

COMMITTED

ANNUAL REPORT 2017

COMMITTED

Creating a strong and fair marketplace has always been a driving force for the SEC. What has kept us on this path is our commitment to the values of integrity, transparency, transformation, and innovation, that not only fortified our efforts through the year but also prepared us for the year ahead. This year's report lays witness to the multitude of actions we brought to fruition in creating a market that not only bears up to the pressures and challenges that are pushed upon it but also uses it as the means to become more streamlined and effective in protecting its investors while supporting the economy. We are fully committed to transforming the future.

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Securities and Exchange Commission of Sri Lanka

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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

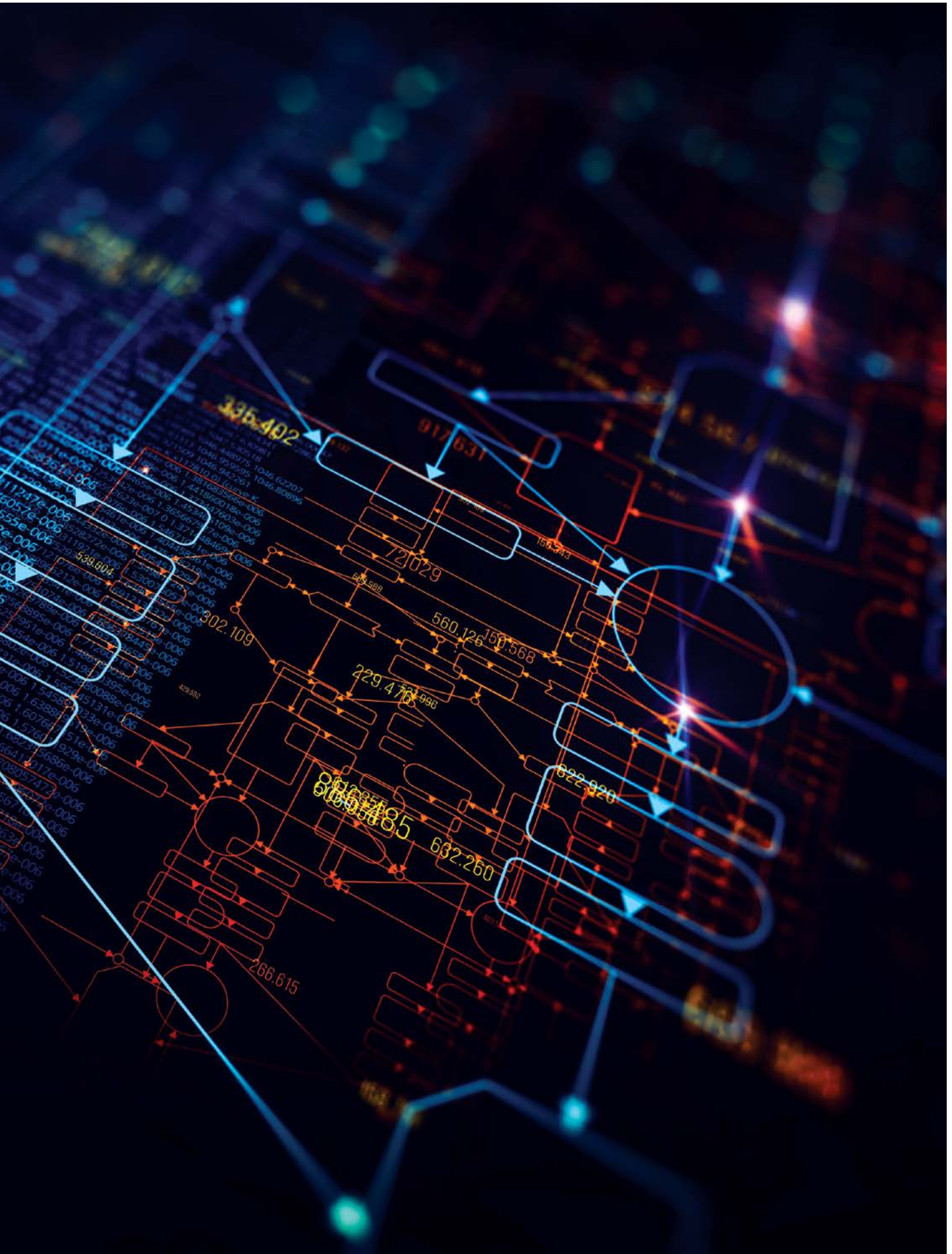
ABOUT US

The Securities and Exchange Commission of Sri Lanka (SEC) was established 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.

Based on the Extraordinary Gazette Notification No. 1933/13 dated 21st September 2015 the SEC was under the purview of the Ministry of National Policy and Economic Affairs from 21st September 2015 to 27th March 2018. The SEC is currently under the purview of the Ministry of Finance and Mass Media in accordance with the Extraordinary Gazette Notification No. 2064/26 dated 28th March 2018.



COMMITTED TO TRANSFORM THE FUTURE



DIRECTOR GENERAL'S REVIEW



“The year under review was a year of change for the capital market of Sri Lanka, resulting in changes which were at times incremental and at others transformational; many of them still underway.”

The Securities and Exchange Commission of Sri Lanka (SEC) has for long aimed to lay the foundation for an efficient, orderly, and fair capital market in Sri Lanka which is as sustainable as it is globally competitive. We acted in pursuit of this aim in 2015 when we identified and prioritised the regulatory and developmental initiatives which were most decisive of our ability to lay a solid foundation for the capital market, and continued to do so in 2016 when we formulated a comprehensive Capital Market Strategy for the period leading up to 2020: thereby kicking off an ambitious reform programme which persists to date.

The year under review was a year of change for the capital market of Sri Lanka, resulting in changes which were at times incremental and at others transformational; many of them still underway.

Legislating for the Future

Changes to the capital market regulatory landscape have been driven by the effort to reinforce our regulatory mandate by amending our governing legislation, the SEC Act No. 36 of 1987. This amendment has at its focus the enhancement of investor protection, the assurance of fairness, efficiency and transparency of markets, and the mitigation of systemic risk: all important elements in providing the capital market with a much-needed impetus for growth and development.

In 2017, this legislative initiative progressed steadily, with the amendment securing Cabinet approval in the month of March, followed by formal clearances by the Departments of the Legal Draftsman and Attorney General and publication in the gazette in November. By December 2017, a comprehensive amendment of the SEC Act had been placed on the Order Paper of Parliament; the amendment taking into account the changes which transpired in the capital market regulatory landscape during the 30 years since the first SEC Act was enacted.

Upon passage, the Securities Exchange Bill will result in a more independent Commission equipped with a wider jurisdiction; this will encompass several hitherto-unregulated asset classes and intermediaries, and providers of supplementary services. The enhanced enforcement toolkit resulting from the amendment will widen the range of sanctions at the disposal of the SEC beyond criminal prosecution to include, for the first time in the history of the SEC, the imposition of civil and administrative sanctions. This will strengthen our hands in deterring and effectively dealing with market misconduct in years to come.

Rules for Regulatees

Improving on the existing capital market regulatory regime, the SEC in 2017 introduced a Minimum Shareholder Fund

“In keeping with our pledge to support professionals in improving their competencies, the SEC in June 2017 undertook a revision of the present iteration of the capital market qualification framework.”

requirement to complement the existing risk-based Capital Adequacy Requirements for stock brokers and adopted enforcement procedures to be followed in the event of noncompliance. We imposed higher reporting obligations with respect to investments by Managing Companies of Unit Trusts, and issued guidelines on advertisements by such companies to ensure that material published provide an accurate representation of all relevant facts.

We have taken several preparatory measures in anticipation of the Securities Exchange Act: formulating minimum standards common to all market intermediaries, reviewing existing rules applicable to them, and drafting new rules to be adopted under the new Act. In keeping with our commitment to improving our engagement with the industry, issuers and the investing public, these rules and standards will be released for stakeholder consultation upon finalisation.

Issuer Compliance

The SEC closely collaborated with the Colombo Stock Exchange (CSE) in developing and implementing rules for the enforcement of several continuous listing requirements, including those on submission of financials, maintenance of a minimum public holding, and the fulfilment of corporate governance requirements. The enforcement procedures so established ensure that failure by listed companies to comply with the CSE Listing Rules will result in commensurate penalties.

Competencies of Capital Market Professionals

In keeping with our pledge to support professionals in improving their competencies, the SEC in June 2017 undertook a revision of the present iteration of the capital market qualification framework.

The existing framework, which has been in effect since 2008, underwent extensive revision, and new courses were developed to offer certifications of aptitude across multiple asset classes and at several tiers. Investment advisors who qualified under previous qualification frameworks will transition to the new

Director General's Review

framework by way of continuous professional development programmes, which will continue to play a pivotal role in strengthening professional standards.

We are confident that the new framework, which comes into effect in late 2018, will be well-suited to the changing needs of capital markets both domestic and international.

Demutualisation of the Colombo Stock Exchange

In 2017 the Demutualisation of the CSE, an initiative which is critical to our efforts to develop the capital market, continued to progress steadily. By the end of the year, the SEC had secured policy approval for demutualisation and made representations on same to the Sectoral Oversight Committee on Economic Development. The draft Bill has since received Cabinet approval, been gazetted and been published in the Order Paper of Parliament. We are optimistic that these efforts have brought us ever-closer to enhancing the competitiveness of the CSE and strengthening its corporate governance structures to benefit its potential.

New Platforms for Listing

The SEC in collaboration with the CSE has begun several initiatives to meet the varied needs of fundraisers while improving the efficiency and cost-effectiveness of the equity fundraising process.

In 2017 we facilitated the enhancement of access to financing opportunities among Small and Medium Enterprises (SMEs) by granting approval for the establishment of a dedicated SME Board at the CSE. While the present approval for the SME Board is limited to equity listings by SMEs, debt listings will also be enabled in the near future.

A Multi Currency Board permitting foreign entities to list in the CSE is also in a stage of advanced development, having received in-principle approval from the Commission.

Better Facilitating Strategic-Stakes Transactions

During the course of 2017, the SEC in consultation with the CSE developed a mechanism to trade 'All or None' (AoN) blocks on the Automated Trading System (ATS) of the CSE, whereby strategic stakes in Listed Public Companies and State-Owned Entities (SOEs) can be transacted in a more transparent manner than at present. The rules in respect of this initiative were approved by the SEC in January 2018.

This AoN mechanism, once adopted, will mark a significant improvement over the status quo; in using the normal order book to transact strategic stakes, there exists a precondition that the order book be cleared prior to giving effect to such a

transaction, thus risking the incidence of a price run or a dilution of the strategic parcel. Meanwhile, the use of crossings in a similar context impedes price discovery by limiting participation to one or two stock brokers at each instance. In contrast, the proposed AoN mechanism facilitates transactions of strategic stakes through a transparent mechanism at an optimum price, thus rendering it uniquely suited for the divestiture of unlisted SOEs. In light of our recent representations to policymakers with regard to the benefits of listing SOEs having compelling value propositions on the CSE, we are optimistic that the AoN mechanism will be utilised as a means of securing maximum value for stakes held by the Government of Sri Lanka while facilitating key listings which can elevate the capital market of Sri Lanka to support national aspirations for future economic growth.

Enhancing Market Infrastructure

In 2017, the SEC and CSE conducted a cost-benefit analysis which resulted in the finding that a phased-out implementation of a Central Counterparty Mechanism (CCP) was best suited to present market conditions, and a detailed implementation plan for such a phased process was drawn up. Our capacity to provide policy guidance to the CSE with respect to this process has now been supplemented by a pledge of technical and financial assistance made by the World Bank under its Financial Sector Modernisation Project.

Preparatory work for the first phase of CCP implementation is already underway, with refinements being made by us to the business and operational model for Delivery versus Payment developed by the CSE. As part of this process, the potential for enabling enhancements to the existing framework for securities transactions is being assessed by the SEC and preparatory measures to introduce regulations which enable the introduction of a number of new products including Real Estate Investment Trusts (REITs) and Exchange-Traded Funds (ETFs) are now underway.

The implementation of the Broker Back Office (BBO) and Order Management System (OMS) which served as a precursor to the CCP initiative has reached completion, with compliance audits having been conducted on all firms which completed implementation as of the deadline provided by us and all funds provided by way of financial support being disbursed to same.

Research-Driven Policy Formulation

SEC policies on new products and trading systems are formulated in reference to international best practices. In 2017, extensive research on ETFs, financial derivatives, and short selling and securities borrowing and lending frameworks was conducted by the SEC. Our work on BASEL-III compliant

subordinated debt instruments involved assessments of investment risks, product structures and listing processes in the domestic context as compared to peer jurisdictions, followed by the formulation of rules on the issue of such instruments and their distribution; both in close collaboration with a large number of stakeholders including the Central Bank of Sri Lanka (CBSL).

In continuing our reform of the market for corporate bonds, the SEC collaborated closely with the World Bank in its diagnostic of the bond market and provided key insights into the regulatory and operational dynamics of listed and unlisted corporate bonds.

Staying Apace with International Regulatory Developments

The SEC in 2017 assessed the extraterritorial reach of European Union securities market regulations taking effect from January 2018 onwards, including the impact of such regulations on the local market. Guidance was provided to the CSE on steps to be taken in relation to market indices in order to conform with the Benchmarks Regulation and an inter-regulatory dialogue on an equivalence assessment for Sri Lanka broached with counterparts at the European Securities Markets Authority.

To better reap the benefits of our close association with the International Organization of Securities Commissions (IOSCO), the SEC in 2017 hosted sessions of the Growth and Emerging Markets (GEM) Committee and Asia Pacific Regional Conference (APRC) of the organisation. The events were the first of their kind to be held concurrently by a member jurisdiction and marked a record-high in terms of attendance. The event enhanced our profile as a well-regulated market and improved Sri Lanka's visibility as an investment destination. At the same time, this afforded the staff of the SEC an opportunity to attend key technical sessions in larger numbers than ever before, providing them with valuable insights on new global regulatory developments and exposing them to the wider regulatory community to which we belong. The public conference hosted as part of the event was well-attended by capital market stakeholders.

Building Global Profile

In 2017 the SEC and CSE jointly organised Invest Sri Lanka fora for investors in Australia, New Zealand and New York. These events offered foreign investors and diaspora a glimpse at the compelling value proposition of the Sri Lankan capital market, thereby ensuring greater visibility and attracting greater foreign inflows to the market.

The SEC also gained greater visibility among its regulatory counterparts overseas when we hosted the 2017 Annual

Meeting and Conference of the IOSCO GEM Committee and APRC in Colombo during September 2017. The GEM Committee, the largest of IOSCO committees, attracted over 300 participants from 50 jurisdictions to its Annual Meeting and Conference while the APRC attracted 75 participants.

Building Domestic Profile

During the course of 2017, the SEC organised 69 educational programmes, with varied audiences comprising teachers, students pursuing secondary and tertiary education, and investors both existing and potential. We continued to spearhead the Isura capital markets television series begun in October 2016, which aired 18 episodes and garnered an active viewership of approximately 40,000 who responded to the weekly quizzes aired in conjunction with the series. We also continued to build on the availability of clear and concise sources for reference by investors through the publication of widely-disseminated brochures and articles in popular newspapers in Sinhala, Tamil and English languages – an initiative undertaken in recognition of the importance of continuous education and awareness at this stage of development.

The Secretariat entered 2017 with a view to rallying our resources, easing our regulatory burden, and making full use of existing technology to meet regulatory needs. My Review so far provides an account of how this intention has manifested to date, with the combined efforts of the Chairman, Commission and staff of the SEC, all of us committed to deliver the best possible results in regulating and developing the capital market of Sri Lanka. This commitment to the capital market is reinforced by other actors in the wider economic area: among them the Ministries of Finance and Mass Media and National Policies and Economic Affairs, the regulatees of the SEC including the CSE, our partners in securities regulation globally, and the mass media. We thank them all and look to stronger collaborations in future, each with a view to realising our vision of creating an efficient, orderly, and fair capital market for Sri Lanka which will be both sustainable and globally competitive in years to come.



Vajira Wijegunawardane
Director General

20th May 2018

MEMBERS OF THE COMMISSION

as at 29th June 2018



Standing from left to right: Mr. Manjula Hiranya De Silva, Mr. Jagath Perera, Mr. Rajeev Amarasuriya, Mr. Arjuna Herath, Mr. Deshal De Mel

Seated from left to right: Mr. S. R. Attygalle, Mr. D. N. R. Siriwardena, Mr. Ranel T. Wijesinha (*Chairman with effect from 24th May 2018*), Mr. Jayantha Fernando

Absent: Mr. C. J. P. Siriwardena

Mr. Ranel T. Wijesinha – Chairman

Ranel T. Wijesinha, FCA (Sri Lanka), MBA (University of Pittsburgh, PA, USA), assumed office as the Chairman of the Securities and Exchange Commission of Sri Lanka (SEC SL), on May 28, 2018. A practicing Chartered Accountant and International Management Consultant, with over 35 years of post qualification experience, Ranel has a distinctive balance of exposure between private professional practice, private industry, and between advisory, statutory and regulatory roles for Governments, locally and overseas.

He previously served as a Commissioner from February 2015 until January 2018, as well as served as a Commissioner in an ex-officio capacity, during 200-2001. Ranel has a long, value adding exposure to the Capital Market. He was key author of several fiscal and investment incentives introduced in 1989/1990, many of which remain to this day. These relate to qualifying investment relief for the establishment of Unit Trusts/Mutual Funds, Venture Capital/Private Equity Companies; Exemptions of tax on Capital Gains on share transactions to enhance turnover



and liquidity; Exemptions of tax on Capital Gains on the divestment from Venture Capital/Private Equity Companies to enhance the appetite for equity risk; Exemptions from Wealth tax, on the basis that the price cyclicalities of the stock market will not correctly reflect value, until incentives lead to depth, breadth and stability of the stock market.

His practical experience in execution and implementation of these incentives was amply demonstrated when in the early 1990's he successfully negotiated with the Asian Development Bank in Manila, and Nippon Investment and Finance Company of Japan to be foreign equity partners of a Venture Capital company-Lanka Ventures, with local equity participation from John Keells Holdings. He served on the investment evaluation company and was a Founder Director of Lanka Ventures. Another example of his ability to take policy dialogue and proposals to execution was when he persevered in his negotiations with the International

Finance Corporation in Washington DC, to invest in Sri Lanka, which led to IFC introducing the Templeton Fund to the Group who co-invested with John Keells to set up the Pyramid Unit Trust. His proactive participation in policy dialogue, over several decades, and contribution of time on Advisory Committees of Government to help build a robust stock market within an economically strong and a socially responsive nation, is well recognised. He has authored many incentives for pioneering ventures, entrepreneurship, research and development and modernisation and incentives for new listings and facilitation of small and medium enterprises. On assuming office as Chairman SEC, a key initiative he led, was the launch on July 5, 2018, of the "Empower Board" - a new listing platform for Small and Medium Enterprise.

Having trained at KPMG Sri Lanka, he commenced his post qualification career with the John Keells Holdings

Members of the Commission

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group. He then worked overseas with Deloitte in The Bahamas and established a new branch in Freeport, Bahamas, serving Deloitte as Resident Manager. On his return to the country, Ranel worked as the Director-Business Development-a New Division he founded for the John Keells Holdings Group, reporting to the main Board. He was then invited to serve as the Partner and Head of Consulting and Financial Advisory Services with PricewaterhouseCoopers, Sri Lanka. He has extensive experience in Business Diagnostic Assessments, Strategic Review and Redirection, Corporate Turnarounds, New Project Evaluation; Privatisations, Valuations, Acquisitions and Divestments.

In September/October 2017, he followed a Course on Strategic Management of Regulatory and Enforcement Agencies at the John F Kennedy School of Government at Harvard University, Boston, Massachusetts, USA and his submissions to the faculty and interaction with a multi country multi sectoral group of participants and academics was well received. He has also studied, Multinational Corporations and Political Risk Analysis at the University of Pittsburgh, Graduate School of Public and International Affairs.

Ranel has served as an independent non-executive Director, Chairman, Board Audit Committee, Bank of Ceylon; Independent non-executive Director, Chairman, Board Audit Committee, John Keells Hotels PLC; Chairman, Ayojana Fund Management; Founder Chairman, Lanka Ventures; Chairman, Monitoring and Advisory Committee of the Ministry of Power and Energy; Member of the first Consumer Affairs Council under the first Consumer Affairs Authority Act; Member of the Accounting and Auditing Standards Monitoring Board; Member, Board of Management, Post Graduate Institute of Management; and Member, Main Committee, Ceylon Chamber of Commerce; Advisor, Federation of Chambers of Commerce and Industry of Sri Lanka and Advisor, the SAARC Chamber of Commerce and Industry. He is a Past President of the Institute of Chartered Accountants of Sri-Lanka and a Past President of the 23 nation Confederation of Asian and Pacific Accountants.

Mr. D. N. R. Siriwardena

Mr. D. N. R. Siriwardena holds a B.A. (Hons.) Degree in Geography from the University of Peradeniya and a Law Degree (LL.B) from the Open University of Sri Lanka and holds a Master (LL.M) Degree in International Business with Information Technology and Intellectual Property from the Cardiff Metropolitan University, United Kingdom. He is an Attorney-at-Law by profession. Mr. Siriwardena joined the Department of Registrar of Companies in 1988. Currently he has been working as the Registrar General Companies. Mr. Siriwardena is an ex-officio member of the Institute of Chartered Accountants of Sri Lanka,

an ex-officio member of the Sri Lanka Accounting and Auditing Standards Monitoring Board and also an ex-officio member of the Insurance Regulatory Commission of Sri Lanka.

Mr. S. R. Attygalle

Mr. S.R. Attygalle is an Assistant Governor of the Central Bank of Sri Lanka and currently serves as a Deputy Secretary to the Treasury. He has over 23 years of experience in the area of monetary and fiscal policy.

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

Prior to the appointment as the Deputy Secretary to the Treasury Mr. Attygalle had been serving as the Director General of the Department of Fiscal Policy and Department of Public Enterprises of the Ministry of Finance and Planning and has contributed substantially to the Government's endeavours in the fiscal consolidation process. He has been contributing towards the formulation of the Annual Budget and leading the technical team for the Free Trade Agreement (FTA) with China.

Mr. Attygalle has also served as a Director and Acting Chairman of National Savings Bank and a Director to the Board of University Grants Commission and the Board of Management of the Superior Courts Complex and also represented the Treasury as a Board Member in several Boards in key Government institutions such as Sri Lanka Ports Authority and Insurance Board of Sri Lanka.

At present Mr. Attygalle is representing the Treasury as a Director to the Board of Bank of Ceylon and Securities and Exchange Commission of Sri Lanka.

Mr. Rajeev Amarasuriya

Mr. Rajeev Amarasuriya holds a Bachelor of Laws LL.B (Hons.) Degree from the University of Colombo, is an Attorney-at-Law of the Supreme Court of Sri Lanka, a Fellow Member of the Chartered Institute of Management Accountants (CIMA) (UK) and a Chartered Global Management Accountant (CGMA). He is also an alumnus of the Harvard Kennedy School, Executive Education.

Mr. Amarasuriya is a regular Practitioner before the Supreme Court and the Court of Appeal of Sri Lanka specializing in civil litigation including in the areas of Public Law and Commercial Law. He also provides Corporate and Legal Consultancy in a

wide range of commercial areas as the Senior Legal Consultant of Amarasuriya Associates. Mr. Amarasuriya commenced his legal practice in the Chambers of Mr. Sanjeeva Jayawardena, President's Counsel, where he was in active practice for over a decade, before commencing his own legal practice and Chambers.

In 2013, Mr. Amarasuriya was awarded the prestigious CIMA Star Gold Award by the Chartered Institute of Management Accountants (CIMA) as the most outstanding CIMA Member below the age of 40 years. He was also the recipient of the Gold medal awarded by the Sri Lanka Law College, having topped the batch at the Attorneys-at-Law Final Examination in 2003 and he has received several other scholarships and awards as well. He also has the distinction of having received the highest number of prizes at his last Royal College prize giving.

Mr. Amarasuriya has been a visiting Lecturer and Examiner in Tax Law at the Faculty of Law of the University of Colombo and has also been an Examiner at the Sri Lanka Law College. Mr. Amarasuriya is presently the President of the Alumni Association of the University of Colombo.

Mr. Amarasuriya was the Chair of the National Law Conference 2015 of the Bar Association of Sri Lanka and also was Chairman of the Plenary Session on Fundamental Rights at the National Law Conference 2014. He was also the Convenor of the LAWASIA – Sri Lanka 2016 Golden Jubilee Conference held in 2016 in Sri Lanka. He has also presented several papers at various fora and been interviewed both in the print and electronic media in the area of Public Law.

He is a life member of the Bar Association of Sri Lanka, the Colombo Law Society and the Organisation of Professional Associations of Sri Lanka.

Mr. Amarasuriya was appointed as a Commission Member of the Securities and Exchange Commission of Sri Lanka in February 2015 and upon completion of his first term of office, was re-appointed for a further term.

Mr. C. J. P. Siriwardana

Mr. C.J.P. Siriwardana is a Deputy Governor of the Central Bank from August 2017. He is in-charge of Financial Sector Regulation and Supervision Cluster of the Central Bank. He has over 31 years of experience in the Central Bank especially in the areas of Economic and Price Stability, Financial System Stability and other Agency Functions carried out by the Bank. Prior to the appointment as a Deputy Governor, Mr. Siriwardana held the position of the Assistant Governor in-charge of Public Debt,

Information Technology, Legal and Compliance, Macroprudential Surveillance, Human Resources, Policy Review and Monitoring, Payments and Settlement and Risk Management Departments.

Mr. Siriwardana holds an M.Sc Degree and a Postgraduate Diploma in Quantitative Development Economics from the University of Warwick, U.K. and a B.Sc Degree in Agriculture from the University of Ruhuna. Mr. Siriwardana has served as the Secretary to the Monetary Board of the Central Bank of Sri Lanka. Mr. Siriwardana, currently serves as a Chairman of the Credit Information Bureau, Director of Colombo Dockyard PLC., Director of Insurance Board of Sri Lanka, Commission Member of Securities Exchange Commission and Chairman of National Payment Council.

Mr. Jagath Perera

FCA, BSc, (Bus Admin.) Sp., CFE (USA)

President CA Sri Lanka and Partner, KPMG Sri Lanka and Maldives

He is a Board Member of the South Asian Federation of Accountants (SAFA) and serves as a Committee Member of Professional Ethics and Independence Committee, and the Sustainability Development Goals SDGs Task Force of SAFA. He is also a member of the Public Sector Financial Management Committee of the Confederation of Asia Pacific Accountants (CAPA). Director of Sri Lanka Accounting & Auditing Standards Monitoring Board (SLAASMB). Chairman of the Remuneration Committee, Nomination Committee and Student Enrolment and Counselling Committee of CA Sri Lanka and Commission Member of the Securities and Exchange Commission of Sri Lanka.

Mr. Manjula Hiranya De Silva

Manjula de Silva holds a BA Hons (First Class) degree in Economics from the University of Colombo and a MBA from London Business School, UK. He is also a FCMA (UK) and a CGMA. He has pursued executive education at INSEAD Business School, France and Harvard Business School, USA.

