

A NEW PARADIGM

Annual Report 2021

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A NEW PARADIGM

The Securities and Exchange Commission of Sri Lanka (SEC) is truly an organisation built on innovation and positive change. Over the years we have continued to evolve and transform to address the changing needs of our stakeholders and the landscape in which we operate, in our mission to drive an efficient, transparent capital market that's conducive to growth.

With this same innovation at our core, we continue to share our passion for revolutionary change, with the introduction of the new SEC Act No. 19 of 2021. We're extending a spirit for transformative action across all key stakeholder groups; thereby promoting economic growth, modernised structures and a future of collective progress.

We're replacing the old with the new, and ushering in a new era that thrives on revolutionary ideas and powerful performance.

At SEC, we're creating a new paradigm for the future.

ABOUT US

The SEC, was established by Act of Parliament No. 36 of 1987 and is now repealed and replaced by the SEC Act No. 19 of 2021. The SEC is statutorily empowered to regulate and facilitate the development of the capital market and comes under the purview of the Ministry of Finance.

VISION

To become the benchmark regulator in the region for effective, efficient and proactive capital market regulation

MISSION

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

A NEW BENCHMARK

EXECUTIVE REVIEWS

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CHAIRMAN'S REVIEW



“The long awaited SEC Act (Act No. 19 of 2021) was passed in Parliament in September 2021 thus repealing and replacing the SEC Act No. 36 of 1987. We expect this well-conceived law to play an important role in expanding the remit of the SEC, modernising the capital market and supporting economic growth and innovation.”

The year 2021 can be considered as one of the best years for the capital market in Sri Lanka. The Colombo Stock Exchange (CSE) recorded unprecedented highs in both indices and market performance. Despite the challenges, the securities market continued to demonstrate strong growth momentum, with the All Share Price Index (ASPI) gaining 80.5% which is the highest return recorded since 2010 and the S&P Sri Lanka 20 index (S&PSL20) improving by 60.5% which is the highest ever recorded. Market capitalization also reached Rs. 5.5 trillion which was 37% of Gross Domestic Product (GDP).

The SEC underscored the importance of regulatory adeptness amidst the Covid-19 pandemic and recalibrated its focus on applying regulatory responses that were flexible and timely which brought about market stability and continuity.

STAYING AHEAD OF THE CURVE

Over the past two decades, the securities market has encountered rapid changes to its structure, market participants, and regulation. These developments signaled the need for broad reforms to the existing securities legislation although the SEC had been filling gaps and replacing outdated provisions through amendments in 1991, 2003 and 2009.

The long awaited SEC Act (Act No. 19 of 2021) was passed in Parliament in September 2021 thus repealing and replacing the SEC Act No. 36 of 1987. We expect this well-conceived law to play an important role in expanding the remit of the SEC, modernising the capital market and supporting economic growth and innovation.

The SEC is currently in the process of reviewing existing Rules, Regulations and Standards to be in line with the provisions found in the new Law in order to provide practical measures that will enable it to be enforced effectively.

“We expect this well-conceived law to play an important role in expanding the remit of the SEC, modernizing the capital market and supporting economic growth and innovation.”

GREATER DIGITAL ADOPTION

The pandemic and the resultant lockdowns saw the acceleration of digital adoption in all sectors of the economy including the capital market. The SEC worked with the CSE and the industry to launch the second phase of the digitalization initiative in line with global best practices. This enabled greater flexibility for online account openings for local companies, introduced the Central Depository Systems (Pvt) Ltd (CDS) E-connect, E-Initial Public Offerings (IPO), digitization of corporate actions as well as enabled convenient interfaces via smartphones and other devices.

In fact, during the year under review, there has been greater retail investor participation with a record number of account openings. The active investor base rose to 63,000 while the number of new accounts opened stood at 37,400.

INVESTOR EDUCATION AND FUNDRAISING THROUGH THE CAPITAL MARKET

Our investor reach pivoted to digital-based investor education initiatives. We partnered with the CSE to popularise stock market investments around Sri Lanka and commenced an education campaign mainly through digital marketing channels including social media platforms, influencer marketing, blog posts and CSE Mobile app

advertising. Total trades per day increased significantly, as the overall market activity accelerated. The market recorded an extraordinary average of over 33,000 daily trades in 2021.

Consequent to representations made by the SEC, the Tax concessions proposed in the Budget 2021 for companies seeking to list during the year prompted several companies to list in 2021. The CSE saw unprecedented capital raising by companies at the CSE with 29 new listings and capital-raising increased to a record Rs. 124 billion in 2021. Meanwhile, an inaugural issuer forum titled “Founder to Family - Leveraging Going Public” was conducted to engage family businesses and address misconceptions regarding listings particularly addressing the issue of a listing whilst retaining family control. The forum also provided companies with a better understanding of how to access the capital market, as well as the various funding options available on the CSE.

SHAPING THE LANDSCAPE OF CORPORATE ACCOUNTABILITY

To achieve more domestic and foreign investments, it is important to instill greater confidence in our capital market. In this respect, the SEC’s efforts to conduct a broad based dialogue between academia, the legal community and listed companies to review the corporate governance framework in Sri Lanka could not have been more timely given that previous reforms had been done nearly a decade ago. In the year under review, a public consultation was conducted to obtain views and suggestions from stakeholders on revising Corporate Governance Rules applicable to entities listed on the CSE. Thereafter, an expert committee comprising of representatives of all stakeholders having taken into consideration the submissions made by the public prepared new Corporate Governance Rules. The Commission made certain changes to the draft rules which were then forwarded to the CSE to be included in the Listing Rules which are presently being prepared.

CHAIRMAN'S REVIEW

“With the relaxation of travel restrictions, the SEC and the CSE, together with the Embassy of Sri Lanka in the UAE organised an “Invest Sri Lanka” forum in Dubai.”

Consequent to the finalisation of such Rules, representations were made by the Sri Lanka Women Corporate Directors Chapter with regard to female representations in Boards of listed companies. In order to obtain the views of the industry, a meeting was convened by me of eminent personalities representing all stakeholders and the CSE was thereafter requested to consider including suitable provisions that will encourage and result in more female representation in Boards of listed companies.

NATIONAL STRATEGY TO SPUR FINANCIAL INCLUSION

To promote a more effective and efficient process to improve financial inclusion across Sri Lanka, the International Finance Corporation (IFC) collaborated with the Central Bank of Sri Lanka (CBSL) to develop the country's first National Financial Inclusion Strategy (NFIS). The NFIS is expected to align the different financial inclusion efforts taken by various entities, including the SEC to a single platform. The SEC is playing an active role in the implementation of this national policy and will continue to deliver well-structured financial literacy programmes as part of the time-bound Action Plan of the NFIS, with the aim of improving living standards and contributing to economic growth. With the launch of NFIS, Sri Lanka joins more than 60 countries, which have launched similar strategies across the world.

SHOWCASING SRI LANKA'S CAPITAL MARKET IN THE UAE

Due to the travel restrictions brought about by the Covid pandemic, the SEC in association with the Ministry of Foreign Affairs conducted virtual meetings for staff of overseas Sri Lankan Missions to educate them on how to invest in Sri Lanka's capital market. This was done so that they could promote portfolio investments in Sri Lanka by the investor community based in the respective countries. Virtual seminars were conducted for the staff of Embassies/ High Commissions in the United States, the United Kingdom, Singapore, Sweden, Abu Dhabi, Japan and the United Arab Emirates.

With the relaxation of travel restrictions, the SEC and the CSE, together with the Embassy of Sri Lanka in the UAE organised an “Invest Sri Lanka” forum in Dubai to attract diaspora investments. The strong turnout that was seen of prominent Dubai-based Sri Lankans across multiple industries could be attributed to strong corporate earnings and attractive valuations to name a few.

IMPLEMENTATION OF DELIVERY VS. PAYMENT MECHANISM

A Delivery vs Payment (DVP) mechanism which was on the cards for over three years was introduced in August 2021. This was a collaborative effort of the SEC, CSE and the stock broking community. This important market infrastructure is expected to modernise and mitigate settlement risk while enabling new products on the exchange, thereby placing us on par with global exchange best practices.

WORKING TOWARDS THE DEVELOPMENT OF THE CAPITAL MARKET

Gold has always been considered to be one of the safest investment asset classes. Having considered numerous proposals of stakeholders, the SEC has

facilitated the trading of Paper Gold (PG) by providing in-principle approval to facilitate the trading of PG through the Over The Counter (OTC) platform of the CSE. Currently, the framework for introducing trading of PG through the OTC platform is being finalised by the CSE which is expected to provide a new investment asset class for the market and generate a new source of tax revenue for the Government.

The SEC has granted in-principle approval for Islamic products and the policy framework for its introduction is presently being finalised by the CSE with the technical assistance of the ADB provided through the SEC. Similarly, the SEC is also in the process of developing the policy and regulatory framework for the introduction of Structured Warrants as a possible first step towards the development of the Exchange Traded Derivatives Market. To this end, the assistance of the ADB has been obtained. In principle, approval for Special Purpose Acquisition Companies (SPACs) has also been granted by the SEC and the CSE has been requested to finalise the required policy and regulatory framework. In principle, approval has been granted by the Commission for equity Crowd Funding. The framework having been prepared by the CSE is now ready to be submitted for stakeholder consultation. Approval was also granted to the CSE to facilitate the listing, trading and settlement of foreign currency denominated securities on the CSE and steps are currently underway to make it operative. The introduction of Green Bonds is another initiative that has been approved by the SEC.

Furthermore, approval has been granted to implement a REPO transaction mechanism for corporate debt securities through the OTC trading platform of the CSE. The policy pertaining to covered short selling, stock borrowing and lending has also been approved by the Commission and the CSE is expected to go in for a process of public consultations.

“A Delivery vs Payment mechanism which was on the cards for over three years was introduced in August 2021.”

It is imperative to have a Central Counterparty (CCP) if products such as derivatives are to be introduced. The SEC realized that the process of having in place a CCP has to be given priority. Accordingly, steps were taken to appoint a joint committee of the SEC and CSE with the aim of having a CCP for the equity market before the end of 2022. The joint committee is making steady progress in this regard. Several initiatives were also taken to streamline and improve the efficiency of the secretariat during this period. This included the obtaining of analytical tools for the Surveillance Division.

LOOKING AHEAD

The year under review has been a turning point for the SEC. The new SEC Act will level the playing field, in terms of regulatory requirements for all our stakeholders. We look forward to continuing to facilitate and promote fair, efficient and transparent capital market through a firm commitment to our expanded mandate.

I believe that the SEC is well positioned to respond to the challenges that our market faces today, and in the years to come. I wish to thank His Excellency the President, the Hon. Prime Minister, the Hon. Minister of Finance, the Secretary to the Treasury and other officials of the Ministry of Finance for their support and cooperation. I wish to express my gratitude to the Members of the Commission for their invaluable contribution.

My thanks also go to the Director General Mr. Chinthaka Mendis for his dedicated service, the Directors and members of the staff for their hard work during the past year. Our task would not have been easy if not for the collaboration of our stakeholders and I wish to extend my gratitude to them.



Viraj Dayaratne, PC
Chairman

18th April 2022

A BRIEF OVERVIEW OF THE NEW SECURITIES AND EXCHANGE COMMISSION ACT

The new SEC Act No. 19 of 2021 ('the Act') has been certified by the Speaker on 21st September 2021 and has thus become law. It repeals and replaces the SEC Act No. 36 of 1987¹.

The Act which has been in the pipeline for a considerable period of time contains well thought out provisions which have factored in latest developments in securities markets around the world and adheres to principles and standards propounded by the International Organization of Securities Commissions (IOSCO). It enables robust regulation whilst facilitating market development and will cater to both the present as well as future needs of Sri Lanka's securities market.

THE PROCESS OF DRAFTING THE ACT

The process of drafting a new law began in the year 2007, consequent to a gap analysis and extensive research carried out on the laws of other jurisdictions. The initiative received technical assistance from the World Bank as well as experts in Sri Lanka. The first draft had been completed in 2013 and approved by the Commission at the time. Since that had not been proceeded with, improvements had been made to that draft by the subsequent Commission and having received Cabinet approval, the Bill had been tabled in Parliament in 2018 but was not taken up for debate. Further changes had been made to that Bill by the previous Commission during the 2018/2019 period. In finalizing the Act, whilst retaining the core provisions found in the previous versions, the present Commission has made every attempt to eliminate ambiguities and grey areas in order ensure that there will be no difficulties in its application and implementation. It must be acknowledged that there have been numerous consultations with all stakeholders as well as the public

in this long drafting process and their contributions have been of immense assistance in the formulation of this law.

THE STRUCTURE OF THE ACT

The Act comprises of seven Parts which are further divided into a number of Chapters. A significant feature is that at the beginning of each Part, the 'object and purpose' of that particular Part is described in broad terms. This gives an indication of what is sought to be achieved through the provisions contained in such Part.

Part I deals with preliminary matters such as the application and objects and purpose of the Act, establishment of the Commission and its powers, duties and functions as well as matters pertaining to the Director General and staff of the Commission. Part II titled 'Markets and Market Institutions' provides for the establishment of Exchanges, Clearing Houses and a Central Depository. Part III titled 'Issue of Securities' deals with Public Offer of Securities, Market Intermediaries and the Protection of Clients' Assets. Part IV deals with 'Trade in Unlisted Securities'. Part V titled 'Market Misconduct' deals with Prohibited Conduct and Insider Trading. Part VI contains provisions in relation to the finances of the Commission and Part VII provides for general matters such as the implementation of the Act and punishments and enforcement mechanisms.

THE SALIENT FEATURES OF THE ACT

The Act contains many salutary provisions that will ensure efficiency, predictability and consistency in the regulation of the country's securities market. Further, it enables the use of state of the art infrastructure and provides for the different fund raising requirements of issuers whilst the ability to introduce a variety of products offers investors a wider choice depending on their risk return characteristics.

Markets and Market Institutions

Part II which is specifically dedicated to Markets and Market Institutions is an important part of the new law since the provisions contained therein are expected to ensure that these vital institutions perform their functions properly which in turn will help the effective and efficient functioning of the securities market as well as help mitigate systemic risks.

These provisions stipulate in great detail the rights and duties of an Exchange, a Clearing House and a Central Depository², the requirements that have to be fulfilled if a license is to be obtained³, when a license may be cancelled⁴ and the right of recourse if a license is cancelled⁵, the effect of the Rules of these market institutions⁶, appointment of Directors⁷, duties of an auditor⁸ etc.

An important feature is that a Licensed Exchange can list its securities on its own Exchange⁹. There is recognition of a Clearing House acting as a CCP and a CCP has been defined¹⁰. Further, detailed provisions dealing with default rules and proceedings have been included in order to cater to situations where a clearing member is unable to meet its obligations regarding unsettled market contracts¹¹. The default proceedings have been designed to bring about finality to trades.

² The duties of an exchange, a clearing house and a central depository have been set out in §27, § 37 and § 56 respectively.

³ §25, 34 and 54 prohibit the establishment of an exchange, a clearing house or a central depository without a license, while § 26, § 36 and §55 deal with the manner in which a license ought to be obtained.

⁴ Grounds to be found in §28, §39 and §57.

⁵ A right of appeal is available to the Minister. See § 28 (8), § 40 and §57 (8).

⁶ See § 64

⁷ See § 68

⁸ See § 74

⁹ As per § 31, a listing is possible with the approval of the Commission and the Ministry of Finance.

¹⁰ The definition can be found in § 32.

¹¹ See § 32 for definition of 'default proceedings', 'default rules' and 'defaulter', § 42 which spells out what default rules are and §43 to 46 with regard to default proceedings.

¹ See §187 - Repeals, savings and transitional provisions.

Market Intermediaries

It is also pertinent to note that the Act has redefined 'Market Intermediaries' and has added a few more categories of persons. They are 'corporate finance advisor', 'market maker', 'derivatives broker' and 'derivatives dealer'¹². The introduction of market makers is important since that will ensure continued and efficient exchange of securities between buyers and sellers.

As in the case with market institutions, their duties, requirements that have to be fulfilled if a license is to be obtained and renewed¹³, grounds on which a license may be refused, suspended or cancelled¹⁴, trading in securities by market intermediaries¹⁵, duty of an auditor¹⁶ etc. have been spelt out in great detail.

Market intermediaries play a pivotal role in the functioning of the market. Since they operate at the forefront of the market and thus are directly in contact with investors, it is imperative to ensure their credibility. Towards achieving this and to ensure that they conduct their functions more efficiently, certain requirements have been identified under the head of 'Protection of clients' assets'¹⁷. They require that market intermediaries disclose certain interests they have in securities¹⁸, establish and maintain certain internal procedures and processes¹⁹ and conform to business conduct that the Commission may spell out by way of rules²⁰. These are meant to minimize their own risk and exposure and to monitor compliance and are neither new obligations nor measures that will result in additional effort or expenditure

to them. Such requirements exist even at present in the form of rules and standards introduced by the Commission from time to time. In contrast to the previous Act, the Act has incorporated these specific requirements in relation to market intermediaries in the body itself.

In addition to market intermediaries, the Commission can, by way of rules, require the registration of those who 'deal with clients for and on behalf of a market intermediary'²¹. The Act has also recognized 'Supplementary Service Providers'²² such as actuaries, custodians, trustees and valuers on whom the Commission may exercise supervision in the future thereby fortifying public confidence²³.

Issue of securities and maintenance of good corporate governance practices

Part III deals with 'Issue of Securities' and the purpose of this Part amongst others, is to ensure timely disclosure of financial information by listed public companies and compliance with best corporate governance practices.

In order to ensure accountability of funds solicited from the public, the Commission will be entitled if it considers that such a step is necessary, to make Rules that will require unlisted companies to obtain its approval prior to certain types of public offers. Such requirement may be introduced taking in to consideration 'the volume of securities, class of securities, the number and type of investors, the nature of the issuer or the nature of the securities market'²⁴.

