



# Building Bridges



# Building Bridges

During the year we focused on laying the foundation for sustainable growth in the capital market by building the right regulatory framework to reduce securities law violations, increase investor protection and create an environment in which fair and efficient markets can flourish. This endeavour would build a world of opportunities for the public and businesses to access the capital market.

## Contents

Vision & Mission	2
Key Figures for 2016	3
Chairman's Review	4
Director General's Review	9
Members of the commission	15
Senior Management	20
Capital Market Review	22
Managers	26
Staff Members	27
Highlights of the Year	30
Capital Market Strategy	32
Operational Review	36
Strategic Review of the Capital Market Master Plan 2006-2015	63
Additional Information	73
Fact Sheet	78
<b>Financial Statements - SEC</b>	
Auditor General's Report	81
Statement of Financial Position	83
Statement of Financial Performance	84
Statement of Changes In Reserves	85
Cash Flow Statement	86
Cash Flow Statement	87
Cash Flow Statement	88
Accounting Policies	89
Notes to the Financial Statements	91
<b>Financial Statements - SGF</b>	
Auditor General's Report	101
Statement of Financial Position	103
Statement of Financial Performance	104
Statement of Changes in Net Assets	105
Cash Flow Statement	106
Accounting Policies	107
Notes	110
Corporate Information	Inner Back Cover

## ABOUT US

The Securities and Exchange Commission of Sri Lanka (SEC) was established by an 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. The SEC falls under the purview of the Ministry of National Policies and Economic Affairs

## 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

## KEY FIGURES FOR 2016

<p><b>211</b> Licensed / Registered Entities</p>	<p>Handled <b>52</b> complaints against public listed companies</p>
<p>Conducted <b>93</b> On-site inspections and <b>2347</b> off-site reviews</p>	<p>Completed <b>3</b> investigations and <b>26</b> cases in progress</p>
<p>Provided <b>13</b> analytical Trading reports to law enforcement agencies</p>	<p>Sought clarifications / cautioned <b>36</b> brokers / traders and <b>23</b> investors through market monitoring</p>
<p>Approved <b>121</b> Global, Regional and Country Funds to invest in listed securities</p>	<p>Compiled <b>7</b> comprehensive surveillance referrals</p>

## CHAIRMAN'S REVIEW

*"From a regulatory perspective, we finalised an exposure draft of the new SEC Act and invited feedback from stakeholders including the general public to foster transparency in the law making process and induce meaningful contributions from all".*

In the year under review we faced many challenges which were successfully overcome and ended the year with significant achievements.

Our efforts were essentially directed towards pursuing the core mandate of promoting, developing and maintaining a capital market that is fair, efficient, orderly and transparent. In the process we embarked on a series of initiatives to strengthen stakeholders trust and confidence in the capital market.

The Securities and Exchange Commission of Sri Lanka (SEC) in 2006 formulated a 10 year (2006-2015) Capital Market Master Plan, funded by the Asian Development Bank (ADB) with consulting assistance provided by Ernst and Young Malaysia (E & Y). Over the years we were able to implement some of its key proposals including initiatives to develop a vibrant bond market, establish a capital market education institute, revise transaction cost etc. Moreover, a few other initiatives required extensions in time lines especially the Demutualisation of the Colombo Stock Exchange (CSE), expansion in regulatory coverage of the SEC, enactment of a Securitisation Act and reduction of systemic risk in the market. In order to successfully achieve the above mentioned tasks as well as the current needs of the capital market, in the year 2016 we formulated a wide-ranging three year Strategic Plan (2017-2020) which was approved by the Cabinet in October 2016. The Strategic Plan is expected to meet the interest of all our stakeholders by strengthening the regulatory framework, developing market infrastructure, encouraging investor engagement, improving risk management and providing effective supervision and enforcement.

From a regulatory perspective, we finalised an exposure draft of the new SEC Act and invited feedback from stakeholders including the general public to foster transparency in the law making process and induce meaningful contributions from all. While some commended the proposed amendments others claimed this was too draconian, stringent and not necessary for a developing market such as Sri Lanka. Some suggested that the new provisions will impede market violations and that an element of market malpractice was necessary to drive the market. Despite these baseless arguments, we believe the new Act will form a sound foundation for capital market regulation and additionally expand our scope with enhanced enforcement capabilities. Furthermore it will introduce powers for civil and administrative sanctions and will also include more provisions to regulate hitherto unregulated capital market intermediaries and products and ensure better safeguard of investor interests. The proposed legislation is expected to be forwarded to the Legal Draftsman by the end of the first quarter in 2017 and we are confident that it will be presented to the parliament and approved to be enacted as a new Act by the end of 2017. This will be a singular achievement as the Commission has been struggling to bring in a new Act since 2011. Here I wish to mention with grateful thanks the invaluable contribution made by the drafting committee headed by Mr. Kanag-Isvaran P.C.



### Chairman's Review

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*"I strongly feel that we have now laid the foundation to meet the opportunities and challenges that lie ahead and support economic growth and look forward to working with our stakeholders to achieve these objectives".*

## Chairman's Review

Rapid changes in the global securities markets have caused stock exchanges around the world to examine their business models and restructure themselves. Many exchanges have responded by demutualising, which brings about major shifts in ownership and corporate governance structure. Demutualisation of the CSE is likely to allow the Exchange to create a more streamlined and market-oriented Exchange and respond more effectively to competitive pressure. During the year under review, we were able to obtain consultancy services from the Asian Development Bank to prepare a basis for value allocation, finalise the modality for demutualisation and draft regulation on criteria for a demutualised Exchange. We sincerely trust the Members of the CSE will cooperate with us to see a successful conclusion of this process before the end of 2017.

The present negative market sentiments underscore the importance of the SEC remaining vigilant to address growing risks and vulnerabilities. Subsequent to obtaining Board approval and broker consultations, the CSE made recommendations to the SEC to approve the introduction of risk based capital adequacy requirement based on international best practices to instill better financial discipline and ensure that stockbrokers are prudent in their business conduct. Although a few stockbrokers criticised this move due perhaps to ignorance and misconception, this framework is expected to strengthen the stockbroking industry and enhance the protection of client assets. Unless all stakeholders work in unison we will not be able to achieve the expected regulatory outcomes and therefore I urge all parties to cooperate with us to achieve these objectives.

We recognise the inadequacy of financial literacy of the investor community in general, except for a few. Therefore we continued to explore ways of improving financial knowledge and capabilities. With this intention we reached out to different segments of society primarily through seminars, workshops, publications and mass media. We focused increasingly on publishing articles regularly in newspapers and arguably the SEC is the only Government institution that has embarked on such an initiative. These are aimed at enhancing the knowledge of investors to make informed investment decisions. In 2016 we successfully conducted a weekly one hour television series in Sinhala titled "Isura" in association with Sirasa TV. The series which comprised of studio discussions on financial products, investing concepts, and investor rights and responsibilities became extremely popular and generated over 50,000 responses for the weekly quiz. We wish to thank our eminent industry personnel who served as panelists on this programme.

The SEC was only the 3rd country in the world to have an International Organisation of Securities Commissions (IOSCO) Country Review which started in July 2016. The objective of the exercise is to evaluate the strength and robustness of our regulatory framework and determine areas that require improvement. A review team comprising of five regulators from other jurisdictions assessed the capital market of Sri Lanka against 37 of 38 IOSCO principles. We could not be assessed on the 38th i.e. Delivery versus Payment (DvP) as we have not implemented this important mechanism. Yet after many deliberations with the secretariat and the commission, IOSCO is in the process of finalising their report which we expect to be quiet favourable and by implementing the recommendations of the report we expect to achieve an effective, balanced and efficient regulatory framework which will assist in attracting international portfolio investments into the country.

Greater international cooperation among regulators is vital to deal with challenges faced by capital markets and enhance overall market regulation. In October 2016, in association with the United States Securities and Exchange Commission we successfully conducted a regional training conference on "Effective Oversight of Capital Markets: Investigation and Prosecution of Securities Fraud and Abuse". This capacity building programme for securities market regulators was designed to address topical issues and increase the effectiveness of regulatory personnel.

The ultimate aim of a capital market is to ensure that investors and issuers alike have confidence to trade in the market. Given that market abuse poses a threat to confidence and integrity, we continued to upgrade our investigative skills in order to effectively detect and investigate potential securities law violations. During the year, the new investigation team was able to complete three investigations and four others are at different stages of completion. Moreover, being a signatory to the IOSCO Multilateral Memorandum of Understanding (MMoU), the SEC successfully sought assistance from several jurisdictions to conduct investigations.

To maintain market integrity, the SEC expects relevant persons in the securities market workforce to be competent, honest, and be of sound financial standing. Accordingly, we developed enhanced guidelines on fit and proper standards for those engaged in capital market activities. This framework is expected to ensure that persons of regulated institutions perform their activities efficiently, honestly and in the best interests of their customers. What is more, at the point of obtaining the initial licence or registration and



also on a continuous basis relevant persons are expected to prove and demonstrate to the SEC that they comply with fit and proper criteria.

In a bid to ensure the general public gets a greater opportunity to invest in the capital market and to increase market liquidity the SEC directed all Public Listed Companies to comply with the Rules on Minimum Public Float on a continuous basis. As a result of a high incidence of non-compliance among listed entities and taking into consideration the views of the market, we decided to revise the Minimum Public Float requirements to provide listed companies with a wider range of options to comply with the Rules effective from January 2017. We expect the revised criteria will encourage more listings on the CSE.

In 2016 the SEC successfully facilitated the implementation of an integrated Broker Back Office and Order Management System (OMS) for stock broking firms which is jointly financed by the SEC and CSE. Majority of the stock broking firms installed the system and underwent a compliance audit for the purpose of fund disbursement. The OMS will not only be a pre-requisite for the market to move to a Central Counterparty (CCP) - DvP system but also enable seamless trading, clearing and settlement of securities.

We believe that achieving good regulatory outcomes require a collective effort. Therefore, we took steps to regularly engage with our stakeholders, particularly with investors, stockbrokers and the unit trust industry in order to discuss key issues and improve the manner in which we regulate our market. We are committed to not only remain responsive and effective but also work together with all the stakeholders to develop the market.

In order to keep up with modern trends of capital markets it is imperative that we have highly educated, well trained and motivated staff. The SEC continued to spend its resources to train our staff, the most valuable asset of our organisation. Towards achieving this end most members of our staff have participated in many seminars, training programmes and similar knowledge enhancement initiatives abroad during the year.

I strongly feel that we have now laid the foundation to meet the opportunities and challenges that lie ahead and support economic growth and look forward to working with our stakeholders to achieve these objectives.

In conclusion, I wish to thank the Hon. Ranil Wickremesinghe MP, our line minister as well as the Prime Minister, Hon. Niroshan Perera, MP, our State Minister, Mr. R. Paskaralingam, Senior Advisor to the Ministry of National Policies and Economic Affairs, Mr. M.I.M. Rafeek, Secretary to the Ministry and all other officials at the Ministry for their support and cooperation extended for the smooth functioning of the Commission.

My thanks also go to the Members of the Commission for their invaluable contribution. I also wish to thank the Director General and the staff of the Secretariat for their excellent commitment and hard work.



**Thilak karunaratne**  
Chairman

30th May 2017



### Director General's Review

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*"We were one of several jurisdictions to have made representations to IOSCO Assessment Committee for the conduct of a Country Review of Securities Regulation. We became only the third member jurisdiction to secure the opportunity to be subject to such review by the global standard-setter for securities regulation, and were assessed in 2016 against 37 of the 38 IOSCO Principles, in the Assessment Committee's most comprehensive Country Review to date".*

## DIRECTOR GENERAL'S REVIEW

In 2016 we at the SEC anticipated that the structural fortitude of our capital market, its fundamentals, and its governance practices will together serve as a litmus test for its development potential. We also anticipated that this trifecta would inform us as to how we may forge past familiar frontiers to pursue an aspirational development trajectory.

Against a challenging market backdrop, we focused on reinforcing these attributes even as we continued to advocate for more facilitative regulation, pursue parity with international best practices, and insist on more robust processes and mechanisms: so ensuring the sustainability and robustness of Sri Lanka's capital market.

### Transformative Regulatory Reform

Significant progress was made with respect to the promulgation of a new governing legislation for the SEC in the form of the Securities Exchange Act when a preliminary draft of the proposed Act was finalised after extensive deliberation among members of the high-level advisory committee appointed for the purpose. This draft was later approved by the members of the Commission for public consultation, and the policy underlying the same received Cabinet approval. The passage in 2017 of the proposed Act would not only complete a longstanding initiative of the SEC, but also decisively define our ability to engage in effective and holistic regulation of the capital market.

Extensive public consultation was conducted with respect to the draft Securities Exchange Act in early 2017 both in the interest of maintaining transparency throughout the legislative process and that of ensuring the enduring relevance of the legislation promulgated today to market participants. Having received the insights and feedback of a cross-section of regulatees and other market participants over the course of several weeks, we are confident that the present draft has greatly benefited from the consideration and incorporation of multiple perspectives during its formative stages.

We were one of several jurisdictions to have made representations to the IOSCO Assessment Committee for the conduct of a Country Review of Securities Regulation. We became only the third member jurisdiction to secure the opportunity to be subject to such review by the global standard-setter for securities regulation, and were assessed in 2016 against 37 of the 38 IOSCO Principles, in the Assessment Committee's most comprehensive Country Review to date.

This review proved useful to us in taking stock of our present position in terms of meeting global regulatory benchmarks and introducing minimum standards, while its recommendations mirrored our observations with respect to the capital market status quo. Our efforts since the completion of the IOSCO Country Review have been to ensure that the roadmap for enhanced compliance is followed in a timely and systematic manner, particularly in light of the fact that the elevation of

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## Director General's Review

our regulatory framework is critical to attracting the interest of investors; especially international portfolio investors.

True to these efforts and to our pledge last year, the SEC in 2016 strove to ensure that our role as the capital market regulator is coherent and that policy and regulatory certainty are preserved through responsive regulation. We formulated a comprehensive Capital Market Strategy integrating regulatory and developmental initiatives to be undertaken during the 2016-2020 period, which obtained the approval of the Cabinet of Ministers in October 2016 and was made accessible to the public in March 2017.

Guided by this strategy, we hope to tap the full, as-yet unrealised, potential of the Sri Lankan capital market as a complement to the banking sector and a viable source of long-term fundraising and investment which would aid us in aligning more closely with the economy's funding and growth needs. Alive to market realities in which this strategy is to be implemented, we have opted in our formulation of regulatory and developmental initiatives to adopt more policy-oriented and qualitative implementation approaches as opposed to arbitrary quantitative targets over which we cannot exert control.

Meanwhile, policy coherence in the wider financial sector was revived and inter-regulatory coordination enhanced through the establishment of the Financial Sector Oversight Committee as a forum in which the three apex regulators – the Central Bank of Sri Lanka, the Insurance Board of Sri Lanka, and ourselves – along with the Sri Lanka Accounting and Auditing Monitoring Board may deliberate on latent opportunities and emergent challenges alike.

### Interactive Stakeholder Engagement

We are committed, likewise, to engage with the industry, issuers, and the investing public more frequently and to a greater extent through the conduct of regular stakeholder consultations.

While acknowledging the reality that the paths we follow as regulators will not (and perhaps, cannot) be the most popular ones or the easiest, we also appreciate the need for the SEC to collaborate with and remain sensitive to the needs and aspirations of market participants. It was towards this end that in November 2016 we revisited the Rules on Minimum Public Float as stipulated in 2013, and provided issuers with greater opportunities for compliance while remaining true to our aim of broad basing the capital market and preserving much-needed liquidity.

It is our expectation that our present policy stance will be reciprocated with discipline and restraint on the part of regulatees, issuers, and other market participants. To encourage such discipline, we have undertaken a revamp of the rules and regulations which address market participants, thereby providing minimum standards to which they must adhere.

In relation to the CSE, the need to segregate the rights of ownership, management, and trading to ensure adequate representation of stakeholder interests was recognised by us over a decade ago. Today, the demutualisation of the CSE, whereby the re-alignment of stakeholder interests may be achieved, is a priority initiative of the SEC, and our first steps with respect to the passage of enabling legislation for demutualisation will begin in 2017. We anticipate that this re-orientation of the Exchange to pursue its strategic and commercial interests will optimise its financial sustainability, institutional capability, and global acceptability in time to come.

In these and other efforts, the SEC has secured the assistance, both technical and financial, of international donors, with a view to achieving comprehensive capital market regulatory reform.

### Improved Policy Implementation

While promulgating new laws, rules, and regulations for the capital market, we also sought to ensure that our existing complement of rules and regulations is employed to the fullest extent possible. Accordingly, progress was made in our transition to risk-based supervision with the November-2016 introduction of mandatory Risk-based Capital Adequacy Requirements for all stock brokers excluding those licensed only to trade in debt securities; such requirements including both a minimum capital adequacy ratio and a minimum threshold of liquid capital to be maintained by brokers. This was an initiative which received the unstinted support of the CSE, as one which would reduce the probability of stock-broker failure and would mitigate systemic risk.

Meanwhile, the supervision of margin providers and managing companies of unit trusts was enhanced with a view to creating a credible deterrence environment where any violations of laws, rules and regulations will be detected by the SEC, resulting in appropriate enforcement action.

Elsewhere, the SEC ensured that issuers comply with the high standards of financial reporting applicable to them, and that any discrepancies in reporting are met with close scrutiny and prompt rectification, by engaging independent auditors to conduct agreed-upon procedures whenever required to address any ambiguities.

### Effective Regulation

In enhancing our regulatory effectiveness, the Commission did not hesitate to address factors which could potentially undermine our effectiveness as perceived by the capital market. The SEC in 2016 revisited a number of recently concluded investigations, and, finding them to have been summarily assessed and prematurely concluded, decided to subject them to further scrutiny. As a result, our Investigations Division is now entrusted with a larger-than-usual caseload, the handling of which, to date, has been laudable.

Investigations of a criminal nature are often long-drawn and time-consuming, but these investigations are being duly conducted, with enforcement actions in several cases imminent over the next year. We are well-prepared for the journey ahead and prevail upon regulatees and participants alike for their cooperation in ensuring that the capital market of Sri Lanka is at its safest-yet for investors.

### Infrastructural Enhancements

The roles of the SEC to regulate and develop the market often eclipse the equally important task of facilitating the enabling of infrastructural enhancements.

One such enhancement is the implementation of DvP in the settlement of securities alongside the adoption of a Value at Risk-based margining scheme (VaR) to mitigate significant post-trade risks.

While the initial aim of the SEC and CSE was to implement a fully-fledged CCP with a view to facilitating the introduction of derivatives in the future, we have since come to recognise the need to introduce solutions which are tailored to the present state of the capital market of Sri Lanka, and are hence proceeding to implement DvP and VaR. Complementary initiatives including the introduction of securities borrowing and lending and short-selling would infuse liquidity to the market, providing for the enhancement of the traditional equities franchise of our market.

### Empowering Market Participants

Even as the capital market vies for visibility in the international arena, the benefits it offers for investors at home remain unexploited. To enhance market visibility domestically and to equip present and potential investors with the knowledge required to invest and trade confidently in our market, the SEC in 2016 launched 'Isura', a television series aired in association with Sirasa TV. The series, comprising expert panels and a live studio audience, was well-received, with over 50,000 unique responses from various viewers across the country, who tuned in and interacted with the content aired by us each Sunday morning. It is our intention that initiatives of this nature continue as part of the SEC's sustained efforts to create extensive awareness about the capital market of Sri Lanka. Our efforts in relation to enhancing retail investor literacy continued to be featured frequently in print media in each of the three national languages as well.

Our support of professionals in building upon their competencies resulted in the completion of several certificate, diploma, and continuing professional development programmes over the course of the year, increasing the total number of personnel trained and certified by the SEC since the commencement of professional training activities under the capital market qualification framework to over 2,700 persons. Approximately 4,500 others participated in the continuing professional development programmes conducted last year. In the year ahead, we look forward to reviewing and revising the present iteration of the capital market qualification framework, now in its 8th year, to better reflect new and anticipated developments in capital markets at home and abroad.

### Building Internal Capacity

A key theme of our strategic plan is to build institutional capacity and excellence by attracting and retaining high-calibre personnel demonstrating professionalism, technical skill, and unquestionable integrity. In keeping with this theme, the SEC in 2016 recruited our first-ever batch of management trainees: 10 versatile young men and women who outperformed thousands of other applicants in a selection process which put their technical and soft skills to test. During the ensuing two-year stint with us, they will be exposed to extensive hands-on training with the industry, the CSE, and the SEC. Having welcomed these trainees and several other recruits to the SEC in early January 2017, we are confident that together they constitute a uniquely skilled and

## Director General's Review

diverse team which will support our future initiatives, and that they will, under the mentorship of our existing staff, prove invaluable to the organisation's succession plan.

Further to the extensive international relations cultivated through IOSCO, the SEC in 2016 secured the assistance of counterparts from advanced economies in improving the competencies and expertise of our staff: particularly through the September 2016 conference on investigation and prosecution of securities fraud and abuses in association with the United States SEC. We sought, at the same time, to motivate our staff to engage in diligent, proactive regulation bearing the investing public foremost in mind: an effort which culminated in a pledge of support by the Australian Securities and Investments Commission towards our performance management efforts. It is our anticipation that deepened collaboration between the SEC and its foreign counterparts will in future inform the professionalism, efficiency, and effectiveness with which our staff fulfils its regulatory responsibilities.

*"In 2016, we secured the unique opportunity to host two important international events for IOSCO members during the coming year: the sessions of the Growth and Emerging Markets Committee and the Asia-Pacific Regional Committee."*

The capacity of the SEC cannot be defined solely in terms of our human resources. While the regulation of the capital market does not inherently lend itself to automation, there remains much that can be done in order to improve the way in which the SEC performs its regulatory functions. In 2016, as was the case in previous years, and will be, in years to come, we continued our efforts to become more technologically adept and to employ state-of-the-art innovative technological resources to effectively execute regulatory activity.

### Enhancing Capital Market Participation

We remain committed to our intention, as articulated last year, to provide market participants with a safe and well-regulated space in which they may explore innovative means of fundraising and investment. These include, in particular, the introduction of new products to the market.

At the same time, however, there remains much to be done in terms of ensuring that existing avenues for the advancement of the national economy are well-utilised. The market for corporate bonds and the unit trust industry have long been at the receiving end of many facilitative initiatives of the SEC, often with demonstrable results. Our focus in respect of these markets has been for long-term growth and sustainability, and, as in previous years, we have made many representations for their continued development. Elsewhere, we are deeply invested in ensuring that capital market participation is broad based through greater market participation by pension funds, provident funds and insurance funds, and that the challenges faced by market participants are addressed effectively whenever they are so required.

## Greater Visibility, Globally

While the conduct of an IOSCO Country Review of Securities Regulation and our frequent engagement with advanced-economy IOSCO members have undoubtedly enhanced Sri Lanka's visibility as a well-regulated market with a commitment to improving itself, it is not our intention to rest on these laurels. In 2016, we secured the unique opportunity to host two important international events for IOSCO members during the coming year: the sessions of the Growth and Emerging Markets Committee and the Asia-Pacific Regional Committee.

These sessions will coincide in September 2017, when as much as 75 percent of the IOSCO membership will arrive in Colombo for the sessions of its largest Committee, while representatives of nearly 30 jurisdictions will engage in parallel regional sessions. Together, these events will serve as a platform for showcasing Sri Lanka's regulatory competencies while also educating the staff and regulatory counterparts of the SEC on valuable global and regional insights into capital market regulation.

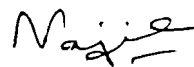
## Interesting Times Ahead

The present work of the SEC focuses on laying a foundation for an efficient, orderly, and fair capital market which is both competitive and sustainable. This goal, and the initiatives begun towards this end, undoubtedly portends interesting times ahead for regulators and regulatees alike.

To brace ourselves for the way ahead, we at the SEC recognise the need to stay true to our course as regulators even as we rally our resources, ease our regulatory burden, and make full use of existing technology to meet regulatory needs. In 2017, as in past years, we will be working towards fulfilling these needs to the best of our ability.

As we embark on this new phase of capital market reform with the aim of graduating from a Morgan Stanley Capital International (MSCI) Frontier Market to an MSCI Emerging Market, much remains to be said of the most valuable hands on deck: the Chairman and Commission, who guide and support the work of the Secretariat and whose foresight and conviction stimulate careful deliberation of capital market policies; the staff, whose proven commitment to uplifting the capital market and the national economy is the SEC's greatest asset; and the Ministry of National Policies and Economic Affairs, the CSE, regulatees, and the media, whose support has been pivotal to many of our successes.

It is our hope that these good graces will continue to benefit us as we continue to deliver on our regulatory and development agenda.