Since April 2015, he serves the Government of Sri Lanka as Chairman of the State owned National Insurance Trust Fund (NITF). He was recently appointed as a Commission Member of the Securities and Exchange Commission (SEC) of Sri Lanka. He also served as a Consultant to the Ministry of Public Enterprise Development during 2017/18. Prior to 2015, he served as the Managing Director of HNB Assurance PLC for nine years and as its CEO for two more years. He has also served as General Manager, Eagle NDB Fund Management Company Ltd (currently NDB Wealth Management), General Manager – Corporate Lines and Human Resources, Eagle Insurance Co. Ltd (currently AIA

Members of the Commission

as at 29th May 2018

Insurance) and Director General, Public Enterprises Reform Commission (PERC).

In his capacity as Chairman – NITF, he serves on the Governing Council of Asian Reinsurance Corporation based in Bangkok. He is an independent non-executive director and Chairman – Audit Committee of Tea Smallholder Factories PLC and BPPL Holdings PLC.

He also served as the Chairman of the CIMA (Chartered Institute of Management Accountants) Sri Lanka Board in 2016 and was subsequently appointed to its Regional Board for MESANA (Middle East, South Asia and North Africa) Region. He was a Committee Member of the Ceylon Chamber of Commerce and has served as the Chairman of its Steering Committee on Insurance. He is a Past President of both the Insurance Association of Sri Lanka (IASL) and Unit Trust Association of Sri Lanka (UTASL).

His areas of specialization are Investment Management and Capital Markets, Insurance, Economic Policy, Public Sector Reform, Strategic Planning and General Management.

Mr. Jayantha Fernando

Jayantha Fernando has 20 years of International and South East Asian experience in a broad range of ICT legal and policy issues.

Since 1997 he pioneered drafting of several ICT related legislation. He gave leadership to Sri Lanka's accession to the Budapest Cybercrime Convention (2015) and Sri Lanka's ratification of the UN Electronic Communications Convention (2015), both firsts for South Asia.

For 10 years he shared operational responsibility for the "e-Sri Lanka Development Project", the flagship ICT development initiative of the World Bank, with which he was involved from the inception (2002) through the design phase and thereafter as an executive staff member during its implementation phase. He was instrumental in doing the legal blueprint to establish ICTA and Sri Lanka CERT-CC. He developed the legal framework for the use of authentication technologies for Digital Payments.

He is presently Chairman of Sri Lanka CERT, Chairman of .LK Domain Name Registry, Commissioner SEC and on the Board of many entities. He is also the Legal Advisor of ICTA.

He has travelled extensively to over 70 countries, speaking as an Invited Expert for Council of Europe, OAS and UNCITRAL. In his spare time he lectures widely on ICT Legal Issues at local and

foreign universities. He was active in ICANN (www.icann.org) and served as Associate Chair of ICANN NomCom and Vice Chair of ICANN GAC for two terms.

In 2016 he became the first South East Asian to be elected to the Bureau of the Budapest Cybercrime Convention Committee (T-CY) at the Council of Europe, which administers the Convention at a global level.

In recognition of 20 Years of Service in the sphere of digital policies and laws, Mr Fernando was presented a Lifetime Achievement Award at the national Zero One Digital Awards in 2017.

He is a British Chevening Scholar (2002) and an Eisenhower Fellow (2012).

Mr. Arjuna Herath

Arjuna is a Senior Partner at Ernst & Young and is the Head of Advisory for Sri Lanka and Maldives. In his career preceding Ernst & Young, he was Marketing Development Manager at Ceylon Tobacco Company and Director Corporate Finance at Merchant Bank of Sri Lanka.

Arjuna was selected as one of the 20 leading men and women from our world of business in 2014 by Lanka Monthly Digest in its fifth edition of captains of commerce and industry in Sri Lanka in recognition of his outstanding work for the corporate sector in the country.

Arjuna serves as a Board Member of the Sri Lanka Accounting and Auditing Standards Monitoring Board.

Arjuna is a distinguished senior Chartered Accountant and is a Past President of The Institute of Chartered Accountants of Sri Lanka. He is actively involved in the international fora in the field of accounting and is a Past President of the South Asian Federation of Accountants and was a Board Member of the Confederation of Asia Pacific Accountants.

He is the first Sri Lankan to Chair a Committee of the International Federation of Accountants (IFAC), the apex body of the accounting profession, and is the current Chairman of the Professional Accountancy Organisation Development Committee of the IFAC, the committee that gets involved building capacity of professional accounting institutes across the world.

He is a fellow member of the Institute of Chartered Accountants of Sri Lanka and is a Chartered Global Management Accountant

with a Bachelor of Science degree from the University of Colombo, a MBA from the University of Strathclyde in the United Kingdom and a Master of Arts in Financial Economics from the University of Colombo.

Mr. Deshal De Mel

Deshal de Mel is an economist who works for the Ministry of Finance of Sri Lanka as Economic Advisor. He was previously attached to the Hayleys Group, where he served as Senior Economist and was subsequently involved in setting up Hayleys Global Beverages, the Group's tea extracts manufacturing company.

Mr. de Mel previously worked for the Institute of Policy Studies of Sri Lanka. His research has been published in a number of books and journals. Along with policy research, Mr. de Mel also represented the Government of Sri Lanka in inter-governmental trade negotiations. He at present serves on the National Negotiation Team for Sri Lanka's ongoing trade negotiations.

Mr. de Mel has a degree in Philosophy, Political Science and Economics from the University of Oxford and completed his Masters in International Political Economy at the London School of Economics.

Mr. de Mel is a Commissioner of the Securities and Exchange Commission of Sri Lanka. He previously served on the Board of Directors of Sampath Bank PLC as a Non-Executive Director for 5 years. He was also Chairman of SC Securities (Pvt Ltd) and served on the Board for 3 years. Mr. de Mel is a member of the Board of Directors of the Centre for Poverty Analysis (CEPA). He was the LMD economic columnist during the period 2013-2016.

MEMBERS OF THE COMMISSION

January 2017 - December 2017



Standing from left to right:

Mr. D. N. R. Siriwardena, Mr. Suresh Shah, Mr. Rajeev Amarasuriya, Mr. Lasantha Wickremasinghe, Mr. P. Samarasiri, Mr. S. R. Attygalle

Seated from left to right:

Ms. Dilshani Wijayawardana, Mr. Thilak Karunaratne (*Chairman*), Mr. Ranel T. Wijesinha, Ms. Marina Fernando

SENIOR MANAGEMENT



Standing from left to right:

Manuri Weerasinghe - *Assistant Director, Corporate Affairs*, Chinthaka Mendis - *Director, Litigation*, Tushara Jayaratne - *Director, External Relations and Surveillance*, Vajira Wijegunawardane - *Director General*, Ianthie Jayaratne - *Director, Finance and Administration*, Harshana Peiris Suriyapperuma - *Director, Corporate Affairs*, Suneth Perera - *Assistant Director, Capital Market Education and Training*

Seated from left to right:

Gayani Godellawatta - *Director, Supervision*, Ayanthi Abeyawickrama - *Director, Legal and Enforcement*

Absent:

Dhammika Perera - *Deputy Director General*

MANAGERS



Standing from left to right:

Madhugayanie Balapitiya - *Manager, Legal and Enforcement* | Sharmila Panditaratne - *Manager, Legal and Enforcement*
Saumi Kodippily - *Manager, Supervision* | Sajeevani Bakmedeniya - *Manager, Capital Market Education and Training*
D. M. G. Priyantha - *Manager, Investigations* | Ranmini Jayathilake - *Manager, Information Systems*

Seated from left to right:

Sheena Goonaratna - *Manager, External Relations* | Manjula Chandraratne - *Manager, Surveillance*

STAFF MEMBERS



From left to right: Lakshmi Wickramanayake | Prabhashini Samarakoon | Ashoka K. Dayarathne | R. K. Wasantha Sunimal | Mekhala Jayapala | Anula Wijesinghe | Prathibhani Herath | Krishanthi Muthuthanthrige



From left to right: P. M. Niroshika Udayanganie | Mahesh Abeysekara | Thakshila Francis | Chamari Heenatigala | Eranga Manthirathna | Nomaanie Seneviratne | Sudara Weerakkody | Priyantha Herath



From left to right: Suhadini Wickremasinghe | Buddhinee Herath | Nimal Kumarasinghe | Bimba Gamaathige | J. K. Priyadarshini | Shalini Perera | C. Erandathie Waidyasekara | Dhanesha Rajapura

Staff Members



From left to right: Preenika Nilakshi Perera | Samantha Gunawardana | Olivi Solangaarachchi | Marian Glenda Sandanam | Supun Gunasekara | Nuwani Siriwardana | Mariez Wanigasekera



From left to right: Saranya Anuthinan | K. A. A. D. Semini Dianika | Nisansala U. Herath | M. A. Imran | Chathuni Uduwela | Kaushalya Gunawardana | A. C. Dias



From left to right: Roshini Peiris | Thanishka Tillekeratne | Lalinda Dayarathne | Tharaka Kulathilaka | Sureka Jayasekara | Gayan Lokugamage | Medhavini Sooriyaarachchi



From left to right: Rakhitha Asela Dissanayaka | Udani K. Wickramarathna | Julie Allegakoen | Kumari Siriwardane | Nishoka Jayathunga | Anne Chrishanthi Fernando | Danushi Thalpita



From left to right: Dulari Muhandiram | Dasun Perera | Rasika Walpitagama | Dashanka Warnakulasooriya | Radha Prathibha | Kavisha Kumbukage | Porni Weerasekara



From left to right: S. D. Dharmasiri | P. W. L. Piyatissa | Chandran Nagendran | W. Ariyaratna | D. Pathum Niroshana | Sandaruwan Wijeratne | Buddhika Balapitiya | Samith Premaratne | P. D. Pathmarani | M. Jayasekara

Absent: Christobel Silva, G. D. Kapila Kumara, Lakshmi Atapattu, Y. D. Sandamali

HIGHLIGHTS OF THE YEAR



Regional Investor Programme in Colombo



Continuous Professional Development Programme



Investor Education Programme for School Children



Regional Investor Programme in Negombo



Annual Meeting/ Conference of the IOSCO Growth and Emerging Markets Committee and Asia-Pacific Regional Committee



SEC Long Service Awards



Prime Minister addressing the Annual Meeting/ Conference of the IOSCO Growth and Emerging Markets Committee



Invest Sri Lanka Forum in Melbourne



Invest Sri Lanka Forum in Sydney



Isura Television Series



Regional Investor Programme in Jaffna



Regional Investor Programme in Kandy

Highlights of the Year



Annual Meeting/ Conference of the IOSCO Growth and Emerging Markets Committee and Asia-Pacific Regional Committee



Regional Investor Programme in Badulla



Launch of the Capital Market Information Centre in Sabaragamuwa University



Programme for students of the Advanced Technological Institute



Staff Outward Bound Programme

REGULATORY AND DEVELOPMENTAL ACHIEVEMENTS: 2015 TO DATE

- **Today, the SEC is making significant strides in completing key initiatives that have long stood stagnant: thus achieving greater progress at a faster pace.**

- > Dedicated personnel have been provided with resources necessary to expedite the passage of the SEC Act, the demutualisation of the Colombo Stock Exchange, the introduction of risk based capital requirements and conduct of risk based supervision activity, and several other longstanding initiatives which are now underway at an accelerated pace.
- The Securities Exchange Act is anticipated to provide the SEC with a wider complement of powers and a more up to date governing legislation. In November 2017 the draft Bill was published in the Gazette and in December 2017 it was placed in the Order Paper of Parliament.
- The demutualisation of the CSE seeks to ensure that the CSE better represents the interests of all capital market stakeholders.
 - The initiative is progressing with the assistance of consultancy services secured through the ADB, which assistance will continue up to the point of completion of the initiative.
 - The SEC spearheaded the submission of the Demutualisation Bill to the Cabinet of Ministers in January 2018, and the Bill was thereafter published in the Gazette and the Order Paper in February 2018.

These legislative initiatives have been expedited through a series of measures and with the cooperation of agencies such as the Attorney General's Department and the Legal Draftsman's Department.

- The implementation of a central counterparty (CCP) seeks to mitigate post-trade risks.
 - The initiative will be implemented in stages, with the technical and financial assistance of the World Bank. The first phase of CCP implementation will give effect to Delivery- versus-Payment (DvP).
 - Legislative provisions pertaining to the CCP have been finalised and incorporated to the draft Securities Exchange Act.
 - Following a series of consultative meetings, the SEC and CSE project teams are finalising the proposed business and operational specifications of the phased implementation.
 - The proposed margining model and settlement model have been subject to extensive improvements by the SEC with a view to providing adequate cover to post trade risk through margins.

- > These initiatives will be completed based on the technical assistance provided by experts commissioned through international donor agencies, ensuring that the present expediency will not come at the cost of the clarity, precision or foresight with which these initiatives are implemented.

- The SEC strives to achieve greater transparency in its conduct and to serve as a fair, impartial and effective regulator of capital markets.

Transparency

- > Capital Market Strategy 2020 formulated by the SEC was publicly disseminated to ensure greater transparency with respect to capital market policy direction, continued policy consistency and the enhanced accountability of the SEC with respect to our stewardship of the capital market.

- > The Strategy incorporated focused regulatory and development initiatives which became part of the national policy agenda upon approval by the Cabinet of Ministers.

- > The draft Securities Exchange Act, through which comprehensive amendments to the governing legislation of the SEC would be effected, and whereby the regulatory mandate of the SEC would be widened, was also subject to extensive public consultation prior to being presented to the Cabinet of Ministers for policy approval in March 2017. The draft Act received Cabinet approval for submission to Parliament in mid-October 2017.

- To ensure that the proposed widening of the mandate adequately equips existing staff with the tools required to effectively perform their responsibilities, the draft legislation was also circulated among the staff of the Secretariat, providing them with an opportunity to comment on the proposed Act.

- Expert insights from the United States SEC and from the consultant of The World Bank who drafted the 2012 iteration of the proposed Act were secured with respect to the provisions on capital market offences and the regulation of the CCP respectively.

- > Other rules, regulations and guidelines developed by the SEC and the CSE were also opened up for public or industry comment, as appropriate.

Regulatory and Developmental Achievements: 2015 to Date

Fairness, Impartiality and Effectiveness

- > To ensure the fairness of our regulation and the equitable treatment of all capital market stakeholders, we have streamlined internal processes, formalised our interactions with stakeholders, and increased the frequency of SEC dialogue with the regulated population.
- > All actual and potential conflicts of interest pertaining to each member of the staff have been documented to ensure that no member of the staff acts in relation to a matter in which he or she has a vested interest. Each Commission member also places on record any interests and relationships in relation to matters placed on the agenda of each Commission meeting and is excused from deliberations when such matters are taken up for discussion.
- > All SEC engagements with regulatees, investors, capital market participants and other stakeholders are documented and conducted on a strictly professional basis.
- > Periodic consultations of all industry representatives within each regulatee category ensure that common concerns and grievances are aired directly to the regulator in a formal setting, permitting the SEC to undertake more perceptive and nuanced regulation.
- > Appropriate action is initiated in response to all findings of wrongdoing, irrespective of the parties involved.
 - Investigative, litigation and enforcement activities of the Secretariat are performed with utmost integrity and independence, while the regulatory mandate and operational capacity of the SEC in this respect are actively reinforced on an ongoing basis.
 - Retrospective reviews have commenced to look into past wrongdoing that has not met with appropriate regulatory censure.
- **Today, the population of the Sri Lankan capital market enjoys the assurance that violations of laws, rules and regulations and instances of misconduct will be promptly detected by the SEC and appropriately dealt with, against the backdrop of a credible-deterrence environment.**
- The SEC is approaching the creation of a credible deterrence environment through a series of initiatives, each seeking to reinforce legal certainty; to promptly detect, investigate and take appropriate enforcement action. Many of these initiatives are progressing steadily.

- We also engage closely with the Financial Intelligence Unit of the Central Bank of Sri Lanka towards this end.

Proactive Surveillance and Greater Market Discipline

- > The SEC, through its proactive surveillance programme, closely monitors all transactions on the CSE as well as all indications of market asymmetry which arise outside the trading floor.
 - In the event any abnormal activity is detected, we inform the relevant regulatees and investors of our detection and that they are now under watch with respect to the potential market misconduct or malpractice.
- > This scrutiny of market activity will soon be enhanced by the introduction of state-of-the-art surveillance technology procured with the assistance of the World Bank, which will further strengthen our assurance that the interests of investors will always be safeguarded by the SEC.

Interplay between Surveillance and Investigative Functions

- > The processes followed by both the Surveillance and Investigations Divisions of the SEC have been enhanced through the re-establishment of a single committee to deliberate on matters pertaining to surveillance and investigations of capital market offences.
 - This committee serves as a nexus between the activities of the two divisions, improving their efficiency through improved coordination with responsibilities clearly identified.
- > To retrospectively address shortcomings in the conduct of investigations in the past, the SEC has successfully reviewed all surveillance referrals generated in the 2010-12 period.
 - Sixteen of these referrals have been re-considered for investigation consequent to the said review. Eleven cases have been reopened as a matter of priority: some of them pertaining to multiple referrals.
 - Three further referrals deemed to not warrant investigation have been reviewed for investigation.

Revamp of Investigations Apparatus

- > Investigations into capital market offences failed to generate definitive outcomes in recent years, with some cases being observed to have been unduly dismissed and others to have benefited from excessive leniency on the part of the regulator.

- o A new investigations team was constituted in the year 2016 as a measure aimed at expediting the investigations process with a greater degree effectiveness and efficiency.
 - Our present complement of investigators has been subject to rigorous training and exposure in order to enhance the technical skills expeditiously, and is subjecting a series of cases both past and present to careful scrutiny. In 2017, the team grew from six personnel to ten. Efforts are underway to recruit a Director Investigations. Several previous attempts at recruitment were unsuccessful as the position failed to attract candidates possessing attributes required in order to fulfill the responsibilities of Director Investigations.
 - Although entrusted with a larger-than-usual caseload, the team's handling of investigations has been laudable to date and has resulted in one enforcement action to date, and is expected to result in more in the near future.
 - The team has faced particular challenges in relation to obtaining third party information pertaining to earlier periods, which information had not been previously obtained by the SEC, and the retrieval of which was time-consuming given the lapse of time since such records were first generated.
- > Thus far, the division has completed investigations pertaining to four cases, in respect of which the Commission has instructed the Secretariat to proceed with enforcement action. Several more are progressing towards completion.
 - Each of these investigations is being conducted in a well-planned and systematic manner, with a view to ensuring the merits of each case are examined to their fullest.
 - The investigations team has been further empowered to treat any instance of a failure to appear when summoned as a serious transgression warranting legal action in respect thereof.

Perceptive Surveillance of Financial Reporting and the Assurance of More Symmetrical Information

- > Through the adoption of agreed upon procedures, the Secretariat has succeeded in subjecting financial reports of listed companies to greater scrutiny than ever before.
- > The SEC has overcome longstanding constraints on its oversight of listed companies parallel to the CSE.
 - Efforts are underway to entrust the CSE with the greater responsibility of conducting reviews of financial reporting

by all listed companies, such that the SEC may transition towards performing oversight of the financial surveillance activity, in line with other jurisdictions.

- The CSE has now been required to develop a framework for financial surveillance, while the SEC is in the process of developing a framework for oversight thereof.

Regulatory Undertakings

- > Regulatees (general)
 - Introduction of Guidelines on Fitness and Propriety to All Regulatees
- > Colombo Stock Exchange
 - Better governance of the CSE through the close oversight of (and issue of guidelines with respect to) the election of directors to the Board of the CSE
 - Demutualisation initiative to ensure that the CSE better represents the interests of all capital market stakeholders in the performance of its responsibilities
 - Mitigation of post-trade risks through phased implementation of a CCP with the initial adoption of DvP
 - Revision of the share transaction fees of the CSE and CDS to adopt a step-up fee structure rather than the present flat fee
 - Requirement that the CSE adopts a mechanism to reduce the large exposure risk faced by stock broking firms in computing CAR by requiring CDS to enable the deposit of increased margins for large transactions
 - Instruction to the CSE to not recognise overdraft facilities in computing the adequacy of client funds to ensure protection of clients
 - Revision of listing mechanism to address disclosure gaps in relation to IPOs and further raising of funds
 - Facilitation of Small and Medium Enterprise (SME) listings through the a creation of a separate SME Board ('Empower' SME Listing Platform): regulatory framework for equity introduced, debt listings to follow thereafter
 - Approval of an All or None mechanism as an alternative to the crossings mechanism adopted at present with a focus to facilitate sale of GoSL stakes and generate better pricing.
 - In-principle approval to facilitate foreign currency listings through the establishment of a Multi Currency Board for the CSE
 - Enhanced oversight of complaints handling by the CSE
- > Stock Brokers and Dealers
 - Implementation of risk based capital adequacy requirements for stock broking firms (with effect from 1st March 2017) and an enforcement procedure to be

Regulatory and Developmental Achievements: 2015 to Date

- followed in instances of non-compliance (with effect from 22nd August 2017)
- Implementation of broker back office and order management systems for stock broking firms to ensure consistency in management information reporting systems
 - Issue of a directive mandating all stock broker and/or stock dealer firms trading equity and/or debt fulfill and maintain a minimum shareholders' fund requirement of Rs. 100 Mn (with effect from 01st January 2018)
 - Introduction of a risk assessment framework in relation to the supervision of stock broking firms taking into consideration both the impact and probability of risk occurrence.
 - Adoption of a methodology for the voluntary inactivation of licences held by stock broker firms upon recommendation of the CSE
 - Carried out agreed upon procedures in accordance with SLRS 4400 with respect to certain stock broker firms giving rise to regulatory concerns
 - Strengthening of regulatory recommendations pursuant to inspections, stipulation of timelines for compliance and initiation of regulatory action thereafter
 - Timely and effective follow-up on compliance failures
- > Unit Trusts Managing Companies and Trustees
- Successful representations to the Ministry of National Policies and Economic Affairs and the Treasury, resulting in unit trusts being conferred tax pass-through status
 - Conduct of regular industry consultations
 - Introduction of a new format for monthly reporting by unit trust management companies (Feb 2017)
 - Introduction of advertising guidelines for unit trust subsequent to industry consultation
 - Strengthening on-site supervision capabilities of the SEC by training supervision team with respect to different investments carried out by management companies
 - Detection of hitherto uncovered violations in respect of investments made that are prejudicial to unit holders and rectification of same.
 - Apprising trustees regarding lapses in compliance by management companies
 - Commencement of inspection visits to trustees of unit trusts
 - Introduction of a regulatory framework on investments in equity/debt securities by a unit trust management company in its own name
- > Investment Managers
- Detection of non-compliances leading to the voluntary surrender of licence by one regulatee
- > Margin Providers
- Subjecting Margin Providers to closer scrutiny for the first time and detection of many non-compliances and rectification of many lapses.
 - Identification of key regulatory concerns and operational risks
 - Development of a database on supervisory findings to identify companies which continue to breach the applicable rules and thereby initiate proactive regulatory measures
- > Credit Rating Agencies
- Discontinuation of non-compliant ratings agency found inter alia to have failed to comply with many of the standards applicable thereto.
- > Listed companies
- Introduction of a process to disclose manner of utilising proceeds of IPOs and further issues of securities
 - Establishment of a mechanism to assess the accuracy of valuations in disclosed financials together with the Institute of Valuers of Sri Lanka (IVSL) and the Royal Institute of Chartered Surveyors (RICS-UK) Sri Lanka Chapter
 - Representations were made to policymakers on the benefits of listing State Owned Entities (SOEs) with compelling value propositions on the CSE
 - Conduct of agreed upon procedures in relation to significant matters pertaining to disclosures
 - Introduction of enforcement procedures for violations of continuous listing requirements
 - Introduction of rules governing the issue of BASEL III compliant Tier-II sub-debt by banks and specification of a disclosure-based regime in respect thereof
 - Introduction of enforcement rules and procedures in respect of continuing listing requirements including minimum public holding, non-submission of financials and non-compliances with corporate governance requirements

- **We are committed to rendering Sri Lanka a more attractive destination for foreign portfolio investment and to enhancing the confidence of domestic investors, and are strengthening our regulatory framework in line with international benchmarks towards this end.**
 - > In 2016, the International Organisation of Securities Commissions (IOSCO), the global standard-setter for capital market regulation, conducted a Country Review of Securities Regulation in relation to Sri Lanka, its most comprehensive review to date.
 - > This country review was secured by Sri Lanka in 2015 amidst significant international demand for reviews of this nature.
 - > An internal self-assessment by the SEC was followed by an on-site visit, with the draft report generated by the IOSCO Review Team being subject to extensive vetting by both the Secretariat and Commission, prior to its approval by members of the Commission.
 - > The SEC succeeded, following focused representations to the Review Team, to secure upward revisions of initial assessments provided in relation to three principles.
 - > This third-party assessment of our compliance with IOSCO principles, published in mid-2017, will be valuable in driving regulatory reform in the country and will additionally serve as a signal of our commitment to adopting and upholding international standards and best practices.
 - > Implementation of recommendations have already begun and been fast-tracked through the formation of dedicated teams.
 - > Conducted research to evaluate gaps in relation to key areas in the local capital market structure which prevents Sri Lanka from being reclassified as an Emerging market. This was conducted as a preliminary measure towards devising strategies to overcome any gaps identified.
- **We have been successful in negotiating with international donors and in securing technical and funding assistance for strategically-important initiatives.**
 - > The capital market of Sri Lanka is now in receipt of assistance from The World Bank, and the Asian Development Bank (ADB) by way of the Financial Sector Modernisation Project (FSMP) and the Capital Market Development Programme (CMDP) respectively.
 - > Together, these two programmes cover a number of key capital market initiatives of the SEC.
 - > The initial scope of the CMDP was widened on the request of the SEC to cover crucial areas pertaining to the following initiatives and to encompass the provision of national and international expertise in order to proceed:
 - Demutualisation of the CSE (underway)
 - Development of a multi-layered, multi-product capital market qualification framework (draft Completed)
 - Enhancement of financial literacy and outreach for unit trusts (underway)
 - Legal review of the Unit Trust Code (draft Collective Investment Schemes Code completed)
 - Drafting of the Securitisation Act (underway)
 - Sequential introduction of financial derivatives and establishment of a market for derivatives (the ADB has been requested to change the scope of work; feedback awaited)
 - Feasibility assessment and formulation of a strategy for the development of a commodities exchange. (the ADB has been requested to change the scope of work; feedback awaited)
 - > Total funds pledged to the SEC under the FSMP for policy initiatives were increased from the previous sum of US\$ 10Mn to the present figure of US\$ 19Mn upon high-level representations by the SEC.
 - > These representations also resulted in the increase of funds allocated to be disbursed as results-based financing to the SEC from the previous sum of US\$ 1Mn to the present figure of US\$ 2Mn.
 - > The FSMP entails both pledges of consultancy services and of investment funding.
 - > Of these, the pledge of consultancy services covers the following areas:
 - Introducing risk based supervision and risk based capital frameworks for market intermediaries and streamlining supervision-related activities
 - Strengthening surveillance, investigations and enforcement functions
 - Implementation of a Delivery Vs Payment (DVP) mechanism and the long term establishment of a Central Counterparty (CCP) mechanism
 - Enhancing SEC Education and awareness/investor education delivery channels

Regulatory and Developmental Achievements: 2015 to Date

- Formulating an organisational IT Strategy and implementation support for the same
 - Human resources (HR) strategy including institutional diagnostic gap analysis for capacity building, framework for performance management and training and development for HR staff
 - Strengthening issuance regulations, procedures and supervision framework for corporate debt market
 - Developing a diagnostic and an action plan for secondary market architecture with respect to corporate bonds and enabling an over-the-counter (OTC) platform
 - Review of corporate governance framework in line with international best practices and corporate governance enhancements, policy formulation and implementation
- > In addition to consultancy services, investment funding has been pledged with respect to the following:
- Assessment and implementation of an online market surveillance system
 - Procuring an online reporting system to streamline regulatory filing Procurement of a CCP System
 - IT infrastructure
 - Enabling a standardised reporting system and implementation support
 - Introducing an IT platform for unit trust distribution
- > At the end of the year 2018, as part of the Results based Financing component of the FSMP, the Secretariat is to receive USD 261,380-/ which approximates to an equivalent Rupee amount of LKR 46,000,000-/.
- > The Delivery Linked Indicator for the above fund disbursement include:
- The three implementing agencies (SEC, CBSL and IRSCL) signing a MoU agreeing that CBSL will be the lead consolidated supervisor for adopting a consolidated risk based approach to supervision of financial institutions
- > In addition to the above programmes, the SEC in September 2017 secured technical assistance in capital market investigations and enforcement from the International Monetary Fund (IMF).
- Further technical and financial assistance has been secured through a multi-donor grant facility due to be extended as part of the Financial Sector Reform and Strengthening Initiative (FIRST initiative);
- particularly for the review of all intermediary rules, both existing rules and prospective rules to be adopted following the passage of the new Act.
- **Our interactions with counterpart regulators in the region and across the world have yielded positive learning experiences and enhanced our profile as a responsible regulator committed to keeping abreast with global efforts to enhance regulation.**
 - > To ensure greater engagement with other regulators in the region and beyond, the SEC has been actively engaged in member interactions of IOSCO.
 - These include our membership of IOSCO Committee Four on Enforcement and the Exchange of Information since 2015.
 - The committee aims to help prevent and detect the breaches of securities laws and regulations in global financial markets.
 - In 2016 the SEC also successfully submitted a proposal to join IOSCO Committee Eight on Retail Investors and gained admission on the basis of the extensive investor education programmes undertaken by the SEC.
- ### 2016
- > A regional training conference on 'Effective Oversight of Capital Markets: Investigation and Prosecution of Securities Fraud and Abuse' was organised by the SEC in association with our United States counterparts.
- > The Asia Pacific Economic Cooperation (APEC) Financial Regulators' Training Initiative (FRTI) regional seminar on 'Investor and Market Intermediary Education' was also hosted in Sri Lanka.
- ### 2017
- > In September, Sri Lanka hosted the annual meeting and conference of the IOSCO Growth and Emerging Markets Committee (GEM) and the sessions of the Asia Pacific Regional Committee (APRC), the first time a country is concurrently hosting sessions of two IOSCO regional committees.
- The events experienced a record turnout, when compared with previous years, and is expected to set a precedent in terms of future international and regional conferences being organised concurrently.
 - In hosting the conferences in Sri Lanka, the SEC was able to provide more of its staff with an opportunity to participate in the sessions of the GEM and APRC conferences and was also able to enhance the visibility of the domestic market as a well-regulated investment destination.
- > The Securities Market Regulations of the European Union effective from January 2018, including, the Markets in Financial Instruments Directive II (MiFiD II), Markets

in Financial Instruments Regulations (MiFIR), and, the Benchmarks Regulation (BMR) would have extraterritorial reach to third countries; directly or indirectly. The Secretariat engaged in knowledge gathering on the wide reaching impacts of the said regulations in order to assess how the local market and its stakeholder groups would be affected by the same.

