakt International Consultants (Pvt.) Ltd., Nobel International (Pvt.) Ltd., Focus International (Pvt.), Sarero International (Pvt.), Evoke Projects (Pvt.) Ltd., Vauxhall Corporation (Pvt.) Ltd., Lanka Light Industrial Products Import/Export (Pvt.) Ltd., Hybrid Structures Lanka (Pvt.) Ltd., Lanka Green Energy (Pvt.) Ltd., Akamai Communication Company (Pvt.) Ltd., SAR Embellishment (Pvt.) Ltd., Arades International (Pvt.) Ltd., Megaputhra (Pvt.) Ltd.

Mr. Abeysinghe has attended many local and international training courses, workshops and conferences. He has presented papers at several international seminars.

Mr. Priyantha Jayawardena

After the primary and secondary education at Nalanda College, he entered the Law College in 1985. After he completed his studies at the Law College he was called to the bar and enrolled as an Attorney-at-Law of the Supreme Court in 1988. He was engaged in private practice until he joined the Attorney- General's Department to work in the Government Institutions Division in 1991. Thereafter, he proceeded to the United Kingdom and obtained a Master's Degree in Commercial Law from the University of Aberdeen in 1993. On his return to the country he joined the Attorney- General's Department and served as a State Counsel and reverted back to the unofficial bar in 2000 and is now engaged in private practice. Whilst serving in the Attorney- General's Department he worked as a Consultant to the Ministry of Food, Internal and International Trade and Commerce and also participated in drafting legislation. In addition to other duties he has served as a member of the Advisory Commission on Intellectual Property Law of Sri Lanka. He was an Examiner of the Council of Legal Education and a Visiting Lecturer of the University of Moratuwa.

Mr. Mohamed Hifaz Hashim

Mr. Hashim is a Bachelor of Laws (LL.B) (Honours) London and Barrister at Law (Middle Temple). He is director at Malship group of companies, Development Interplan Ceylon Ltd and West Asia Trading (Pvt) Ltd. He is the General Secretary of the Sri Lanka Fruit & Vegetable Producers', Processors' & Exporters Association. Mr. Hashim has represented Sri Lanka at various local and international business forums.

Mr. Sanjay Kulatunga

Sanjay Kulatunga holds a series of Executive Directorships within the Beira Group of companies, engaged in export manufacturing. He is also a Director of Amba Research Lanka, an internationally acclaimed and ranked knowledge process outsourcing firm which he helped setup 2003.

He serves as an independent director on listed as well as unlisted companies in Sri Lanka including Odel Plc and Expo Lanka Holdings Plc.

Apart from his private sector engagements he is also a member of the Board of the Securities & Exchange Commission of Sri Lanka and the Financial System Stability Consultative Committee (FSSCC), of the Central Bank of Sri Lanka.

Prior to his stints as an entrepreneur and manager, he functioned as an equities analyst for Hong Kong based Jardine Fleming Securities, starting in Colombo and culminating as a Regional Real Estate Analyst in Hong Kong.

Sanjay has a MBA from the University of Chicago 'Booth School of Business', and is an associate member of the Chartered Institute of Management Accountants (ACMA) as well as a Chartered Financial Analyst (CFA)

Mr. B D W Ananda Silva

Mr. B D W Ananda Silva has been in the Central Bank for 28 years and has worked in Development Finance Department, Economic Research Department, and Bank Supervision Department. In his 28 year career in the Central Bank, Mr. Silva has acquired wide experience in the areas of monetary policy, Bank Supervision, financial system stability, exchange rate policy, external trade, and balance of payments. He holds a B.Sc First Class Degree from the University of Jaffna and M.A Degree from University of IOWA, U.S.A and M.Sc. Degree from University of Illinois, USA. He has been a visiting lecturer at the University of Colombo, and a resource person for several high level courses conducted by the Central Bank.

Mr. Silva currently serves as the Chairman of Credit Information Bureau of Sri Lanka, Chairman of Institute of Bankers of Sri Lanka, Director of Securities and Exchange Commission, Director of Insurance Board of Sri Lanka, Director of Api Venuven Api Fund, a Member of the Quality Assurance Board of Institute of Chartered Accountants of Sri Lanka, and a Director of West Coast Power (Pvt.) Ltd.

Mr. Sujeewa Rajapakse

Mr. Sujeewa Rajapakse is the Managing Partner of BDO Partners, a firm of chartered Accounts and counts over 27 years of experience with the firm. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and holds a Master in Business Administration from the Postgraduate Institute of Management of the University of Sri Jayawardenepura.

Today, Mr. Rajapakse serves as the President of the Institute of Chartered Accountants of Sri Lanka (ICASL) and is a Board Member of the South Asia Federation of Accountants and also a Member of the Confederation of Asia Pacific Accountants. He is currently serving as a non executive independent director at Asian Allinace PLC, National Development Bank PLC and also a Board Member at the National Institute of Business Management (NIBM), Postgraduate Institute of Management and the Sri Lanka Accounting and Auditing Monitoring Board as an ex-officio nominated by ICASL. He is also serving as a Committee Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka.

He has held numerous honorary positions over the years and has functioned as a Board Member of First Capital Group and the Treasurer of Sri Lanka Cricket.

Dr. Prathiba Mahanamahewa

He obtained the Degree of LL.B (Hons) Second Class from the University of Colombo, Sri Lanka in 1993 and the qualification of Attorney-at-Law in 1994 with first class Honours in the final examination conducted by the Sri Lanka Law College and completed his apprenticeship period at the Attorney General's Department. He was awarded the Gold Medal for address to the jury contest in 1993 organized by the Faculty of Law and leader of the faculty debating team. He obtained LL.M (Hons), University of Melbourne, Australia in 2000 the subjects followed for the course were Comparative Companies Law in Asia Pacific, Derivatives Regulation, Governance & Duties of Directors, Harmonization of Commercial Laws in APEC Region, Legal Aspects of Finance in Asia, International Intellectual Property Rights Law. In 2002 he was awarded the World Bank Scholarship to pursue Doctoral studies of law at the T.C. Beirne School of Law, University of Queensland Australia and in 2005 he was awarded the Doctor of Philosophy in Law Degree. He was a research fellow, Center for Comparative Law, T.C. Beirne School of Law, University of Queensland in 2002/2005. He was awarded the one of the Best Young Lawyers' Business Law award in 2003 by the International Bar Association United Kingdom.

Dr. Prathiba started his academic career as a visiting lecturer at the Sri Lanka Law College and later he was selected to the permanent staff of the law faculty and promoted to the Grade of Senior lecturer. At present he is the Dean of Law, Kotelawala Defence University. Further he is a visiting lecturer in Company Law and Business law in several Local and International Universities for under graduate and post graduate degrees. Currently he is the External Advisor to University of Staffordshire Law Sri Lanka branch APIIT and Company Law Consultatnt to many projects at Chartered Institute of Accountants of Sri Lanka.

Prathiba is a thesis Supervisor for the Faculty of Computing, University of Stockholm, Sweden, University of Wales United Kingdom, University of Tribuwan, Graduate School, Nepal and Faculty of Graduate Studies, University of Colombo. He is also a project report supervisor, Institute of Human Resource Advancement, University of Colombo and Ph.D thesis Examiner, Varanas Hindu University.

He is a member of Academic Syndicate, Sri Lanka Police Academy, Member, Advisory Board, Diploma in International Trade, Institute of Human Resource Advancement, University of Colombo , Member Faculty Board, Faculty of Law, University of Colombo, Member Sri Lanka Bar Council, former Chairman, Information Technology Law Committee of the Sri Lanka Bar Association and Consultative Board, Department of Computer Science and Engineering, Universty of Moratwa, International Bar Association (UK) and Australasia Law Teachers Association.

He recently completed two research projects for call centre employees monitoring a research conduct for Telecommunication Regulatory Commission of Sri Lanka and E-Laws Outcome project for ICTA. He was Legal Consultant to Digital Certificate project for Lanka Clear. Dr. Prathiba contributed a lot to research and publishing articles in various journals and books, locally and internationally.

He has received several research grants such as National Science Foundation Grant, 2008, University of Johannesburg, South Africa, Telecommunication Regulatory Commission of Sri Lanka, Research Grant 2007/2008, World Bank Research Grant on Ph.D programme 2002-2005, University of Queensland travel grant for the World Data Protection Commissioners Conference, Poland 2004, University of Melbourne, Research Grant on Postgraduate Conference 2002 and Australian Research council grant for the Future Researchers 2004. Dr. Prathiba received awards for his significant contribution in his field as well as to the community such as the International Institute of Human Rights scholarship France in 2000. International Bar Association Young Lawyers Award in 2003, San Francisco, California USA Electronic Privacy Information Centre (USA), Privacy in new era (2004) travel grant.

Mr. S.R. Attygalle

Mr. S.R. Attygalle is a Senior Economist of the Central Bank of Sri Lanka and has also served as a Director and Acting Chairman of National Savings Bank and a Director of Shell Gas Lanka Limited. He served as the Director General of Department and Fiscal Policy and the Director General of Department of Public Enterprises of the Ministry of Finance and Planning till the end of 2011.

He is presently a Deputy Secretary to the Treasury. He is also serving as a Director to the Board of Bank of Ceylon, Sri Lanka Ports Authority, Insurance Board of Sri Lanka a member on the Board of Postgraduate Institute of Science, University of Peradeniya and as an observer on the Board of Investments of Sri Lanka.

Mr. Attygalle holds a Bachelor of Science (B.Sc.) Degree in Mathematics from the University of Colombo and a Masters Degree in Economics from Warwick University, United Kingdom.

SENIOR MANAGEMENT AS AT 1ST MAY 2012



Prof. Hareendra Dissabandara
*Acting Director General
Director Capital Market Education and Training*



Dhammika Perera
Director Investigations



Ianthie Jayaratne
Director Finance and Administration



Surana Fernando
Director Corporate Affairs



Chandu Epitawala
Director Surveillance



Vajira Wijegunawardane
*Director Capital Market Development and
Research*



Namal Kamalgoda
Director Supervision



Ayanthi Abeywickrama
Director Legal and Enforcement



Himani Weerasekera
Assistant Director Supervision



Tushara Jayaratne
*Assistant Director External Relations and
Market Development*

MANAGERS AND STAFF

MANAGERS



Left to right: Miss Madhugayanie Balapitiya, Miss Sharmila Panditaratne, Mrs Ruwani Munasinha, Mr Suneth Perera, Mrs Ranmini Jayathilake

STAFF



Left to right: Mrs Prabashini Samarakoon, Miss P M Niroshika Udayanganie, Mr Nimal Kumarasinghe, Mrs Erandathie Waidyasekara, Miss Kumari Siriwardena, Miss Suhadini Wickremasinghe, Mr Rakitha Bandara, Mrs Bimba Gammathige, Miss Buddhinee N Herath, Mr Sugath Alwis



Left to right: Mrs Anula Wijesinghe, Mr Priyantha Herath, Miss Eranga Amarasie, Mrs Sithara Tissera, Miss, Eranga Manthirathna, Mrs Julie AllegaKoen, Mr Anslam Dias, Mrs Aeshini Bandara, Mrs Krishanthi Muthuthantrige, Mr R K Wasantha Sunimal



Left to right: Mr Anura Perera, Mrs Kanchana Kumari, Mr Chandran Nagendran, Mrs. Nisansala Herath, Mrs Gayathri Weerasinghe, Miss Y D Sandamali, Miss Lushanthini Sivaneasharajah, Mrs Dhanesha Rajapura, Mr W Ariyaratna, Miss Rajmi Manatunga



Left to right: Mr D Pathum Niroshana, Ms Sheena Goonaratna, Mrs Ashoka K Dayarathne, Mrs Nishoka Jayathunga, Mrs J K Priyadarshini, Mrs Lakshmi Wickramanayake, Miss Ann Chrisanthi Fernando, Mr Sandaruwan Wijeratne, Miss Thakshila Francis, Mrs Manjula Chandraratne, Mr M Jayasekara



Left to right: Mr. Chinthaka Jayasundara, Miss Christobel Silva, Miss Nuala Thevathasan, Miss Shalini Perera, Mrs Joelene Karunaratne, Mrs Prathibhani Herath, Mr G D Kapila Kumara, Miss Lakshmi Atapattu, Miss Mekhala Jayapala, Mrs Saumi Kodippily, Miss Ranithri Molligoda

Absent: Miss Ruwanganie Gooneratne, Mrs Sajeevani Bakmedeniya, Mr D M G Priyantha, Mr Mahesh Abeysekera, Mrs H K A Chamari Buddhika, Mr M M A Imran, Mr S D Dharmasiri, Mr P W L Piyatissa, Ms P D Pathmarani



A close-up, monochromatic blue-toned photograph of a stone face sculpture. The face is shown in profile, looking slightly upwards and to the left. The texture of the stone is highly detailed, showing cracks and weathering. The lighting creates strong shadows, emphasizing the contours of the nose, lips, and forehead. The background is blurred, showing other parts of the sculpture.

Punkalasa

Begun as a tradition where a pot of water with flowers (usually of the coconut palm) and budded twigs are placed in front of a building, this “pot of plenty” the punkalasa is an important feature of the guard stone that indicates success and prosperity.

HIGHLIGHTS OF THE YEAR



The SEC unveiled the capital market development plans



The SEC together with the London Stock Exchange organised the first Sri Lanka Capital Market Day in London



The SEC participated at the 5th "Deyata Kirula" Exhibition in Buttala



A television series titled "Prathilabha" was telecast live on Rupavahini



An Investor Day programme was held in Kurunegala in association with the Colombo Stock Exchange



A two day Capital Market Development Workshop was conducted for market participants



SEC signed a MOU with the Chartered Institute for Securities and Investments UK to conduct the Diploma in Capital Markets jointly



An Investor Day programme was held in Kandy in association with the Colombo Stock Exchange



An Investor Day programme was held in Jaffna in association with the Colombo Stock Exchange



"Investment Day 2011" was held to coincide with the 24th anniversary of the SEC



Mr. Thilak Karunaratne assumed duties as the Chairman of SEC



The SEC conducted an All Island Television Quiz Programme in Tamil medium



The SEC hosted the "Regional Seminar on Risk Management for Securities Regulators" organised by the Asian Pacific Economic Cooperation (APEC) Financial Regulators Training Initiative

MACROECONOMIC OVERVIEW

Economic Output

Despite a volatile and challenging international environment, the Sri Lankan economy in general fared commendably well in 2011. The overall Gross Domestic Product (GDP) grew at 8.3%, the highest annual rate of growth reported in the last six decades, recording a yearend total GDP output figure of Rs. 6,543 billion. This growth rate reflects a fast recovery to a high and sustainable growth path in the Sri Lankan economy. This is a per capita income of US dollars 2,836. As in the previous year, this year's output/income was concentrated in the Western Province which accounted for almost half the country's output. However, other areas especially North and East recorded significant growth in their contributions to overall GDP.

The stellar performance was underpinned by the peaceful domestic environment, which created an environment conducive to investment and expansion in economic activity, increased employment income levels and domestic demand, the development of infrastructure facilities and improved external demand with the gradual recovery in the global economy.

The Sri Lankan economy though still a developing economy, receives almost 59.5% of its output from the Services sector where all capital market activity takes place. In 2011, this sector recorded a significant 8.6% growth according to the Central Bank data. Other two main sectors in the economy namely Agriculture and Industry also performed well contributing their fair share to the overall GDP growth of 11.2% and 29.3% respectively. The stock market and listed companies represent and reflect all these sectors of the economy and it would be fair to say that the

2011 growth in the overall market did fairly mirror that of the economy. The market capitalisation of the CSE represents 33.8 % of the GDP of the country.

Inflation, Interest Rates and Credit

The policy makers managed to maintain inflation at single digit level despite volatility in crude oil and commodity prices. Improvements in Agricultural output also helped supply side inflationary pressure. A steady rupee (except the one off devaluation at the budget in November) contributed to hold the rise of prices of essentials at a reasonable level. However, given the steadily widening trade deficit and currency depreciation by other regional economies, it was inevitable not to expect the Sri Lankan Rupee to come under pressure to depreciate. Throughout most of the year interest rates reflected the movements in inflation but towards the end of the year interest rates saw a gradual rise into mid teens. There were some concerns expressed about rapid credit growth resulting from the low interest rate regime. Credit extension to private sector is said to have amounted to Rs. 2,005 billion in 2011, which is Rs. 515 billion higher than the previous year. As the capital market regulator, SEC was also concerned about excessive credit extensions to the stock market which can create an equity asset bubble and few policy measures were adopted during the year under review to restrict margin lending by stock brokering houses to curtail credit driven speculative buying of shares. SEC will monitor the credit situation and will take further measures when required.

Tourism

Tourism confirmed itself as one of the biggest and the most exciting sectors of the economy with many large international chains committing

themselves to multibillion dollar hotels, shopping malls, apartments and entertainment projects. Tourist arrivals were boosted in February and March 2011 when Sri Lanka co-hosted the Cricket World Cup. The hotel and restaurant subsector grew by 26.4%, reflecting continued growth in tourism. Many local conglomerates and other entrepreneurs also poured large amounts of funds into this sector which is expected to grow steadily in the coming years. This general optimism in the sector was mirrored in the stock market with this particular sector recording the highest Price Earnings. By nature, this sector is capital intensive and obtaining funds through the capital markets is an obvious choice for promoters of projects in the sector. Despite its sensitive and volatile nature to many conditions beyond its control, such as economic downturns, security related issues, crude oil prices etc., the tourism sector represents high risks but great potential for the Sri Lankan economy to attract foreign investment, create jobs and earn foreign exchange. In 2011, Sri Lanka received approximately 855,975 tourists from both traditional European markets as well as emerging markets such as India, China, Middle East and other sources. This sector will continue to be a vital sector for the Sri Lankan economy in general and the stock market in particular.

External Trade and Exchange Rate

External trade rebounded strongly in 2011, due to buoyant activity in the economy and low interest rate driving consumption. Imports soared during the year far exceeding the growth witnessed by the export sector. This brought the rupee under tremendous pressure. Using the country's comfortable reserve position, the Central Bank defended the rupee and propped it up from depreciation.

Further the Balance of Payments was boosted by a record US dollars 5,145 million in foreign remittances as well as nearly US dollars 1,066 million in foreign direct investment inflow. However, maintaining the exchange rate was becoming increasingly untenable. Despite tough economic conditions in the European Union, civil strife in the Middle East and the recession in US markets, Sri Lankan exports did remarkably well to achieve significant growth in almost all categories of exports. This is due to the remarkable resilience, productivity and competitiveness of Sri Lankan manufacturing and products. Further relaxation of restrictions on foreign exchange transactions also helped improve investor confidence and the convertibility of the rupee.

Sovereign risk continues its post-conflict decline. Sri Lanka specific sovereign risk is falling relative to other emerging market economies, as the post-conflict macroeconomic outcomes continue to be favourable. In July, Moody's upgraded the outlook on Sri Lanka's B1 foreign currency sovereign rating to positive from stable taking into consideration an increasingly evident peace dividend reflected in greater macroeconomic and financial stability. Subsequently in July, Sri Lanka successfully issued a US\$1 billion 10-year US-denominated sovereign bond that was more than seven times oversubscribed.

Government Finance, Physical Infrastructure and Deficit

Successive Sri Lankan governments since independence have invested in free education and healthcare but neglected the infrastructure sector. After the civil war ended in 2009 the focus of the government has shifted to the development of physical infrastructure. Many large scale infrastructure projects in the areas of

Ports, Transportation (Expressways) and some power plants were well underway and at various stages of completion. However, this can only be financed mainly through borrowing from external sources both governmental and commercial. In an environment where currency is depreciating, this could create pressure on the country's debt to GDP ratio as well as on the budget deficit by way of increasing interest payments on such financing.

Concluding Remarks

The Sri Lankan economy can expect several years of relatively high growth and improved living standards for its population if the government finances are managed properly and the country's resources are harnessed effectively. Given that a disproportionate amount (nearly 50%) of the national wealth is created in the Western Province, a more equitable distribution of wealth throughout the country and all its people, is not only desirable but essential.