**Vajira Wijegunawardane**  
Director General

30th May 2017





**Top left to right standing:** Mr. D. N. R. Siriwardena, Mr. Suresh Shah, Mr. Rajeev Amarasuriya, Mr. Lasantha Wickremasinghe, Mr. P. Samarasiri, Mr. S. R. Attygalle

**Bottom left to right seated:** Ms. Dilshani Wijayawardana, Mr. Thilak Karunaratne, Mr. Ranel T. Wijesinha, Ms. Marina Fernando





## MEMBERS OF THE COMMISSION

## Members of the Commission

### Mr. Thilak Karunaratne (Chairman)

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

Mr. Karunaratne started his career as a Commissioned Officer in the (then) RCyAF and later joined a multinational company as a Management Trainee and rose up to be a Senior Manager in a short span of time. He subsequently started his own business which after 37 years is an acknowledged leader in its field. He won a special award for marketing excellence from the Plastics and Rubber Institute [PRI (SL)]. He is also the recipient of many awards for business achievements and community service.

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

### Mr. D. 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 Board of Sri Lanka.

### Mr. Ranel T. Wijesinha

#### Skills and experience

Mr. Ranel Wijesinha, a practicing, independent, international management consultant, with over 35 years of post qualification experience, has a distinctive balance of local and overseas exposure between the private and public sector, between industry and public practice and between accounting, auditing and consulting.

He has contributed to the Public Sector, through many statutory, regulatory and advisory roles, for the Government of Sri Lanka, over the last two and a half decades. During the immediately preceding decade, he has performed advisory work in the Public Sector for foreign Governments in several countries on behalf of multilateral development partners such as the Asian Development Bank. These assignments included, functioning as Team Leader in Governance and Institutional Risk Assessments relating to Public Financial Management and Procurement, Infrastructure related Financial Management Assessments, Project Evaluation, and Institutional Development and Capacity Building Assessments.

His experience in the Private Sector includes functioning as the Director Business Development of the John Keells Holdings Group, Partner and Head of Consulting, with PricewaterhouseCoopers Sri Lanka, and as a Manager, with the Big 4 firm, Deloitte, in The Bahamas. He has extensive experience in Business Diagnoses and Strategic Redirection, Corporate turnarounds, New project evaluation, Privatization related Diagnoses, Valuations, Bidding, Acquisitions and Divestments.

#### Qualifications

He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, and a holder of a Master's Degree in Business Administration from the University of Pittsburgh, in Pennsylvania USA. He has also studied, Multinational Corporations and Political Risk Analysis at the University's Graduate School of Public and International Affairs.

#### Appointed to the Commission

February 2015

### Current appointments

He serves as an Independent, Non-Executive Director of Bank of Ceylon, and functions as the Chairman of the Board Audit Committee, since February 2015.

### Previous key appointments

Chairman, Monitoring and Advisory Committee of the Ministry of Power & Energy; Member of the first Consumer Affairs Council under the first Consumer Affairs Authority Act; Member, Accounting and Auditing Standards Monitoring Board; Commissioner, the Securities and Exchange Commission of Sri Lanka; Member, Governing Council, National Institute of Business Management; Member, Board of Management, Post Graduate Institute of Management; Member, Main Committee, Ceylon Chamber of Commerce; Advisor, Federation of Chambers of Commerce and Industry of Sri Lanka and Advisor, 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. He was a long serving, Non Executive Director of a Sri Lanka and Maldives based hotel chain comprising 11 properties, owned and operated by John Keells Hotels, a public quoted company, where he served as Chairman of the Board Audit Committee from 2005 to July 2016.

### 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 25 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 endeavors 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 had also served as a Director and Acting Chairman of National Savings Bank and a Director to the Board of Bank of Ceylon and also represented the Treasury as a Board Member in

several Boards in key Government institutions such as Sri Lanka Ports Authority and Securities and Exchange Commission of Sri Lanka.

At present Mr. Attygalle is representing the Treasury at the Regional Development Bank, Airport and Aviation Services Limited.

### Ms. Marina Fernando

Ms. Fernando is a lawyer by profession. She holds a law degree and a Masters in Public Law from the University of Colombo. She was admitted to the official bar in Sri Lanka in December 1993.

She worked at the SEC from January 2004 till June 2009, pursuant to her appointment as Director Legal and Enforcement of the Securities Exchange Commission of Sri Lanka (SEC). In June 2007 she was appointed Deputy Director General, SEC and worked in that capacity during the period 2007 – 2009. She also acted for the Director General - SEC, during his absence abroad, over the period June 2007 – June 2008.

She has led the Securities and Exchange Commission of Sri Lanka in significant regulatory initiatives including the formulation of a law to regulate securitization, the introduction of standards of corporate governance for Listed Companies and of regulation for Market Intermediaries; i.e. Margin Providers, Investment Managers & Credit Rating Agencies, pursuant to the SEC being vested with regulatory authority over such intermediaries.

She has undergone extensive training at an international level in areas of securities' regulation and has represented Sri Lanka at international fora on capital market development and regulation.

She also functioned as the Director Legal and Enforcement for the Insurance Board of Sri Lanka during the period SEC was appointed the regulator appointed for the Insurance industry.

Prior to her appointment in the SEC, she was a private practitioner in law and was involved in litigation both before the primary and appellate Courts in Sri Lanka. She also functioned as Legal Consultant to the Colombo Stock Exchange and Central Depositories (Pvt.) Limited which is a fully owned subsidiary of the Colombo Stock Exchange, and its' clearing and settlement arm.

She currently offers legal consultancy services in all areas of corporate and commercial law.

## Members of the Commission

### Ms. Dilshani Wijayawardana

Ms. Dilshani Wijayawardana is an Attorney-at-Law of the Supreme Court of Sri Lanka and holds a Masters in Law Degree (LLM) from the University of Cambridge, specialising in commercial law. At the Law College entrance examination, she was placed within the first 10 in order of merit in the island and was awarded the government's "Mahapola Scholarship". At the final examination at the Sri Lanka Law College, she was placed within the top 2% in order of merit.

She has been in active legal practice for the past 20 years in the Chambers of K. Kanag-Isvaran, President's Counsel, specialising in the fields of Primary and Court of Appeal litigation in corporate, banking and commercial law matters including intellectual property and insurance, commercial arbitration, drafting and settling of legal opinions in corporate, banking, securities, insurance and other commercial matters, and legal consultancy in matters pertaining to corporate law, banking and arbitration. She also has work experience in Singapore with a leading law firm 'Shook Lin & Bok', Advocates and Solicitors. Ms. Wijayawardana has presented many papers at various forums, on topics ranging from arbitration, intellectual property, company law and various aspects of commercial law. Ms. Wijayawardana serves as a member of the board of Union Bank of Colombo PLC from 2017 and also served on the Advisory Committee that was responsible for drafting the new SEC Act.

In year 2014 she co-authored with K. Kanag-Isvaran President's Counsel, the book 'Company Law' which examines the legal provisions of the Companies Act No. 7 of 2007.

### 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).

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 Jayawardana, President's Counsel, where he was in active practice for over ten years, 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 in the area of public law.

### Mr. Suresh Shah

Mr. Suresh Shah is a Director and Chief Executive Officer of Ceylon Beverage Holdings PLC and Lion Brewery (Ceylon) PLC. He is also a Director of Carson Cumberbatch PLC and Bukit Darah PLC.

He is the Immediate Past Chairman of the Ceylon Chamber of Commerce, Chairman of the Employers Federation of Ceylon, a member of Council, University of Moratuwa, a member of the Monetary Policy Consultative Committee of the Central of Sri Lanka and a member of The National Salaries & Cadre Commission of Sri Lanka.

He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.

### Mr. P. Samarasiri

Mr. P. Samarasiri is currently a Deputy Governor supervising the financial sector regulation and supervision of the Central Bank of Sri Lanka. Prior to being appointed to the post of Deputy Governor, he has served in many senior positions such as Assistant Governor, Secretary to the Monetary Board, Compliance Officer and Director of Bank Supervision in the Central Bank. He also served as the Chairman of the Sri Lanka Accounting and Auditing Standards Monitoring Board (29.01.2009 to 20.01.2015) and Vice

Chairman of the Institute of Bankers of Sri Lanka (27.09.2011 to 31.12.2015). At present, he also holds the posts of Chairman of the Institute of Bankers of Sri Lanka and Credit Information Bureau of Sri Lanka, a member of the Insurance Board of Sri Lanka and the Board of Management of "Api Wenuven Api Fund" operating under the Ministry of Defence.

Mr. Samarasiri holds a BA Degree (Hons.) in Economics from University of Colombo and a MA in Economics from the University of Kansas, USA. Mr. Samarasiri counts 35 years of experience in the Central Bank in areas of statistics, economic policies, regulation and supervision of banks and non-bank financial institutions, financial system stability, corporate governance, currency management, foreign exchange policies, financial intelligence, financial reporting and regional development.

Mr. Samarasiri has authored four books — "මුදල් ගනුදෙනු, බැංකු සහ ආර්ථිකය" (2010-Six reprints/One revised edition), "මූලික ආර්ථික විද්‍යා මූලධර්ම විග්‍රහය" (2011-One reprint/One revised edition), "ආර්ථික විද්‍යා මූලධර්ම සහ ප්‍රතිපත්ති" (2013-One reprint) and "A Survey of Financial System" (2017) published by the Central Bank. He has also published several articles on economic and financial topics in various publications and news papers.

### **Mr. Lasantha Wickremasinghe**

Mr. Lasantha Wickremasinghe is the President of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) for the term 2016/2017. He has been a Council Member since 2006 and was the Vice President of the Institute during 2014/2015, and commands both local and international experience, counting 20 years of experience.

Mr. Wickremasinghe is the Technical Advisor to the Deputy Chair of the Small and Medium Practices (SMP) Committee of the International Federation of Accountants (IFAC). He also serves as a Board Member of the Confederation of Asian and Pacific Accountants (CAPA) and is also a Board Member to the South Asian Federation of Accountants (SAFA). He is also the Chairman of the Improvement in Transparency, Accountability & Governance Committee (ITAG) of SAFA which organises the Best Presented Annual Report (BPA) awards among SAFA countries.

Mr. Wickremasinghe, was the Treasurer of the Organisation of Professional Association during 2009 – 2010, and is a Partner of B. R. De Silva & Co. Chartered Accountants and has been in practice since 1997. He serves as a Member of the Board of Directors of the Sri Lanka Accounting and Auditing Standards Monitoring Board and is also an Ex-Officio Member of the Postgraduate Institute of Management (PIM).



**SENIOR  
MANAGEMENT**

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**Left to right:** Vajira Wijegunawardane - *Director General*, Ianthie Jayaratne - *Director, Finance and Administration*, Manuri Weerasinghe - *Assistant Director, Corporate Affairs*, Suneth Perera - *Assistant Director, Capital Market Education and Training*, Ayanthi Abeyawickrama - *Director, Legal and Enforcement*, Tushara Jayaratne - *Director, External Relations and Surveillance*, Harshana Peiris Suriyapperuma - *Director, Corporate Affairs*

**Absent:** Dhammika Perera - *Deputy Director General*, Chinthaka Mendis - *Director, Litigation*

# CAPITAL MARKET REVIEW

## Capital Market Performance Summary

In January 2016, after just 10 trading days, global equity markets lost more than USD 4 trillion of value, with sentiment hammered by fears about China’s economic slowdown and a depreciating currency. Another key element of the new year weakness in markets was the slumping oil price. By the third week of January 2016, Brent crude hit what proved to be a low for the year of USD 27.10 a barrel.

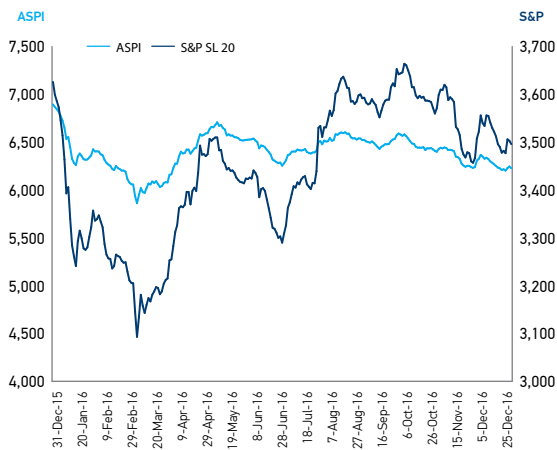
Subsequent to the worst two-week start ever, global stock markets rallied during the second half of 2016 on signs of improving U.S. economic growth and aggressive central bank stimulus measures around the world.

After the initial slump, emerging markets also enjoyed strong returns since 2012, helped by strengthening commodity prices, accommodative monetary policies and reform efforts in some countries.

With this backdrop the CSE recorded a negative growth of 9.6% in the year 2016. The Blue Chip S&P SL 20 Index depreciated by 3.5%. This is as against 5.7% growth in MSCI share price index of all countries and 8.5% growth in Emerging markets. Russia, Argentina, Brazil, Canada, Norway, Indonesia and United Kingdom were reported as the best performing markets in 2016 while Italy and China led the losers. (Figure 1)

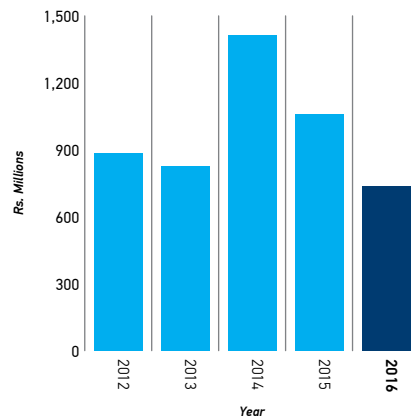
The volatile situation in the capital market in Sri Lanka in 2016 can be attributed to global economic scenario, increase in interest rates in Sri Lanka, depreciation of the Sri Lankan Rupee against the US Dollar etc.

FIGURE 1: CSE INDEX PERFORMANCE 2016



During the year the average daily turnover in the market moved down from Rs. 1,059 million to Rs. 737.2 million. The total value of the stock market (Market Capitalisation) also moved down from Rs. 2.9 trillion to Rs. 2.7 trillion during the year. (Figure 2) (Refer Fact Sheet on page 68)

FIGURE 2: AVERAGE DAILY TURNOVER 2012-2016

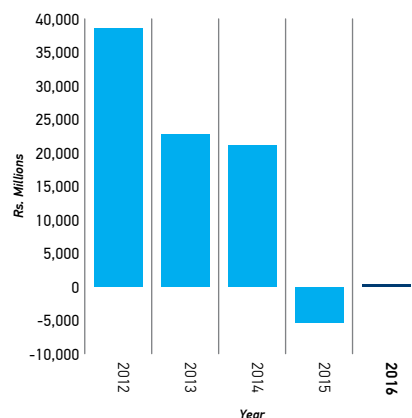


The volatility in the market also affected the liquidity with the turnover to market capitalisation moved down from 8.4% to 6.2% in 2016. The total value of the Colombo Stock Market as against the Gross Domestic Product declined from 26.8% in 2015 to 23.2% in 2016.

## Investor Participation

Domestic investors dominated the market in 2016 and they accounted for 58% of the total market turnover while the contribution from foreign investors was 42%. Foreign investors were the net buyers in the market in 2016 with total net flow of Rs. 2.2 billion. Net foreign investment to the primary market was Rs. 1.9 billion and the secondary market Rs. 383 million. (Figure 3)

FIGURE 3: NET FOREIGN INFLOW 2012-2016





It is noteworthy to mention here that the foreign investors were the net sellers in the market in 2015 with net sales of Rs. 5.3 billion. Rs 2.2 billion net foreign investment to the market can be considered as one of the highlights in 2016.

### Sector Trading Statistics

Economically sensitive sectors outpaced defensive areas of the market, highlighted by strong returns in Healthcare and Manufacturing Sectors. (Figure 4)

FIGURE 4: SECTOR INDICES 2016

Sector	Opening Index	Closing Index	% Change
Bank Finance INS	15,559.6	15,323.0	(1.52)
Bev Food Tobacco	21,172.4	21,050.7	(0.57)
Chemicals Pharms	6,997.6	6,470.1	(7.54)
Construction Eng	2,681.7	2,488.2	(7.22)
Diversified	1,659.5	1,534.4	(7.54)
Footwear Textile	956.3	879.8	(7.99)
Health Care	869.0	970.2	11.64
Hotels Travels	3,130.4	2,986.4	(4.60)
Investment Trust	15,714.8	12,005.5	(23.60)
IT	51.2	40.6	(20.70)
Land Property	658.7	607.4	(7.79)
Manufacturing	4,004.8	4,266.0	6.52
Motors	16,620.8	14,873.5	(10.51)
Oil Palms	82,040.3	71,159.2	(13.26)
Plantations	675.6	675.3	(0.05)
Power & Energy	155.5	138.4	(10.97)
Services	23,102.4	17,352.7	(24.89)
Stores Supplies	25,866.2	26,948.2	4.18
Telecom	173.6	170.1	(2.03)
Trading	16,510.7	15,664.2	(5.13)

The Health care Sector recorded a growth of 11.6% in the year as against 9.6% negative growth of the All Share Index (ASPI). Manufacturing and Stores & Supplies sectors grew by 6.5% and 4.1% respectively during the year. Services and Investment Trust sectors declined significantly by recording a negative growth of 24.8% and 23.6% respectively.

The Diversified Sector accounted for Rs 19.7 billion of the total market turnover, out of which Rs 12.5 billion came from foreign investors.

### New Listings

There were 3 new listings during the year 2016 (People's Insurance PLC, Orient Finance PLC and Amana Takaful Life PLC). These three new listings raised Rs. 1.8 billion through the Primary Market. There were 17 corporate debenture issues during the year which raised Rs. 77.9 billion. There were 2 delistings during the year.

### Public Holding

The smaller a Public Float, the more volatile a stock market can become. At the CSE there were 30 companies with a public holding of over 50% as at 31st December 2016 and 34 companies had a public float of less than 10%. 73 companies were in the category of 10% to 20%. These statistics reveal that still public holding is a serious impediment towards the development of the capital market in Sri Lanka especially in attracting foreign investors. Foreign Institutional investors prefer to invest in stocks with a large free float, as they can purchase or sell a significant number of shares without heavily impacting the share price.

### Central Depository System

At the end of 2016 there were 801,685 CDS accounts opened at the CDS out of which only 38,781 accounts have traded at least one transaction in 2016. There were 23,867 accounts that carried out one transaction per quarter. When the stock market was at its peak in 2010 and 2011 there were 78,517 and 117,712 active CDS accounts (minimum one transaction per year). (Figure 5)

## Capital Market Review

FIGURE 5: CDS ACTIVITIES 2012-2016

	2012	2013	2014	2015	2016
<b>CDS Activities</b>					
<b>Operational Highlights</b>					
New Accounts (No.)	35,321	27,608	27,656	27,618	14,724
Deposits (No.)	126,728	98,342	54,872	97,464	94,257
Withdrawals (No.)	52	12	21	22	16
Transfers (No.)	27,966	22,005	31,486	28,605	26,759
Trades (No.)	1,857,384	1,196,765	1,849,779	1,506,790	1,013,141
Market Days (No.)	242	242	241	239	240
Listed Companies (No.)	287	289	294	294	295
Participants (No.)	46	45	50	52	51
<b>Registration Status of Securities Accounts (as at 31st December)</b>					
Local Individuals (No.)	519,263	540,709	560,828	581,775	592,286
Foreign Individuals (No.)	4,134	4,287	4,396	4,486	4,561
Local Companies (No.)	7,884	8,133	8,619	9,082	9,402
Foreign Companies (No.)	4,295	4,491	4,705	4,899	5,056
(The above break-up excludes the number of multiple registrations sought by the same client through different participants)					
Total Number of Registration	702,438	730,046	759,344	786,963	801,685
<b>Value of Securities Held (as at 31st December)</b>					
By Domestic Clients	1,365,510,212,856	1,590,676,023,999	2,096,802,778,871	2,117,385,190,375	2,089,436,837,750
By Foreign Clients	593,691,381,895	678,741,032,927	891,883,751,641	817,516,020,268	756,373,151,622
Total Market Value of Securities held by CDS (Rs.)	1,959,201,594,751	2,269,417,056,927	2,988,686,530,512	2,934,901,210,643	2,845,809,989,371
Market Capitalisation (Equities) - Rs.	2,167,581,396,539	2,459,896,709,448	3,104,863,874,923	2,937,997,952,403	2,745,406,184,283
Percentage Value held by the CDS	89%	N/A	N/A	N/A	N/A
<b>Number of Shares in Custody (as at 31st December)</b>					
By Domestic Clients	49,910,795,140	53,093,868,887	58,055,005,499	60,408,557,436	63,685,060,656
By Foreign Clients	17,464,270,932	18,236,355,497	20,274,271,152	20,474,857,761	21,256,852,842
Total	67,375,066,072	71,330,224,384	78,329,276,651	80,883,415,197	84,941,913,498

### Overall Position of Unit Trust Funds

Total number of unit trust funds declined to 78 funds by end 2016 from 79 funds by end of 2015. Meanwhile the Net Asset Value of the funds recorded a negative growth of 20% while the number of unit holders increased by 8% compared to the previous year. (Figure 6)

**FIGURE 6: OVERALL POSITION OF UNIT TRUST FUNDS**

	As at 31.12.2016	As at 31.12.2015	% change
Number of Approved Unit Trust Funds	<b>78</b>	79	-1%
Net Asset Value of Unit Trusts (Rs. Mn. approx.)	<b>103,890</b>	129,844	-20%
Number of Unit Holders	<b>41,154</b>	38,140	8%
Number of Units Issued (No. Mn. approx.)	<b>7,142</b>	8,812	-19%
Investment in Equity (Rs. Mn. approx.)	<b>13,786</b>	14,376	-4%
Investment in Treasury Bills (Rs. Mn. approx.)	<b>49,299</b>	28,294	74%
Investment in Other Instruments* (Rs. Mn. approx.)	<b>40,553</b>	87,272	-54%

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

## MANAGERS



**Top left to right standing:** Sharmila Panditaratne - *Manager, Legal and Enforcement*, Sajeevani Bakmedeniya - *Manager, Capital Market Education and Training*, Saumi Kodippily - *Manager, Supervision*, D M G Priyantha - *Manager, Investigations*

**Bottom left to right standing:** Madhugayanie Balapitiya - *Manager, Legal and Enforcement*, Sheena Goonaratna - *Manager, External Relations*, Ranmini Jayathilake - *Manager, Information Systems*, Manjula Chandraratne - *Manager, Surveillance*



**Top left to right standing:** Olivi Solangaarachchi, Rasika Walpitagama, Anne Chrishanthi Fernando,

**Bottom left to right standing:** Suhadini Wickremasinghe, Dasun Perera, Thakshila Francis



**Top left to right standing:** Dashanka Warnakulasooriya, G D Kapila Kumara, J K Priyadarshini

**Bottom left to right standing:** Subrmanium Saranya, M M Imran, Krishanthi Muthuthanthrige



**Top left to right standing:** R K Wasantha Sunimal, Chamathkara Jayasooriya, A C Dias

**Bottom left to right standing:** Mariez Wanigasekera, Bimba Gamaathige, Nuwani Siriwardana



**Top left to right standing:** D Pathum Niroshana, Mahesh Abeysekera, Buddhinee Herath

**Bottom left to right standing:** Chamari Heenatigala, M Jayasekara, Mekhala Jayapala

## STAFF MEMBERS



## Staff Members



**Top left to right standing:** W Ariyaratna, Priyantha Herath, Supun Gunasekara

**Bottom left to right standing:** Poorni Weerasekara, Nomaanie Seneviratne, Dulari Muhandiram



**Top left to right standing:** Lalinda Dayarathne, Tharaka Kulathilaka, Medhavini Sooriya Arachchi

**Bottom left to right standing:** Thulya Perera, Kaushalya Gunawardana, Radha Prathibha



**Top left to right standing:** Dhanesha Rajapura, Rakhitha Bandara, Sudara Weerakkody,

**Bottom left to right standing:** Eranga Manthirathna, Nisansala U Herath, Prathibhani Herath



**Top left to right standing:** Sandaruwan Wijeratne, Marian Glenda Sandanam, Julie Allegakoen

**Bottom left to right standing:** Anula Wijesinghe, P D Pathmarani, Shalini Perera



**Top left to right standing:** Samanthi Gunawardana, Gayan Lokugamage, K A A D Semini Dianika

**Bottom left to right standing:** Lakshmi Wickramanayake, Lakshmi Atapattu, Kavisha Kumbukage



**Top left to right standing:** Danushi Thalpita, Ashoka K Dayarathne, Chathuni Uduwela

**Bottom left to right standing:** Roshini Peiris, P W L Piyatissa, Nishoka Jayathunga



**Top left to right standing:** S D Dharmasiri, Thanishka Tillekeratne, Sureka Jayasekara

**Bottom left to right standing:** Kumari Siriwardane, Y D Sandamali



**Top left to right standing:** Chandran Nagendran, Buddhika Balapitiya, Nimal Kumarasinghe

**Bottom left to right standing:** Preenika Nilakshi Perera, P M Niroshika Udayanganie, C Erandathie Waidyasekara

**Absent:** Prabhashini Samarakoon, Christobel Silva



# HIGHLIGHTS OF THE YEAR



Chairman at a Speaking Engagement



Isura Television Series



US SEC Regional Training Conference



Programme for Listed Company Directors



Programme for University Undergraduates and Lecturers



Continuous Professional Development Programme



Programme for Investors





Forum for Public Listed Companies



IOSCO Country Review Team with Commission Members



Capital Market Information Centre Launch



Advanced Programme in Investing



Programme for School Children



Programme for School Teachers

# CAPITAL MARKET STRATEGY

## Capital Market Strategy 2020: a Vision for Capital Market Development in Sri Lanka

The SEC released a comprehensive transformative 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 force of continuity in engendering competitiveness and effective regulation in our capital market.