- The Secretariat guided the CSE ascertain appropriate steps under BMR in view of its indices and engaged in a dialogue with the EU and regional regulatory bodies to clarify Sri Lanka's position in view of being in-scope under MiFID II with respect to certain areas such as market intermediary organisation requirements including those related to research unbundling

2018

- > In July, the SEC hosted the Phase One IOSCO Technical Assistance Project Meeting on Developing Onsite Inspection Manuals.
- > The SEC will also host an Asia Pacific Economic Cooperation (APEC) Financial Regulators' Training Initiative regional seminar on enforcement and litigation later this year.

- **Enhancing capital market awareness and knowledge at all stages of the national education system is key to producing better capital market professionals.**

- > The SEC conducts regular seminars at schools island-wide with a view to fostering student interest in a career as capital market professionals.
 - A memorandum of understanding with the Ministry of Education ensures that the SEC has greater reach and the full cooperation of the authorities in its conduct of seminars and programmes of this nature.

- > Since 2016, Capital Market Information Centres (CMICs) have been established for the benefit of undergraduates in six national universities, in Peradeniya, Jaffna, Vavuniya, Belihuloya, Oluvil and Kuliypitiya. Two further CMICs are due to be established in the Eastern University and Ruhuna University in October 2018.

- > A multi-layered, multi-product financial certification framework has been developed for the SEC, while course material for all existing courses have been updated and revised to reflect new developments globally as well as to facilitate adaption to changes due to be effected through new introductions to the domestic capital market.

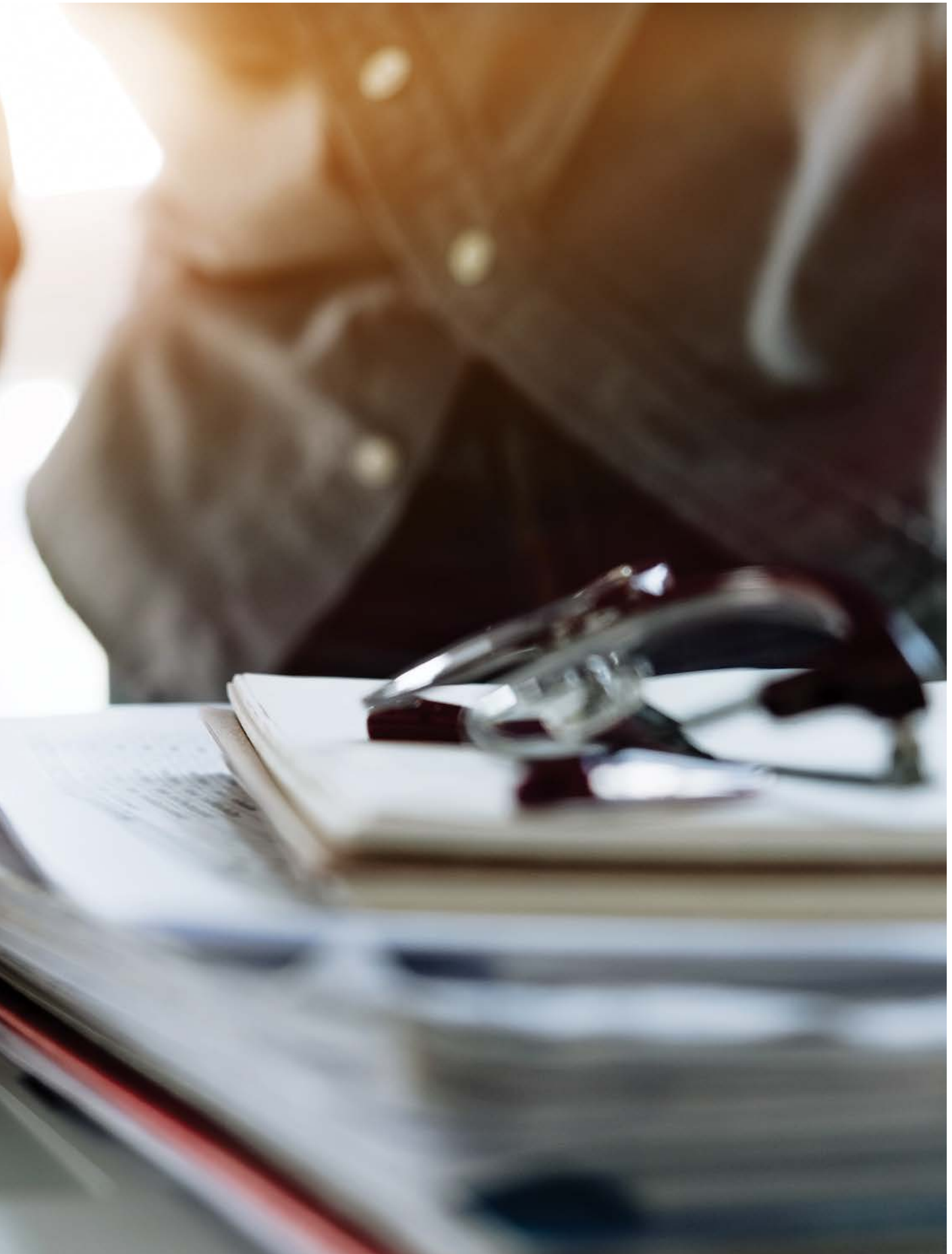
- > The SEC also provides greater learning opportunities for its staff at all levels of operation and complements their learning with hands-on experience in key regulatory initiatives.

- **Our efforts to enhance the broad visibility of the capital market began domestically and expanded to Sri Lankans living overseas.**

- > The SEC has long been committed to enhancing the awareness of the general public with respect to capital markets.
 - Our efforts have resulted in the publication in national newspapers of over 200 articles annually on investing in the capital market, as well as the conduct of a weekly one-hour television series, 'Isura', in association with Sirasa TV. 'The Investor 2018', an all-island quiz programme for Advanced-Level students was televised on Rupavahini by the SEC in association with the Ministry of Education in 2018.
 - Local investor forums have been conducted in the cities of Negombo, Kandy, Jaffna, Colombo, Panadura, Bandarawela, Batticaloa, Kurunegala, Embilipitiya, Anuradhapura, and Galle with a focus on initiating a dialogue between the Exchange, the regulator, intermediaries and investors.
- > Elsewhere, Invest Sri Lanka investor fora were held by the SEC in collaboration with the CSE in the cities of Melbourne, Sydney, Auckland, New York, and Singapore, with a special focus on Sri Lankan diaspora in Australia and New Zealand and institutional investors in the United States and Singapore. More fora are to be held in future.



**COMMITTED TO
OUR VALUES**



OPERATIONAL REVIEW

Regulation

The SEC deploys various measures to strengthen its regulatory regime in order to maintain a well-functioning securities market. Accordingly, during the year we focused our efforts on creating a facilitative regulatory framework through formulating effective policy, instituting reforms to the SEC Act, revising Rules and Regulations applicable to all regulatees and improving Corporate Governance standards.

Licensing and Registration

It is vital for capital market professionals to have the relevant competencies to participate in the capital market. The SEC's licensing regime seeks to ensure that regulated activities can only be conducted by those who are licensed or registered. Additionally, the SEC ascertains the fitness and propriety of all regulatees in order that they maintain high standards of conduct to protect the interest of investors. The entities engaged in regulated activities are as follows: (Figure: 01)

Figure 01: Licensing and Registration

Entity	Total No. of Licensed/ Registered Entities as at 31st December 2017	Licences/ Registrations granted during 2017
Stock Exchanges	01	-
Stock Broking Companies	32	-
Stock Dealing Companies	13	-
Managing companies of Unit Trusts	14	
Unit Trust Funds	80	02
Investment Managers	25	01
Margin Providers	28	-
Underwriters	09	-
Credit Rating Agencies	02	-
Clearing House	01	-

Policy Initiatives

The New SEC Act

The new SEC Act deals with the legal framework necessary to facilitate the capital market of Sri Lanka to move to the next stage of development whilst enhancing the protection granted to investors. In this regard many new provisions have been introduced which *inter alia* include mandatory provisions on Auditors to whistleblow to the Commission in the event or probable event of a violation of the provisions of the SEC Act by listed public companies and regulatees of the SEC, paying a

bounty to whistleblowers, extending the jurisdiction of the SEC in respect of the unlisted securities market, the introduction of 'fit and proper' criteria to listed public company directors, the recognition of a market operator etc.

The Advisory Committee finalised the Securities Exchange Bill and the SEC obtained the approval of the Cabinet of Ministers in March 2017. Thereafter, the Bill was forwarded to the Legal Draftsman for formalisation. Upon the finalisation of the drafting by the Legal Draftsman, the Attorney General granted the certificate of conformity with the Constitution. In November 2017 the Draft Bill was published in the gazette and in the month of December it was placed on the order paper of the Parliament.

The New Takeovers and Mergers Code

A draft of the new Takeovers and Mergers Code was finalised under the leadership and guidance of Justice Saleem Marsoof P.C. The draft was submitted for a final public consultation and taking into account the responses from the public; the draft is being revised.

Further amendments are being made to the draft of the new Takeovers and Mergers Code, taking into consideration the recent developments in the international takeover law.

Directives Issued by the SEC

Regulatory Interventions to Protect the Interests of Investors

The following regulatory actions were performed in pursuance of the objectives of the SEC to protect the interests of investors and to create and maintain a level playing field in the market.

Directive Issued to Swarnamahal Financial Services PLC under Section 13 (CC) of the SEC Act

The SEC issued a directive to Swarnamahal Financial Services PLC prohibiting it from entering into any Related Party Transactions including any write-off of outstanding or making of adjustments which will reduce the outstanding balances (except by way of recovering outstanding debt from Related Party Transactions) until such time the Corporate Governance requirements of the Listing Rules of the CSE are complied with.

Directive Issued to the CSE and all Licensed Stock Broker and Stock Dealer Firms Trading in Equity and/or Debt Securities under Section 13 (C) and Section 13 (P) of the SEC Act

The SEC directed the CSE to inform all stock brokers and stock dealers trading in equity and/or debt securities to fulfill and maintain a minimum requirement of shareholder funds to strengthen the financial position of such brokers and dealers irrespective of losses sustained in the past as part of a risk assessment framework.

Therefore all licensed stock broker and/or stock dealer firms trading in equity and/or debt securities were directed to maintain a minimum shareholder's fund requirement of Rs. 100 million or 50% of the firm's stated capital, whichever is higher.

Directive Issued to All Managing Companies and Trustees of Unit Trusts under Section 13 (C) of the SEC Act

The SEC issued guidelines on the contents of unit trust advertisements and promotional material to be followed by all managing companies of unit trusts. All trustees of unit trusts were directed to ensure that the guidelines are complied with by managing companies of unit trusts when granting approval in terms of rule 18(6) of the Unit Trust Code when marketing unit trusts to the public.

Directive Issued to the CSE/CDS and all Licensed Stock Brokers and/or Stock Dealers of the CSE Trading or Dealing in Equity Securities under Section 13 (C) of the SEC Act

The SEC having considered a request from the CSE, directed the CSE/CDS to revise the share transaction fees of the CSE and CDS and all licensed stock brokers and stock dealers trading in equity securities to ensure compliance with the fee structure when paying the CSE and CDS fees in respect of all share transactions with effect from 15th March 2017.

The Gazette Notification required under subsection (1) of Section 14A of the SEC Act in this regard was issued.

Directive Issued to the CSE and all Licensed Stock Brokers Relating to the Revised Enforcement Procedure for Stock Broking Companies that have Failed to Ensure Compliance with the Risk Based Capital Adequacy Requirements (CAR) in Terms of Section 13(c) of the SEC Act (as amended)

The SEC approved the revision of the enforcement procedure to be applicable to stock broking companies that have failed to ensure compliance with the Risk Based Capital Adequacy requirements.

The SEC approved the revised enforcement procedure subsequent to considering the representations made by the CSE in order to provide information on the impending regulatory action on the defaulting stock broking companies to the clients prior to imposing a prohibition on all trading activities of the defaulting company.

Directive Issued Regarding Incorporation of Enforcement Procedure to be Implemented on Listed Public Companies Violating Listing Requirements in Terms of Section 13 (c) of the SEC Act No.36 of 1987 (as amended).

The SEC having deliberated on the adequacy of the current Listing Rules of the CSE relating to the enforcement procedures applicable to defaulting listed public companies, decided to

adopt a more stringent policy of enforcement and approved the Rules made by the CSE and SEC with the view of ensuring effective enforcement of its decisions.

The CSE was directed to incorporate enforcement procedure contained in the aforesaid Rules named as 'Enforcement Compliance Rules 2017' with effect from 1st January 2018.

Approvals

Country, Regional and Global Funds

Upon the recommendation of the CDS, the SEC grants approval to global, regional and country funds to invest in the shares of companies listed on the CSE. Approvals are granted subject to compliance with Exchange Control Regulations, Prevention of Money Laundering Act No.05 of 2006, Financial Transactions Reporting Act No. 06 of 2006 and the Laws relating to securities in Sri Lanka.

During the year 2017, the SEC approved 152 global, regional and country funds to invest in listed securities in Sri Lanka and noted 40 name changes.

Waivers in terms of Rule 5.4(b) of the Listing Rules of the CSE

The SEC processes applications for the grant of waivers to Public Listed Companies seeking to issue shares by way of private placements which exceed 20% of the shares in issue immediately subsequent to such issue of shares.

During the year under review, two 5.4 (b) waivers were granted. One waiver was for a group restructure and the other was for an ownership restructure, where the parent and subsidiary relationship was interchanged. This is to ensure that shareholder rights are not unfairly impacted and ensure fairness to existing securities holders due to private placements. Waivers were granted to the following companies.

- Anilana Hotels and Properties PLC
- Distilleries Company of Sri Lanka PLC

Review of Listing Rules and the Stock Broker Rules of the CSE

Enforcement Rules on minimum public float, enforcement procedure for violations of Listing Rules, the introduction of a Watch List for the CSE, enforcement procedure for non-submission of financial statements by listed companies and for modified audit opinions of listed companies were reviewed and introduced to the Listing Rules of the CSE.

Administration of the Takeovers and Mergers Code

In the year 2017, the SEC administered 11 takeovers. Prior to administering these takeovers the SEC reviewed the content in the Independent Advisor's Report and valuation techniques

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adopted, including assumptions used in such valuation models to identify whether the valuation techniques used are reasonable and in accordance with general accepted practices. This is to enhance the clarity and content of the disclosures. During the year, the following takeovers were administered by the SEC. (Figure: 02)

Figure 02: Offers Extended Under the Takeovers and Mergers Code

Offeror	Offeree	Nature of the Offer	Shareholding at the Closure of the Offer (Approx)
Prime Lands (Private) Limited	Summit Finance PLC	Mandatory Offer	94.55%
D.R. Investment (Private) Limited	Agalawatte Plantations PLC	Mandatory Offer	61.22%
Fairway Holdings (Pvt) Ltd	Multi Finance PLC	Mandatory Offer	64.7%
Dialog Axiata PLC	Colombo Trust Finance PLC	Mandatory Offer	98.87%
Hayleys PLC together with parties acting in concert with Hayleys PLC, namely Mr. Kulapparachchige Don Dhammika Perera, Hayleys Advantis Limited, Hayleys Agriculture Holdings Limited and Hayleys Industrial Solutions (Private) Limited	Singer (Sri Lanka) PLC	Mandatory Offer	82.81%
Ali Asger Shabbir	Ceylon and Foreign Trades PLC	Mandatory Offer	64.74%
Ironwood Investors Holding (Private) Limited	Abans Finance PLC	Mandatory Offer	41.89%
Lamurep Investments Limited	Sunshine Holdings PLC	Voluntary Offer	49.34%
RIL Properties PLC	United Motors Lanka PLC	Mandatory Offer	51%
Eighth Wonder & Ian Joseph Mcveigh	Ascot Holdings PLC	Mandatory Offer	67.18%
Hikkaduwa Beach Resort PLC	Waskaduwa Beach Resort PLC	Voluntary Offer	This Voluntary Offer is pending as of 31st December 2017

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 the following entities. (Figure: 03)

Figure 03: Approvals Under Section 29A of the SEC Act

Name of the Issuer	Type of Security	Amount Approved	Duration
Pradeshia Sanwardhana Bank PLC	Unlisted Subordinated Unsecured and Redeemable Rated Debentures	LKR 02 Billion	05 Years
Nation Lanka Finance PLC	Unlisted Unsecured Subordinated Redeemable Debentures	LKR 250 Million	05 Years
Lanka Orix Leasing Company PLC	Senior Unsecured Unlisted Redeemable Rated Non Convertible Debentures	Type A: LKR 2 Billion	05 Years
		Type B: LKR 750 Million (Optional)	02 Years
Bank of Ceylon	Unlisted Unsecured Subordinated Redeemable Debentures with Non-Viability Write Down Features	LKR 10 Billion	Type A : 05 Years Type B : 05 Years Type C : 08 Years Type D : 08 Years

Approvals Under Section 28A of the SEC Act

Where shares in any public company are allotted to any person prior to its listing in a licensed stock exchange, no shares or any security convertible to shares in any such company shall be listed on a licensed stock exchange within a period of one year from the date of the last allotment, unless the written approval of the Commission is obtained for that purpose prior to such listing. During the year Hatton Plantations Ltd. was granted approval.

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”.

Approvals were granted for 525 exceptional transfers and 175 gifting of shares were brought to the notice of the SEC during the year under review. The exceptional transfers were in order to facilitate margin trading, fund management, de-listing, liquidation and restructuring of entities, portfolios and discontinuation of a margin provider.

Oversight and Compliance

Supervising regulated entities and monitoring their compliance with relevant laws and regulatory standards contribute towards fair and orderly markets as well as investor protection. Our supervisory activities of regulated entities are centered on a risk based framework that aims at early detection and containment of risk, with particular focus on financial soundness and business conduct.

We also review disclosures in Annual Reports as well as corporate communications of listed companies on an ongoing basis to ensure that all material information is disseminated to the market to enable investors to make investment decisions.

Listed Companies

All Listed Companies are required to submit Annual Reports within five months from the closure of the financial year to their shareholders and to the CSE.

The SEC reviews Annual Reports of listed companies, and communicates with the companies on matters relating to non-compliance. The responses of listed companies were extremely positive in this endeavour.

The objective of this exercise is to enhance the quality of financial reporting and dissemination of information by listed companies. Listed companies are required to disseminate material information promptly in order to establish transparency and accountability in the securities market, and to ensure that professional standards are maintained. In reviewing the Annual Reports we focused on the following areas:

- Compliance with CSE Listing Rules, Sri Lanka Accounting Standards and relevant provisions of the Companies Act
- Corporate Governance Practices
- Financial Highlights

- Chairman’s Report
- Report of Directors
- Independent Auditors’ Report
- Shareholder and Investor Information
- Financial Data
- Reports on Board Sub-Committees

This process will continue to contribute to improve the level of awareness among companies regarding the obligations placed upon them in the preparation and presentation of Annual Reports and financial statements in accordance with CSE Listing Rules and relevant regulations.

During the year, the SEC conducted 111 financial statement reviews of listed companies with 57 letters of comment sent to improve compliance and enhance disclosures. Others were concluded without further intimation or referred for further action. In addition, the SEC reviewed Prospectuses, Introductory documents, shareholder circulars etc of 30 companies that applied for further raising of funds from the public or for new listings. (Figure: 04)

Figure 04: Regulatory actions taken in relation to disclosures and corporate affairs of Public Listed Companies

Disclosures / Corporate Affairs	Number of Listed Entities
Explanations called* (to validate matters relating to disclosures by the respective Listed Entities)	66
Directed via CSE to make disclosures (to bridge the gap relating to funds raised via capital market and rectify the disclosure issues)	06 <ul style="list-style-type: none"> • City Housing and Real Estate PLC • Hemas Holdings PLC • Swarnamahahal Financial Services PLC • Ceylon Printers PLC • Janashakthi PLC • Sinhaphuthra Finance PLC
Directives issued	01 Swarnamahahal Financial Services PLC
Agreed Upon Procedures conducted by appropriate external experts (to verify the content of disclosures)	01 Janashakthi PLC

*During the Year SEC reviewed disclosures via market announcements by listed entities and sought clarifications either from the company or from CSE relating to 66 instances. Such

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clarifications were relating to dealings by Directors (28), changes in Directorate (23), Related Party Transactions (2) and other Corporate Disclosures (13).

Based on the reviews conducted by the SEC, the following matters were referred as appropriate for further inquiry/ investigation to other regulators.

Matters Referred to Other Regulators

Sri Lanka Accounting and Auditing Standards Monitoring Board

- Janashakthi PLC
- Anilana Hotels and Properties PLC
- Convenience Foods (Lanka) PLC
- Hatton National Bank PLC
- Tal Lanka Hotels PLC
- Agalawatte Plantations PLC

Central Bank of Sri Lanka

- Bank of Ceylon
- Swarnamahala Financial Services PLC

Department of Valuation

- Passikudah Beach Resorts Limited

Oversight of Licensed/ Registered Entities

Stock Broking Companies

The SEC is empowered under the SEC Act to supervise the licensed stock broking firms in order to monitor the level of compliance with the provisions of the SEC Act and the Stock Broker Rules issued by the CSE. The objective of supervision is to ensure the financial stability and operational viability of the stock broking companies and thereby strengthen investor protection and develop investor confidence in the capital market.

The approach to on-site supervision of stock broking firms is risk based, focusing on risks to which stock brokers are exposed to, such as prudential, liquidity, financial, credit, legal and operational risks whilst emphasising on compliance with applicable Rules and Regulations. Further, the off-site supervision is based on financial and other information submitted by the stock broking firms which serves as an early warning system to detect any issues regarding the financial soundness and impending operational issues. Supervisory action is initiated with regard to any discrepancies and non-compliances observed during the off-site examination process with the objective of regularising any violations and non-compliances.

During the year 2017, the SEC carried out on-site examinations on 19 stock brokers whilst the CSE conducted systems reviews on 12 stock brokers. A few stock broking firms were identified to be non-compliant with stipulated regulatory requirements and applicable standards. Such firms were required to take necessary steps to ensure compliance within a reasonable period of time while further action was initiated for continued non-compliance. The SEC suspended a firm which functioned in the capacity of a stock broker and stock dealer in debt securities, due to regulatory concerns.

Upon a directive issued by the SEC in the year 2016, the CSE implemented the CAR commencing 1st March 2017. Accordingly, stock broker firms are required to maintain a CAR ratio of 1.2 times subject to a minimum Liquid Capital Requirement of Rs 35 million. This regulatory requirement was implemented as a means of uplifting the standards applicable to stock brokers and to address systemic risk and to uphold the trust and confidence placed by the investors in the capital market. Accordingly, all stock broking firms commenced reporting the CAR on a daily basis to the SEC and CSE with effect from 1st March 2017. During the year, two broker firms were identified to be non-compliant with the minimum CAR and necessary regulatory actions were initiated against such firms.

During the year 2017, the SEC directed the CSE to mandate all stock broking firms to maintain a minimum shareholders fund requirement of Rs. 100 Mn or 50% of the firm's Stated Capital, whichever is higher, with effect from 1st January 2018. The said initiative was implemented as a measure of improving the financial position of the firm and to improve their financial resilience. Several stock broking firms infused capital during the third quarter of 2017 in order to meet this requirement.

The CSE, in consultation with the SEC, introduced enforcement procedures in respect of risk based CAR and minimum shareholder funds to deal with firms that are non-compliant with the respective Rules.