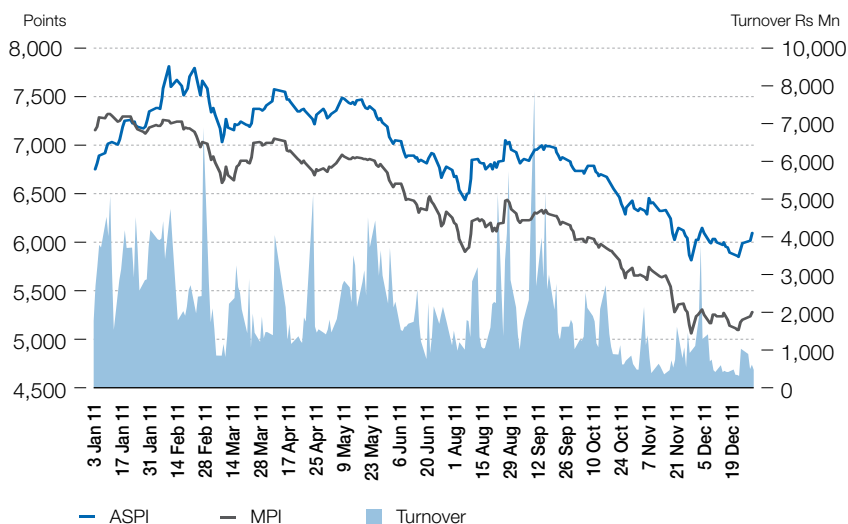
Data Source: Annual Report 2011, Central Bank of Sri Lanka

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The CSE ushered in the year 2011 with optimistic sentiments enthused by active strong retail interest as well as high net worth participation on the back of an outstanding performance recorded in the previous year 2010 when the benchmark All Share Price Index (ASPI) posted a spectacular gain of 96%. The positive sentiment stemming from improved macro-economic indicators propelled the benchmark ASPI to its highest ever level by mid February whilst the CSE became the second best performing stock exchange in the world. At the peak, the market PE stood at a relatively high 29.5 times. The momentum that prevailed during the first two months however could not be sustained.

Uncertainty in the global markets together with domestic market issues disturbed the performance of the Colombo stock market during the rest of the year under review. The share market witnessed heightened volatility during the second quarter and ASPI fell below the psychological support level of 6,000 in July on account of concerns over domestic and international conditions. With the decline of the share market, the SEC relaxed certain risk mitigation rules relating to the issues of price bands and prudential requirements on the extension of broker credit. The third quarter was characterised by more marked volatility of both indices resulting in a sharp downward trend and the ASPI reached 5,052.9 points in November. Non-voluntary sales (forced sales) together with cascading margin calls and investors cashing out on equity portfolios to meet liquidity requirements however attributed to dragging prices further down resulting in the ASPI recording a negative growth of 8.5% for the year 2011. (Figure 01)

Figure 01: ASPI and MPI Vs Turnover 2011



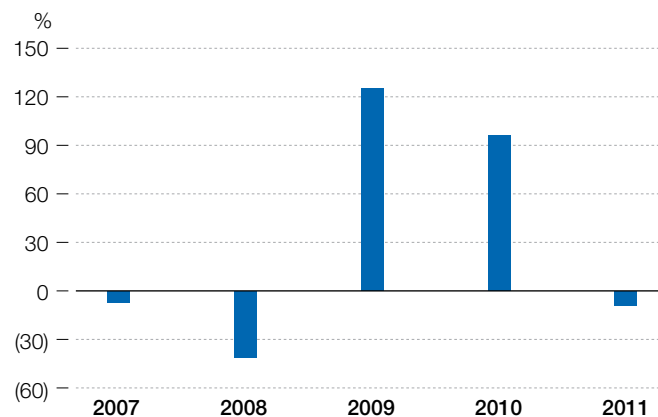
Source: CSE

Performance of the Market Indicators - ASPI and MPI

The broader ASPI commenced the year at 6,635.9 points the ASPI reached a peak of 7,811.8 points on 14th February which reflects a year to date return of 17.7%. The ASPI closed the year at 6,074.4 points which is a drop of 8.5% for the year. The more liquid Milanka Price Index (MPI) comprising 25 listed companies registered a negative growth of 25.9% to close the year at 5,229.2 points. (Figure 02)

In spite of most sectors and companies reporting improved earnings during the year under review, a significant drop was witnessed in market Price-Earnings (PE) ratio and making the Colombo bourse more attractive in terms of value.

Figure 02: ASPI Performance



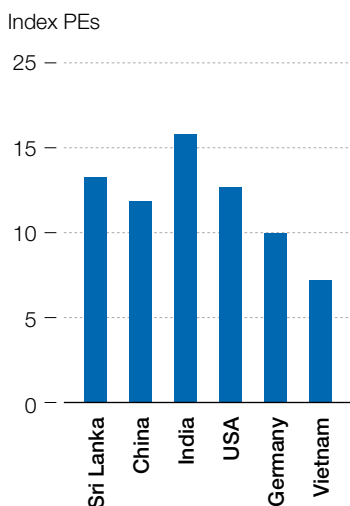
Source: CSE

Market Capitalisation and Price Earnings

The market capitalisation of the CSE registered Rs. 2,213.9 billion at the end of the year 2011, a loss of Rs. 3.4 billion compared to end of 2010. An all time high market capitalisation of Rs. 2.6 trillion was also recorded on 14th February 2011.

Due to the relatively lower share prices and increased earnings reported by virtually all sectors the market witnessed a decline of PE ratio to 15.9 times at the end of 2011 which is considered more rational and attractive compared with a PE of 25.2 times in the previous year. (Figure 03)

Figure 03: Price Earnings Ratios of Regional Markets



Source: Bloomberg data

Primary Market/New Listings

In line with improved economic conditions supported by various capital market liberalisation initiatives, the primary market witnessed a positive trend in the year 2011. There were a series of Initial Public Offerings (IPOs) successfully completed in 2011 with 13 companies obtaining listings

which raised Rs. 19.1 billion as against Rs. 4.3 billion raised through IPOs during the previous year. In addition, 16 companies obtained a quotation on the official list of the CSE by way of an 'Introduction'. The largest IPO at the CSE in 2011 was Peoples Leasing PLC which raised Rs. 7 billion from the public. (Figures 04, 05)

Figure 04: New Listings

No.	Company Name	No of shares Offered	Offer price Rs.	Funds Raised Rs. Mn	Date Listed
1.	Panasian Power Ltd	200,000,000	3.00	600	7 January 2011
2.	Singer Finance (Lanka) Ltd	26,666,667	15.00	400	17 January 2011
3.	HVA Foods Ltd	19,928,598	16.00	319	15 February 2011
4.	Union Bank of Colombo Ltd	15,000,000	25.00	375	29 March 2011
5.	Free Lanka Capital Holdings Ltd	300,000,000	5.00	1,500	18 April 2011
6.	Expolanka Holdings Ltd	172,000,000	14.00	2,408	13 June 2011
7.	Softlogic Holdings Ltd	139,000,000	29.00	4,031	12 July 2011
8.	Vallibel One Ltd	21,311,870	25.00	533	8 July 2011
9.	Browns Investments Ltd	50,000,000	5.00	250	26 July 2011
10.	Textured Jersey Lanka Ltd.	80,000,000	15.00	1,200	9 August 2011
11.	Central Investments and Finance Ltd	40,000,000	10.00	400	18 August 2011
12.	Trade Finance and Investments Ltd	6,000,000	20.00	120	27 October 2011
13.	People's Leasing Co Ltd.	390,000,040	18.00	7,020	24 November 2011
Total				19,156	

Source: CSE

Figure 05: Introductions

No.	Company Name	No.	Company Name
1.	Senkadagala Finance Co Ltd	9.	Associated Motor Finance Co Ltd
2.	Chilaw Finance Ltd	10.	Abans Financial Services Ltd
3.	Swarnamahar Financial Services Ltd	11.	Orient Garments Ltd
4.	The Multi Finance Co Ltd	12.	Lanka Orix Finance Co Ltd.
5.	Commercial Credit Ltd	13.	Nanda Investments and Finance Ltd
6.	Mercantile Investments Ltd	14.	Softlogic Capital Ltd
7.	AMW Capital Leasing Ltd.	15.	Capital Alliance Finance Ltd
8.	Bimputh Lanka Investments Ltd	16.	Entrust Securities Ltd

Source: CSE

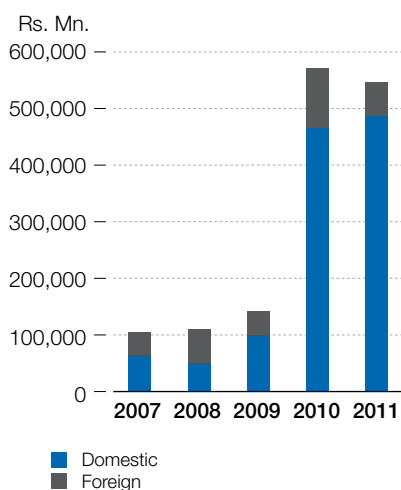
Secondary Market Activity

Market liquidity decreased significantly from the middle of the year largely due to domestic developments and negative sentiments. Decreasing turnover in rupees was partly due to declining share prices. Turnover in the equity market decreased marginally compared to the previous year, the annual turnover amounted to Rs. 546.2 billion down by 4.2% from Rs. 570.3 billion in 2010. Domestic investors have contributed largely towards the annual turnover with 89% and the foreign participation was only 11%. The daily average turnover decreased by 4.6% to Rs. 2,285.6 million in 2011 from Rs. 2,396.3 billion recorded in 2010. The number

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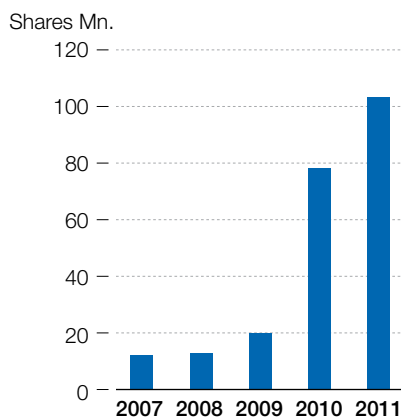
of shares traded increased by 32% to an average of 102.6 million shares traded during the year under review as against an average of 77.6 million shares traded in 2010. A total of 4.5 million trades were executed during this year compared with 3.3 million trades executed last year. (Figures 06, 07)

Figure 06: Annual Turnover Domestic vs Foreign



Source: CSE

Figure 07: Daily Average Shares Traded

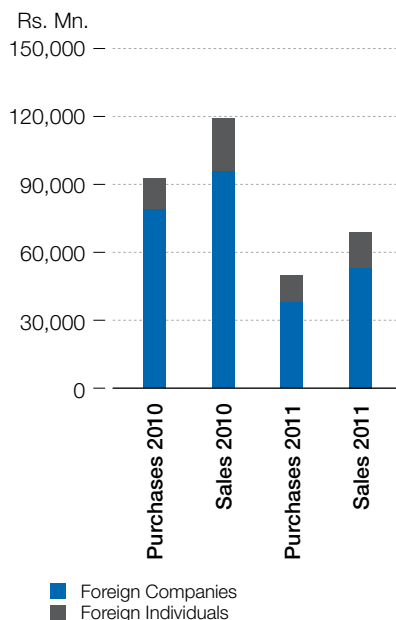


Source: CSE

Foreign Participation

Foreigners remained net sellers for the third consecutive year. Foreign sales recorded for the year was Rs. 68.8 billion higher than purchases of Rs. 49.7 billion resulting in net foreign outflow of Rs. 19.0 billion for the year. However, this net outflow is a decrease from the outflow of Rs. 26.3 billion recorded in the previous year. In 2011, foreign companies dominated 76% of the purchases and foreign individuals accounted only for 24%. However, compared to the previous year's purchases by foreign companies dropped by 52% and individuals down by 10%. This is a clear trend of trading being dominated by local participants. (Figure 08)

Figure 08: Foreign Purchases vs Foreign Sales



Source: CSE

Sector Performance

During the year 2011 under review, price indices of 12 sectors at the CSE reported negative growth compared to the previous year. The highest growth of 26.2% was recorded in the Oil Palm sector. IT and Land & Property sectors appreciated by 24% and 23% respectively. The highest decline of 40% was witnessed in the Plantation sector in the year 2011. (Figure 09)

Figure 09: Sector Index Performance

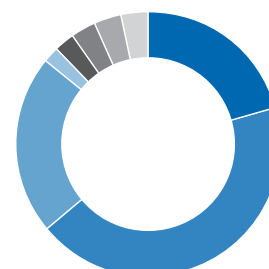
Sector	% Change
Oil Palms	26.21
IT	24.13
Land & Property	23.25
Stores & Supplies	(30.80)
Plantations	(40.86)

Source: CSE

Unit Trust Funds

The net asset value of unit trust funds stood at Rs. 24 billion (approx) as at 31st December 2011. The market share of each unit trust managing company in terms of the net asset value in the year 2011 is reflected below. (Figure 10)

Figure 10: Market Share of Unit Trust Managing Companies



National Asset Management Limited	20.7%
Ceybank Asset Management (Private) Limited	43.4%
NDB Aviva Wealth Management Limited	21.8%
Comtrust Asset Management (Private) Limited	2.0%
Ceylon Asset Management Company Limited	2.6%
Asset Trust Management (Pvt) Limited	3.1%
J B Financial	3.2%
First Capital Asset Management Limited	3.2%

Source: Regulatory submissions by unit trust managing companies

Overall Position of Unit Trust Funds

The comparative statistics on the performance of the unit trust funds during 2011 and 2010 are given below. (Figure 11)

Figure 11: Overall position of Unit Trust Funds

	As at 31 December 2010	As at 31 December 2011	Change %
Number of unit trusts	22	33	50
Net Asset Value of unit trusts (Rs. Mn. approx)	22,228	24,059	8.24
Number of unit holders	24,649	26,636	8.06
Number of units issued (No. Mn. approx)	1,159	1,506	29.94
Investment in Equity (Rs. Mn. approx)	11,349	9,555	(84.19)
Investment in treasury bills (Rs. Mn. approx)	9,289	10,326	11.16
Investment in other instruments* (Rs. Mn. approx)	1,223	4,186	242.27

Source: Regulatory submissions by unit trust managing companies

*commercial papers, trust certificates, debentures and bank deposits

OPERATIONAL REVIEW

REGULATION

We are committed to fostering proactive securities regulation to ensure that the capital market is fair, efficient and transparent and capable of protecting investors.

Licensing and Registrations

To ensure proper conduct of business the SEC grants licences to the stock exchange, stock brokers, stock dealers and managing companies of unit trusts. In addition, Certificates of Registration are granted to Market Intermediaries to carry out their respective functions as investment managers, margin providers, underwriters, credit rating agencies and clearing houses. Details of the licences and registrations granted during the year are given below. (Figure 12)

Figure 12: Licensing and Registration of Market Participants

Market Participant	Licences/ Registrations granted during 2011	Total No. of Licensed/ Registered Entities
Stock Exchanges	-	01
Stock Broking Companies	03	29
Stock Dealers in Equity Securities	02	04
Stock Dealers in Debt Securities	-	03
Managing Companies of Unit Trusts	04	10
Investment Managers	11	25
Margin Providers	11	32
Underwriters	-	10
Credit Rating Agencies	01	03
Clearing House	-	01

Policy Initiatives

Amendments to the Unit Trust Code

The Unit Trust Code was amended and gazetted to enable the SEC to regulate exchange traded funds. An exchange traded fund, is a financial product which reflects a unit trust and tracks a capital market index or the price of gold or any other commodity approved by the Commission. The units of such a fund can be listed on a stock exchange and can be traded at prices equal or approximate to the net asset value of the underlying. The amended Code was gazetted in all three languages in the Gazette Extraordinary No. 1723/4 dated 12th September 2011.

Amendments to the Takeovers and Mergers Code

The proposed amendments to the Takeovers and Mergers Code were finalised during the year. The amendments were spearheaded by Justice Saleem Marsoof PC, Judge of the Supreme Court of Sri Lanka. Many changes have been introduced to the existing Code by the proposed amendments, including inter alia, the following:

- The regulation of indirect takeovers of a listed company through an unlisted company;

- The establishment of a consultative panel to determine on matters coming within the Code in order to make recommendations to the Commission;
- The recognition of Compliance Auditors who will oversee and be responsible for the compliance of the Code by the offeror and a target company; and
- The introduction of 'white wash resolutions' to cure the need of having to make a mandatory offer under certain specified circumstances.

Steps will be taken to gazette the new Code.

Amendments to the SEC Act

The World Bank through FIRST Initiative, (the Financial Sector Reform and Strengthening Arm of the World Bank), is providing technical assistance to the SEC to propose amendments to the SEC Act to provide a robust legal framework as a foundation to develop the capital market. The mission commenced in June 2011. Through the amendments to the SEC Act, the SEC envisages to bring in many changes to the existing Act which will inter alia, include wide powers for the SEC to regulate demutualised stock exchanges, derivative exchanges, clearing corporations, futures brokers, futures dealers, futures fund managers, corporate investment advisers and financial planners in addition to the other market participants already under regulation. In addition, the SEC will be empowered to institute civil actions against capital market offenders in order to disgorge investors who have incurred losses due to their actions. Many consultations were held by the mission with the officials of the SEC and all stakeholders. The position papers on the above amendments that are to be submitted for public consultation were finalised by the end of the year.

Draft Bill to Demutualise the CSE

After the Cabinet of Ministers approved the demutualisation of the CSE by way of a special Act of Parliament, the SEC assisted the Legal Draftsman in respect of the provisions to be included in the Draft Act. The finalisation process of the Draft Bill is in progress.

Clearing House

The draft legal provisions which need to be incorporated into the SEC Act in respect of a clearing house were forwarded to the Securities and Exchange Board of India (SEBI) for their comments. These provisions together with the inclusions suggested by SEBI were submitted for review to the FIRST Initiative Team which will provide further technical assistance in this regard.

Revision of the CSE Listing Rule on Private Placements

The current Listing Rules on private placements by Listed Companies does not adequately protect the rights of the minority shareholders. In many instances, high net worth investors (both institutions and individuals) take advantage of gaining undue profits over the minority shareholders by privately placing shares, at unfavourable prices, without offering them to existing shareholders. The SEC undertook a research on the private placement of shares of Listed Companies and a consultation paper was prepared and circulated to obtain the views of the public with regard to the proposed amendments to the rules.

Revision of the Listing Rule to Suspend Listings by Introduction

A company can be listed within a shorter period of time by an Introduction than through the other two methods of listing. However, companies as well as some of

the investors in the market use this method to manipulate the market forces. The SEC has made recommendations to lock in all the shares held by the promoters and all other shareholders prior to such offer for a period of 09 months from the date of listing of shares on the CSE.

The main objective of this new rule is to minimise the negative impact of the sell-down of shares by the directors/promoters of the company in the secondary market and to create a conducive environment for an efficient price discovery mechanism.

Introduction of Rules for Employee Share Schemes

The SEC together with CSE, reviewed the Employee Share Schemes adopted by Listed Companies and noted that there are no rules or regulations to regulate the Employee Share Schemes except procedural guidelines given in Section 5.6 of the CSE Listing Rules.

After a detailed research carried out by the SEC and the CSE, a consultation paper was prepared and circulated to obtain public comments. After much deliberation and reviewing the comments received from the public, the first draft rules on Employee Share Options Schemes (ESOS) and Employee Share Purchase Schemes (ESPS) were developed and circulated for public comments in December 2010. Based on the public comments, the regulation on ESOS and ESPS were finalised in the year 2011.

Develop a Framework for the Investor Association of Sri Lanka

Most of the companies listed on the CSE are family oriented companies in which the major shareholder/s individually and/or together with other related parties hold more than 75% of the voting rights of

the Listed Company. Under such circumstances minority shareholders encounter difficulties in voicing their concerns over decisions taken by the Board of Directors and/or the major shareholders which can be detrimental to the company as well as minority shareholders.

Although the Companies Act No. 07 of 2007 contains provisions that can provide relief to investors and shareholders, these provisions remain dormant due to limitations caused by the high cost of litigation. In addition, the minority shareholders of Listed Companies in Sri Lanka are unaware of their rights and are unable to obtain redress to their grievances.

The main feature of this Association is that it will be a body corporate having a legal personality which can sue on behalf of investors. The SEC is in the process of drafting the initial framework to establish an association in order to protect the minority shareholder rights.