Focused capital market development initiatives have historically accelerated economic growth and contributed to financial sector stability in emerging economies. Such initiatives proved critical to economic growth amongst regional signifiers including Vietnam, Thailand, Malaysia, Korea, India, and China and those outside the region including South Africa, Poland, Morocco, Hungary, and Brazil.

In Sri Lanka, capital market development as measured by market capitalisation as a percentage of gross domestic product is 25.3%. In contrast, from amongst the above contenders, South Africa, and, closer to home, Malaysia and India, reflect ratios of 234.0%, 129.3%, and 72.4% respectively.

The overview of the Capital Market Strategy 2020 below charts its core themes of establishing a robust and facilitative regulatory environment and fostering capital market development. (Figure 7)

**FIGURE 7: OVERVIEW OF THE CAPITAL MARKET STRATEGY**

Establishing a Robust and Facilitative Regulatory Environment	Fostering Capital Market Development
1. Strengthening regulatory and governance environment	1. Creating an enabling environment for capital formation
2. Increasing accountability and market oversight	2. Deepening liquidity and broad-basing market participation
3. Raising the standards and competencies of capital market participants	3. Developing infrastructure and enabling new products
4. Managing and mitigating systemic risk	4. Building domestic capabilities

In shaping the Capital Market Strategy 2020, we are influenced by the need for regulatory strength and readiness and our ability to effectively deliver governance, enforcement and compliance. The current realities of capital markets necessitate an increasingly more proactive and responsive regulatory action. Further, due to the interconnectedness of markets and global nature, regulation assumes a more pervasive scope and requires progressive benchmarking against international best practice.

The developmental objectives focus on the several constraints characterising our market - its small size and scarcity of liquidity, limited diversification in product offering from an investor's perspective, and in listing platforms from an issuer's. Additionally, we consider the efficiency and commercial orientation of market institutions, market infrastructure and technology gaps, and community capacity building extending to both the institution and industry.

## Establishing a Robust and Facilitative Regulatory Environment

### Strengthening Regulatory and Governance Environment

The amendment of the SEC Act is among the key initiatives geared towards strengthening the domestic regulatory and governance environment. The enhancement of the SEC regulatory framework and capabilities includes the strengthening of the governance standards of the SEC, providing for the establishment of a clearing house acting as a CCP, regulating demutualised exchanges, recognising new categories of market intermediaries, introducing a wide range of enforcement tools to deal with market misconduct, enhancing the accountability of all capital market participants, and encouraging early reporting to the SEC on possible market malpractice through provisions for whistleblower protection.

The passage of this Act would be pivotal to a series of incremental steps, beginning with Sri Lanka's adherence to minimum international standards in capital market regulation and extending to an alignment of the domestic regulatory framework with international benchmarks. The SEC considers an enabling regulatory environment as being of foundational importance in creating a level playing field that instills trust and confidence among the varied market participants.

In 2016, the SEC extended an invitation to the 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 detailed self-assessment to facilitate timely completion within the first quarter of 2017 and would result in comprehensive reforms following the publication of its findings. Such reforms would include reviews of rules applicable to the capital market as well as measures to enhance investor protection, improve fairness and market efficiency, reduce systemic risk and global regulatory arbitrage, reduce the costs of conducting business across borders, and improve domestic regulatory capability. It is widely anticipated that such reforms would lay a solid foundation for the Sri Lankan capital market and improve its ability to garner the interest of domestic and foreign institutional portfolio investors.

Rules applicable to all regulatees of the SEC are currently undergoing review and revision with a view to creating a more robust regulatory environment for all and instilling greater discipline market-wide.

Further, the domestic Corporate Governance Code applicable to listed companies is scheduled to be aligned with principles published by the Organisation for Economic Cooperation and Development (OECD), the international reference point for corporate governance regulation and implementation; thus improving the business integrity of listed companies.

Going forward, listed companies would also be encouraged to adopt integrated reporting, a framework that provides a holistic view of the corporate value creation process.

### **Increasing Accountability and Market Oversight**

The SEC places significance on the procurement of a technologically advanced system for market surveillance and regulatory reporting to ensure that transactions are carried out in compliance with the rules governing capital market activity. Such a system would enable the SEC to detect and deter potential market abuse and enhance its ability to pre-empt the occurrence of disruptions in the market as a result of irregular trading activity.

It is also proposed to cast duties on supplementary service providers including those hitherto unregulated by the SEC. This is to ensure that such persons remain accountable for the scope and quality of work performed in relation to the capital market. The SEC also hopes to extend its regulatory reach to encompass other hitherto-unregulated entities and instruments.

### **Raising the Standards and Competencies of Capital Market Participants**

The Capital Market Strategy 2020 proposes to enhance and maintain high levels of professionalism among persons engaged in capital market activity by enhancing the guidelines on fitness and propriety applicable to market institutions and market intermediaries. At the same time, it is envisaged that the qualification framework of the SEC would undergo extensive revision, allowing for multi-tier licensing and continuous professional development

These new guidelines would drive a positive industry culture encouraging honesty and integrity among the regulatees of the SEC so as to better protect the investing public.

### **Mitigating and Managing Systemic Risk**

In order to better evaluate and address systemic risk, the SEC intends to adopt a risk-weighted capital adequacy framework for capital market institutions and intermediaries. This initiative is now underway, following the recent issue of Directives by the SEC stipulating risk-based capital adequacy requirements and the minimum shareholders' funds requirement applicable to stock brokers. The development of a risk-based assessment framework for on-site supervision by the SEC would follow. Once such a framework is developed, SEC would conduct inspections of its regulatees in relation to their relative risk profiles and systemic importance.

Prevailing post-trade risks including asset commitment risk and counterparty risk would be effectively addressed, and financial stability improved upon, through the phased implementation of a CCP. The SEC directs the course of the sequential approach, prioritising the implementation of DvP for settlement and the adoption of VaR based margining to mitigate post-trade risk. Extensive consultation with specialists and the industry has led to the determination of both the margining and settlement framework in detail. The SEC would be creating an enabling legal framework in line with acceptable international benchmarks to enable post trade risk management and related initiatives including the introduction of securities borrowing and lending.



# Capital Market Strategy

## Fostering Capital Market Development

### Creating an Enabling Environment for Capital Formation

The SEC envisions a vibrant capital market attracting strong issuer participation from both the private sector and State-owned Enterprises (SOEs) as a preferred source of long-term fundraising. Representations have been made to the Government of Sri Lanka in exploring the potentiality of invigorating the capital market through the listing of SOEs with compelling investment propositions. Entry by SOEs into the capital market engenders less dependence on State financing whilst enhancing governance standards. The CSE is encouraged to engage with private sector corporates in order to facilitate their efforts to tap the capital market to fulfill funding requirements.

The implementation of new listing platforms for issuers of varied size, scale, maturity, and value-recognition needs is underway collaboratively with the CSE. The Multi Currency Board would enable local and foreign issuers to explore multi currency listings, whilst small and medium enterprises (SMEs) would be provided access via the SME Board. The SEC along with the CSE is also keen to improve the efficiency and cost-effectiveness of the equity fundraising process through both operational and technological enhancements.

Creating a robust bond market is a significant component of the Capital Market Strategy 2020. SEC-led collaborative representations in recent years secured tax concessions supporting bond market issuances. As a result, inflows to the primary debt market reached an all-time high in 2015, with Rs. 83.4 billion being raised through debt IPOs.

Other strategies related to the debt capital market also include the streamlining of the bond IPO process, infrastructural enhancements to support enhanced secondary market activity, and stewardship of joint stakeholder engagements to facilitate liquidity. Collectively, the initiatives aim to enhance the competitiveness of the debt market as a source of financing in a market which traditionally relies on equity.

### Deepening Liquidity and Broad-Basing Market Participation

The Capital Market Strategy 2020 aims to establish the capital market as a preferred investment choice by a broad range of investors. As an important conduit and enabler of retail investment, unit trusts are pivotal to this strategy. The SEC works towards supporting the unit trust industry by cultivating a conducive environment and creating awareness among the

general public in order to ensure that a wider segment of society can reap the medium to long-term benefits and rewards of investing in the capital market through unit trust investments.

The SEC seeks to actively engage provident funds and pension funds in diversifying their portfolios and increasing asset allocation to capital market investments. 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 optimise portfolio returns and extend maturity profiles to provide better asset-liability matching through calculated investment in the market.

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

### Developing Infrastructure and Enabling new Products

Technological readiness, responsiveness and stability are material strategic considerations for market institutions and market participants. Headway has been made in this regard with the SEC driving the implementation of a common stock broker back office and customised order management systems in conjunction with the CSE. Resulting in operational efficiency and streamlining of the trade-through-settlement value chain, the initiative sets the infrastructural foundation for the proposed phased implementation of a CCP. The implementation process constitutes modification of and additions to systems and processes industry-wide, particularly by redefining the CSE's market infrastructure at world-class level.

To increase portfolio choice of investors, the SEC is developing a sequencing framework for the introduction of new products ranging from Real Estate Investment Trusts (REITs) and Exchange Traded Funds (ETFs) to Financial Derivatives. The SEC would enable the introduction of a multi-asset offering for investors by spearheading policy formulation in order to facilitate related rule making by the CSE.

## Building Domestic Capabilities

The SEC will facilitate comprehensive community capacity building. Institutional competencies of the SEC are to be enhanced through measures to recruit and retain a proficient workforce. Industry capacity-building focuses on enhancing the financial literacy and capital market expertise of all stakeholders in relation to the capital market, and continuous investor education and public awareness-raising to equip investors with the knowledge required to make informed investment decisions.

The proposed demutualisation of the CSE is a central initiative of building domestic capability through the re-orientation of the CSE to pursue strategic and commercial interests. Demutualisation segregates ownership and management of the CSE in order to adequately represent the interests of all capital market stakeholders. The CSE's business model would be reviewed in the process to optimise financial sustainability. Institutional competence and global acceptability of the CSE is expected to be enhanced through demutualisation, the modality of which is currently being finalised.

## Looking Forward

Over the medium to long term, far-reaching reforms proposed as part of the Capital Market Strategy 2020 would support the proposition to MSCI to reclassify Sri Lanka as an emerging market, providing for broader visibility as an attractive portfolio investment destination.

## Implementation

The expansive scope of the Capital Market Strategy 2020 necessitates prioritisation, with goals ranging from immediate to medium and long term. With the intent of increasing transparency, significant milestones would be communicated to the public over the implementation horizon.

Broad market and public consultation outreach would be in effect during the implementation. Public consultations were conducted in January 2017 in view of the proposed SEC Act and the proposed Guidelines on Fitness and Propriety for Stock Brokers, while an industry consultation on the proposed Advertising Guidelines for Unit Trusts was conducted in November 2016. Further consultation can be expected as other development initiatives progress.

We recognise that in order to implement the initiatives under consideration, the SEC would need to align multiple stakeholders with divergent interests towards universal goals. While the auspices of the Government of Sri Lanka has been secured for the Capital Market Strategy 2020, its successful implementation also anticipates collaborative and complementary alliances with regulators, supranational organisations, market institutions, market participants, and industry associations.

The SEC, in redefining the competitive position of the market, is committed to aligning its role as a responsive market regulator with the significant opportunities present before it.

# OPERATIONAL REVIEW

## Regulation

The purpose of regulating a capital market is to ensure that markets are fair, efficient and transparent, protect the interest of investors and manage systemic risk. To achieve these objectives the SEC maintains a regulatory framework that upholds quality disclosures, enhances corporate governance, prevents market abuse and promotes standards of conduct for market participants.

### Licensing and Registration

To be engaged in regulated capital market activities, entities are required to obtain a licence or registration from the SEC subject to compliance with legal requirements. The entities engaged in regulated activities are as follows: (Figure 8)

FIGURE 8: LICENSING AND REGISTRATION

Type of Regulated Entity	Total No. of Licensed/ Registered Entities as at 31st December 2016	Licences/ Registrations granted during 2016
Stock Exchanges	01	-
Stock Broking Companies	33	-
Stock Dealing Companies	14	-
Managing companies of Unit Trusts	14	-
Unit Trust Funds	80	01
Investment Managers	28	01
Margin Providers	30	-
Underwriters	08	-
Credit Rating Agencies	02	-
Clearing House	01	-

### Policy Initiatives

#### Amendments to the SEC Act

The amendments deal 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 which was appointed by the Commission to review the proposed amendments to the SEC Act consolidated an exposure draft based on new policies determined by the Commission. The finalised exposure draft has been released for public comments.

### Regulation of a Clearing House acting as a CCP

The legal provisions relating to the regulation of a clearing house acting as a CCP was finalised by the Advisory Committee appointed to draft the new law for the SEC.

### 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 on the response from the public; the draft is being revised.

### Rules on Book Building

As per the direction of the Commission, the Secretariat reviewed the proposed Rules against similar Rules in other jurisdictions for identification of any gaps and reviewed the applicability of other laws and made a recommendation to the Commission. The Commission decided to take up this matter, once investment banks are regulated by the SEC under the new SEC Act.

### Listing Rules and Stock Broker Rules

Several Listing Rules and Stock Broker Rules were reviewed during the year under review.

### Directives Issued by the SEC

#### Regulatory Interventions to Protect the Interests of Investors

- Directive Issued to TKS Securities (Pvt) Ltd under Section 13 (c) and Section 13 (p) of the SEC Act

The SEC directed the stock broking firm TKS Securities (Pvt) Ltd. to restrain an agent of the respective stock broker from making representations to the public as an investment advisor under the name and style 'Investor Eye' or 'Ayojana Guru' or any other name using any medium whatsoever of communication. This directive was sent on the SEC being

made aware that the agent was acting outside the permissible scope.

- Directive Issued to Capital Trust Securities (Private) Limited in terms of Section 13 (c) of the SEC Act

Capital Trust Securities (Private) Limited was directed to refrain from transferring the sales proceeds of a trade transacted by a chairman of a listed public company in respect of the securities of that company. The respective stock broker was directed to maintain the proceeds in its custody until further notice by the SEC. The SEC issued this Directive on a suspicion that the chairman of the listed entity may have disposed the securities of that company in violation of the SEC Act.

- Directive Issued to the CSE in terms of Section 13(c) of the SEC Act

The SEC having deliberated on the circumstances surrounding the disposal of a parcel of shares by a chairman of a listed company, and on suspicion that the said chairman may have carried out the said trade in violation of the provisions of the SEC Act commenced an investigation into the said transaction and the circumstances surrounding thereto.

In the above circumstances, the CSE was directed to take appropriate steps to freeze all the shares of the respective listed company in all CDS accounts under the name of the said chairman and any other account of which he was a beneficiary until further notice.

- Directive Issued to Claridge Stockbrokers (Private) Limited in Respect of a Sale of Shares of a Plantations Company

The SEC on receiving a complaint that the controlling stake of a listed public company has been sold without due authorisation issued a directive to Claridge Stockbrokers (Private) Limited who intermediated in the transaction to withhold the sales proceeds of the transaction and to retain the same until the matter was examined by the SEC and further instructions were issued by the SEC.

- Directive Issued to the CSE in terms of Section 13(c) of the SEC Act

The SEC directed the CSE to implement Rules for the maintenance of a minimum capital adequacy requirement by all licensed stock brokers excluding those licensed only to trade in debt securities.

The Rules require all stock brokers excluding those licensed only to trade in debt securities to maintain a Minimum Capital Adequacy Ratio of 1.2 subject to a Minimum Liquid Capital of Rs.35 million. The methodology for calculation of the Capital Adequacy Ratio and for the determination of liquid capital was provided in the Rules.

- Directive to Revise Rules on the Maintenance of a Minimum Public Holding as a Continuous Listing Requirement

The Rules in respect of the above were revised by providing more options to listed companies to be compliant. The revised Rules have recognised a float adjusted market capitalisation to be taken into account. All companies have been granted time until 30th June 2017 to be compliant with the revised Rules.

## Approvals

### Country, Regional and Global Funds

Upon the recommendation of the Central Depository Systems (Pvt) Ltd, 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 2016, the SEC approved 121 global, regional and country funds to invest in listed securities in Sri Lanka and noted 50 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.

## Operational Review

During the year under review, the SEC evaluated four applications and one listed company was granted a waiver to do a share swap in order to integrate its subsidiary into the company as part of its consolidation plan.

### De-listing Applications

The Commission granted approvals to the following companies to de-list in terms of the SEC Rules:

- Equity One PLC
- Metropolitan Resource Holdings PLC

### Administration of the Takeovers and Mergers Code

In the year 2016 the following takeovers were administered by the SEC: (Figure 9)

**FIGURE 9: OFFERS EXTENDED UNDER THE TAKEOVERS AND MERGERS CODE**

Offeror	Offeree	Nature of the Offer	Shareholding at the Closure of the Offer (Approx)
Browns Hotels and Resorts Limited	Eden Hotel Lanka PLC	Mandatory Offer	86.317%
Browns Power Holdings (Pvt) Ltd	Agalawatte Plantations PLC	Mandatory Offer	61.12%
Hikkaduwa Beach Resort PLC	Waskaduwa Beach Resort PLC	Voluntary Offer	This offer has been halted until the SEC makes a determination in respect of the Application made by the offeror to obtain permission for a waiver under 5.4(b) of the Listing Rules of the CSE to issue new shares required for this Voluntary Offer.
Lotus Renewable Energy (Private) Limited	Browns Hydro Power PLC	Mandatory Offer	73.656%
Mobitel (Private) Limited	E-channelling PLC	Voluntary Offer	87.59%
Renuka Holdings PLC	Kalamazoo Systems PLC	Mandatory Offer	70.388%



## Issuance of Unlisted Securities

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 10)

**FIGURE 10: APPROVALS UNDER SECTION 29A OF THE SEC ACT**

Name of the Issuer	Type of Security	Amount Approved	Duration
Lanka Orix leasing Company PLC	Corporate Bonds	SGD 175 Mn/ USD 150 Mn	Not less than 3 years
Orient Finance PLC	Preference shares	LKR 400 Mn	05 years

## Approvals Under Section 28A of the SEC Act

All public companies seeking listings on the CSE are not allowed to list shares which have been allotted to any person within a period of one year prior to its listing on an Exchange, unless the prior written approval of the Commission is obtained for that purpose. Approval of the Commission was granted to the following entities. (Figure 11)

**FIGURE 11: APPROVALS UNDER SECTION 28A OF THE SEC ACT**

Name of the Company
BPPL Holdings Limited
LVL Energy Fund Limited
Melstacorp Limited

## Off-the-Floor Share Transactions

In terms of Section 28 (1) of the SEC Act “no person holding securities in a public company listed in a licensed stock exchange shall without the prior approval of the Commission buy, sell, gift or otherwise deal in such securities except in compliance with trading procedure adopted by such licensed stock exchange”

Approval was granted for 469 exceptional transfers including Distilleries Company of Sri Lanka PLC to facilitate a restructure and 146 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 and portfolios.

## Oversight and Compliance

Investors base their investment decisions based on accurate, material and timely information. The SEC reviews market disclosures that listed companies are mandated to disseminate to the public in order to reduce information asymmetry.

In addition, to establish that the institutions that we regulate are financially stable, we undertake on-site and off-site supervision formulated on a risk-based supervisory approach. This methodology is designed to assess the risks that regulated entities are exposed to and facilitate timely intervention to avert systemic risk and losses to investors.

### Listed Companies

All listed companies are required to submit Annual Reports within 5 months from the close 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. These 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 the SEC focused on the following areas:

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

During the year 113 financial statement reviews of listed companies were conducted and 75 letters of comment were sent.

## Operational Review

The SEC also reviewed financials of 39 companies who applied for further raising of funds from public or for new listings.

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 accounts in accordance with CSE Listing Rules and relevant regulations. (Figure 12)

**FIGURE 12: REGULATORY ACTIONS TAKEN IN RELATION TO DISCLOSURES AND CORPORATE AFFAIRS OF THE ENTITIES**

Regulatory Action	No. of Entities
<b>Explanations called</b> (to validate a matter relating to disclosures by the respective PLC)	01
<b>Referred to Independent Valuers to obtain fresh valuations</b> (to validate the accuracy of disclosures made)	02
<b>Directed via CSE to make disclosures</b> (to bridge the gap relating to funds raised via the capital market and rectify disclosure issues)	01

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

### Matters Referred to other Regulators

#### Sri Lanka Accounting and Auditing Standards Monitoring Board

- Bimpuh Finance PLC
- Watawala Plantations PLC
- Seylan Bank
- Anilana Hotels & Properties PLC
- Pegasus Hotels PLC
- Browns Capital PLC

#### Registrar of Companies

- Investor climate reform-protecting minority investors

#### Central Bank of Sri Lanka

- Commercial Leasing and Finance PLC and Brac Lanka Finance PLC

#### Insurance Board of Sri Lanka

- Ceylinco Insurance PLC
- Amana Takaful Life PLC

### Oversight of Licensed/Registered Entities

#### Stock Broking Companies

The SEC is empowered to supervise 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. To strengthen investor protection and develop investor confidence in the capital market we supervise their financial stability and operational viability.

Our on-site supervisory examinations on stock broking firms were carried out based on a risk based approach focusing on different risk categories such as prudential, liquidity, financial, credit, legal and operational risks emphasising on compliance with applicable Rules and Regulations. Further, the off-site examinations were aimed at assessing due compliance with the regulatory requirements on the mandatory regulatory reporting by the stock broking firms. Any discrepancies and non compliances observed during the off-site examinations were notified immediately to the respective firms for rectification.

During the year 2016, a few stock broking firms were identified to be in breach of the stipulated regulatory requirements and applicable standards for which they were required to take necessary steps to ensure compliance within a reasonable period of time. Further the proactive measures undertaken by the SEC resulted in non renewal of the licence granted to a stock broker firm to continue its functions in the capacity of a stock broker, due to non compliance with the provisions of the SEC Act and Rules made there under.

In addition, the SEC directed the CSE to implement a risk based CAR of 1.2 times as a means of uplifting standards applicable to stock brokers and to address systemic risk, and build trust and confidence placed by the investing public in the capital market. This requirement is important in the absence of other mitigating mechanisms such as a DvP system for clearing and settlement.

Further we continued to facilitate and reinforce a high degree of compliance by the stock broking companies with the Rules and Regulations pertaining to Anti Money Laundering and Terrorist Financing activities imposed by the Financial Intelligence Unit of the Central Bank of Sri Lanka on securities market participants.

Total turnover of the stock broking industry decelerated during the year 2016 compared to the year 2015. Hence the net loss has further increased during the year 2016. The comparative statistics on the performance of the stock broking companies are given below: (Figure 13)

**FIGURE 13: HIGHLIGHTS OF THE STOCKBROKING INDUSTRY**

	2016 (Rs.'000)	2015 (Rs.'000)	Change %
Turnover	1,659,392	2,395,888	(31)
Net brokerage	1,400,294	2,175,440	(36)
Operating profit/loss	(336,414)	205,297	(264)
Other income	762,154	678,041	12
Net profit/loss before tax	(445,985)	(6,174)	7124
Net profit/ loss after tax	(452,433)	(103,803)	336
Total assets*	10,088,876	9,822,482	3
Total liabilities *	4,450,477	3,634,502	22
Net capital*	4,602,381	4,959,272	(7)

\*As at 31 December 2015/2016

Source: un-audited financial statements submitted to SEC

## Unit Trust Industry

The regulatory oversight on the unit trust managing companies was strengthened as we conducted risk based on-site examinations encompassing a wide range of risk areas to assess adequacy of their financial strength, compliance with internal controls and procedures, governance, information systems and regulatory requirements.