In recognition of the importance of sound internal controls and safeguards to mitigate the risks of information technology, common platforms for broker back offices and order management systems to brokers were introduced during the year. Further, the SEC has initiated the formulation of common minimum standards for information technology for the securities market.

Total turnover of the stock broking industry increased by 20% during the year 2017 compared to the year 2016. The industry also recorded a net profit in 2017 compared to the net loss situation recorded in year 2016. The comparative statistics on the performance of the stock broking companies are given below: (Figure: 05)

Figure 05: Highlights of the Stockbroking Industry

	2017 (Rs:'000)	2016 (Rs:'000)	Change %
Turnover	1,975,910	1,659,392	19.07
Net brokerage	1,740,134	1,400,294	24.27
Operating profit/loss	222,583	(336,414)	166.16
Other income	881,598	762,154	15.67
Net profit/loss before tax	74,441	(445,985)	116.69
Net profit/ loss after tax	4,216	(452,433)	100.93
Total assets*	9,083,176	10,088,876	(9.97)
Total liabilities *	3,239,115	4,450,477	(27.22)
Shareholder Funds*	5,844,061	5,638,399	3.65

*As at 31 December 2016/2017

Source: un-audited financial statements submitted by the stock broking firms to SEC

Unit Trust Industry

Initiatives were introduced by the SEC during the year under review towards improving the regulatory framework pertaining to the unit trust industry in line with the guidelines of the IOSCO.

The SEC, with the intention of strengthening supervision of the unit trust industry, issued a Directive requesting all unit trust managing companies to report further information on a monthly basis pertaining to investments made on behalf of the unit trust funds managed by such managing companies. Guidelines on unit trust advertising materials was issued in order to assist the existing and potential investors in making informed investment decisions. The said Guideline are intended to ensure that published material by unit trust companies for promotional purposes include sufficient and accurate information minimising possibilities of investors being misled. Several industry consultations were also held in order to discuss policy developments and other areas of concern for the industry.

The SEC's approach to on-site supervision of the management companies during the year was risk based encompassing main

risk areas under prudential, operational and management policies to assess the adequacy of their financial strength, compliance with internal controls and procedures, governance, information systems, Rules and Regulatory requirements.

Off-site supervision of the unit trust managing companies were also strengthened through the analysis of monthly unaudited financial statements to ensure that the financial condition of the managing companies was stable and they operated in compliance with the minimum net capital requirement stipulated by the SEC. In addition, exposure levels and liquidity of the unit trust funds were scrutinised to ensure that they were within acceptable limits as set out in the Unit Trust Code, the relevant Trust Deeds and Directives issued by the Commission.

The Net Asset value of the unit trust funds stood at Rs. 129 billion (approx) as at 31st December 2017 reflecting a growth of 24% compared to the previous year. The number of unit holders decreased by 0.3% whilst the number of units issued has increased by 7% compared to the previous year. Two new unit trust funds were licensed and one was launched during the year and a licensed commercial bank was approved to function in the capacity of a trustee to unit trust funds. (Figures: 06, 07)

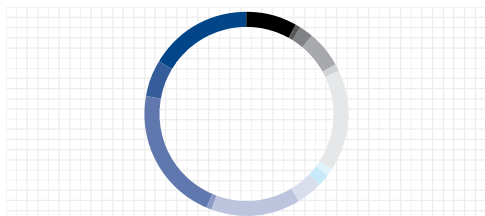
Figure 06: Overall Position of Unit Trust Funds

	As at 31.12.2017	As at 31.12.2016	% Change
Number of Approved Unit Trust Funds	80	78	3
Net Asset Value of Unit Trusts (Rs. Mn. approx.)	128,804	103,890	24
Number of Unit Holders	41,037	41,154	(0.3)
Number of Units Issued (No. Mn. approx.)	7,639	7,142	7
Investment in Equity (Rs. Mn. approx.)	12,466	13,786	(10)
Investment in Government Securities (Rs. Mn. approx.)	24,386	49,299	(51)
Investment in Other Instruments* (Rs. Mn. approx.)	91,732	40,553	126

*Commercial papers, trust certificates, debentures, bank deposits etc
Source: Regulatory submissions by unit trust managing companies

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Figure 07: Market Share of Unit Trust Managing Companies as at 31st December 2017



● National Asset Management Limited	8%
● Arpico Ataraxia Asset Management (Private) Limited	1%
● Investrust Wealth Management Limited	2%
● Ceybank Asset Management (Pvt) Limited	6%
● Comtrust Asset Management (Pvt) Limited	1%
● NDB Wealth Management Limited	16%
● Asset Trust Management (Pvt) Limited	1%
● Ceylon Asset Management Company Limited	2%
● First Capital Asset Management Limited	4%
● JB Financial (Pvt) Limited	14%
● Candor Asset Management (Pvt) Limited	1%
● Capital Alliance Investments Limited	21%
● Guardian Acuity Asset Management Limited	6%
● Assetline Capital (Pvt) Limited	16%

Market Intermediaries

In terms of the SEC Act, the SEC is empowered to grant registrations to investment managers, margin providers, credit rating agencies, underwriters and clearing houses to carry on business as a Market Intermediary. The registration of Market Intermediaries is renewed annually.

During the year 2017, the SEC granted new registrations to two entities to function as an investment manager and underwriter respectively. The said registrations were granted subject to a comprehensive assessment of the applicant's eligibility and ability to carry out the function of a Market Intermediary. During the year, the assessments were supplemented with pre-registration visits as recommended during the IOSCO Country Review. The registrations of five Market Intermediaries were voluntarily surrendered during the year 2017.

The supervisory procedures adopted by the SEC over Market Intermediaries were strengthened during the year by moving towards a risk based approach, mainly focusing on operational and liquidity risks as well as prudential requirements. Whilst carrying out continuous off-site reviews based on periodic reports submitted by the entities, the SEC carried out 29 on-site inspections during the year.

The SEC has recognised the importance of having sound internal controls and safeguards to mitigate the risks of information technology of Market Intermediaries. To address this concern, the SEC has initiated to formulate common minimum standards for the securities market including Market Intermediaries.

In order to further strengthen the supervision over this segment, the existing Rules applicable to Market Intermediaries were reviewed. The draft Rules will be issued for industry consultation in 2018. Financial Highlights of Market Intermediaries as at 31st December 2017. (Figures: 08, 09, 10, 11, 12)

Figure 08: Investment Managers

	Number of Clients		Total Assets under Management (Rs. Mn)		Total Fee Income (Rs, Mn)	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	2017	2016
Banks, Finance and Leasing Companies registered under the Central Bank	6	3	1,198	888	20	18
Other Companies	525	489	177,253	153,540	491	445
Total	531	492	178,451	154,428	466	509

Figure 09: Margin Providers

	Number of Companies		Total Margin Credit (Rs Mn)		Total Market Value of Securities Pledged (Rs. Mn)		Total Margin Trading Income (Rs. Mn)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	2017	2016
Banks Registered under Central Bank	8	8	6,307	8,183	19,027	22,867	807	901
Finance & Leasing companies Registered under Central Bank	10	11	3,140	2,652	7,901	6,490	372	314
Other Companies	10	11	1,397	2,795	5,740	10,313	268	286
Total	28	30	10,845	13,631	32,670	39,670	1,448	1,502

Figure 10: Credit Rating Agencies

Total Revenue (Rs.Mn)		Net Profit before Tax(Rs. Mn)		Total Assets (Rs. Mn)		Total Liabilities(Rs. Mn)	
2017	2016	2017	2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
171	117	78	63	212	172	42	37

Figure 11: Underwriters

	Number of Companies		Number of Underwriting Assignments Approved by the SEC	
	31.12.2017	31.12.2016	2017	2016
Banks Registered under Central Bank	5	4	02	0
Finance & Leasing Companies Registered under Central Bank	1	1	0	0
Other Companies	3	3	0	0
Total	9	8	02	0

Figure 12: Central Depository Systems (Pvt) Ltd.

Total Revenue (Rs. Mn)		Net Profit/(Loss) before Tax(Rs. Mn)		Total Assets (Rs.Mn)		Total Liabilities(Rs Mn)	
2017	2016	2017	2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
211	143	55	(7)	602	606	8	44

Source: Un-audited financial statements submitted to the SEC

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Surveillance, Investigations and Enforcement

The SEC undertakes daily market surveillance to detect instances of market abuse. Possible violations of securities laws are referred for further investigations and enforcement action.

Market Surveillance

The SEC protects the integrity of the capital market and investors from manipulation and abusive practices. The integrity of the market is maintained through a combination of surveillance, inspection, investigation and enforcement of securities laws and rules. Market surveillance, in particular, plays a significant role in anticipating the potential vulnerabilities to a capital market. It is seen as a pre-emptive measure aimed at detecting and deterring potential market abuse and avoiding disruptions to the free price discovery mechanism.

Surveillance Referrals

During the year under review, there were 14 surveillance referrals generated and forwarded to the Surveillance and Investigations Committee for review. Compared to the year 2016, in the year 2017 a higher number of referrals were forwarded to the Committee. They include five possible cases of Insider Dealing, 10 instances of Market Manipulation and Market misconduct and one other violation. There were instances where one referral involved more than one market violation/offence. Out of 14 Referrals, three referrals warranted full investigations during the year. (Figures: 13, 14)

Figure 13: Number of Referrals

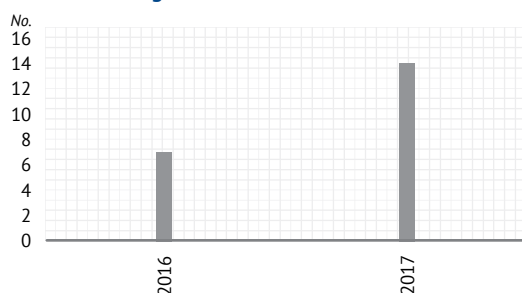
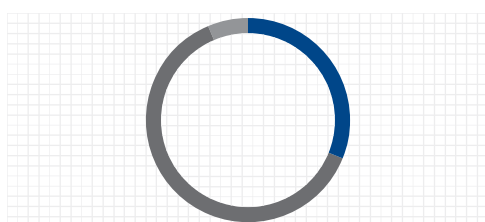


Figure 14: Surveillance Referrals with Classification of Offences 2017



- Insider Dealings - 5
- Market Manipulations & Misconducts - 10
- Other Violations - 1

The Approach and Performance of the Surveillance function

The SEC has a robust surveillance system in place to monitor activities of the CSE to detect abnormal transactions. As an ongoing mechanism the SEC conducts two main surveillance functions i.e. proactive and reactive. Proactive steps taken included detection of abnormal transactions that create misleading impressions to the market. In such instances, having analysed market behaviour and historical trading patterns, the SEC contacted relevant investors, investment advisors and broker firms in order to obtain clarifications. During the year of 2017, the SEC sought explanations from 42 brokers / investment advisors, 32 investors with respects to 61 suspected incidents.

Reactive surveillance occurs after taking into consideration the seriousness of the case. The SEC prepares a comprehensive Surveillance Report i.e. 'Surveillance Referral' which is submitted to the Surveillance and Investigation Committee for necessary action.

In addition the CSE, as the facilitator of trading, notifies SEC's Surveillance and Investigations Committee of their surveillance concerns and action is taken on a regular basis.

The SEC also prepares comprehensive analytical reports on the memorandums received from other divisions of the SEC and complaints received from investors on various market misconducts.

The SEC maintains a watch list of investors, broker firms and investment advisors engaged in market misconducts on a daily basis to analyse repetitive cases.

Further Surveillance Initiatives

The SEC is in the process of obtaining an advanced surveillance system or upgrading the existing one with comprehensive features in order to address prevailing barriers in conducting sophisticated analysis to monitor the market more effectively and efficiently.

Investigations

Conducting investigations into suspected cases of capital market offences including cases of Insider Dealing¹, Price/Market Manipulation², Front Running³ and other Market Misconduct stipulated in the SEC Act No. 36 of 1987 (as amended) and in Rules and Regulations made thereunder, is of paramount importance in maintaining an orderly and a fair market and in protecting the interest of investors which are key objectives of the securities market regulator.

During 2017, five new investigations were commenced, including two investigations on suspected Price/Market Manipulations that occurred in 2011. Out of the two, one investigation was successfully progressing in its final stage at the end of the year while the other was progressing at a different stage.

The SEC submitted 2 Investigation Reports in relation to suspected offences of Insider Dealing and Price/Market Manipulation to the Commission during the year wherein the Commission decided to take enforcement action and both matters were referred to the Attorney General's Department for institution of legal action.

As at December 2017, the SEC was in the process of finalising Reports of two investigations including one Report pertaining to a previously concluded case in 2013 which was re-opened as directed by the Members of the Commission in 2016.

In addition, legal proceedings were instituted by the SEC during the year in the Magistrate's Court, Fort against one main suspect of an investigation, for his failure to be present for a statement recording of the SEC in violation of Section 46A of the SEC Act.

The SEC continued to work closely with other regulatory agencies during the year under review. Several findings were referred to relevant regulatory and law enforcement agencies such as the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka, Fraud Investigation Bureau, Criminal Investigation Department (CID), Registrar General's Department and Sri Lanka Accounting and Auditing Standards Monitoring Board for their necessary action.

Furthermore, technical assistance of two experts of the International Monetary Fund (IMF) was obtained to enhance the effectiveness of the enforcement process of the SEC during the year.

Details and a brief description of the action taken/status of the investigations at the end of 2017 are given below: (Figure: 15)

Figure 15: Details of Investigations

Nature of the Investigation	No. of Cases	Action Taken/Current Status
Further investigations into cases concluded in previous years	11	<ul style="list-style-type: none"> Eleven previously concluded investigations were re-opened as directed by the Members of the Commission during 2015 and 2016. Out of the three investigations re-opened in 2015, two investigations were progressing at the final stage while the other investigation was ongoing. Out of the eight investigations re-opened in 2016, seven investigations are connected to the same group of persons. The Report of one investigation was being compiled after successful completion while further investigations into the other cases were in progress at the final stage.

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 (S. 32, SEC Act).

2 Creation of a false or misleading appearance in respect of the trading or the price of any securities listed on a stock market (Rule 12, SEC Rules) and/or creation of a false market by the trading in securities that do not involve a change in beneficial ownership or by any fictitious transactions or by any other means (Rule 13, SEC Rules).

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 (Rule 14, SEC Rules).

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Nature of the Investigation	No. of Cases	Action Taken/Current Status
Insider Dealing in the shares of listed companies	3	<ul style="list-style-type: none"> The Report of one investigation which was completed in the previous year, was submitted to the Commission in February 2017. Upon deliberations of the findings of the report, the Commission decided to take enforcement actions and the matter was referred to the Attorney General's Department for institution of legal action. Out of the other two investigations, one investigation was in progress at the final stage while the other investigation was ongoing as at end 2017.
Price/Market manipulation in the shares of listed companies	3	<ul style="list-style-type: none"> During 2017, two investigations were commenced to investigate suspected Price/Market manipulation that occurred in 2011. Out of those, one investigation was successfully progressing at the final stage at the end of the year while the other was also on going. Further, an investigation into certain trades executed in the shares of two listed companies was also in progress at the end of 2017.
Price/Market manipulation and/or Insider Dealing in the shares of listed companies	6	<ul style="list-style-type: none"> An investigation into market/price manipulation and/or insider dealing was referred to the Attorney General's Department for institution of legal action against three persons in 2014 and the matter was pending at the respective Department at the end of 2017. Another five investigations, including two new investigations commenced during the year, were in progress at the end of the year under review. The Report pertaining to one of those investigations was being compiled.
Price/Market manipulation and/or Insider Dealing and/or Front Running in the shares of listed companies	2	<ul style="list-style-type: none"> The Report of one investigation which was completed in the previous year, was submitted to the Commission in January 2017. Upon deliberations of the findings of the report, the Commission decided to take enforcement actions and the matter was referred to the Attorney General's Department for institution of legal action. The other investigation was in progress at the final stage at the end of the year.
Insider Dealing and/or Price/Market manipulation in the shares of a listed company and misleading/non-disclosure of the use of rights issue funds by the same company.	2	<ul style="list-style-type: none"> One investigation was referred to the CID in order to ascertain any 'Misappropriation of Funds' during 2016. The other investigation was progressing at the final stage and the Report was being compiled at the end of the year.
Front Running and/or Insider Dealing in the shares of listed companies	2	<ul style="list-style-type: none"> A formal opinion regarding one investigation was solicited from the Hon. Attorney General and the said formal opinion was pending as at December 2017. The other investigation was in progress at the final stage at the end of the year.

Nature of the Investigation	No. of Cases	Action Taken/Current Status
Investigation pertaining to irregular activities by stock brokering firms	2	<ul style="list-style-type: none"> • In 2015, the Surveillance and Investigations Committee of the SEC directed the Investigations Division to carry further investigations in to one investigation. • During 2017 certain aspects of the said investigation was referred to the FIU of the Central Bank of Sri Lanka in order to ascertain any 'Money Laundering' allegations and the Investigation Report was being compiled as at the end of the year. • In addition, legal proceedings have been instituted by the SEC in the Magistrate's Court - Fort against one main suspect of the case for his failure to be present for a statement recording of the SEC in violation of section 46A of the SEC Act. • After completing investigations work in 2016 the other investigation was referred to the respective divisions to take enforcement actions.
Investigation into the conduct of Investment Advisors	2	<ul style="list-style-type: none"> • Report of one investigation was referred to the CSE by the Members of the Commission for disciplinary action in 2015 and the other investigation was in progress at the final stage.
Investigation pertaining to the business affairs of a listed company	1	<ul style="list-style-type: none"> • During the year 2014 the Investigation Report and the details pertaining to an investigation regarding the business affairs of a listed company were forwarded to the Honourable Attorney General for the determination of the persons against whom legal action was to be instituted. As at end 2017, the advice of the Honourable Attorney General regarding the same was pending.
Investigation into the possible violation of Takeovers and Mergers Code by a listed company	2	<ul style="list-style-type: none"> • A new investigation commenced during 2017 with regard to a possible violation of Takeovers and Mergers Code by a listed company was in progress as at the end of the year. • The other investigation has been completed and the Report has been finalised.
Investigation into the misleading disclosures made in the Financial Reports of a listed company	1	<ul style="list-style-type: none"> • As of December 2017, this investigation was in progress.
Preliminary inquiry against a regulated Investment Management company	1	<ul style="list-style-type: none"> • This inquiry has been completed and the Report has been finalised.

Operational Review

Complaints Redress System

Status of investor complaints received and redressed are given below. (Figure: 16)

Figure 16: Complaints and Matters Relating to Listed Entities

Nature of Complaint	Number of Complaints Attended	Action Taken/Current Status
Conduct of Board of Directors of Public Listed Companies	02	Matters concluded appropriately
Conduct of Public Listed Companies	29	22 matters were resolved appropriately and six matters were referred to other divisions. One matter is in progress.
Market Disclosures	01	Matter concluded appropriately
Non-Compliance with applicable Financial Reporting Framework	03	One matter was resolved appropriately whilst one complaint was referred to other divisions and one matter is in progress.
Non-Compliance with SEC Rules / CSE Listing Rules	01	Matter concluded appropriately
Conduct of External Auditors of Public Listed Companies	02	Matters concluded appropriately
Total	38	

Appeals Made to the SEC in Terms of Section 01 of CDS Rules

An investor made an appeal to the SEC in terms of Section 1.2 'Interpretation Rules' of the Central Depository Systems (Private) Limited (CDS Rules) against a decision of the Board of Directors of CDS rejecting the appeal of the appellant.

The matter has been concluded subsequent to the deliberations resulting the CSE facilitating the requirement until a policy will be in place to address the matter in hand.

Enforcement Action

Litigation

SEC vs. Miramar Beach Hotels PLC and Others, MC S/72082/2010 & S/72083/2010

Charges were filed in the Magistrate's Court Fort on 04th November 2010 against the above mentioned company and its Directors for non-submission of Annual Reports of the Company for the financial years ended 31st March 2008 and 31st March 2009, in contravention of Rule 3(1) and 17 of the SEC Rules.

The Colombo Fort Magistrate's Court fined Miramar Beach Hotels PLC Rs. 1.3 million for the non-submission of Annual Reports for the financial years ended 2008 and 2009 to the CSE in a timely manner, in terms of the SEC Rules and the Listing Rules of the CSE. The Court also granted permission to the company to pay the fine in installments of Rs. 75,000 and Rs. 50,000 for each case.

The company and its Board of Directors pleaded guilty to the charges filed by the SEC. The Court acting in terms of Section 306 of the Criminal Procedure Code discharged the accused Directors subject to the conditions that if the company fails to pay the installments as directed by the Court; the Directors would have to undergo a rigorous imprisonment of six months for each failure. The accused Directors were also further fined a sum of Rs. 1500/- per case as State costs with one month simple imprisonment in case for the failure to pay such sum.

SEC vs. M. I. Samsudeen and M. B. Nizar, MC S/5322/17

The SEC instituted the above action in the Magistrate's Court Colombo Fort against M. Imtiaz Samsudeen and Bafiq Nizar for conspiracy to commit market/price manipulation and for committing market/price manipulation punishable under Rule 12 of the SEC Rules as published in Gazette Extraordinary No.1215/2 dated 18th of December 2001 read with Sections 113(b) and 102 of the Penal Code under Section 51(1)(a) of the SEC Act No. 36 of 1987 as amended.

The matter is pending in the Magistrate's Court Colombo Fort.

Magpek Exports (Private) Limited vs. SEC, HCMCA 217/2007

Four of the accused in this case who were convicted by the Learned Magistrate of Colombo Fort for not immediately disclosing certain material information in contravention of the SEC Rules appealed against the judgment and their sentence to the Provincial High Court. In respect of three of the accused the matter was concluded when the High Court Judge affirmed the conviction of the Learned Magistrate but set aside the sentence of imprisonment by imposing a fine of Rs. 3 million each.

The appeal against the conviction and sentence is pending against the 6th accused appellant in the High Court of Colombo.

Minu Manoo Melvani vs. SEC and Others, C.A. (Writ)340/2016

Notice was issued on the SEC and the Director General of the SEC and three other Respondents in a Writ Application filed by Mrs. Minu Manoo Melvani before the Court of Appeal.

During the year under review the above matter was withdrawn by the Petitioner based on the settlement which had been reached by the Petitioner and the 3rd Respondent stock broker.

The SEC has already completed the investigation relating to the above matter and has referred the same to the Disciplinary Committee of the CSE to carry out an inquiry on the stock broker.

Talib Tawfiq Al Nakib vs. SEC and CSE, DSP 20/16

The above action was filed by Mr. Talib T Al-Nakib in the District Court of Colombo against the CSE and the SEC praying for Judgement and Decree against the CSE and the SEC for a declaration that the CSE and the SEC are obliged to investigate the affairs of Heath and Company (Ceylon) Limited which is an unlisted subsidiary company of Hunter & Company PLC a company Listed on the CSE.

During the year under review the Hon. District judge delivered the Order dismissing the action filed by the Plaintiff Talib T Al-Nakib against the SEC and the CSE.

Talib Tawfiq Al Nakib vs. SEC and CSE, WP/HCCA/LA/158/2017

The above Application for Leave to appeal has been lodged against the Order delivered by the Honourable District Judge of Colombo in the case No. DSP/20/2016 referred to above.

The matter is pending in the High Court of Colombo.

K.C. Vignarajah vs. Standard Capital PLC and Others, CHC/CO/09/2016

The Petitioner has filed this application before the Commercial High Court of Colombo in terms of Sections 224 and 225 of

the Companies Act No.7 of 2007 read with Sections 226, 520, and 521 of the said Act. The Petitioner has filed this case as a derivative action against Standard Capital PLC and its Directors and has complained that he has been wrongfully removed as a Director of the said company and as the Chairman of the Audit Committee of the respective company.

The Petitioner has cited the SEC as the 7th Respondent on the basis that it is the regulatory authority overseeing the conduct and affairs of the CSE and companies listed thereon. The Petitioner has not prayed for any relief against the SEC.

The matter is pending in the Commercial High Court.

Entrust Capital Markets Private Limited v. SEC, CA/MISC/02/2016

The Petitioner Entrust Capital Markets Private Limited filed action against the SEC praying for the reversal or setting aside of the decision of the SEC regarding the non- renewal of the licence to function in the capacity of a stock broker. The SEC in this case did not renew the licence to function as a stock broker to the Petitioner.

During the year under review the case was withdrawn by the Petitioner.

Cases Regarding Which the SEC was Summoned to Lead Evidence

The SEC was summoned to give evidence in respect of the following case:

- Somerville Stock Brokers (Pvt) Ltd. vs. Wijeya Newspapers Limited and Others DMR 2329/2012

Opinions Referred to the Honourable Attorney General

Opinions based on the findings of three investigations were pending during the year under review.

Other

Advisory Commission on Company Law

The SEC participated in the capacity of an observer at the meetings held with the above. Several representations have been made to the Advisory Commission for its consideration to include several provisions aimed at investor protection as amendments to the Companies Act.

Capital Market Development

Apart from discharging its regulatory functions, the SEC is also tasked with the responsibility of proactively formulating robust policies and strategies for the development of the market based on international best practices.

Operational Review

Moreover, the SEC facilitates changes to its regulatory framework by keeping abreast of policies in view of dynamic risks and develops trends in an increasingly interconnected global market, and supports the implementation of the Capital Market Strategy 2020.

The SEC's Capital Market Strategy 2020 maps the multi-pronged strategy that combines both supply and demand side strategies in order to increase Sri Lanka's attractiveness and resilience as a listing, investment, and trading venue. As such, the Capital Market Strategy 2020 was absorbed into the national policy agenda by the Cabinet approving of the same in October 2016. During the year under review, several of its initiatives were included in the Government's compelling 'Vision 2025'.

Significant achievements of our policy and project facilitation in 2017 include:

Facilitate the Demutualisation of the CSE

This initiative is critical as part of the measures to enhance competitiveness of the CSE and strengthen its corporate governance structure. During the course of the year, the demutualisation project entered a decisive stage with the following key milestones achieved:

- The value allocation model between CSE Member Firms and the CMDF was finalised by the ADB Consultants based on the direct financial contributions made by the Member Firms, the United States Agency for International Development (USAID) and the CESS fund. As such, the consultants recommended a 50:50 distribution between the CSE Member Firms and the CMDF as the most objective, equitable and reasonable allocation basis;
- Taking cognisance of the importance of reaching a consensus with the CSE Member Firms on the share allocation model and the role played by Member Firms in setting up the Exchange, the Commission approved a distribution of 60:40 between CSE Member Firms and the CMDF in the demutualised CSE;
- The Demutualisation of the CSE Bill was redrafted based on consultancy input and due procedures were followed with the Legal Draftsman and the Attorney General for the submission of the Bill to the Cabinet. The policy underlining the Bill was approved by the Cabinet of Ministers on 12th September 2017.
- The Bill is expected to be approved by the Cabinet of Ministers and subsequently gazetted and published in the Order Paper in 1Q2018.

Facilitate the Implementation of a CCP Mechanism

The SEC currently spearheads this landmark initiative via providing policy level guidance to the implementing agency, the CSE. The SEC secured both technical and financial assistance for the initiative from The World Bank under the Financial Sector Modernisation Project.