Guidelines to Classify Companies Listed on the CSE into Industry Sectors

The SEC noted that certain companies listed on the CSE have not been classified according to the core business or the primary revenue generating activity. Considering the advantages available to the market participants by having a proper industry sector classification, the SEC carried out a study in classifying Listed Companies into industry sectors. Based on the study carried out, draft guidelines were formulated and forwarded to the CSE for implementation.

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Revision of the Listing Rules to Introduce New Rules on Regulation of Non-Performing Listed Companies

The SEC observed that regulation of Listed Companies facing serious financial and operational difficulties is vital to maintain a fair and transparent market. A research was carried out on Non Performing Listed Companies and a consultation paper was issued for public comments. The CSE, and the SEC are in the process of drafting the final rules pertaining to the regulation of Non Performing Listed Companies.

Regulation of Market Participants

Automated Trading Rules of the CSE

The New Automated Trading Rules (Version 7) of the CSE were approved during the year.

Stock Broker Rules of the CSE

A revision of the existing stock broker Rules of the CSE was undertaken during the year.

Directives Issued by the SEC

The following directives were issued on the decision of the Commission:

Reduction of the Number of Market Days which Shares could be Subject to the 10% Price Band

A Directive was issued to reduce the period of market days, in which shares of Public Listed Companies would be placed under the 10% price band as a consequence of being captured under a specially designed formula from 15 market days to 10 market days. Subsequently, it was further reduced to 5 market days.

All licenced stock brokers were also mandated to lift the requirement of having to obtain margins to the value of 50% of the price for the purchase of shares within the 10% price band.

Directive in Respect of Share Allotments at Initial IPOs

A directive was issued to the CSE to ensure that entities that make an initial listing application of its shares to the CSE after an IPO allot a minimum of 40% of the offered shares to retail individual investors and a minimum of 10% to growth or balanced unit trusts where such unit trusts comprise of not less than 500 unit holders resident in Sri Lanka who together hold at least 50% of the fund. In the event of an under subscription of one category, the other category is to be given priority. This directive was issued to facilitate the fair allotment of shares to retail individuals and specified unit trusts during an IPO in order to broad base share ownership in the country.

Another directive was issued to the CSE in respect of IPOs over and above the value of Rs 3 billion. Accordingly the CSE was directed to ensure that entities allot a minimum of 40% of the shares or shares to the value of Rs 1.5 billion, whichever is lower, to retail individual investors who have subscribed up to a value of Rs 200,000.

Directive in Respect of the Extension of Time Granted to Stock Brokers to Clear Debtor Balances

Further relief was granted to stock brokers to clear their remaining 50% of the debtor balances over T + 3 in two tiers by 30th September 2011 and 31st December 2011. This was done after the SEC took cognizance of the fact that the majority of the stock broking companies had reduced the risk exposure posed by debtors over T + 3 days by 50% as at 31st March 2011.

Directive in Respect of Extension of Credit by Stock Brokers

A Directive was issued to all licensed stock brokers permitting them to extend credit to investors over T + 3 days based on the computation of liquid assets less obligations, maintaining a leverage at zero level. The stock brokers were further directed to reconcile daily positions taken against the liquid assets and to submit to the SEC, the position of liquid assets less obligations at the end of each calendar month.

Directive to Margin Providers

A Directive was issued on the decision of the Commission to all registered margin providers to ensure that their total exposure to the aggregate value of loans extended as margin does not exceed four times the value of their net capital. Margin providers who are within the regulation of the Central Bank were exempted from this Directive as they have to abide by the requirements of the Central Bank on credit exposure.

Other Regulatory Measures

Susil Gunadasa Illangasinghe and others vs. Monetary Board of the Central Bank of Sri Lanka and others S.C.F.R. Application No: 262/09

Pursuant to an order made by the Supreme Court of Sri Lanka in Case No. SC FR 262/2009, that empowered the Committee of Chartered Accountants to finalise arrangements to accept settlements in liquidating the margin trading facility outstanding in the securities accounts of a certain client of Ceylinco Shriram Capital Management Services Company (Pvt) Ltd, the SEC instructed the CSE to facilitate the implementation of the directions of the Committee of Chartered Accountants with regard to this matter.

Increase in the Share Transaction Levy Rate

SEC instructed the CSE to implement the state tax levy rate at 0.3% in respect of all share transactions with effect from 01st January 2011, as advised by the Director General of the Department of Fiscal Policy, in compliance with the 2011 budget proposals.

Draft Act on Sharing Information among Financial Sector Regulators

The SEC gave its concurrence to the Central Bank in respect of the provisions incorporated in the Draft Act on Sharing Information among Financial Sector Regulators

Administrative Actions

Companies on the Default Board of the CSE

The SEC has been closely monitoring the compliance of companies that are on the Default Board of the CSE which have been referred to the SEC by the CSE.

A Public Listed Company that had been on the Default Board of the CSE since the 1990s for the non-submission of the Annual Reports of the company was issued a Directive to make an announcement to the market explaining its inability to release the Annual Reports to the market as a matter of urgency. After several meetings and notices to the company the audited financial statements for the financial years ended 31st March 1990 to 31st March 2010 were released to the market.

Approvals

Amendments to the Listing Rules of the CSE

Approval was granted to amend Rule 2 of the Listing Rules in respect of the eligibility criteria when listing equity

on the Main Board and the Diri Savi Board. Concessions were also granted to Listed Companies in respect of fees payable to CDS on share transactions.

Approvals Granted to Global, Regional and Country Funds

Upon the recommendation of the CDS the SEC grants approval to global, regional and country funds to invest in shares of companies listed on the CSE. Approval is granted subject to compliance with Exchange Control Regulations, Prevention of Money Laundering Act No. 5 of 2006, Financial Report Transactions Act No.6 of 2006 and the law relating to securities in Sri Lanka. During the year under review approval was granted to 163 global, regional and country funds and name changes of 31 approved funds was acknowledged.

Offers Extended Under the Takeovers and Mergers Code

The Takeovers and Mergers Code of 1995 as amended in 2003 (Code), applies to takeovers and mergers where the offeree is a listed public company. The Code seeks to ensure equal treatment of all share holders of the same class in the company sought to be taken over. The rules of the Code are aimed at ensuring dissemination of sufficient information and advice with adequate time to the shareholders of the target company to enable them to arrive at an informed decision relating to the takeover. We ensure that persons adhere to the provisions of the Takeovers and Mergers Code in the process of acquiring a Listed Company.

Approvals are granted to market announcements, offer documents and independent valuation reports in the takeover process of Public Listed Companies in terms of the Takeovers

and Mergers Code. The Code deals with three types of offers namely Voluntary Offers, Partial Offers and Mandatory Offers. During the year under review the SEC administered 4 Voluntary Offers and 13 Mandatory Offers. Details of offers extended in 2011 under the Takeovers and Mergers Code are provided below. (Figure 13)

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Figure 13: Offers Extended under the Takeovers and Mergers Code in 2011

Offeror	Offeree	Nature of the Offer
Mr. Kulappuarachchige Don Dhammika Perera	Lanka Aluminium Industries PLC	Mandatory Offer
Royal Ceramics (Lanka) PLC and Mr. Kulappuarachchige Don Dhammika Perera	Hayleys PLC	Mandatory Offer
Emagewise (Private) Ltd	Citrus Leisure PLC	Mandatory Offer
Carson Cumberbatch PLC and Bukit Darah PLC	Good Hope PLC	Voluntary Offer
Carson Cumberbatch PLC and Bukit Darah PLC	Indo-Malay PLC	Voluntary Offer
Carson Cumberbatch PLC and Bukit Darah PLC	Selinsing PLC	Voluntary Offer
Carson Cumberbatch PLC and Bukit Darah PLC	Shalimar (Malay) PLC	Voluntary Offer
Aitken Spence Hotels Holdings PLC	Browns Beach Hotels PLC	Mandatory Offer
Investor Access Equities (Pvt) Ltd	Nation Lanka Finance PLC	Mandatory Offer
Melstacorp Limited	Pelwatte Sugar Industries PLC	Mandatory Offer
PCH Holdings (Pvt) Ltd and Mr. Saheedul Hijiry Mohamed Rishan	Orient Garment Limited PLC	Mandatory Offer
Softlogic Capital Limited	Asian Alliance Insurance PLC	Mandatory Offer
Hayleys PLC	Amaya Leisure PLC	Mandatory Offer
Mr. Kulappuarachchige Don Dhammika Perera	Hayleys PLC	Mandatory Offer
Gulf East Finance Limited	Singalanka Standard Chemicals PLC	Mandatory Offer
Navara Capital (Private) Limited	Infrastructure Developers PLC	Mandatory Offer
Melstacorp Limited	Aitken Spence PLC	Mandatory Offer

Approvals under Section 28A of the SEC Act

All public companies seeking listings on the CSE are not allowed to list shares which have been allotted to any person within a period of one year prior to its listing on a stock exchange, unless the prior written approval of the Commission is obtained for that purpose.

In addition to the disclosures required under Circular 02/2010, a new requirement was introduced to lock in for a period of one year, all shares allotted by public companies seeking a listing on the CSE, where such company has allotted shares to any person within the year preceding the date of the application for listing. But companies which had allotted shares on or before 07th February 2011 were exempted from this requirement.

Approval for the application by Nanda Investment Limited under section 28A was granted by the Commission to list the shares allotted during the period of 12 months immediately preceding the date of application to the CSE for a listing.

Approvals under Section 29A of the SEC Act

In terms of Section 29A of the SEC Act, applications relating to issuance of unlisted securities by Listed Companies need to be submitted to the SEC.

Approval of the Commission was granted to Bukit Darah PLC for the capitalisation of reserves by the issue of unlisted 36,070 participating cumulative preference shares and also requested the Company to make relevant disclosures relating to the said issue.

Approvals of Off-the-floor Share Transactions

In terms of Section 28 (1) 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”

Approval was granted for 919 exceptional transfers and 461 gifting of shares during the year under review. The exceptional transfers were in order to facilitate margin trading, fund management, mandatory offers, de-listing and restructuring of entities and portfolios, where beneficial ownership does not change.

OVERSIGHT AND COMPLIANCE

Our supervisory role aims at ensuring that regulated market participants are financially sound and in a position to fulfill their obligations to investors.

Oversight of Listed Companies

All Listed Companies are required to submit Annual Reports within five months from the close of the financial year to their shareholders and the CSE. The SEC reviews Annual Reports of Listed Companies, and communicates with the companies on matters relating to non-compliance.

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

professional standards are maintained. The Annual Reports are reviewed based on the following areas:

- Compliance with CSE Rules, Sri Lanka Accounting Standards (SLAS) and relevant provisions of the Companies Act
- Financial Highlights
- Chairman’s Report
- Corporate Governance Practices
- Report of Directors
- Report of Auditors
- Shareholder and Investor Information
- Financial Data

During the year a focused review was initiated of Interim Financial Statements of Listed Companies. The responses of Listed Companies were extremely positive in this endeavour. Annual Reports of 114 Listed Companies were reviewed during the year and 71 Letters of Comments and a Letter of Warning was issued.

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 the CSE Listing Rules.

Supervision of Market Participants

The SEC monitors and supervises the financial stability and operational viability of licensed/registered market participants through a risk based on-site and off-site supervisory methodology towards strengthening investor protection and building investor confidence in the capital market.

On-site inspection is conducted through an internally developed risk based audit programme. The audit

programme focuses on different risk categories such as prudential, liquidity, financial, credit, legal and operational risk with emphasis on compliance of Market Intermediaries with applicable rules and regulations to strengthen market oversight. Off-site inspection is carried out upon receipt of monthly financial statements, compliance reports and other returns which are required to be submitted to the SEC. This approach of risk based supervision is aimed at detecting companies and activities that could pose a risk of failure and impact the integrity of the capital market.

During the year 2011, the companies in breach of regulatory requirements were required to take necessary steps to ensure compliance within a reasonable time period. Where deemed necessary and prudent, extensions have been granted to comply with applicable rules and regulations. Details of on-site inspections of market participants conducted during the year is given below. (Figure 14)

Figure 14: On-Site Inspections of Market Participants for the Year 2011

Market Intermediaries	No. of Inspections in 2011
Stock Exchange (Matara Branch)	01
Stock Broking Companies	19
Stock Dealers	04
Managing companies of Unit Trusts	01
Investment Mangers	05
Margin Providers	10
Underwriters	02
Credit Rating Agencies	01

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Stock Broking Industry

Due to the rapid growth of credit in the industry, the SEC curbed the extension of credit by stock broking companies during the year 2010. However during the year 2011, the SEC observed that the credit risk exposure of the stock broking companies had improved with regard to credit extension. Accordingly the SEC decided to relax some of the credit rules introduced during the latter part of year 2010. As such credit extension by the stock broking companies was further relaxed subject to certain prudential requirements being met by the licensed stock brokers. Consequently, the SEC issued a new directive in August 2011 which permitted all stock brokers to extend credit to investors over T+3 days based on the computation of liquid assets less obligations maintaining a leverage at zero level.

During the year 2011, the off-site supervision of stock broking companies were reinforced through the Electronic E-filing system and the system is being continuously updated by further modifications to improve its effectiveness.

Total turnover and net profit of the stock broking industry decelerated during the year 2011 compared to year 2010. Comparative statistics on the performance of the stock broking industry is given below. (Figure 15)

Figure 15: Financial Highlights of the Stock Broking Industry

	2011 (Rs.'000)	2010 (Rs.'000)	Change %
Turnover	5,749,765	6,599,034	-13%
Net brokerage	5,522,411	6,263,284	-12%
Operating profit/loss	2,602,612	3,975,966	-35%
Other income	921,809	642,220	44%
Net profit before tax	2,389,061	3,660,906	-35%
Net profit after tax	1,768,246	2,677,250	-34%
Total assets*	10,951,135	13,209,720	-17%
Total liabilities *	4,250,390	6,972,786	-39%
Net capital*	3,346,937	4,467,936	-25%

*As at 31 December 2011/2010

Source: un-audited financial statements submitted to SEC

Unit Trust Industry

In the year 2011 a number of significant initiatives came to fruition in order to develop the unit trust industry. In light of the evolving regulatory framework the SEC took measures to assist the development of the unit trust industry by amending the Unit Trust Code, 2004. Key highlights of the amendment was to facilitate exchange traded funds in Sri Lanka, approving the advertising material published by unit trust managing Companies to be undertaken by the trustee and the level of liquidity to be maintained was reduced to 3% from 5% for open end funds.

In addition, a Directive was issued in lieu of allotment of shares in an IPO, whereby a minimum of 10% of the offered shares of a particular share class must be initially made available for allotment to growth or balanced unit trusts. These steps were aimed at creating and sustaining an environment conducive to the growth of the unit trust industry in Sri Lanka.

During the year 2011 concessions were granted through the National Budget on the removal of taxes and relaxation of exchange control regulations which permit foreign investors to invest in equity and all types of fixed income funds.

Market Intermediaries

On-site and off-site supervision was carried out on margin providers, investment managers, credit rating agencies, underwriters and clearing houses during the year 2011.

As a measure to alleviate the risk exposure, rules applicable to margin providers were amended during the year 2011. However margin providers that are registered with the SEC are required to maintain the margin provider's exposure against the aggregate value of loans extended as margin of a maximum of four times the value of its net capital. These institutions exclude banks and finance companies which are under the purview of the Central Bank of Sri Lanka. This was a reduction from the previous level of ten times of the net capital for margin providers. This limit was reduced to mitigate the risk exposure borne by the margin provider.

Formation of the Margin Providers Association was another important initiative which was undertaken to strengthen the Industry. This initiative will give the margin providers a common platform to raise issues and formulate protocol with a view to developing the industry. Financial highlights of Market Intermediaries are provided below. (Figure 16)

Figure 16: Financial Highlights of Market Intermediaries

Financial Highlights of Market Intermediaries *(Rs.'000)					
	Investment Managers	Margin Providers	Credit Rating Agencies	Underwriters	Total
Revenue	192,193	744,623	35,321	3,780,236	4,752,374
Profit Before Tax	923,607	142,341	(13,303)	1,681,584	2,734,228
Total Assets	14,555,785	6,207,956	194,991	10,256,556	31,215,290
Total Liabilities	3,845,280	4,599,840	28,177	124,594	8,597,893
Net Capital	10,710,504	1,608,116	166,813	10,131,962	22,617,396

* Financial Institutions registered under the Central Bank of Sri Lanka were excluded when deriving the above financial information.

Key Findings through Supervision

Key regulatory concerns encountered through on-site and off-site supervision are given below. (Figure 17)

Figure 17: Key Regulatory Concerns Encountered through On-Site and Off-Site Supervision

Market Participant	Main Regulatory Concerns Identified
Stock Broking Companies	<ul style="list-style-type: none"> • Non compliance with the Minimum Net Capital Requirement • Inadequacy of client funds to settle creditors • Deficiencies identified in Management Information Reporting System(MIRS) and internal controls
Unit Trust Managing Companies	<ul style="list-style-type: none"> • Non compliance with Investment exposure limits of Unit Trust Funds • Non compliance with the minimum liquidity requirement of Unit Trust Funds
Investment Managers	<ul style="list-style-type: none"> • Non segregation of personnel dealing with clients in both Investment Manager and Margin Provider • Non availability of comprehensive Management Information Reporting System (MIRS) • Non segregation in back office/ front office functions
Margin providers	<ul style="list-style-type: none"> • Non availability of a comprehensive Management Information Reporting System (MIRS) to facilitate the Margin Trading function in lieu of portfolio balances for Marginable Securities • Non compliance with single client exposure rules applicable for Margin Providers

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MONITORING AND ENFORCEMENT

The integrity of our capital market is maintained through a combination of surveillance, investigation and enforcement of relevant laws, rules and regulations.

Market Surveillance

The SEC is vested with the responsibility of overall market surveillance of the CSE. The scope of its activities include monitoring market activity that may interfere with the integrity of the price discovery mechanism, front running, insider or related party trading, unethical conduct by brokers or market participants and detecting potential breach of other regulations. Real time monitoring of trading activity is carried out using a state of the art surveillance system and where any suspicious activity is detected appropriate action is initiated by preparing a referral to the Surveillance and Investigations Committee.

In addition, SEC receives referrals from the CSE, which conducts their own parallel independent surveillance activities, complaints from investors or general public, references from other departments of the SEC, regulatory bodies, other Government agencies and also from reports in the media. To enhance the efficacy of the surveillance function, SEC has implemented a comprehensive Automated Market Surveillance System which generates alerts arising out of unusual market movements. The new system stores trading data in-house (including order book data) enabling the SEC to better analyse data, post trading. The market replay function can enact any trading day scenario going back several months. The system is being effectively used for detecting trading aberrations, analysing and identifying cases for further investigation.

A written procedure framework in handling complaints and surveillance referrals was established during the year in order to streamline and

strengthen the surveillance procedure at the SEC. The entire surveillance process/flow chart of the SEC is given below. (Figure 18)

A committee comprising of directors (excluding director surveillance and Investigations) and chaired by the Director General functions at the Secretariat where all referrals submitted by the SEC surveillance and CSE surveillance are thoroughly deliberated. The Committee decisions, upon Commission approval, are referred to the Investigations division for evidence gathering and enforcement division for enforcement action.

The committee proceedings/decisions including dissenting views are minuted and filed for future reference. The objective of institutionalising such a structure and process is to ensure collective decision making, minimise any individual bias and to ensure transparency.