The monthly unaudited financial statements of unit trust managing companies were also examined to ensure that the managing companies were financially stable and maintained the minimum net capital requirement as stipulated by the SEC. In addition monthly returns of the unit trust funds were scrutinised to ensure that exposure levels and liquidity of the unit trust funds 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. 104 billion (approx) as at 31st December 2016 reflecting a negative growth of 20% compared to the previous year. The number of unit holders increased by 8% whilst the number of units issued reduced by 19% compared to the previous year. One new unit trust fund was licensed during the year. (Figures 14,15)

**FIGURE 14: OVERALL POSITION OF UNIT TRUST FUNDS**

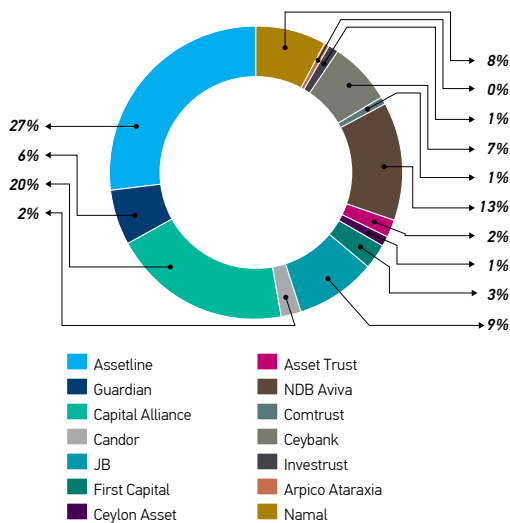
	As at 31.12.2016	As at 31.12.2015	% change
Number of Approved Unit Trust Funds	78	79	-1%
Net Asset Value of Unit Trusts (Rs. Mn. approx.)	103,890	129,844	-20%
Number of Unit Holders	41,154	38,140	8%
Number of Units Issued (No. Mn. approx.)	7,142	8,812	-19%
Investment in Equity (Rs. Mn. approx.)	13,786	14,376	-4%
Investment in Treasury Bills (Rs. Mn. approx.)	49,299	28,294	74%
Investment in Other Instruments* (Rs. Mn. approx.)	40,553	87,272	-54%

\*Commercial papers, trust certificates, debentures, bank deposits etc

Source: Regulatory submissions by unit trust managing companies

## Operational Review

**FIGURE 15: MARKET SHARE OF UNIT TRUST MANAGING COMPANIES AS AT 31ST DECEMBER 2016**



During the year 2016, in order to effectively identify and monitor risks in the capital market, a holistic approach which goes beyond supervision at individual intermediary level was adopted through both off-site and on-site reviews. Further, we instituted close monitoring of intermediaries especially on those which could pose systemic impact. In addition to detect early signs of vulnerability especially during weak market conditions, several indicators were applied as part of the monitoring.

The supervisory procedures over the Market Intermediaries were predominantly focused on risk areas such as liquidity risk, operational risk, prudential risk, reputational risk and legal risk. In line with the said risk based approach 30 onsite inspections were carried out during the year 2016. Accordingly, non compliance with the mandated regulatory framework, provisions of the SEC Act and pertinent Rules and Regulations disseminated thereunder revealed to the SEC during on-site inspections, resulted in a registered Market Intermediary to voluntarily surrender its licence with the decision not to pursue its line of business in the immediate future. (Figure 16)

### Market Intermediaries

The SEC grants registrations to investment managers, margin providers, credit rating agencies, underwriters and clearing houses to carry out their functions in the capital market as Market Intermediaries.

**FIGURE 16: FINANCIAL HIGHLIGHTS OF MARKET INTERMEDIARIES AS AT 31ST DECEMBER 2016**

	Total Revenue Rs.	Total Net Profit Before Tax Rs.	Total Assets Rs.	Total Liabilities. Rs.
Margin Provider	349,878,237	138,327,010	4,141,774,075	1,387,073,667
Investment Manager*	334,499,557	25,329,847	8,170,770,572	1,610,654,519
Underwriter	519,018,000	521,940,000	16,452,794,000	695,708,000
Credit Rating Agencies	117,103,718	63,994,520	172,154,789	37,407,781
Multipurpose entities**	123,423,233	99,944,144	1,198,306,253	250,736,101

Source: Un-audited financial statements submitted to the SEC

Information pertaining to the Licensed Banks, Registered Finance Companies and specialized leasing companies which are regulated by the Central Bank of Sri Lanka excluded to present a fair industry position.

\* 11 Unit Trust Management Companies who have obtained Investment Manager License are excluded from the computation in order to avoid double counting

\*\* Multiple Entities are the regulated entities that had been granted registration to carry out more than one regulated activity.

## Surveillance, Investigations and Enforcement

Surveillance, investigations and enforcement play an important role in maintaining integrity and confidence in the market. Therefore, the SEC has put in place a market surveillance mechanism to detect alleged market malpractices in a timely and pro-active manner. Based on surveillance detections, investor tips and complaints, the SEC conducts further investigations into possible violations of securities laws. Some of these investigations warrant appropriate enforcement action against offenders.

### Surveillance

Market surveillance performs an important role of maintaining the integrity of the capital market. The SEC closely monitors all market activities on the CSE to detect and prevent securities law violations by utilising a robust surveillance system.

### Proactive Surveillance actions

We monitor price and volume movements to detect artificial transactions, circular trading, false or misleading impressions, wash trades, etc. As proactive action to minimise the potential negative impact on the market, the SEC, having analysed abnormal market behaviour, contacted the relevant brokers/traders or the investor/s involved immediately to seek clarifications. If the clarifications provided were not satisfactory, they were informed that their trades were under observation. In case of repetitive suspicious unethical trading the relevant parties were summoned to the SEC to be warned. During the year 2016, the SEC sought explanations from 36 brokers/traders and 23 investors with respect to 38 suspected market violations.

In the case of serious suspected market malpractices we compiled a comprehensive report (referral) to be submitted to the Surveillance and Investigations Committee.

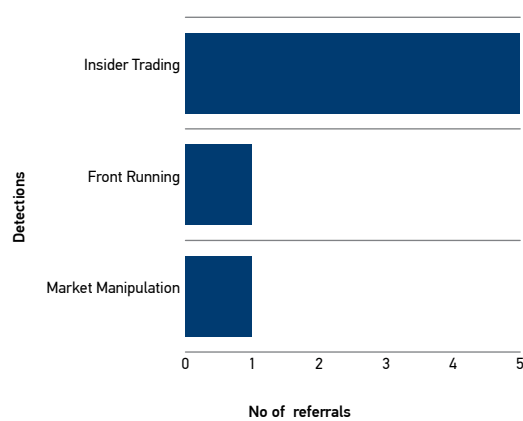
### Surveillance Referrals

In addition, the SEC receives referrals from the CSE and also conducts media reviews. Having considered the seriousness of each issue, the SEC conducts a preliminary enquiry and prepares surveillance referrals and forwards them to the Surveillance and Investigations Committee of the SEC for review and next course of action.

During the year under review, the SEC completed 7 comprehensive surveillance referrals; including five possible cases of Insider Dealing, one possible case of Front Running and one

possible case of Market Manipulation. Furthermore, three referrals were found to warrant further investigation. (Figure 17)

FIGURE 17: SURVEILLANCE REFERRALS



In addition, the surveillance team liaised with the Supervision Division whenever suspicious trading by broker-dealers was detected for further inquiry.

Based on Court Orders the SEC provided external parties such as the Financial Crimes Investigation Division (FCID), the Criminal Investigation Department (CID), and other law enforcement agencies with analytical reports. In 2016 the SEC has provided 13 such analytical reports.

### Investigations

Conducting investigations into the suspected cases of capital market offences including cases of Insider Dealing<sup>1</sup>, Price/Market Manipulation<sup>2</sup>, Front Running<sup>3</sup> and Other Market Misconduct as stipulated in the SEC Act (as amended) as well as in any Rules and Regulations made thereunder is one of the key roles of the SEC as the regulator of the capital market in Sri Lanka which plays a vital part in maintaining an orderly and a fair market and protecting interest of investors.

<sup>1</sup> 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).

<sup>2</sup> Creation of a false or misleading appearance in respect of the trading or the price of any securities listed on a stock market (SEC Rule 12) 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 (SEC Rule 13).

<sup>3</sup> Trading in securities of a Company ahead of a significant purchase or sale of securities of such Company, for a client, with the intent to profit by trading in the said securities thereafter (SEC Rule 14).



## Operational Review

In 2016, the SEC successfully completed three investigations which were commenced during the year and four investigations were progressing in their final stages by the end of the year.

Moreover, during the year the Commission directed the secretariat to re-open eight previously concluded investigations in addition to the three investigations which were re-opened in 2015. These investigations were in progress at different stages as at the end of the year and we will focus on those in the upcoming year.

It is noteworthy that when conducting the aforesaid investigations, we closely worked with other domestic and foreign regulatory

agencies. The assistance rendered by the capital market regulators in other countries under the IOSCO MMoU Concerning Consultation and Cooperation and the Exchange of Information became crucial to the successful completion of some investigations.

Details and a brief description of the action taken/status of the investigations as at the end of 2016 are given below: (Figure 18)

**FIGURE 18: DETAILS OF INVESTIGATIONS**

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"> <li>During 2016, two Insider Dealing investigations were commenced out of which one investigation was completed with the report pending while the other investigation was at the final stage by the end of the year.</li> <li>In addition, the report of another investigation, which commenced in a previous year, was being compiled as of end 2016.</li> </ul>
Price/Market manipulation in the shares of listed companies	2	<ul style="list-style-type: none"> <li>In 2014, based on the findings of an investigation into market/price manipulation, legal action was instituted by the SEC against two persons. The said matter was referred to the Attorney General's Department for institution of legal action and as at end 2016 the matter was pending at the respective department.</li> <li>Further, an investigation into certain trades executed in the shares of two listed companies were in progress at the end of 2016.</li> </ul>
Price/Market manipulation and/or Insider Dealing in the shares of listed companies	4	<ul style="list-style-type: none"> <li>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 2016.</li> <li>Another three investigations were pending at the end of the year under review. Report pertaining to one of those investigations was being compiled and the other two investigations were in progress.</li> </ul>
Price/Market manipulation and/or Insider Dealing and/or Front Running in the shares of listed companies	2	<ul style="list-style-type: none"> <li>One investigation which was commenced during 2016, was completed during the same year and the respective report was being compiled while the other investigation was at the final stage by the end of the year.</li> </ul>

Nature of the Investigation	No. of Cases	Action Taken/Current Status
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"> <li>One investigation was referred to the Criminal Investigations Department in order to ascertain any 'Misappropriation of Funds' during 2016 and the other investigation was nearing its end as at the end of the year.</li> </ul>
Front Running and/or Insider Dealing in the shares of listed companies	2	<ul style="list-style-type: none"> <li>A formal opinion regarding one investigation was solicited from the Hon. Attorney General and the said formal opinion was pending as at December 2016.</li> <li>Report pertaining to the other investigation was being compiled during the year under review.</li> </ul>
Investigation pertaining to irregular activities by stock brokering firms	2	<ul style="list-style-type: none"> <li>One investigation, which commenced during 2016, was completed by the end of the year and the Members of the Commission decided to take enforcement action based on the findings.</li> <li>In 2015, the Surveillance and Investigations Committee of SEC directed the Investigations Division to carry further investigations on the other case and further investigation work was at its final stage by the end of 2016.</li> </ul>
Investor complaints against stock brokering firms	2	<ul style="list-style-type: none"> <li>Report of one investigation was referred to the CSE by the Members of the Commission for disciplinary action in 2015 and the report on the other investigation was being compiled at the end of 2016.</li> </ul>
Investigation pertaining to the Business Affairs of a listed company	1	<ul style="list-style-type: none"> <li>During the year 2014 the investigations 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 identification of the persons against whom legal action was to be instituted. As at end 2016, the advice of the Honourable Attorney General regarding the same was pending.</li> </ul>
Investigation into the possible violation of the Takeovers and Mergers Code by a listed company	1	<ul style="list-style-type: none"> <li>The Investigation Report was completed and submitted to the Surveillance and Investigations Committee of the SEC and the decision of the Committee was pending as at December 2016.</li> </ul>
Investigation into the misleading disclosures made in the Financial Reports of a listed company	1	<ul style="list-style-type: none"> <li>As of December 2016, the investigation was in progress.</li> </ul>
Further investigations into cases concluded in previous years	11	<ul style="list-style-type: none"> <li>Eight previously concluded cases, were re-opened as directed by the Members of the Commission during 2016 while further investigations into three cases which were reopened in 2015, were being conducted. As at end 2016, further investigations into the aforesaid cases were in progress.</li> </ul>

## Operational Review

Nature of the Investigation	No. of Cases	Action Taken/Current Status
Preliminary inquiry against a regulated Investment Management company	1	<ul style="list-style-type: none"> <li>The decision of the Surveillance and Investigations Committee based on the report on the matter was pending at the end of 2016.</li> </ul>

### Complaints

The SEC handled 52 matters in relation to Public Listed Companies and resolved 50 during the year under review.

### Litigation

#### Magpek Exports (Private) Limited vs. SEC Case No. 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.

#### SEC vs. Miramar Beach Hotels PLC and Others MC Case Nos. 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 matter is pending before the Colombo Fort Magistrate's Court.

#### Minu Manoo Melvani vs. SEC and Others CA Writ Application 128/2015

Notice was issued on the SEC and three other Respondents in a Writ Application filed by one Mrs. M. M. Melvani before the Court of Appeal who was seeking inter alia:

- a mandate in the nature of a Writ of Mandamus compelling and/or directing the SEC and the CSE to:

- expeditiously complete the statutory inquiry/investigation conducted under and in terms of Sections 13 (i) and 46A of the SEC Act into the conduct of the stock broker cited as the 3rd Respondent in order to ascertain whether any offence has been committed in terms of the SEC Act in a transparent, credible and impartial manner; or
- commence a full and impartial investigation in terms of Sections 13 (i) and 46A of the SEC Act into the aforesaid unlawful and/or irregular conduct complained against the stock broker to ascertain whether any offence has been committed in terms of the SEC Act;
- prosecute the stock broker and/or those who were involved in committing offences complained of in terms of Section 51 of the SEC Act;
- suspend and/or cancel and/or revoke the licence granted to the stock broker in question if the stock broker is found guilty of committing any offence in terms of the SEC Act at the conclusion of the statutory inquiry/investigation;
- grant compensation in terms of Section 13 (d) of the SEC Act to the Complainant to settle the pecuniary losses suffered by her amounting to Rs 60,423,327.68; and
- give specific directions to the CSE to take disciplinary action against the stock broker and impose sanctions appropriate in terms of the Stock Broker Rules of the CSE.

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.

During the year 2016, the case was withdrawn by the petitioner, reserving his right to file a fresh application in future and the Petitioner re-filed the same case in the Court of Appeal seeking redress under Writ Application No.340/2016 and the matter is pending before the Court of Appeal.

### **N. Samarathunga vs. Mackwoods Plantations (Pvt) Ltd and 16 others- HC (Civil)35/2016/CO**

The SEC was cited as the 17th Respondent in this case filed in the Commercial High Court of Colombo. The relief the Petitioner sought from the Court with regard to the SEC was:

- (a) For an Interim Order preventing the SEC from revoking and or rescinding in any manner the Directive issued by the SEC on a stock broker pending the final determination of the action and;
- (b) for an Interim Order preventing the SEC from approving any mandatory offer made pursuant to the sale of 60.8% stake of Agalawatte Plantations PLC by Mackwoods Plantations (Private) Ltd. to Browns Power Holdings (Private) Limited pending the final determination of the action.

The case was dismissed by the Judge of the Commercial High Court of Western Province on a preliminary objection raised on behalf of some of the Respondents upholding that a derivative action and an action for oppression and mismanagement cannot co-exist in one and the same Petition.

However, the Court held that the statutory right to seek such relief by an aggrieved party is undeniable.

### **Browns Power Holdings (Private) Limited vs. SEC CA (Writ of Mandamus) 260/2016:**

Whilst the case referred to in (IV) above, was pending in the Commercial High Court the Petitioner filed a Writ Application against the SEC seeking an issue of a mandate in the nature of a Writ of Mandamus compelling the SEC to exercise the power and/or discretion to allow the mandatory offer to take place in respect of the Petitioner purchasing 60.8% of Agalawatte Plantations PLC.

The Petitioner also sought an Interim Order permitting the Petitioner to appoint Directors to the Board of Directors of Agalawatte Plantations PLC pending the determination of the SEC in respect of the draft announcement of the Mandatory Offer under and in terms of Rule 18 of the Takeovers and Mergers Code.

However, this action against the SEC was withdrawn by the Petitioner.

### **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.

The matter is pending before the District 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 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 vs. 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.

The matter is pending in the Court of Appeal.

### **Cases Regarding which SEC was Summoned to Lead Evidence**

The SEC was summoned to give evidence in respect of following three cases:

- Softlogic Finance vs. Egodawatte Arachchige Don Silvester Himal Dushshantha DMR/1403/13 -
- S. M. Shukrie vs. Aitken Spence & Co. Ltd. CHC/49/08/CO and Others

## Operational Review

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

### Enforcement Actions

Enforcement action is taken by the SEC on the direction and determination of the Commission.

### Issue of Show Cause

An agent of a stock broker was issued with a Notice to Show Cause as to why the SEC should not take action against him for certain derogatory remarks he has made at the Director General of the SEC in the process of SEC restraining him from acting outside his permissible scope independent of the authority of the stock broker who was his principal.

### Enforcement Action Pending before the Honourable Attorney General

The SEC has referred three matters to the Honourable Attorney General for necessary action to institute court proceedings.

### Opinions Referred to the Honourable Attorney General

An opinion was sought from the Honourable Attorney General in respect of an interpretation of Section 246 of the Companies Act No. 7 of 2007 and the said opinion was received.

Another opinion sought for legal interpretation in relation to an investigation conducted by the SEC is pending.

## Capital Market Development

Capital markets play a vital role in fostering economic growth by promoting competition among financing sources, and enhancing the efficiency in the transmission and implementation of macro-economic policies. Capital market policy is therefore a central element of economic growth.

The SEC has undertaken the following initiatives during the year 2016 to propel the capital market towards transformation.

### Facilitate the Completion of a Country Review of Securities Regulation by IOSCO

- The Secretariat invited IOSCO, the global standard-setter for securities regulation to conduct a review of the capital market of Sri Lanka, in order to assess the current regulatory framework against IOSCO's Objectives and Principles of Securities Regulation (IOSCO Principles).

- The assessment would contribute towards recommendations through a roadmap on how issues of significance and materiality identified could act as a catalyst for policy and regulatory reform.
- The assessment was carried out by a Review Team (RT) of five regulators nominated by member organisations from developed and emerging markets, along with a member of the IOSCO Secretariat.
- A self-assessment prepared by the SEC as per the requirements of the RT, acted as the primary source document. Information was obtained from all divisions of the SEC and from external operational departments wherever relevant to the regulation of securities markets.
- The Secretariat facilitated the visit of the RT during 23rd -29th July in Colombo and arranged informational meetings with the RT and the Director-General of the SEC, members of the Commission and a broad cross section of SEC staff. Further, on-site interviews were organised with relevant external stakeholders including representatives from each of the sectors regulated by the SEC, industry associations, the CSE, the Registrar of Companies, the Attorney-General's Department, the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB).
- The draft country review compiled by the RT was reviewed by the relevant stakeholders and provided respective suggestions and comments on the same to the RT.
- IOSCO is to finalise and publish the Sri Lanka country review by first quarter 2017.

### Facilitate the Implementation of a CCP

- In facilitating the implementation of a CCP, an initiative imperative for systemic risk management, the SEC secured financial and technical assistance under the Financial Sector Modernisation Project by the World Bank.
- During the period under review the following key tasks were completed in relation to the project jointly with the CSE and BTA Consulting Ltd:



- 1Q 2016 : Proposed and finalised amendments to the CCP business model taking into the consideration clearing and settlement of only corporate securities
- 2Q - 3Q 2016 : Completed the following tasks in relation to the system procurement
  - Request for Information (RFI) and Request for Proposal (RFP) were developed
  - Nine proposals were received in response to the RFI published by the CSE, which were evaluated by the Technical Evaluation Committee (TEC) for short listing
- 3Q - 4Q 2016 : Completed the following tasks pertaining to the legal and regulatory framework
  - Finalised legal provisions pertaining to the CCP and incorporated to the draft SEC Bill
  - Drafted CCP Rules which are pending finalisation
- Technical assistance, provided by the World Bank, included additional consultancy input in relation to the CCP business model, legal framework and margining and settlement model components. Suggestions and recommendations on the same were deliberated in detail internally and would be considered in the implementation phase.
- Going forward, a sequential approach is to be adopted in the implementation of the CCP, giving due consideration to the post-trade risk profile and the need for a tailored approach aligning with the singularities of the local market. Priority would be given to the implementation of a DvP settlement system and a VAR based margin system aimed at mitigating several extant post-trade risks.

### Facilitate the Implementation of a Common BBO and OMS

- Upon implementing a common BBO and OMS, the efficiency of the trade through settlement processes would be enhanced and uniformity in BBO Systems achieved as a pre-requisite for seamlessly implementing the envisaged post trade risk management initiatives.
- During the project implementation, the project monitoring committee had periodic meetings with the representatives of system vendors and stock broking firms to review the progress and address any concerns pertaining to the implementation of BBO and OMS Systems.
- Majority of stock broking firms completed the system implementations and achieved “go live” status by the deadline given as at 31st March 2016.
- Subsequently, the Audit Sub-Committee comprising members from both the SEC, the CSE and an external Information Technology (IT) consultant retained by the SEC was formed to conduct compliance audits on the BBO and OMS of stock broking firms.
- Upon finalising the audit report based on the findings, the firms which are fully compliant to the RFP will receive full payment as per the agreed upon terms and conditions stipulated jointly by SEC and CSE pertaining to the same.

### Facilitate and Coordinate the Capital Market Development Programme (CMDP)

- A team from Asian Development Bank visited Colombo from the 6th to 30th June 2016 in order to delineate policy measures to be developed under the proposed CMDP, finalise implementation arrangements and confirm the attached Capacity Development Technical Assistance (TA) to support the implementation of the CMDP.
- Several rounds of discussions were held between ADB delegates and the SEC officials in relation to specific policy measures that are to be delivered under the proposed CMDP, subsequent to which the same were finalised with respective timelines in relation to the implementation arrangements and the Capacity Development TA support attached to the programme.
- Consultancy services would be provided to the Secretariat through the ADB in order to support the implementation of

## Operational Review

the following initiatives which are components of the Capital Market Strategy 2016-2020.

- Facilitate the demutualisation of the CSE
- Assessment and sequential introduction of financial derivatives
- Legal review and drafting of the Securitisation Act
- Legal review of the Unit Trust Code and related legislation
- Enhance financial literacy and outreach for unit trusts
- Strategy for the development of a commodities exchange
- Develop a multi-layered, multi-product financial certification framework
- The above initiatives will be jointly implemented by respective SEC project teams and ADB consultants during the year 2017.

### Facilitate and Coordinate the Financial Sector Modernisation Project (FSMP)

- A team from the World Bank visited Sri Lanka from the 20th to 29th July 2016 in order to discuss project deliverables, implementation arrangements, and other relevant issues related to the proposed FSMP.
- Several discussions were held between the SEC and the World Bank in order to finalise the deliverables of the FSMP.
- Under the FSMP, investment funding and TA will be provided directly to the Secretariat in order to support the relevant initiatives.
- Several key initiatives which would receive TA and/or investment funding under the FSMP and progress forward during the year 2017 jointly with respective SEC project teams are as follows:
  - Consultancy services for implementation of risk based supervision and risk based capital structure for Market Intermediaries
  - Enhancement of the online market surveillance system
  - Procurement of systems in establishing a CCP mechanism in conjunction with a common BBO and OMS
  - Strengthen the Risk Based regulatory and supervisory capacity of the SEC

- Consultancy services for strengthening issuance regulations, procedures and supervision framework for corporate debt Market and improving risk based supervision
- Consultancy services for a comprehensive diagnostic and action plan for secondary market architecture (corporate bonds) and enabling Over the Counter (OTC) platform
- Enhance Information Technology (IT) infrastructure, cyber security and developing IT Strategy, procurement of online reporting system to streamline regulatory filing
- Consultancy services for enabling XBRL format reporting
- Consultancy services for strengthening the Corporate Governance framework, particularly the protection of minority shareholders
- Education and awareness building – through print, electronic and social media
- IT platform for unit trust distribution
- Internal capacity building including training and development and TA for strengthening the Human Resource function

### Other Initiatives

- Drafted the rules on Corporate Governance during the year under review to be in line with OECD principles, IOSCO principles and international best practices on Corporate Governance.
- Contributed to developing a policy initiative pursuant to 'Fit and Proper Criteria' for Directors of listed entities in line with local and international best practices.
- Developed a formal risk based Framework on Financial Surveillance with the objective of having a formal process which could be used to carry out Financial Surveillance on Listed Companies by both the SEC and CSE.
- Developed guidelines for valuation of shares of listed entities in relation to regulatory requirements such as Takeovers and Mergers, Listing and Delisting of listed entities together with the proposal to categorisation and disclosure of financially challenged companies.