Initiation

- Initially, an integrated CCP system between the Central Bank, the SEC and the CSE was envisaged as the best-suited model for CCP implementation, considering the size of the Sri Lankan financial market. However, the change in circumstances subsequent to the exit of the CBSL from the CCP Consortium resulted in a decision to proceed with implementation of a CCP in respect of only listed securities;
- The financial case of the CCP proper was re-evaluated in early 2017 in light of prevailing market conditions and assessment as to the viability of a pure equities returns profile as part of the cost-benefit analysis undertaken as per IOSCO recommendations;
- A phased implementation approach to CCP was approved by the Commission and priority was given to the Delivery vs. Payment implementation together with enhanced margining as the initiatory phase. The extended scope of adopting the phased implementation of a CCP mechanism, was jointly set out with the CSE to facilitate project implementation;
- An assessment of the existent post-trade risk profile and potential mitigation through the phased implementation was carried out, while the CDS was advised to initiate a self assessment to enable ascertaining of legal and operational gaps relative to the IOSCO principles;
- Comprehensive policy research was conducted on governance and ownership structures of central securities depositories and CCPs to review the case of CSE's full ownership of clearing infrastructure against international norms. This study aimed in particular to identify potential general and specific conflicts of interest that may result through the vertical ownership structure of the CSE and its market-infrastructure based subsidiaries. Findings were intended to support the governance structure of the CSE post-demutualisation.

Business Model and Operational Framework Specification

- Although the initial margin and settlement model was presented by the CSE in July 2017, expansive refinements to the model were necessitated to ensure adequacy of margining, customise to the depository-based clearing setting (as opposed to central clearing) and to ascertain the extent to which the local setting could support pragmatically the adoption of best-practice. At year end, a penultimate version of the framework with Bank for International Settlements (BIS) Model 2 DVP as the basis

was formulated with plans for facilitating stakeholder consultations during 1Q 2018.

Facilitate the Implementation of a Broker Back Office and Order Management System

- The Secretariat together with the CSE led the implementation of a BBO and OMS. The enhancement of trade and post trade technology at broker-end is in part to support the transition to a CCP environment. The updated technology streamlines the trade through post-trade activity flow and helps mitigate potential risks relating to operations.
- The Audit Sub-Committee comprising members from the SEC, the CSE and an external Information Technology consultant retained by the SEC, conducted compliance audits on the BBO and OMS of all stockbroking firms which had completed system implementation by the prescribed deadline. Requisite disbursements were made as per the agreed upon terms and conditions pertaining to the disbursement of funds. Disbursement of financial support was also effected in view of firms which completed implementation following the lapse of the original deadline subject to special conditions. The total financial contribution made by the SEC through the CESS fund in view of facilitating this initiative amounted to approximately Rs.25.4 Mn during the period under review.
- Certain requirements were noted in view of the DVP implementation during the business and operational framework consultations. Requisite refinements anticipated to the BBO and OMS in order to align with the DVP framework will be revisited with the initiation of the 'Requirements and Development' stage in the ensuing year.

Product Analysis, Research and Formulation of Related Policy to Enable New Products

- The SEC explored the potential of introducing additional capital market instruments to both retail and institutional investors for investment and diversification of risk. As such, the Secretariat conducted risk analysis and research across selected jurisdictions in view of benchmark practices in regulated to short selling and Exchange Traded Funds.
- The Central Bank had detailed the phased adoption of BASEL III capital requirements effective for local banks as of July 01, 2017. The relevant Direction of Central Bank explicated the features and conditions in view of regulatory capital instruments that qualify under the various capital 'tiers' : Core Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 amongst others.
- The SEC carried out an assessment of product structures, investment risks, legalities relating to loss absorption and benchmark practices applicable to disclosures pertaining to BASEL III compliant instruments.

- As BASEL III instruments were ascertained as non-homogeneous and subject to unique risks and varied loss severity depending on the manner in which its is structured. The SEC formulated a distribution policy applicable to BASEL III compliant debentures restricting subscription to certain 'Qualified Investors' comprising predominantly institutional investors in the interim, due to complex risk return characteristics embedded in the instrument.
- The Secretariat actively engaged the Central Bank in defining the way forward in view of facilitating the necessary transition to the enhanced capital requirements envisaged utilising the capital market as a conduit. Significant future interactions are anticipated with this progression in view of financial stability, distribution policy and legal and tax implications inter-alia.

Develop the Corporate Bond Market

The Secretariat continued to spearhead the ongoing reforms in the bond markets sector.

- The SEC provided assistance for the diagnostic study carried out by The World Bank Mission on the local bond market, prior to the commencement of consultancy support for initiatives targeted at strengthening the bond market;
- An analysis of headline indicators, targets, sequencing of the initiatives and objectives in relation to the programme proposal was completed and extensive feedback on limitations and gaps on regulatory and operational dynamics of listed and unlisted corporate bonds was provided to the bond market experts of The World Bank.

Representations to Policymakers in View of Aligning the Capital Market with National Economic Growth Aspirations

The Sri Lankan capital market's core concern remains its liquidity – underlying activity levels, market depth and breadth. The SEC's Capital Market Strategy 2020 maps the transformative plan for the Sri Lankan market in order to gain demand and supply side advantage. The Strategy has the auspices of the Government and several initiatives outlined therein were absorbed in the 'Vision 2025' of the Government.

The SEC's representations over the year intended to support the overall strategy by reinvigorating the policy dialogue:

- Representations were made to policymakers on the benefits of listing SOEs with compelling value propositions on the CSE;
- A review of the asset allocation of State Pension Funds was conducted highlighting global best practices and trends and representations made in view of optimising the risk reward structure of State Pension Funds;

Operational Review

- The SEC submitted budget proposals and other representations to the Ministry of Finance on tax incentives to support the Corporate Bond market and alternative arrangements to support the unit trust industry;
- The SEC made representations to Central Bank in relation to BASEL III debenture issuances, particularly in view of developing an appropriate distribution policy.

Rationalising and Ensuring the Policy Steadiness of the Revised Rules on Minimum Public Holding Applicable to All Listed Companies

The underlying principle which underscored the use of minimum public shareholding and minimum public shareholders was that a continuous and efficient market and the discovery of fair prices rested on adequate liquidity in the market.

The SEC carried out extensive analysis to substantiate the rationale for the policy continuity in using minimum public holding and minimum public shareholders as criteria for continued listing on the CSE. The SEC made representations to the Commission on its findings and ensured consistent and continued adoption of the policy to all listed companies.

Facilitating an Alternative Mechanism for the Transparent Divestment of Strategic Stakes in Listed Public Companies and Government Owned Entities

With the Government of Sri Lanka expressing its interest to divest Government ownership of unlisted entities, the need for an All or None (AoN) trading mechanism was identified. An AoN mechanism would provide for trading AoN blocks in the Automated Trading System (ATS), whereby, strategic stakes in Listed Public Companies and Government Owned Entities can transact in a transparent manner circumventing the normal order book or crossings facilities of the ATS.

The following were actioned:

- AoN rules were submitted before the Commission for approval in February 2017, upon which approved rules were sent to the CSE to be incorporated to ATS Rules and other Rules in order for the Central Depository Systems (Pvt) Ltd (CDS) to facilitate AoN trades.
- Subsequently an amendment to the aforementioned Rules were submitted to the SEC by the CSE which was approved by the Commission in 1Q 2018. As of the publication of this report, the CSE has implemented the Rules on trading of AoN during 1Q 2018, paving way for priority divestments of the Government to utilise this transparent mode of offer.

Analysis of Extra-Territoriality of EU Regulations on the Local Capital Market Framework

The securities market regulations of the European Union effective from January 2018, including the Markets in Financial

Instruments Directive II (MiFiD II), Markets in Financial Instruments Regulations (MiFiR), European Market Infrastructure Regulation (EMIR) and the Benchmarks Regulation (BMR) are amongst a collective that have extraterritorial reach to Non-EU countries, either directly or indirectly.

The SEC engaged in knowledge-gathering on the wide-reaching impacts of the said regulations in order to assess how the local market and its stakeholder groups would be affected by the same:

- The Asia Pacific Regional Conference 2017 was crucial to the assessment of impact of EU Securities Regulations. Taking into account the amount of foreign funds stemming to the local market from the European region, approximately 36% of a total of foreign flow of € 560 Mn, the SEC engaged in assessing the need for compliance with the EU laws where applicable.
- The SEC guided the CSE in delineating appropriate steps under BMR in view of its indices and engaged in a dialogue with the EU and regional regulatory bodies to clarify Sri Lanka's position in view of being in-scope under MiFiD II with respect to certain areas such as market intermediary organisational requirements including those related to research unbundling.
- Given impending market infrastructural enhancements and productisations including equity linked derivatives and other financial derivatives, the Secretariat also reviewed the manner in which the market may become in-scope under the EMIR with such transition.
- As per the communications had with the European Securities and Markets Authority, it was ascertained that shares on the CSE were not systematically and frequently traded on EU trading venues to warrant a trading obligation under MiFiD II. However, in effect, market intermediaries were indirectly in-scope for certain requirements which necessitates ongoing organisational enhancements.

Attract New Funds

The Secretariat formulated compelling value propositions for the local capital market to engage foreign investors. During the course of the year, the SEC executed three non-deal road shows together with the CSE in Sydney and Melbourne, Australia and in New York, United States of America.

Potential Reclassification of Sri Lanka as an Emerging Market in the Morgan Stanley Capital International (MSCI) Index

- The Secretariat commenced a study to evaluate gaps in relation to key areas in the local capital market structure which prevents Sri Lanka from being reclassified as an Emerging market. This was conducted as a preliminary

measure towards devising strategies to overcome any gaps identified.

- The progression towards the implementation of a CCP framework is guided by MSCI requirements which are prescriptive where applicable for market infrastructure. The Secretariat has taken measures to recognise them in the clearing and settlement framework to the extent possible.

Support for Internal Capacity Building - Potentiality for the Implementation of Merit Based Performance Management System

In order to maximise institutional efficiency, the Secretariat explored the possibility of implementing a Performance Management System (PMS) Framework as a means of transitioning to merit based performance.

A policy framework for implementing a Performance Management system was formulated and a sequencing framework of strategic priorities and performance indicators for all divisions of the SEC was set out in a Balanced Scorecard Framework in line with corporate strategy. This initiative is to be further explored during 2018.

Other Initiatives

Enhance the Proposed 'Fit and Proper Criteria' for Directors of Listed Entities in Line with Local and International Best Practices

The purpose of this policy initiative is to incorporate criterion relating to the Directors of listed entities to be considered when discharging their duties. This criterion was developed by evaluating the regulations of local and international jurisdictions in relation to the Fit and Proper criterion. This initiative is currently in progress.

Facilitating Small and Medium Enterprises Listing via Creation of a Separate SME Board

The purpose of this initiative is to introduce a SME board in the CSE in order to facilitate the SMEs to raise capital via the market and create a trading platform for investors who have an appetite for SME investments. Further, this allows SMEs to experience the regulatory and compliance environment, dealing with investor expectations and other key stakeholders of a listed entity. The SEC along with CSE has developed a framework for the listing of SMEs and policy approval has been obtained.

Developing a Comprehensive Framework for Financial Surveillance as an Internal Guideline

This policy initiative was introduced in order to create a formal framework for financial surveillance on disclosures by listed entities. Reviewing the corporate disclosures of listed entities is an important aspect of capital market regulation as it facilitates transparency and accountability. This reviews whether applicable minimum standards are adhered to when disclosures

are made. The proposal is drafted and awaiting requisite approval for implementation.

Multi Currency Listing by Foreign/Local Entities

This is to facilitate the listing of foreign entities on the proposed Multi Currency Board and same is expected to be extended to local entities in time to come. This initiative will facilitate extending Sri Lankan capital market infrastructure to companies with a primary listing outside Sri Lanka. Currently, the SEC is awaiting the Attorney General's opinion to proceed with implementation.

Facilitation of a Director Training Programme

This initiative is to assist existing service providers who are engaged in providing training to Directors of both listed and non-listed entities in Sri Lanka. This facilitates improving awareness, strengthening Corporate Governance and empowering the role of Independent Directors through knowledge. This initiative is currently awaiting approval.

Evaluation of Introduction of Standardised Financial Reporting System to Sri Lankan Capital Market

This initiative allows listed entities to provide compliance reporting through a standardised reporting mechanism. This mechanism allows users to analyse financial data in an efficient manner promoting analytical based investment decisions. This initiative is awaiting funding confirmation to proceed.

Implementation of the Corporate Governance Code to be in Line with Organisation of Economic Co-operation and Development (OECD) Principles, IOSCO Principles and International Best Practices on Corporate Governance

This initiative is currently in progress and expected to improve the governance framework applicable to listed entities.

Evaluate the Possibility of Creating a Framework Supported by an Accountability Mechanism Facilitated via the Regulator Applicable to External Auditors in Conducting Audits of Listed Companies to Ensure Integrity of Information Disclosed and Preservation of Stakeholder Confidence.

The intention of this initiative is to create a framework to enhance the accountability mechanism, which in turn is to improve the credibility of financial reporting adopted in the capital market.

Operational Review

Articles Published by SEC in Association with Newspapers

FT VISION MONDAY 20 MARCH 2017 B5

Capital Market Strategy 2020

VISION FOR CAPITAL MARKET DEVELOPMENT IN SRI LANKA

Securities and Exchange Commission of Lanka (SEC) released the 'Capital Market Strategy 2020' on Friday (17). What is the full text of the plan:

The Securities and Exchange Commission of Sri Lanka (SEC) releases the 'Capital Market Strategy 2020', a comprehensive transformation plan for Sri Lanka's capital market, with the intention of providing strategic clarity to market participants and the general public.

The significance of ensuring the capital market's resilience has become more apparent during recent years of sustained global economic and market uncertainty, divergent growth, volatility, and other emergent challenges. In this context, the Capital Market Strategy 2020 reflects the SEC's definitive focus on ensuring the capital market's competitiveness as a capital market.

Increased participation by such long-term institutional investors can improve market stability and sustainability, as a result of their holding power and ability to act in a counter-cyclical manner. Traditionally having significant exposure to government securities, these funds could explore portfolio returns and related industry profiles to provide better asset liability matching through calculated investment in the market.

At present, with the broad-based market participation in mind, minimum public holding thresholds apply to listed companies upon initial listing, and enhanced threshold on a continuous basis. The SEC would stress requisite policy formulation for the introduction of short-selling, securities borrowing and lending, and other new products in order to deepen liquidity.



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Focused capital have historically contributed to these economies. Such economic growth including Vietnam, India, and China including South Africa and Brazil.

In Sri Lanka, as measured by market cap of gross domestic product, from amongst the and, closer to the ratio of 234.0%.

The presence of 2020 index charts robust and fiscal financing capital market.

WINNING STRATEGIES TO WIN IN STOCK MARKET

Market Guide

SELL BUY

MONDAY JULY 10, 2017 05

CAN SLIM may require the use of some technical analysis tools, which are designed to help investors/traders discern trends.

Conclusion

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Examined Carefully

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Here's a recap of the seven CAN SLIM criteria:

- C = Current quarterly earnings per share - Earnings must be up at least 18-20 percent.
- A = Annual earnings per share - These figures should show meaningful growth for the last five years.
- N = New things - Buy companies with new products, new management, or significant new changes in industry conditions. Most importantly, buy stocks when they start to hit new price

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Daily News Business

Monday, July 31, 2017

Significant progress in new governing legislation for SEC

NET FOREIGN INFLOW 2012-2016

Year	Net Foreign Inflow (Million USD)
2012	10,000
2013	15,000
2014	20,000
2015	25,000
2016	30,000

SEC investigation team completes three investigations

The new investigative team of Securities and Exchange Commission of Sri Lanka (SEC) was able to complete three investigations and four others are at different stages of completion during last year, said Thilaka Ranawana, Chairman, SEC in their annual report 2016.

The chairman of a capital market to ensure that the regulatory framework and market participants have confidence to trade in the market.

"Given that market abuse poses a threat to confidence and integrity, we continued to address regulatory gaps in order to effectively address regulatory gaps and vulnerabilities. Subsequent to obtaining Board approval and listing conditions, the CSE made recommendations to the SEC to approve the introduction of risk based capital adequacy requirements based on international best practices to build better financial discipline and ensure that stockholders are protected in the business conduct."

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Significant progress has been made with respect to the promulgation of a new governing legislation for the SEC in the form of the Securities Exchange Act, said Nalin Wijesinghe, Director General, Securities and Exchange Commission of Sri Lanka (SEC).

A preliminary draft of the proposed Act would not only complete a long standing initiative of the SEC, but also distinctly enhance the ability to regulate and supervise the capital market. Extensive public consultation was conducted with respect to the draft Securities Exchange Act in early 2017 with the interest of maintaining

Investor Forum generates overwhelming response

The Securities and Exchange Commission of Sri Lanka (SEC) and Colombo Stock Exchange (CSE) conducted the first seminar of their Investor Forum series in Jaffna on August 26, 2017, at Tilko Jaffna City Hotel.

The forum generated an overwhelming response with the participation of over 250 existing/potential investors, professionals and the business community.

The forum featured presentations from University of Colombo Economics Department Senior Lecturer Dr. M. Ganeshamoorthy and NDB Securities (Pvt.) Ltd Research Analyst R. Raguram.

The presentations were on macro-economic overview and market opportunities.

Subsequently, a panel comprising of SEC External Relations and Surveillance Director Tusshara Jayaratne, CSE Jaffna Branch Manager, M. Thilpepan and the speakers responded to the questions

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posed by the audience.

In addition, stock brokers and unit trust management companies provided potential investors with valuable investment advice.

The SEC and CSE conducted the first Investor Forum in Negombo on July 29 and second in Colombo on August 15. The next in the series will be held in Kandy and Galle on September 9 and September 30, 2017, respectively.

SEC in the News

SEC announces Rs.100mn shareholders' fund requirement for brokers

- The requirement to come into effect from January, 2018
- SEC says new condition would equip brokers to play a greater role in market development
- The requirement does not apply to brokers who also operate as primary dealers

SEC revises transaction fee structure

Meanwhile, the SEC also replaced the existing flat share transaction fee structure of the CSE and Central Depository Systems (Pvt) Ltd (CDS) to a step up fee structure (see table) when consolidating transactions for the purpose of computing fees.

"The basis for the request was that levying fees on a 'flat' basis is not equitable since transaction fees payable on a marginally lower turnover is higher

Share Transaction Fee Structure

Transaction Cost Band	Percentage Payable (%)	
	Transaction <= Rs. 100 Mln	Transaction > Rs. 100 Mln
Brokerage Fees	0.6400	0.2000 (Fixed)
CSE Fees	0.0940	0.0525
CDS Fees	0.0240	0.0150
SEC Cases	0.0220	0.0450
Share Transaction Levy imposed by the Government	0.3000	0.3000
Total	1.1200	0.6125

the balance Rs.2.0 million would be charged based on fee structure (lower) applicable for transactions above Rs.100 million to ensure equitable nature.

Further the threshold for the two-band fee structure is also raised to Rs.100 million from the current Rs.50 million.

Unlike the minimum capital rule, the directive issued revising the fee structure would come into effect from as early as

Capital Market Strategy 2020: Vision for

Capital Market Strategy 2020 overview

Establishing a robust and facilitative regulatory environment	Fostering capital market development
Strengthening regulatory and governance environment	Creating an enabling environment for capital market activity by enhancing regulatory framework with international benchmarks. The SEC considers an enabling regulatory environment as being of foundational importance in creating a level playing field that instils trust and confidence among the varied market participants.
Increasing accountability and market oversight	Developing liquidity and broad-based market participation
Raising the standards and competencies of capital market participants	Developing infrastructure and enabling products
Managing and mitigating systemic risk	Building domestic capabilities

In 2016, the SEC extended an invitation to the International Organisation of Securities Commissions (IOSCO), the global standard-setter for securities market regulation, to conduct a Country Review of Sri Lanka. This was done with a view to assessing the present capital market regulatory framework, identifying gaps in compliance with 37 Principles of Securities Regulation and developing a roadmap for enhanced compliance.

The Country Review was preceded by a self-assessment to facilitate timely completion within the first quarter of 2017 and would result in comprehensive reforms following the publication of its findings. The findings include reviews of rules and investor protection, and market efficiency, and global regulatory costs of conducting and improving domestic securities would lay a solid foundation to garner the interest of institutional investors.

The enforcement policy has been introduced following the grant of a period of over three years since the initial introduction of minimum public holding as a continuous listing requirement in 2013 and a further grace period of six months. This extension of time is characteristic of the accommodative and

The Island Financial Review
Saturday 1st July, 2017
business@island.lk (T) 2497500 (F) 2497543

SEC policy on enforcement of revised rules on minimum public holding effective July 1

The Securities and Exchange Commission of Sri Lanka (SEC) has instructed the Colombo Stock Exchange (CSE) to commence enforcement in respect of its November-2016 Revision of Rules on Minimum Public Holding (MPH) from 1st July 2017. The enforcement measures were developed by the CSE under the direction of the SEC and are due to take effect from 1st July 2017.

The revised rules on minimum public holding were introduced by way of marked a significant enhancement in opportunities for compliance previously available to listed companies. The rules, envisaged as threshold requirements to be adopted on both an initial and continuing basis, took effect in January 2017, with a grace period of six months ending 30th June 2017 being extended to companies failing to comply with the requirement as of 30th December 2016.

In keeping with the decision to introduce enforcement measures in with the revised rules on minimum public holding prior to 30th June 2017, the SEC approved policies including the transfer of non-compliant companies to a Watch List (Default Board).

Accordingly companies found non-compliant with the minimum public holding requirement as of 1st July 2017 would be transferred to on 1st July 2018 unless a achieved prior to that date which become non-compliant following 1st July 2017.

months of such non-compliance on or 1st July 2018, whichever date is later. Companies which become non-compliant on any date following 1st July 2018 would be transferred to the Watch List within six months from the date of non-compliance unless due compliance is achieved in the interim.

This enforcement policy has been introduced following the grant of a period of over three years since the initial introduction of minimum public holding as a continuous listing requirement in 2013 and a further grace period of six months. This extension of time is characteristic of the accommodative and

SEC hosts IOSCO's key meetings in C

The International Organisation of Securities Commissions (IOSCO) Growth and Emerging Market Committee (GEM) meeting and the Asia Pacific Regional Committee (APRC) meeting kicked off in Colombo yesterday hosted by the Securities and Exchange Commission (SEC) of Sri Lanka.

SEC Sri Lanka is a member of the IOSCO, which is the international body that brings together the world's securities regulators and is recognised as the global standard setter for the securities sector. IOSCO currently has a significant number of projects being carried out by its committees, taskforces and working groups. The Growth and Emerging Market Committee is the largest committee within IOSCO and comprises 88 members and includes

New SEC Act to address issues outlined by IOSCO: official

IOSCO in a country review in June highlighted key shortcomings in existing regulatory framework.

SEC Director General said the bill will be presented in Parliament next month.

"Commission has committed to implement most of the IOSCO recommendations,"

The new Securities and Exchange Commission (SEC) Act, which is currently with the Legal Draftsman's Department, will address the gaps in the regulatory system, which were outlined by the International Organisation of Securities Commissions' (IOSCO) Country Review, as SEC official said.

"All these concerns will be taken care of under the new Act when it is passed in parliament," SEC

Paul Andrew
Vijaya Wijeganeswara

Director General Vajira Wijeganeswara said this work. IOSCO's Country Review that June stressed that there were gaps in the regulatory framework, including limited formal cooperation between regulatory authorities and non-regulators of market players such as investment banks and financial planners, which were the

concerns Wijeganeswara was referring to.

The main feature of the new SEC Act however, would be the vesting of powers on the State to initiate civil action against alleged capital market offenders, thereby giving more teeth to the SEC, which currently has limited scope in penalising wrongdoers since criminal action requires proving an infraction beyond reasonable doubt.

Wijeganeswara said that the bill would be presented in parliament this October, and while some regulatory

shortcomings would be addressed by it, other issues are covered under the SEC's Capital Market Vision 2020 to implement, he said.

The Commission has committed to implement most of the IOSCO recommendations, said Vajira Wijeganeswara. "Most of the IOSCO recommendations, the Commission has committed to implement, he said. The IOSCO Secretary General Paul Andrew said that the SEC, which currently has limited scope in penalising wrongdoers since criminal action requires proving an infraction beyond reasonable doubt. Wijeganeswara said that the bill would be presented in parliament this October, and while some regulatory

SEC to strengthen guidelines

licensing and continuous development for the institutions.

"These new guidelines will promote positive industry culture, honesty and integrity among the investors of the SEC so as to be the investing public," the A SEC official told the Business Today.

The A SEC official told the Business Today that certification standards will increase with the new syllabus. "Fit and proper directors will be set in additional rules now applicable for directors," he said.

As an important conduit of retail investment, unit trusts are pivotal to the Capital Market Strategy 2020 and the SEC seeks to engage provident funds as funds in diversifying their portfolio and increasing asset allocation to equities, he said.

"Increased participation in long-term institutional investment will improve market stability and as a result of the power and ability to act in a counter-cyclical manner."

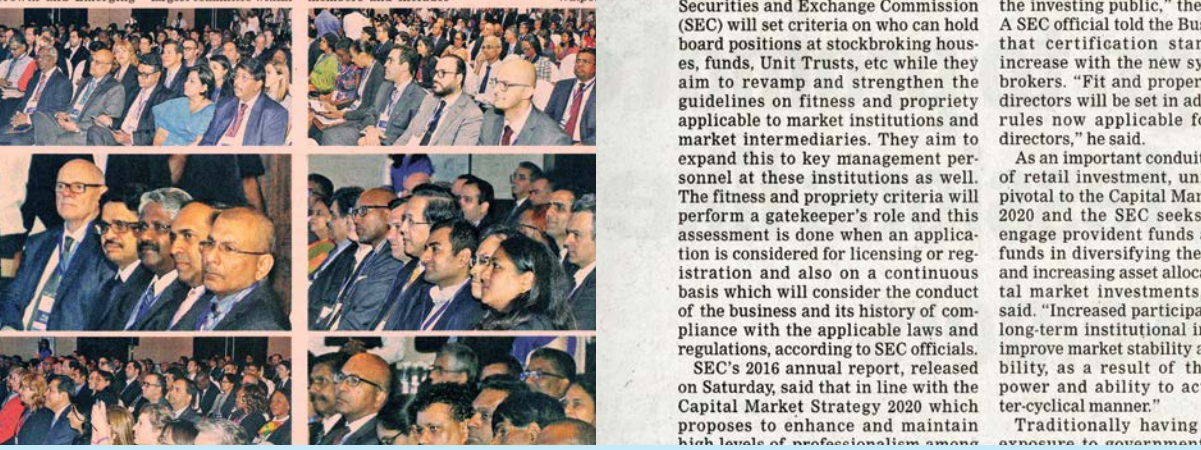
Traditionally having exposure to government

In a few months' time, those aspiring to hold high positions at all capital market institutions will have to undergo a litmus test.

This will come when the Securities and Exchange Commission (SEC) will set criteria on who can hold board positions at stockbroking houses, funds, Unit Trusts, etc while they aim to revamp and strengthen the guidelines on fitness and propriety applicable to market institutions and market intermediaries. They aim to expand this to key management personnel at these institutions as well.