Based on disclosures made to the public, if any wrongdoing is detected, the Commission or the market institutions

will be entitled to call for information from listed companies²⁵. The Commission has been empowered to take any enforcement action that is considered appropriate if 'after due inquiry or investigation' it is found that the listed company has contravened or failed to comply with any provision of the Act, regulations, rules or directives²⁶. Here again it must be stressed that this is part of oversight that is presently carried out by the Colombo Stock Exchange and the Commission through its corporate affairs division to ensure compliance with the Listing Rules and is nothing new. What has been done is to have these provisions specifically included in the Act in order to ensure adherence to best corporate governance practices.

It will be necessary for a person to obtain the approval of the Commission prior to accepting appointment as a director, chief executive officer or chief regulatory officer of a market institution and the grounds upon which such approval will not be granted have been spelt out²⁷. Further, directors or the chief executive officer of a listed company are required to comply with the fit and proper criteria specified by the Commission by way of rules made by it or the rules of an Exchange which have been approved by the Commission²⁸. Another new feature is that Auditors of listed companies²⁹, market institutions³⁰ and market intermediaries³¹ have been obligated to report certain irregularities that he becomes aware of 'during the ordinary course of the performance of his duties'. As to what they are and to whom it has to be reported have been specifically stated.

It must be appreciated that these requirements have been introduced in order to ensure proper corporate governance in the said institutions and to mitigate systemic risk considering the

12 See §188 which defines as to who 'market intermediaries' are as well as individual definitions of those who belong to that category.

13 See § 94 (1), §101 (1), and §101 (2) and (3) which deal with the renewal of such a license.

14 See § 95 for grounds for refusal and renewal and §105 for cancellation or suspension.

15 See § 106

16 See §108

17 See § 109 – 115 in Chapter 3 titled 'Protection of Clients' Assets' of Part III.

18 See § 113

19 See § 114

20 See § 111

21 See § 97

22 See § 188 for definition.

23 See § 169. They do not have to be licensed or registered by the Commission, but the Commission may call for information from them and request them to take corrective action in certain instances.

24 See § 80

25 See § 85

26 See § 86

27 See § 68

28 See § 89 (2)

29 See § 90

30 See § 74

31 See § 108

A BRIEF OVERVIEW OF THE NEW SECURITIES AND EXCHANGE COMMISSION ACT

pivotal role they play in the securities market. At a time when most of these practices have been embraced by the business community as part of the corporate governance framework that is being presently finalized, they cannot be construed as impediments to the smooth conduct of their businesses.

Main Market Offences

Part V of the Act which encompasses the main market offences could be considered as a progressive step taken towards the regulation of the securities market of the country. This Part has been divided into two Chapters containing 'Prohibited Conduct' and 'Insider Trading'.

Prohibited Conduct

Five different offences have been identified under Prohibited Conduct. They are 'false trading and market rigging'³², 'stock market manipulations'³³, 'making false or misleading statements'³⁴, 'fraudulently inducing persons to deal in securities'³⁵ and 'use of manipulative and deceptive devices'³⁶.

The most significant introduction to this category of offences which is commonly known as market manipulation are the two offences found in Sections 130 and 131 respectively. Whilst Section 130 precludes a person from making a statement or disseminating information that is false or misleading in a material particular which is likely to have an effect of raising or lowering the market price or volume of securities, Section 131 precludes a person from inducing or attempting to induce another person to trade by making or publishing any statement or by making a forecast that is misleading, false or deceptive.

As to what conduct is prohibited has been spelt out with utmost clarity. It therefore is not difficult to understand as

to what ingredients have to be present to establish the commission of an offence under this Part.

Insider trading

All aspects pertaining to insider trading have been described with precision³⁷. As to when a person is considered to be an 'insider' has been clearly defined³⁸ and what exactly such person is prohibited from doing has been spelt out with certainty³⁹. In addition, as to what would amount to information⁴⁰, when such information is generally available⁴¹, what would be information which has a material effect on price or value of securities⁴², when will a person be considered to have procured another⁴³, when information is deemed to be in possession⁴⁴ as well as specific exceptions⁴⁵ and defenses available in respect of a charge of insider trading⁴⁶ have been outlined in great detail.

These elaborate provisions have been included with the intention of taking away any uncertainty or ambiguity and to clearly demonstrate as to what conduct is permitted and what is prohibited so that those involved in the activities of the market are fully and well aware of the framework within which they ought to operate. Further, the fact that the commission of any such offence would give rise to the imposition of stringent penalties is intended to act as a deterrent and not as a means to stifle or discourage the activities of market participants.

Unlike the previous Act where charges were to be filed in the Magistrate's Court, henceforth these offences are

to be tried in the High Court⁴⁷ and any person convicted of such offence would be subject to a penalty which could be either a fine of not less than ten million rupees or to imprisonment for a term not exceeding ten years or to both such fine and imprisonment⁴⁸.

PROSECUTORIAL DISCRETION OF THE COMMISSION

Criminal proceedings

Consequent to the completion of investigations by the Commission, if the Commission is of the view that sufficient evidence exists to establish the commission of an offence under Part V, steps will be taken to institute criminal proceedings. Since criminal proceedings are to be instituted in the High Court and charges are filed in the form of an 'indictment' which can be presented only by the Attorney General as stated in the Code of Criminal Procedure Act⁴⁹ (with the exception indicated in the Bribery Act), the Commission will refer the matter to the Attorney General for the filing of indictment and the prosecution will be conducted by the Attorney General⁵⁰. Even when charges were to be filed in the Magistrate's Court in respect of all offences under the previous Act, the preparation of the charges and the conduct of the prosecution was by the Attorney General.

The offences other than what is contained in Part V are triable in the Magistrate's Court⁵¹.

47 As per § 148 (Jurisdiction of the courts) "every offence committed under this Part shall be triable upon indictment by the High Court."

48 See § 147

49 See § 12 of the Code of Criminal Procedure Act No. 15 of 1979

50 See § 149

51 See § 175 (3)

37 See Chapter 2 of Part V § 133 to § 146

38 See § 137 (1)

39 See § 137 (2) and (3) which constitute the offence of 'insider trading'.

40 See § 133

41 See § 134

42 See § 135

43 See § 136

44 See § 138 and § 139

45 See § 140, § 141, § 142, § 143, § 144 and § 145

46 See § 146

32 See § 128

33 See § 129

34 See § 130

35 See § 131

36 See § 132

Civil Proceedings

A new feature that has been introduced by the Act is the discretion conferred on the Commission to institute civil proceedings in the High Court exercising civil jurisdiction⁵² which is commonly referred to as the Commercial High Court in order to recover damages and to seek the imposition of a civil penalty⁵³. The Act has specifically conferred this jurisdiction on the Commercial High Court⁵⁴. Such proceedings can be instituted against a person who has committed a contravention under Part V. The decision of the Commission to institute such proceedings will depend on the 'nature and manner of the contravention, the impact it has on the market and the extent of the loss caused to any investor'⁵⁵. The amount recoverable by the Commission will be three times the gross amount of the pecuniary gain made or loss avoided and the penalty the court can impose will not be less than ten million and not more than one hundred million rupees depending on the severity or gravity of the contravention⁵⁶. How damages so recovered will be distributed has also been stated⁵⁷.

The Commission has also been vested with the discretion to enter in to an agreement with any person with or without the admission of liability to pay an amount equivalent to three times the gross amount of the pecuniary gain made or loss avoided in respect of contraventions under Part V⁵⁸. Offences other than those enumerated under Part V can be compounded for a sum not exceeding one half of the maximum fine that can be imposed for such offence⁵⁹.

52 See the definition of 'court' found in § 188. Accordingly, wherever a reference is made to 'court' in the Act, it will be a reference to the Commercial High Court.

53 See § 152 (1) and (2)

54 See § 152 (3) which in addition spells out the manner of institution of proceedings and states that the procedure spelt out in the Civil Procedure Code will become applicable to such proceedings.

55 See § 152 (1)

56 See § 152 (2)

57 See § 152 (5)

58 See § 152 (4)

59 See § 177

Administrative Sanctions

Another important feature that has been introduced is the ability of the Commission to impose 'Administrative Sanctions' on wrongdoers. Previously, the Commission was not expressly empowered to impose penalties or other administrative sanctions although all contraventions were considered as offences.

However, depending on 'the nature and manner of the contravention, non compliance or breach and its impact' this new provision leaves the Commission with the discretion (except in respect of offences under Part V) of imposing a variety of administrative sanctions such as a reprimand, penalty, restitution, imposing a moratorium on or prohibiting trading etc⁶⁰.

STEPS TO PROTECT ASSETS OF INVESTORS AND RIGHT TO SEEK CERTAIN ORDERS FROM COURT

Some of the other new features are the ability of the Commission to take certain steps to protect assets of investors⁶¹, issue directives during the course of conducting investigations or inquiry known as 'freezing orders'⁶² (which are valid only for a period of seven days and thereafter to be confirmed by the Commercial High Court), power to apply to the Commercial High Court in situations of violations or imminent violations seeking certain orders⁶³ such as a declaration that a securities transaction is void, directing a person to dispose of any securities etc.

60 See § 178

61 See § 179

62 See § 167. These orders can be made during the course of an inquiry or investigation in order to make sure that the purpose of the investigation will not be made meaningless.

63 See § 180

DEVELOPMENT OF THE CAPITAL MARKET

There are several provisions in the Act that will contribute towards the development of the market. The use of state of the art infrastructure such as the much needed CCP has been recognized which will greatly minimize central counterparty risk and also enable the introduction of new products. The new law spells out the requisites for investing in derivatives⁶⁴ (such as futures and options irrespective of the nature of the underlying asset), stock borrowing and lending, regulated short selling⁶⁵ etc. This will enhance the liquidity levels in the market and take away the one-sided potential that is presently available and help create a vibrant market. Long term investors will benefit from these opportunities.

The trading of unlisted securities is facilitated through a platform operated by a recognized market operator thus providing an additional trading platform⁶⁶. The ability for 'market makers'⁶⁷ to operate as a market intermediary will ensure continued and efficient exchange of securities between buyers and sellers. This will provide depth to the market and also encourage the setting up of funds such as exchange traded funds.

Furthermore, the new law has redefined 'securities' to include an array of securities in keeping with new developments across the world⁶⁸. Similarly, there is also provision for 'Collective Investment Schemes'⁶⁹

64 See definition in § 188 and also § 183 (1) (p) where rules can be made by the Commission in this regard and also §184 where a derivative contract is not to be construed as a gaming or wagering contract.

65 See § 183 (1) (q) where the Commission is permitted to make rules in this regard.

66 See Part IV and definition in § 188 where a 'market operator' registered by the Commission can operate a platform for the sale and purchase of unlisted securities in Sri Lanka.

67 The role of a 'market maker' is described in the definition found in § 188. See also § 185.

68 See § 188 for the definition of 'Securities'.

69 See § 188 for the definition of 'Collective Investment Schemes'.

A BRIEF OVERVIEW OF THE NEW SECURITIES AND EXCHANGE COMMISSION ACT

which go beyond Unit Trusts. As to what would come under this umbrella has been defined. These will provide new investment opportunities.

In line with expanding the product range that is currently available in the market, a category of persons has been recognized as 'accredited investors'⁷⁰. Not only will this result in the protection of non-sophisticated investors, but will facilitate the issue of high-risk instruments to the market which could be utilized by those who are in a position to take higher risks.

Provisions for the protection of whistleblowers⁷¹ have been included with the expectation that it will facilitate the curbing of market malpractices. Whilst it is important to ensure that this protection is not abused by making frivolous claims, the benefits such a system can bring forth should not be discounted.

CHECKS AND BALANCES ON POWERS AND DISCRETION OF THE COMMISSION

The Commission has been vested with wider powers and discretion under the Act in order to ensure that it can perform its functions as a regulator in a more meaningful and effective manner. However, it must be borne in mind that the Commission does not enjoy immunity and like any other public authority that has been vested with power and discretion, has to exercise such power and discretion according to law and will have to in all instances follow the rules of natural justice. It is relevant to note that the power and discretion vested in the Commission is circumscribed by several checks and balances that will ensure that the Commission will be held accountable and will not under any circumstance exceed its authority.

⁷⁰ See § 188 where a detailed definition has been given as to who would come under this category.

⁷¹ See § 172 and the definition found in § 188.

They take the form of provisions which mandates the commission to hear a party before it takes a decision against such party⁷², affords a party a right of appeal⁷³, requires the Commission to give reasons for certain decisions⁷⁴ as well as those that require the Commission to obtain orders from court⁷⁵ and where the court is expected to afford a hearing to the affected party before making an order⁷⁶.

Further, the common law remedy of being able to challenge a decision of the Commission by way of a writ application in the Court of Appeal has been reiterated in the Act⁷⁷ thus statutorily fortifying the rights of an aggrieved party.

CONCLUSION

It is expected that the progressive provisions of the Act will make sure that all market participants have the confidence and the necessary environment to engage in their activities which is the ultimate goal of a capital market. The Commission as the regulator of the market at all times will be aware of the perils of over regulation and therefore be committed to striking the right balance. At the same time, it must be emphasized that if all market participants practice self-regulation and act within the confines of the law, there will be no necessity for most of the provisions contained in the law to be made use of.

⁷² § 28 (7), § 39 (6), § 57 (7) provide market institutions with an opportunity to be heard prior to the cancellation of a license. Also see § 105 (2), § 95(2) and § 179 (2) for instances where market intermediaries are given opportunities to be heard and § 178 (2) where the Commission cannot impose administrative sanctions without providing the party an opportunity to be heard.

⁷³ See § 28 (8), § 40 (1), § 57 (8), § 67 (4) and 178 (6) for instances where a party is granted a right of appeal.

⁷⁴ See § 178 (1) where the Commission should have regard to the nature and manner of the contravention and its impact on the market and then impose a penalty in proportion to the severity or gravity of the contravention.

⁷⁵ See § 180 (1)

⁷⁶ See § 167 (3), § 180 (3) and § 180 (9)

⁷⁷ See § 186



Viraj Dayaratne PC
Chairman, SEC

DIRECTOR GENERAL'S REVIEW



“Once again the stock market has a critical role to play to boost the economy and to raise capital to revitalize the private sector. Thus, it is the time to pick the winners from our dollar earning listed companies by looking at their potential, drive and commitment. Secondly, we need to incentivize and nurture such winners. Thirdly, we need to free such winning companies to go out and compete with global giants to make headway in economic development, which would change the whole complexion of our country; it will convert us to a dynamic entrepreneurial state and will help the country to realize its true potential.”

DIRECTOR GENERAL'S REVIEW

It is with much satisfaction that I review the work undertaken by the Securities and Exchange Commission of Sri Lanka (SEC) in the year 2021.

THE MARKET IN BRIEF

Looking back at the year 2021, it could be said without doubt that it has been a year of extraordinary success for the securities market of the country. Let me begin by saying that the All Share Price Index (ASPI) witnessed a significant growth of over eighty per centum (80%) in comparison to the year 2020. The growth signified by the ASPI has been the highest growth rate witnessed since 2011. The same could be said about the S&P SL 20 index which indicated a growth rate of over sixty per centum (60%). All of this growth led to the Colombo Stock Exchange (CSE) being recognised as the second best performing market in the world. To add to this, the daily average turnover of the country's securities market amounted to Rs. 4.8 billion in comparison to Rs. 1.8 billion recorded in the preceding year. The two fold increase in the daily average turnover could be attributed to both the new CDS account openings which took place in the market as a result of the digitalisation initiative carried out by the CSE together with the SEC and the renewed interest shown by local investors in the securities market.

Furthermore, Exchange Market capitalisation as a percentage of GDP surpassed thirty five per centum (35%) for the first time in the past ten years thus signifying the contribution made by the securities market to the country's economy. Due to the increase in the daily average turnover levels of the market, the turnover to market capitalisation grew upto forty per centum (40%) in comparison to the sixteen per centum (16%) recorded in the year 2020. The rapid increase in activity levels could be largely attributed to local investor contributions which approximately amounted to ninety five per centum (95%).

“However, as I write this review, the country is facing renewed economic and social pressure, which is amply reflected in the market. To live up to the challenge and overcome this financial and economic predicament, it is critically important to understand what needs to be done and take swift and drastic action to make them happen.”

As you may be aware, capital markets play a pivotal role in ensuring that issuers meet their fund raising requirements. As such, the year 2021 witnessed a rapid increase in Initial Public Offerings (IPOs) in the equity market which amounted to thirteen (13). Such a surge in equity IPOs was last seen in the year 2011. The surge in equity IPOs was a result of the proactive role played by the SEC by introducing several proposals to the Government Budget such as the proposal to grant a fifty per centum (50%) tax concession for local companies which are to be listed on the CSE before 31st December 2021 and the introduction of the corporate tax rate of fourteen per centum (14%) for the subsequent three years for such companies. All of these resulted in equity IPOs raising over Rs. 12.7 billion from the market. It is not only the equity market but also the debt market which contributed to the raising of capital via debt IPOs amounting to over Rs. 84 billion for the year under consideration. Over the past year, we have witnessed an increased interest shown by small and medium

entrepreneurs to utilise the Empower Board. With all of these statistics indicating a growth mindset, the market also witnessed a foreign net outflow, the negative impacts of which were mitigated by the role played by local investors who stepped upto the occasion. Upon examination of the market, one cannot disregard the positive influence of the low interest rates prevalent in the economy on the market and its performance.

However, as I write this review, the country is facing renewed economic and social pressure, which is amply reflected in the market. To live up to the challenge and overcome this financial and economic predicament, it is critically important to understand what needs to be done and take swift and drastic action to make them happen.

Yet, it is important to stress that the country's stock market alongside the listed companies have returned record growth last year despite the uncertainty. In fact, the uncertainty in the ongoing turbulent economic condition can be an opportunity for the country to push forward policies that will revitalize the private sector. This will enable the country to build back better with stronger measures to attract much needed foreign investments.

However, in many ways, nothing has changed due to the current situation, among others, the country's rich natural resources, strategic location, highly capable workforce and promising opportunities for investment in tourism, IT enabled services, logistics, high value-added apparel and food and agricultural services remain the same. For that matter, it is correct to say that the country is capable of meeting its import bills and growth targets if proper policies and practices are pursued to help the companies to strengthen their exports and foster production which will, in turn, assist the country to put its external debt on a more sustainable footing.