- Based on the Attorney General's opinion, subsequent to informing applicable entities that Section 246 of the Companies Act No. 07 of 2007 cannot be used to forcefully acquire minority shareholders, a framework was provided by the SEC to ensure that minority shares can be acquired only with their consent. Subsequently, a significant number of minority shareholders made use of the process and opted to return the funds given under forceful acquisition process and their shareholding status was unchanged.

## Capital Market Education and Training

The training arm of the SEC develops and delivers effective training programmes to raise the standards of industry professionals and uphold market integrity. We administer licensing examinations and mandatory Continuous Professional Development (CPD) programmes for market professionals and investor education programmes for various target segments.

### Qualification Framework

During the year we continued to implement the qualification framework which is aimed at offering a minimum level of

proficiency for trainee investment advisors of stock broking companies. 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).

In addition to the implementation of the qualification framework, we also conducted programmes to continuously develop and maintain knowledge and skills related to market practitioners by way of CPD programmes. Further, we conducted basic and advanced investment programmes for existing and potential investors.

### Certificate in Capital Markets and Registered Investment Advisor

We identified a significant increase in non-industry individuals such as school leavers, undergraduates, and professionals from other sectors joining the CCM programme. A total of 99 participants were registered for the programmes during the year. (Figures 19,20)

FIGURE 19: STATISTICAL SUMMARY OF CCM AND RIA YEAR PROGRAMMES IN 2016

Medium of Instruction	Total Registered Students	Completed Equity Series	Completed Debt Series	Completed Financial Regulations & Ethics	CCM Completed	RIA Completed
English Medium	79	43	40	33	38	15
Sinhala Medium	20	08	11	10	06	04
<b>TOTAL</b>	<b>99</b>	<b>51</b>	<b>51</b>	<b>43</b>	<b>44</b>	<b>19</b>

## Operational Review

FIGURE 20: EXAMINATIONS CONDUCTED FOR THE CCM AND RIA IN 2016

Programme	Series	No of Exams Conducted during the year	Pass %
Certificate Course in Capital Markets (English Medium)	Equity Securities	4	61%
	Debt Securities	4	66%
	Securities Regulations, Ethics and Marketing	4	61%
Certificate Course in Capital Markets (Sinhala Medium)	Equity Securities	1	52%
	Debt Securities	1	81%
	Securities Regulations, Ethics and Marketing	1	87%
Registered Investment Advisor (English Medium)	N/A	7	75%
Registered Investment Advisor (Sinhala Medium)	N/A	4	80%

### Diploma in Capital Markets

We continued the DCM programme which is conducted jointly with the Chartered Institute for Securities and Investments, UK. Two batches were inaugurated during the year which had a total of 36 participants.

### Continuous Professional Development Programmes

During the year under review, 7 tailor made CPD programmes were conducted for the existing investment advisors in the capital market 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 800 participants which included chief executive officers of stock broking companies, investment advisors and industry professionals.

The SEC has made it mandatory for existing investment advisors to participate in at least 2 CPD programmes for a year to renew their RIA Status. (Figure 21)

FIGURE 21: SUMMARY OF CPD PROGRAMMES IN 2016

Title of the CPD Programme	No of Participants
Macro Shocks vs Colombo Bourse	231
Central Counterparty System	73
Credit Ratings and Its Role in Capital Markets	113
The role of Debt Market in developing the Capital Market of Sri Lanka	105
Central Counterparty System	93
Brand Building through Relationship Marketing	184
Fiduciary Responsibility of a Registered Investment Advisor	67

### Programme in Investing

We conducted programmes in English medium for potential investors with the intention of providing them basic theoretical and practical aspects of share trading. Two programmes were conducted during the period under review with the participation of 58 potential investors.

### Advanced Programme in Investing

A programme was conducted for existing investors with the intention of providing them advanced theoretical and practical aspects of share trading. One programme was conducted during the year with 23 participants.

### 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 eleven national universities with regard to the aforesaid project.

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

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

### Capital Market Information Center (CMIC)

With the intention of popularising the subject of capital market and encouraging research, we initiated the establishment of Capital Market Information Centers (CMIC) at all 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 on capital market. In addition, it is also expected to strengthen their knowledge and skills in investing in the capital market instruments.

In this background, we launched the first CMIC Center at the South Eastern University of Sri Lanka in November 2016.

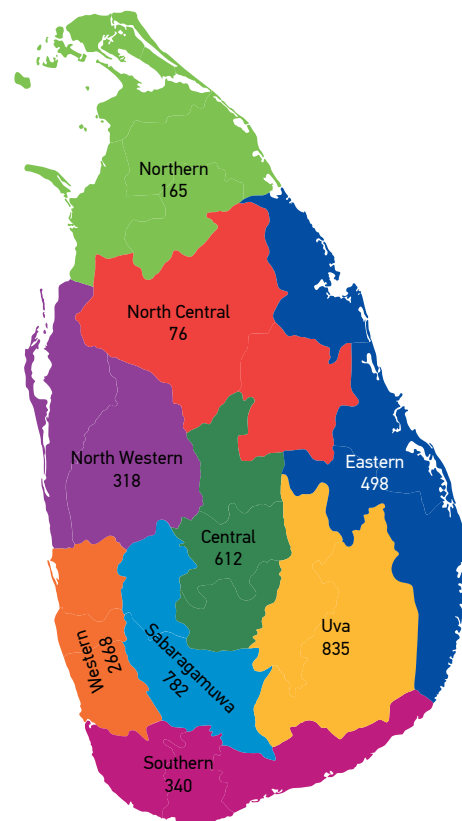
## Capital Market Awareness and External Relations

The SEC is mandated to protect the interest of investors. To this end, it is imperative that current and potential investors have a sound understanding of the operations of the capital market. Therefore, we used multiple channels to impart capital market knowledge to various segments of the community including seminars, workshops, digital means and publications.

### Awareness through Seminars and Workshops

A wider participation of investors is essential to increase the depth of the capital market by converting savers to investors. Hence, we conducted financial education campaigns across the country for students, undergraduates, investors, teachers and the general public. (Figures 22,23)

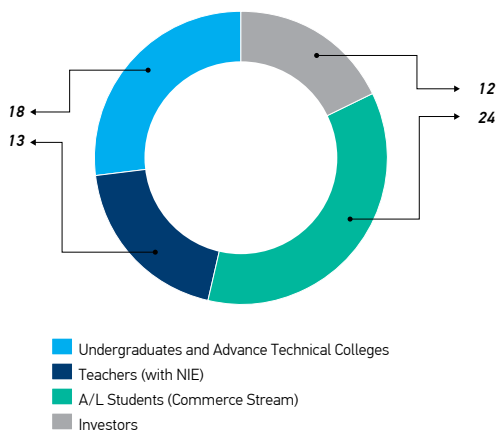
**FIGURE 22: NUMBER OF PARTICIPANTS AT EDUCATIONAL PROGRAMMES IN 2016**





## Operational Review

**FIGURE 23: NUMBER OF AWARENESS PROGRAMMES CONDUCTED IN 2016**



### Awareness through Electronic Media

#### “Isura” on Sirasa TV

Television is a very convincing mass communication medium that is able to reach out to wide audiences and strata of society. On 23rd October in association with Sirasa TV we commenced a 18 week television series on the capital market, featuring panel discussions led by a team of industry experts. The series was telecast on Sundays from 11 a.m. to 12 noon and comprised of a live studio audience and addressed various aspects of investing in the capital market including the primary market, secondary market, debt market, unit trusts, regulation, operations of the Central Depository Systems (Pvt) Limited and new developments. We always attempt to measure the success of our investor education initiatives and the weekly quiz that we included in the series generated approximately 50,000 responses.

#### Awareness through Print Media

During the year we continued to publish educational articles in all three languages in newspapers. We published over 200 articles focused on helping investors to make informed investment choices by gaining a sound understanding of the capital market. The article series in the Daily Mirror and Ada covered investment products, risks and potential pitfalls, recent developments in the market, directives, safeguarding your investments, key investment concepts etc.

### External Relations

#### Regional Training Conference

A regional training conference on “Effective Oversight of Capital Markets: Investigation and Prosecution of Securities Fraud and Abuse” was organised by SEC in collaboration with the United States Securities and Exchange Commission (US SEC) from the 19th to 22nd of September 2016.

The programme was spearheaded by high level personnel of the US SEC including Z. Scott Birdwell, Assistant Director, office of International Affairs, David A. Glockner, Regional Director, Chicago regional office and Marlee Engel, Senior Counsel, office of International Affairs. U.S. Accordingly, the programme addressed best practices in the oversight of capital markets with the objective of maximising investor protection and capital formation.

Nearly 80 participants from 14 countries and employees of the CSE, Central Bank of Sri Lanka and the Attorney General’s Department of Sri Lanka attended the conference. Further on, the US SEC officials conducted a special workshop for both the surveillance and investigation staff of the SEC.

#### International Organization of Securities Commissions

The IOSCO develops, implements and promotes adherence to internationally recognised standards for securities regulation and comprises of 125 ordinary members. SEC continued its membership in the Asia Pacific Regional Committee, Growth and Emerging Markets Committee, MMOU Screening Group and the Committee on Enforcement and the Exchange of Information. In 2016 we submitted a proposal to join the Committee on Retail Investors (Committee 8) and was admitted to the group taking into consideration the extensive investor education programmes undertaken by the SEC. The Committee consists of 36 members and its primary mandate is to conduct IOSCO’s policy work on retail investor education and financial literacy. Further on, the SEC was selected to host the Annual General Meetings of both the Growth and Emerging Markets Committee and the Asia Pacific Regional Committee in 2017.

The Assessment Committee of IOSCO completed a country review on securities regulation in Sri Lanka during 2016 upon a request made by the Secretariat. The review predominantly comprised of a desk-based review and an on-site visit. The desk based review was spearheaded by a seven-member review team between March and April 2016. Subsequently, the aforesaid team visited Sri Lanka in July 2016 and marked the completion of the fourth stage

of the country review. The final report is perceived as a catalyst for policy and regulatory change.

In 2016, we continued to work closely with the membership and the IOSCO secretariat by requesting for information for investigation purposes from various jurisdictions under the IOSCO MMoU and responded to surveys sent by the IOSCO secretariat and the membership.

#### **Minimum Public Float: an Open Discussion**

The SEC with the participation of the CSE conducted a forum on 6th April to reflect on the Rules imposed on maintaining a minimum public float. It was organised to extend an opportunity for listed entities to air their views on the policy directive promulgated by the SEC. Accordingly, the Chairman, Commission Members, Director General and officials of the SEC along with the Chairman and Chief Executive Officer of the CSE spearheaded the discussion.

# Operational Review

Articles Published by the SEC in Association with Newspapers



## Our Strength

Human capital the foremost asset of the SEC is entrusted with developing and regulating the capital market of Sri Lanka. Professionals with integrity, confidentiality, knowledge, skills, competencies and maturity plays a significant role in achieving the goals and objectives in terms of the SEC mandate.

### Staffing

Workforce planning and employment involves identifying staffing gaps and accordingly taking steps to fill the vacancies. The SEC recruitment team strategically recruited and selected the best candidates for the SEC and ensured workforce efficiency to accomplish its goals and objectives. Accordingly, during the year the SEC was successful in hiring appropriately qualified and experienced employees to fill the positions of one Assistant Director, three Senior Assistant Managers, five Assistant Managers and three Officers. Two existing employees who competed and outperformed the external candidates were successful in assuming duties in higher positions i.e. Assistant Director and Senior Assistant Manager. Work is in progress to fill a few key positions of Directors during the ensuing year.

Further, five Senior Assistant Managers with an excellent track record and proven capability were recognised to be elevated to the position of Manager.

The staff who had performed extremely well were also recognised and promoted in terms of a policy decision taken during the year under review; in which the staff with a minimum of three years experience on the job were promoted considering additional criterion decided by a special committee, from Non Executive and Assistant Manager grades to the next higher grades subject to the availability of cadre.

Concurrently, six staff members were also commended in recognition of their services rendered to the institution.

To strengthen the operational capability of the SEC, staff with appropriate knowledge and experience were also hired during the year under review on assignment basis.

### Enrollment of Management Trainees

SEC for the first time introduced a talent acquisition programme to enroll Management Trainees who possesses a Bachelor's Degree from a recognised university with a Second Class Upper Division from local or foreign universities recognised by the University Grants Commission of Sri Lanka.

Out of over approximately 5000 applications and a rigorous selection process eleven Management Trainees were selected in their order of merit to undergo a two year diversified training programme on the capital market.

Enrollment of Management Trainees will be part of our succession planning programme for young graduates to acquire knowledge, required skills, abilities, and know-how to take up more responsible positions at the SEC in the future and to strengthen our internal talent pool.

### Resignations

During the year one Director, one Senior Assistant Manager and one Confidential Secretary resigned recording a staff turnover of 4% for the year 2016. (Figures 24,25)

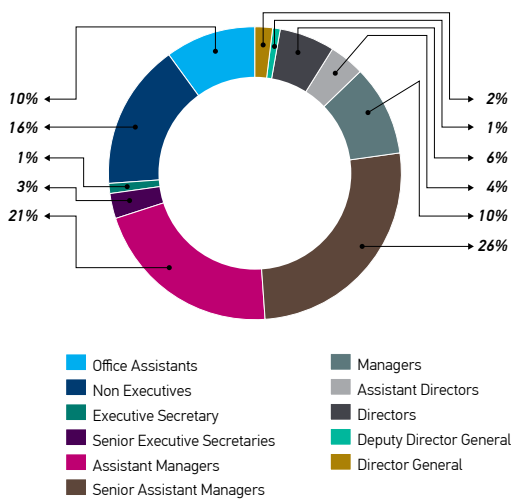


# Operational Review

FIGURE 24: CADRE COMPOSITION AS AT 31ST DECEMBER 2016

Designations & Grade	Approved Cadre	Existing Cadre		Vacancies To be filled
		Permanent	Contract	
Director General	1	1		-
Deputy Director General	1	1		-
Directors	11	5		6
Assistant Directors	5	3		2
Managers	8	8		-
Senior Assistant Manager		22		2
Assistant Manager Grade	43	19		
Non – Executives	17	13	1	3
Senior Office Assistants	10	6		
Office Assistants		1		
Office Aide		1	1	1
<b>Total</b>	<b>96</b>	<b>80</b>	<b>2</b>	<b>14</b>

FIGURE 25: IN EMPLOYMENT



## Gender Analysis

As at 31st December 2016 the SEC had 80 members that served on the permanent cadre consisting of 28 males and 52 females. The gender and age analysis of the staff in the permanent cadre as at the end of the year under review are depicted as follows. (Figures 26,27,28)

FIGURE 26: GENDER ANALYSIS

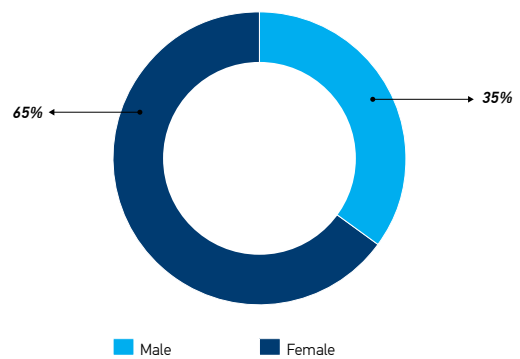


FIGURE 27: EMPLOYEE AGE ANALYSIS

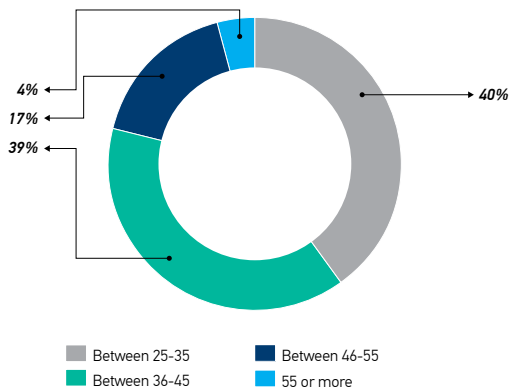
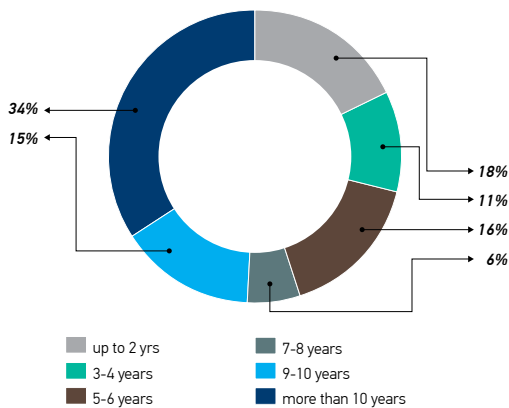


FIGURE 28: NUMBER OF YEARS OF SERVICE



### Training

The Secretariat continued to place emphasis on the development of technical skills of the staff in their relevant fields including relevant exposure to discharge the mandate entrusted to the SEC effectively and efficiently. By sourcing foreign trainers from the US SEC, staff was given relevant exposure based on “Effective Oversight of Capital Markets: Investigation and Prosecution of Securities Fraud and Abuse.” In addition, staff attended programmes covering global securities market regulation issues, enforcement, risk based supervision, issuer accounting, audit and disclosure.

A sum of Rs. 18.9 million was invested in the staff towards professional development consisting of Rs. 15 million towards overseas training, Rs. 2.6 million for local training and Rs. 1.3 million for sponsorship for higher studies and professional membership fees during the year under review.

### Staff Welfare

The residential training programme during the year under review turned out to be more an excursion to the northern peninsula of Sri Lanka. This programme gave a different flavour to the staff from their routine duties which they enjoyed immensely with their families and will be cherished for long years to come. Further, social events including the annual Christmas party gave staff the opportunity to enjoy and interact with their families and to foster comradeship.

Since we believe health and wellbeing are important facets, a range of benefits continue to be offered to the staff such as flexi timing, indoor and outdoor medical schemes, insurance, concessionary loan schemes, educational grants and reimbursement of relevant professional membership etc.

### Internships

We continued to award internship opportunities mainly to undergraduates of national universities with a view to provide exposure to the functions of the regulator of the capital market.

### Administration

The second phase of the refurbishment of office premises was almost completed thus enhancing the working environment and optimising the utilisation of office space.

### Information Technology

Defense-in-Depth architecture was successfully implemented to strengthen the internal network.



## Operational Review

We implemented the electronic paperless solution 'Board PAC' to automate Commission meetings. This solution also enables efficient and secure access to the past meeting agendas, commission papers and meeting minutes.

Further, a sophisticated IP based voice and video communication system was implemented to enhance the operational capability of the Secretariat.

### Statutory Funds

#### CESS Fund

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

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

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

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 is levied at 0.072% and 0.045% respectively with effect from 1st January 2011. The 50 million threshold has been revised to Rs. 100 million during the first quarter of year 2017 which will come into effect upon the issue of the gazette notification.

With effect from 15th February 2006, the transaction fee due to the broker, CSE, Central Depository System (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.

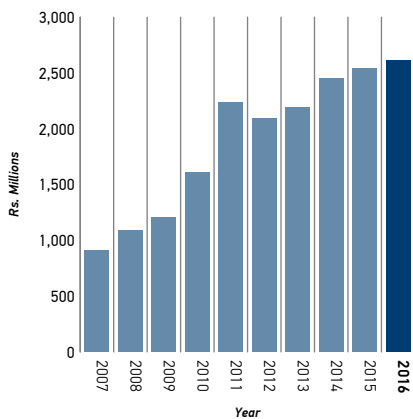
To strengthen the Compensation Fund a sum of Rs. 50 million was transferred during the year 2009 from the Cess Fund. A further Rs.100 million was transferred from the Cess Fund to the Settlement Guarantee Fund of Rs.50 million each during the years 2009 and 2010.

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 2016 amounted to Rs.2,610,288,237/-.

The growth of the fund during the period 2007-2016 is depicted overleaf: (Figure 29)

**FIGURE 29: 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 money as may be voted upon by Parliament for the purpose of the Fund.
  - Such sums of moneys may be credited to the Fund under Section 51A; (Section 51A is on compounding offences).
  - Such sums of money as may be credited from Cess Fund under Section 14B of the SEC Act.

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

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

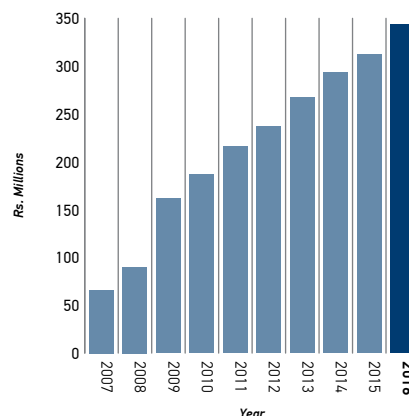
The Committee shall be responsible to assess and award compensation in respect of any application made and the decision of such Committee on any such assessment or award shall be final and conclusive for the purpose of this Act.

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 31.12.2016 amounted to Rs.344,214,780/-. The growth of the Fund during the period 2007 to 2016 is depicted below. (Figure 30)

**FIGURE 30: COMPENSATION FUND**



## Operational Review

### The Settlement Guarantee Fund (SGF)

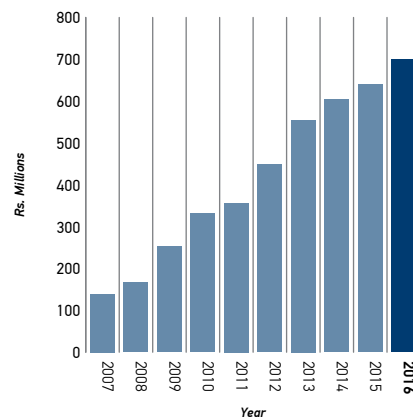
The SGF was launched on 22 May 1998. The Fund was established for the purpose of guaranteeing the settlement of trades between participants of the Central Depository System of the Colombo Stock Exchange (CSE). The operation of the SGF is described below.

- 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 Director General 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 the steps are been taken to establish a Central Clearing Corporation to effectively address the settlement risk. Upon establishing the CCP the SGF could form part of the capital of the CCP. 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 31.12.2016 amounted to Rs.699,638,687/-. The growth of the Fund during the period 2007 and 2016 is depicted in the following graph. (Figure 31)

**FIGURE 31: SGF FUND**



# STRATEGIC REVIEW OF THE CAPITAL MARKET MASTER PLAN 2006-2015

## 1. Introduction

The Capital Market Master Plan (CMMP) charted the direction of the Sri Lankan capital market from 2006 to 2015 and was formulated by the SEC with assistance from E & Y Malaysia as retained for the purpose by the ADB.

Sri Lanka is currently classified as a frontier market. The economy has remained resilient and could further benefit from closer integration with the capital market for funding purposes. Four objectives guided the strategic intents of the CMMP aimed at creating salutary spillover effects for the underlying economy:

- To create a vibrant market with healthy participation from issuers
- To attract greater participation from domestic, including rural populace, and foreign investors
- To build capacity and infrastructure to enable growth of the Sri Lankan capital market
- To enhance efficiency and cost effectiveness of intermediation services.

The launch of the CMMP represented a significant milestone for the SEC and the master plan itself served as a cohesive roadmap for capital market sustainability, driven by broad consultation with internal and external stakeholders. Successful implementation of key CMMP recommendations contributed to promoting capital market growth which is evident from the improvement in key market indicators at the CSE as depicted below. (Figure 32)

FIGURE 32: KEY MARKET INDICATORS

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Market capitalisation (Rs.Bn)	<b>2,745</b>	2,938	3,105	2,460	2,168	2,213	2,210	1,092	489	821
Total capital raised (Debt & Equity - Rs.Mn)	<b>79,892</b>	83,744	56,928	68,756	14,239	20,155	19,347	1,312	7,100	3,571
No of listed companies	<b>295</b>	294	294	289	287	272	241	231	235	235
<b>No of CDS accounts *</b>										
Local individuals	<b>592,286</b>	581,775	560,828	540,709	519,263	492,734	410,936	371,862	361,643	353,287
Foreign individuals	<b>4,561</b>	4,486	4,396	4,287	4,134	3,847	3,345	2,867	2,675	2,577
Local companies	<b>9,402</b>	9,082	8,619	8,133	7,884	7,321	6,114	5,262	5,042	4,908
Foreign companies	<b>5,056</b>	4,899	4,705	4,491	4,295	4,112	3,893	3,713	3,604	3,468

\* The above break-up excludes the number of multiple registrations sought by the same client through different participants

## 2. Recommendations proposed in CMMP

The CMMP proposed 44 recommendations under the aforementioned broad strategic objectives to facilitate growth in the Sri Lankan capital market. The SEC focused on implementing recommendations that were directly under its purview while the remainder required the support and co-ordination of related stakeholder institutions to enable implementation (Figure 33).