The fitness and propriety criteria will perform a gatekeeper's role and this assessment is done when an application is considered for licensing or registration and also on a continuous basis which will consider the conduct of the business and its history of compliance with the applicable laws and regulations, according to SEC officials.

SEC's 2016 annual report, released on Saturday, said that in line with the Capital Market Strategy 2020 which proposes to enhance and maintain high levels of professionalism among



Operational Review

Investor Education Brochures



Capital Market Education and Training

To cater to the growing demand for qualified securities market professionals the SEC conducts mandatory certification examinations and continuous professional educational programmes. In addition we are engaged in providing comprehensive knowledge on capital markets to various stakeholders.

Educational Initiatives

During the year we continued to implement the existing qualification framework which is aimed at offering a minimum level of proficiency for trainee investment advisors of stock broking companies. The qualification framework has three main qualifications namely; Certificate in Capital Markets (CCM), Registered Investment Advisor status (RIA) and the Diploma in Capital Markets (DCM).

Considering the development that has taken place in the securities industry and the Sri Lankan economy in general over the past 10 years, SEC requested Asian Development Bank's (ADB) assistance to review and revise the existing qualification framework which would also address the future capital market development needs. Accordingly, Professor Lalith Samarakoon, who developed the existing qualification framework in 2008, was engaged by the SEC for the aforesaid purpose. As a salient

feature of this project, consultative sessions took place with different stakeholders including Stock and Debt Brokers, Unit Trusts Management Companies, CCM holders, the CSE and the SEC to solicit their views on the existing qualification framework. A revised qualification framework was developed considering the outcome of these consultative sessions and future requirements. SEC obtained the assistance of Professor D B P H Dissa Bandara, under the ADB technical assistance, to formulate two modules proposed under the revised framework. Completion and implementation of the revised qualification framework will commence in 2018.

In addition, we also conducted programmes continuously to develop and maintain knowledge and skills related to market practitioners by way of Continuous Professional Development (CPD) programmes. Further, we conducted basic and advanced "investment" programmes for existing and potential investors.

Certificate in Capital Markets & Registered Investment Advisor

We identified continuous growth in enrollments of non-industry individuals such as school leavers, undergraduates, and professionals from other sectors for the CCM programme. A total of 76 participants were registered for the programmes during the year. (Figures: 17, 18)

Figure 17: Statistical Summary of CCM and RIA Performance – 2017

Medium of Instruction	Total Registered Students	Completed Equity Series	Completed Debt Series	Completed Financial Regulations & Ethics	CCM Completed	RIA Completed
English Medium	57	21	21	25	23	09
Sinhala Medium	19	10	12	05	07	03
Total	76	31	33	30	30	12

Figure 18: Synopsis of Examinations Conducted for the CCM and RIA Performance – 2017

Programme	Series	No of Exams Conducted	Pass %
Certificate Course in Capital Markets (English Medium)	Equity Securities	4	49%
	Debt Securities	4	64%
	Securities Regulations, Ethics and Marketing	4	80%
Certificate Course in Capital Markets (Sinhala Medium)	Equity Securities	2	59%
	Debt Securities	1	86%
	Securities Regulations, Ethics and Marketing	1	50%
Registered Investment Advisor (English Medium)	N/A	5	56%
Registered Investment Advisor (Sinhala Medium)	N/A	2	90%

Operational Review

Diploma In Capital Markets

The SEC continued the DCM programme which is conducted jointly with the Chartered Institute for Securities and Investments (CISI), UK. We inaugurated two new batches (batch 9 and 10) during the year and completed lectures of two batches which is the 8th and 9th batch. Batch 10 continued lectures and would conclude during the first quarter in 2018. A total of 35 participants were registered for the programmes during the year.

Continuous Professional Development Programmes

During the year under review, seven tailor made CPD programmes were conducted for the existing investment advisors of stock broking companies to enable them to constantly assess and update themselves with the latest trends in the local and global capital markets. These programmes attracted more than 1,000 participants which included Chief Executive Officers of stock broking companies, investment advisors and analysts.

The SEC has made it mandatory for the existing investment advisors to participate in at least two CPD programmes for a year to renew their RIA status. (Figure: 19)

Figure 19: Summary of CPD Programmes: 2017

Title of the CPD Programme	No of Officials Attended
Securities market regulation and ethics: How the proposed new SEC Act affects you	236
Role of the Financial Intelligence Unit (FIU) & Know Your Client/ Customer Due Diligence (KYC/CDD) Requirements	68
Application of Capital Adequacy Requirements	104
New developments in the stock broker rules	59
Winning with mergers and acquisitions	238
Integrity - Raising professional standard in financial services	91
Practical Aspects of Portfolio Management	60

Programme in Investing

We conducted three programmes in English medium for potential investors with the intention of providing them with basic theoretical and practical aspects of share trading. A total of 117 participants were registered for these programmes.

Advanced Programme in Investing

We conducted a programme in English medium during the year 2017 for existing investors with the intention of providing them with advanced theoretical and practical aspects of share trading. A total of 26 participants were registered for this programme.

Gold Medal and Cash Award Project

We 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 11 national universities with regard to the above project.

The below mentioned national universities were awarded with gold medals and cash prizes during the year 2017.

- University of Kelaniya
- Wayamba University of Sri Lanka
- Uva Wellassa University
- University of Sri Jayewardenepura
- University of Jaffna
- Eastern University of Sri Lanka

Capital Market Information Centre

With the intention of popularising the subject of Capital Market and encourage research, the SEC established CMIC at National Universities in Sri Lanka. CMIC is expected to offer an e-learning environment through which capital market information, data and other educational tools would be provided to academics and undergraduates seeking to further their understanding of the capital market research as well as to upgrade their knowledge in investing.

During the year, we launched CMIC Centres at the following national universities:

- University of Jaffna - February 2017
- Vavuniya Campus of the University of Jaffna - February 2017
- Sabaragamuwa University - March 2017
- University of Peradeniya - March 2017
- Wayamba University of Sri Lanka - June 2017

Capital Market Awareness and External Relations

The financial education initiatives of the SEC address the benefits and risks inherent in the capital market in order to equip individuals who participate, or are considering to

participate in the securities markets to make sound financial decisions. These investor awareness programmes were hosted in conjunction with the schools, universities, CSE, investor associations, etc.

Furthermore, the SEC is an active member of the IOSCO Committee on Retail Investors, which conducts policy work on retail investor education and financial literacy.

Awareness through Seminars and Workshops

To spread financial awareness the SEC continued to organise seminars and workshops for teachers, students, undergraduates, and various segments of society. In addition, in partnership with the CSE we commenced a series of Investor Forums called "Kotas Welanda Pola Nagarayen Nagarayata" with a view to showcasing the benefits of investing in the capital market. In 2017 seminars were held in Negombo, Colombo (Sinhala and English medium), Jaffna (Tamil medium), Kandy and Galle and generated an overwhelming response. (Figure: 20)

Figure 20: Awareness Programmes 2017

Type of Programme	Number of Programmes
National Institute of Education (NIE) teacher training programmes	16
School Seminars (for A/L Students in all three languages)	27
Undergraduates and Advanced Technical Colleges	10
Large scale investor seminars and exhibitions	10
Investor forums with the CSE	06

Investor Education Brochures

With a view to impart basic knowledge and skills to investors to make informed investor decisions, the SEC during the year under review published eight new educational brochures. The material is created in all three languages and distributed to all segments of society.

Electronic Media

Isura Television Series

To disseminate knowledge on financial markets to the masses in Sinhala, the SEC in association with Sirasa TV telecast a television series titled "Isura" from 23rd October 2016 to 19th February 2017 on Sundays from 11 a.m. to 12 noon. The series comprised of 18 episodes and eminent professionals from the securities and the financial industry discussed topics including basics of investing in the stock market, investing in unit trusts,

rules and regulations and protecting the interest of investors. The series received approximately 40,000 responses to the weekly quiz that was posed to viewers and was ranked one of the most popular TV shows during that time belt.

We also engaged in regular television interviews and participated in the "Nuga Sevana" chat show on Rupavahini to give publicity to the "Investor Forums" and impart knowledge on investing in the capital market.

Print Media

Article Series

During the year the SEC published over 200 articles on investing in the capital market in newspapers. This includes a weekly article series with Daily Mirror (English medium) and Ada (Sinhala medium). In 2017 the SEC commenced another weekly article series with Tamil Mirror.

Media Releases

Press releases remained an important tool to disseminate useful information to the general public on policy decisions and new development initiatives taken by the SEC.

External Relations

Annual Meeting and Conference of the IOSCO GEM Committee and APRC

The SEC was successful in its bid to host the 2017 GEM Annual Meeting and Conference from 20th to 21st September 2017 in Colombo along with the APRC meeting back to back from 18th to 19th September 2017. The Growth and Emerging Markets Committee is the largest Committee within IOSCO, representing close to 80 per cent of the IOSCO membership, including 11 of the G20 members. The GEM conference attracted more than 300 participants from 50 jurisdictions whilst the APRC attracted 75 participants. The Prime Minister of Sri Lanka, Hon. Ranil Wickremesinghe, delivered the keynote address at the GEM Conference.

International Organization of Securities Commissions

The IOSCO is the international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector. IOSCO develops, implements and promotes adherence to internationally recognised standards for securities regulation. Its membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions and works intensively with the G20 countries.

SEC continued its membership and worked actively in the IOSCO-Asia Pacific Regional Committee, IOSCO-GEM Committee, IOSCO-MMOU Screening Group, IOSCO Committee on

Operational Review

Enforcement and the Exchange of Information and the IOSCO Committee on Retail Investors. In September 2017, the SEC was privileged to host the Annual General Meeting of the GEM Committee which comprised over 75% of the IOSCO's ordinary membership and 10 of the G-20 members. The forum facilitated global regulatory discussion. It was held along with the Annual General Meeting of the APRC. Further on, the SEC continued to maintain a cordial relationship with the membership and the IOSCO secretariat by attending committee meetings and by responding to surveys sent by the IOSCO secretariat/membership.

Our Strength

The human capital of the SEC is a diverse mix of talent considered the most vital and precious asset of the SEC and plays a significant role in achieving the goals and objectives in terms of the SEC mandate. Integrity is the underlying prerequisite for staff working for the SEC, whilst knowledge, skills, competencies and maturity are also considered vital to uphold the image of the regulator.

Staffing

Motivated, prepared and engaged staff are crucial to grapple with the challenges in the capital market. Therefore SEC continued with its recruitment drive.

The Secretariat was successful in recruiting appropriately qualified and experienced personnel to fill the positions of a Director, three Assistant Managers, three Officers and two Drivers. Further, work is in progress to fill a few key positions of Directors during the ensuing year.

As part of our succession planning programme 10 Management Trainees who possess a Bachelors' degree with a minimum of a second class upper division from Universities recognised by the University Grants Commission of Sri Lanka commenced their training on 1st January 2017.

To strengthen the operational capability of the SEC a couple of staff with appropriate knowledge and experience were also hired on assignment basis.

Attracting employees with appropriate knowledge and regulatory experience was a challenge that we faced during the year. This led to the realisation that it was timely to revise the remuneration package offered to staff to attract industry personnel and hence the Remuneration Committee commenced working on same during the latter part of the year.

Retirement and Resignations

A Senior Office Assistant Mr. Anura Perera after serving the SEC for 22 years retired upon reaching 60 years of age. He is the first employee of the SEC to retire at the age of 60. Resignations of one Assistant Director, two Senior Assistant Managers, one Assistant Manager and one Officer were recorded during the year documenting a staff turnover of 7% for the year 2017. Three Management Trainees discontinued their training during the year under review.

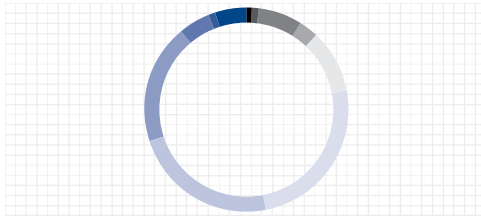
Cadre Information

The approved cadre and the human resource strength in operation as at 31.12.2017 are depicted below. (Figures :21, 22)

Figure 21: Cadre of the Securities and Exchange Commission of Sri Lanka as at 31.12.2017

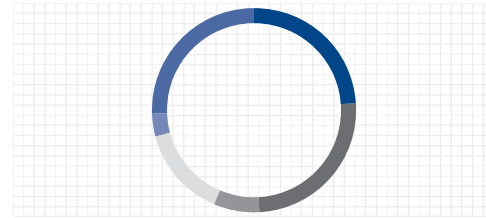
Designations & Grade	Approved Cadre	Existing Cadre		Vacancies To be filled
		Permanent	Contract	
Director General	1	1		-
Deputy Director General	1	1		-
Directors	11	6		5
Assistant Directors	5	2		3
Managers	8	8		-
Senior Assistant Manager	43	21		3
Assistant Manager		19		
Officers	11	9	1	1
Non Executives	6	6		-
Senior Office Assistants	10	5		1
Office Assistants		1		-
Office Aide		3		
Total	96	82	1	13

Figure 22: In Employment



- Director General - 1%
- Deputy Director General - 1%
- Directors - 7%
- Assistant Directors - 3%
- Managers - 10%
- Senior Assistant Managers - 25%
- Assistant Managers - 23%
- Non Executives - 19%
- Senior Office Assistants - 5%
- Office Assistants - 1%
- Office Aides/Drivers - 5%

Figure 25: Service Information of the Staff



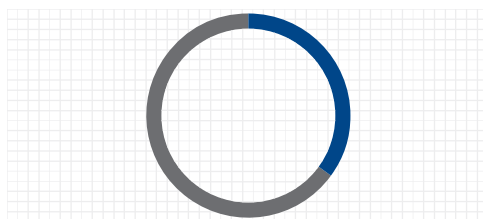
- Up to 3 Years - 24%
- 3-6 Years - 26%
- 6-9 Years - 5%
- 9-12 Years - 14%
- 12-15 Years - 4%
- 16 Years or more - 27%

The gender, age and service analysis of the staff in the permanent cadre at the end of the year under review is depicted as follows. (Figures: 23, 24, 25)

Gender Analysis

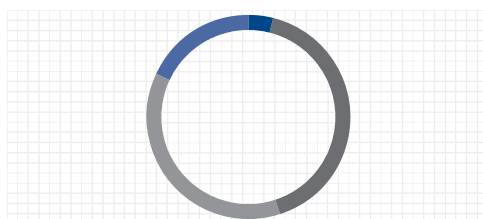
As at 31st December 2017 the SEC had 83 members serving on the permanent cadre consisting of 29 males and 54 females.

Figure 23: Gender Analysis



- Male - 35%
- Female - 65%

Figure 24: Age Analysis of the Staff



- 25-35 Years - 41%
- 36-45 Years - 37%
- 46-55 Years - 18%
- 55 and above - 4%

Training and Development

We firmly believe that education, training and development will enable the staff to unleash their potential and empower them, in turn, leading to effective discharge of the SEC mandate. Therefore, SEC provides relevant development opportunities to staff locally and overseas. Foreign training programmes enable the staff to be acquainted with best practices in other regulatory agencies and case studies discussed at these forums give exposure to staff on regulatory complexities, challenges faced by fellow regulators and steps taken to ensure orderly and a well regulated capital market.

A sum of Rs. 27.6 million was invested in staff for their training and development and education and professional development consisting of Rs. 23 million towards overseas training and conferences, Rs. 2.7 million for local training and Rs. 1.9 million for sponsorship for higher studies and professional membership fees during the year under review.

Twenty nine members of the staff were sent on 24 foreign training programmes to countries in the region including Japan, United States of America, United Kingdom, New - Zealand, Spain, Canada, France, South Korea etc.

We extend our appreciation to IOSCO, other regulatory agencies, APEC etc. for extending very relevant training and awareness opportunities to the staff to keep abreast with current capital market trends and developments.

Continuous emphasis was placed on higher education and this year the Commission approved study leave for an Assistant Manager to follow a Masters Degree programme under the Japan – IMF Scholarship programme for Asia for duration of little over one year.

Operational Review

In addition, the staff also received related local training such as Integrity at work conducted by CISI, National Conference of Chartered Accountants of Sri Lanka, Sri Lanka Economic Summit 2017 organised by the Ceylon Chamber of Commerce, National Information Technology Conference 2017 organised by the Computer Society of Sri Lanka, Corporate Law Conference 2017, Fraud and Forensic Master Class, Cyber Summit, Business Leaders Summit 2017 organised by the Chartered Institute of Management Accountants (CIMA) Sri Lanka Division and Telephone Etiquette and Customer Service, National Conference on Library and Information Science.

Demonstrating commitment towards staff education, the SEC's training arm continuously provides opportunities to the staff to follow study courses focused on upgrading their capital market knowledge. The Institute of Chartered Financial Analyst (CFA) also provides scholarships to the staff to pursue CFA study courses based on a discounted fee. In addition, the SEC provides sponsorships to the members of the staff to follow higher studies including postgraduate degrees subject to a two year bond to serve the SEC upon successful completion.

The staff underwent an Outward Bound Training Programme in Habarana which was conducted by the only training organisation in Sri Lanka licensed by the Outward Bound Trust (UK).

Staff Welfare

The health of the staff is the wealth of the SEC. Therefore we encourage our staff to strike an effective work life balance by providing ample opportunity to avail their leave when necessary along with a 'flexi' attendance system to ease the stress due to the fast intensifying congestion on the roads.

Indoor and outdoor medical schemes, insurance, concessionary loan schemes, educational grants and reimbursement of relevant professional membership and unavailed leave payment are some of the benefits given to the staff of the SEC.

To commemorate the Vesak festival, Ven. Bhikkhuni Dr. W Suvimalee delivered a sermon on "Business Ethics in Accordance with Buddha's Preaching" during the month of May 2017.

A Senior Assistant Manager was released to accompany her family on overseas No Pay leave for two years taking into consideration her past performance, good conduct and 10 years of service to the SEC. The leave was granted subject to entering into an appropriate bond to serve SEC on her return to Sri Lanka. Further, a Senior Assistant Manager was also granted extra medical leave during the year.

Long Service Awards

To coincide with the 30th anniversary of the SEC, a Long Service Staff Appreciation Award Ceremony was held coupled with the year end Christmas get together of the Commission Members and staff along with their families. The 40 recipients with over 10 years service as at 31st December 2017 received cash awards based on their service along with a small engraved plaque.

Internships

We continued to award internship opportunities to undergraduates of National Universities in order to provide exposure to the functions of the regulator of the capital market.

HR Consultant from Australian Securities and Investment Commission (ASIC)

With the blessings of the Commission, regulatory assistance was obtained to move SEC towards a performance based culture. A survey was conducted to ascertain the feedback of the staff with regard to adoption of a performance management system. Based on the results received, steps are being taken to gradually prepare the mindset of the staff to embrace same. We place on record our sincere thanks to ASIC for releasing Mrs. Helen O'Loughlin to assist us to develop an effective performance management system.

As the first step towards a performance management system, the emphasis is to instill in staff the need to be accountable and answerable to the work they perform whilst enhancing efficiency.

Information Technology

Our current IT systems and procedures require improved controls to manage risks whilst increasing accessibility to data. Hence, we continuously monitor and ensure that the IT infrastructure and application security controls are operating effectively to protect the confidentiality and integrity of data.

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 specifies the following.

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 authorised by the Commission for the purpose of-
- developing the securities market;
 - enhancing monies lying to the credit of the Compensation Fund established under Section 38; and
 - 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.

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

The SEC Cess for transactions up to Rs.50 million and over Rs.50 million levied at 0.072% and 0.045% respectively was introduced with effect from 1st January 2011. The threshold was revised and accordingly the SEC Cess for transactions up to Rs.100 million and over Rs.100 million is levied at 0.072% and 0.045% respectively with effect from 27th June 2017.

With effect from 15th February 2006, the transaction fee due to the broker, CSE, CDS and SEC on intraday trades, will not be charged on one side of the 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. Government Share Transaction Levy of 0.30% will be charged on both sides of the transactions:

- in the event the total number of shares purchased does not equal the total number of shares sold, the transaction fees as detailed above will not be levied on the lower quantity of shares either purchased or sold,
- in the event the total quantity purchased is equal to the total quantity sold the transaction fees will not be levied from the sales transactions.

The total purchases and sales of a client on the same security will be considered for the purpose of determining the exemption of Brokerage, CSE, CDS and SEC transaction fees.

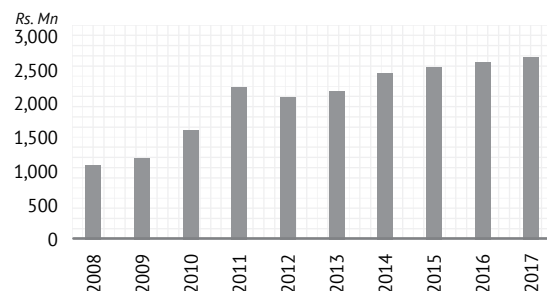
To strengthen the Compensation Fund a sum of Rs. 50 million was transferred during the year 2009 from the Cess Fund. A further Rs.100 million was transferred from the Cess Fund to the Settlement Guarantee Fund of Rs.50 million each during the years 2009 and 2010.

Transfers to the Consolidated fund on three occasions amounted to Rs.276 million, Rs.380 million and Rs.94 million on 30.09.2010, 24.09.2012 and 31.12.2013 respectively.

The balance lying to the credit of Cess Fund as at 31st December 2017 amounted to Rs.2,695,208,642/- of which Rs.271,635,879/- is invested in the State Institutions Temporary Surplus Trust Fund.

The growth of the fund during the period 2008-2017 is depicted below: (Figure: 26)

Figure 26: Cess 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 Compensation Fund shall consist of;
 - Such sums of monies 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).

Operational Review

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

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

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

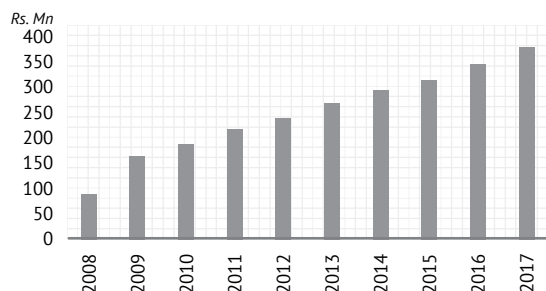
The Committee shall be responsible to assess and award compensation in respect of any application made and the decision of such Committee on any such assessment or award shall be final and conclusive for the purpose of this Act.

The Act also provides for the procedure to apply 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.

To strengthen the Compensation Fund a sum of Rs. 50 million was transferred from the Cess Fund during the year 2009.

The balance lying to the credit of the Compensation Fund as at 31.12.2017 amounted to Rs.377,637,604/-. The growth of the Fund during the period 2008 to 2017 is as follows. (Figure: 27)

Figure 27: Compensation 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

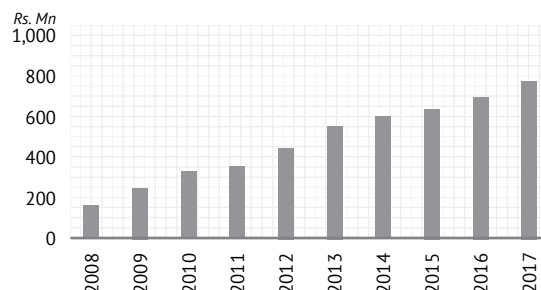
single tier settlement cycle. The buyer is required to pay on T+3 i.e. on the 4th Market day including the day of trading and the seller to receive the settlement on T+3 i.e. on the 4th Market day. The relatively long interval between transfer of ownership and receipt of proceeds leaves the settlement risk uncovered which in turn necessitated the establishment of the SGF.

- 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 Chief Executive Officer of CSE.
- The Government of Sri Lanka has contributed a sum of Rs. 50 million to setup the said Fund. This money has been invested in Government securities and fixed deposits. 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 in two equal amounts of Rs. 50 million each during the years 2009 and 2010. The CSE also transferred Rs.100 million in January 2012 after changing the Deed of Trust of the SGF to accommodate such receipts to the fund.

However, since the SGF is found to be inadequate to properly address the issue of settlement risk, steps are been taken to establish a Central Clearing Corporation to effectively address the settlement risk. From the inception of the Fund no claims have been recorded from the SGF.