Figure 18: Surveillance/Investigations Structure

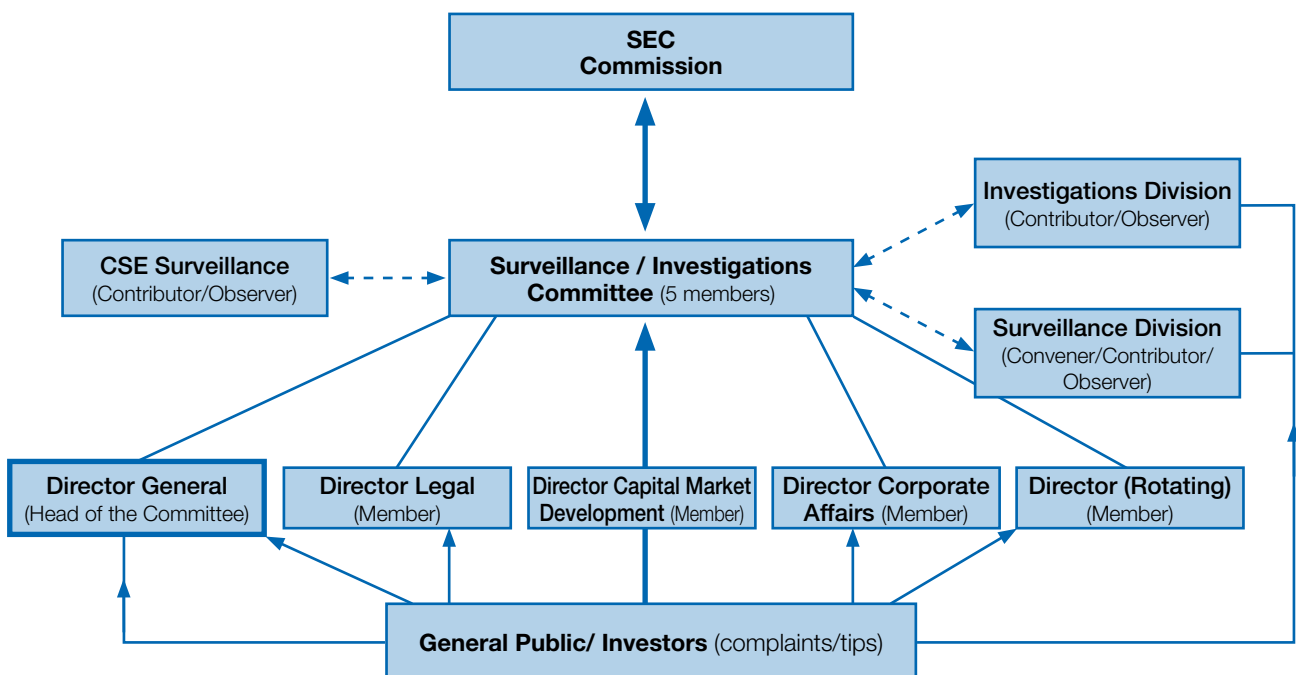
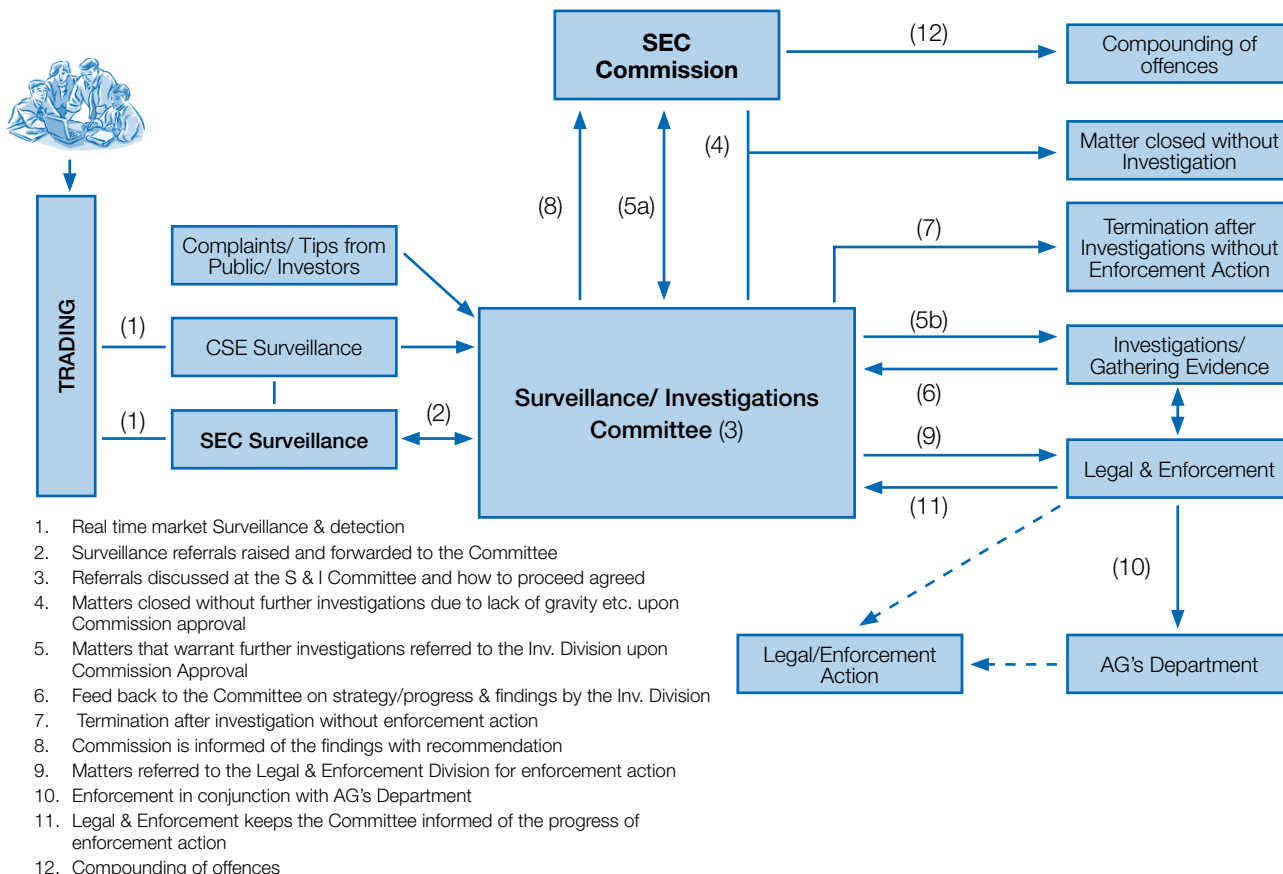


Figure 19: Surveillance/Investigations/Enforcement Process



The investing public may send written complaints with evidence of any market malpractices/violations of the SEC Act, which they are aware of directly to the Committee. Such cases if supported by facts and evidence will be taken to their logical conclusion.

More significantly, the SEC formalised and institutionalised a well thought out structure for the enforcement process. A graphical illustration of the Surveillance/Investigations/ Enforcement Process – flow Chart is depicted above. (Figure 19)

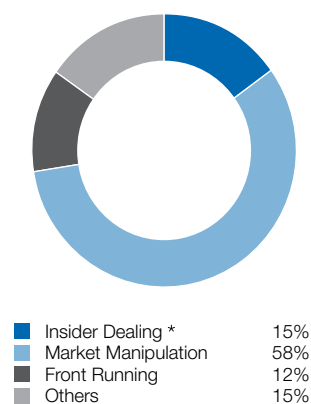
Surveillance Detections

In 2011, various cases of market misconduct were detected. There were 33 possible referrals raised which

were forwarded to the Surveillance and Investigations Committee of the SEC to determine whether such cases warrant further investigation. 15% of the detections reported were possible insider dealing cases, 58% can be categorised as market manipulations, 12% possible cases of front running and the rest of the detections were relating to unfair trading practices by dealer/trader, churning, complaints, rumour verifications, error trades resulting in significant drop in MPI and issues relating to takeovers and mergers Code.

Categorisation of surveillance detections during the year 2011 is depicted in the following figure. (Figure 20)

Figure 20: Surveillance Detections



* all techniques /methods employed by some market participants artificially interfere with price discovery that is not based on genuine demand and supply.

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Investigations

Achieving the SEC's primary objectives of maintaining an orderly and fair capital market and protecting investors calls for an efficient investigations mechanism that conducts swift, unbiased investigations into instances of market misconduct. In keeping with the above, the SEC in the year 2011 continued to carry out investigations into cases of suspected violations of the securities law and recommend appropriate enforcement action in relation to the same, thus fostering high standards of professional conduct and corporate behavior in the market and deterring future transgressions by investors, Listed Companies and Market Intermediaries.

During the year 2011, a total of eighteen investigations were conducted by the SEC out of which two investigations remained suspended throughout the year owing to the reason that the issues relating to the said investigations form the subject matter of pending litigation.

Notices of action were issued to one individual for the commission of market/price manipulation, and to a Listed Company and the directors thereof for failure to immediately disclose certain material information concerning the said Listed Company. Subsequently, having considered the requests made, the offences against the individual in the case of market/price manipulation as well as the offences against the aforesaid Listed Company, the Chairman and the two Executive Directors thereof were compounded. Warning letters were issued to the two Independent Directors of the said Listed Company.

In addition, the SEC warned/cautioned sixteen other individuals in respect of offences committed by them.

Furthermore, cases against four individuals who were charged prior to 2011 following investigations were compounded during the period under review.

The details and a brief description of the action taken/current status of the said investigations are given below. (Figure 21)

Figure 21: Details of Investigations

Nature of the Investigation	No. of Investigations	Action Taken / Current Status
Insider Dealing ¹	2	<ul style="list-style-type: none"> During the year 2011, upon conclusion of an Insider Dealing investigation five individuals were warned. At the end of year 2011 an investigation into suspected Insider Dealing was pending.
Market/Price Manipulation ²	10	<ul style="list-style-type: none"> During the year 2007, the opinion of the Hon. Attorney General was sought to ascertain whether the SEC could conduct an investigation relating to a particular matter whilst there was on-going litigation in connection with the said matter. The Hon. Attorney General advised to suspend the investigation until the finality of pending litigation. Hence the matter was suspended throughout the year 2011. During the year 2011, upon conclusion of a market/price manipulation investigation Notice of Action was issued to the investment advisor who manipulated the market. Subsequently, upon a request made by him the offence was compounded. Five investment advisors and two investors were cautioned upon conclusion of another investigation.
		<ul style="list-style-type: none"> During the year under review, three individuals who had posted messages relating to certain listed companies (which were perceived to be manipulative) were cautioned. At the end of year 2011, seven investigations into suspected market/price manipulation were pending.

Nature of the Investigation	No. of Investigations	Action Taken / Current Status
Business affairs of a Listed Company	01	<ul style="list-style-type: none"> Upon conclusion of an investigation into business affairs of a Listed Company, Notices of Action were issued to the Company concerned as well as the five Directors thereof for failure to immediately disclose material information. Subsequently, having considered the requests made the offences against the Company, the Chairman and the two Executive Directors thereof were compounded. Warning letters were issued to the two Independent Directors.
Non-submission of audited financial statements by a Listed Company	01	<ul style="list-style-type: none"> At the conclusion of an investigation conducted into non-submission of audited financial statements by a Listed Company legal action was instituted against the said entity. At the end of the year under review said litigation was pending.
Complaints	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 pending litigation.
Front Running ³	02	<ul style="list-style-type: none"> At the end of year 2011 two investigations into suspected front running were pending.
Conduct of the Chief Executive Officer of a stock broking firm	01	<ul style="list-style-type: none"> At the conclusion of an inquiry a warning letter was issued to the individual concerned.

¹ 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.

² Creation of a false or misleading appearance in respect of the trading or the price of any securities listed on a stock market.

³ 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.

Complaints

The SEC receives and assesses complaints concerning alleged misconduct in the capital market. The SEC handled 48 complaints and resolved 44 during the year under review.

Enforcement Actions

For the Disclosure of Misleading Information

Notices of Action were sent to a Public Listed Company and its Board of Directors on the direction of the Commission, with regard to certain misleading disclosures and non-disclosures which made the said disclosures made to the market amount to misleading information. Upon an appeal by the company, the Commission compounded the matter on their payment of Rs 3.3 million each by the company and two of its Executive Directors but discharged the two independent Directors with a warning, advising them to be more responsible and vigilant as Directors of a Public Listed Company with regard to the accuracy of any statement made to the market by the company.

For Non compliance with Sri Lanka Accounting Standards

On the direction of the Commission, a Public Listed Company and its Board of Directors were warned for not strictly complying with the Sri Lanka Accounting Standards viz; SLAS 26, SLAS 18, SLAS 40, SLAS 14, SLAS 30 in the preparation of the audited financial statements of the company for the financial years ended 31st March 2009. The company was advised to ensure that Sri Lanka Accounting Standards are complied with when preparing financial statements in the future.

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For the Obstruction of Two Officers of the SEC from Carrying out their Supervisory Duties

A warning was issued to a stock broking company for willfully obstructing two officers of the SEC from discharging their supervisory duties and was further cautioned that the SEC will not hesitate to take stern action against the company for any such conduct in the future.

Caution for Posting Messages in Respect of Listed Shares on an Investment Related Website

Three persons were cautioned for their impugned conduct of posting certain messages on a website relating to the shares of three Public Listed Companies which created an impression in the SEC that it was done with an intention to create an artificial demand for the said shares. They were strongly advised to act more responsibly in future when posting messages on the web in relation to shares listed on the CSE.

Creating an Undue Price Escalation in the Shares of Three Public Listed Companies and Warrants of another Public Listed Company

Letters of Caution were sent to five investment advisors pursuant to the findings of an investigation conducted by the SEC which revealed that a large number of trades pertaining to the shares of three Public Listed Companies and the warrants of another, had been executed by them on behalf of their clients which in turn had contributed to creating an undue price escalation of the said securities during the period 01st July to 3rd August 2010.

Two investors were also advised to be cautious in future to avoid engaging in any securities trading activity that may be perceived as being manipulative.

Suspected Market/Price Manipulation in Respect of the Shares of a Public Listed Company

A Notice of Action was sent to an Investment Advisor pursuant to an investigation conducted by the SEC into certain trades executed by the said investment advisor in respect of the shares of a Public Listed Company which tantamounted to manipulating the price of the shares of the said Public Listed Company. The Commission decided to compound the matter upon an appeal made by the aforesaid investment advisor for a sum of Rs. 3.3 million subject to him being suspended from dealing with clients for a period of nine months.

Suspected Insider Dealing in Respect of the Shares of a Public Listed Company

Five minor employees of a Public Listed Company were warned for trading in the shares of the company as insiders whilst being in possession of unpublished price sensitive information pertaining to an impending rights issue with attached warrants during the period immediately preceding the corporate disclosure by the company.

The Commission inter alia, having taken into consideration the volume of the trades, the small amounts of the profits made by them and the negligible impact their trades had on the market, decided to discharge them from liability by issuing a warning on them upon an appeal made by them to the Commission.

LITIGATION

Cases filed by the SEC for Capital Market Offences

SEC vs. Mr. B.A. Jayasekera and 8 Others

Nine accused in this case were charged in the Colombo Fort Magistrate's Court for alleged market

manipulation in respect of the shares of Nawaloka Hospitals PLC.

The trial is pending in respect of the 9th accused. Earlier the Commission with the permission of the Court and the Attorney General compounded the offence in respect of the 1st, 2nd and 8th accused on their payment of a sum of Rs. 3.3 million each to the Compensation Fund of the Commission and withdrew the charges subject to a severe reprimand in respect of the 3rd accused on the advice of the Hon. Attorney General.

During the year under review the Commission with the permission of the Court and the Attorney General compounded the offence in respect of the 4th and 5th accused on their payment of a sum of Rs 50,000 each and compounded the offence in respect of the 6th and 7th accused on their payment of a sum of Rs 25,000 each.

Cases filed for the Violation of SEC Rules and the Listing Rules of the CSE

Magpek Exports (Private) Limited vs. SEC

The SEC filed charges against the company and its Directors in the Colombo Fort Magistrate's Court for not immediately disclosing certain material information to the market in contravention of the SEC Rules. Charges against three of the accused were compounded in 2001. The Learned Magistrate after summary trial fined 3rd, 4th, 6th and 8th accused, in a sum of Rs.2.5 million each on each count and sentenced them each to a one and a half year prison term, on each count.

The four accused in this case who were convicted, appealed against the judgment of the Learned Magistrate and their sentence to the Provincial High Court. Three of the accused

requested the court to settle this matter by mitigation of sentence. The Provincial High Court since affirmed the judgment of the Learned Magistrate in respect of the 3rd, 4th and 8th accused; but allowed the appeal against the sentence and as a mitigation of sentence fined them Rs. 3 million each on both counts, and set aside the prison sentence. The 6th accused appellant is continuing with his appeal against both the conviction and the sentence. The SEC raised preliminary objections on the appeal of the 6th accused appellant. The High Court upholding the preliminary objections of the SEC, dismissed the appeal of the 6th accused appellant against his conviction; but allowed him to continue with his appeal against the sentence. The 6th accused appellant thereafter filed application to the Supreme Court for Special Leave to Appeal against the Order of the Learned Judge of the High Court and the matter is pending before the Supreme Court.

SEC vs. Miramar Beach Hotels PLC and Others

Charges have been filed in the Magistrate's Court Fort against Miramar Beach Hotels PLC and the Directors of the Company for the non-submission of Annual Reports of the company for the financial years ended 31st March 2008 and 31st March 2009. The matter is pending before Court.

Cases where the SEC was made an Additional Party

NDB vs. Fast Gain International Limited of Singapore

NDB vs. Catana Limited of Bahamas & NDB vs. Anand Prakash Jagaiya of Malaysia

The National Development Bank (NDB) filed three applications in the Commercial High Court seeking the Court's opinion in respect of the beneficial interests accruing to three

shareholders who have bought shares in the Bank but whose names were not entered in the shareholders register on the allegation that they triggered, the restrictions imposed by the Banking Act in respect of public quoted licensed commercial banks. The Bank added the Central Depository Systems (Private) Limited, the SEC and the Attorney General as the 1st, 2nd and 3rd respondents respectively. Two of the shareholders namely, Fast Gain International Limited of Singapore and Anand Prakash Jagaiya of Malaysia moved Court to withdraw the said cases, as a settlement was reached out of court. The case filed by NDB against Catana Limited of Bahamas is pending awaiting settlement.

Touchwood Investments PLC vs. SEC

The SEC by its directive dated 9th March 2007 directed the petitioner company to prepare financial statements for the years ended 31st March 2005 and 2006 on a cost basis in terms of IAS 41. The Company was allowed to deviate from the cost basis in the preparation of financial statements only for periods commencing after 1st April 2006 provided the approval of the Sri Lanka Accounting and Auditing Standards Monitoring Board was obtained in that respect.

This directive was issued consequent to an inquiry carried out by the SEC pursuant to which a decision was obtained from the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) in determining the accuracy and reliability of the financial statements of the company for the years ending 31.3.2005 and 31.3. 2006 which were disseminated to the market. The determination of the SLAASMB was that the financial statements issued for the years ending 31st March 2005 and 2006 were unreliable.

The petitioner Company filed two applications in the Court of appeal against both the SLAASMB and the SEC seeking writs of certiorari quashing both the determination of the SLAASMB and the directive of the SEC.

The Court of Appeal issued a writ of certiorari in favour of the petitioner company quashing the determination of the SLAASMB made against the petitioner company. The SLAASMB has appealed to the Supreme Court against the judgment of the Court of Appeal and the matter is pending before the Supreme Court.

Since the Supreme Court decision will have a bearing on the case against the SEC, the Court of Appeal laid by the case against SEC pending the decision of the Supreme Court in this matter.

CAPITAL MARKET DEVELOPMENT

We constantly appraise and review our policies to ensure that our capital market is a vibrant part of our economy and drive economic growth.

Capital Market Development Initiatives

On the back of relatively stable economic fundamentals and political conditions in the country, the SEC facilitated the following initiatives during the year.

Facilitate the Establishment of a Full Fledged Multi Asset Class Commodities and Derivatives Exchange

The SEC advertised in the international print media calling for expressions of interest (EOI) to set up a multi-asset class commodities and derivatives exchange (the Exchange) and we received submissions from several

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international exchange operators. Proposals were also called for a consultant/consultancy services to provide technical expertise to the Cabinet Appointment Procurement Committee and the Technical Evaluation Committee (TEC) appointed by the Ministry of Finance and Planning. The SEC worked closely with the Department of Public Finance to comply with the terms of the National Procurement Agency guidelines. The Request For Proposals (RFP) for the project was finalised and sent to all respondents to the EOI and detailed proposals are awaited.

Fast Track the Implementation of Delivery versus Payment, a Risk Management System and a Clearing Corporation at the CSE

The SEC expedited improvements to the capital market infrastructure through the setting up of a Central Counter Party and Risk Management Committee made up of senior representation from the SEC and the CSE to fast track the establishment of a Clearing Corporation which was identified as a priority project. A robust risk management system for stock market activity, Delivery vs. Payment mechanism to address asset commitment risk and a Clearing Corporation to address counter party risk are measures currently being worked on for implementation by the CSE.