FIGURE 33: RECOMMENDATIONS PROPOSED IN THE CMMP

No.	Recommendations
<b>Objective 01 - To create a vibrant market with healthy participation from issuers</b>	
01.	Groom one SOE to list at least 10% of its equity on CSE by end 2007 (continuous representations made by SEC and CSE)
02.	Groom one SOE to issue private debt securities by end 2008 (implemented with Bank of Ceylon (BOC) raising finance via corporate bond market)

## Strategic Review of the Capital Market Master Plan 2006-2015

No.	Recommendations
03.	Develop a programme to encourage privatised State Owned Entities (SOEs) under the Strategic Enterprise Management Agency's (SEMA) stable to participate in the capital market
04.	Conduct annual dialogue with industry players (continuous dialogue initiated by SEC as and when warranted)
05.	Groom 10-20 large corporates to list on CSE by end 2007 (continuous representations made by SEC and CSE)
06.	Groom 10-20 large corporates to issue private debt securities by end 2008 (SEC established Corporate Debt Market Development Task Force in 2007 to make key recommendations)
07.	Introduce "Sri Lanka Incorporated" policy to encourage outsourcing and infrastructure concessions amongst the private sector and SOEs
08.	Carry out education programme for issuers on success stories and benefits of listing on the stock exchange (continuous efforts made by SEC and CSE)
09.	Establish counter on the CSE for the listing of specific Infrastructure Project Companies (IPCs)
10.	Establish counter on the CSE for the listing of specific high-technology companies
11.	Encourage foreign corporates to list in CSE
12.	Develop a comprehensive programme to develop a vibrant corporate bond market (significant development since implementation of key recommendations in SEC Corporate Debt Market Task Force Report)
13.	Address the anomaly in the risk reward structure of Government bonds with private debt securities
14.	Establish the benchmark long-term yield curve for the bond market (continuous representations made to Central Bank of Sri Lanka (CBSL))
15.	Allow listing and trading of Asset-Backed Securities (ABS)
16.	Develop a conceptual plan to establish the "National Mortgage Loan Corporation"
17.	Establish the "National Mortgage Loan Corporation"
18.	Enforce the conversion of accounts to the Central Depository System (CDS)(implemented in 2010)
19.	Implement a programme to enhance CSE's value recognition both domestically and internationally (series of Investor Forums held by SEC and CSE)
20.	Demutualise CSE and list on the stock market (continuous research conducted and proposed modalities developed by SEC and consultants)
<b>Objective 02 - To attract greater participation from domestic, including rural populace, and foreign investors</b>	
21.	Conduct a feasibility study for a National Equity Corporation (NEC)
22.	Establish NEC (an entity was established by the name of Jathika Isura in 2008 under the Treasury to carry out investment banking activities for the Government)
23.	Conduct customised education programmes on the capital market to retail investors and school/university students (programs have been expanded and conducted continuously by SEC and CSE)
24.	Encourage greater participation of Government pension funds (EPF and ETF, etc.) in the capital market (continuous representations made to CBSL)

No.	Recommendations
25.	Encourage EPF and ETF to diversify the management of its funds by outsourcing 5% to external fund managers
26.	Encourage SOEs to increase investment portfolio in the capital market (continuous representations made by SEC and enabled lifting of certain restrictions)
27.	Pursue measures to outsource the management of funds by insurance companies
28.	Pursue measures to facilitate the development of private pension industry
29.	Reinstate All Share Price Index (ASPI) on the Morgan Stanley Capital Index (MSCI) (research carried out to identify and implement requirements and an impact analysis done of an elevation)
No.	Recommendations
30.	Encourage CSE to pursue appropriate strategic alliances internationally with leading regional bourses
31.	Adopt and mandate the recommendations contained in the proposed Code of Corporate Governance (implemented in 2011)
32.	Establish Minority Shareholders Watchdog (MSW) to safeguard shareholders' interest (research was conducted on feasibility of implementation)
33.	Re-assess the need and timing for venture capital industry
34.	Re-assess the need and timing for derivatives products (research was conducted on feasibility of implementation and timing)
<b>Objective 03 - To build capacity and infrastructure to enable growth of the Sri Lankan capital market</b>	
35.	Strengthen Sri Lanka SEC's structure and capabilities and to balance its development and enforcement roles  (SEC role to facilitate capital market development was enhanced and expanded)
36.	Increase human capital in key areas of Sri Lanka SEC, especially in its "nurturing" role (specialist staff was recruited with industry experience to facilitate this role)
37.	Establish the Capital Market Institute to educate the public and train market participants (established in 2007)
38.	Expand regulatory coverage of Sri Lanka SEC to cover other capital market intermediaries and products (identified to be included in amendments to SEC Act)
39.	Strengthen the capital adequacy requirements to reduce systemic risk in the market
40.	Enhance co-operation and co-ordination between regulatory authorities (enabled through establishment of inter regulatory committees)
<b>Objective 04 - To enhance efficiency and cost effectiveness of intermediation services</b>	
41.	Widen the scope of capital market services offered by stock broking companies
42.	Liberalise stock broking commission rates (a revision made in 2010 through a SEC Directive)
43.	Review tax regime to encourage investments in collective investment schemes (significant concessions received through continuous representations to the Treasury by SEC)
44.	Encourage development of financial planners



# Strategic Review of the Capital Market Master Plan 2006-2015

## 3. Implementation of CMMP Recommendations

The SEC has actively implemented CMMP recommendations which fell directly under its purview. During the period from 2013-2014, ten key initiatives were identified from CMMP recommendations and prioritised as 'Ten Key Projects' alongside other key initiatives of the SEC which were being fast-tracked for implementation.

### Initiatives facilitated under CMMP Recommendations thus far:

### 3.1 Widen and Broaden Issuer Base (Supply Side)

#### 3.1.1 Facilitate the Development of Corporate Bond Market

Formed and chaired the Corporate Bond Market Development Task Force (CBDTF) in 2007, to formulate a strategy and devise an action plan to develop a vibrant corporate bond market made up of relevant stakeholders.

Key initiatives implemented to deepen and widen the Corporate Bond Market:

- Proposed and facilitated alignment of withholding tax on corporate bonds with that on government securities via the Budget 2010. However, this was not a sufficient incentive to stimulate fund raising via corporate bond market.
- As a result of foregoing, made representations to the Treasury for the complete removal of withholding tax on corporate bonds through the Budget 2012 and enabled the same. As a result, considerable impetus for corporate bond market growth was provided. Accordingly, the total outstanding value of domestic corporate bonds grew by 505% from Rs 47.9 billion in end-2012 to Rs 290.3 billion as at 31st December 2016: the latter figure accounting for approximately 2.4% of GDP. Further, the amount raised via corporate bonds remained as Rs.68.3bn (2013), Rs.54.2bn (2014), Rs.83.4bn (2015) and 77.9bn (2016).
- Convinced Bank of Ceylon (BOC) to utilise capital market for funding long term financial requirements in 2008. Since then, the BOC became a frequent fund raiser via corporate bonds raising a total of Rs. 44.5 billion (approx.) between 2008 and 2016.

- Proposed and facilitated enabling of foreign investments in corporate bonds.
- Formulated a policy paper jointly with CSE and the industry to widen the breadth and depth of the market.
- Key policy decisions/initiatives included:
  - Approval for Primary Dealers (PDs) and other market intermediaries to engage in corporate debt trading;
  - Streamlining issuing process and listing requirements at the CSE;
  - Finalising eligibility criteria for brokering and dealing in corporate debt securities including SEC qualification framework which was included in the CSE Member rules;
  - Improving the reporting infrastructure for better information dissemination at the CSE;
  - Imposing a minimum subscription ceiling of Rs.10,000 to enable retail participation in the corporate bond market;
  - Expanding awareness building activities on corporate bond market.
- Finalised criteria to be included in the rating rationale in the issue of prospectus to disseminate salient features to potential investors, with the industry input.

#### 3.1.2 Other Initiatives Facilitated to Widen and Broaden Issuer Base

- Enabled listed companies to release Annual Reports in CD form.
- Prepared and released a public consultation paper on implementing Initial Public Offering (IPO) grading and an Independent Equity Research scheme, in order to obtain views of the public and other market participants.

- Enabled following incentive for listings in 2012 via the budget 2013; New equity listings
  - for companies that list on the CSE between 1 April 2013 and 31 March 2014 with a minimum free float of 20% will be entitled to a 50% reduction in income tax for three years.
- Enabled extension of the aforesaid incentive for further 3 years via the budget 2014;
  - The period for listing of shares of a company with a minimum free float of 20% for the application of the 50% reduction in income tax (section 59D of the Inland Revenue Act) will be extended to a further period of 3 years, if such company is paying corporate income tax on the the profits at 28% or more.
- Enabled relaxation of restrictions placed on foreign investments in unit trusts that invested in Government Securities through a Gazette Notice dated 18th August 2011.
- Enabled inclusion of unit trusts that invest exclusively in Government Securities within the definition of 'Government Securities' for the purposes of calculating Statutory Liquid Assets by Licensed Commercial Banks and Licensed Specialised Banks (Directive 02/17/500/0540/001 dated 05th April 2013).
- Enabled following tax concessions and other incentives for unit trust managing companies through the Budget 2013:
  - Tax applicable to profits and income reduced to 10% from 1st April 2013;
  - VAT waived on managing company's services to unit trusts from 1st Jan 2013;
  - Unit Trusts allowed to structure funds in foreign currencies;
  - Enabled foreign investors, Sri Lankans living overseas and Sri Lankans operating foreign currency accounts locally to bring foreign currency deposits into unit trusts without having to open a Securities Investment Account (SIA).

### 3.2 Widen and Broaden Investor Base (Demand Side)

#### 3.2.1 Facilitate the Development of Unit Trusts Industry

The SEC has continuously supported the Unit Trust industry as the foremost vehicle for unsophisticated investors to access the stock market and the capital market as a whole. Developing the Unit Trust industry and creating awareness of its benefits among the general public is very important to ensure a wider segment of society can reap the benefits and rewards of investing in the stock market in the medium to long term.

- Enabled following tax incentives via the Budget 2011;
  - Exempted turnover of unit trusts from Economic Services Charge;
  - Exempted income derived by Unit Trusts from investments in listed debentures and equity from income tax.
- Facilitated the introduction of an IPO preferential share allocation mechanism for retail investors and Unit Trusts.
- Relaxation provided under Gazette No. 1704/18 (20th May 2011) enabling private funds to have a maximum 20% exposure to listed securities applicable to unit trusts as well.
- Made representations to the Treasury and enabled unit trust investments to be made without a SIA account to attract mainly foreign individual funds. Developed a modality to facilitate same in association with the Unit Trust Association (UTA)
- Facilitated the formulation of a comprehensive marketing campaign for both UT industry and overall equity market. (Figure 34)

# Strategic Review of the Capital Market Master Plan 2006-2015

**FIGURE 34: PERFORMANCE OF THE UNIT TRUST INDUSTRY**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Number of Approved Unit Trust Funds	78	79	74	62	48	33	22	18	17	14
Net Asset Value of Unit Trusts (Rs. Mn. approx.)	103,890	129,844	127,356	54,304	31,062	24,059	22,228	9,952	6,780	6,296
Number of Unit Holders	41,154	38,140	32,619	29,648	27,952	26,636	24,649	23,117	22,685	23,191
Number of Units Issued (No. Mn. approx.)	7,142	8,812	9,772	4,134	2,251	1,506	1,159	565	638	469

Source: Regulatory submissions by unit trust managing companies

### 3.2.2 Other Initiatives Facilitated to Widen and Broaden Investor Base

- Facilitated the introduction of an IPO preferential share allocation mechanism for retail investors (40%) and Unit Trusts (10%) - (SEC/LEG/11/3/36 and SEC/LEG/11/09/27).
- To address the investment restrictions placed on Private Funds as per the Gazette notification No.1599/13, a proposal was made to the Ministry of Finance (MoF) to allow a maximum 20% exposure to listed securities. The Proposal was approved and the Gazette issued under No. 1704/18 (20th May 2011) enabled such funds to have a maximum 20% exposure to listed securities. The relaxation is applicable to Unit Trusts as well.
- Made representations and enabled BOC Pension Fund to increase exposure to the capital market from 0% to 20%.
- Worked with MSCI to gather data on the MSCI market classification framework, the MSCI Emerging Markets and MSCI Frontier Market Index methodologies, MSCI country classification for market liquidity, MSCI Market accessibility assessment ranking for Sri Lanka and on the Sri Lankan stocks currently classified under the MSCI Frontier Markets Index. An analysis was conducted on the same along with benefits of the Sri Lankan stock market being elevated to Emerging Market status along with other possible measures that could be implemented to attract foreign portfolio investments into the country.
- Enabled exemptions on stamp duty for transferring of share portfolios to obtain a margin trading facility by investors from 1st January 2013 via the Budget 2013.

- Conducted following foreign investor forums

- Investor forum in Singapore - 29th November 2009
- Investor forum in London - 3rd June 2011

Following investor forums were organised in partnership with the CSE;

- The Mumbai investor forum - 21st Feb 2013
- Two investor forums in Dubai, United Arab Emirates (UAE)
  - Investor forum for Sri Lankan Diaspora - 1st June 2013
  - Investor forum for Fund Managers based in Dubai - 3rd June 2013
- The Hong Kong investor forum - 9th September 2013
- Singapore investor forum - 21st January 2014
- The London investor forum - 30th May 2014
- The New York investor forum - 4th September 2014
- The SEC in collaboration with the CSE hosted the Capital Market Conference on 9th October 2014.

### 4. Facilitate Improvements to the Market Microstructure at CSE

- Carried out research on transaction costs of other jurisdictions and facilitated the reduction of share transaction costs at the CSE. The table below provides more information on the breakdown of the transaction fee before and after the revision (Figure 35).

**FIGURE 35: BREAKDOWN OF THE TRANSACTION FEE STRUCTURE BEFORE AND AFTER THE REVISION**

Transaction Cost Bands	Existing structure up to 30/06/2010		New structure after 01/07/2010	
	Up to Rs.1Mn %	From Rs.1Mn upto Rs.100Mn %	Up to Rs.50Mn %	
Brokerage Fees	1.000	0.800	0.640	
SEC Cess	0.090	0.090	0.072	
CSE Fees	0.105	0.105	0.084	
CDS Fees	0.030	0.030	0.024	
GoSL Levy	0.200	0.200	0.200	
Total %	1.425	1.225	1.020	

- Approval of changes to waive the minimum brokerage & CDS fees and fees charged from Custodian Banks.
- Made continuous representations to the Treasury and relevant authorities on a continuous basis, not to impose Capital Gains Tax (CGT) on listed securities, with justifications. The table below provides a comparison of CGT applicable in selected Jurisdictions. (Figure 36)

**FIGURE 36: COMPARISON OF CAPITAL GAINS TAX APPLICABLE IN SELECTED JURISDICTIONS**

Country	Tax Rate
1. Malaysia • Malaysia does not tax capital gains from the sales of investments or capital assets other than those related to land and building	0.0%
2. Thailand <sup>1</sup> • If an individual earns capital gain from a security transaction in the Stock Exchange of Thailand, it is exempted for tax purposes	0.0%
3. Hong Kong • Hong Kong does not tax capital gains or dividends	0.0%
4. Singapore • Gains from the sale of a property, shares and financial instruments in Singapore are generally not taxable	0.0%
5. Sri Lanka	0.0%
6. Indonesia <sup>2</sup> • Capital gains are taxable as ordinary income, and capital losses are deductible • Sale of shares listed on the Indonesian Stock Exchange	0.1%

<sup>1</sup> Generally, there is no separate capital gains tax in Thailand and it is treated as an ordinary income and taxed accordingly for corporate tax income purposes.  
Capital gains paid to overseas recipients are subject to a 15% withholding tax, although an exemption may apply to gains derived by investors from certain tax treaty countries.  
Source: Deloitte report on Taxation and Investment in Thailand - 2015\

<sup>2</sup> Founders' shares are also subject to an additional final tax on 0.5% on the share value at the time of an Initial Public Offering (IPO) regardless of whether the shares are held or sold following the offering.  
Source: Deloitte report on Taxation and Investment in Indonesia - 2014

# Strategic Review of the Capital Market Master Plan 2006-2015

Country	Tax Rate
7. Philippines <sup>3</sup>	0.5%
8. India <sup>4</sup> <ul style="list-style-type: none"> <li>Short term capital gains (STCG) tax applicable under section 111A</li> <li>Long term capital gains (LTCG) are not taxed if the shares are sold through a recognized stock exchanges and Securities Transaction Tax is paid on the sale</li> </ul>	15.0%
9. United States of America <sup>5</sup> <ul style="list-style-type: none"> <li>Short-term capital gains</li> <li>Long-term capital gains <ul style="list-style-type: none"> <li>If individual falls between the 10% or 15% tax bracket</li> <li>Citizens who fall into the 39.6% income tax bracket</li> <li>All others</li> </ul> </li> </ul>	As per the applicable ordinary tax rate (ranges from 10% to 39.6%) 0.0% 20% 15%

### 3 The sale or transfer of shares that are listed and traded through the stock exchange:

Stock Transaction Tax (STT) is imposed at the rate of 1/2 of 1% of the gross selling price.

Beginning 1 January 2013, however, the STT will not apply to transfer of shares of listed companies which are not compliant with the minimum public ownership (MPO) requirement prescribed by the Securities and Exchange Commission or the Philippine Stock Exchange (PSE).

Under Revenue Regulations (RR) No. 16-2012, the sale of listed shares of noncompliant companies will be subject to the 5%-10% capital gains tax. The rate of 5% applies to the first P100,000 (net capital gain), while the 10% applies to the amount in excess of the same.

Source: P&A Grant Thornton press room, "Stock transaction tax or capital gains tax"

### 4 In India, equities are considered as long term capital if the holding period is 1 year or more. LTCGs are not taxed if the shares are sold through recognized stock exchanges and Securities Transaction Tax (STT) is paid on the sale.

STCG covered under section 111A:

STCG arising on sale of equity shares listed in a recognised stock exchange, which is chargeable to STT

STCG arising on sale of units of equity oriented mutual fund sold through a recognised stock exchange which is chargeable to STT

STCG arising on sale of units of a business trust

Source: Income Tax Department India

### 5 Applicable capital gains tax rates

Ordinary income tax rate	Long-term capital gain rate	Short-term capital gain rate
10%-15%	0%	10%-15%
28%	15%	28%
33%	15%	33%
35%	15%	35%
39.6%	20%	39.6%

#### Capital losses

If an individual or corporation realizes both capital gains and capital losses in the same year, the losses (except losses from the sale of personal property including a residence) cancel out the gains in the calculation of taxable gains.

For individuals, if losses exceed gains in a year, the losses can be claimed as a tax deduction against ordinary income, up to \$3,000 per year (\$1,500 in the case of a married individual filing separately).

Any additional net capital loss of the individual can be "carried over" into the next year and "netted out" against gains for that year.

Corporations are permitted to carry any size capital loss back three years to off-set capital gains from prior years.

Source: Internal Revenue Service - USA

## 5. Strategic Continuity:

- The Capital Market Strategy 2016 - 2020 was formulated as a blueprint mapping the future direction of the Sri Lankan capital market.
- Facilitated the completion of a Country Review of Securities Regulation by the IOSCO.
- Facilitating and coordinating the Capital Market Development Programme (CMDP) by the Asian Development Bank.
- Facilitating and Coordinating the Financial Sector Modernisation Project (FSMP) by The World Bank.

## 6. Other

- Enabled a 100% depreciation allowance on capital items such as IT infrastructure and branch networking for stock brokering firms via budget 2013.
- Mandated the issuance of dematerialised securities in CDS.
- Established Financial Services Academy as an institute to educate the public and train market participants which was later made the capital market education and training division of the SEC.
- Established Jathika Isura under the Treasury to carry out investment banking activities for the Government.

## ONGOING - KEY DEVELOPMENT/POLICY INITIATIVES

### 1. Facilitate the Implementation of a CCP Mechanism

- The SEC recognised this initiative as a priority project and engaged in fast tracking the implementation through setting up of a Committee made up of senior representation from the SEC (Two Commission Members) and the CSE (Two Board Directors) with CSE as the executing agency, in 2011.
- Through the initiatives of the Committee, CSE Board appointed National Stock Exchange (NSE) for consultancy services and project implementation.

- However, the project did not proceed as planned.
- Subsequently, the scope of the project was changed and it was decided to establish an integrated CCP settlement mechanism for all the financial transaction including government securities and corporate securities by the CBSL, SEC and CSE in 2013.
- During the latter part of Phase One, the CBSL opted out from the project and SEC and CSE decided to drive the project forward considering only corporate securities.
- In facilitating the implementation of a CCP, the SEC secured financial and technical assistance under the Financial Sector Modernisation Project by The World Bank.
- With the new developments, a sequential approach is to be adopted in the implementation of the CCP, giving due consideration to the post-trade risk profile and the need for a tailored approach aligning with the singularities of the local market. Priority would be given to the implementation of a DvP settlement system and a VAR based margin system aimed at mitigating several extant post-trade risks.

### 2. Facilitate the Implementation of a BBO & OMS

- RFP pertaining to BBO and OMS system was developed jointly by SEC, CSE and Stock Broking Firms in 2013 to call for interested system vendors for the purpose.
- Subsequent to a comprehensive evaluation process by the appointed technical and financial evaluation committees, four vendors were selected for the project.
- By the deadline given, majority of Stock Broking Firms completed system installations.
- Upon completion of the compliance audits on all the Broking Firms to assess the system compatibility with RFP requirements, the audit report was finalised and signed off by the audit subcommittee. Presently, the SEC and CSE are disbursing funds to the Broking Firms as per the agreed upon terms and conditions.



# Strategic Review of the Capital Market Master Plan 2006-2015

## 3. Facilitate the Demutualisation of the CSE

Tasks completed in-house:

- Carried out research on Demutualisation experience in other jurisdictions.
- Developed in-house modalities covering a broad spectrum of relevant topics pertaining to ownership, governance and treatment of existing reserves.
- Drafted EOI together with CSE to call for consultancy services.
- Upon conducting a comprehensive evaluation process, the CSE commissioned E & Y as the consultant for the purpose. However, the final report submitted by the Consultancy firm was not accepted by the SEC Commission.

Presently, the SEC has secured technical assistance to the project under the CMDP by ADB and following tasks were completed with the ADB consultancy inputs:

- Subsequent to a several consultative meeting with CSE Member Firms, CSE and SEC, proposed a value allocation model between the government and CSE Member Firms which was approved by the Commission.
- Proposed amendments to the draft Demutualisation Bill along with other relevant considerations.
- Presented and deliberated the key recommendations on the demutualisation process with CSE Member Firms and in response CSE Member Firms forwarded their observations and recommendations. Presently, the same are being reviewed by the Consultants.
- Further deliberations are scheduled between the SEC and CSE Member Firms to finalise the modality.