The balance lying to the credit of the SGF as at 31.12.2017 amounted to Rs.775,948,305/-. The growth of the Fund during the period 2008 and 2017 is depicted in the following graph. (Figure: 28)

Figure 28: SGF Fund



ADDITIONAL INFORMATION

Managing Companies of Unit Trusts - licenced as at 31st December 2017

1. *Ceylon Asset Management Company Limited*

- Ceylon Index Fund
- Ceylon Income Fund
- Ceylon Tourism Fund
- Ceylon Financial Sector Fund
- Ceylon IPO Fund
- Ceylon MTI Shariah Fund
- Ceylon Gilt-Edged Fund
- Ceylon Treasury Bill Fund
- Ceylon Dollar Bond Fund
- Ceylon money Market Fund

2. *Com Trust Asset Management (Private) Limited*

- Comtrust Equity Fund
- Comtrust Gilt Edged Fund
- Crescent i Fund
- Comtrust money market Fund
- Comtrust ADL Mudarabah Fund

3. *NDB Wealth Management Limited*

- NDB Wealth Growth and Income Fund
- NDB Wealth Gilt Edged Fund
- NDB Wealth Income Fund
- NDB Wealth Growth Fund
- NDB Wealth Money Fund
- NDB Wealth Money Plus Fund
- Short Term LKR Treasury Fund
- NDB Wealth Islamic Money Plus Fund
- NDB Wealth Income Plus Fund

4. *Ceybank Asset Management (Pvt) Limited*

- Ceybank Unit Trust
- Ceybank Century Growth Fund
- Ceybank Savings Plus Money Market Fund
- Ceybank Surakum
- Ceybank Gilt Edged Fund (B series)
- Ceybank Gilt Edged Fund (A series)

5. *National Asset Management Limited*

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

6. *First Capital Asset Management Limited*

- First Capital Wealth Fund
- First Capital Fixed Income Fund
- First Capital Money market Fund
- First capital Gilt Edged Fund
- First Capital Equity Fund

7. *J B Financial (Pvt) Ltd*

- J B Vantage Money Market Fund
- J B Vantage value Equity Fund
- J B Vantage Short term gilt Fund

8. *Guardian Acuity Asset Management Ltd*

- Guardian Acuity Money Market Fund
- Guardian Acuity Equity Fund
- Guardian Acuity Money Market Gilt Fund

9. *Candor Asset Management (Pvt) Ltd*

- Candor Growth Fund
- Amana Candor Shariah Balanced Fund
- Candor Money Market Fund
- Amana Candor Shariah Income Fund
- Candor Opportunities Fund

10. *Asset Trust Management (Pvt) Ltd*

- Astrue Gilt edged Fund
- Astrue Money market Fund
- Astrue Alpha Fund
- Astru Shariah Compliant Short -Term Income Fund

Additional Information

11. Capital Alliance Investments Ltd

- Capital Alliance High Yield Fund
- Capital Alliance Gilt Fund
- Capital Alliance Quantitative Equity Fund
- Capital Alliance Corporate Treasury Fund
- Capital Alliance Investment Grade Fund
- Capital Alliance Income Fund
- Capital Alliance Gilt Trading Fund
- Capital Alliance Medium Risk Debt Fund
- Capital Alliance Corporate Debt and Gilt Trading Fund
- Capital Alliance Balanced Fund
- Capital Alliance Gilt money market Fund

12. Arpico Ataraxia Asset Management (Private) Limited

- Arpico Ataraxia Cash Management Trust Fund
- Arpico Ataraxia Repo Fund
- Arpico Ataraxia S & P- SL 20 Index Fund
- Arpico Ataraxia Sri Lanka Bond Fund-Gilt edged Fund

13. Investrust Wealth Management Ltd

- Investrust Income Fund
- Investrust Growth Fund
- Investrust Gilt-edged Fund
- Investrust Money Market Fund

14. Assetline Capital (Pvt) Ltd

- Assetline Income Plus Growth Fund
- Assetline Gilt-edged Fund
- Assetline Income Fund

Registered Market Intermediaries - Registered as at 31st December 2017

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

Company	Margin Provider	Investment Manager	Underwriter
Acuity Partners (Private) Limited	√		
ADL Equities Ltd	√		
Amana Asset Limited		√	
Asha Financial Services Limited	√		
Asset Trust Management (Pvt) Ltd		√	
Assetline Capital (Pvt) Ltd		√	
Assetline Leasing Company Limited	√		
Bank of Ceylon		√	√
Bansei Securities Capital (Pvt) Ltd	√		
Bartleet Asset Management (Pvt) Ltd		√	
Candor Asset Management (Private) Limited		√	
Capital Alliance Investments Limited		√	
Capital Trust Credit (Private) Limited	√		
Ceybank Asset Management Ltd		√	
Ceylon Guardian Investment Trust PLC			√
Ceylon Investment PLC			√
Citizen Development Business Finance PLC	√		
Colombo Trust Finance PLC	√		
Commercial Bank of Ceylon PLC	√		√
Comtrust Asset Management (Pvt) Ltd		√	
DFCC Bank PLC	√		√
First Capital Asset Management Limited		√	
First Capital Markets Limited	√		
Guardian Acuity Asset Management Limited		√	
Guardian Fund Management Limited		√	
Hatton National Bank PLC	√		
Hatton National Bank PLC			√
Innovest Investments (Pvt) Ltd		√	
Investrust Wealth Management Ltd		√	
J B Credit (Pvt) Ltd	√		
J.B. Financial (Private) Limited		√	
Kenanga Investment Corporation Ltd		√	
L B Finance PLC	√		
LOLC Finance PLC	√		
Lynear Wealth Management (Pvt) Ltd		√	
Merchant Bank of Sri Lanka & Finance PLC	√	√	√
Nation Lanka Capital Ltd	√		
National Asset Management Ltd		√	
National Development Bank PLC	√		
National Wealth Corporation Limited		√	

Additional Information

Company	Margin Provider	Investment Manager	Underwriter
NDB Wealth Management Ltd		√	
NDB Capital Holdings Limited			√
NWS Management Services (Pvt) Ltd		√	
Orient Finance PLC	√		
Orion Fund Management (Private) Limited		√	
Pan Asia Banking Corporation PLC	√		
People's Leasing and Finance PLC	√		
People's Merchant Finance PLC	√		
Richard Peiris Financial Services (Pvt) Ltd	√		
Sampath Bank PLC	√		√
Seylan Bank PLC	√		
Softlogic Capital PLC		√	
TKS Finance Ltd	√		
Union Bank of Colombo PLC	√		
Waldock Mackenzie Limited	√	√	

Registered Market Intermediaries under the Category of a Clearing House:

- Central Depository Systems (Private) Limited

Registered Market Intermediaries under the Category of Credit Rating Agencies:

- Fitch Ratings Lanka Limited
- ICRA Lanka Limited

Stock Brokers Licensed as at 31st December 2017

- Acuity Securities Ltd - (Debt Securities)
- Acuity Stockbrokers (Private) Limited
- Asha Phillip Securities Limited
- Asia Securities (Private) Limited
- AssetLine Securities (Private) Limited
- Bartleet Religare Securities (Private) Limited
- Candor Equities Limited
- Capital Alliance Limited - (Debt Securities)
- Capital Alliance Securities (Private) Limited
- Capital Trust Securities (Private) Limited
- Claridge Stockbrokers (Private) Limited
- CT CLSA Securities (Private) Limited
- Enterprise Ceylon Capital (Pvt) Ltd
- First Capital Equities (Private) Limited
- First Capital Markets Limited - (Debt securities)
- First Guardian Equities (Private) Limited
- JB Securities (Private) Limited
- John Keells Stock Brokers (Private) Limited
- Lanka Securities (Private) Limited
- LOLC Securities Limited
- Nation Lanka Equities (Private) Limited
- Navara Securities (Pvt) Ltd
- NDB Securities (Private) Limited
- NSB Fund Management Co. Ltd - (Debt Securities)
- Richard Pieris Securities (Private) Limited
- SC Securities (Private) Limited
- SMB Securities (Private) Limited
- Softlogic Stockbrokers(Pvt) Ltd
- Somerville Stock Brokers (Private) Limited
- Taprobane Securities (Private) Limited
- TKS Securities (Private) Limited
- Wealth Trust Securities Ltd - (Debt Securities)

Stock Dealers Licensed as at 31st December 2017

- Acuity Securities Ltd - (Debt Securities)
- Asia Securities (Private) Limited
- Bartleet Religare Securities (Private) Limited - (Debt Securities)
- Capital Alliance Limited - (Debt Securities)
- Enterprise Ceylon Capital (Pvt) Ltd
- First Capital Markets Limited - (Debt Securities)
- JB Securities (Private) Limited
- NDB Securities (Private) Limited
- NSB Fund Management Co. Ltd - (Debt Securities)
- Seylan Bank PLC- (Debt Securities)
- SMB Securities (Private) Limited - (Debt Securities)
- Softlogic Stockbrokers(Pvt) Ltd
- Wealth Trust Securities Ltd - (Debt Securities)

FACT SHEET

Year	2012	2013	2014	2015	2016	2017
Annual Turnover (Rs Mn) Equity	213,827.2	200,467.8	340,917.1	253,251.0	176,935	220,591
Domestic (Rs Mn)	160,543.3	128,227.6	246,796.8	166,151.5	102,544	117,135
Foreign (Rs Mn)	53,283.9	72,240.2	94,120.3	87,099.5	74,391	103,456
Market Days (No)	242	242	241	239	240	241
Daily Average Turnover (Rs Mn) Equity	883.6	828.4	1,414.6	1,059.6	737.2	915.3
Shares traded (No Mn) Equity	9,691.2	9,054.2	16,722	9,414	7,196	8,468
Domestic (No Mn)	8,289.6	7,861.6	14,726	7,693	5,776	6,529
Foreign (No Mn)	1,401.7	1,192.6	1,995	1,721	1,420	1,939
Trades (No) Equity	1,857,384	1,421,303	1,982,709	1,506,790	1,056,849	981,977
Domestic (No)	1,796,868	1,355,380	1,899,569	1,431,750	1,002,476	928,276
Foreign (No)	60,516	65,923	83,140	75,040	54,373	53,701
New Listing (No)	17	2	7	5	4	3
Delisting (No)	2	1	3	3	2	2
Companies Listed	287	289	294	294	295	296
Companies Traded	280	278	284	278	240	279
Market Capitalization (Rs Bn)	2,167.6	2,459.9	3,104.9	2938.0	2,745.41	2,899.29
Market PER year end (Times)	15.9	15.9	19.7	18.0	12.37	10.60
Turnover to Market Capitalization (%)	9.9	8.7	12.3	8.4	6.2	7.6
Dividend Yield Year End (%)	2.4	2.9	2.1	2.18	2.75	3.19
Price to Book Value Year End (Times)	2.1	2	2.2	1.99	1.42	1.31
Market Cap. As a % of GDP	28.6	32.4	31.0	30	24.5%	24.5%
Price Indices						
All Share Price Index (ASPI)	5,643.0	5,912.80	7,299.0	6894.5	6,228.26	6,369.26
y-o-y Change %	(7.1)	4.8	23.4	(5.5)	(9.7)	2.3
Milanka Price Index (MPI)	5,119.1	-	-	-	-	-
y-o-y Change %	(2.1)	-	-	-	-	-
S&P Sri Lanka 20	3085.3	3,263.90	4,089.1	3625.7	3,496.44	3,671.72
y-o-y Change %		5.8	25.3	(11.3)	(3.6)	5.0
Total Return Indices						
Total Return Index on ASPI (ASTRI)	7037.3	7,584.40	9,579.2	9079.9	8,232.66	8,457.09
y-o-y Change %	(4.4)	7.8	26.3	(5.2)	(9.3)	2.7
Total Return Index on MPI (MTRI)	6399.4	-	-	-	-	-
y-o-y Change %	0.1	-	-	-	-	-
Total Return Index on S&P Sri Lanka 20 (S&P Sri Lanka 20TRI)	3,780.4	4,132.4	5,331.1	4861.5	4,843.17	5,259.85
y-o-y Change %		9.3	29.0	(8.8)	(0.4)	8.6

Year	2012	2013	2014	2015	2016	2017
Non-National Activity						
Annual Turnover (Rs Mn)	53,283.9	72,240.20	94,120.3	87,099.50	74,391	103,456
Purchases (Rs. Mn.)	72,614.2	83,607.00	104,689.8	84,414.56	74,583	112,285
Sales (Rs. Mn.)	33,953.6	60,873.30	83,550.8	89,784.44	74,199	94,627
Net Foreign Flow	38,660.7	22,733.70	21,139.0	(5,369.9)	383.5	17,657.4
Shares Traded (No. Mn.)	1,401.7	1,192.60	1,995	1,721.50	1,420	1,939
Purchases (No. Mn.)	1,520.6	1,282.50	2,381	1,730.72	1,572	2,062
Sales (No. Mn.)	1,282.7	1,102.6	1,610	1,712.27	1,267	1,817
Trades	60,516	65,923.0	83,140	75,040	54,373	53,701
Purchases (No.)	71,944	77,511.0	94,752	65,932	51,656	56,643
Sales (No.)	49,088	54,335.0	71,529	84,149	57,091	50,760
Debt Market						
Corporate Debt						
Turnover (Rs 000)	75,717.1	2,229,221.3	7,139,730.4	4,714,012.7	2,932,154.0	3,592,905.5
No of Trades	39	173	401	220	291	529
No of Debentured Traded (000)	740.4	19,998.8	56,909	42,201	28,335	35,696
Market Cap (Mn)	46,311.0	N/A	N/A	N/A	N/A	
Government Debt						
Turnover (Rs 000)	6,128.0				-	-
No of Trades	2				-	-
No of Debentured Traded (000)	6,743.6				-	-
Unit Trusts						
Net Asset Value (NAV)(Rs. Mn)	31,062	54,304	127,356	129,844	103,890	128,804
Unit Holders (No.)	27,952	29,648	32,619	38,140	41,154	41,037
Units Issued (No. 000)	2,251	4,134	9,772	8,812	7,142	7,639
Investment in Equity (Rs. Mn.)	8,944	9,453	14,591	14,376	13,786	12,466
Investment in Treasury Bills (Rs.Mn)	5,449	17,825	60,897	28,294	49,299	24,386
Investment in other Instruments **(Rs. Mn)	16,596	27,000	52,202	87,272	40,553	91,732

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

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

COMMITTED

FINANCIAL REPORTS

Securities and Exchange Commission of Sri Lanka

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AUDITOR GENERAL'S REPORT



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

BAF/H/SEC/1/17/3

මගේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

31 May 2018

The Chairman
Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2017

The audit of financial statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2017 comprising the Statement of Financial Position as at 31 December 2017 and the Statement of Financial Performance, 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 of Sri Lanka 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 the Sri Lanka Public Sector 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 judgement, 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





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கணக்குகளைப் பராமரை அறிவு நிலையகம்
Auditor General's Department

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 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 2017, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector 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.

A handwritten signature in black ink, appearing to read 'H.M. Gamini Wijesingha'.

H.M. Gamini Wijesingha

Auditor General

STATEMENT OF FINANCIAL POSITION

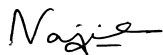
Securities and Exchange Commission of Sri Lanka - As at 31st December 2017

	Note	2017 Rs.	2016 Rs.
ASSETS			
NON CURRENT ASSETS			
Property, Plant & Equipment	1	75,110,668	69,919,526
Cess Fund	2	2,196,523,072	1,441,752,854
Compensation Fund	3	346,077,772	181,218,839
CURRENT ASSETS			
Inventories	4	1,468,716	1,318,888
Receivables	5	2,767,301	3,379,905
Cess Fund	2	498,685,570	1,168,535,683
Compensation Fund	3	31,559,832	162,995,941
Deposits, Advance and Prepayments	6	7,525,800	8,847,871
Cash & Cash Equivalents	7	36,392,199	54,992,098
Total Assets		3,196,110,931	3,092,961,605
FUNDS AND LIABILITIES			
FUNDS EMPLOYED AND RESERVES			
Accumulated Fund	8	7,247,080	3,412,077
Cess Fund	9	2,695,208,642	2,610,288,537
Compensation Fund	10	377,637,604	344,214,780
Non Current Liabilities			
Grant - Transfers from Cess Fund for Capital Expenditure	11	68,759,899	63,263,165
Retirement Benefit Obligation	12	32,421,913	29,895,636
CURRENT LIABILITIES			
Creditors and Accruals	13	11,419,885	38,324,250
Receipts in Advance		3,415,908	3,563,160
Total Funds and Liabilities		3,196,110,931	3,092,961,605

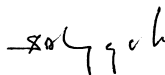
The Accounting Policies and Notes appearing on pages 80 to 92 form an integral part of the financial statements.

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

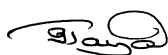
For and on Behalf of the Securities and Exchange Commission of Sri Lanka



Vajira Wijegunawardane
Director General
Securities and Exchange Commission of Sri Lanka



S R Attygalle
Member of the Commission
Securities and Exchange Commission of Sri Lanka



Ianthie Jayaratne
Director Finance and Administration
Securities and Exchange Commission of Sri Lanka

Colombo.
24th May 2018

STATEMENT OF FINANCIAL PERFORMANCE

Securities and Exchange Commission of Sri Lanka - For the Year Ended 31st December 2017

	Note	2017 Rs.	2016 Rs.
INCOME			
License Fees		3,592,276	3,889,963
Administration Levy		2,649,003	2,971,778
Educational Programmes		5,182,811	5,048,349
Sale of Publications		1,500	2,250
Sundry Income		9,940	96,425
Interest Income		536,419	-
Profit/(Loss) on Disposal of Fixed Assets		1,322,518	4,617,271
Recognition of Grants	11	17,642,162	14,945,046
		30,936,629	31,571,082
EXPENDITURE			
Personnel Costs	14	(196,733,755)	(179,297,580)
Administration & Establishment Expenses	15	(153,816,003)	(141,457,656)
Capital Market Development Expenses	16	(72,065,351)	(42,063,236)
Finance Charges	17	(116,342)	(31,105)
Total Expenditure		(422,731,451)	(362,849,577)
Excess Expenditure over Income for the year		(391,794,822)	(331,278,495)
Transfers from Cess Fund to meet Operational Expenses		395,629,825	369,592,059
Surplus/(Deficit) for the year		3,835,003	38,313,564

The Accounting Policies and Notes appearing on pages 80 to 92 form an integral part of the financial statements.

STATEMENT OF CHANGES IN RESERVES

Securities and Exchange Commission of Sri Lanka - For the Year Ended 31st December 2017

	Reserves Rs.	Accumulated Fund Rs.	Total Rs.
Balance as at 1st January 2016	-	15,098,513	15,098,513
Funds Transferred to Cess Fund	-	(50,000,000)	(50,000,000)
	-	(34,901,487)	(34,901,487)
Excess Expenditure over Income for the year	-	(331,278,495)	(331,278,495)
Fund Transferred from Cess Fund	-	369,592,059	369,592,059
Surplus/(Deficit) for the Year	-	38,313,564	38,313,564
Balance as at 31st December 2016	-	3,412,077	3,412,077
Balance as at 1st January 2017	-	3,412,077	3,412,077
	-	3,412,077	3,412,077
Excess Expenditure over Income for the year	-	(391,794,822)	(391,794,822)
Funds Transferred from Cess Fund	-	395,629,825	395,629,825
Surplus/(Deficit) for the year	-	3,835,003	3,835,003
Balance as at 31st December 2017	-	7,247,080	7,247,080

The Accounting Policies and Notes appearing on pages 80 to 92 form an integral part of the financial statements.

CASH FLOW STATEMENT

Securities and Exchange Commission of Sri Lanka - For the Year Ended 31st December 2017

	Note	2017 Rs.	2016 Rs.
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Increase/(Decrease) after transfers from Cess Fund		3,835,003	38,313,564
ADJUSTMENT FOR			
Depreciation	1	17,642,162	14,945,046
(Profit)/Loss on disposal of Property, Plant & Equipment		(1,322,518)	(4,617,271)
Recognition of Grant	11	(17,642,162)	(14,945,046)
Provision for Gratuity	12	3,490,950	3,704,311
Net Increase/(Decrease) before Working Capital Changes		6,003,435	37,400,604
CHANGE OF WORKING CAPITAL			
(Increase)/Decrease of Stocks		(149,828)	(240,992)
(Increase)/ Decrease of Receivable		612,604	566,662
(Increase)/Decrease of Deposits Advances & Prepayments		1,322,071	(432,998)
Increase/(Decrease) of Receipt in Advance		(147,252)	(433,329)
Increase/(Decrease) of Creditors & Accruals		(26,904,365)	12,439,557
		(25,266,770)	11,898,900
Cash generated from Operating Activities		(19,263,335)	49,299,504
Gratuity paid during the year		(964,673)	(1,746,618)
Net Cash Inflow/(Outflow) from Operating Activities		(20,228,008)	47,552,886
CASH FLOWS INTO INVESTING ACTIVITIES			
Purchase of Property Plant and Equipment	1	(23,138,896)	(30,921,479)
Funds Transferred to Cess Fund		-	(50,000,000)
Proceeds from Sale of Property Plant & Equipment		1,628,109	4,862,052
Net Cash Inflow/(Outflow) from Investing Activities		(21,510,787)	(76,059,427)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital transfer from Cess Fund	11	23,138,896	28,357,941
Net Cash Inflow/(Outflow) from Financing Activities		23,138,896	28,357,941
Net Increase/ (Decrease) in Cash and Cash Equivalents		(18,599,899)	(148,600)
Cash and Cash Equivalents at beginning of period (Note A)		54,992,098	55,140,698
Cash and Cash Equivalents at end of period (Note B)		36,392,199	54,992,098
NOTE (A)			
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
Cash at Bank		54,952,098	55,100,698
Cash in Hand		40,000	40,000
		54,992,098	55,140,698
NOTE (B)			
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash at Bank	7	36,352,199	54,952,098
Cash in Hand	7	40,000	40,000
		36,392,199	54,992,098

The Accounting Policies and Notes appearing on pages 80 to 92 form an integral part of the financial statements.

CASH FLOW STATEMENT

Cess Fund - For the Year Ended 31st December 2017

	2017 Rs.	2016 Rs.
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Increase/ (Decrease) of Cess Fund	84,920,105	72,726,637
Net Increase/ (Decrease) of before Working Capital Changes	84,920,105	72,726,637
CHANGE OF WORKING CAPITAL		
(Increase)/Decrease of Staff Loans	484,808	4,759,759
(Increase)/Decrease of Cess Receivable	1,421,659	(1,492,725)
(Increase)/Decrease of Receivable-SEC	(31,038)	208,334
(Increase)/Decrease of Interest Receivable on Treasury Bonds	502,892	(31,337,313)
(Increase)/Decrease of Interest Receivable on Fixed Deposits	37,193,463	(10,503,244)
(Increase)/Decrease of Interest Receivable on Treasury Bills	-	13,639,605
(Increase)/Decrease of Interest Receivable on Repo	(1,303,149)	6,043,983
(Increase)/Decrease of Rent Deposit	(1,226,280)	(1,722,048)
Increase/(Decrease) of Payables	(6,011)	6,011
	37,036,344	(20,397,638)
Net Cash Inflow/(Outflow) from Operating Activities	121,956,449	52,328,999
CASH FLOWS INTO INVESTING ACTIVITIES		
Investment in State Institutions Temporary Surplus Fund	(15,870,999)	(21,955,312)
Investment in Treasury Bonds	(753,567,646)	(1,012,403,551)
Investment in Treasury Bills	-	344,471,596
Investment in Fixed Deposits	834,244,948	(289,414,947)
Net Cash Inflow/(Outflow) from Investing Activities	64,806,303	(979,302,214)
Net Increase/(Decrease) in Cash and Cash Equivalents	186,762,752	(926,973,215)
Cash and Cash Equivalents at beginning of period (Note C)	986,776	927,959,991
Cash and Cash Equivalents at end of period (Note D)	187,749,528	986,776
NOTE (C)		
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Investments in Repo	924,691,077	924,691,077
Cash at Bank	1,908,914	1,908,914
Overnight-Repo	1,360,000	1,360,000
	927,959,991	927,959,991
NOTE (D)		
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Investments in Repo	186,001,617	-
Cash at Bank	503,911	609,776
Overnight-Repo	1,244,000	377,000
	187,749,528	986,776

The Accounting Policies and Notes appearing on pages 80 to 92 form an integral part of the financial statements.

CASH FLOW STATEMENT

Compensation Fund - For the Year Ended 31st December 2017

	2017 Rs.	2016 Rs.
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Increase/(Decrease) of Compensation Fund	33,422,824	32,157,860
Net Increase/(Decrease) before Working Capital Changes	33,422,824	32,157,860
CHANGE OF WORKING CAPITAL		
(Increase)/Decrease of Interest Receivable on Treasury Bonds	(2,264,241)	(1,013,548)
(Increase)/Decrease of Interest Receivable on Treasury Bills	-	106,566
(Increase)/Decrease of Interest Receivable on Fixed Deposits	7,412,416	(1,014,933)
(Increase)/Decrease of Interest Receivable on Repo	(166,845)	99,351
	4,981,330	(1,822,564)
Net Cash Inflow/(Outflow) from Operating Activities	38,404,154	30,335,296
CASH FLOWS INTO INVESTING ACTIVITIES		
Investment in Treasury Bonds	(164,858,933)	(148,714,110)
Investment in Treasury Bills	-	3,228,605
Investment in Fixed Deposits	154,464,810	(30,911,152)
Net Cash Inflow/(Outflow) from Investing Activities	(10,394,123)	(176,396,657)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase/(Decrease) in Cash and Cash Equivalents	28,010,031	(146,061,361)
Cash and Cash Equivalents at beginning of period (Note E)	105,167	146,166,528
Cash and Cash Equivalents at end of period (Note F)	28,115,198	105,167
NOTE (E)		
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash at Bank	105,167	146,166,528
	105,167	146,166,528
NOTE (F)		
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Investments in Repo	28,001,049	-
Cash at Bank	114,149	105,167
	28,115,198	105,167

The Accounting Policies and Notes appearing on pages 80 to 92 form an integral part of the financial statements.

ACCOUNTING POLICIES

Securities and Exchange Commission of Sri Lanka

1. General Accounting Policies

1.1 Statement of Compliance

The Securities and Exchange Commission of Sri Lanka (SEC) a non-profit making statutory board prepared its financial statements in accordance with the Sri Lanka Public Sector Accounting Standards.

1.2 Responsibility for Financial Statements

The Members of the Commission are responsible for the preparation and presentation of the financial statements.

1.3 Going Concern

When preparing the financial statements the Members of the Commission assessed the ability of the SEC to continue as a going concern. The Members of the Commission have a reasonable expectation that the SEC has adequate resources to continue in operational existence for the foreseeable future. The SEC does not foresee a need for liquidation or cessation of operations, taking into account all available information about the future. Accordingly, the SEC continues to adopt the going concern basis in preparing the financial statements.

1.4 Basis of Preparation

The financial statements of the SEC 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.

1.5 Foreign Currency Transactions

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

1.6 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.

1.7 Changes in Accounting Policies

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

1.8 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. The Motor 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 Investments

Investments are made in Fixed Deposits and short term investments at Licensed Government banks, in Government Treasury bills and Government Bonds which are stated at cost and interest accrued up to the end of the reporting period.

2.3 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.

2.4 Receivables

Receivables are stated at the estimated realizable value.

3. Liabilities & Provisions

3.1.1 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 drawn salary at the end of the financial year for all employees who have completed one year of service.

3.1.2 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' gross emoluments barring the vehicle allowance.

3.2 Liabilities

Liabilities classified as current liabilities in the Statement of Financial Position are those, which fall due for payment on demand or within one year from the reporting date. The non-current liabilities are those balances that fall due for payment after one year from the reporting date.

All known liabilities have been accounted at cost in preparing the financial statements.

3.3 Grant

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

4. Statement of Financial Performance

4.1 Revenue Recognition

SEC revenue consists of license fees, administration levy, sale of publications, seminar income for educational programmes. Revenue from the above mentioned services/fees is recognized in the period in which the related services are performed.

4.2 Interest on Investments

Interest on investments is recognized on an accrual basis.

4.3 Other Revenue

Other income is recognized on an accrual basis.

5. Expenditure Recognition

All expenditure incurred in maintaining the SEC has been recognized on accrual basis and charged to revenue in ascertaining the financial performance.