Therefore, once again the stock market has a critical role to play to boost the economy and to raise capital to revitalize the private sector. Thus, it is the time to pick the winners from our dollar earning listed companies by looking at their potential, drive and commitment. Secondly, we need to incentivize and nurture such winners. Thirdly, we need to free such winning companies to go out and compete with global giants to make headway in economic development, which would change the whole complexion of our country; it will convert us to a dynamic entrepreneurial state and will help the country to realize its true potential. Therefore, SEC can no longer be restricted to its traditional role of market regulation and take the conventional approach to boost the confidence of investors.

In this backdrop, I consider it an honour to recount in the following parts of this review, the successes of the SEC achieved in extraordinary circumstances.

THE ENACTMENT OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, NO. 19 OF 2021: A PARADIGM SHIFT

On 21st September 2021, the much awaited Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 (SEC Act) came into force after being certified by the Speaker. By it, the Securities and Exchange Commission Act, No. 36 of 1987 was repealed and replaced. With the enactment of the SEC Act, the SEC enables effective regulation aimed at achieving efficiency, predictability and consistency in regulation and market development.

The SEC Act is futuristic. It envisages developments in keeping with those of other developed markets. The regulatory regime brought about by the SEC Act provides greater clarity in terms of the law applicable to the market and is inclusive of numerous salient features.

“I must admit that nothing made me prouder than passing the new SEC Act, indeed. The Act is a statement of purpose. And it is that purpose that brings a new regulatory regime which is coherent and futuristic and ensures a level playing field both on the regulatory and market development fronts.”

I must admit that nothing made me prouder than passing the new SEC Act, indeed. The Act is a statement of purpose. And it is that purpose that brings a new regulatory regime which is coherent and futuristic and ensures a level playing field both on the regulatory and market development fronts.

Amongst the numerous infrastructural reforms, the establishment of a Central Counterparty System (CCP) intended to mitigate counterparty risks is key, and the enabling provisions provide for better risk management in the securities market. The progressive provisions in the Act such as those that enable structured borrowing and lending, regulated short selling mechanisms would undoubtedly cater to the much needed liquidity requirements in the market. Additionally, the Act would enable the introduction of a vast array of new products to the securities market. For instance, the introduction of Market Makers would ensure that the market has adequate levels of liquidity.

I believe that you all are already aware of the salient features of the SEC Act given that there has been a great amount of discussion revolving around it. However, it would be remiss on the part of this review if I do not briefly touch upon some of its key features in addition to what has been said above. The SEC Act comprising of VII parts among others provide for market intermediaries which now include several new categories, market institutions and supplementary service providers whilst it also provides for an enforcement mechanism that enables criminal offences to be dealt with differently in comparison to the previous Act. Why I say this is because now, the law embodies all offences whilst the conduct that would amount to an offence have been spelt out with clarity. The exceptions and defenses available too have been specifically stated, thus taking away any ambiguity that prevails at present. All offences categorized as ‘Prohibited Conduct’ (false trading and market rigging, stock market manipulation, false or misleading statements, fraudulently inducing persons to deal in securities, use of manipulative and deceptive devices) and ‘Insider Trading’ are now to be tried by the High Court. As per the provisions of the Act, a person convicted of such an offence is liable to a fine no less than 10 million Rupees or to imprisonment for a term not exceeding 10 years or to both such fine and imprisonment.

Having said this, it is pertinent to note that the Act also enables the imposition of civil remedies in the Commercial High Court to recover damages or to seek the imposition of a penalty. Such proceedings could be instituted against a person who has committed a contravention under the part titled ‘Market Misconduct’. This being said, it is of utmost importance to keep in mind that the decision of the Commission to institute such proceedings ultimately depends on the prerequisites set out in the Act itself, i.e., ‘the nature and manner of the contravention, the impact it has on the market and the extent of the loss caused to any investor’.

DIRECTOR GENERAL'S REVIEW

Another noteworthy feature that has been provided for by the Act is the power conferred on the Commission to impose 'Administrative Sanctions'. Thus, the Commission has now been given the discretion to impose a wide array of administrative sanctions that can be imposed on any person, once again depending on the nature and manner of the contravention, the impact it has on the market and the extent of the loss caused to any investor'.

To add to the above, the Commission has also been vested with the power to protect assets of investors by issuing freezing orders valid for a period of seven days subject to the subsequent confirmation of court during the course of conducting investigations or an inquiry and the power to apply to court seeking certain orders in situations of imminent violations (for a declaration that a securities transaction is void, directing a person to dispose of any securities etc.)

The new law facilitates different risk return profiles for investors. For example, the introduction of accredited investors would enable issuers to issue high risk securities while allowing investors who are able to bear higher risks to reap the benefits of such issuances. The introduction of provisions relating to whistle blowers is also worthy of attention as it would act as a safeguard to those who come out with information capable of shedding light on market offences. By this, what would ultimately be achieved is the smooth application of the present law.

STATE OF THE ART INFRASTRUCTURE FOR AN EFFICIENT AND RELIABLE MARKET

The introduction of the Delivery vs. Payment System (DVP) would enhance the risk management framework of the depository. The mitigation of asset commitment risk via the DVP would result in the growth of investor confidence in the market. It is with much satisfaction

that I say that the establishment of the DVP would result in the country's securities market fulfilling one aspect/requirement unique to emerging markets. In order to venture beyond, the SEC together with the CSE formed a joint committee to facilitate the establishment of the Central Counterparty (CCP) System. Significant headway has been made with this initiative and it is my belief that the establishment of the CCP would come to fruition in the near future.

The introduction of the multi-currency board which allows local companies to meet their funding requirements by issuing foreign denominated securities would allow those companies which have a significant exposure to export/import businesses to hedge their currency related risks. Given the current situation

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in the country, it is my belief that this initiative would facilitate the inflow of foreign currency to the local economy.

The finalization of a policy structure pertaining to Repurchase Agreement Transactions on corporate debt securities through an Over The Counter (OTC) platform of the CSE would provide a wider choice to investors in making their investments. Moreover, it is with much pleasure and satisfaction that I state that the expansion of the listing framework applicable to IPOs has become fruitful as we witnessed a wide array of companies with diversified business interests being listed.

MOVING FORWARD WITH END-TO-END DIGITALISATION

Moving onto the subject of digitalization, during the year under consideration, the joint committee appointed by the Chairman of the SEC under the direction of the Commission Members Messrs. Naresh Abeysekere and Manil Jayasinghe have taken steps to revolutionize the market and the CSE has gained significant headway in terms of end-to-end operations of the CSE. I say this because we have now reached the third phase having completed phase two, which led to the introduction of the CSE mobile application to open new accounts for local companies, CDS e-connect and e-Initial Public Offerings. Furthermore, Chat Bot and Google Assistant intended to enhance investor experience were also introduced under phase two. I believe that these initiatives would enhance the accessibility of the market given the ease by which an investor would be able to invest in securities.

Under phase three of the digitalization initiative, it is envisaged that the CSE mobile app would enable foreign individuals and companies open to investing in the country to open CDS accounts devoid of any inconvenience via the app. Further to what I have said before, let me expand on some of the other features which are to be introduced

“As the regulator of the market, we are aware of the perils of over regulation and thus we continuously strive to strike the right balance while we remain committed to integrating sustainability into Sri Lanka’s capital market.”

under phase three. They are e-rights issue, e-repurchase/mandatory offer, margin trading (seamless transfer of funds between asset classes) etc.

AN ARRAY OF CHOICES FOR INVESTORS AND ISSUERS

It is well known that the Sri Lankan investor in general gives much value to gold and real estate. In recent times, the Commission granted in-principle approval to facilitate the trading of paper gold through the CSE’s OTC platform. Currently, the framework to implement this initiative is being formulated by the CSE and the intention behind this initiative is the generation of a source of income to investors while simultaneously acting as a new source of revenue for the country.

The SEC by way of Gazette published the Rules on Real Estate Investment Trusts (REITs) giving it the force of law. As a result, stakeholders have been given yet another opportunity to make most of this investment avenue.

Expanding on the Unit Trust Code of 2011, the Collective Investment Schemes Code (CIS) is being drafted to provide for a wider array of schemes such as Exchange Traded Funds, Hedge Funds etc. Once again, investors and issuers would be able to reap the benefits of the numerous investment avenues which would come into being upon the Code’s enactment.

Special Purpose Acquisition Companies (SPACs), a policy framework intended to enhance new listings in the market was launched by the SEC in consultation with the CSE and other stakeholders. At present, the CSE is in the process of formulating the regulatory policy required by it.

With the objective of increasing capital raising avenues for small and medium enterprises and for start-ups via the capital market, the Commission has granted in-principle approval for equity crowd funding platforms. Technical assistance required for this initiative is being provided by the Asian Development Bank (ADB). These platform providers are capable of being recognized by the SEC as market operators and as such, rules will be drafted to facilitate such entities.

In order to achieve sustainability and drive the nation towards attaining the goals revolving around sustainability, the Commission has also granted in-principle approval for Green Bonds to the securities market. Like in the case of SPACs, the ADB will be providing the required technical know-how to ensure the implementation of the said initiative and the proceeds emanating from such Green Bonds are to be exclusively used for the promotion and development of renewable energy, sustainable waste management projects, sustainable land use (forestry and agriculture), clean transport systems, clean water projects etc.

Additionally, the SEC is also in the process of developing the policy and regulatory framework for the introduction of Structured Warrants and Islamic Capital Market Products with the assistance of the ADB.

THE SEC’S ENFORCEMENT MECHANISM

By now, it is apparent that the number of investors willing to invest in the country’s securities market have increased resulting in a remarkable rise in the number of transactions. This in turn has resulted in the need for a more stringent surveillance and supervision mechanism.

In keeping with this requirement, the SEC has taken all possible efforts to strengthen the surveillance, supervision, and investigations divisions where enforcement was made through a lens of pro-action, prevention and prudence with a view to eliminate any possibility of the occurrence of any market misconduct that has come to its attention. For instance, surveillance flagged over hundred observations on day-to-day trading and took enforcement action ranging from including referrals, informing the compliance officers or a higher authority, issuing warnings to investment advisors, suspension of online trading facilities, calling parties to show cause and instituting criminal suits or proceedings. Such pro-active measures proved to be highly effective in significantly reducing market misconduct.

I need not say much about the pandemic and its effects. It is indeed a blessing that we, as a country, have been able to curtail the spread of the virus with the assistance of the vaccination programs carried out in the country. We at the SEC, like everyone else, were made to experience its effects, thus, engaging in some of the activities to enhance the knowledge and had to adapt according to the change in times and thus embrace virtual platforms to ensure the continuity of its programs. Such platforms were used to raise awareness among market participants and the SEC continues to do so even to date.

RULES AND GUIDELINES FOR THE REGULATION OF MARKET PARTICIPANTS

As per Section 183 of the SEC Act, the Commission has been empowered to ‘make rules on any matter in respect of which rules are authorised to be made under this Act’. Such rules are to be ‘published in the Gazette and shall come into operation on the date of its publication or on such later date as may be specified’. In keeping with this provision, steps have been taken to draft rules applicable to market intermediaries and market institutions. I am very pleased to say that these rules have now reached

DIRECTOR GENERAL'S REVIEW

“It is important to stress that the country’s stock market alongside the listed companies have returned record growth last year despite the uncertainty. In fact, the uncertainty in the ongoing turbulent economic condition can be an opportunity for the country to push forward policies that will revitalize the private sector. This will enable the country to build back better with stronger measures to attract much needed foreign investments.”

the final stage prior to its publication in the Government Gazette so that they may have the force of law, subsequent to them having been approved by the Commission at its 461st Commission Meeting. The process of drafting these rules had been a tedious process given that much thought had to be put into the drafting of the rules, whilst the feedback of multiple stakeholders subsequent to numerous stakeholder consultations had to be accommodated where possible.

Having said this, it is important to shed light on the contents of such Rules as they would be crucial to the operation of key entities of the securities market just as much as it would be vital to the overall development of the market. The said rules cater to the processes applicable to the relevant entities from the time an application is submitted to the Commission for a license up until its cessation.

Unique to these rules are the Rules on Fitness and Propriety of a Market Intermediary/a Market Institution, aimed at ensuring that Key Management Persons of such entities are fit and proper to carry out the responsibilities associated with the roles they play in such entities. By this, the intention is to protect investors and their assets, thus making our market accountable and reliable. Similarly, it is also pertinent to note the inclusion of the minimum contents for a compliance manual and a compliance report. As I have stated many times, the ultimate objective is to raise the integrity of our market so that it would be appealing to both local and foreign investors.

Another category of service providers that come under the purview of the SEC is Supplementary Service Providers. As per the Act, the Commission has been empowered to make guidelines or rules which would apply to them. Hence, the SEC is presently in the process of formulating these guidelines by which such Supplementary Service Providers would be governed.

THE STAFF OF THE SEC: ITS MOST VALUABLE ASSET

As this review ends, I cannot hide my satisfaction over the contribution made by the staff of the SEC. Their dedication and commitment was of utmost importance in achieving the numerous milestones in the year 2021. As always, we are committed to safeguarding the health and wellbeing of our employees, whilst nurturing them to become future leaders in this field. I take this opportunity to thank the staff for extending their utmost cooperation and commitment throughout this journey despite the many obstacles we faced as an institution. In conclusion, I have no doubt in saying that the SEC as a whole, would continue to be committed towards ensuring the betterment and the sustenance of the country’s securities market.

As the regulator of the market, we are aware of the perils of over regulation and thus we continuously strive to strike the right balance while we remain committed to integrating sustainability into Sri Lanka’s capital market. I wish to thank His Excellency the President, the Hon. Prime Minister, the Hon. Minister of Finance, the Secretary to the Treasury and other officials of the Ministry of Finance for their support and cooperation. I am pleased to recognize the excellent work of the CSE team, particularly the Chairman of the CSE, Mr. Dumith Fernando, Chief Executive Officer Mr. Rajeeva Bandaranaike and Chief Regulatory Officer Mr. Renuke Wijayawardhane for their confident leadership as the CSE has ensured the close partnership of the two institutions and I look forward to working together continuously.

My gratitude is extended to Mr. Viraj Dayaratne PC, the Chairman of the SEC, for his wise counsel and unfailing support extended at all times. I thank him sincerely on behalf of the Secretariat and also on a personal level for the and confidence placed in us. I would also like to thank the Members of the Commission for their unwavering support, sound advice, collective expertise and for the sacrifice of their personal and professional commitments in the process and the members of the Commission for their guidance extended at all times and for the encouragement given to the Secretariat in its efforts to achieve the mandate of the SEC.

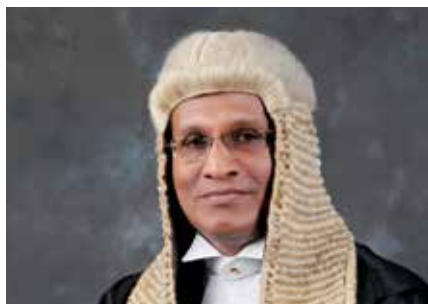
Once again, the country’s securities market has a critical role to play to boost the ailing economy and to raise capital to revitalize the private sector. Therefore, I take great pleasure in inviting everyone to engage with the market as it has the capability of transforming and enriching our country in numerous ways.



Chinthaka Mendis
Director General

18th April 2022

MEMBERS OF THE COMMISSION



MR. VIRAJ DAYARATNE PC.
Chairman



MR. MANIL JAYESINGHE



MR. SUHADA GAMALATH PC.



MR. R.M.P. RATHNAYAKE



MR. SISIRA RATNAYAKE



MR. SUNIL LANKATHILAKE



MR. SANJAYA BANDARA



MR. SANJEEWA DISSANAYAKE



MR. N.W.G.R.D. NANAYAKKARA

MEMBERS OF THE COMMISSION

MR. VIRAJ DAYARATNE PC.

Chairman

Mr. Viraj Dayaratne, President's Counsel, assumed office as the Chairman of the SEC on 22 January 2020. Mr. Dayaratne, holds a Bachelor of Arts Degree in International Relations (BA) from the University of Colombo and a Masters Degree in International Trade Law (LL.M) from the University of Wales. He entered the Sri Lanka Law College in 1989 and was admitted and enrolled as an Attorney-at-Law of the Supreme Court of Sri Lanka in November 1992.

He joined the Attorney General's Department of Sri Lanka as a State Counsel in January 1993 and rose to become Additional Solicitor General in May 2018. He was appointed as a President's Counsel by His Excellency the President in June the same year.

During the first six years of his career at the Attorney General's Department, Mr. Dayaratne was attached to the Criminal Division and conducted prosecutions in the Magistrate's Courts and the High Courts and also appeared for the State in the Court of Appeal in appeals filed against judgments delivered by the High Courts. Thereafter, he moved to the Civil and Commercial Law Division and has represented the State, State Corporations and other Statutory Institutions in the original as well as the appellate courts and these involved amongst others, matters pertaining to fundamental rights, public law, commercial law, tax, banking, customs and labour law. He has also appeared in several commercial arbitrations both in Sri Lanka and abroad. His work also included advising the Government, State Corporations and other Statutory Institutions on diverse legal issues.

Mr. Dayaratne is a visiting Judge of the Court of Appeal of the Republic of Fiji and an Adjudicator of the Panel of Adjudicators of the Asian International Arbitration Centre (AIAC) in Malaysia. He is also a member of the Faculty Board of the ICLP Arbitration Centre and functions as a visiting Lecturer in Construction Arbitration and Adjudication.

He was a visiting Lecturer and Examiner in the Law of Arbitration and an Examiner in Administrative Law at the Sri Lanka Law College and also served as a visiting Lecturer in the Law of Contracts for the LLB London Degree Course conducted by the Informatics Institute of Technology.

Mr. Dayaratne served as a Legal Expert at the Directorate of Contracts and Legal Affairs of the Ministry of Defense of the Sultanate of Oman for a period of two years from 2009 to 2011. He also functioned as a Legal Consultant to the Public Enterprises Reform Commission of Sri Lanka (PERC) as well as the Commission to Investigate Allegations of Bribery and Corruption. He also functioned as Judge Advocate General of the Sri Lanka Air Force.