## ADDITIONAL INFORMATION

### Managing Companies of Unit Trusts

Licensed as at 31st December 2016

#### 1 Ceylon Asset Management Company Limited

1. Ceylon Index Fund
2. Ceylon Income Fund
3. Ceylon Tourism Fund
4. Ceylon Financial Sector Fund
5. Ceylon IPO Fund
6. Ceylon MTI Shariah Fund
7. Ceylon Global Compact sustainability Fund
8. Ceylon Gilt-Edged Fund
9. Ceylon Treasury Bill Fund
10. Ceylon Dollar Bond Fund
11. Ceylon money Market Fund

#### 2 Com Trust Asset Management (Private) Limited

1. Comtrust Equity Fund
2. Comtrust Gilt Edged Fund
3. Crescent i Fund
4. Comtrust money market Fund
5. Comtrust ADL Mudarabah Fund

#### 3 NDB Wealth Management Limited

1. NDB Wealth Growth and Income Fund
2. NDB Wealth Gilt Edged Fund
3. NDB Wealth Income Fund
4. NDB Wealth Growth Fund
5. NDB Wealth Money Fund
6. NDB Wealth Money Plus Fund
7. Short Term LKR Treasury Fund
8. NDB Wealth Islamic Money Plus Fund
9. NDB Wealth Income Plus Fund

#### 4 Ceybank Asset Management (Pvt) Limited

1. Ceybank Unit Trust
2. Ceybank Century Growth Fund
3. Ceybank Savings Plus Money Market Fund
4. Ceybank Surakum
5. Ceybank Gilt Edged Fund (B series)
6. Ceybank Gilt Edged Fund (A series)

#### 5 National Asset Management Limited

1. NAMAL Income Fund
2. NAMAL Money Market Fund
3. National Equity Fund
4. NAMAL Growth Fund
5. NAMAL Acuity Value Fund (closed end)
6. NAMAL IPO Fund
7. NAMAL High Yield Fund
8. NAMAL Gilt Fund

#### 6 First Capital Asset Management Limited

1. First Capital Wealth Fund
2. First Capital Fixed Income Fund
3. First Capital Money market Fund
4. First capital Gilt Edged Fund
5. First Capital Equity Fund

#### 7 J B Financial (Pvt) Ltd

1. J B Vantage Money Market Fund
2. J B Vantage value Equity Fund
3. J B Vantage Short term gilt Fund

#### 8 Guardian Acuity Asset Management Ltd

1. Guardian Acuity Money Market Fund
2. Guardian Acuity Equity Fund
3. Guardian Acuity Money Market Gilt Fund

## Additional Information

### **9 Candor Asset Management (Pvt) Ltd**

1. Candor Capital Growth Fund
2. Amana Candor Shariah Balanced Fund
3. Candor Money Market Fund
4. Amana Candor Shariah Income Fund
5. Candor Opportunities Fund

### **10 Asset Trust Management (Pvt) Ltd**

1. Astrue Gilt edged Fund
2. Astrue Money market Fund
3. Astrue Alpha Fund

### **11 Capital Alliance Investments Ltd**

1. Capital Alliance High Yield Fund
2. Capital Alliance Gilt Fund
3. Capital Alliance Quantitative Equity Fund
4. Capital Alliance Corporate Treasury Fund
5. Capital Alliance Investment Grade Fund
6. Capital Alliance Income Fund
7. Capital Alliance Gilt Trading Fund
8. Capital Alliance Medium Risk Debt Fund
9. Capital Alliance Corporate Debt and Gilt Trading Fund
10. Capital Alliance Balanced Fund
11. Capital Alliance Gilt money market Fund

### **12 Arpico Ataraxia Asset Management (Private) Limited**

1. Arpico Ataraxia Cash Management Trust Fund
2. Arpico Ataraxia Repo Fund
3. Arpico Ataraxia S & P- SL 20 Index Fund
4. Arpico Ataraxia Sri Lanka Bond Fund-Gilt edged Fund

### **13 Investrust Wealth Management Ltd**

1. Investrust Income Fund
2. Investrust Growth Fund
3. Investrust Gilt-edged Fund
4. Investrust Money Market Fund

### **14 Assetline Capital (Pvt) Ltd**

1. Assetline Income Plus Growth Fund
2. Assetline Gilt-edged Fund
3. Assetline Income Fund

## Registered Market Intermediaries

### Registered as at 31st December 2016

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	X		
ADL Asset Management Limited		X	
ADL Equities Ltd	X		
Amana Asset Limited		X	
Arpico Ataraxia Asset Management (Pvt) Ltd		X	
Asha Financial Services Limited	X		
Asset Trust Management (Pvt) Ltd		X	
Assetline Leasing Company Limited	X		
Assetline Capital (Private) Limited		X	
Bansei Securities Capital (Pvt) Limited	X		
Bank of Ceylon		X	X
Bartleet Asset Management (Pvt) Ltd		X	
Candor Asset Management (Private) Limited		X	
Candor Capital (Private) Limited	X		
Capital Alliance Investments Limited		X	
Capital Trust Credit (Private) Limited	X		
Capital Trust Wealth Management (Pvt) Ltd		X	
Ceybank Asset Management Ltd		X	
Ceylon Guardian Investment Trust PLC			X
Ceylon Investment PLC			X
Citizen Development Business Finance PLC	X		
Commercial Bank of Ceylon PLC	X		X
Colombo Trust Finance PLC	X		
Comtrust Asset Management (Pvt) Ltd		X	
DFCC Bank PLC	X		
First Capital Asset Management Limited		X	
First Capital Markets Limited	X		
Summit Finance PLC	X		
Guardian Acuity Asset Management Limited		X	
Guardian Fund Management Limited		X	
Hatton National Bank PLC	X		X
Innovest Investments (Pvt ) Ltd		X	
J B Credit (Pvt ) Ltd	X		
J B Financial (Private) Limited		X	

## Additional Information

Company	Margin Provider	Investment Manager	Underwriter
Kenanga Investment Corporation Ltd		X	
L B Finance PLC	X		
LOLC Finance PLC	X		
Lynear Wealth Management (Pvt) Ltd		X	
Merchant Bank of Sri Lanka & Finance PLC	X	X	X
Nation Lanka Capital Ltd	X		
National Asset Management Ltd		X	
National Development Bank PLC	X		
National Wealth Corporation Limited		X	
NDB Capital Holdings Limited			X
NDB Wealth Management Ltd		X	
NWS Management Services (Pvt) Ltd		X	
Orion Fund Management (Private) Limited		X	
Orient Finance PLC	X		
Pan Asia Banking Corporation PLC	X		
People's Leasing and Finance PLC	X		
People's Merchant Finance PLC	X		
Richard Peiris Financial Services (Pvt) Ltd	X		
Sampath Bank PLC	X		X
Seylan Bank PLC	X		
Softlogic Capital PLC		X	
TKS Finance Ltd	X		
Union Bank of Colombo PLC	X		
Waldock Mackenzie Limited	X	X	
Trillion Investments Limited		X	

### 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 2016

#### Company

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
First Capital Equities (Private) Limited
First Capital Markets Limited- (Debt securities)
First Guardian Equities (Private) Limited
Enterprise Ceylon Capital (Pvt) Ltd
JB Securities (Private) Limited
John Keells Stock Brokers (Private) Limited
Lanka Securities (Private) Limited
LOLC Securities Limited
Nation Lanka Equities (Private) Limited
NDB Securities (Private) Limited
Navara Securities (Pvt) Ltd
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

#### Company

Wealth Trust Securities Ltd (Debt Securities)
NSB Fund Management Co. Ltd (Debt Securities)
Acuity Securities Ltd (Debt Securities)
Perpetual Treasuries Ltd (Debt Securities)

### Stock Dealers licensed as at 31st December 2016

#### Company

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



## FACT SHEET

Year	2011	2012	2013	2014	2015	2016
Annual Turnover (Rs Mn) Equity	546,255.80	213,827.2	200,467.8	340,917.1	253,251.0	<b>176,935</b>
Domestic (Rs Mn)	486,959.40	160,543.3	128,227.6	246,796.8	166,151.5	<b>102,544</b>
Foreign (Rs Mn)	59,296.40	53,283.9	72,240.2	94,120.3	87,099.5	<b>74,391</b>
Market Days (No)	239	242	242	241	239	<b>240</b>
Daily Average Turnover (Rs Mn) Equity	2,285.60	883.6	828.4	1,414.6	1,059.6	<b>737.2</b>
Shares traded (No Mn) Equity	24,543.70	9,691.2	9,054.2	16,722	9,414	<b>7,196</b>
Domestic (No Mn)	23,151.60	8,289.6	7,861.6	14,726	7,693	<b>5,776</b>
Foreign (No Mn)	1,392.10	1,401.7	1,192.6	1,995	1,721	<b>1,420</b>
Trades (No) Equity	4,579,352	1,857,384	1,421,303	1,982,709	1,506,790	<b>1,056,849</b>
Domestic (No)	4,463,404	1,796,868	1,355,380	1,899,569	1,431,750	<b>1,002,476</b>
Foreign (No)	115,948	60,516	65,923	83,140	75,040	<b>54,373</b>
New Listing (No)	32	17	2	7	5	<b>4</b>
Delisting (No)	0	2	1	3	3	<b>2</b>
Companies Listed	272	287	289	294	294	<b>295</b>
Companies Traded	265	280	278	284	278	<b>240</b>
Market Capitalization (Rs Bn)	2,213.90	2,167.6	2,459.9	3,104.9	2,938.0	<b>2,745.41</b>
Market PER year end (Times)	15.8	15.9	15.9	19.7	18.0	<b>12.37</b>
Turnover to Market Capitalization (%)	24.7	9.8	8.7	12.3	8.4	<b>6.2</b>
Dividend Yield Year End (%)	1.8	2.4	2.9	2.1	2.18	<b>2.75</b>
Price to Book Value Year End (Times)	2	2.1	2	2.2	1.99	<b>1.42</b>
Market Cap. As a % of GDP	33.8	28.6	32.4	31.0	30	<b>24.5%</b>

### Price Indices

All Share Price Index (ASPI)	6,074.40	5,643.0	5,912.80	7,299.0	6894.5	<b>6,228.26</b>
y-o-y Change %	(8.5)	(7.1)	4.8	23.4	(5.5)	<b>(9.7)</b>
Milanka Price Index (MPI)	5,229.20	5,119.1	-	-	-	<b>-</b>
y-o-y Change %	(25.9)	(2.1)	-	-	-	<b>-</b>
S&P Sri Lanka 20		3085.3	3,263.90	4,089.1	3,625.7	<b>3,496.44</b>
y-o-y Change %			5.8	25.3	(11.3)	<b>(3.6)</b>

### Total Return Indices

Total Return Index on ASPI (ASTRI)	7,362.83	7037.3	7,584.40	9,579.2	9,079.9	<b>8,232.66</b>
y-o-y Change %	(6.79)	(4.4)	7.8	26.3	(5.2)	<b>(9.3)</b>
Total Return Index on MPI (MTRI)	6,393.00	6399.4	-	-	-	<b>-</b>
y-o-y Change %	(24.63)	0.1	-	-	-	<b>-</b>
Total Return Index on S&P Sri Lanka 20 ( S&P Sri Lanka 20TRI)		3,780.4	4,132.4	5,331.1	4,861.5	<b>4,843.17</b>
y-o-y Change %			9.3	29.0	(8.8)	<b>(0.4)</b>

Year	2011	2012	2013	2014	2015	2016
<b>Non-National Activity</b>						
Annual Turnover (Rs Mn)	59,296.40	53,283.9	72,240.20	94,120.3	87,099.50	<b>74,391</b>
Purchases (Rs. Mn.)	49,776.80	72,614.2	83,607.00	104,689.8	84,414.56	<b>74,583</b>
Sales (Rs. Mn.)	68,816.00	33,953.6	60,873.30	83,550.8	89,784.44	<b>74,199</b>
Net Foreign Flow	(19,039.20)	38,660.7	22,733.70	21,139.0	(5,369.9)	<b>383.5</b>
Shares Traded (No. Mn.)	1,392.11	1,401.7	1,192.60	1,995	1,721.50	<b>1,420</b>
Purchases (No. Mn.)	1,186.80	1,520.6	1,282.50	2,381	1,730.72	<b>1,572</b>
Sales (No. Mn.)	1,597.42	1,282.7	1,102.6	1,610	1,712.27	<b>1,267</b>
Trades	115,948	60,516	65,923.0	83,140	75,040	<b>54,373</b>
Purchases (No.)	112,246	71,944	77,511.0	94,752	65,932	<b>51,656</b>
Sales (No.)	119,651	49,088	54,335.0	71,529	84,149	<b>57,091</b>
<b>Debt Market</b>						
<b>Corporate Debt</b>						
Turnover (Rs 000)	2,690,664.40	75,717.1	2,229,221.3	7,139,730.4	4,714,012.7	<b>2,932,154.0</b>
No of Trades	62	39	173	401	220	<b>291</b>
No of Debentured Traded (000)	25,861	740.4	19,998.8	56,909	42,201	<b>28,335</b>
Market Cap (Mn)		46,311.0	N/A	N/A	N/A	<b>N/A</b>
<b>Government Debt</b>						
Turnover (Rs 000)	28,356.80	6,128.0				-
No of Trades	7	2				-
No of Debentured Traded (000)	28,912	6,743.6				-
<b>Unit Trusts</b>						
Net Asset Value (NAV)(Rs. Mn)	24,059	31,062	54,304	127,356	129,844	<b>103,890</b>
Unit Holders (No.)	26,636	27,952	29,648	32,619	38,140	<b>41,154</b>
Units Issued (No. 000)	1,506	2,251	4,134	9,772	8,812	<b>7,142</b>
Investment in Equity (Rs. Mn.)	9,555	8,944	9,453	14,591	14,376	<b>13,786</b>
Investment in Treasury Bills (Rs.Mn)	10,326	5,449	17,825	60,897	28,294	<b>49,299</b>
Investment in other Instruments **(Rs. Mn)	4,186	16,596	27,000	52,202	87,272	<b>40,553</b>

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

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



# FINANCIAL STATEMENTS

## SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

Auditor General's Report .....	71
Statement of Financial Position .....	73
Statement of Financial Performance .....	74
Statement of Changes In Reserves .....	75
Cash Flow Statement - SEC .....	76
Cash Flow Statement - CESS Fund .....	77
Cash Flow Statement - Compensation Fund .....	78
Accounting Policies .....	79
Notes to the Financial Statements .....	81

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

# AUDITOR GENERAL'S REPORT



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



මගේ අංකය  
எனது இல. }  
My No. }

BAF/H/SEC/1/16/3

ඔබේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி }  
Date }

23 May 2017

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 2016

The audit of financial statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2016 comprising the Statement of Financial Position as at 31 December 2016 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 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.

# Auditor General's Report



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සමස්ත පුනරායෝජන අමුණි විකාශන  
Auditor General's Department

## 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 2016, 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.

**H.M. Gamini Wijesingha**  
Auditor General

## SECURITIES &amp; EXCHANGE COMMISSION OF SRI LANKA

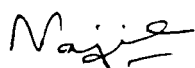
**STATEMENT OF FINANCIAL POSITION**

AS AT 31ST DECEMBER 2016

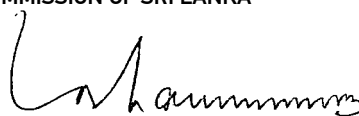
	Note	2016 Rs.	2015 Rs.
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, Plant & Equipment	1	69,919,526	54,187,874
Cess Fund	2	1,441,752,854	432,259,118
<b>CURRENT ASSETS</b>			
Inventories	4	1,318,888	1,077,896
Receivables	5	3,379,905	3,946,567
Cess Fund	2	1,168,535,683	2,105,302,782
Compensation Fund	3	344,214,780	312,056,920
Deposits, Advance and Prepayments	6	8,847,871	8,414,873
Cash & Cash Equivalents	7	54,992,098	55,140,698
<b>TOTAL ASSETS</b>		<b>3,092,961,605</b>	<b>2,972,386,728</b>
<b>FUNDS AND LIABILITIES</b>			
<b>FUNDS EMPLOYED AND RESERVES</b>			
Accumulated Fund	8	3,412,077	15,098,513
Cess Fund	9	2,610,288,537	2,537,561,900
Compensation Fund	10	344,214,780	312,056,920
<b>NON CURRENT LIABILITIES</b>			
Grant - Transfers from Cess Fund for Capital Expenditure	11	63,263,165	49,850,270
Retirement Benefit Obligation	12	29,895,636	27,937,943
<b>CURRENT LIABILITIES</b>			
Creditors and Accruals	13	38,324,250	25,884,693
Receipts in Advance		3,563,160	3,996,489
<b>TOTAL FUNDS AND LIABILITIES</b>		<b>3,092,961,605</b>	<b>2,972,386,728</b>

The Accounting Policies and Notes appearing on pages 89 to 99 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



**Thilak Karunaratne**  
Chairman  
Securities and Exchange Commission of Sri Lanka



SECURITIES &amp; EXCHANGE COMMISSION OF SRI LANKA

**STATEMENT OF FINANCIAL PERFORMANCE**

FOR THE YEAR ENDED 31ST DECEMBER 2016

	Note	2016 Rs.	2015 Rs.
<b>INCOME</b>			
License Fees		3,889,963	4,229,573
Administration Levy		2,971,778	2,318,683
Educational Programmes		5,048,349	5,809,217
Sale of Publications		2,250	25,443
Sundry Income		96,425	5,982
Profit/(Loss) on Disposal of Fixed Assets		4,617,271	(53,180)
Recognition of Grants	11	14,945,046	15,782,250
		<b>31,571,082</b>	28,117,968
<b>EXPENDITURE</b>			
Personnel Costs	14	(179,297,580)	(178,614,001)
Administration & Establishment Expenses	15	(141,457,656)	(115,651,572)
Capital Market Development Expenses	16	(42,063,236)	(55,265,440)
Finance Charges	17	(31,105)	(53,662)
<b>Total Expenditure</b>		<b>(362,849,577)</b>	(349,584,675)
Excess Expenditure over Income for the year		(331,278,495)	(321,466,707)
Transfers from Cess Fund to meet Operational Expenses		369,592,059	353,403,417
<b>Surplus/(Deficit) for the year</b>		<b>38,313,564</b>	31,936,710

The Accounting Policies and Notes appearing on pages 89 to 99 form an integral part of the financial statements.

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

## STATEMENT OF CHANGES IN RESERVES

FOR THE YEAR ENDED 31ST DECEMBER 2016

	Reserves Rs.	Accumulated Fund Rs.	Total Rs.
<b>Balance as at 1st January 2015</b>	-	(16,838,197)	(16,838,197)
	-	(16,838,197)	(16,838,197)
Excess Expenditure over Income for the year	-	(321,466,707)	(321,466,707)
Fund Transferred from Cess Fund	-	353,403,417	353,403,417
Surplus/(Deficit) for the Year	-	31,936,710	31,936,710
<b>Balance as at 31st December 2015</b>		15,098,513	15,098,513
<b>Balance as at 1st January 2016</b>	-	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)
Funds Transferred from Cess Fund	-	369,592,059	369,592,059
Surplus/(Deficit) for the year	-	38,313,564	38,313,564
<b>Balance as at 31st December 2016</b>	-	3,412,077	3,412,077

The Accounting Policies and Notes appearing on pages 89 to 99 form an integral part of the financial statements.

## SECURITIES &amp; EXCHANGE COMMISSION OF SRI LANKA

**CASH FLOW STATEMENT**

FOR THE YEAR ENDED 31ST DECEMBER 2016

	Note	2016 Rs.	2015 Rs.
<b>Cash Flows from Operating Activities</b>			
Net Increase/(Decrease) after transfers from Cess Fund		<b>38,313,564</b>	31,936,710
<b>Adjustment for</b>			
Depreciation	1	<b>14,945,046</b>	15,782,250
(Profit)/Loss on disposal of Property, Plant & Equipment		<b>(4,617,271)</b>	53,180
Recognition of Grant	11	<b>(14,945,046)</b>	(15,782,250)
Provision for Gratuity	12	<b>3,704,311</b>	5,017,769
<b>Net Increase/(Decrease) before working capital changes</b>		<b>37,400,604</b>	37,007,659
<b>Change of Working Capital</b>			
(Increase)/Decrease of Stocks		<b>(240,992)</b>	(93,580)
(Increase)/ Decrease of Receivable		<b>566,662</b>	1,485,981
(Increase)/Decrease of Deposits Advances & Prepayments		<b>(432,998)</b>	(2,204,224)
Increase/(Decrease) of Receipt in Advance		<b>(433,329)</b>	(402,327)
Increase/(Decrease) of Creditors & Accruals		<b>12,439,557</b>	(245,270)
		<b>11,898,900</b>	(1,459,420)
<b>Cash generated from Operating Activities</b>		<b>49,299,504</b>	35,548,239
Gratuity paid during the year		<b>(1,746,618)</b>	(226,005)
<b>Net Cash Inflow/(Outflow) from Operating Activities</b>		<b>47,552,886</b>	35,322,234
<b>Cash Flows into Investing Activities</b>			
Purchase of Property Plant and Equipment	1	<b>(30,921,479)</b>	(16,956,750)
Funds Transferred to Cess Fund		<b>(50,000,000)</b>	-
Proceeds from Sale of Property Plant & Equipment		<b>4,862,052</b>	13,049
<b>Net Cash Inflow/(Outflow) from Investing Activities</b>		<b>(76,059,427)</b>	(16,943,701)
<b>Cash Flows from Financing Activities</b>			
Capital transfer from Cess Fund	11	<b>28,357,941</b>	16,956,750
<b>Net Cash Inflow/(Outflow) from Financing Activities</b>		<b>28,357,941</b>	16,956,750
Net Increase/ (Decrease) in Cash and Cash Equivalents		<b>(148,600)</b>	35,335,283
Cash and Cash Equivalents at beginning of period (Note A)		<b>55,140,698</b>	19,805,415
<b>Cash and Cash Equivalents at end of period (Note B)</b>		<b>54,992,098</b>	55,140,698
<b>Note (A)</b>			
<b>Cash and Cash Equivalents at beginning of period</b>			
Cash at Bank		<b>55,100,698</b>	19,765,415
Cash in Hand		<b>40,000</b>	40,000
		<b>55,140,698</b>	19,805,415
<b>Note (B)</b>			
<b>Cash and Cash Equivalents at End of period</b>			
Cash at Bank	7	<b>54,952,098</b>	55,100,698
Cash in Hand	7	<b>40,000</b>	40,000
		<b>54,992,098</b>	55,140,698

The Accounting Policies and Notes appearing on pages 89 to 99 form an integral part of the financial statements.

CESS FUND

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2016

	2016	2015
	Rs.	Rs.
<b>Cash Flows from Operating Activities</b>		
Net Increase/ (Decrease) of Cess Fund	<b>72,726,637</b>	89,823,288
Net Increase/ (Decrease) of before Working Capital Changes	<b>72,726,637</b>	89,823,288
<b>Change of Working Capital</b>		
(Increase)/Decrease of Staff Loans	<b>4,759,759</b>	(5,877,826)
(Increase)/Decrease of Cess Receivable	<b>(1,492,725)</b>	1,105,580
(Increase)/Decrease of Receivable-SEC	<b>208,334</b>	(208,334)
(Increase)/Decrease of Interest Receivable on Treasury Bonds	<b>(31,337,313)</b>	(417,734)
(Increase)/Decrease of Interest Receivable on Fixed Deposits	<b>(10,503,244)</b>	12,119,511
(Increase)/Decrease of Interest Receivable on Treasury Bills	<b>13,639,605</b>	40,356,671
(Increase)/Decrease of Interest Receivable on Repo	<b>6,043,983</b>	(6,043,983)
(Increase)/Decrease of Rent Deposit	<b>(1,722,048)</b>	(2,905,956)
Increase/(Decrease) of Payables	<b>6,011</b>	-
	<b>(20,397,638)</b>	38,127,929
Net Cash Inflow/(Outflow) from Operating Activities	<b>52,328,999</b>	127,951,217
<b>Cash Flows into Investing Activities</b>		
Investment in State Institutions Temporary Surplus Fund	<b>(21,955,312)</b>	(13,644,056)
Investment in Treasury Bonds	<b>(1,012,403,551)</b>	(374,999,395)
Investment in Treasury Bills	<b>344,471,596</b>	612,528,065
Investment in Fixed Deposits	<b>(289,414,947)</b>	568,940,871
Net Cash Inflow/(Outflow) from Investing Activities	<b>(979,302,214)</b>	792,825,485
Net Increase/(Decrease) in Cash and Cash Equivalents	<b>(926,973,215)</b>	920,776,702
Cash and Cash Equivalents at beginning of period (Note C)	<b>927,959,991</b>	7,183,289
<b>Cash and Cash Equivalents at end of period (Note D)</b>	<b>986,776</b>	927,959,991
<b>Note (C)</b>		
<b>Cash and Cash Equivalents at beginning of period</b>		
Investments in Repo	<b>924,691,077</b>	-
Cash at Bank	<b>1,908,914</b>	2,300,000
Overnight-Repo	<b>1,360,000</b>	4,883,289
	<b>927,959,991</b>	7,183,289
<b>Note (D)</b>		
<b>Cash and Cash Equivalents at end of period</b>		
Investments in Repo	-	924,691,077
Cash at Bank	<b>609,776</b>	1,908,914
Overnight-Repo	<b>377,000</b>	1,360,000
	<b>986,776</b>	927,959,991

The Accounting Policies and Notes appearing on pages 89 to 99 form an integral part of the financial statements.