6. 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

Securities and Exchange Commission of Sri Lanka

1. Property, Plant & Equipment

	Motor Vehicles Rs.	Furniture, Fixtures & Fittings Rs.	Office Equipment (EDP & Others) Rs.	Training Equipment Rs.	Total Rs.
COST					
Balance as at 1st January 2017	33,867,686	39,028,506	113,695,898	3,695,315	190,287,405
Additions during the Year	14,000,000	2,196,199	6,289,203	653,493	23,138,896
Disposals during the year	(2,808,400)	(875,640)	(5,556,806)	-	(9,240,846)
Balance as at 31st December 2017	45,059,286	40,349,065	114,428,295	4,348,808	204,185,454
ACCUMULATED DEPRECIATION					
Balance as at 1st January 2017	14,981,914	22,643,331	79,234,816	3,507,818	120,367,879
Depreciation Charge for the Year	3,146,698	3,265,096	11,091,663	138,705	17,642,162
Accumulated Depreciation on					
Disposal of Assets	(2,808,400)	(570,482)	(5,556,372)	-	(8,935,254)
Balance as at 31st December 2017	15,320,212	25,337,945	84,770,107	3,646,523	129,074,787
Written Down Value					
as at 31st December 2017	29,739,074	15,011,120	29,658,188	702,285	75,110,668
Written Down Value					
as at 31st December 2016	18,885,772	16,385,176	34,461,081	187,497	69,919,526
Cost of the Fully Depreciated Assets as at 31.12.2017 (Included in the above mentioned cost)	0.00	18,463,047.97	63,440,033.70	3,610,292.50	85,513,374.17
Useful Life Time (No of Years)	10	8	5	5	

2. Cess Fund

	2017 Rs.	2016 Rs.
NON CURRENT ASSETS		
Staff Loans Receivable	19,885,240	19,908,948
Rent Deposit	35,667,240	34,440,960
Investment in Treasury Bonds	2,140,970,592	1,387,402,946
	2,196,523,072	1,441,752,854
CURRENT ASSETS		
Invested in State Institutions Temporary Surplus Fund	271,635,879	255,764,880
Investment in Fixed Deposits	-	834,244,948
	271,635,879	1,090,009,828
Staff Loans Receivable within 12 months	5,480,150	5,941,250
Interest Receivable on Fixed Deposits	-	37,193,463
Interest Receivable on Treasury Bonds	31,252,155	31,755,047
Interest Receivable on Repo	1,303,149	-
Cess Receivable	1,233,671	2,655,330
Receivable-SEC	31,038	-
Investment in Repo	186,001,617	-
Balance at Bank including Overnight Repo	1,747,911	986,776
	227,049,691	78,531,866
	498,685,570	1,168,541,694
Total Assets	2,695,208,642	2,610,294,548
Liabilities	-	6,011
Net Assets	2,695,208,642	2,610,288,537

Notes to the Financial Statements

Securities and Exchange Commission of Sri Lanka

	2017 Rs.	2016 Rs.
3. Compensation Fund		
NON CURRENT ASSETS		
Investment in Treasury Bonds	346,077,772	181,218,839
	346,077,772	181,218,839
CURRENT ASSETS		
Investment in Fixed Deposits	-	154,464,810
	-	154,464,810
Interest Receivable on Fixed Deposits	-	7,412,416
Interest Receivable on Treasury Bonds	3,277,789	1,013,548
Interest Receivable on Repo	166,845	-
Investment in Repo	28,001,049	-
Balance at Bank	114,149	105,167
	31,559,832	8,531,131
Total Assets	377,637,604	344,214,780
Liabilities	-	-
Net Assets	377,637,604	344,214,780

4. Inventories

Stock of Stationery, Stamp & EDP Consumables	1,468,716	1,318,888
	1,468,716	1,318,888

5. Receivables

Sundry Debtors	517,301	514,505
Institute of Chartered Accountants of Sri Lanka	-	1,025,400
Festival Advances	2,100,000	1,840,000
Phone Advance	150,000	-
	2,767,301	3,379,905

	Note	2017 Rs.	2016 Rs.
6. Deposits, Advances & Pre-payments			
Safe Vault Deposit - Bank of Ceylon		55,675	50,984
Fuel Deposit		60,000	60,000
Deposit for Vehicle Maintenance		-	500
Deposits with Telecom Ltd		23,125	17,625
Deposits with Dialog		8,500	9,000
Frosty-Hot & Cold Dispenser		12,899	28,000
Sponsorship for Higher Studies-University of Colombo		10,000	10,000
The Employers' Federation of Ceylon		62,500	62,500
Advances to Suppliers		7,293,101	8,609,262
		7,525,800	8,847,871

7. Cash

Cash at Bank	36,352,199	54,952,098
Cash in Hand	40,000	40,000
	36,392,199	54,992,098

8. Accumulated Fund

Balance at the beginning of the period	3,412,077	15,098,513
Fund Transfer to Cess Fund to invest in Treasury Bills	-	(50,000,000)
Surplus/(Deficit) for the Year	3,835,003	38,313,564
Balance at the end of the Year	7,247,080	3,412,077

Notes to the Financial Statements

Securities and Exchange Commission of Sri Lanka

	2017 Rs.	2016 Rs.
9. Cess Fund		
Balance at the beginning of the Year	2,610,288,537	2,537,561,900
ADD:		
Cess Received during the Year	264,026,238	210,645,640
Interest on Treasury Bills	15,870,999	29,604,938
Interest on Fixed Deposits	24,890,679	41,205,932
Interest on Treasury Bonds	170,730,981	95,111,999
Interest on Repo Investments	34,111,133	46,560,492
Interest on Staff Loans	1,101,632	1,189,874
Funds transferred from SEC	-	50,000,000
	3,121,020,199	3,011,880,775
LESS:		
Funds transferred to SEC for Operational & Capital Expenditure	418,768,719	397,950,002
Withholding Tax on Interest Income on Fixed Deposits	6,999,580	3,594,368
Bank Charges	43,258	47,868
	425,811,557	401,592,238
Balance at the end of the Year	2,695,208,642	2,610,288,537

10. Compensation Fund

Balance at the beginning of the Year	344,214,780	312,056,920
Add : Interest on Investment - Treasury Bills	-	86,433
Interest on Investment - Fixed Deposits	11,998,454	7,593,531
Interest on Investment - Treasury Bonds	22,705,264	11,280,397
Interest on Investment - Repo	1,626,132	13,879,835
	380,544,630	344,897,116
Less : Withholding Tax on Interest on Fixed Deposits	2,902,026	681,424
Bank Charges	5,000	912
	2,907,026	682,336
Balance at the end of the Year	377,637,604	344,214,780

	2017 Rs.	2016 Rs.
11. Grant - Transfers from Cess Fund Towards Capital Expenditure		
Balance at the beginning of the Year	63,263,165	49,850,270
Transfers from Cess Fund towards Capital Expenditure	23,138,896	28,357,941
Recognition of Grants	(17,642,162)	(14,945,046)
Balance at the end of the Year	68,759,899	63,263,165

NOTE

RECOGNITION OF GRANT

THE GRANT IS RECOGNIZED AT THE FOLLOWING RATES

Motor Vehicles	10.00%	10.00%
Office Equipment - Electronic Data Processing & Others	20.00%	20.00%
Training Equipment	20.00%	20.00%
Furniture, Fixtures & Fittings	12.50%	12.50%

12. Retirement Benefit Obligation

Balance at the beginning of the Year	29,895,636	27,937,943
Charge for the Year	3,490,950	3,704,311
Gratuity Paid during the Year	(964,673)	(1,746,618)
Balance at the end of the Year	32,421,913	29,895,636

Notes to the Financial Statements

Securities and Exchange Commission of Sri Lanka

	2017 Rs.	2016 Rs.
13. Creditors and Accruals		
Telephone, Internet Expenses	682,006	637,390
Electricity	375,378	569,578
Staff Medical Reimbursement	470,621	623,874
Directors' Fuel Reimbursement	167,839	144,163
Leave Encashment	1,769,227	1,880,092
Overtime	156,172	438,850
Foreign Travel	-	42,500
External Audit Fees	1,350,000	1,023,340
Internal Audit Fees	765,000	189,720
Professional Charges	-	650,548
Public Awareness	2,500,000	3,862,720
Courier Charges	2,792	8,984
Capital Market Development	-	22,216,289
VAT Payable	32,347	98,477
Stamp Duty Payable	47,000	40,450
Postage and Stamps	650	525
Nation Building Tax	15,271	10,981
Interest Subsidy	-	6,433
Meeting Expenses	770	-
Seminar expenses - CMET	120,500	42,300
Travelling -Local	6,140	32,042
Newspapers and Periodicals	-	18,850
Staff Welfare	193,403	156,032
Repair and Maintenance- OE,EDP & Other	20,050	-
Office Upkeep	-	4,006
Cost of Advertisement for Disposal of Van	-	40,000
Interns- SEC	-	8,088
Commission Members' Meeting Fees	18,000	36,000
Rent	-	275,000
Other Payable	62,508	28,676
EPF Payable	1,806,896	1,714,776
Remuneration Payable	857,315	960,028
Office Refurbishment-2016	-	2,563,538
	11,419,885	38,324,250

	Note	2017 Rs.	2016 Rs.
14. Personnel Costs			
Staff Salaries		108,259,916	99,672,832
Chairman's Allowance		1,175,000	1,375,000
Overtime		1,549,779	1,931,559
E P F & E T F		16,636,256	15,740,366
PAYE Tax		-	30,630
Staff Gratuity	12	3,490,950	3,704,311
Special Payment		11,504,623	11,005,788
Leave Encashment		1,789,315	2,086,075
Staff Medical Expenses & Insurance		6,009,328	5,549,545
Personnel Accident Insurance Cover		566,063	414,898
Staff Housing Loan Interest Subsidy		1,144,200	862,602
Staff Welfare		6,313,319	4,409,927
Executive Subsistence		121,500	123,500
Reimbursement of Fuel - Directors		2,648,779	2,634,909
Directors Vehicle Allowance		6,403,984	6,196,582
Overseas Training and Travelling		22,973,924	17,500,214
Staff Training - Local		2,767,486	2,645,839
Subscription of Membership		995,081	804,509
Sponsorship for Studies *		954,665	488,000
Advertising-Recruitment		1,322,839	1,711,007
Interns Allowance		106,748	409,487
		196,733,755	179,297,580

* 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.

Notes to the Financial Statements

Securities and Exchange Commission of Sri Lanka

	Note	2017 Rs.	2016 Rs.
15. Administration & Establishment Expenses			
Rent & Car Park Rental		71,851,301	70,984,795
Electricity Charges		4,446,794	4,667,298
Office Upkeep		93,205	425,795
Office Equipment Maintenance & Insurance		10,517,964	8,309,689
Telephone, Internet, E- mail & Web		4,387,735	4,238,093
Motor Vehicle Fuel, Maintenance, License & Insurance		2,035,596	2,086,601
Professional Fees		12,866,350	8,793,186
Member Fees		1,384,500	1,490,000
Meeting Expenses		1,152,331	998,273
Entertainment		177,083	11,577
Library Books		140,581	27,712
News Papers & Periodicals		284,843	275,722
Printing & Stationery		2,487,952	2,712,112
Travelling Local		1,108,031	958,428
Insurance- All Risk , Public Liability, Cash in Transit & Fire		348,174	327,754
Postage and Stamp Duty		134,521	2,197,228
Courier Charges		138,069	137,793
Legal Expenses		2,139,099	5,290,220
Audit Fees -Internal		1,373,818	371,280
Audit Fees -External		400,000	551,040
General Expenses		189,158	50,969
Trade Tax		5,000	5,000
VAT Expenses		18,292,627	11,394,457
Nation Building Tax		219,109	207,588
Depreciation	1	17,642,162	14,945,046
		153,816,003	141,457,656

16. Market Development

Capital Market and Product Development		46,675,368	10,251,993
Public Awareness Programmes		11,432,025	15,986,660
Seminar Expenses		3,473,586	5,120,457
International Membership Fees - IOSCO		2,908,967	2,870,378
Publicity and Advertising		84,843	151,806
Market Surveillance Cost		7,476,822	7,649,570
Investigation and Inspection Expenses		13,740	32,372
		72,065,351	42,063,236

17. Finance Charges

Bank Charges		116,342	31,105
		116,342	31,105

18. Taxation

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

19. Capital Commitments

There were no capital commitments as at 31.12.2017.

20. Contingent Liabilities

There were no contingent liabilities as at 31.12.2017.

21. Events After the Balance Sheet Date

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

22. Related Party Disclosures

The Chairman and the following Members of the Commission held office during the full year 2017 as stated below.

- Mr. Thilak Karunaratne, the Chairman an appointed member
- Mr. D. N. R. Siriwardena, ex-officio member
- Mr. Ranel T. Wijesinha, appointed member
- Mr. Sajith R. Attygalle, an ex-officio member
- Ms. Marina Fernando, an appointed member
- Ms. Dilshani Gayathri Wijayawardana, an appointed member
- Mr. Rajeev Amarasuriya, an appointed member

- Mr. Suresh Shah, an appointed member
- Mr. Lasantha Wickremasinghe, ex-officio member

The following Member of the Commission was appointed during the year as stated below.

- Mr. C. P.J. Siriwardana, Deputy Governor of the Central Bank assumed duties as an appointed member w. e. f. 6th September 2017.

The following Members of the Commission ceased to hold office as stated below.

- Mr. P. Samarasiri, an appointed member ceased to be a Member of the Commission upon his retirement as Deputy Governor to the Central Bank w. e. f. 19th August 2017.
- Mr. Lasantha Wickremasinghe's, term as an ex-officio member ceased end of December 2017 upon him completing his term as the President of the Institute of Chartered Accountants of Sri Lanka.

The following table depicts the relationships held by the Chairman and the Members of the Commission who held office during the year 2017.

Name	Name of Related Institution	Relationship
Mr. Thilak Karunaratne	• Multiform Chemicals (Pvt) Ltd	Chairman
	• Mercury Agencies (Pvt) Ltd	Chairman
Mr. D. N. R. Siriwardena	• Sri Lanka Accounting and Auditing Standards Monitoring Board	Member
	• Insurance Board of Sri Lanka	Member
Mr. Ranel T. Wijesinha	• Bank of Ceylon	Director / Chairman Audit Committee
	• koladeniya Hydro Power (Private) Limited	Director / Chairman Audit Committee w. e. f. October 2017
Mr. S. R. Attygalle	• Bank of Ceylon	Director
	• Airport and Aviation Services Ltd	Member (24.2.2015 - 28.11.2017)
Ms. Marina Fernando	-	-
Ms. Dilshani Gayathri Wijayawardana	• Union Bank PLC	Independent Non- Executive Director w. e. f. April 2017
Mr. Rajeev Amarasuriya	• Panthera Leo Consulting Group (Pvt) Ltd	Director
	• Alumni Association, University of Colombo	President

Notes to the Financial Statements

Securities and Exchange Commission of Sri Lanka

Name	Name of Related Institution	Relationship
Mr. Suresh Shah	• Ceylon Beverage Holdings PLC	Director/CEO
	• Lion Brewery Ceylon PLC	Director/CEO
	• Carson Cumberbatch PLC	Director
	• Bukit Darah PLC	Director
	• The Ceylon Chamber of Commerce	Immediate past Chairman
	• The Employers' Federation of Ceylon	Chairman
	• University of Moratuwa	Council Member
Mr. C. J. P. Siriwardana	• Colombo Dockyard PLC	Director
	• Credit Information Bureau	Chairman w. e. f. 19.08.2017
	• Insurance Board of Sri Lanka	Director w. e. f. 19.08.2017
Mr. Lasantha Wickremasinghe	• B R de Silva & Co.	Partner
	• The institute of Chartered Accountants of Sri Lanka	President (2016 -2017)
	• Sri Lanka Institute of Advanced Technological Education (SLITE)	Member to the Governing Council
	• Postgraduate Institute of Management (PIM)	Board Member
	• Api Wenuwen Api Fund	Board of Management
	• Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)	Member of the Board of Directors
	• Skills Development Fund Ltd (SDFL)	Board Member w. e. f. September 2017

The following table depict the relationships of the following Member of the Commission who ceased to hold office during the year under review.

Name	Name of Related Institution	Relationship
Mr. P. Samarasiri	• Institute of Bankers of Sri Lanka	Chairman until 19.8.2017
	• Credit Information Bureau of Sri Lanka	Chairman until 19.8.2017
	• Insurance Board of Sri Lanka	Member until 19.8.2017
	• Api Wenuwen Api Fund	Member until 19.8.2017

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

AUDITOR GENERAL'S REPORT



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය } BAF/H/SGF/1/17/4
எனது இல. }
My No. }

ඔබේ අංකය }
உமது இல. }
Your No. }

දිනය } 31 May 2018
திகதி }
Date }

The Chairman,
Securities and Exchange Commission of Sri Lanka

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 2017

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 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, 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 21/22 May 1998 relating to establishment of Settlement Guarantee Fund in terms of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka Public Sector 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.

1.3 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 consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). 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



Auditor General's Report



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සාමාන්‍ය සේවකාරී ක්‍රමයේ අධ්‍යක්ෂ ජනරාල්
Auditor General's Department

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.

2. Financial Statements

2.1 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 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

3. Financial and Operating Review

3.1 Financial Results

According to the financial statements presented, the activities of the Fund for the year ended 31 December 2017 had resulted in a surplus of Rs.76, 294,618 as compared with the corresponding surplus of Rs. 59, 400,435 for the preceding year thus indicating an increase in the surplus by Rs.16, 894,183. The reason for that was the increase in interest income.

3.2 Fund

3.2.1 Objectives

The objectives of the fund are,

- (a) to collect and provide (in the absolute discretion of the Trustees) funds for the purpose of Guaranteeing the Settlement of Trades between the Clearing Members of the Central Depository System insofar as it shall continue to function as an entity providing the function of a Central Share Depository and Clearing and Settlement facility, and
- (b) to undertake all such ventures and adopt all other measures and undertake all other activities towards the achievement of the aforesaid objects and purpose (a) above without limitation.

3.2.2 Functions of the Fund

Disputes between the Clearing Members of the Central Depository System had not been reported as per Paragraph 5 (a) of the Deed of Trust No. 1376 dated 21/22 May 1998 and as such no compensation payments had been made up to 31 December 2017.

H.M. Gamini Wijesinghe

Auditor General

STATEMENT OF FINANCIAL POSITION

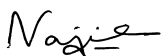
Settlement Guarantee Fund - As at 31st December 2017

	Note	2017 Rs.	2016 Rs.
ASSETS			
NON CURRENT ASSETS			
Investments in Treasury Bonds		546,687,720	97,724,650
CURRENT ASSETS			
Investment in Fixed Deposits		-	581,658,679
Receivables	5	11,953,407	20,007,046
Investments in Repurchase Agreements		216,720,713	-
Cash at Bank		586,465	248,312
Total Assets		775,948,305	699,638,687
RESERVES AND LIABILITIES			
RESERVES			
Grant - Treasury		50,000,000	50,000,000
Grant- Cess Fund		100,000,000	100,000,000
Grant- Colombo Stock Exchange		100,000,000	100,000,000
Accumulated Fund		525,653,305	449,358,687
		775,653,305	699,358,687
CURRENT LIABILITIES			
Payables	6	295,000	280,000
		295,000	280,000
Total Net Assets and Liabilities		775,948,305	699,638,687

The notes appearing on pages 99 to 101 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



Vajira Wijegunawardane
Trustee-Settlement Guarantee Fund



Rajeeva Bandaranaike
Trustee-Settlement Guarantee Fund

Colombo.
23rd May 2018

STATEMENT OF FINANCIAL PERFORMANCE

Settlement Guarantee Fund - For the year Ended 31st December 2017

	Note	2017 Rs.	2016 Rs.
INCOME			
Interest on Investments - Fixed Deposits		54,668,824	19,853,936
Interest on Investments - Repurchase Agreements		7,004,789	34,235,963
Interest on Investments - Treasury Bonds		20,803,991	5,303,110
Interest on Investments - Treasury Bills		-	20,616
		82,477,604	59,413,625
LESS:			
EXPENDITURE			
Audit Fees		15,000	10,000
Bank Charges		-	3,190
Withholding Tax on Interest on Fixed Deposits		6,167,986	-
Total Expenditure		6,182,986	13,190
Excess Income Over Expenditure for the Year		76,294,618	59,400,435

The notes appearing on pages 99 to 101 form an integral part of the financial statements.

STATEMENT OF CHANGES IN NET ASSETS

Settlement Guarantee Fund - For the year Ended 31st December 2017

	2017 Rs.	2016 Rs.
ACCUMULATED FUND		
Balance at the beginning of the Year	449,358,687	389,958,252
Net Income for the Year	76,294,618	59,400,435
Balance at the end of the Year	525,653,305	449,358,687

The notes appearing on pages 99 to 101 form an integral part of the financial statements.

CASH FLOW STATEMENT

Settlement Guarantee Fund - For the year Ended 31st December 2017

	Note	2017 Rs.	2016 Rs.
CASH FLOW FROM OPERATING ACTIVITIES			
Net Surplus for the year		76,294,618	59,400,435
ADJUSTMENT FOR CHANGE OF WORKING CAPITAL			
(Increase)/Decrease of Other Receivables	5	8,053,639	(16,181,367)
Increase/(Decrease) of Other Payables	6	15,000	10,000
		8,068,639	(16,171,367)
Net Cash Inflow/(Outflow) from Operating Activities		84,363,257	43,229,068
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in Treasury Bonds		(448,963,070)	(97,724,650)
Investment in Treasury Bills		-	13,092,220
Investment in Fixed Deposits		581,658,679	(581,658,679)
Net Cash Inflow/(Outflow) from Investing Activities		132,695,609	(666,291,109)
Net Increase/(Decrease) in Cash and Cash Equivalents		217,058,866	(623,062,041)
Cash & Cash Equivalents at the beginning of the period		248,312	623,310,353
Cash & Cash Equivalents at the end of the period (Note A)		217,307,178	248,312
NOTE (A)			
CASH & CASH EQUIVALENTS AT THE END OF THE PERIOD			
Invest in Repurchase Agreements		216,720,713	-
Cash at Bank		586,465	248,312
		217,307,178	248,312

The notes appearing on pages 99 to 101 form an integral part of the financial statements.

ACCOUNTING POLICIES

Settlement Guarantee Fund

1. General Accounting Policies

1.1 Statement of Compliance

The Settlement Guarantee Fund (SGF) of the Securities and Exchange Commission of Sri Lanka is a nonprofit making Trust. Its financial statements are prepared in accordance with the Sri Lanka Public Sector Accounting Standards.

1.2 Responsibility for Financial Statements

The Board of Trustees of the SGF is responsible for the preparation and presentation of the financial statements.

1.3 Going Concern

When preparing the financial statements the Board of Trustees has assessed the ability of the SGF to continue as a going concern. The Board of Trustees has a reasonable expectation that the SGF has adequate resources to continue in operational existence for the foreseeable future. The Board of Trustees does not foresee a need for liquidation or cessation of operations, taking into account all available information about the future. Accordingly, the Board of Trustees of the SGF continues to adopt the going concern basis in preparing the financial statements.

1.4 Basis of Preparation

The financial statements of the SGF 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.

1.5 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.

1.6 Changes in Accounting Policies

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

1.7 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 Investments

Investments are made in Government Treasury Bonds, Fixed Deposits and REPO investments at Licensed Government banks which are stated at cost.

2.2 Receivables

Receivables are stated at the estimated realizable value.

3. Liabilities & Provisions

3.1 Retirement Benefit

Retiring gratuities payable in terms of Gratuity Act No. 12 of 1983 do not arise since the SGF is administered by the Trustees and there are no staff employed by the SGF.

3.2 Accounts Payable

Payables are stated at cost.

4. Statement of Financial Performance

4.1 Revenue Recognition

Interest on investments is recognized on an accrual basis.

4.2 Expenditure Recognition

All expenditure incurred in maintaining the SGF has been recognized on accrual basis and charged to revenue in ascertaining the financial performance.

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.

	2017 Rs.	2016 Rs.
INTEREST RECEIVABLE		
- Treasury Bonds	10,657,101	153,110
- REPO	1,296,306	-
- Fixed Deposits	-	19,853,936
	11,953,407	20,007,046

6. Payables

Audit Fees	295,000	280,000
	295,000	280,000

Accounting Policies

Settlement Guarantee Fund - As at 31st December 2017

7. Capital Commitments

There were no capital commitments as at 31st December 2017.

8. Contingent Liabilities

There were no contingent liabilities as at 31st December 2017.

9. Events After Balance Sheet Date

The Trustees monitor events closely and where necessary adjustments or disclosures are made in the current financial statements in respect of material post balance sheet events as appropriate.

10. Related Party Disclosure

The Trustees of the Fund consist of 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.

The following Trustees of the SGF held office during the full year 2017;

- Mr. Thilak Karunaratne, Chairman of the SEC
- Mr. S. R. Attygalle, Deputy Secretary to the Treasury
- Mr. Rajeev Bandaranaike, Chief Executive Officer CSE
- Mr. Vajira Wijegunawardane, Director General SEC

Mr. Ray Abhayawardhana was appointed as a Trustee of the SGF w. e. f. 5th May 2017 by virtue of him holding office as the Chairman of the CSE.

Mr. Vajira Kulathilaka assumed duties as a Trustee on 5th June 2014 and ceased to be a Trustee upon completing his term as the Chairman of the CSE during the month of May 2017.

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	Chairman
	• Mercury Agencies (Pvt) Ltd	Chairman
	• Securities and Exchange Commission of Sri Lanka	Chairman
Mr. Ray Abeywardena	• Acuity Partners (Pvt) Ltd	Managing Director
	• Acuity Stockbrokers (Pvt) Ltd	Chairman
	• Acuity Securities Ltd	Chairman
	• Guardian Acuity Asset Management Ltd	Chairman w. e. f. 29.08.2017
	• Colombo Stock Exchange	Chairman w. e. f. 05.05.2017
	• Central Depository Systems (Pvt) Ltd	Chairman w. e. f. 05.05.2017
	• Lanka Ventures PLC	Director
	• LVL Energy Fund Ltd	Director
	• Softlogic Life Insurance PLC	Director
	• The Associated Newspapers of Ceylon Ltd	Director w. e. f. 04.08.2017
	• Lake House Property Development (Pvt) Ltd	Director w. e. f. 04.08.2017
	• Observer Jobs (Pvt) Ltd	Director w. e. f. 04.08.2017
• Lake House Connect (Pvt) Ltd	Director w. e. f. 04.08.2017	
Mr. Rajeev Bandaranaike	• Lanka Financial Services Bureau Limited (LFSBL)	Director
	• Colombo Stock Exchange	Chief Executive Officer
Mr. S. R. Attygalle	• Bank of Ceylon	Director
	• Airport and Aviation Services Ltd	Member
	• Securities and Exchange Commission of Sri Lanka	Commission Member
	• Ministry of Finance	Deputy Secretary to the Treasury
Mr. Vajira Wijegunawardane	• Sri Lanka Auditing and Accounting Standards Monitoring Board	Ex-officio Member
	• Construction Guarantee Fund	Ex-officio Member
	• Environmental Foundation Guarantee Fund	Director
	• Securities and Exchange Commission of Sri Lanka	Director General

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

Name of the Trustee	Name of Institution	Relationship
Mr. Vajira Kulathilaka	• NDB Investment Bank Ltd	Director
	• NDB Securities (Pvt) Ltd	Director
	• NDB Wealth Management Ltd	Director
	• NDB Capital Ltd - Bangladesh	Director
	• NDB Capital Holdings Ltd	Director/Chief Executive Officer
	• NDB Zephyr Partners Ltd - Mauritius	Director
	• NDB Zephyr Partners Lanka (Pvt) Ltd	Director
	• Emerald Sri Lanka Fund 1 Ltd - Mauritius	Director
	• Resus Energy PLC	Director
	• Giddawa Hydro Power (Pvt) Ltd	Director
	• Okanda Power Grid (Pvt) Ltd	Director
	• Upper Agra Oya Hydro Power (Pvt) Ltd	Director
	• Moragaha Oya (Pvt) Ltd	Director
	• Upper Hulu Ganga (Pvt) Ltd	Director
	• Ella Dendro Electric (Pvt) Ltd	Director
	• Gomale Oya Hydro Power (Pvt) Ltd	Director
	• Rawana Kanda Hydro Power (Pvt) Ltd	Director
	• Colombo Stock Exchange	Chairman until May 2017
	• South Asian Federation of Exchanges	Chairman until May 2017

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

CORPORATE INFORMATION

Office Address

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

Telephone

+94 11 2143843

Fax

+94 11 2439149

E-mail

mail@sec.gov.lk

Web

www.sec.gov.lk

Accounting Year

Year ended 31st December 2017

Auditors

The Auditor General

Bankers

- Bank of Ceylon
- Sampath Bank
- Hongkong & Shanghai Banking Corporation Limited
- Commercial Bank

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COMMISSION OF SRI LANKA