He has been a member of various project committees and amongst them were the Project Committees that drafted the Project Agreements in respect of the Mahaweli Mini Hydro Power Project on a BOO / BOOT basis and the Kilinochchi District Electrification Project on a BOO basis and was a member of the Sri Lanka government delegation that negotiated the Bilateral Investment Agreement between Sri Lanka and Oman. He has represented the government at many international conferences and has contributed articles on varied subjects of the law to many publications. The Public Service Commission (PSC) released him from the Attorney General's Department to take up duties as Chairman of the SEC.

MR. MANIL JAYESINGHE

Mr. Manil Jayesinghe is a Fellow of the Chartered Institute of Management Accountants (UK), Fellow of the Institute of Chartered Accountants of Sri Lanka and a member of The Chartered Institute of Public Finance & Accountancy.

He functions as the Country Managing Partner and Head of Assurance, in charge of Banking and Financial Services practice of Ernst & Young, Sri Lanka and Maldives, counting over 40 years of extensive experience.

He presently serves as:-

- The Immediate Past President and a council member of the Institute of Chartered Accountants of Sri Lanka,
- Chairman of the Statutory Accounting Standards Committee, Member of the Statutory Auditing Committee and serves in many other committees.
- The Chairman of the Accounting Standards Committee of the South Asian Federation of Accountants (SAFA).
- Member of the Board of Sri Lanka Accounting & Auditing Standards Monitoring Board
- Serving as a Council Member of CMA Sri Lanka.
- Council member of the National Chamber of Commerce of Sri Lanka
- Consultant to the Audit Committees of the Listed Companies.

He has served as the Chairman of the Examination Committee of CA Sri Lanka, Alternate Chairman of the Statutory Accounting Standards Committee over the past year, Member of the Board of International Accounting Education Standards Board of International Federation of Accountants, and Member of the Council of the University of Moratuwa.

MR. SUHADA GAMALATH PC.

Mr. Gamalath, President's Counsel is a former Solicitor General and also served as Secretary to the Ministry of Justice and Law Reforms.

MR. R.M.P RATHNAYAKE

Mr. R.M.P Rathnayake is a Special Grade officer of the Sri Lanka Planning Service and currently works as the Deputy Secretary to the General Treasury. He has been in the public service for almost 26 years in various positions.

Mr. Rathnayake holds a Master's Degree from the Agriculture University of Norway and B.Sc. (Special) Degree from University of Peradeniya.

He joined the public service in 1994 and has been attached to the General Treasury holding a number of positions in the Department of National Planning and Department of External Resources (ERD). As the Director General of the ERD, he was responsible for coordinating with development partners, lending agencies and capital market to mobilize foreign financing for development projects, engaged in bilateral negotiations and facilitated timely disbursement of foreign financing.

Mr. Rathnayake has served as the Alternate Executive Director of the Asian Infrastructure Investment Bank (AIIB), Chairman of National Savings Bank, Director of the People's Bank, Member of the Board of Management of the Post Graduate Institute of Medicine (PGIM), Member of the Board of Directors of the State Pharmaceuticals Corporation of Sri Lanka (SPC), Director of Civil Aviation Authority of Sri Lanka, Director of Sri Lanka Institute of Tourism & Hotel Management and Member of National Medicine Regulatory Authority.

Mr. Rathnayake has published articles relating to various fields/subject areas.

MR. SISIRA RATNAYAKE

Mr. Ratnayake has been actively engaged in the legal field for nearly 36 years and possesses wide experience in both Civil and Criminal law in Sri Lanka. He holds a Master's degree (L.L.M.) with a Commendation in Commercial Law from the University of Aberdeen, Scotland, U.K, and is an Attorney-at Law of the Supreme Court of Sri Lanka.

Mr. Ratnayake has served in the Judiciary as a Magistrate, District Judge, High Court Judge and as a Civil Appellate High Court Judge in various courts in Sri Lanka. He has served as the Secretary of the Judicial Service Commission in the years 2013-2015. He has also served as the Additional Secretary (Legal) at the Ministry of Justice during 2007-2008.

He has also served as the Vice President and as the President of the Judicial Service Association (JSA - the association consisting of all the Magistrates and District Judges in the Island). He has also served as the Vice President and the President of the High Court Judges Association (HCJA- the association consisting of all the High Court Judges in the Island).

He has participated in many international programmes including, "Advanced Training Programme on Modern Trends in Company law" in Hong Kong, "Regional Judicial Symposium 2007" in Singapore, "Executive Training on International Arbitration and Construction Law for senior Judiciary members from Sri Lanka held in Singapore", "Academic Programme for Sri Lanka Judges" in India, 'Study Visit on Judiciary & Excellence- Singapore' held at the Civil Service College in Singapore, "KOICA training programme" in South Korea and "UKELA Annual Conference" held in Edinburgh - England. He has also participated in a programme of Court Management, Case Management, Civil Law Reforms and Family Law Reforms held in India.

He has represented Sri Lanka in numerous global events including the "46th Session of Asian-African Legal Consultative Organization" held in Cape Town-South Africa, "Judicial Colloquium" held in Washington D.C. USA, "INSOL/UNCITRAL/World Bank Joint Multinational Judicial Colloquium on Insolvency" in USA.

MR. SUNIL LANKATHILAKE

Mr. Sunil Lankathilake is a former Deputy Governor of the Central Bank of Sri Lanka. He holds an MSc degree in Economics and a Postgraduate Diploma in Economics from the University of Manchester, United Kingdom and a B.Com degree with 1st Class honours from the University of Peradeniya. He also holds a M.Phil degree in Agricultural Economics from the Post Graduate Institute of Agriculture, University of Peradeniya.

Mr. Lankathilake has more than 32 years of experience in the CBSL in the areas of Economic and Price Stability, Financial System Stability and Agency Functions. Prior to joining the Central Bank in 1986, he has worked as an Assistant Lecturer at the University of Peradeniya.

During his 32 year career in the CBSL, Mr. Lankathilake has participated in a large number of international training programmes conducted by reputed training providers such as IMF, World Bank, ADB, University of Cambridge etc. in the areas of Macroeconomic Management, Macroeconomic Modelling, Financial Programming, Trade Policies, Competitiveness, Project Management, Foreign Investment, Strategic Planning and Management, Human Resource Management and Communication Policy. Mr. Lankathilake has also served as a member of the Board of Directors of Sri Lanka Export Credit Insurance Corporation, Board of Management of the Title Insurance Fund of Registrar General's Department, National Labour Advisory Committee, and several other

MEMBERS OF THE COMMISSION

committees representing the CBSL. Mr. Lankathilake has also represented CBSL in several government missions and negotiating teams especially in the areas of banking relationships, investment promotion and economic and technical co-operations. Mr. Lankathilake has authored many articles and published them in reputed international and local journals and CBSL publications particularly in the areas of economic issues, small-scale industries, international trade, gem industry, apparel industry etc.

Mr. Lankathilake is a reputed resource person in the areas of project management, project appraisal, macro and microeconomics at various fora in different capacities. Mr. Lankathilake has also conducted a large number of presentations at various seminars and conferences on the broader topic of the Economy.

MR. N.W.G.R.D. NANAYAKKARA

Mr. Nanayakkara currently holds the position of Deputy Governor of the Central Bank of Sri Lanka. He has over 29 years of experience in the Central Bank especially in the areas of Supervision and Regulation of Banks, Foreign Reserves Management and International Operations, Implementation of Monetary Policy and related domestic operations, Macroprudential Surveillance, Regional Development and Public Debt Management.

Mr. Nanayakkara holds a Master of Science degree in Finance from the American University, Washington DC and a Bachelor of Science degree in Business Administration from the University of Sri Jayawardenapura. He is a Fellow of the Institute of Certified Management Accountants of Sri Lanka (FCMA), Associate member of the Institute of Chartered Accountants of Sri Lanka (ACA) and a Certified Financial Services Auditor of the Institute of Internal Auditors of USA (CFSA).

MR SANJEEWA DISSANAYAKE

Mr. Sanjeewa Dissanayake was admitted and enrolled as an Attorney-at-Law of the Supreme Court of Sri Lanka in December 1997. He holds a Master's Degree in Human Rights (LL.M) from the University of Hong Kong. He is a Deputy Solicitor General attached to the Attorney General's Department of Sri Lanka and presently released by the Public Service Commission (PSC) to take up duties as the Registrar General of Companies.

Mr. Sanjeewa Dissanayake has experience both in the Criminal and Civil Divisions of the Attorney General's Department and has worked as a prosecutor of the Fiji Independent Commission against Corruption from February 2010 to July 2011. He is an ex-officio member of the Accounting Standards Committee, the Insurance Regulatory Commission of Sri Lanka, the Securities and Exchange Commission of Sri Lanka and, the Sri Lanka Accounting and Auditing Standards Monitoring Board.

MR. SANJAYA BANDARA

FCA, MBA (Col.) B.Sc Accountancy and Financial Management (USJP)

Mr. Bandara is the President of the Institute of Chartered Accountants of Sri Lanka and also a Board Member of the Confederation of Asian Pacific Accountants (CAPA), South Asian Federation of Accountants (SAFA) and Sri Lanka Accounting and Auditing Standards Monitoring Board. Further he is a member of the governing council of the University of Kelaniya (UOK) and the Association of Accounting Technicians of Sri Lanka.

He is a partner of B.R De Silva & Co, Chartered Accountants (Member firm of Nexia International) and counts over 23 years of experience in practice specializing in Assurance Services and financial reporting.

COMPREHENSIVE, ACTION-ORIENTED, PRACTICAL AND MEASURABLE CAPITAL MARKET STRATEGY 2020 - 2025

WHICH IS CURRENTLY BEING IMPLEMENTED BY THE SEC

To position the capital market as the engine of growth

To foster the private sector in order to achieve economic development of the country



KEY REGULATORY AND DEVELOPMENT STRATEGIES

WHICH ARE BEING EXECUTED BY THE SEC

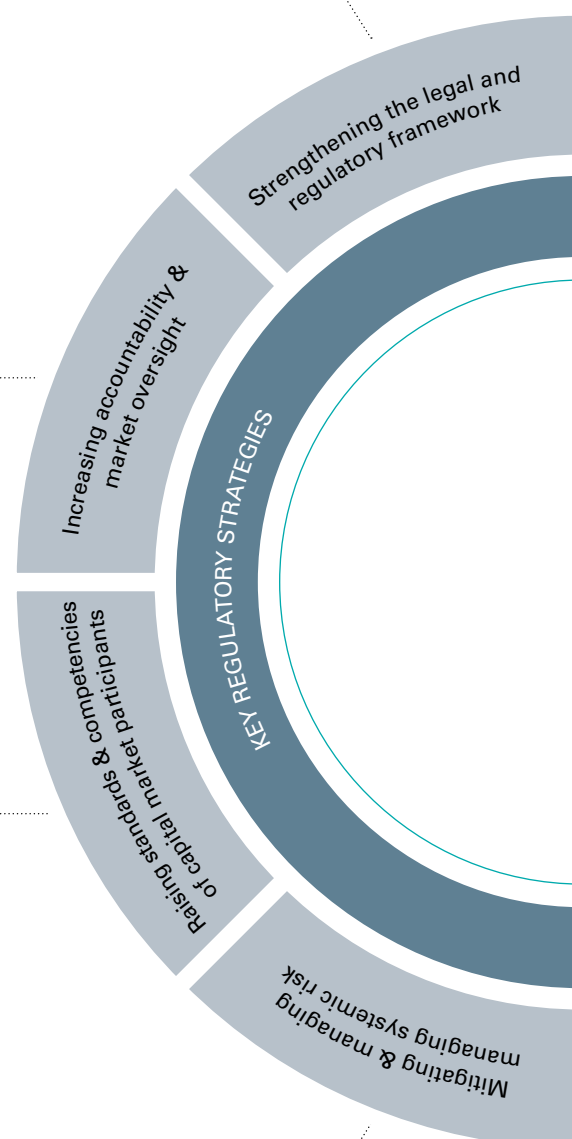
To foster the private sector in order to achieve economic development of the country

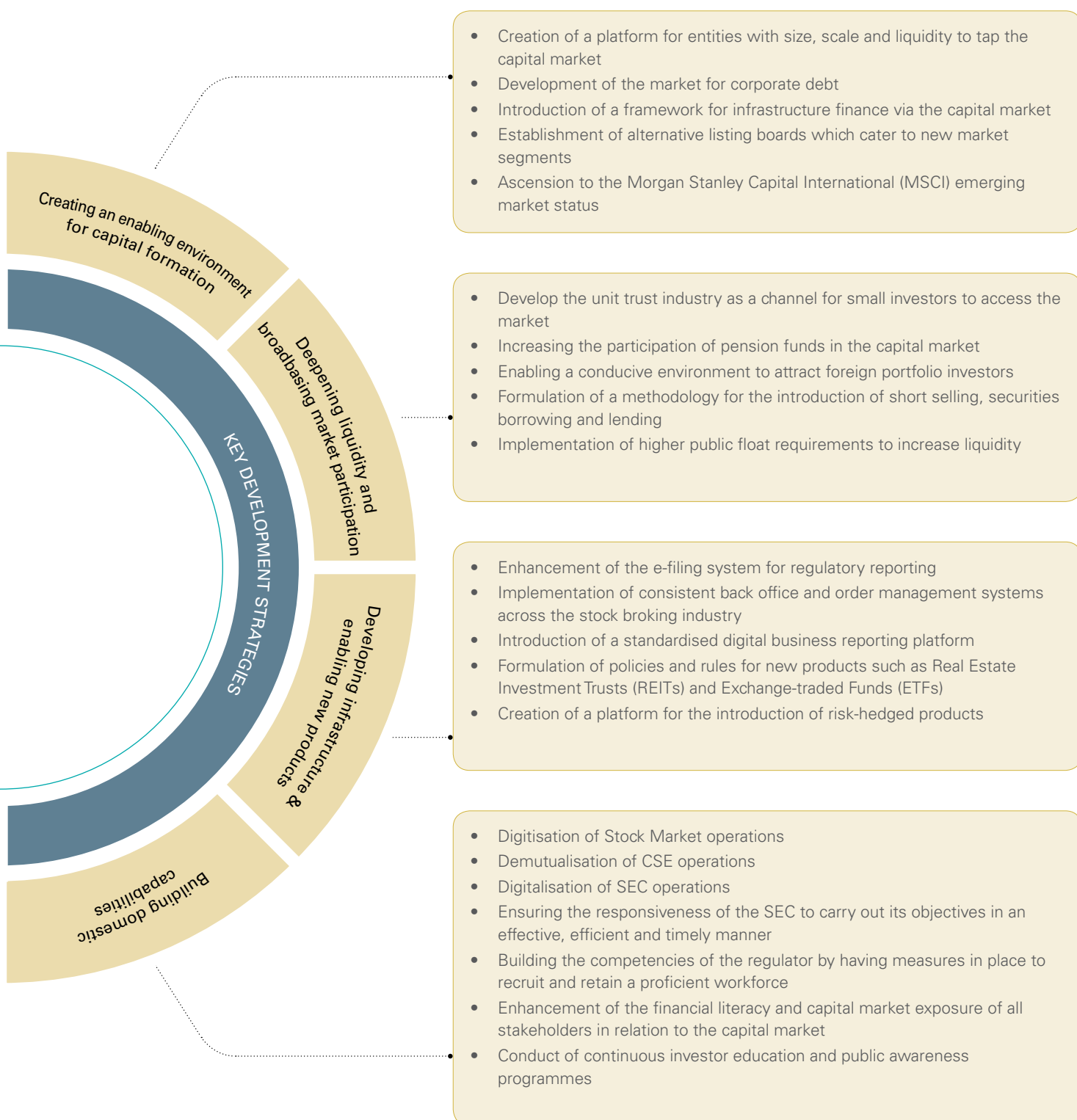
- Submission of the new Securities and Exchange Commission Bill to Parliament
- Appraisal and revision of the Listing Rules of the CSE
- Review of all Rules pertaining to market intermediaries
- Review of the Corporate Governance Code in line with principles set out by the OECD
- Review of the Unit Trust Code
- Finalisation of the new Takeovers and Mergers Code
- Formalisation of the legal structure of securitisation

- Upgrade the surveillance system with advanced functionalities for the effective monitoring of trading
- Development of a comprehensive framework of financial surveillance of Listed Entities
- Casting duties on supplementary service providers to ensure accountability
- Enhancing the SEC oversight of all capital market institutions and intermediaries
- Introduction of an effective deterrence mechanism for curbing capital market misconduct
- Prompt investigations of market offences

- Enhancement of fit and proper standards for capital market institutions, market intermediaries and listed companies
- Standardisation of documentation pertaining to market participants
- Review and upgrade prevailing qualification criteria for capital market participants
- Development of a multilayered licensing framework to accommodate all asset classes
- Evaluation of the feasibility of introducing Global Investment Performance Standards (GIPS) for unit trust managing companies and investment managers
- Enhancement of KYC requirements applicable to regulatees of the SEC to address money laundering
- Categorisation and disclosure of financially-challenged companies
- Development of guidelines for share valuation with respect to regulatory requirement

- Facilitation of the implementation of a Delivery vs Payment (DvP) and a Central Counterparty (CCP) mechanism
- Development of a risk-weighted capital adequacy framework for capital market institutions and intermediaries
- Development of a risk-based assessment framework for on-site supervision