Facilitate the Introduction of Voice Recording for Broker Dealings

With the aim of maintaining a fair and transparent stock trading environment and strengthening enforcement capabilities, a study was conducted on voice recording practices for broker dealings in the Asian and European regions. Guidelines were proposed for implementation in Sri Lanka.

Facilitate Discussion Forums with Market Participants to Improve and Enhance the Efficiency of the Capital Market Funds Settlement Processes

Discussion forums were held with Investment Banks, IPO Registrars, LankaClear and the CSE to discuss IPO related initiatives to encourage new listings. A new IPO payment mechanism is being designed together with LankaClear and will be finalised after discussions with the Sri Lanka Banks' Association and the CSE, which will shorten the IPO process. A presentation on the best practices for the efficient use of Sri Lanka Interbank Payment System (SLIPS) by LankaClear and discussion forums were organised with stock broker firms, with the objective of enabling and encouraging the wider use of SLIPS in stock market transactions.

Facilitate Foreign Investment to the Stock Market and Showcase the Investment Opportunities in the Capital Market of Sri Lanka

The SEC and the London Stock Exchange (LSE) jointly organised the first Sri Lanka Capital Market Day to showcase the potential investment opportunities in the Sri Lankan capital market. The event was attended by reputed global fund managers and received wide global media coverage.

In addition, the SEC organised an investor forum for Bloomberg clientele in collaboration with Bloomberg UK and jointly with the Sri Lankan High Commission in UK held a forum for the Sri Lankan business community in the UK.

Representations Made to the Ministry of Finance and Planning

- Representations were made to the Ministry of Finance and Planning and to the Central Bank of Sri Lanka to relax the restrictions placed on foreign investments in unit trusts that invested in Government securities. The restrictions were relaxed through a Gazette Notice dated 18th August 2011.
- The SEC made representations to the Ministry of Finance and Planning to facilitate relaxing investment restrictions placed on Private Pension and Provident Funds investing in listed securities.

CAPITAL MARKET EDUCATION AND TRAINING

The SEC provides professional education and training to enhance the knowledge and skills of market professionals, investors, issuers and market institutions. We continuously update and revise our training programmes to make them relevant and ensure hands on knowledge of the market.

Qualification Framework

During the year we continued to implement the qualification framework which is aimed at offering a minimum level of proficiency for trainee investment advisors of stock broking companies whilst assisting practitioners to progress to more advanced qualifications through the development of Continuous Professional Development programmes (CPD). In addition we witnessed an increase in non-industry individuals such as school leavers, undergraduates, and professionals from other sectors joining the Certificate in Capital Markets (CCM) programme.

Considering the dearth of Registered Investment Advisors (RIA) in the industry, SEC introduced a temporary licence for trainee investment advisors titled the “Provisional Status”. This was implemented by a Directive under Section 13 (c) of the SEC Act. Students who are employed in a licensed stock brokering company who have completed the Equity Securities series of the CCM programme and participated in a Mandatory Seminar on “Financial Regulations and Ethics” are eligible to obtain this temporary licence. The said licence is granted only to deal with investors trading in Equity Securities and is valid upto 31st December 2012. During the validity period of the “Provisional Status” the temporary licence holders are required to comply with CPD programme requirements which are necessary to be followed by Registered Investment Advisors.

The SEC continued to conduct special CCM examinations every other month for English medium students since a significant percentage resort to self study and expect to complete the CCM programme prior to the stipulated time frame. However, the majority of Sinhala medium students continued to attend lectures regularly and sit the regular examinations.

VIVA VOCE examinations for the RIA programme were held monthly and on a need basis to facilitate greater number of qualified and skilled Investment Advisors to the securities industry. A synopsis of the CCM and RIA examinations conducted during the year are provided in the following tables. (Figures 22, 23)

Figure 22: Statistical Summary of CCM Examinations

Medium of Instruction	Total Registered Students	Completed Equity Series	Completed Debt Series	Completed Financial Regulations & Ethics	CCM Completed	RIA Completed
Sinhala	260	249	141	155	135	26
English	259	186	142	132	127	42
Total	519	435	283	287	262	68

Figure 23: Synopsis of Examinations Conducted for the CCM and RIA

Programme	Series	No of Exams Conducted during the year	Pass %
Certificate Course in Capital Markets (English Medium)	Equity Securities	6	82%
	Debt Securities	6	84%
	Financial Regulations & Ethics	6	84%
Certificate Course in Capital Markets (Sinhala Medium)	Equity Securities	4	78%
	Debt Securities	2	87%
	Financial Regulations & Ethics	2	78%
Registered Investment Advisor (English Medium)	N/A	11	86%
	N/A	7	81%

Diploma in Capital Markets (DCM)

We completed lectures for the first batch of the DCM during the period under review. Examination on Corporate Finance and Technical Foundations was held during the year and two revision sessions were also arranged to assist students who were unsuccessful at the first attempt. The first revision session was conducted by a local panel of lecturers whilst the second session was conducted by Mr. Richard Fernand, Member, Chartered Institute for Securities Investment (CISI) and the Head of Business School for 7 City Learning, which is the training partner of the CISI.

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The SEC signed a MOU with the CISI, UK to offer the DCM jointly. The CISI which was formed by the London Stock Exchange is UK's largest professional body offering specialised qualifications to practitioners in the British financial industry. This alliance would give the Sri Lankan practitioners the benefit of obtaining an internationally recognized qualification of high standard at an affordable fee. The Diploma will be branded and awarded as the SEC-CISI Diploma in Capital Markets.

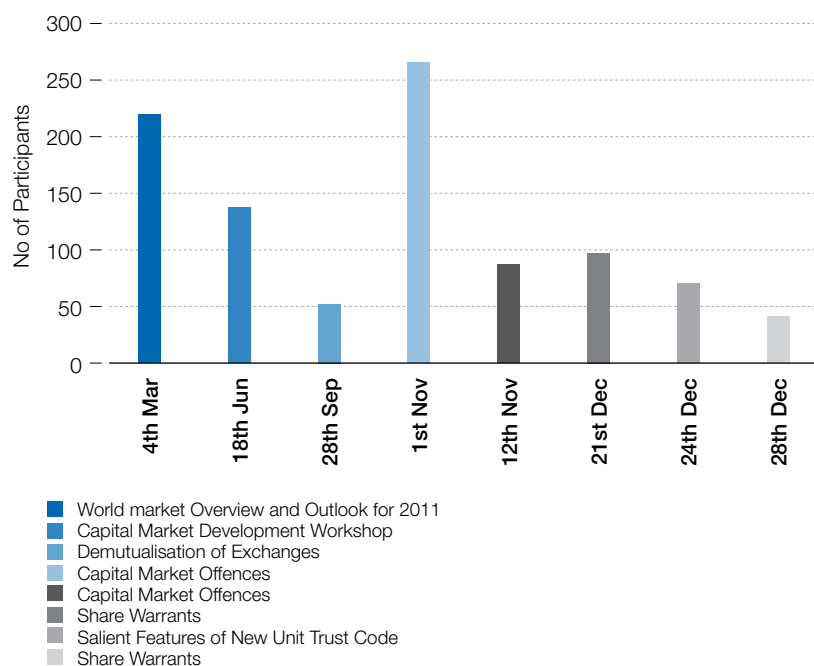
Programmes for Existing and Potential Investors

We conducted programmes for potential and existing investors with the intention of providing them basic theoretical and practical aspects of share trading. Three programmes were held during the period under review. The eight week programme drew large crowds with each group consisting of over hundred participants.

Continuous Professional Development (CPD) Programmes

During the year under review, eight tailor made CPD programmes were conducted for the existing Investment Advisors in the capital market to constantly assess and update themselves with the latest trends in the local and global capital markets. These programmes attracted more than 950 participants which included Chief Executive Officers of stock broking companies, Investment Advisors and industry professionals. The SEC made it mandatory for the industry professionals to participate in at least 2 CPD programmes for a year to renew their trading licences by the CSE. Details of the CPD programmes conducted during the year are given in the following figure. (Figure 24)

Figure 24: Continuous Professional Development Programmes



Gold Medal and Cash Award Project

The SEC continued the Gold Medal and Cash Award Project during the year under review which was initiated with the intention of encouraging undergraduates to study capital market related subjects in the Universities. Under this project, a gold medal and cash prize is awarded to the best performing undergraduate in the area of capital markets in the national universities in Sri Lanka. Memoranda of Understanding (MOU) have been signed with Eleven national universities with regard to the above project.

Among the eleven universities, four universities mentioned below were awarded with gold medals and cash prizes during the year under review.

- University of Kelaniya
- Wayamba University of Sri Lanka
- University of Jaffna
- Eastern University of Sri Lanka

APEC FRTI “Regional Seminar on Risk Management for Securities Regulators” 2011, Colombo Sri Lanka

The SEC hosted the “Regional Seminar on Risk Management for Securities Regulators” organised by the Asian Pacific Economic Cooperation (APEC) Financial Regulators Training Initiative in Colombo. The programme was conducted by 2 resource personnel from the Financial Services Authority (FSA) UK on FSA UK’s Risk Model and framework for securities and prudential regulation with interactive group sessions on the risk management applications used by same. Thirty five foreign participants from 10 countries attended the programme including 25 local participants from the SEC, CSE and the Insurance Board of Sri Lanka.

CAPITAL MARKET AWARENESS

We employ various knowledge building and awareness creating tools and techniques to nurture knowledgeable investors and uplift capital market literacy. Our awareness programmes are designed to cater to various target groups including school children, teachers, undergraduates, professionals and the business community. The following is a glimpse of the various awareness creation activities and initiatives that were executed in the year 2011.

Awareness through Electronic and Print Media

Television Series

Sinhala Television Series

A television series titled “Prathilabha” was telecast live on Rupavahini every Sunday for an hour over a period of 24 weeks to take the capital market to every household in the country. Each programme featured a panel of prominent professionals from the securities and the financial industry, who discussed a wide spectrum of topics ranging from basics of investing in the stock market, to salient features of the capital market in Sri Lanka and unit trusts. Viewers had the opportunity to direct their questions to the panel by connecting live via telephone calls. We received approximately 40,000 responses from viewers for the quiz which was conducted with each programme.

Tamil Television Series

A similar television series in Tamil medium called “Prathilabham” was telecast live on Vasantham TV every Saturday morning for an hour over a period of 11 weeks solely for the benefit of the Tamil speaking audience across the country. The programme comprised of live discussions and interviews.

Capital Market Quiz 2011

An all island inter school Capital Market Quiz programme was held in Tamil medium and telecast on “Vasantham” television station. The programme was meant to impart capital market knowledge among school children and was designed to familiarise the participants with contemporary knowledge on the capital market. All government schools offering G.C.E. Advanced Level Commerce in Tamil medium were invited to nominate a student to take part in the preliminary examination. A student representing Kanagaratnam Madya maha Vidyalaya, Paruthithurai, Jaffna emerged the winner.

Press Article Series

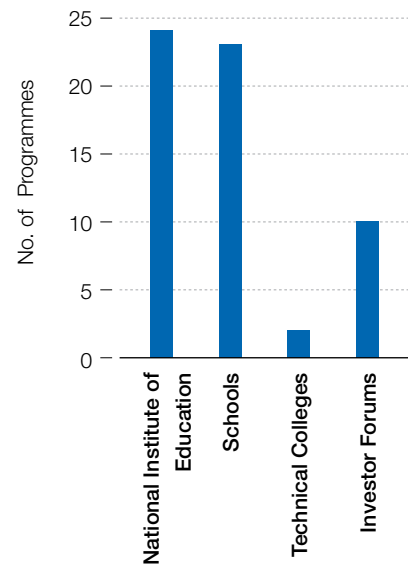
A series of weekly articles about the capital market was published in Sinhalese and English in the Daily Divaina, Lankadeepa, Daily Mirror and Daily Rivira news papers on a continuous basis throughout the year to keep the existing and potential investors constantly updated on various aspects of financial education, latest developments in the capital market, investors' rights and responsibilities as well as the do's and don'ts of investing. In addition it served as a free education tool to create awareness and enhance the knowledge amongst the general public on the capital market in Sri Lanka.

During the year we published approximately 150 articles and in addition, we gave wide publicity to all policy decisions taken by the SEC through the print media.

Awareness through Seminars and Workshops

Seminars and workshops were conducted in different Provinces to provide capital market awareness to identified target groups such as students, teachers, professional bodies and investors with the intension of enhancing their capital market literacy. (Figure 25)

Figure 25: Awareness Initiatives



Investor Day Programmes

In an endeavor to impart capital market knowledge and build awareness across all sections of the society the SEC conducted a series of Investor Day programmes. These programmes were conducted under the slogan “Kotas welenda pola gamata” to familiarize the concept of investing in the securities market. The programmes were well received and featured lectures by prominent professionals from the securities industry, who spoke on a wide spectrum of topics in relation to the capital market in Sri Lanka. Representatives of the SEC, CSE, stock brokers, and unit trust management companies joined hands to make these programmes an ideal platform to assist potential and new investors to open accounts to transact in shares as well as gather information and receive appropriate guidance to making informed investment decisions. (Figure 26)

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Figure 26: Investor Day Programmes



Investment Day 2011

The Investment Day 2011 was held at the Sri Lanka Exhibition and Convention Centre (SLECC) on 22nd October 2011 under the auspices of Hon. Basil Rajapakse, Minister of Economic Development as the Chief Guest to commemorate the 24th anniversary of the SEC. It comprised of an educational exhibition that featured more than 50 stalls including the CSE, several Listed Companies, stock brokers, and unit trust management companies. A series of seminars by eminent professionals from the securities industry, covering a wide spectrum of topics in relation to the capital market were conducted in all 3 languages throughout the day.

In addition the SEC maintained a stall to communicate to the public and the industry, our efforts in fulfilling the goals of investor protection and capital market development. We

also made arrangements to enact the “Open Outcry System” which was used prior to the introduction of the Automated Trading System at the CSE and conducted a “street drama” to demonstrate the role of the capital market. Approximately 15,000 existing/potential investors participated at the event.

Exhibitions and Trade Fairs

The SEC participated at the 5th “Deyata Kirula” exhibition held in conjunction with the 53rd Independence Day celebrations in Buttala from 4th – 10th February 2011. The annual national development exhibition gave us the opportunity to familiarise the rural masses on the capital market and impart knowledge on the benefits of investing in equity and debt instruments in the Sri Lankan securities market.

In addition SEC participated at the trade exhibition organized by the South Eastern University of Sri Lanka in Oluvil in order to build awareness of investment opportunities available in the securities market in Sri Lanka to the general public.

Other Awareness Initiatives

Capital Market Development Workshop 2011

The SEC in association with the CSE, the stock broking companies and the Unit Trust Association of Sri Lanka conducted a two day residential workshop for key personnel of the CSE, stock broking companies, Unit Trust management companies and Market Intermediaries to discuss ways of developing the capital market in Sri Lanka since it is an important determinant of a country’s economic growth. The issues/findings that arose from the deliberations were compiled and made available to all the relevant stakeholders for necessary action.

OUR STRENGTHS

The human resources of the SEC are the most important and valuable asset to accomplish the organisational goals. Our employees are valued, appreciated, respected and nurtured to respond to the emerging market needs and to embrace the applicable best practices and ethics. Integrity is the underlying prerequisite for all categories of staff at the SEC.

Cadre Composition

To face the challenges of the capital market and to discharge the mandate of the SEC effectively we relentlessly search for the best fit to join the SEC team. Accordingly during the year thirteen appointments were made under a very competitive selection process to fill the posts of an Assistant Director, Manager, five Executives and six Non Executives. Ten resignations were also recorded during the year consisting of one Senior Executive, three Executives and six Non Executives. Steps were taken to fill the vacancies including the position of the Director General that became vacant upon his transfer to the Ministry of Finance and Planning.

In recognition of the past performance, long service and good conduct one Senior Executive attached to the Legal and Enforcement division was promoted as Manager Legal and Enforcement, two Executives of the Surveillance division and one Executive of the Finance and Administration division were promoted as Senior Executives in their respective divisions. One Executive Secretary was also promoted as Senior Executive Secretary. Six out of seven Support Staff members were redesignated as Senior Office Assistants and one as an Office Assistant.

Based on a need analysis two positions of the approved cadre were

suppressed and twelve new positions created. Accordingly the cadre details are as follows. (Figure 27)

Figure 27: Cadre Composition

Category	Approved Cadre as at 1.1.2011	Changes during the year		In employment as at 31.12.2011
		Suppressed Positions	Proposed New Creations	
Director General	1	-	-	-
Deputy Director General	1	(1)	-	-
Directors	11	(1)	-	7
Assistant Directors	4	-	1	3
Managers	5	-	3	5
Senior Executives	8	-	-	8
Executives	29	-	6	26
Non Executives	17	-	-	15
Office Assistants	8	-	2	8
Total	84	(2)	12	72

As at 31st December 2011, 72 staff members served the SEC consisting of 25 males and 47 females. The gender, age and the period of service of the staff as at end of the year are depicted in pictorial form below. (Figures 28, 29, 30, 31)

Figure 28: Cadre Information Based on Employee Grade

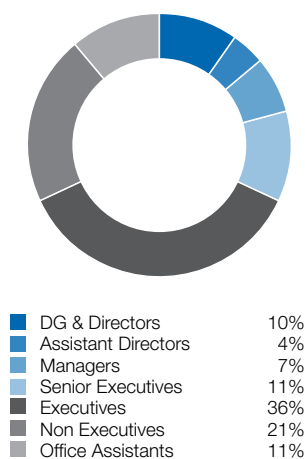


Figure 30: Age Analysis

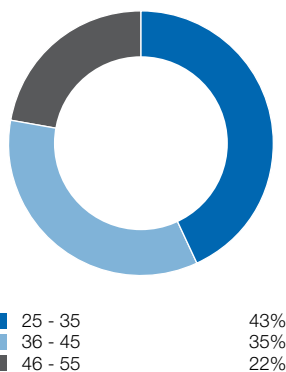


Figure 29: Gender Analysis

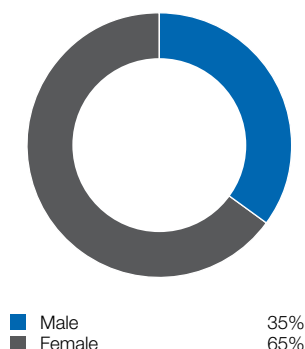
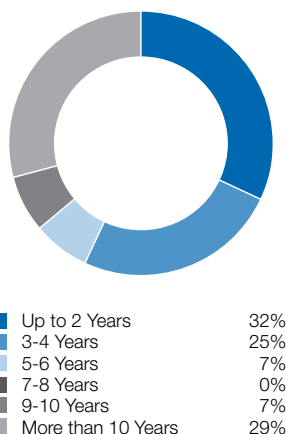


Figure 31: Service Information



Training and Development

Continuous emphasis is placed on developing the staff in technical and other related skills to discharge the mandate entrusted to the SEC effectively and efficiently. A sum of approximately Rs. 12.9 million was invested towards professional development consisting of local and foreign training, sponsorship for higher studies and reimbursement of professional membership fees during the year under review. We extend our appreciation to International Organisation of Securities Commissions (IOSCO), other regulatory agencies, Asia Pacific Economic Cooperation (APEC) etc. for extending very relevant training and awareness opportunities to the staff to keep abreast with the current capital market trends and developments.

During the year under review members of the staff were sent on 24 foreign training programmes to countries in the region and to Japan, Australia, Taipei, United Kingdom and United States of America etc.

In addition the staff also received related local training such as Risk in Financial Services, Structured Finance and Asset Securitisation, Valuation of Businesses, Forensic Auditing to Mitigate Organisational Frauds, Lead without Title, International Financial Reporting Standards, Sri Lanka Economic Summit 2011 and Sri Lanka Emerging Wonder of Asia.

The annual Residential Training programme was designed as an adventure based experimental learning programme focused to enhance team work and to improve inter-departmental networking.

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Staff Welfare

We value the health and welfare of all our employees as imperative to achieve the mandate of the SEC. All our employees are eligible to a range of benefits inter alia: indoor and outdoor medical schemes, flexi timing, vehicle and distress loan schemes, festival advance, educational grants and reimbursement of membership fees of one professional institution.

With the intention of fostering interaction among staff members and their families the SEC organised the Annual Sports Day, Residential Training Programme and the Annual Christmas Party.