## COMPENSATION FUND

**CASH FLOW STATEMENT**

FOR THE YEAR ENDED 31ST DECEMBER 2016

	2016	2015
	Rs.	Rs.
<b>Cash Flows from Operating Activities</b>		
Net Increase/(Decrease) of Compensation Fund	<b>32,157,860</b>	18,814,821
Net Increase/(Decrease) before Working Capital changes	<b>32,157,860</b>	18,814,821
<b>Change of Working Capital</b>		
(Increase)/Decrease of Interest Receivable on Treasury Bonds	<b>(1,013,548)</b>	-
(Increase)/Decrease of Interest Receivable on Treasury Bills	<b>106,566</b>	2,475,294
(Increase)/Decrease of Interest Receivable on Fixed Deposits	<b>(1,014,933)</b>	665,173
(Increase)/Decrease of Interest Receivable on Repo	<b>99,351</b>	(99,351)
	<b>(1,822,564)</b>	3,041,116
Net Cash Inflow/(Outflow)from Operating Activities	<b>30,335,296</b>	21,855,937
<b>Cash Flows into Investing Activities</b>		
Investment in Treasury Bonds	<b>(148,714,110)</b>	(32,504,729)
Investment in Treasury Bills	<b>3,228,605</b>	149,355,274
Investment in Fixed Deposits	<b>(30,911,152)</b>	7,375,568
Net Cash Inflow/(Outflow)from Investing Activities	<b>(176,396,657)</b>	124,226,113
Net Increase/(Decrease) in Cash and Cash Equivalents	<b>(146,061,361)</b>	146,082,050
Cash and Cash Equivalents at beginning of period (Note E)	<b>146,166,528</b>	84,478
<b>Cash and Cash Equivalents at end of period (Note F)</b>	<b>105,167</b>	146,166,528
<b>Note (E)</b>		
<b>Cash and Cash Equivalents at beginning of period</b>		
Cash at Bank	<b>146,166,528</b>	84,478
	<b>146,166,528</b>	84,478
<b>Note (F)</b>		
<b>Cash and Cash Equivalents at end of period</b>		
Investments in Repo	-	145,946,317
Cash at Bank	<b>105,167</b>	220,211
	<b>105,167</b>	146,166,528

The Accounting Policies and Notes appearing on pages 89 to 99 form an integral part of the financial statements.

SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

## ACCOUNTING POLICIES

### 1. GENERAL ACCOUNTING POLICIES

#### 1.1 STATEMENT OF COMPLIANCE

The Securities and Exchange Commission of Sri Lanka (SEC) a nonprofit 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%
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.



# Accounting Policies

## 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.

## 4.0 STATEMENT OF FINANCIAL PERFORMANCE

### 4.1 REVENUE RECOGNITION

SEC revenue consists of Broker 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.

## 5.0 EXPENDITURE RECOGNITION

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

## 6.0 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.

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

## NOTES TO THE FINANCIAL STATEMENTS

### 1 PROPERTY, PLANT & EQUIPMENT

	Motor Vehicles Rs.	Furniture, Fixtures & Fittings Rs.	Office Equipment (EDP & Others) Rs.	Training Equipment Rs.	Total Rs.
<b>COST</b>					
Balance as at 1st January 2016	42,591,686	30,154,759	93,509,121	3,622,293	169,877,859
Transfers	-	-	12,000	(12,000)	-
Additions during the Year	-	8,873,748	21,962,709	85,022	30,921,479
Disposals during the year	(8,724,000)	-	(1,787,932)	-	(10,511,932)
Balance as at 31st December 2016	33,867,686	39,028,506	113,695,897	3,695,315	190,287,406
<b>ACCUMULATED DEPRECIATION</b>					
Balance as at 1st January 2016	20,568,138	20,902,923	70,903,708	3,315,219	115,689,984
Transfers	-	-	12,000	(12,000)	-
Depreciation Charge for the Year	3,116,743	1,740,408	9,883,295	204,599	14,945,046
Accumulated Depreciation on Disposal of Assets	(8,702,966)	-	(1,564,186)	-	(10,267,152)
Balance as at 31st December 2016	14,981,914	22,643,331	79,234,816	3,507,818	120,367,878
<b>WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2016</b>	18,885,772	16,385,175	34,461,081	187,497	69,919,526
<b>WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2015</b>	22,023,548	9,251,836	22,605,413	307,074	54,187,874
<b>USEFUL LIFE TIME (NO OF YEARS )</b>	10	8	5	5	

## Notes to the Financial Statements

	2016	2015
	Rs.	Rs.
<b>2</b>		
<b>CESS FUND</b>		
<b>NON CURRENT ASSETS</b>		
Staff Loans Receivable	19,908,948	24,540,811
Rent Deposit	34,440,960	32,718,912
Investment in Treasury Bonds	1,387,402,946	374,999,395
	<b>1,441,752,854</b>	432,259,118
<b>CURRENT ASSETS</b>		
Invested in State Institutions Temporary Surplus Fund	255,764,880	233,809,568
Investment in Treasury Bills	-	344,471,596
Investment in Fixed Deposits	834,244,948	544,830,001
	<b>1,090,009,828</b>	1,123,111,165
Staff Loans Receivable within 12 months	5,941,250	6,069,146
Interest Receivable on Fixed Deposits	37,193,463	26,690,219
Interest Receivable on Treasury Bills	-	13,639,605
Interest Receivable on Treasury Bonds	31,755,047	417,734
Interest Receivable on Repo	-	6,043,983
Cess Receivable	2,655,330	1,162,605
Receivable-SEC	-	208,334
Investment in Repo	-	924,691,077
Balance at Bank including Overnight Repo	986,776	3,268,914
	<b>78,531,866</b>	982,191,617
	<b>1,168,541,694</b>	2,105,302,782
<b>TOTAL ASSETS</b>	<b>2,610,294,548</b>	2,537,561,900
<b>LIABILITIES</b>	<b>6,011</b>	-
<b>NET ASSETS</b>	<b>2,610,288,537</b>	2,537,561,900
<b>3</b>		
<b>COMPENSATION FUND</b>		
<b>NON CURRENT ASSETS</b>		
Investment in Treasury Bonds	181,218,839	32,504,729
<b>CURRENT ASSETS</b>		
Investment in Treasury Bills	-	3,228,605
Investment in Fixed Deposits	154,464,810	123,553,658
	<b>154,464,810</b>	126,782,263
Interest Receivable on Treasury Bills	-	106,566
Interest Receivable on Fixed Deposits	7,412,416	6,397,483
Interest Receivable on Treasury Bonds	1,013,548	-
Interest Receivable on Repo	-	99,351
Investment in Repo	-	145,946,317
Balance at Bank	105,167	220,211
	<b>8,531,131</b>	152,769,928
<b>TOTAL ASSETS</b>	<b>344,214,780</b>	312,056,920
<b>LIABILITIES</b>	<b>-</b>	-
<b>NET ASSETS</b>	<b>344,214,780</b>	312,056,920

	2016	2015
	Rs.	Rs.
<b>4 INVENTORIES</b>		
Stock of Stationery, Stamp & EDP Consumables	1,318,888	1,077,896
	<b>1,318,888</b>	1,077,896
<b>5 RECEIVABLES</b>		
Sundry Debtors	514,505	249,567
Institute of Chartered Accountants of Sri Lanka	1,025,400	1,709,000
Festival Advances	1,840,000	1,988,000
	<b>3,379,905</b>	3,946,567
<b>6 DEPOSITS, ADVANCES &amp; PRE-PAYMENTS</b>		
Safe Vault Deposit - Bank of Ceylon	50,984	48,100
Fuel Deposit	60,000	60,000
Deposit for Vehicle Maintenance	500	500
Deposits with Telecom Ltd	17,625	42,625
Deposits with Dialog	9,000	9,000
Frosty-Hot & Cold Dispenser	28,000	28,000
Sponsorship for Higher Studies-University of Colombo	10,000	10,000
The Employers' Federation of Ceylon	62,500	-
Advances to Suppliers	8,609,262	8,216,648
	<b>8,847,871</b>	8,414,873
<b>7 CASH</b>		
Cash at Bank	54,952,098	55,100,698
Cash in Hand	40,000	40,000
	<b>54,992,098</b>	55,140,698
<b>8 ACCUMULATED FUND</b>		
Balance at the beginning of the period	15,098,513	(16,838,197)
Fund Transfer to Cess Fund to invest in Treasury Bills	(50,000,000)	-
Surplus/(Deficit) for the Year	38,313,564	31,936,710
Balance at the end of the Year	<b>3,412,077</b>	15,098,513

## Notes to the Financial Statements

	2016	2015
	Rs.	Rs.
<b>9 CESS FUND</b>		
Balance at the beginning of the Year	2,537,561,900	2,447,738,612
Add:		
Cess Received during the Year	210,645,640	312,320,570
Interest on Treasury Bills	29,604,938	62,752,554
Interest on Fixed Deposits	41,205,932	67,364,938
Interest on Treasury Bonds	95,111,999	8,500,526
Interest on Repo Investments	46,560,492	14,616,103
Interest on Staff Loans	1,189,874	1,180,893
Funds transferred from SEC	50,000,000	-
	<b>3,011,880,775</b>	2,914,474,196
Less:		
Funds transferred to SEC for Operational & Capital Expenditure	397,950,002	370,360,167
Withholding Tax on Interest Income on Fixed Deposits	3,594,368	6,469,039
Bank Charges	47,868	83,090
	<b>401,592,238</b>	376,912,296
<b>Balance at the end of the Year</b>	<b>2,610,288,537</b>	2,537,561,900
<b>10 COMPENSATION FUND</b>		
Balance at the beginning of the Year	312,056,920	293,242,099
Add : Interest on Investment - Treasury Bills	86,433	6,846,886
Interest on Investment - Fixed Deposits	7,593,531	9,313,028
Interest on Investment - Treasury Bonds	11,280,397	1,536,523
Interest on Investment - Repo	13,879,835	1,958,375
	<b>344,897,116</b>	312,896,911
Less: Withholding Tax on Interest on Fixed Deposits	681,424	830,942
Bank Charges	912	9,049
	<b>682,336</b>	839,991
<b>Balance at the end of the Year</b>	<b>344,214,780</b>	312,056,920
<b>11 GRANT- TRANSFERS FROM CESS FUND TOWARDS CAPITAL EXPENDITURE</b>		
Balance at the beginning of the Year	49,850,270	48,675,770
Transfers from Cess Fund towards Capital Expenditure	28,357,941	16,956,750
Recognition of Grants	(14,945,046)	(15,782,250)
<b>Balance at the end of the Year</b>	<b>63,263,165</b>	49,850,270
<b>NOTE</b>		
<b>RECOGNITION OF GRANT</b>		
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%

	2016	2015
	Rs.	Rs.
<b>12 RETIREMENT BENEFIT OBLIGATION</b>		
Balance at the beginning of the Year	27,937,943	23,146,179
Charge for the Year	3,704,311	5,017,769
Gratuity Paid during the Year	(1,746,618)	(226,005)
<b>Balance at the end of the Year</b>	<b>29,895,636</b>	<b>27,937,943</b>
<b>13 CREDITORS AND ACCRUALS</b>		
Telephone, Internet Expenses	637,390	354,124
Electricity	569,578	397,683
Staff Medical Reimbursement	623,874	751,841
Directors' Fuel Reimbursement	144,163	47,562
Leave Encashment	1,880,092	1,995,268
Overtime	438,850	234,423
Foreign Travel	42,500	42,100
External Audit Fees	1,023,340	1,375,000
Internal Audit Fees	189,720	170,340
Professional Charges	650,548	222,584
Public Awareness	3,862,720	15,805,049
Courier Charges	8,984	12,836
Legal Expenses	-	333,871
Capital Market Development	22,216,289	13,500
VAT Payable	98,477	217,896
Stamp Duty Payable	40,450	55,000
Postage and Stamps	525	675
Nation Building Tax	10,981	51,509
Interest Subsidy	6,433	6,720
Staff Training - Local	-	1,500,000
Seminar expenses-CMET	42,300	3,500
Travelling -Local	32,042	35,638
Newspapers and Periodicals	18,850	20,110
Staff Welfare	156,032	137,542
Repair and Maintenance- OE,EDP & Other	-	45,193
Motor Vehicle -Repair & Maintenance	-	450
Office Upkeep	4,006	-
Cost of Advertisement for Disposal of Van	40,000	-
Interns- SEC	8,088	-
Commission Members' Meeting Fees	36,000	-
Rent	275,000	-
Other Payable	28,676	240,685
EPF Payable	1,714,776	1,642,357
Remuneration Payable	960,028	171,237
Office Refurbishment-2016	2,563,538	-
	<b>38,324,250</b>	<b>25,884,693</b>



## Notes to the Financial Statements

	Note	2016 Rs.	2015 Rs.
<b>14 PERSONNEL COSTS</b>			
Staff Salaries		<b>99,672,832</b>	97,408,694
Chairman's Allowance		<b>1,375,000</b>	900,000
Overtime		<b>1,931,559</b>	1,623,776
E P F & E T F		<b>15,740,366</b>	14,999,847
PAYE Tax		<b>30,630</b>	-
Staff Gratuity	12	<b>3,704,311</b>	5,017,769
Special Payment		<b>11,005,788</b>	11,542,665
Leave Encashment		<b>2,086,075</b>	2,107,304
Staff Medical Expenses & Insurance		<b>5,549,545</b>	5,348,296
Personnel Accident Insurance Cover		<b>414,898</b>	843,657
Staff Housing Loan Interest Subsidy		<b>862,602</b>	976,307
Staff Welfare		<b>4,409,927</b>	4,364,174
Executive Subsistence		<b>123,500</b>	110,000
Reimbursement of Fuel - Directors		<b>2,634,909</b>	2,336,680
Directors Vehicle Allowance		<b>6,196,582</b>	8,370,068
Overseas Training and Travelling		<b>17,500,214</b>	16,932,168
Staff Training - Local		<b>2,645,839</b>	2,037,005
Subscription of Membership		<b>804,509</b>	601,934
Sponsorship for Studies *		<b>488,000</b>	645,818
Advertising-Recruitment		<b>1,711,007</b>	1,848,180
Interns Allowance		<b>409,487</b>	599,659
		<b>179,297,580</b>	178,614,001

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

	Note	2016 Rs.	2015 Rs.
<b>15</b>			
<b>ADMINISTRATION &amp; ESTABLISHMENT EXPENSES</b>			
Rent & Car Park Rental		70,984,795	66,530,203
Electricity Charges		4,667,298	4,346,592
Office Upkeep		425,795	184,902
Office Equipment Maintenance & Insurance		8,309,689	3,565,767
Telephone, Internet, E- mail & Web		4,238,093	4,215,377
Motor Vehicle Fuel, Maintenance, License & Insurance		2,086,601	2,081,094
Professional Fees		8,793,186	1,294,332
Member Fees		1,490,000	1,166,400
Meeting Expenses		998,273	690,952
Entertainment		11,577	27,394
Library Books		27,712	34,781
News Papers & Periodicals		275,722	281,287
Printing & Stationery		2,712,112	2,436,343
Travelling Local		958,428	452,165
Insurance- All Risk , Public Liability, Cash in Transit & Fire		327,754	511,985
Postage and Stamp Duty		2,197,228	624,609
Courier Charges		137,793	116,403
Legal Expenses		5,290,220	799,431
Audit Fees -Internal		371,280	344,148
Audit Fees -External		551,040	275,000
General Expenses		50,969	-
Trade Tax		5,000	5,000
VAT Expenses		11,394,457	9,645,525
Nation Building Tax		207,588	239,632
Depreciation	1	14,945,046	15,782,250
		<b>141,457,656</b>	<b>115,651,572</b>
<b>16</b>			
<b>MARKET DEVELOPMENT</b>			
Capital Market and Product Development		10,251,993	25,729,447
Public Awareness Programmes		15,986,660	16,632,983
Seminar Expenses		5,120,457	3,620,888
International Membership Fees - IOSCO		2,870,378	2,283,738
Publicity and Advertising		151,806	37,440
Market Surveillance Cost		7,649,570	6,942,004
Investigation and Inspection Expenses		32,372	18,940
		<b>42,063,236</b>	<b>55,265,440</b>
<b>17</b>			
<b>FINANCE CHARGES</b>			
Bank Charges		31,105	53,662
		<b>31,105</b>	<b>53,662</b>

## Notes to the Financial Statements

### 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 31.12.2016.

### 20. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31.12.2016.

### 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 Members of the Commission held office during the year 2016 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 P Samarasiri, an appointed member
- Mr Lasantha Wickremasinghe, ex-officio member

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

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	Independent Non Executive Director and Chairman of the Audit Committee
	• John Keells Hotels PLC	Independent Non Executive Director and Chairman of the Audit Committee resigned w.e.f. 30.06.2016
Mr S R Attygalle	• Bank of Ceylon	Director w.e.f. 28.04.2016
	• Airport and Aviation Services Ltd	Member
Ms Marina Fernando	-	-
Ms Dilshani Gayathri Wijayawardana	-	-
Mr Rajeev Amarasuriya	• Panthera Leo Consulting Group (Pvt) Ltd	Director
	• Alumni Association, University of Colombo	President
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 w.e.f. November 2016
	• University of Moratuwa Teachers Association	Council Member

Name	Name of Related Institution	Relationship
Mr P Samarasiri	• Institute of Bankers of Sri Lanka	Chairman
	• Credit Information Bureau of Sri Lanka	Chairman
	• Insurance Board of Sri Lanka	Member
	• "Ape Wenuwen Api" Management Board under Ministry of Defence	Member
Mr Lasantha Wickremasinghe	• B R de Silva & Co.	Partner
	• The institute of Chartered Accountants of Sri Lanka	President
	• Sri Lanka Institute of Advanced Technological Education (SLITE)	Member to the Governing Council w.e.f. 1.07.2016
	• Postgraduate Institute of Management (PIM)	Board Member w.e.f. 2.2.2016
	• Api Wenuwen Api Fund	Board of Management
	• Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)	Member of the Board of Management

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



# FINANCIAL STATEMENTS

## SETTLEMENT GUARANTEE FUND

Auditor General's Report .....	91
Statement of Financial Position .....	93
Statement of Financial Performance .....	94
Statement of Changes in Net Assets .....	95
Cash Flow Statement .....	96
Accounting Policies .....	97

SETTLEMENT GUARANTEE FUND

# AUDITOR GENERAL'S REPORT



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



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எனது இல. }  
My No. }

BAF/H/SGF/1/16/4

ඔබේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி }  
Date }

26 May 2017

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 2016

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 2016 comprising the statement of financial position as at 31 December 2016 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 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.



# Auditor General's Report



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 Auditor General's Department

## 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 2016, 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 statement presented, the activities of the Fund for the year ended 31 December 2016 had resulted in a surplus of Rs.59, 400,435 as compared with the corresponding surplus of Rs.36,068,602 for the preceding year thus indicating an increase in the surplus by Rs.23,331,833. 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 objectives 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 during the year under review.

**H.M.Gamini Wijesinghe**  
 Auditor General

## SETTLEMENT GUARANTEE FUND

**STATEMENT OF FINANCIAL POSITION**

AS AT 31ST DECEMBER 2016

	Note	2016 Rs	2015 Rs
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Investments in Treasury Bonds		97,724,650	-
<b>CURRENT ASSETS</b>			
Investment in Treasury Bills		-	13,092,220
Investment in Fixed Deposits		581,658,679	-
Receivables	5	20,007,046	3,825,679
Investments in Repurchase Agreements		-	622,922,954
Cash at Bank		248,312	387,399
<b>TOTAL ASSETS</b>		<b>699,638,687</b>	640,228,252
<b>RESERVES AND LIABILITIES</b>			
<b>RESERVES</b>			
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		449,358,687	389,958,252
		<b>699,358,687</b>	639,958,252
<b>CURRENT LIABILITIES</b>			
Payables	6	280,000	270,000
		<b>280,000</b>	270,000
<b>TOTAL NET ASSETS AND LIABILITIES</b>		<b>699,638,687</b>	640,228,252

The notes appearing on pages 107 to 109 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



**Thilak Karunaratne**  
Trustee-Settlement Guarantee Fund

Colombo.  
22nd May 2017

## SETTLEMENT GUARANTEE FUND

**STATEMENT OF FINANCIAL PERFORMANCE**

FOR THE YEAR ENDED 31ST DECEMBER 2016

	2016	2015
	Rs	Rs
<b>INCOME</b>		
Interest on Investments - Treasury Bills	20,616	23,134,014
Interest on Investments - Fixed Deposits	19,853,936	5,762,403
Interest on Investments - Repurchase Agreements	34,235,963	7,792,257
Interest on Investments - Treasury Bonds	5,303,110	-
	<b>59,413,625</b>	36,688,674
Less:		
<b>EXPENDITURE</b>		
Audit Fees	10,000	2,119
Bank Charges	3,190	1,151
Withholding Tax on Interest on Fixed Deposits	-	616,802
Total Expenditure	13,190	620,072
<b>EXCESS INCOME OVER EXPENDITURE FOR THE YEAR</b>	<b>59,400,435</b>	36,068,602

The notes appearing on pages 107 to 109 form an integral part of the financial statements.

SETTLEMENT GUARANTEE FUND

## STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31ST DECEMBER 2016

	2016	2015
	Rs	Rs
<b>Accumulated Fund</b>		
Balance at the beginning of the Year	<b>389,958,252</b>	353,889,650
Net Income for the Year	<b>59,400,435</b>	36,068,602
<b>Balance at the end of the Year</b>	<b>449,358,687</b>	389,958,252

The notes appearing on pages 107 to 109 form an integral part of the financial statements.

## SETTLEMENT GUARANTEE FUND

**CASH FLOW STATEMENT**

FOR THE YEAR ENDED 31ST DECEMBER 2016

	Note	2016 Rs	2015 Rs
<b>Cash Flow from Operating Activities</b>			
Net Surplus for the year		59,400,435	36,068,602
<b>Change of Working Capital</b>			
(Increase)/Decrease of Other Receivables	5	(16,181,367)	7,173,952
Increase/(Decrease) of Other Payables	6	10,000	2,119
		(16,171,367)	7,176,071
<b>Net Cash Inflow/(Outflow) from Operating Activities</b>		<b>43,229,068</b>	<b>43,244,673</b>
<b>Cash Flow from Investing Activities</b>			
Investments in Treasury Bonds		(97,724,650)	-
Investment in Treasury Bills		13,092,220	455,227,010
Investment in Fixed Deposits		(581,658,679)	124,680,473
<b>Net Cash Inflow/(Outflow) from Investing Activities</b>		<b>(666,291,109)</b>	<b>579,907,483</b>
Net Increase/(Decrease) in Cash and Cash Equivalents		(623,062,041)	623,152,155
Cash & Cash Equivalents at the beginning of the period		623,310,353	158,198
<b>Cash &amp; Cash Equivalents at the end of the period (Note A)</b>		<b>248,312</b>	<b>623,310,353</b>
<b>Note (A)</b>			
<b>Cash &amp; Cash Equivalents at the end of the period</b>			
Invest in Repurchase Agreements		-	622,922,954
Cash at Bank		248,312	387,399
		<b>248,312</b>	<b>623,310,353</b>

The notes appearing on pages 107 to 109 form an integral part of the financial statements.

SETTLEMENT GUARANTEE FUND

## ACCOUNTING POLICIES

### 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 Bills, Treasury Bonds 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.

### 5. RECEIVABLES

	2016	2015
	Rs.	Rs.
Interest Receivable		
- Treasury Bonds	153,110	-
- Treasury Bills	-	738,023
- REPO	-	3,087,656
- Fixed Deposits	19,853,936	-
	<b>20,007,046</b>	3,825,679

## Accounting Policies

### 6. PAYABLES

	2016	2015
	Rs	Rs
Audit Fees	280,000	270,000
	<b>280,000</b>	<b>270,000</b>

### 7. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2016.

### 8. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2016.

### 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 year 2016;

- Mr Thilak Karunaratne by virtue of holding office as the Chairman of the SEC
- Mr Vajira Kulathilake, Chairman CSE
- Mr Rajeev Bandaranaike, Chief Executive Officer CSE
- Mr S R Attygalle, Deputy Secretary to the Treasury
- Mr Vajira Wijegunawardane, Director General SEC

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 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 PLC	Director/Chief Executive Officer
	• NDB Zephyr Partners Lanka (Pvt) Ltd-Mauritius	Director
	• NDB Zephyr Partners Lanka (Pvt) Ltd	Director
	• Emerald Sri Lanka Fund1 Ltd - Mauritius	Director
	• Colombo Stock Exchange	Chairman
	• 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	
Mr Rajeev Bandaranaike	• Lanka Financial Services Bureau Limited (LFSBL)	Director
	• Colombo Stock Exchange	Chief Executive Officer



Name of the Trustee	Name of Institution	Relationship
Mr S R Attygalle	• Bank of Ceylon	Director w.e.f. 24.4.2016
	• 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

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







# CORPORATE INFORMATION

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**E-Mail**

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**Web**

www.sec.gov.lk

**Accounting Year**

Year ended 31st December 2016

**Auditors**

The Auditor General

**Bankers**

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



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