SENIOR MANAGEMENT



MR. CHINTHAKA MENDIS

Director General



MRS. AYANTHI ABEYAWICKRAMA

Director, Legal & Enforcement and
Acting Director, Investigations



MR. TUSHARA JAYARATNE

Director, External Relations and Capital
Market Education



MR. PRABASH WANIGATUNGE

Director, Surveillance and Acting
Director, Capital Market Development



MRS. PRASHANTHI SABESAN

Director, Human Resources



MRS. NIROSHA KODIKARA

Director, Finance and Administration



MISS. MANURI WEERASINGHE

Assistant Director, Corporate Affairs



MR. SUNETH PERERA

Assistant Director, Supervision



MISS MADHUGAYANIE BALAPITIYA

Assistant Director, Investigations and
Information Technology



MR. D.M.G. PRIYANTHA

Assistant Director, Investigations

Absent

Mr. Dhammika Perera, Deputy Director General

SENIOR MANAGERS



MRS. SAJEEWANI BAKMEDENIYA

Senior Manager, Capital Market
Education



MRS. RANMINI JAYATHILAKE

Senior Manager, Information
Technology



MISS. SHARMILA PANDITARATNE

Senior Manager, Legal & Enforcement



MRS. SAUMI KODIPPILY

Senior Manager, Supervision

MANAGERS



MRS. THAKSHILA FRANCIS
Manager, Capital Market Development



MISS. MEKHALA JAYAPALA
Manager, Corporate Affairs



MR. NIMAL KUMARASINGHE
Manager, External Relations



MRS. LAKSHMI WICKRAMANAYAKE
Manager, Finance & Administration



MRS. ASHOKA DAYARATHNE
Manager, Human Resources



MRS. ANULA WIJESINGHE
Manager, Investigations



**MRS. P.M. NIROSHIKA
UDAYANGANIE**
Manager, Legal and Enforcement



MRS. PRATHIBHANI HERATH
Manager, Supervision

Absent

Mr. R.K. Wasantha Sunimal, Manager, Investigations, Mrs. Manjula Chandraratne, Manager, Supervision, Miss. Sheena Goonaratna, Manager, External Relations

Capital Market Development Division



MRS. OLIVI SOLANGAARACHCHI
Senior Assistant Manager



MR. DASUN PERERA
Assistant Manager

Chairman's Office



MRS. SHAMILKA KARUNANAYAKE
Assistant Manager

Corporate Affairs Division



**MRS. KRISHANTHI
MUTHUTHANTHRIGE**
Senior Executive Secretary



MRS. ERANGA MANTHIRIRATHNA
Senior Assistant Manager



MISS. MARIAN G. SANDANAM
Senior Assistant Manager



MISS. SEMINI DIANIKA
Assistant Manager



MRS. SARANYA ANUTHINAN
Assistant Manager



MR. THANISHKA TILLEKERATNE
Assistant Manager

STAFF MEMBERS

Director General's Office



**MISS. K.M. SHANIKA
GUNASINGHE**
Assistant Manager



MRS. ROSHINI PEIRIS
Senior Assistant Manager



MR. RASIKA WALPITAGAMA
Assistant Manager



MRS. KAVEESHA KUMBUKAGE
Assistant Manager



MRS. RADHA G. PRATHIBHA
Assistant Manager



MISS. ASHARA SENEVIRATNE
Assistant Manager

External Relations Division



MRS. NISHOKA JAYATHUNGA
Executive Secretary



MR. M.A. IMRAN
Senior Assistant Manager

Capital Market Education Division



MRS. J.K. PRIYADARSHINI
Senior Assistant Manager

Finance and Administration Division



MRS. PREENIKA NILAKSHI PERERA

Senior Assistant Manager



MISS. DULARI MUHANDIRAM

Assistant Manager



MR. GAYAN LOKUGAMAGE

Assistant Manager



MR. A.C. DIAS

Officer



MISS. ANNE CHRISHANTHI FERNANDO

Receptionists cum Telephone Operator



MRS. DANUSHI THALPITA

Receptionists cum Telephone Operator



MR. S.D. DARMASIRI



MR. L.W.L. PIYATISSA



MR. C.C. NAGENDRAN

STAFF MEMBERS



MR. W. ARIYARATNE



MR. PATHUM NIROSHANA



**MR. M.A. SANDARUWAN
WIJERATHNE**



MR. BUDDIKA BALAPITIYA



MR. SAMITH PREMARATNE



MR. RAJITHA WARUNA

Information Technology Division



MRS. SAKUNTHALA DEVI



MRS. RASANGI DISSANAYAKE
Assistant Manager



MR. RANDIKA SILVA
Assistant Manager

Investigations Division



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Senior Assistant Manager



MR. G.D. KAPILA KUMARA
Senior Assistant Manager



MR. RAKHITHA DISSANAYAKE
Assistant Manager



**MR. W.M.S. DULENDRA
WIJEWARDENA**
Assistant Manager



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Assistant Manager



**MISS. KALAIVAANEE
RAJAKUMARAN**
Assistant Manager

Supervision Division



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SENERATHARACHCHI**
Assistant Manager



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Assistant Manager



MRS. NOMAANIE SENEVIRATNE
Senior Assistant Manager

STAFF MEMBERS



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Senior Assistant Manager



MISS. KAUSHALYA GUNAWARDANA
Assistant Manager



MISS. POORNI WEERASEKARA
Assistant Manager



MRS. SUREKA JAYASEKARA
Assistant Manager



MISS. CHAMILA KARUNARATHNE
Assistant Manager



MR. SACHITRA WARUSEVITANE
Assistant Manager

Surveillance Division



MR. LALINDA DAYARATHNE
Senior Assistant Manager



**MR. DASHANKA
WARNAKULASOORIYA**
Assistant Manager



MISS. RUCHIKA SENARATNE
Assistant Manager



MISS. NILANJANA SIVAJI

Assistant Manager



MISS. W.A.J. GANGA DE COSTA

Assistant Manager

Absent

Mrs. Julie Allegakoen, Confidential Secretary, External Relations, **Mrs. Lakshmi Atapattu**, Confidential Secretary, Corporate Affairs, **Mrs. Samanthi Gunawardena**, Senior Assistant Manager, Corporate Affairs, **Mrs. C. Erandathie Waidyasekara**, Senior Assistant Manager, Legal and Enforcement, **Mrs. Udani Wickramarathna**, Assistant Manager, Legal and Enforcement, **Mrs. Kumari Siriwardane**, Confidential Secretary, Legal and Enforcement, **Mrs. Y.D. Sandamali**, Senior Assistant Manager, Finance and Administration, **Miss. Christobel Silva**, Senior Executive Secretary, Supervision, **Mrs. Dhanesha Rajapura**, Senior Assistant Manager, Human Resources, **Mr. Priyantha Herath**, Senior Assistant Manager, Investigations

HIGHLIGHTS OF THE YEAR



Launching of the second phase of the Digitalization initiative



Listing Forum for family businesses





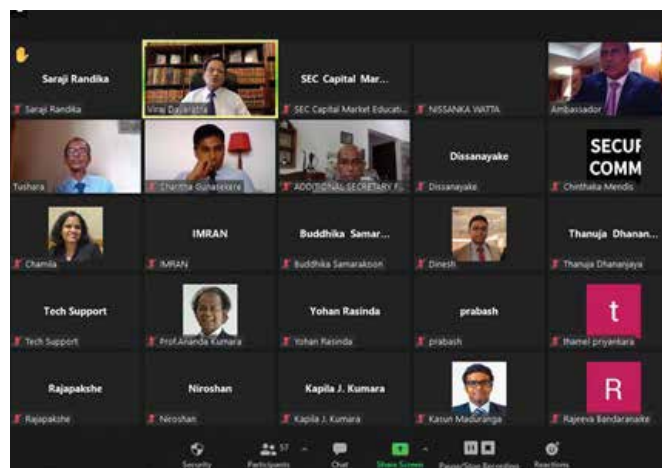
A Discussion on the New SEC Act



Stakeholder Forum on the New SEC Act



HIGHLIGHTS OF THE YEAR



Tokyo online forum for Expatriate Community



Invest Sri Lanka Investor Forum in Dubai





A NEW DIRECTION

OPERATIONAL REVIEW

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OPERATIONAL REVIEW

The Act provides for the regulation of several new categories of market intermediaries such as corporate finance advisors, market makers, derivative brokers and dealers.

REGULATION

Sound and effective regulation is important for the integrity, growth and development of the securities market. The SEC regulates the market by establishing rules and regulations that will ensure fairness, efficiency and orderliness in the market.

Licensing and Registration

The activities that we regulate are primarily set out in the SEC Act. No. 19 of 2021. These activities require the authorisation of the SEC before firms or individuals can carry them out. In that context, Market Institutions, Market Intermediaries and Market Operators are required to obtain a licence from the SEC to provide capital market activities and registered persons who advise clients are required to obtain a registration to discharge their duties. The following entities were licensed by the SEC as at 31st December 2021. (Figure 01)

Figure 01: Licensing and Registration

Type of regulated entity	Total number of licensed entities
Stock Exchanges	01
Stock Broking Companies*	29
Stock Dealing Companies	12
Investment Managers	24
Margin Providers	20
Underwriters	08
Credit Rating Agencies	03
Clearing Houses	01

* Three (03) Stock Broking Companies were under voluntary inactivation of business operations

Policy Initiatives

New Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021

The new SEC Act No. 19 of 2021 was enacted in Parliament and became effective on 21st September 2021. The Act was published as a supplement to Part II of the Gazette of the Democratic Socialist Republic of Sri Lanka on 24th September 2021.

The process of enacting the Act commenced after many amendments were proposed after several stakeholder consultations, both external and internal, since the Bill was first published in the Gazette in November 2017.

The Act has extended the jurisdiction of the SEC to cover public offers of both listed and unlisted companies subject to certain exemptions. The Act provides for the regulation of several new categories of market intermediaries such as corporate finance advisors, market makers, derivative brokers and dealers.

The Act also provides for a wide range of enforcement tools ranging from administrative and civil to criminal sanctions. The Act also provides for sharing of information with foreign counterparts to be better equipped to perform obligations arising from being signatories to the Multilateral Memorandum of Understanding with IOSCO.

Overall, the Act has been harmonised to meet the requirements and international standards in line with IOSCO principles.



Mrs. Ayanthi Abeyawickrama
Director, Legal and Enforcement



Miss. Sharmila Panditaratne
Senior Manager, Legal and Enforcement

Demutualization of the CSE

The Demutualization of the CSE Bill is being reviewed for certain policy changes and further amendments.

Mechanism to handle Investor Complaints by the CSE

The SEC reviewed the concept paper submitted by the CSE and suggested amendments to the policy relating to the establishment of an Independent Tribunal for the purpose of resolving disputes between clients and stock brokers; as well as disputes between clients, stock brokers and margin providers.

Requests by the CBSL for information on Directors of Licensed Finance Companies

The SEC facilitated the process of due diligence on behalf of the CBSL considering the importance of extending the background screening of individuals who are proposed to be appointed or are already appointed as directors or officers performing executive functions of Licensed Commercial Banks and Licensed Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011.

The CBSL has requested the SEC for any observations/adverse findings as per the regulatory framework of the SEC that may prevent such individuals from being appointed as Directors of such Licensed Commercial Banks and Licensed Finance Companies in terms of Section 21(1) of the Finance Business Act No. 42 of 2011.

The SEC facilitated 132 screenings during the year under review.

Approvals

Approvals to Country, Regional and Global Funds

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

During the year 2021, the SEC approved 56 global, regional and country funds to invest in listed securities in Sri Lanka and noted 60 name changes.

Review of Listing Rules and Stock Broker Rules of the CSE

The following Listing Rules were reviewed during the year under review and approval was granted in terms of section 24 of the SEC Act No. 36 of 1987 and section 64 of the SEC Act No. 19 of 2021;

- the amendments proposed by the CSE to Rule 5.2 of the Listing Rules of the CSE to facilitate enhancements to the rights issue framework
- the amendments proposed by the CSE to Rule 7.6(iv) of the Listing Rules of the CSE and Appendices 7B and 8A to facilitate the compilation of a Float-Based version of the ASPI.
- the amendments proposed by the CSE to the Listing Rules to implement the DVP Settlement Mechanism

Amendments to the Trading Rules of the CSE

During the year under review, the following amendments proposed by the CSE were approved by the Commission.

- Amendments to facilitate the implementation of the DVP settlement mechanism and the corresponding margin requirements.
- Amendments to facilitate an over the counter platform for trading repurchase transactions in corporate debt securities
- amendments to facilitate the trading of foreign currency denominated shares issued by local entities.

Review of the CDS and CSE rules

The following CDS Rules and CSE Articles of Association were reviewed during the year under review and approval was granted in terms of the SEC Act to the following:

- amendments to the Rules of the CDS and the CSE to facilitate the implementation of the DVP settlement mechanism.
- amendments to the Rules of the CDS to facilitate the listing, trading and settlement of foreign currency denominated securities issued by entities established/incorporated in Sri Lanka.
- amendments to Article 16 of the Articles of Association of the CSE by the deletion of Article 16(iii) subject to ensuring that the CDS Rules pertaining to the DVP settlement mechanism provides that the margins collected would be utilised to address the substance contained in Article 16(iii); and to require the CSE to assess the adequacy of the liquidity deposit periodically (e.g. quarterly) which would be collected subsequent to the introduction of the DVP settlement mechanism in terms of Article 16(i) and Article 16(ii) of the Articles of Association of the CSE.

OPERATIONAL REVIEW

De-listings

During the period under review, the following three public listed companies were delisted from the official list of the CSE mandatorily in terms of Rules 4(2) and 4(3) of the SEC Rules.

1. Huejay International Investments PLC;
2. Arpico Finance PLC; and
3. Trade Finance and Investments

Deferment from Delisting in Terms of the CSE Listing Rules

A deferment from delisting was granted to a public listed company considering extenuating circumstances posed by the COVID-19 pandemic that prevailed in the country.

Administration of the Take-overs and Mergers Code

The following takeover offers were administered as at 31st December 2021. (Figure 02)

Figure 02: Offers Extended under the Takeovers and Mergers Code

Offeror	Offeree	Nature of the Offer	Status
Hewawasamge Ravindranath Srilal Wijeratne	SMB Leasing PLC	Mandatory Offer	Completed
PGP Glass Private Limited	Piramal Glass Ceylon PLC	Mandatory Offer	Completed
R I L Property PLC	Panasian Power PLC	Mandatory Offer	Completed
Lankem Ceylon PLC	Acme Printing & Packaging PLC	Mandatory Offer	Completed
Shaw Wallace And Hedges Limited	Guardian Capital Partners PLC	Mandatory Offer	Completed

Extensions of Time Granted to Companies to Comply with the Minimum Public Holding Requirements

Concurrence of the SEC was given to the CSE to grant extensions of time to certain listed public companies to comply with the minimum public holding as they fell short of the requirements.

Companies are expected to comply with the minimum public holding requirements within the extended period of time. Failure to do so will result in the company being transferred to the second board of the CSE. One such company that failed to comply within the extended time period was transferred to the second board by the CSE.

Guidelines on Fitness and Propriety

Developed draft Rules and Regulatory standards with regard to the fitness and propriety of key management personnel and persons dealing with clients in the provision of financial services within the regulatory sphere of the SEC.

Facilitation of the Digitalization of Core Functions of the CSE

The SEC and the CSE embarked on a progressive national initiative to enable the digitalization of end-to-end operations of the CSE and facilitated the CSE to operate without any interruption during any national emergency. This initiative is in line with the Government's initiative to digitalize all core activities of institutions providing public services.

The CSE and its fully owned subsidiary the CDS with the direction, guidance and concurrence of the SEC, introduced a platform for prospective CDS account holders to open CDS accounts digitally.

The CSE and its fully owned subsidiary the CDS with the direction, guidance and concurrence of the SEC, introduced a platform for prospective CDS account holders to open CDS accounts digitally without having to physically complete a paper application form and visit a branch office of a stockbroker (Digital CDS account opening facility). Steps were taken to facilitate the approval of amendments to the relevant Rules of the CSE.

Notices on Prohibiting the Transfer of Shares

The SEC was informed of certain freezing orders issued by the High Court of Colombo obtained by the CBSL with regard to restraining the transfer of shareholdings of certain individuals and corporate entities. The SEC took steps to convey the decisions of the High Court of Colombo to the CSE and the CDS for necessary action at the request of the CBSL.

Approvals under Section 29A/81 of the SEC Act

In terms of Section 29A/81 of the SEC Act, applications relating to issuance of unlisted securities by Listed Companies need to be submitted to the SEC. Approval of the Commission was granted to the following entities. (Figure 03)

Figure 03: Approvals under Section 29A/81 of the SEC Act

Name of the Issuer	Type of Security	Amount Approved	Duration
LVL Energy Fund PLC	Unquoted Secured Non-Convertible Deep Discount Bonds	LKR 750 Million	5-Year
Nations Trust Bank PLC	Unlisted, Convertible Debentures	LKR 350 Million	20 years
Bank of Ceylon	Basel III Compliant Tier 2 Unlisted, Unsecured, Subordinated, Redeemable Debentures with Non Viability Write Down features by Way of Private Placement.	LKR 12 Billion	Type A & B: 5 years Type C & D: 8 years
LOLC Holdings PLC	Unlisted, Rated, Unsecured, Senior, Redeemable Debentures by way of a private placement	LKR 2 Billion	Type A- 5 years Type B- 5 years Type C- 10 years
John Keells Holdings PLC	Unlisted convertible preference shares	N/A	N/A
Bank of Ceylon	BASEL III Compliant Tier 2 Unlisted, Rated, Unsecured, Subordinated, Redeemable Debentures With Non-Viability Write Down Features	LKR 8 Billion	5 years and 8 years
John Keells Holdings PLC	Ordinary Shares	USD 50 Mn	N/A
	Non-tradable/non-transferable options ("Options")	USD 30 Mn	Within a period of 12 months from the date of subscription for the initial placement
		Total USD 80 MN	

Off - the - Floor Share Transactions

In terms of Section 84 (1) of the SEC Act, "A person holding securities in a company listed on an exchange shall buy, sell, gift or otherwise deal in such securities in compliance with the trading procedure adopted by such licensed exchange"

Provided however, where no express trading procedure has been adopted by such exchange, the approval of the Commission shall be obtained.

Considering the change in macro-economic circumstances together with volume of transfers processed under exceptional circumstances over last five years, there was a requirement to

revise the fees applicable for Off-the-floor transfers. Further, the off-the-floor transfer fee has not been revised for almost fifteen years from 01st July 2006, as such the administrative charge to facilitate the transfer of listed securities outside the trading floor has been revised with effect from 01st October 2021.