Commemoration of 2600 Years of Buddhism

The staff of all ranks immaterial of their beliefs and ideologies sang Bakthi Gee to the public to commemorate the Sambuddhathwa Jayanthi. This event was patronised by the Secretary to the Defense as the Chief Guest and the Secretary to the President as the Guest of Honor. The staff was trained under the able guidance of Visharada Manoj Peiris a renowned musician in Sri Lanka. An interdivisional Vesak Lantern competition was also organised to mark this occasion. These events were a great success and the staff amply demonstrated their talents and team spirit. In addition a Buddhist Monk delivered a sermon to coincide with this event.

Information Technology

During the year the Accounting System was successfully upgraded to Sage Accpac 200 ERP (Enterprise Resource Planning) to facilitate the preparation of the Financial Statements of the SEC, Settlement Guarantee Fund, Cess Fund and Compensation Fund.

During the year under review the SEC website as well as the Capital Market Information Centre (CMIC) and Capital Market Education and Training (CMET) division websites were revamped as a web portal to incorporate changes to the appearance, structure, and content. Steps will be taken in the ensuing year to facilitate the websites in Sinhala and Tamil languages.

International Relations

As a member of IOSCO the SEC has maintained a steady relationship with the Emerging Markets Committee (EMC) of IOSCO. We sent our response to the common approach adopted by IOSCO in respect of the new strategic direction towards EMC Members and responded to a survey conducted by the Chairman's Task Force of the EMC on the main supervisory issues faced by IOSCO member institutions in the medium term.

During the year we responded to detailed surveys on Regulation of Nominee Accounts in Emerging Markets and the Use of Digital Evidence in Investigations in Sri Lanka conducted by the IOSCO Working Groups and Task Forces in order to contribute to its research work on several important aspects related to global capital markets.

Being a signatory of the IOSCO Memorandum of Understanding (MMOU) the SEC has obtained support from foreign jurisdictions in gathering information and documents in relation to ongoing investigations of the SEC. Information was also sought from IOSCO Members through questionnaires on the issuance of unlisted debentures/debt securities by Listed Companies in the form of

dividends, on rules and regulations on having a minimum public float as a continuous listing requirement for Listed Companies and on recording conversations of broker dealings.

An invitation for EOLs and SEC's proposal for the establishment and operation of a fully-fledged Multi-Asset Class Commodities Exchange in Sri Lanka was also circulated amongst all the IOSCO members.

The Capital Market Development Authority of Maldives has proposed a Bilateral MoU with SEC Sri Lanka in order to exchange capital market related information between the two countries and the initial observations of the SEC in respect of the draft MoU were sent to the Capital Market Development Authority of Maldives for their views and comments.

We obtained access to the Global International Financial Reporting Standards (IFRS) Database as a result of the agreement signed between the SEC and IOSCO in 2008. During the year under review the SEC participated in two IFRS Teleconferences organized by the IOSCO General Secretariat.

STATUTORY FUNDS

CESS Fund

In accordance with Sections 14A and 14B of the SEC Act, No 36 of 1987 as amended by Act, No. 26 of 1991, Act, No. 18 of 2003 and Act, No. 47 of 2009 states 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.

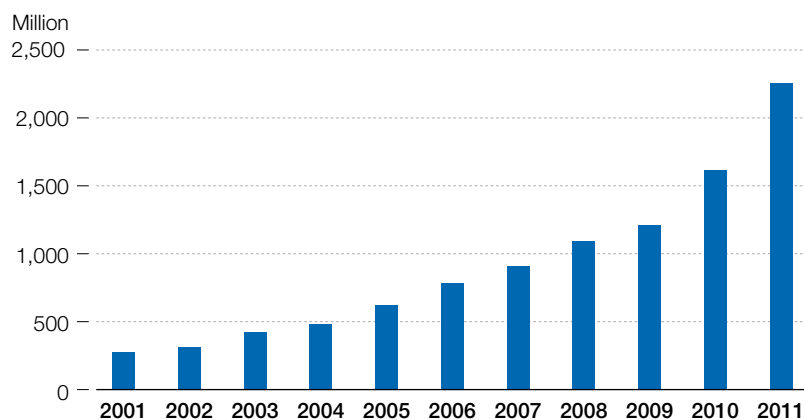
The rate of Cess charged by the SEC after a series of deliberations was reduced for the second time to 0.072% per transaction from 0.09% per transaction with effect from 1 August 2010. Earlier reduction took place with effect from 1 December 2003 when the applicable rate of Cess was reduced from 0.1% to 0.09% per transaction.

Cess on Intraday trades of clients was not charged on one side of transactions since February 2006 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.

Intraday 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 31st December 2011 amounted to Rs.2.2 billion. The growth of the fund during the period 2001-2011 is depicted below: (Figure 32)

Figure 32: Growth of the CESS Fund



The Settlement Guarantee Fund (SGF)

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

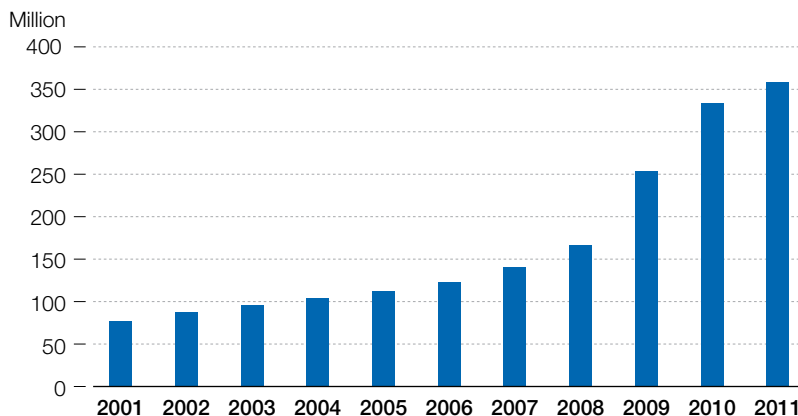
- Ownership of shares traded is transferred no sooner a trade is executed. From 10 December 2007 the CSE adopted a single tier settlement cycle. The buyer is required to pay on T+3 i.e. on the 4th Market day including the day of trading and the seller to receive the settlement on T+3 i.e. on the 4th 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.

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- 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.
- With a view to strengthen the Fund a sum of Rs. 100 million was transferred from the Cess Fund during the years 2009 and 2010. The CSE also have agreed to transfer Rs.100 million in January 2012 after the changes made to the Deed of Trust of the SGF to accommodate such receipts to the fund.
- 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; (Section 51A is on compounding offences).
 - Such sums of money as may be credited from Cess Fund under section 14B.

However, since the SGF is found to be inadequate to properly address the issue of settlement risk the steps are been taken to establish a Central Clearing Corporation to effectively address the settlement risk. The balance lying to the credit of the fund as at 31st December 2011 amounted to Rs. 357 million. The growth of the Fund during the period 2001 and 2011 is depicted in the following graph. (Figure 33)

Figure 33: Growth of the SGF Fund



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 of Sri Lanka 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.

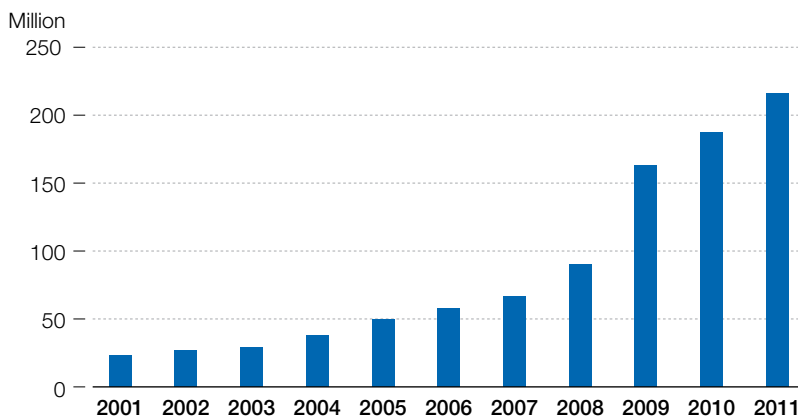
The Minister shall appoint from among the members of the Commission three members who shall comprise the Compensation Committee.

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 31st December 2011 amounted to Rs. 216 million. The growth of the Fund during the period 2001 to 2011 is depicted below. (Figure 34)

Figure 34: Growth of the Compensation Fund



ADDITIONAL INFORMATION

REGISTERED MARKET INTERMEDIARIES

Registered as at 31 December 2011

Registered Market Intermediaries under the category of Margin Provider, Investment Manager and Underwriter are set out below:

Company	Margin Provider	Investment Manager	Underwriter
Acuity Partners (Private) Limited	X	X	X
ADL Capital Limited		X	
ADL Equities Ltd	X		
Asha Financial Services Limited	X		
Asia Asset Finance Limited	X		
Asia Wealth Management Company (Private) Limited		X	
Asset Trust Management (Pvt) Ltd		X	
Assetline Capital (Private) Limited	X		
Bank of Ceylon		X	X
Bartleet Finance Limited	X		
Bartleet TransCapital Limited.		X	X
Capital Alliance Finance Ltd	X		
Capital Alliance Securities (Private) Limited		X	
Capital TRUST Credit (Private) Limited	X		
Capital Trust Wealth Management (Pvt) Limited		X	
Ceylon Guardian Investment Trust PLC			X
Ceylon Investment PLC			X
Cohort Capital (Pvt) Limited		X	
Commercial Bank of Ceylon PLC	X		X
DFCC Vardhana Bank Limited	X		
Divasa Finance Limited	X		
First Capital Asset Management Limited		X	
First Capital Markets Limited.	X		
First Class International Funds		X	
Guardian Fund Management Limited		X	
Hatton National Bank PLC	X		X
Heraymila Financial Services (Pvt) Limited	X		
Horizon Asset Ltd		X	
IIFL Capital Ceylon Ltd		X	
J B Credit (Pvt) Ltd	X		
JB Financial Services (Private) Limited.		X	
Kenaga Investment Corporation		X	
L B Finance PLC	X		
L R Global Lanka Asset Management Company (Private) Limited		X	
Lanka Orix Finance Company Limited.	X		

Company	Margin Provider	Investment Manager	Underwriter
Lexinton Financial Services (Private) Limited	X		
Merchant Bank of Sri Lanka PLC	X	X	X
Nation Lanka Capital Limited	X		
National Asset Management Ltd		X	
National Development Bank PLC	X		X
National Wealth Corporation Limited.		X	
NWS Financial Services (Pvt) Limited	X		
Orion Fund Management (Private) Ltd.		X	
Pan Asia Banking Corporation PLC	X		
People's Leasing Company Limited	X		
People's Merchant Finance Company	X		
Richard Pieris Financial Services	X		
Sampath Bank PLC	X		X
Seylan Bank PLC	X		
Singer Finance Ltd	X		
SKM Lanka Holdings Private Limited		X	
Softlogic Capital PLC		X	
Softlogic Finance Ltd	X		
TKS Securities Private Limited		X	
Union Bank of Colombo Limited	X		
Waldock Mackenzie Limited.	X	X	

Registered Market Intermediary under the category of a Clearing House

Central Depository Systems (Private) Ltd.

Registered Market Intermediary under the category of a Credit Rating Agency

Fitch Ratings Lanka Ltd.

ICRA Lanka Ltd

RAM Ratings (Lanka) Ltd.

ADDITIONAL INFORMATION CONTD.

STOCK BROKERS AND STOCK DEALERS

Licensed Stock Brokers and Stock Dealers as at 31st December 2011.

Company	Stock Broker	Stock Dealer	
		Dealer in Equity Securities	Dealer in Debt Securities
Acuity Stockbrokers (Pvt) Ltd	X		
Arrenga Capital (Pvt) Ltd	X	X	
Asha Phillip Securities Ltd	X		
Asia Securities (Pvt) Ltd	X		
Assetline Securities (Pvt) Ltd	X		
Bartleet Religare Securities (Pvt) Ltd	X		X
Capital Alliance Securities (Pvt) Ltd	X	X	
Capital TRUST Securities (Pvt) Ltd	X		
Claridge Stockbrokers (Pvt) Ltd	X		
CT Smith Stockbrokers (Pvt) Ltd	X		
D N H Financial (Pvt) Ltd	X		
First Capital Markets Ltd	X		X
First Guardian Equities (Pvt) Ltd	X		
Heraymila Securities Ltd	X		
IIFL Securities Ceylon (Pvt) Ltd	X		
J B Securities (Pvt) Ltd	X	X	
John Keells Stockbrokers (Pvt) Ltd	X		
Lanka Securities (Pvt) Ltd	X		
LOLC Securities Ltd	X		
N D B Stockbrokers (Pvt) Ltd	X		
Nation Lanka Equities (Pvt) Ltd	X		
New World Securities (Pvt) Ltd	X		
Richard Pieris Securities (Pvt) Ltd	X		
S C Securities (Pvt) Ltd	X		
SKM Lanka Holdings (Pvt) Ltd	X	X	
SMB Securities (Pvt) Ltd	X		X
Somerville Stockbrokers (Pvt) Ltd	X		
Taprobane Securities (Pvt) Ltd	X		
TKS Securities (Pvt) Ltd	X		

UNIT TRUSTS

The Companies given below have been licensed to operate the unit trusts set out below:

• Ceylon Asset Management Company Limited

- Ceylon Financial Sector Fund
- Ceylon Income Fund
- Ceylon Index Fund
- Ceylon Tourism Fund
- Ceylon IPO Fund
- Ceylon MTI Shariah Fund
- Ceylon Global Compact Sustainability Fund

• Comtrust Asset Management (Private) Limited

- Comtrust Equity Fund
- Crescent i Fund
- Comtrust Money Market Fund

• NDB Aviva Wealth Management Limited

- Eagle Income Fund
- Eagle Gilt Edged Fund
- Eagle Growth and Income Fund
- Eagle Growth Fund

• Ceybank Asset Management (Private) Limited

- Ceybank Century Growth Fund
- Ceybank Gilt Edged Fund (closed end)
- Ceybank Savings Plus Money Market Fund
- Ceybank Surakum
- Ceybank Unit Trust

• National Asset Management Limited

- NAMAL Acuity Value Fund (closed end)
- NAMAL Amana Equity Fund (closed end)
- NAMAL Gilt Edge Fund 1 (closed end)
- NAMAL Growth Fund
- NAMAL Income Fund
- NAMAL Money Market Fund
- National Equity Fund
- NAMAL IPO Fund
- NAMAL High Yield Fund

• First Capital Asset Management Limited

- First Capital Wealth Fund

• J B Financial

- J B Vantage Money Market Fund

• Guardian Acuity Asset Management Limited

- Guardian Acuity Equity Fund
- Guardian Acuity Fixed Income Fund

• Asset Trust Management (Pvt) Limited

- Astrue Gilt - Edged Fund

• Heraymila Capital (Pvt) Limited

- Sri Lanka - Heraymila Capital Growth Fund

FACT SHEET

Year	2007	2008	2009	2010	2011
Annual Turnover (Rs Mn) Equity	104,985.40	110,453.90	142,462.65	570,326.82	546,255.80
Domestic (Rs Mn)	63,815.70	50,796.90	99,010.83	464,733.62	486,959.40
Foreign (Rs Mn)	41,169.70	59,656.90	43,451.82	105,593.20	59,296.40
Market Days (No)	241	238	240	238	239
Daily Average Turnover (Rs Mn) Equity	435.6	464.1	593.6	2,396.33	2,285.60
Shares traded (No Mn) Equity	2,887.30	3,154.90	4,762.70	18,489.19	24,543.70
Domestic (No Mn)	2,009.90	1,934.90	3,784.20	16,684.45	23,151.60
Foreign (No Mn)	877.3	1,220.00	978.42	1,804.74	1,392.10
Trades (No) Equity	876,928	776,244	1,266,299	3,355,126	4,579,352
Domestic (No)	831,663	730,415	1,190,822	3,225,041	4,463,404
Foreign (No)	45,265	45,829	75,477	130,085	115,948
New Listing (No)	-	3	3	10	32
Delisting (No)	2	2	6	1	0
Companies Listed	235	235	231	241	272
Companies Traded	231	232	231	238	265
Market Capitalization (Rs Bn)	820.7	488.8	1,092.10	2,210.45	2,213.90
Market PER year end (Times)	11.6	5.4	16.6	25.16	15.8
Turnover to Market Capitalization (%)	12.7	16.9	18	34.5	24.7
Dividend Yield Year End (%)	2.5	5.6	3	1.16	1.8
Price to Book Value Year End (Times)	1.8	0.8	1.7	2.98	2
Market Cap. As a % of GDP	22.9	11.1	22.6	39.4	34

Price Indices

All Share Price Index (ASPI)	2,541.00	1,503.00	3,385.55	6,635.87	6,074.40
Change %	(6.7)	(40.9)	125.25	96.01	(8.5)
Milanka Price Index (MPI)	3,291.90	1,631.30	3,849.38	7,061.46	5,229.20
Change %	(11.3)	(50.4)	135.97	83.44	(25.9)

Total Return Indices

Total Return Index on ASPI (ASTRI)	2,883.40	1,783.60	3,944.90	7,899.11	7,362.83
Change %	(3.8)	(38.1)	121.18	100.24	(6.79)
Total Return Index on MPI (MTRI)	3,726.80	1,962.50	4,506.24	8,481.73	6,393.00
Change %	(8.6)	(47.3)	129.6	88.22	(24.63)

Non-National Activity

Annual Turnover (Rs Mn)	41,169.70	59,656.90	43,451.82	105,593.20	59,296.40
Purchases (Rs. Mn.)	46,796.80	66,632.20	43,057.32	92,425.53	49,776.80
Sales (Rs. Mn.)	35,542.50	52,681.70	43,846.32	118,760.87	68,816.00
Net Foreign Flow	11,254.30	13,950.50	(789)	(26,335.34)	(19,039.20)
Shares Traded (No. Mn.)	877.3	1,220.00	978.41	1,804.74	1,392.11
Purchases (No. Mn.)	919.8	1,286.20	908.97	1,541.49	1,186.80
Sales (No. Mn.)	834.8	1,153.90	1,047.87	2,067.99	1,597.42
Trades	45,265	45,829	75,477	130,085	115,948
Purchases (No.)	50,518	50,052	69,431	115,071	112,246
Sales (No.)	40,012	41,606	81,523	145,100	119,651

Year	2007	2008	2009	2010	2011
Debt Market					
Corporate Debt					
Turnover (Rs 000)	98,903	102,639.30	136,765	72,288	2,690,664.40
No of Trades	144	27	42	92	62
No of Debentured Traded (000)	1,020	953.5	1,020	693	25,861
Market Cap (Mn)	N/A	N/A	N/A	N/A	N/A
Government Debt					
Turnover (Rs 000)	709,333	195,157.40	98,977	45,673	28,356.80
No of Trades	208	69	42	18	7
No of Debentured Traded (000)	742,736	208,182.60	102,778	46,794	28,912
Unit Trusts					
Net Asset Value (NAV)(Rs. Mn)	6,296	6,780	9,952	22,228	24,059
Unit Holders (No.)	23,191	22,685	23,117	24,649	26,636
Units Issued (No. 000)	469,853	638,112	564,500	1,159	1,506
Investment in Equity (Rs. Mn.)	3,655	2,589	6,036	11,349	9,555
Investment in Treasury Bills (Rs.Mn)	932	2,903	3,363	9,289	10,326
Investment in other Instruments ^{**} (Rs. Mn)	1,709	1,293	1,106	1,223	4,186

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

^{**} Commercial papers, trust certificates, debentures and bank deposits.



Sprouting branch of leaves and flowers

The naga-raja represented in the guard stone is gracefully carved to indicate movement and poise. In one hand he holds the pot of plenty (punkalasa) and in the other a sprouting branch complete with leaves, buds and flowers, which indicate prosperity and security.