Approvals granted for 1,469 exceptional transfers and 84 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, single to joint/joint to joint/joint to single, financial facilities, gift (special), change of custodian, amalgamation, mandatory offers and restructure.

Approvals under Section 28A/80 of the SEC Act

Where shares in any public company are allotted to any person prior to its listing in a licensed stock exchange, no shares or any security convertible to shares in any such company shall be listed on a licensed stock exchange within a period of one year from the date of the last allotment, unless the written approval of the Commission is obtained for that purpose prior to such listing. (Figure 04)

OPERATIONAL REVIEW

Figure 04: Approvals under Section 28A/80 of the SEC Act

Names of Companies	Action Taken / Current Status
Lanka Credit & Business Finance Limited	Approval Granted
Abans PLC	Approval Granted
Sarvodaya Development Finance PLC	Approval Granted
Co-Operative Insurance Company Limited	Approval Granted
LOLC General Insurance PLC	Approval Granted
hSenid Business Solutions Limited	Approval Granted
Hela Apparel Holdings Limited	Approval Granted
Myland Developments Limited	Approval Granted
Luminex Limited	Approval Granted
Exterminators (Pvt) Limited	Approval Granted

Deferment of Enforcement Rules of CSE

The SEC reviewed 3 matters during the year relating to deferment from suspending the trading of securities in CSE. Deferment was pertaining to Blue Diamonds Jewellery Worldwide PLC, Multi Finance PLC and Nation Lanka Finance PLC in relation to sections 7.5 (d) (ii) of CSE Listing Rule.

OVERSIGHT AND COMPLIANCE

Full disclosure of information material to investors' decisions is the most important means for ensuring investor protection. Investors are, thereby, better able to assess the potential risks and rewards of their investments and, thus, protect their own interests. When the SEC detects violations of disclosure regulations, they are proactively communicated to listed companies. Such efforts contribute to preventing the occurrence and recurrence of violations of disclosure regulations.

Compliance with securities laws and regulations is part of the essential foundation of fair and orderly markets as well as investor protection. Entities regulated by the SEC should conduct themselves in a way that protects the interests of their clients and preserves the integrity of the markets.

Supervision by SEC includes a comprehensive system of inspection, surveillance and ongoing compliance programmess, including regular interaction between the SEC and the market intermediaries



Miss. Manuri Weerasinghe
Assistant Director, Corporate Affairs



Miss. Mekhala Jayapala
Manager, Corporate Affairs

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. Listed Companies are required to disseminate material information promptly in order to establish transparency and accountability in the securities market, and to ensure that professional standards are maintained.

In reviewing the Annual Reports, the SEC focused on the following areas:

- Compliance with CSE Listing Rules, Sri Lanka Accounting Standards and relevant provisions of the Companies Act
- Corporate Governance Practices
- Financial Highlights
- Chairman's Report
- Report of Directors
- Independent Auditors' Report
- Shareholder and Investor Information
- Financial Data
- Reports on Board Sub-Committees

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

During the year, the SEC conducted 147 Annual Report reviews of listed companies with 157 letters of comments were sent to improve compliance and enhance disclosures.

Moreover, we conducted preliminary reviews for 12 debt and 21 equity prospectuses.

The SEC also conducted preliminary reviews of shareholder circulars of 08 companies who applied for further raising of funds from the existing shareholders and feedback provided to enhance disclosures.

The SEC reviewed 8 Independent Advisors' Reports and provided regulatory observations to enhance disclosure content.

Regulatory Actions Taken in Relation to Disclosures and Corporate Affairs of Public Listed Companies

During the year, SEC reviewed disclosures via market announcements by listed entities and sought clarifications from CSE relating to 93 instances. Such clarifications were relating to the following disclosures. (Figure 05)

Figure 05: Actions Taken in Relation to Disclosures and Corporate Affairs of Public Listed Companies

Nature of clarification	No of Instances
Dealings by Directors whilst PLC on Watch List/Second Board	2
Dealings by Directors – Delayed Disclosure	27
Dealings by Directors – Trading during Black Out period (LR 8.6)	10
Delayed disclosures	
Changes in Directorate	34
Other immediate corporate disclosure requirements	20

Matters Referred to Other Regulators/CSE/Other Institutions

The following matters were referred to the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB), CSE and Department of Government Valuation to obtain clarifications whether the recognition, measurement and disclosures are in compliance with applicable standards. (Figure: 06)

Figure 06: Matters Referred to other Regulators

Regulator	Number of Companies	Description of the Matter
Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)	1	Radiant Gems International PLC Matters relating to Auditor of the Company and publishing of Audited Financial Statements on the CSE website were communicated for the information and necessary action of the SLAASMB
Colombo Stock Exchange	1	Tess Agro PLC PLC was required to make an immediate market disclosure based on findings of SEC & CSE
Department of Government Valuation	1	Citrus Leisure PLC A pending public complaint was resolved based on the input received from Department of Government Valuation

The supervision of stock brokers is conducted based on a risk-based approach which assesses the relative risk profiles of the companies, taking both the impact and probability of a risk occurrence into consideration.

Supervision of Market Intermediaries

As per the SEC Act, No. 19 of 2021, the SEC is empowered to grant licences and perform the regulatory oversight for eleven categories of Market Intermediaries, which includes stock brokers, stock dealers, credit rating agencies, investment managers, managing companies of unit trusts, margin providers, underwriters, corporate finance advisors, derivative brokers, derivative dealers and market makers.

Stock Broker Firms

As stipulated in the SEC Act No. 19 of 2021 and Rules and Regulations made thereunder, the SEC is entrusted with the task of licensing and supervising stock brokers. The objective of supervision is to ensure financial stability and operational viability of stock brokers and thereby strengthen investor protection and foster investor confidence in the capital market.

The supervision of stock brokers is conducted based on a risk-based approach which assesses the relative risk profiles of the companies, taking both the impact and probability of a risk occurrence into consideration. The risks, which stock brokers are exposed to could be identified as prudential, liquidity, counterparty, financial, credit, operational, position and legal risks.

OPERATIONAL REVIEW

Despite the Covid-19 pandemic in the year 2021, the SEC carried out on-site supervision and off-site supervision of stock brokers towards achieving effective enforcement to ensure compliance by the entities.

Off-site supervision entails reviewing and analysing financial statements, statutory returns, reports uploaded to the Electronic Filing System and any other reports submitted by the stock brokers. Any discrepancies and non-compliances observed during off-site reviews were notified to the company for rectification.

During the period under review, extensions were granted to two stock brokers to re-activate its business operations having considered their appeals for extension due to extraordinary supervening impact caused by the COVID-19 pandemic. These two stock brokers inactivated its business operations for two years in terms of Section 12 of the CSE Stockbroker Rules and subsequent approval of the SEC. Furthermore, two stock brokers underwent name changes, with the approval of the SEC.

During the year under review, total turnover of the stock brokers increased by 215% compared to the previous year. The profitability of the industry witnessed a 260% increase, recording a net profit after tax of Rs. 6,308 million in 2021 compared to a net profit after tax of Rs.1,751 million reported in 2020. This was largely due to the stock market becoming the preferred choice for a large number of investors due to the lower bank interest rates prevailed during the year, and other progressive steps taken by the Government and the SEC to develop the capital market. Additionally, the digitalization of the end to-end operations of the CSE spearheaded by the Joint Committee of the SEC and CSE appointed by the Chairman of the SEC also contributed to this overall growth. The comparative statistics on the performance of the stock broker industry is given below. (Figure: 07)

Figure 07: Highlights of the Stock Broker Industry

	2021 (LKR '000)	2020 (LKR '000)	Change %
Turnover	13,555,296	4,303,668	215%
Net brokerage	12,764,289	3,929,094	225%
Other income	2,015,305	851,656	137%
Operating profit/loss	8,162,762	2,113,479	286%
Net profit/loss before tax	7,723,787	1,905,233	305%
Net profit/ loss after tax	6,307,940	1,751,330	260%
Total assets*	36,490,460	19,893,383	83%
Total liabilities *	23,956,798	12,943,874	85%
Shareholder Funds*	12,533,662	6,949,509	80%

*As at 31 December

Source: Un-Audited financial statements submitted by the Stock Brokers to SEC

Unit Trust Industry

The SEC having taken into consideration the operational challenges due to the unprecedented situation arising from the pandemic, strengthened the risk-based approach in supervision of the Unit Trust Managing Companies (UTMC).

We conducted a risk-based approach for both on-site and off-site supervision of the UTMCs during the year emphasising on the key risks in areas such as prudential, operational, liquidity, adequacy of management policies to assess the financial strength and implementation of the required internal controls and procedures to ensure compliance with the applicable Rules and Regulatory requirements.

The risk based on-site supervision conducted on certain companies during the year focused on its business operations, risk management and internal controls in order to ascertain its level of compliance with applicable regulatory requirements. The said on-site inspections were conducted remotely due to the pandemic.

The SEC conducted off-site supervision by analysing the information in regulatory filings. We maintain regular interaction with the Trustees of the Unit Trust Funds and the UTMCs to ascertain the financial stability of the Unit Trust Funds and their compliance with the stipulated regulatory requirements.

Further, through off-site reviews, we ensured that the UTMCs maintain adequate financial strength, internal controls and proactive risk management practices in order to ensure stability of the capital market. We have continued to provide timely guidance to UTMCs to assist them in ensuring compliance with the applicable regulatory requirements.

The off-site monitoring and supervision was further strengthened through the analysis of the monthly unaudited financial statements and return submissions to ensure that the financial condition of the UTMCs were stable and operated in compliance with the minimum net capital requirement as stipulated by the SEC. In addition, compliance with the requirement on the minimum number of unit holders, investment parameters and the liquidity requirement of the Unit Trust Funds were scrutinised to ensure that such funds were within acceptable limits as set out in the Unit Trust Code, and directives issued by the SEC.

During the review of advertisements and promotional material for the Unit Trust Funds filed with the SEC by the UTMcs, there were deviations identified by the SEC with the SEC Directive on "Guidelines pertaining to Unit Trust Advertisements and Promotional Materials". Subsequently, measures have been taken by the UTMcs to rectify the said discrepancies in accordance with the requirements stipulated in the said Directive.

During the year, the SEC approved two new Unit Trust Funds to be introduced to the capital market that will mainly focus on the Dollar denominated instruments issued by the Government of Sri Lanka subject to the said Funds obtaining the necessary approval from the CBSL.



Mr. Suneth Perera
Assistant Director, Supervision



Mrs. Saumi Kodippily
Senior Manager, Supervision

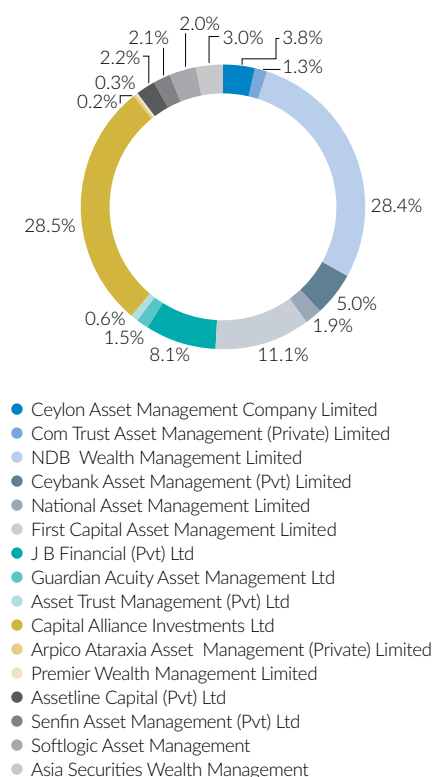
The Net Asset value of the Unit Trust Funds stood at LKR 194 Billion (approx.) as at 31st December 2021 and the number of Unit Holders has increased by 13.4% compared to the previous year. (Figures: 08, 09)

Figure 08: Overall Position of Unit Trust Funds

	As at 31.12.2021	As at 31.12.2020	Change %
Number of Approved Unit Trust Funds	75	75	
Net Asset Value of Unit Trusts (Rs. Bn. approx.)	194.00	201.00	(3.4)
Number of Unit Holders	59,426	52,402	13.40
Number of Units Issued (No. Mn. approx.)	7,835	8,014	(2.2)
Investment in Equity (Rs. Mn. approx.)	17,586	14,019	25.4
Investment in Government Securities (Rs. Mn. approx.)	28,755	28,803	(0.2)
Investment in Other Instruments* (Rs. Mn. approx.)	148,907	158,656	(6.1)

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

Figure 09: Market Share of Unit Trust Managing Companies



Other Market Intermediaries

The regulatory role of the SEC involves supervising and monitoring the activities of the capital market intermediaries to ensure that all licenced entities are financially stable, operationally viable and equipped with adequate internal controls and measures.

In order to identify, monitor, mitigate and manage risks pertinent to the market intermediaries, an effective and robust framework was adopted for both on-site and off-site supervision. Despite of the Covid-19 pandemic during the year under review, SEC conducted on-site supervision and off-site supervision of other market intermediaries in order to ensure compliance with applicable rules and regulations.

During the year 2021, three investment manager licences, two underwriter licences, one credit rating agency licence and one stock dealer licence were granted whilst four margin providers who did not wish to pursue its operations voluntarily surrendered their licences. (Figure 10)

OPERATIONAL REVIEW

Figure 10: Financial Highlights of Market Intermediaries (In LKR Mn)

Category	Total Revenue	Net Profit before Tax	Total Assets	Total Liabilities
Margin Providers	68,572	28,389	687,456	556,899
Investment Managers	2,694	1,709	4,268	729
Credit Rating Agencies	233	81	325	84
Clearing House	614	484	2388	1281
Multi-purpose Entities*				
Margin Provider/ Underwriter	209,060	125,172	6,359,981	5,712,235
Investment Manager/ Underwriter	292,515	44,802	3,800,921	3,595,267
Margin Provider/ Underwriter/ Investment Manager	5,525	882	34,047	29,937

*Entities with multiple licences granted by the SEC

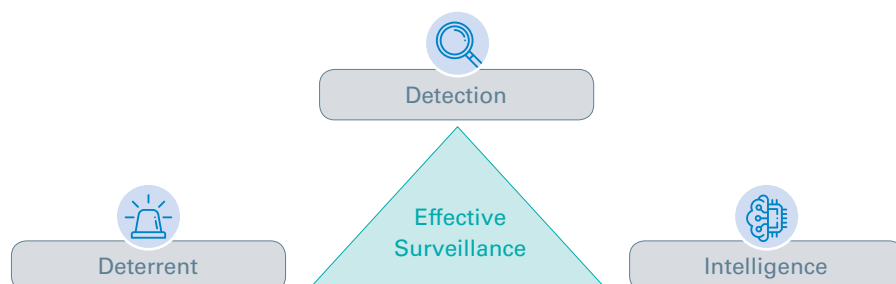
SURVEILLANCE, INVESTIGATION AND ENFORCEMENT

The integrity of the capital market is maintained through a combination of surveillance, investigation and enforcement of relevant laws and rules. Market surveillance, in particular, plays a significant role in anticipating the potential vulnerabilities to a capital market. Where there are cases of possible violations of securities laws, these are subsequently further investigated and enforcement action taken when necessary.

Surveillance

The SEC operates within the core regulatory objective of creating and maintaining a fair, orderly, efficient and transparent securities market. Thus, the surveillance function plays a key role in ensuring safety and integrity of the capital market. For this purpose, the SEC maintains a proactive approach to oversight on prohibited conduct through routine observations and analysis of unusual movements and trends in the market. Possible market offences that fall within the purview of SEC is set out in 'Part V' of the SEC Act, No. 19 of 2021. The surveillance function is dedicated to striking a balance between regulation and market dynamics in order to pave the way to credible deterrence. Strategies that are implemented in identifying market offences whilst considering the fundamental components of effective surveillance are detection, intelligence and deterrent. (Figure: 11)

Figure 11: Components of Effective Surveillance

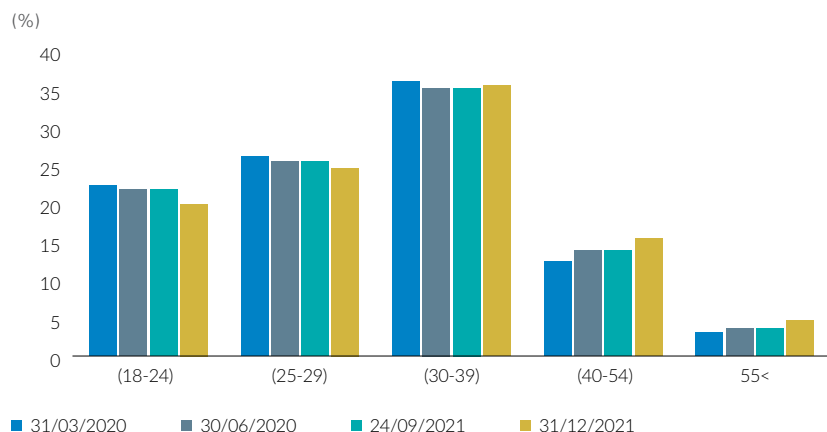


The surveillance function is dedicated to striking a balance between regulation and market dynamics in order to pave the way to credible deterrence.

SEC observes real time trading data in order to determine unusual movements in price and volume with the aim of preventing possible market misconduct in trading securities. Where necessary, a detailed analysis will be carried out upon detection of suspicious trading activities, to clearly recognise prohibited conduct so that appropriate action can be instigated via Surveillance Referrals/Notes. Consequently, timely and proportionate actions are carried out pertaining to prohibited conduct, taking into account the context of the trading environment and the impact on the prevailing market. The new and improved process flowchart of the SEC that specifies the sequence of steps to be followed for effective surveillance was approved by the Commission during the year 2021.

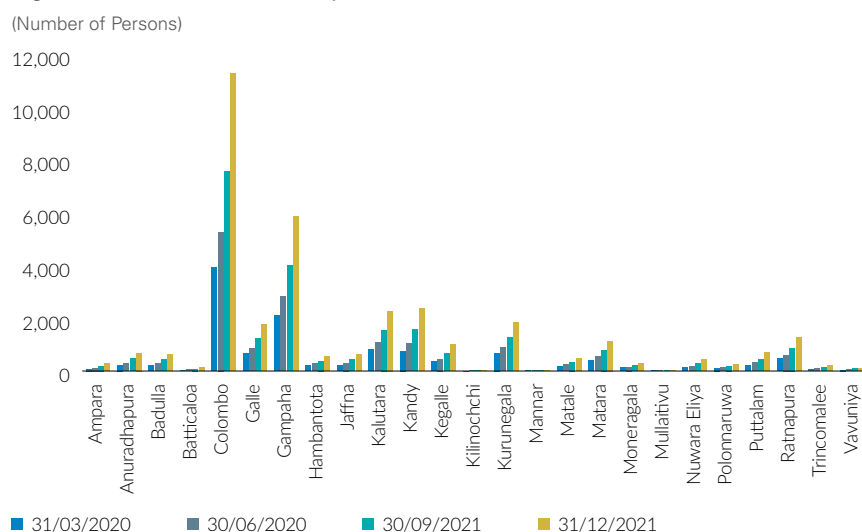
The market continued to witness a boom with the active participation of the younger population due to the digitalization efforts of trading activities. The population between the ages of 18 and 39 in particular demonstrated an active participation in the market. This resulted in accelerated trading activities via online platforms during the year 2021. (Figure: 12)

Figure 12: Age Wise Participation in the Market



Seamless trading facilities that resulted from digitalization of trading activities further contributed to the increased momentum in the market as investors from different parts of the country entered the market. These investors traded actively throughout the year. (Figure: 13)

Figure 13: District-Wise Participation in the Market



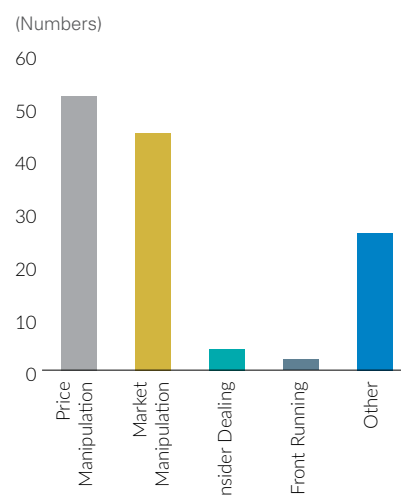
In order to respond to the impact of the increased novice participation in the market, the SEC adopted a holistic approach to observe unusual developments in the market by expanding its scope to the extent of monitoring the content that is being shared on social media platforms and other public domains. In addition, when appropriate, on the basis of reports received from the CSE or internal findings of other divisions of SEC or specific complaints received from external parties, preliminary analysis was conducted to determine whether the trading raises suspicion of market misconduct.

Proactive Surveillance

The SEC actively promotes preemptive measures that will restore the confidence of the investor community. In keeping up with the objective of carrying out proactive surveillance, depending on the severity of the observations made, the clarifications were sought promptly via telephone calls from investment advisors, compliance officers and investors pertaining to 35 cases and pursued clarifications via 37 letters from investors

and other stakeholders during the year 2021. This proactive approach has aided in containing attempts that may have caused or seem to have caused any misconduct in maintaining integrity of the market. (Figure: 14)

Figure 14: Categories of Suspected Offences



Surveillance Referrals and Notes

Based on SEC's surveillance findings, CSE's Surveillance Referrals and complaints, serious suspected market malpractices were identified and these Surveillance Referrals/ Surveillance Notes were referred to the Surveillance and Investigation Committee (SIC) for deliberation and determinations under the framework of,

1. A connected person trading in the shares of a listed company whilst in the possession of unpublished price sensitive information in respect of the securities of the said company
2. Creation, causing to create or doing anything calculated to create a false or misleading appearance or impression of active trading or that of the market

During the year 2021, 21 Surveillance Referrals/ Notes were successfully compiled. These Referrals and Notes contained possible cases of Market Manipulation, Front Running and Wash Trade.

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Making use of Technology for Analysis

The SEC sought the services of a competent Consultant under the World Bank funded project - “Financial Sector Modernisation” which was intended to ensure capacity building and streamlining existing processes to reinforce surveillance undertakings. The SEC is in the process of procuring an advanced surveillance system based on expert consultancy which held the notion that the current surveillance system can be further transformed by upgrading its functionalities.

The surveillance function placed paramount importance on technological advancements during the course of the year 2021. Initiatives were taken to improve divisional performance by way of standardisation through new and progressive analytical tools that will increase the uniformity, comparability, predictability and consistency of the analysis and reporting process. Such analytical tools with high-tech capabilities are expected to assist in quickly identifying unusual trading patterns, accurately analysing trading data alongside market disclosures and efficiently documenting facts relating to trading activities flagged as suspicious. Investment in technological mechanisms lead to the ease of analysing large volumes of data.



Mr. Prabash Wanigatunge
Director, Surveillance

Investigations

The SEC conducts investigations into suspected contraventions of the provisions of the SEC Act, Rules and/or Regulations made thereunder. Further,

the SEC consults the representatives of the Attorney General's Department with regard to recommending suitable enforcement action based on the material/evidence elicited during the course of investigations.



Mrs. Ayanthi Abeyawickrama
Director, Legal & Enforcement and Acting Director, Investigations



Miss. Madhugayanie Balapitiya
Assistant Director, Investigations



Mr. D.M.G. Priyantha
Assistant Director, Investigations

During the year 2021, the SEC concluded 9 investigations out of the 21 investigations that were carried forward from the previous year. It was decided that 04 investigations which were concluded during the year warranted enforcement action whereas 05 investigations were concluded without

recommending enforcement action due to non-availability of evidence to establish contraventions of the provisions of the SEC Act, Rules and/or Regulations made thereunder. Further, it was decided to take enforcement action against 8 personnel based on the findings elicited in connection with 2 other investigations. However, the investigation activities pertaining to certain other personnel connected to the aforesaid 2 investigations were in progress at the end of the year.

During the year under review, it was decided to initiate the following enforcement action based on the findings of 6 investigations conducted by the SEC;

- Issued Show Cause Notices to 9 personnel in respect of alleged Insider Dealing;
- Issued Show Cause Notices to 9 personnel in respect of alleged Market Manipulation and;
- Resolved to issue Show Cause Notices to 3 personnel in respect of alleged violation of the Takeovers and Mergers Code

Further, the relevant findings of 1 investigation was referred to the CBSL for necessary action.

Moreover, in the year 2021, it was resolved to commence 5 fully-fledged investigations. Consequently, by the end of 2021, 17 investigations were in progress and a summary of the status of the said investigations is given below;

- Out of the 5 investigations conducted into suspected Insider Dealing in the shares of listed companies, 1 investigation was commenced during 2021 and the other 4 investigations were at the final stage, as at the year end.
- Out of the 5 investigations conducted into suspected Price/Market Manipulation in the shares of listed companies, 2 investigations were commenced during 2021 and 2 investigations were at the final stage, as at the year end.

- Out of the 6 investigations conducted into suspected Price/Market Manipulation and/or Insider Dealing in the shares of listed companies 5 investigations were at the final stage as at the end of the year.
- Investigation conducted into possible violation of Take-overs and Mergers Code by a listed company was at the final stage as at the end of the year.

In addition to the above investigations, the SEC attended to the following matters during the year under review:

- The Secretariat was instructed by the Members of the Commission to analyse and provide suitable recommendations pertaining to certain transactions effected in several securities listed on the CSE pursuant to a report submitted by another regulatory agency. Accordingly, the Secretariat compiled 16 Preliminary Findings Reports.
- The Secretariat was instructed to identify CSE referrals (out of 20 CSE referrals that were received by the SEC for the period commencing from 16th January 2020 to 22nd March 2021) which could be taken as fully-fledged investigations and to inform the Members of the Commission on its preliminary findings. Accordingly, the Secretariat attended to the matter during the year. Few of the reports were at the final stage at the end of the year.
- The Secretariat along with the Legal and Enforcement as well as the Surveillance Divisions attended to an enforcement matter during the year under review.
- During the month of November 2021, the Surveillance Division shared 14 more CSE Referrals received by the SEC for the period commencing from 04th March 2021 to 08th October 2021 for the perusal/review of the Investigations Division. The Division attended to the matter and subsequently the Division was instructed to conduct investigations into the said 14 CSE Referrals.

Enforcement Action

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

Issue of Notices of Action and Show Cause

- The Chairman/ Chief Executive Officer of a holding company was issued a 'Show Cause' to explain as to why the SEC should not take action against him with regard to certain manipulative trades in violation of Rule 13 and Rule 14 of the SEC Rules in the shares of a public listed company carried out by several accounts related to the group of companies to which the holding company belonged.
- Nine identified investors were issued 'Notices of Action and/or 'Show Cause' to explain as to why the SEC should not take action against them for their unusual trading patterns in the shares of a listed public company that caused a significant price increase in the shares of the company which was deemed to be abnormal by the SEC.

Issue of Warnings

Nine identified investors were issued "Warnings" against causing undue price volatility/changes to shares listed on the CSE by using buy orders containing one share to less than 100 shares.

Litigation

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

The SEC instituted the above action in the Magistrate's Court Colombo Fort against M. Imtiaz Samsudeen and Bafiq Nizar for conspiracy to commit market/price manipulation and for committing market/price manipulation punishable under Rule 12 of the Securities and Exchange Commission of Sri Lanka Rules as published in Gazette Extraordinary No.1215/2 dated 18th of December 2001 read with Sections 113(b) and 102 of the

Penal Code under Section 51(1)(a) of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 as amended.

The matter is pending before Court.

Talib Tawfiq Al Nakib vs. SEC and CSE Case No. WP/HCCA/LA/158/2017 / WP/HCCA/CCL 175/2017(F)

The Petitioner lodged an application before the District Court of Colombo seeking an order against the CSE and the SEC to conduct investigations into the affairs of an unlisted company. The matter was dismissed by the District Court of Colombo.

The petitioner lodged an appeal in the High Court against the judgement delivered by the Honourable District Judge of Colombo in case No. DSP/20/2016 which was instituted by Talib Tawfiq Al Nakib against the SEC and the CSE.

The said appeal is pending.

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

Four of the accused in this case who were convicted for not immediately disclosing certain material information in contravention of the SEC Rules by the Learned Magistrate of Colombo Fort have appealed against the judgment and their sentence to the Provincial High Court. The Court re-affirmed the judgement against three of the accused's but mitigated the sentence in appeal. The appeal against the conviction and sentence is pending against the 6th accused appellant in the High Court of Colombo.

SEC v Lanka Kannangara, Kapila Senerath, Faariq Furkhan, and Raveendra Mallawarachchi, MC/ Fort/13736/19

Legal action was instituted in the Magistrates Court, Colombo Fort against four investment advisors for market manipulation, conspiracy to commit market manipulation and for aiding and abetting which are offences punishable under Rule 12 of the SEC Rules as

OPERATIONAL REVIEW

published in Gazette Extraordinary No. 1215/2 dated 18th of December 2001 read with Section 113 (b) and 102 of the Penal Code under Section 51(1) (a) of the SEC Act No.36 of 1987 as amended.

The case is pending before Court.

SEC v W.K.H. Wegapitiya, Thilak De Silva and Thakshila Hulangamuwa, MC/ Fort/16967/20

Legal action was instituted against the above mentioned persons in the Magistrates Court, Colombo Fort for market manipulation, conspiracy to commit market manipulation, and for aiding and abetting which are offences punishable under Rule 12 of the SEC Rules as published in Gazette Extraordinary No. 1215/2 dated 18th of December 2001 read with Section 113 (b) and 102 of the Penal Code under Section 51(1) (a) of the SEC Act No.36 of 1987 as amended.

The case is pending before the Court.

SEC vs Sena Yaddehige and S. Thinamany, MC/Fort/12639/19

Sena Yaddehige v SEC, CA/ Writ/417/2017

Sena Yaddehige v SEC, SC/SPL/LA 100/19

Legal action was instituted before the Magistrates Court, Colombo Fort against Dr. Sena Yaddehige and Mr. Subramaniam Thinamany for Insider Dealing and Aiding and Abetting thereto, in contravention of section 32 of the SEC Act No 36 of 1987 as amended read with Section 102 of the Penal Code respectively. Summons were issued by the learned Magistrate against the said persons. Thereupon, the first accused filed a writ application against the SEC before the Court of Appeal seeking inter alia to stay the proceedings before the Magistrates Court.

Court of Appeal delivering order refused to stay the proceedings before the Magistrates Court and sought written submissions to be filed on the issue of notice.

Thereafter, the accused appealed for special leave to appeal to the Supreme Court challenging the order made by the Court of Appeal in relation to the writ application. The SEC took up a preliminary objection on the matter on the grounds that the affidavit was not properly filed by the petitioner in terms of the Oaths and Affirmations Ordinance and the Consular Functions Act of 1981. The Court reserved order on the preliminary objections made and the proceedings before the Magistrates Court and the Court of Appeal were stayed pending the order of the Supreme Court.

The order of the Supreme Court is pending.

SEC vs Ms. Danushya Gulamhusein (MC Fort/17599/20)

SEC vs Mr. Sandanam Raju (MC Fort/17600/20)

The SEC filed action against the above mentioned persons for not appearing before the SEC when summoned to record a statement in connection with an investigation conducted by the SEC.

The Matters are pending before Court.

Urban Development Authority (UDA) Vs. On'ally Holdings PLC - HC (Civil)/11/2021/CO

The UDA, a major shareholder of On'ally Holdings PLC, has filed an application against On'ally Holdings PLC under Section 225 of the Companies Act read with Sections 226, 520 and 521 of the said Act alleging that the affairs of On'ally Holdings PLC are being conducted in a manner prejudicial to the interests of the Company through a material change in control of the Company which has taken place through the ownership of the shares by another Public Listed Company, which took over On'ally Holdings PLC recently.

The UDA has cited On'ally Holdings PLC, Lanka Reality Investments PLC, Renuka Capital PLC, PW Corporate Secretarial (Private) Limited as the 1st to 05th

Respondents respectively and the SEC has been cited as the 06th Respondent. However, no reliefs have been prayed against the SEC.

In this matter, UDA has prayed inter alia;

- a. for the grant of a declaration that due to the material change that has taken place in the control of the Company by the purchase of 50.8% of the shares of the 01st Respondent Company by the 02nd Respondent Company, the affairs of the 01st Respondent Company are and/or will be carried out in a manner prejudicial to the interests of the 01st Respondent Company;
- b. for a declaration that the 02nd Respondent is not entitled to exercise the voting rights on any shares over 43.82% of the shares in the 01st Respondent Company at any general meeting of the shareholders of the 01st respondent until the conclusion of the inquiries by the SEC and the CSE pursuant to the complaint made by the Petitioner;
- c. for a declaration that the 02nd Respondent is not entitled to exercise voting rights on any shares over 43.82% of the shares of the 01st Respondent Company at any general meeting of the shareholders of the 01st Respondent, until the public shareholding in the 01st Respondent Company is compliant with the continuing Listing Requirements of the CSE;
- d. for an interim order restraining the 02nd Respondent from exercising the voting rights of any shares over 43.8% of the shares of the 01st Respondent Company at any general meeting until the conclusion of the inquiries by the SEC and CSE into the complaints made by the Petitioner;
- e. for an interim order restraining the 02nd Respondent from exercising its voting rights on any shares over 43.82% of the shares of the 01st Respondent at any general meeting

- of the shareholders until the public shareholding of the 01st Respondent Company is in compliance with the Listing Rules of the CSE; and
- f. for an interim order restraining the 02nd Respondent from proposing, requisitioning and /or voting on any resolution at a general meeting of the 01st Respondent Company to disburse any retained earnings of the 01st Respondent Company and/ or dispose of any asset of the 01st Respondent Company.

The matter is pending before the Commercial High Court.

S.C.FR. Application No. 182/2021 - Eng. G. Kapila Renuka Perera vs the Hon. Attorney General and 32 others including the SEC

The petitioner has filed a fundamental rights application in the Supreme Court against Selendiva Investments Limited and 32 others including the SEC (cited as the 7th respondent) seeking inter alia a declaration of an imminent violation of one or more of the fundamental rights of the petitioner (including all other citizens of Sri Lanka) guaranteed under the Constitution.

The petitioner has also sought a declaration that the Cabinet Decision dated 06th March 2020 which established Selendiva Investments Limited (which is a new state owned property Development Company having the primary objective of transforming the state owned hospitality portfolios to optimum performance level through appropriate restructuring) as being null and void. The Treasury owns 100% of the company.

An interim order has been sought on the SEC to restrain the SEC from permitting the listing of Selendiva Investments Limited on the CSE.

The matter is pending before the Supreme Court.

C.A. (Writ) Application No. 148/2021: M.A.C.E. Manthirratne vs SEC and 14 others

The petitioner in this matter has filed an application for the grant of writs of Certiorari and Mandamus in the Court of Appeal seeking to quash a decision made by the SEC in granting a promotion to an employee and seeking a direction on the SEC to promote the petitioner instead; or in the alternative to promote the petitioner to the post of Manager by placing the petitioner above the employee who has been already appointed to the post of Manager.

The case is pending before the Court of Appeal.

CASE NO: SC (SPL) LA Application No.177/2021

The petitioner company Punchalingam Association (Pvt) Ltd filed an application for writs of certiorari against certain directions issued by the Central Bank of Sri Lanka with regard to shares that were held by the company in HNB PLC. The petitioner company is seeking to set aside the directions of the CBSL.

The monetary Board, the Governor of the Central Bank of Sri Lanka, two directors of the department of bank supervision and four others including the SEC were cited as respondents. Upon being refused the grant of writ by the Court of Appeal the petitioner company has filed for special leave to appeal to the Supreme Court. No relief has been sought from the SEC.

This matter is pending before the Supreme Court.