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REPORT OF THE AUDITOR GENERAL



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கணக்காய்வாளர் நடைவமை அறிவுறு நிறைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය } EF/J/SEC/2011
துலைவா }
My No }

මගේ අංකය }
உமது இல }
No. }

දිනය } 22 May 2012
திகதி }
Date }

Report of the Auditor General on the Financial Statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2011 in terms of Section 14(2)(c) of the Finance Act, No.38 of 1971

The audit of financial statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2011 comprising the balance sheet as at 31 December 2011 and the income and expenditure statement, statement of changes in reserves and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 13(1) of the Finance Act, No.38 of 1971 and Section 37 (2) of the Securities and Exchange Commission Act, No. 36 of 1987.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Financial Statements

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Securities and Exchange Commission of Sri Lanka as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report to Parliament

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

H.A.S.Samaraweera
Auditor General

අංක 306/72 පොල්දූව පාර,
බත්තරමුල්ල, ශ්‍රී ලංකාව

இல. 306/72, பொல்துவ வீதி,
புத்தரமுல்லை இலங்கை

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BALANCE SHEET

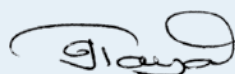
As At 31st December 2011

	Note	As At 31.12.11 Rs.	As At 31.12.10 Rs.
ASSETS			
Non Current Assets			
Property Plant & Equipment	1	61,322,318	55,924,133
Cess Fund	2	34,083,560	29,512,805
Current Assets			
Inventories	4	530,456	650,458
Receivables	5	855,030	1,213,300
Cess Fund	2	2,205,795,838	1,577,421,470
Compensation Fund	3	216,312,628	187,764,653
Deposits, Advance and Prepayments	6	2,512,899	7,557,549
Cash & Cash Equivalents	7	27,691,271	23,778,506
Total Assets		2,549,104,000	1,883,822,874
FUNDS AND LIABILITIES			
Funds Employed And Reserves			
Accumulated Fund	8	12,556,660	15,433,620
Cess Fund	9	2,239,879,398	1,606,934,275
Compensation Fund	10	216,312,627	187,764,653
Non Current Liabilities			
Lease Creditor	11	2,367,534	7,221,071
Grant - Capital Expenditure from Cess Fund	12	52,925,802	41,450,525
Retirement Benefit Obligation	13	14,427,557	13,712,024
Current Liabilities			
Creditors & Accruals	14	5,907,450	5,919,358
Receipts in Advance		3,138,389	2,283,952
Current Portion of Lease Creditor	11	1,588,583	3,103,396
Total Funds and Liabilities		2,549,104,000	1,883,822,874

The Accounting Policies and Notes appearing on pages 69 to 79 form an integral part of the financial statements.

The Members of the Securities and Exchange Commission of Sri Lanka are responsible for the preparation and presentation of these financial statements.

For and On Behalf of The Securities and Exchange Commission of Sri Lanka



Ianthie Jayaratne
Officer-in-Charge/Director Finance & Administration
Securities and Exchange Commission of Sri Lanka



Thilak Karunaratne
Chairman
Securities and Exchange Commission of Sri Lanka

Colombo.
29th February 2012

INCOME AND EXPENDITURE STATEMENT

For The Year Ended 31st December 2011

	Note	Year Ended 31.12.11 Rs.	Year Ended 31.12.10 Rs.
Income			
Broker License Fees		3,605,563	2,208,500
Administration Levy		3,204,082	994,781
Seminar Income - CMET		22,236,085	14,139,969
Seminar Income - SEC		77,657	581,697
Interest Income		-	3,524
Sale of Publications		19,500	14,250
Sundry Income		96,751	114,262
Profit/(Loss) on Disposal of Fixed Assets		1,748,847	326,483
Recognition of Grants	12	11,944,380	10,537,622
		42,932,865	28,921,088
Less:			
Expenditure			
Personnel Costs	15	114,022,626	119,046,552
Administration & Establishment Expenses	16	72,645,015	78,269,278
Capital Market Development Expenses	17	41,098,269	22,435,535
Finance Charges	18	160,908	254,521
		227,926,818	220,005,886
Excess Expenditure over Income		(184,993,953)	(191,084,798)
Transfers from Cess Fund to meet Operational Expenses		192,395,343	195,779,197
Excess/(Deficit) for the year		7,401,390	4,694,399

The Accounting Policies and Notes appearing on pages 69 to 79 form an integral part of the financial statements.

STATEMENT OF CHANGES IN RESERVES*For The Year Ended 31st December 2011*

	Reserves Rs.	Accumulated Fund Rs.	Total Rs.
Balance as at 1st January 2010	-	10,739,221	10,739,221
Excess Expenditure over Income for the year		(191,084,798)	(191,084,798)
Fund Transfer from Cess Fund		195,779,197	195,779,197
Net Surplus/(Deficit) for the period	-	4,694,399	4,694,399
Balance as at 31st December 2010	-	15,433,620	15,433,620
Balance as at 1st January 2011	-	15,433,620	15,433,620
Less: Prior Year Adjustment		(278,350)	(278,350)
Fund Transfer to Cess Fund to Invest in Treasury Bills		(10,000,000)	(10,000,000)
		5,155,270	5,155,270
Excess Expenditure over Income for the year		(184,993,953)	(184,993,953)
Fund Transfer from Cess Fund		192,395,343	192,395,343
Net Surplus/(Deficit) for the period	-	7,401,390	7,401,390
Balance as at 31st December 2011	-	12,556,660	12,556,660

The Accounting Policies and Notes appearing on pages 69 to 79 form an integral part of the financial statements.

CASH FLOW STATEMENT

For The Year Ended 31st December 2011

	Note	2011 Rs.	2010 Rs.
Cash Flows from Operating Activities			
Net Increase (Decrease) after transfers from Cess Fund		7,401,390	4,694,399
Adjustment for			
Depreciation	1	15,081,465	13,301,789
(Profit)/Loss on disposal of Property, Plant & Equipment		(1,748,847)	(326,483)
Recognition of Grant	12	(11,944,380)	(10,537,622)
Provision for Gratuity	13	2,294,733	3,255,050
Net Increase/(Decrease) before working capital changes		11,084,361	10,387,133
Change of Working Capital			
(Increase)/Decrease of Stocks		120,002	(120,556)
(Increase)/ Decrease of Receivable		358,270	53,726
(Increase)/Decrease of Deposits Advances & Prepayments		5,044,650	2,248,673
Increase/(Decrease) of Receipt in Advance		854,437	1,514,106
Increase/(Decrease) of Creditors & Accruals		(11,908)	921,045
		6,365,451	4,616,994
Cash generated from Operating Activities		17,449,812	15,004,127
Gratuity paid during the year		(1,579,200)	(480,000)
Net Cash from Operating Activities		15,870,612	14,524,127
Cash Flows into Investing Activities			
Purchase of Property Plant and Equipment	1	(23,419,657)	(33,571,019)
Fund Transfer to Cess Fund to Invest in Treasury Bills		(10,000,000)	-
Proceeds from Sale of Property Plant & Equipment		4,688,853	2,028,566
Net Cash from Investing Activities		(28,730,804)	(31,542,453)
Cash Flows from Financing Activities			
Capital transfer from Cess Fund	12	23,419,657	26,651,019
Increase /(Decrease) in Finance Lease		(6,368,350)	2,149,968
Net Cash from Financing Activities		17,051,307	28,800,987
Net Increase/ (Decrease) in Cash and Cash Equivalents		4,191,115	11,782,661
Cash and Cash Equivalents at beginning of period (Note a)		23,500,156	11,995,845
Cash and Cash Equivalents at end of period (Note b)		27,691,271	23,778,506
Note (a)			
Cash and Cash Equivalents at beginning of period			
Cash at Bank		23,738,506	11,955,845
Cash in Hand		40,000	40,000
Less: Prior Year Adjustment		(278,350)	-
		23,500,156	11,995,845
Note (b)			
Cash and Cash Equivalents at end of period			
Cash at Bank	7	27,651,271	23,738,506
Cash in Hand	7	40,000	40,000
		27,691,271	23,778,506

The Accounting Policies and Notes appearing on pages 69 to 79 form an integral part of the financial statements.

CESS Fund**CASH FLOW STATEMENT**

For The Year Ended 31st December 2011

	2011 Rs.	2010 Rs.
Cash Flows from Operating Activities		
Net Increase of Cess Fund	632,945,123	403,470,077
Net Increase before Working Capital changes	632,945,123	403,470,077
Change of Working Capital		
(Increase)/Decrease of Staff Loans	(4,573,091)	(1,898,882)
(Increase)/Decrease of Receivables	4,391,217	(2,936,491)
(Increase)/Decrease of Interest Receivable on Treasury Bills	33,336,003	7,748,029
(Increase)/Decrease of Capital Gain Receivable from State Institutions Surplus Trust Fund	21,382,804	(24,293,958)
(Increase)/Decrease of Rent Deposit	(538,140)	(1,614,420)
	53,998,793	(22,995,722)
Net Cash from Operating Activities	686,943,916	380,474,355
Cash Flows into Investing Activities		
Invested in State Institutions Temporary Surplus Fund	(116,465,766)	180,768,868
Investment in Treasury Bills	(566,025,248)	(562,469,010)
Net Cash from Investing Activities	(682,491,014)	(381,700,142)
Net Increase/(Decrease) in Cash and Cash Equivalents	4,452,902	(1,225,787)
Cash and Cash Equivalents at beginning of period (Note c)	550,444	1,776,231
Cash and Cash Equivalents at end of period (Note d)	5,003,346	550,444
Note (c)		
Cash and Cash Equivalents at beginning of period		
Cash at Bank	(1,559,556)	(16,903,769)
REPO Investments	2,110,000	18,680,000
	550,444	1,776,231
Note (d)		
Cash and Cash Equivalents at end of period		
Cash at Bank	5,003,346	(1,559,556)
REPO Investments	-	2,110,000
	5,003,346	550,444

The Accounting Policies and Notes appearing on pages 69 to 79 form an integral part of the financial statements.

Compensation Fund**CASH FLOW STATEMENT**

For The Year Ended 31st December 2011

	2011 Rs.	2010 Rs.
Cash Flows from Operating Activities		
Net Increase of Compensation Fund	28,547,974	24,867,290
Net Increase before Working Capital changes	28,547,974	24,867,290
Change of Working Capital		
(Increase)/Decrease of Interest Receivable on Treasury Bills	1,203,771	5,250,167
	1,203,771	5,250,167
Net Cash from Operating Activities	29,751,745	30,117,457
Cash Flows into Investing Activities		
Investment in Treasury Bills	(29,748,342)	(30,126,797)
Net Cash from Investing Activities	(29,748,342)	(30,126,797)
Cash Flows from Financing Activities	-	-
Net Increase/(Decrease) in Cash and Cash Equivalents	3,403	(9,340)
Cash and Cash Equivalents at beginning of period (Note e)	85,312	94,652
Cash and Cash Equivalents at end of period (Note f)	88,715	85,312
Note (e)		
Cash and Cash Equivalents at beginning of period		
Cash at Bank	59,943	68,282
Call Deposits	25,369	26,370
	85,312	94,652
Note (f)		
Cash and Cash Equivalents at end of period		
Cash at Bank	63,346	59,943
Call Deposits	25,369	25,369
	88,715	85,312

The Accounting Policies and Notes appearing on pages 69 to 79 form an integral part of the financial statements.

ACCOUNTING POLICIES

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Statement of Compliance

The financial statements of the Securities and Exchange Commission of Sri Lanka have been prepared in compliance with the Sri Lanka Accounting Standards and are in compliance with the said standards. With a view to converging towards International Financial Reporting Standards (IFRS) the policy of depreciation was changed to recognize the economic useful life time of the asset.

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 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous year.

1.6 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.

In line with converging towards International Financial Reporting Standards(IFRS) /Sri Lanka Financial Reporting Standards (SLFRS) the Motor Vehicles (except Leased Vehicles), Office Equipment & EDP Equipment and Training Equipment were depreciated taking into consideration the economic useful life time of the asset applying the following rates.

Motor Vehicles	10.00%
Leased Motor Vehicles	25.00%
Furniture, Fixtures and Fittings	12.50%
Office Equipment & EDP Equipment	20.00%
Training Equipment	20.00%

Depreciation is provided for all assets purchased from the date 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 SEC 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 statement whilst the payments of lease rental are recognized to reduce the lease liability.

As part of the remuneration package the Assistant 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 license and maintenance. The SEC will also pay the cost of insurance to the extent of the lease entitlement. 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.

ACCOUNTING POLICIES CONTD.

2.3 Investments

Government Securities 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.

As a policy Library Books are written off since the Capital Market related Laws and rules are subject to rapid changes due to the fast changing market conditions in the world.

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 employees of the SEC are members of the Employees' Provident Fund and Employees' Trust Fund to which SEC contributes 12% and 3% respectively of such employees' basic salary.

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 1st January 2011	25,952,400	23,603,603	57,860,358	3,722,595	16,200,000	127,338,956
Additions during the Year	6,622,786	383,289	16,152,077	261,505	-	23,419,657
Disposals during the year	(850,000)	-	(1,457,182)	-	(3,920,000)	(6,227,182)
Balance as at 31st December 2011	31,725,186	23,986,892	72,555,253	3,984,100	12,280,000	144,531,431
Accumulated Depreciation						
Balance as at 1st January 2011	16,013,619	10,508,547	35,010,535	3,164,207	6,717,915	71,414,823
Depreciation Charge for the Year	1,437,779	2,839,435	7,442,241	224,927	3,137,083	15,081,465
Accumulated Depreciation on						
Disposal of Assets	(850,000)	-	(1,457,175)	-	(980,000)	(3,287,175)
Balance as at 31st December 2011	16,601,398	13,347,982	40,995,601	3,389,134	8,874,998	83,209,113
Written Down Value						
As At 31st December 2011	15,123,788	10,638,910	31,559,652	594,966	3,405,002	61,322,318
Written Down Value						
As At 31st December 2010	9,938,781	13,095,056	22,849,823	558,387	9,482,085	55,924,132

	Note	2011 Rs.	2010 Rs.
2. CESS FUND INVESTMENTS AND OTHERS			
Non Current Assets			
Staff Loans		18,477,500	14,444,885
Rent Deposits		15,606,060	15,067,920
		34,083,560	29,512,805
Current Assets			
Invested in State Institutions Temporary Surplus Fund		476,721,158	360,255,392
Investment in Treasury Bills		1,601,032,179	1,035,006,931
		2,077,753,337	1,395,262,323
Staff Loans Receivable within 12 months		4,347,167	3,806,691
Withholding Tax Receivable		400,341	400,341
Interest Receivable on Treasury Bills		113,402,892	146,738,895
Cess Receivable		1,977,601	6,368,818
Capital Gain Receivable-State Institutions Temporary Surplus Fund		2,911,154	24,293,958
Balance at Bank		5,003,346	550,444
		128,042,501	182,159,147
		2,205,795,838	1,577,421,470
Total Assets		2,239,879,398	1,606,934,275
Liabilities			
Other Payable		-	-
		2,239,879,398	1,606,934,275

NOTES TO THE FINANCIAL STATEMENTS CONTD.

	Note	2011 Rs.	2010 Rs.
3. COMPENSATION FUND INVESTMENT AND OTHERS			
Assets			
Investment in Treasury Bills		204,638,604	174,890,261
Current Assets			
Withholding Tax Receivable on Call Deposit		72,445	72,445
Interest Receivable on Treasury Bills		11,512,864	12,716,635
Investment in Call Deposits		25,369	25,369
Balance at Bank		63,346	59,943
		11,674,024	12,874,392
Total Assets		216,312,628	187,764,653
4. INVENTORIES			
Stock of Stationery, Stamp & EDP Consumables		523,562	647,918
Stock of Publications		6,894	2,540
		530,456	650,458
5. RECEIVABLES			
Sundry Debtors Including Debit Notes		129,631	518,335
With Holding Tax Receivable		5,399	5,399
Staff Recoveries		-	24,566
Festival Advances		720,000	665,000
		855,030	1,213,300
6. DEPOSITS, ADVANCES & PRE-PAYMENTS			
Safe Vault Deposit - Bank of Ceylon		31,336	31,336
Fuel Deposit		60,000	60,000
Deposit for Vehicle Maintenance		500	500
Deposits with Telecom Ltd		42,125	42,125
Deposits with Dialog		3,500	2,000
Frosty-Hot & Cold Dispenser		28,000	28,000
Employer Federation of Ceylon		19,993	19,993
LT Deposit-Case No. 01/347/202		-	329,607
Advance Payment to Millenium IT on Surveillance System		-	5,195,736
Advances to Suppliers		2,327,445	1,848,252
		2,512,899	7,557,549

	Note	2011 Rs.	2010 Rs.
7. CASH			
Cash at Bank		27,651,271	23,738,506
Cash in Hand		40,000	40,000
		27,691,271	23,778,506
8. ACCUMULATED FUND			
Balance at the beginning of the period		15,433,620	10,739,221
Less: Prior Year Adjustment		(278,350)	-
Fund Transfer to Cess Fund to Invest in Treasury Bills		(10,000,000)	-
Net Surplus/(Deficit) for the period		7,401,390	4,694,399
Balance at the end of the period		12,556,660	15,433,620
9. CESS FUND			
Opening Balance		1,606,934,275	1,203,464,198
Add Cess Received during the year		673,005,097	753,879,581
Interest on Investment & Others		162,980,420	173,967,984
Capital Gain from the State Institutions Temporary Surplus Fund		2,911,154	24,293,958
Fund Received from SEC to Invest in Treasury Bills		10,000,000	-
		2,455,830,946	2,155,605,721
Less Transfers to Operational & Capital Expenditure-SEC		215,815,000	222,430,216
Fund Transfer to Consolidated Fund		-	276,078,129
Fund Transfer to Settlement Guarantee Fund		-	50,000,000
Expenses-Bank Charges		136,548	163,101
		215,951,548	548,671,446
Closing Balance		2,239,879,398	1,606,934,275
10. COMPENSATION FUND			
Opening Balance		187,764,653	162,897,363
Compounding Fees Received During the Year		13,875,000	7,600,000
Add : Interest on Investment - Treasury Bills		14,679,356	17,277,078
		216,319,009	187,774,441
Less: Bank Charges & Debit Tax		6,382	9,788
		6,382	9,788
Closing Balance		216,312,627	187,764,653

NOTES TO THE FINANCIAL STATEMENTS CONTD.

	Note	2011 Rs.	2010 Rs.
11. LEASE CREDITOR			
Gross Lease Liabilities		4,573,873	12,375,059
Interest in Suspense		(617,756)	(2,050,592)
		3,956,117	10,324,467
Less: Payable within one Year		(1,588,583)	(3,103,396)
Payable after one Year		2,367,534	7,221,071
12. GRANT - CAPITAL TRANSFERS FROM CESS FUND			
Balance Brought Forward		41,450,526	25,337,129
Transfers During the Year		23,419,657	26,651,019
Less: Transferred to Income for Assets Depreciation		(11,944,380)	(10,537,622)
		52,925,802	41,450,526
Recognition of Grant			
Capital Transfers from Cess Fund		11,944,380	10,537,622
		11,944,380	10,537,622
NOTE			
Recognition of Grant			
Capital Transfer From Cess Fund			
Recognition of Grant in accordance with the SLAS 24 at the following rates.			
Motor Vehicles		10.00%	25.00%
Office Equipment - Electronic Data Processing & Others		20.00%	25.00%
Training Equipment		20.00%	25.00%
Furniture, Fixtures & Fittings		12.50%	12.50%
13. RETIREMENT BENEFIT OBLIGATION			
Balance Brought Forward		13,712,024	10,936,974
Charge for the Year		2,294,733	3,255,050
Gratuity paid during the Year		(1,579,200)	(480,000)
		14,427,557	13,712,024

	Note	2011 Rs.	2010 Rs.
14. CREDITORS AND ACCRUALS			
Telephone, Internet Expenses		343,000	266,141
Electricity		240,000	250,000
Staff Medical Reimbursements		454,252	330,826
Fuel Reimbursement		80,018	28,500
Staff Welfare		89,149	-
Leave Encashment		1,449,482	435,741
Overtime		112,990	125,843
External Audit Fees		400,000	400,000
Internal Audit Fees		107,000	236,340
Public Awareness		2,028,000	2,972,160
Courier Charges		19,755	10,000
Overseas Training Insurance		69,000	-
VAT Payable		119,319	665,958
Stamp Duty Payable		7,750	-
Fuel Expenses		10,130	8,445
Newspapers & Periodicals		10,595	9,475
Incentive Payable-Contract Employees		209,210	
EPF Payable		-	9,780
Trade Tax		-	5,000
Office Upkeep		-	7,350
Other Payable		157,800	157,800
		5,907,450	5,919,359
15. PERSONNEL COSTS			
Staff Salaries		61,295,170	57,451,075
Chairperson's Allowance		789,373	424,808
Overtime		909,622	993,559
EPF & ETF		9,371,515	7,952,477
Staff Gratuity		2,294,733	3,255,050
Bonus		7,618,366	16,082,914
Leave Encashment		1,693,840	640,318
Staff Medical Expenses & Insurance		4,211,638	4,004,285
Personnel Accident Insurance Cover		702,305	476,480
Staff Housing Loan Interest Subsidy		875,977	645,588
Staff Welfare		3,173,907	3,032,284
Executive Subsistence		60,000	53,000
Reimbursement of Fuel - Directors		2,541,366	2,165,022
Directors Vehicle Allowance		3,895,000	3,600,368
Lease Finance Charges		673,380	599,613
Overseas Training and Travelling		10,586,084	14,852,702
Staff Training - Local		1,776,533	1,500,559
Subscription of Membership		333,563	217,024
Sponsorship for Studies*		293,219	942,989
Advertising-Recruitment		550,050	461,112
Interns Allowance		376,985	156,437
		114,022,626	119,507,664

NOTES TO THE FINANCIAL STATEMENTS CONTD.

* Sponsorship for higher studies amounting to a maximum of Rs. 250,000/- is granted to confirmed employees once in three years subject to terms and conditions including a bond to serve SEC for a period of two years upon successful completion of the examination. The cost incurred by the SEC should be reimbursed by the employee in full in the event the employee fails to complete the study course for whatever reason or resignation. Upon successful completion of the examination if the employee fails to serve the bonded period in full the cost incurred by the SEC will have to be reimbursed by the employee for the balance period proportionately.

	Note	2011 Rs.	2010 Rs.
16. ADMINISTRATION & ESTABLISHMENT EXPENSES			
Rent & Car Park Rental		32,821,937	32,461,385
Electricity Charges		2,835,964	2,682,810
Office Upkeep		152,383	215,889
Office Equipment Maintenance & Insurance		1,272,436	1,486,449
Telephone, Internet, E- mail & Web		3,798,417	3,240,183
Motor Vehicle Fuel, Maintenance, License & Insurance		1,721,817	2,341,153
Professional Fees		504,134	1,621,447
Member Fees		1,015,850	336,987
Meeting Expenses		769,903	660,402
Entertainment		488,778	237,530
Cost of Publication		13,788	24,322
Library Books		79,558	195,802
News Papers & Periodicals		141,688	161,391
Printing & Stationery		1,919,601	2,272,483
Travelling Local		224,778	338,556
Insurance- Fire		466,875	484,295
Postage and Stamp Duty		123,290	401,057
Courier Charges		147,538	124,103
Legal Expenses		138,528	588,232
Audit Fees -Internal		390,350	549,698
Audit Fees -External		215,000	400,000
General Expenses		904,384	548,476
Trade Tax		5,000	5,000
VAT Expenses		6,696,669	6,693,798
Nation Building Tax		385,277	404,948
Compensation		329,607	-
Depreciation	1	15,081,465	13,301,789
		72,645,015	71,778,185

	Note	2011 Rs.	2010 Rs.
17. MARKET DEVELOPMENT			
Capital Market and Product Development		7,776,754	1,882,892
Public Awareness Programmes		22,288,565	17,285,117
Seminar Expenses - CMET		4,258,590	3,267,526
International Membership Fees - IOSCO		2,272,500	1,688,720
Publicity and Advertising		1,790,835	1,724,141
Market Surveillance Cost		2,646,336	2,615,781
Investigation Expenses		2,722	1,236
Inspection Expenses		61,967	103
		41,098,269	28,465,516
18. FINANCE CHARGES			
Bank Charges		133,975	146,433
Debit Tax		26,933	108,088
		160,908	254,521

19. TAXATION

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

20. CAPITAL COMMITMENTS

- A sum of Rs. 1,942,857.14 is committed to Cyber Concepts (Pvt) Ltd towards developing, designing and hosting the Securities and Exchange Commission of Sri Lanka, Capital Market Information Centres and Capital Market Education and Training Division Web portal. An advance payment amounting to Rs. 388,571.42 is reflected in the advance and prepayments account in the financial statements.
- A sum of Rs. 857,000/- is committed to Ewis Information Systems Limited to purchase 10 computers.

21. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31.12.2011.

22. EVENTS AFTER THE BALANCE SHEET DATE

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

23. RELATED PARTY DISCLOSURES

Mr Thilak Karunaratne assumed duties as Chairman SEC, on 7 December 2011 and holds office to-date.

The following Members of the Commission held office during the year 2011 to-date.

- Mr D K Hettiarachi
- Mr Lolitha Abeysinghe
- Mr Priyantha Jayawardena
- Mr Mohamed Zuraish Hifaz Hashim
- Mr D Widanagamachchi

NOTES TO THE FINANCIAL STATEMENTS CONTD.

The following Members of the Commission are holding office as stated below.

- Mr B D W A Silva assumed duties on 27 September 2011 as an Ex-officio Member by virtue of him holding office as the Deputy Governor of the Central Bank of Sri Lanka.
- Mr Sujeewa Rajapakse assumed duties as an Ex-officio Member by virtue of him holding office as President Institute of Chartered Accountants of Sri Lanka on 16 December 2011.

The following Members of the Commission resigned as stated below.

- Mrs Indrani Sugathadasa assumed duties as Chairperson SEC on 13 May 2010 and ceased to hold office upon her resignation on 5 December 2011.
- Mr Sujeewa Mudalige's term as an Ex-officio Member of the Commission ceased on 16 December 2011 after completing his term of office as President of Institute of Chartered Accountants of Sri Lanka.
- Mr C P E Gunasingam assumed duties on 17 May 2010 and resigned on 1 December 2011.
- Mr P D J Fernando's term as an Ex-officio Member ceased upon his retirement as the Deputy Governor of the Central Bank of Sri Lanka on 27 September 2011.

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

Name	Name of Related Institution	Relationship
Mr Thilak Karunaratne	Multiform Chemicals (Pvt) Ltd	Managing Director
	Multiform Apparels (Pvt) Ltd	Managing Director
	Far Eastern & European Travels (Pvt) Ltd	Managing Director
	Mercury Agencies (Pvt) Ltd	Chairman
	Settlement Guarantee Fund	Trustee 7.12.2011- to-date
Mr D K Hettiarachchi	Sri Lanka Accounting and Auditing Standards Monitoring Board	Member
	Insurance Board of Sri Lanka	Member
Mr Lolitha Abeysinghe	Chelina Capital Corporation (Pvt) Ltd	Managing Director
	ChelinaNEB (Pvt) Ltd	Managing Director
	Chelina Realty (Pvt) Ltd	Chairman
	Vingrows Business Solutions (Pvt) Ltd	Director
	Akamai Communication Company (Pvt) Ltd	Director
	Hybrid Structures Lanka (Pvt.) Ltd	Director
	Lanka Light Industrial Products Import/Export (Pvt.) Ltd	Director
	Lanka Green Energy (Pvt) Ltd	Director
	Avant Garde Emirates Ltd (UAE)	Advisor
	SAR Embelishment (Pvt) Ltd	Director
	Arades International (Pvt) Ltd	Director
	Orient Holding (Pvt) Ltd	Senior Partner
	ASL Business Solutions	Senior Partner
	Megaputhra (Pvt) Ltd	Director
	Sadisma Hospital (Pvt) Ltd	Advisor
Asia Hospitals (Pvt) Ltd	Advisor	
Mr Priyantha Jayawardena	-	-

Name	Name of Related Institution	Relationship
Mr Mohamed Zuraish Hifaz Hashim	Development Interplan Ceylon Ltd West Asia Trading (Pvt) Ltd	Director Director
Mr D Widanagamachchi	Sri Lanka Telecom Insurance Board of Sri Lanka Settlement Guarantee Fund	Director Member Trustee
Mr Sanjaya kulatunga	Beira Brush Limited Beira Synthetic Pvt Ltd Beira Enviro Solutions Pvt Ltd Amba Research Sri Lanka Odel Limited Expo Lanka Holdings Gold Coin Lanka Six Senses Property Holding Tasz Holding Pvt Ltd	Director Director Director Director Director Director Director resigned 31.5.2011 Director Director
Mr B D W A Silva	Institute of Bankers of Sri Lanka Insurance Board of Sri Lanka Api Wenuwen Api Fund National Payments Council The Quality Assurance Board of ICASL Credit Information Bureau of Sri Lanka	Chairman Member Member of the Board of Management Chairman Member Chairman
Mr Sujeewa Rajapakse	National Development Bank PLC Asian Alliance Insurance PLC Cornucopia Lanka (Pvt) Ltd Lanka Holdings (Pvt) Ltd National Institute of Business Management (NIBM) Post Graduate Institute of Management (PIM) Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)	Non Executive Director 23.02.2011- to date Non Executive Director 07.09.2011 – to date Director Director Member Governing Council Member Board of Management Member

27.09.
2011
to date

The following table depicts the relationships of the Members who ceased to hold office during the year under review.

Name	Name of Related Institution	Relationship
Mrs Indrani Sugathadasa	Insurance Board of Sri Lanka Kalubovitiyana Tea Factory Ltd Settlement Guarantee Fund	Chairperson Director Trustee until 5.12.2011
Mr Sujeewa Mudalige	-	-
Mr C P E Gunasigham	Jaguar (Pvt) Ltd ASG Insurance Brokers (Pvt) Ltd	Director Director
Mr P D J Fernando	The Institute of Bankers of Sri Lanka Credit Information Bureau Board of Management of Api Wenuwen Api Insurance Board of Sri Lanka	Chairman Chairman Board Member Retired on the 27 Board Member September 2011

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

REPORT OF THE AUDITOR GENERAL



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය } EF/J/SGF/2011
My No. }
துலைவா }

මබේ අංකය }
உமது இல }
No. }

දිනය } 23 May 2012
திகதி }
Date }

Report of the Auditor General on the Financial Statements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2011

The audit of financial statements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2011 comprising the balance sheet as at 31 December 2011 and the income and expenditure statement, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 of Sri Lanka Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Financial Statements

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka as at 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report to Parliament

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

H.A.S. Samaraweera
Auditor General

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දුරකථනය } 2887220
தொலைபேசி }
Telephone. }

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#- මෙයවිල }
E-mail. }

Settlement Guarantee Fund**BALANCE SHEET**

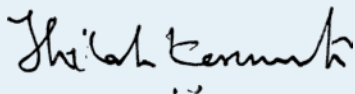
As At 31st December 2011

	Note Rs.	As At 31.12.11 Rs.	As At 31.12.10
ASSETS			
Current Assets			
Investment in Treasury Bills		335,907,084	306,564,174
Receivables	5	21,677,090	25,921,917
Cash at Bank		262,440	311,926
Total Assets		357,846,614	332,798,017
RESERVES AND LIABILITIES			
Reserves			
Capital Grants - Treasury		50,000,000	50,000,000
Grant- Cess Fund		100,000,000	100,000,000
Accumulated Fund		207,133,055	182,309,458
		357,133,055	332,309,458
Current Liabilities			
Payables	6	713,559	488,559
		713,559	488,559
Total Net Assets And Liabilities		357,846,614	332,798,017

The notes appearing on pages 85 to 87 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



Thilak Karunaratne
Trustee-Settlement Guarantee Fund



Surekha Sellaheva
Trustee-Settlement Guarantee Fund

Colombo.
29th February 2012

Settlement Guarantee Fund**INCOME AND EXPENDITURE STATEMENT***For The Year Ended 31st December 2011*

	Note	2011 Rs.	2010 Rs.
INCOME			
Interest on Investments - Treasury Bills		25,099,633	29,562,825
		25,099,633	29,562,825
Less:			
EXPENDITURE			
Audit Fees		225,000	200,000
Other Expenses		51,036	13,654
Total Expenditure		276,036	213,654
Excess Income over Expenditure for the Year		24,823,597	29,349,171

The notes appearing on pages 85 to 87 form an integral part of the Financial Statements.

Settlement Guarantee Fund**STATEMENT OF CHANGES IN NET ASSETS***For The Year Ended 31st December 2011*

	2011 Rs.	2010 Rs.
Accumulated Fund		
Balance at the beginning of the period	182,309,458	152,960,287
Net Surplus for the period	24,823,597	29,349,171
Balance at the end of the period	207,133,055	182,309,458

The notes appearing on pages 85 to 87 form an integral part of the Financial Statements.

Settlement Guarantee Fund**CASH FLOW STATEMENT**

For The Year Ended 31st December 2011

	Note	2011 Rs.	2010 Rs.
Cash Flow from Operating Activities			
Net Surplus for the year		24,823,597	29,349,171
Adjustment for			
Change of Working Capital			
(Increase)/Decrease of Other Receivables	5	4,244,827	8,098,211
Increase/(Decrease) of Other Payables	6	225,000	200,000
		4,469,827	8,298,211
Net Cash Flow from Operating Activities		29,293,424	37,647,382
Cash Flow from Financing Activities			
Receipts from Cess Fund		-	50,000,000
Net Cash Flow from Financing Activities		-	50,000,000
Cash Flow from Investing Activities			
Investment in Treasury Bills		(29,342,910)	(87,355,580)
Net Cash Flow from Investing Activities		(29,342,910)	(87,355,580)
Net Increase/(Decrease) in Cash and Cash Equivalents		(49,486)	291,802
Cash & Cash Equivalents at the beginning of the period		311,926	20,124
Cash & Cash Equivalents at the end of the period (Note a)		262,440	311,926
Note (a)			
Cash & Cash Equivalents at the end of the period			
Cash at Bank		262,440	311,926

The notes appearing on pages 85 to 87 form an integral part of the Financial Statements.

Settlement Guarantee Fund**NOTES TO THE FINANCIAL STATEMENTS****1. ACCOUNTING POLICIES****1.1 Statement of Compliance**

The financial statements of the Settlement Guarantee Fund (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 SGF 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 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous year.

1.4 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 at 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

	2011	2010
Treasury Bill Interest		
Receivable	21,677,090	25,921,917
	21,677,090	25,921,917

6. PAYABLES

	2011	2010
Audit Fees	713,559	488,559
	713,559	488,559

7. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2011.

8. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2011.

9. 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 31st December 2008 decided to transfer a sum of Rs.100 million from the Cess Fund to the SGF. In line with this decision the SEC transferred Rs. 100 million from the Cess Fund during the year 2009 and 2010. The Colombo Stock Exchange transferred Rs.100 million in January 2012 to the SGF after making appropriate changes to the Trust Deed to accommodate such receipts.

Settlement Guarantee Fund**NOTES TO THE FINANCIAL STATEMENTS CONTD.****10. RELATED PARTY DISCLOSURE**

The Trustees of the Fund are the Chairman and the Director General of the Securities and 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.

By virtue of holding office the following Ex-officio Members were appointed as Trustees of the Fund during the year under review.

- Mr Thilak Karunaratne Chairman SEC, appointed as a Trustee on 7 December 2011
- Mr Krishan Balendra Chairman CSE, appointed as a Trustee on 14 June 2011

The following Trustees ceased to hold office as mentioned below.

- Mrs Indrani Sugathadasa assumed duties as a Trustee on 13 May 2010 and ceased to be a Trustee upon her resignation as Chairperson SEC on 5 December 2011.
- Mr Nihal Fonseka assumed duties as a Trustee on 23 May 2006 and ceased to be a Trustee upon his resignation as Chairman CSE on 14 June 2011.
- Mr Malik Cader Director General SEC assumed duties as a Trustee on 1 November 2010 and ceased to be a Trustee upon his transfer to the Ministry of Finance and Planning on 15 November 2011.

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

Name of the Trustee	Name of Institution	Relationship
Mr Thilak Karunaratne	Multiform Chemicals (Pvt) Ltd	Managing Director
	Multiform Apparels (Pvt) Ltd	Managing Director
	Far Eastern & European Travels (Pvt) Ltd	Managing Director
	Mercury Agencies (Pvt) Ltd	Chairman
Mr Krishan Balendra	John Keells Stock Brokers (Pvt) Ltd	Director
	JayKay Marketing Services (Pvt) Ltd	Director
	Nations Trust Bank PLC	Director
	Nexus Networks (Pvt) Ltd	Director
	South Asia Gateway Terminals (Pvt) Ltd	Director
	John Keells Capital (Pvt) Ltd	Director 1.8.2011 – to-date
	Auxicogent International Canada Inc	Director
	Central Hospitals (Pvt) Ltd	Director
	John Keells BPO Holding Private Ltd	Director
	John Keells BPO Solutions India Private Ltd	Director
	John Keells BPO International Private Ltd	Director
	John Keells BPO Investments Private Limited	Director
	John Keells BPO Alpha Private Limited	Director
	Quattro FPO Solutions Private Limited	Director
British Overseas (Private) Limited	Director 20.7.2011 – to-date	
Colombo Stock Exchange	Director	
Colombo Stock Exchange	Chairman 14.6.2011 - to-date	
Ms Surekha Sellahewa	Colombo Stock Exchange	Chief Executive Officer
Mr D Widanagamachchi	Sri Lanka Telecom	Director
	Insurance Board of Sri Lanka	Member

The following table depicts the relationships held by the Trustees of the Fund who ceased to hold office during the year under review.

Name of the Trustee	Name of Institution	Relationship
Mrs Indrani Sugathadasa	Securities and Exchange Commission of Sri Lanka Insurance Board of Sri Lanka Kalubovitiyana Tea Factory Ltd	Chairperson Until 5.12.2011 Chairperson Director
Mr Malik Cader	Securities and Exchange Commission of Sri Lanka Sri Lanka Accounting & Auditing Standards Monitoring Board Construction Guarantee Fund	Director General Ex-officio Member Trustee
Mr A Nihal Fonseka	DFCC Bank DFCC Consulting (Pvt) Ltd Acuity Partners (Pvt) Ltd Acuity Stockbrokers (Pvt) Ltd Lanka Industrial Estates Ltd Lanka Ventures Ltd Synapsys Ltd DFCC Vardhana Bank National Asset Management Ltd Colombo Stock Exchange Central Depository Systems (Pvt) Ltd Colombo Stock Exchange	Director/Chief Executive Officer Chairman Director Director Chairman Chairman Chairman Director Director Director Director Chairman until 14.6.2011

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

CORPORATE INFORMATION

OFFICE ADDRESS

Level 28 and 29
East Tower
World Trade Center
Echelon Square
Colombo 1
Sri Lanka

TELEPHONE

+94 11 2331013-6
+94 11 2439144-8

FAX

+94 11 2439149

E-MAIL

mail@sec.gov.lk

WEB

www.sec.gov.lk

LEGAL FORM

Securities & Exchange Commission of Sri Lanka (SEC)
incorporated by Act of Parliament No 36 of 1987 as
amended by Act No 26 of 1991, Act No 18 of 2003 and Act
No 47 of 2009.

ACCOUNTING YEAR

31st December

AUDITORS

The Auditor General

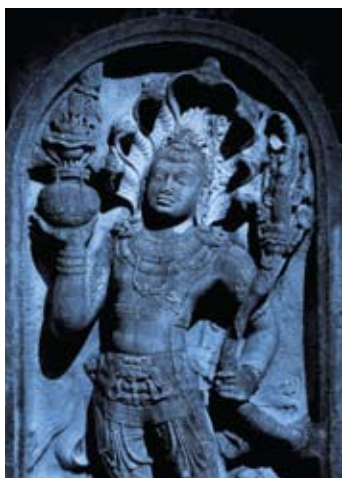
BANKERS

Bank of Ceylon
Sampath Bank
Standard Chartered Bank
Hongkong & Shanghai Banking Corporation Limited
Commercial Bank of Ceylon PLC



GUARD STONE

Built during the reign of Parakramabahu I to hold the tooth relic of the Buddha, and believed to have been renovated during the reign of Nissanka Malla (1187-1196) to hold the alms bowl used by the Buddha, The Polonnaruwa Watadageya is the location of the guardstones featured in this report. The two muragals (guard stones) at the eastern entrance are considered to be the best examples of such architectural features belonging to the Polonnaruwa period.



Like the guard stones that keep watch, we regulate to

PROTECT



SECURITIES AND EXCHANGE
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