Complaints Redress System

Status of complaints relating to listed entities received and redressed are given below. (Figure: 15)

Figure: 15 Complaints and Matter Relating to Listed Companies

Nature of Complaint	Number of Complaints attended	Action Taken / Current Status
Conduct of Board of Directors of Public Listed Companies	3	03 matters concluded appropriately
Conduct of Public Listed Companies	6	06 matters were resolved appropriately
Non-Compliance with SEC Rules / CSE Listing Rules	3	03 matters were resolved appropriately.
Other Administrative matters	5	05 matters concluded appropriately
Non-Compliance with applicable Financial Reporting Framework	1	01 matter concluded appropriately
Total	18	

CAPITAL MARKET DEVELOPMENT

The capital market is an essential agent comprising of institutions and infrastructure that work together to mobilise and allocate long-term funds in the economy. The SEC engages in nurturing the capital market of Sri Lanka mainly through formulating policies and strategies for market development initiatives and facilitating the implementation of market development initiatives. The key market development initiatives facilitated by the SEC in the period under review are enumerated below.

OPERATIONAL REVIEW



Mr. Prabash Wanigatunge

Director, Surveillance and Acting Director,
Capital Market Development



Mrs. Thakshila Francis

Manager, Capital Market Development

Digital Transformation of Stock Market Operations

Capital markets are evolving to become digital market places with broad basing access and offering more convenience for potential investors. As such the digital transformation of the Sri Lankan capital market took off with the appointment of a joint committee by the Chairman of the SEC comprising representatives from the SEC and the CSE to look into the end-to-end digitalization of the stock market operations and is expected to be completed in three phases. First phase of the initiative was completed and launched on 17th September 2020, under the patronage of Hon. Prime Minister.

Phase 2: Completed on 7th July 2021

Having successfully launched the first phase of the Digitalization initiative, the SEC and the CSE embarked on the second phase which was launched on 7th July 2021 under the patronage of His Excellency Gotabaya Rajapaksa, the President of Sri Lanka at the Presidential Secretariat.

With the completion of the second phase, a host of new features have been enabled such as the use of CSE mobile application for CDS account opening for local companies via stock brokers, CDS E-connect, E-Initial Public Offerings (E-IPOs) on top of features such as the “chatbot” and “google assistant” that would be added to enhance the user experience by providing account opening and investor portfolio information assistance. The digital initiatives completed under phase 2 would mainly benefit investors by providing more convenience whereas through the CDS E-connect investors can view their portfolios online from anywhere in the world among many other benefits. In addition, there are many other benefits for the stakeholders such as the ability to apply online for IPOs, access to research reports through the research portal and other economic indicators.

Phase 3:

Upon successfully completing phase 2, efforts continued to drive digital advancement in Sri Lanka’s capital market with phase 3 of the digitization initiative.

Some of the key initiatives envisaged to be implemented as part of phase 3 of the digitalization initiative are as follows:

- Onboarding of Foreign individuals and Foreign Companies (via stock broker firms and custodial banks)
- E-Connect features:
 - Facility to request for reports
 - Sending information requests to CDS/ Stockbrokers (Messaging)
 - Corporate action alerts such as dividends/rights and other corporate actions
 - Private Transfers (where beneficial ownership changes/ gifts/ margin trading)
- E-Rights Issue
- E-Repurchase/ Mandatory offer
- Broker ranking on “Response efficiency”

- Margin Trading (Onboarding of customers/ Seamless transfer of funds between asset classes)

Facilitating the Implementation of the Enhanced Margining System and DVP Mechanism at the CSE

With an objective of effectively managing post trade risks prevalent in the market, the SEC facilitated the implementation of a DVP mechanism and enhanced margining model at the CSE. Upon finalising the initial business and operational specifications of the proposed model jointly with the CSE, the Commission approval was obtained for the same and the CSE was instructed to implement the model. Considering the highly technical nature of this initiative, an expert was commissioned under the Financial Sector Modernization Project of the World Bank to provide consultancy services for the initiative.

Subsequently, a request was made by the broking firms and the CSE to make revisions to the margin model and proposed revisions were reviewed and analysed in consultation with the DVP expert. Based on the recommendations made by the DVP Expert and taking in to consideration the international best practices applicable for clearing and settlement, the Commission approval was obtained for the revised margin model. Accordingly, the CSE proceeded with the implementation of a DVP system and margin model. The SEC fast tracked the implementation process while providing policy level guidance to the CSE where relevant and the DVP system and the margin model went live on 16th August 2021.

- Interim mechanism for possible settlement failure by a stockbroker participant. As an interim measure to manage risk of a possible settlement failure, the CSE proposed to provide an intra-day credit facility for broking firms for which the Trustees of the Settlement Guarantee Fund (SGF) were in agreement. The same was approved by the Commission too.

Introduction of Paper Gold (PG) through Over the Counter (OTC) platform at CSE

Gold is considered as one of the safest investment asset classes and proposals have been received from the stakeholders to facilitate trading of PG. The Commission provided in-principle approval to facilitate trading of PG through the OTC platform of CSE. Currently, the framework for introducing trading of PG through the OTC platform is being finalised by the CSE which is expected to provide a new investment asset class for the market and generate a new source of tax revenue for the Government.

Proposal to Facilitate Listing of Special Purpose Acquisition Companies (SPACs)

With an objective of further broad basing listing requirements to facilitate new listings to the market, the policy framework for enabling listing of SPACs has been finalised in consultation with the CSE and other stakeholders.

A SPAC is a newly incorporated company with no existing operations or underlying business that is founded by one or a group of sponsors, being well-known entrepreneurs, private equity or industry experts with the objective of making one or more acquisitions. Upon acquisition of the target company, the SPAC will be merged with the target company in line with the Company's Act provisions and the merged entity will operate as an ordinary listed entity at the CSE. The Commission granted in-principle approval to facilitate listing of SPACs and the CSE is currently finalizing the regulatory policy for the introduction of SPACs.

Enabling Repurchase Agreement (REPO) Transactions on Corporate Debt Securities on the Over-The-Counter (OTC) Platform of the CSE

In order to activate the corporate debt market via the CSE, the Unit Trust Association along with certain Commercial Banks and Primary Dealers requested the CSE to implement a REPO

transaction mechanism for corporate debt securities through an OTC trading platform on the CSE. Accordingly, the CSE made a proposal to facilitate REPO transactions of corporate debt through the OTC Board which was reviewed and further improved by the SEC. The final policy to enable the same was finalised jointly with the CSE and in-principle approval was granted to the CSE for implementation of such a mechanism. Subsequently, the amendments to the CDS rules to facilitate the same were approved. As such, it has been enabled to record REPO trades of corporate debt on the OTC platform.

Facilitate the Introduction of Covered Short Selling through Securities Borrowing and Lending

Subsequent to the implementation of a DvP system and enhanced margining system at the CSE, it is envisaged to facilitate the introduction of covered short selling through securities borrowing and lending which would enable efficient price discovery, higher market liquidity and better hedging opportunities. The Commission granted in principle approval for the initiative and currently, the policy for enabling covered short selling through securities borrowing and lending is being finalised jointly with the CSE under the technical inputs from the DVP expert commissioned under the FSMP of the World Bank.

Facilitate the Introduction of Green Bonds

Green Bonds are innovative financial instruments where the proceeds are invested exclusively in green projects that generate climate or other environmental benefits, for example in renewable energy, energy efficiency, sustainable waste management, sustainable land use (forestry and agriculture), biodiversity, clean transportation and clean water. In addition to benefiting the overall capital market, this initiative will contribute towards environmental protection and sustainable economic development of

the country as well. The Commission has granted in principle approval for this initiative and we have secured technical assistance from the ADB to support the same. The CSE submitted a regulatory policy paper on introducing Green Bonds which was reviewed and further improvements were made.

Introduction of Islamic Capital Market Products

The SEC is in the process of developing the policy and regulatory framework for the introduction of Islamic Capital Market Products which would enable the investors to diversify their portfolios by investing in products which are issued in line with Islamic Principles and have equitable distribution of benefits.

- Further, this initiative will provide opportunity for the issuers who are interested in raising funds in line with Islamic Principles to proceed with their issuances.
- In this regard, we have secured technical assistance from the ADB to develop policy and regulatory framework for introducing Islamic Capital Market Products.
- A cross-jurisdictional analysis has been conducted covering key policy considerations with respect to Islamic Capital Market Products
- Obtained Commission approval in principle for the introduction of Islamic Capital Market Products and requested the CSE to formulate the policy framework for the same. Awaiting CSE responses on the same
- Secured technical assistance from the ADB and commenced work with the assigned Consultants
- Facilitated stakeholder meetings and upon receiving the initial assessment report, the same was reviewed and shared comments with the ADB
- Awaiting the draft rules with respect to the identified Islamic Capital Market Products from the Consultants

OPERATIONAL REVIEW

Introduction of Structured Warrants

The SEC is in the process of developing the policy and regulatory framework for the introduction of Structured Warrants as a possible first step towards development of the Exchange Traded Derivatives market. Structured Warrants are envisioned to bring about various benefits including the expansion of the existing product portfolio so that investors have a range of products in which to invest their money. This will contribute to a diverse selection of local and foreign institutional investors in the market.

In this regard, we have secured technical assistance from the ADB to develop policy and regulatory framework for introducing Structured Warrants. As such, the initial round of stakeholder consultations were conducted to assess the market need as well as market readiness for a product of this nature. Based on the positive feedback received by various stakeholders during the consultations, draft guidelines for the introduction of Structured Warrants were developed and the same has been shared with the CSE. Upon receiving comments from the CSE, the guidelines will be presented to the industry for stakeholder comments.

Facilitate the Listing, Trading and Settlement of Foreign Currency Denominated Securities Issued by Entities Established/Incorporated in Sri Lanka at the CSE

Upon receiving a proposal to facilitate listing, trading and settlement of foreign currency denominated securities from the CSE highlighting related matters to be taken up with the Ministry of Finance (MoF) and the CBSL, the SEC shared the proposal with the MoF requesting them to take necessary measures to support the initiative. As such, the MoF and CBSL have enabled the required legal provisions to address the matters highlighted in the CSE proposal and facilitate the initiative. Accordingly, the CSE has proposed

amendments to the relevant rules, tick size and transaction fee structure in relation to foreign currency denominated securities which were reviewed and further improvements were made. The Commission approval was obtained for the initiative, proposed tick size and transaction fee structure.

Facilitating Fund Raising through Equity Crowdfunding Platforms

With an objective of widening the capital raising avenues available for Small and Medium Enterprises (SMEs) through the capital market, it is envisaged to facilitate an equity crowdfunding platform. Crowdfunding is solicitation of funds (small amounts) from multiple investors through a web-based platform or social networking site for a specific project, business venture etc. The Commission has granted in-principle approval for the initiative and we have secured technical assistance from the Asian Development Bank (ADB) in order to provide consultancy inputs to take this initiative forward. Currently, the policy framework to enable equity crowdfunding platform is being finalised with the assistance of the assigned experts to the initiative.

Facilitating Digital Platforms to Broad-Base and Widen the Investor Base

Digital platforms operators can extend their facilities to broad-base investor base in the stock market by offering such facilities to their subscriber/member base. Having considered the benefits that can accrue to the share market by enabling such avenues to widen the investor base, the Commission approval was obtained to facilitate the initiative. By enabling such digital platforms to extend their facilities, the SEC envisages the awareness and educational levels of the general public on available investment opportunities on the stock market would widen whilst enabling any potential investor to seamlessly access the stock market for investment purposes.

With an objective of widening the capital raising avenues available for Small and Medium Enterprises (SMEs) through the capital market, it is envisaged to facilitate an equity crowdfunding platform.

The Capital Market Strategy 2021-2025

In order to provide strategic direction for market development, the Capital Market Strategy 2021-2025 was formulated which includes key development and regulatory strategies which would pave way for taking the capital market to the next level of development.

Coordinating Donor Agency Projects:

Under the guidance of the Chairman and the Director General, from the beginning of 2020, both Capital Market Development Programmes (CMDP) by the ADB and FSMP of the World Bank have been fast tracked and measures were taken to expedite the implementation of policy actions and procurement of consultancy services and goods. This has resulted in completing significant portion of the said projects as of to date.

Reconvening the Capital Market Advisory Council (CMAC)

The CMAC was reconvened under the chairmanship of Hon Ajith Nivard Cabraal, State Minister of Money,

Capital Markets and State Enterprise Reforms with an intention to provide strategic level direction, facilitate the inter-agency policy coordination, support the implementation and monitor the progress of the long-term CMDP by the ADB. The CMAC includes members representing regulators, CBSL, SEC, Insurance Regulatory Commission of Sri Lanka (IRCSL), SLAASMB and other relevant implementing agencies such as Employee Provident fund (EPF), CSE etc. Thus far, the CMAC has had 3 meetings where the progress of the capital market development initiatives were discussed.

CMDP by the ADB

The CMDP is a policy-based loan and technical assistance programme to the Government of Sri Lanka by the ADB. Under the CMDP, the SEC has received technical assistance for a number of initiatives such as drafting the Collective Investment Schemes (CIS) Code, demutualization of the CSE, revamping of the capital market certification process, enhancing financial literacy and outreach for unit trusts etc. Additionally, technical assistance has been secured with respect to the new development initiatives in June 2021 including introduction of Islamic Capital Market Products, Structured Warrants, Green Bonds and an equity crowdfunding platform.

FSMP by the World Bank

The SEC secured funding for several key regulatory and developmental initiative under the FSMP of the World Bank.

As per December 2021, the consultancy and goods procurements given below were completed.

Technical Assistance Procured

- Consultancy for Implementation of DVP and policy framework for CCP implementation (Individual Consultant)
- Consultancy for enhancing education and awareness delivery channels – Development of SEC / CMET/CMIC websites Expertise
- Consultancy for developing an institutional IT Strategy/ implementation monitoring
- Consultancy for market surveillance

Infrastructure Procurements

- Microsoft Terminal Server license with 3 year maintenance
- Data Analytical Tool for the Surveillance Division - Tableau

Several other identified IT infrastructure procurements are presently underway.

Funding Secured to Implement Training for the SEC staff

Additionally as per representations made to the World Bank, funding was allocated to build capacity of the SEC staff based on a training plan developed by the SEC. The training plan developed by the SEC has been approved by the World Bank.

Market Intermediary Rules for Corporate Finance Advisors

With the enactment of the new SEC Act No. 19 of 2021, Corporate Finance Advisors were brought under the regulation of the SEC as a new market intermediary. To this effect, rules for Corporate Finance Advisors were drafted and same was submitted for stakeholder consultations post reviewing them internally at the SEC.

Proposals submitted to the National Budget 2022

The SEC submitted budget proposals to the MoF on tax incentives for new listings, further relief on income tax applicable to listed companies in the "Empower Board" and tax incentives for

issuance of "Green Bonds". The Budget 2022, included tax incentives for new listings.

Other initiatives

- Develop guidelines for valuation of shares of listed entities in relation to regulatory requirements such as Takeovers and Mergers, Listing and Delisting of listed entities etc.
- Implementation of the Corporate Governance Code to be in line with 'OECD Principles, IOSCO Principles and International best practices on Corporate Governance.
- Comprehensive review of operational framework, risk identification, rules consultation and benchmarking to introduce new listing platforms enabling.
- Multi-currency debt listing by local entities
- Debt Listing of Small and Medium Enterprises
- Evaluate the possibility of creating a framework to enhance integrity of information disclosed and preservation of stakeholder confidence together with strengthening the existing requirements to create a comprehensive guideline applicable to Auditors of Listed Companies to enhance accountability.
- To develop a process to provide the requisite approval under Section 75 (1) of New SEC Act on public offers by unlisted corporate entities
- Develop and implement framework on 'Financial Surveillance' adopting a risk-based disclosure approach; internal capacity building to facilitate the same
- Evaluation of introduction of Standardised Financial Reporting System to Sri Lankan Capital Market.

The World Bank Doing Business Index

The SEC participated in formulating the responses to the Questionnaire relating to the Doing Business 2022 Index –

OPERATIONAL REVIEW

Protecting Minority Investors, which has been identified as necessary in elevating Sri Lanka's ranking for the protection of minority investors sub-index.

The Doing Business Report is a flagship publication of the World Bank Group that benchmarks business regulations in 190 economies worldwide. The protecting minority investors indicator measures legal protections afforded to minority shareholders of domestic corporations and is one of the 11 indicator sets published by the Doing Business Report.

Capital Market Awareness and External Relations

Capable, confident and well-informed investors are an essential part of a healthy capital market. The SEC conducts investor education initiatives through a variety of platforms nationwide in all three languages in order to improve financial literacy and encourage the public to participate in the market and strengthen their financial well-being.



Mr. Tushara Jayaratne
Director, Extend Relations and Capital
Market Education

Inclusion of Capital Market Content to the Secondary School Curricula

Imparting knowledge about the capital market at a young age to children will enable them acquire the skills and knowledge to invest wisely at various stages of their lives and increase confidence pertaining to financial concepts and improve decision making.

With this in mind, the SEC worked with the National Institute of Education to include capital market content from Grade six onwards to the revision of the school curriculum in 2023, which will be included in the subject "Entrepreneurship and Financial Literacy."

SEC Web Portal

The SEC made a number of improvements to the website including many user friendly features. We also launched an "Investor Corner" a website devoted exclusively to educate investors and enable them to be more confident participants in the capital market. This website is further intended to raise the investor empowerment and investor protection efforts of the SEC by providing reliable and accurate investor education material for both new and experienced investors.

Creating Awareness through Social Media Platforms

Digital delivery of financial education has grown and become more relevant with the Covid 19 pandemic with more and more people using online tools to work and learn. Digital delivery of financial education has given us the opportunity to present information in a graphical format and in a flexible, interactive manner to a variety of target audiences that cannot be reached through traditional delivery methods. During the year, we posted various content on how to invest wisely, investing tips as well as ways to avoid scams. The social media content is created in house and at least one post is uploaded daily.

Invest Sri Lanka Investor Forum in Dubai

In the backdrop of the exceptional performance of the CSE and the relaxation of travel restrictions, the SEC and the CSE organised an 'Invest Sri Lanka' Investor Forum on 5th November 2021, in association with the Embassy

of Sri Lanka in UAE and the Consulate General of Sri Lanka to Dubai and Northern Emirates at the Sheraton Grand Hotel Dubai. The event drew a strong turnout of leading Dubai-based Sri Lankans across multiple industries and was graced by Hon. Ajith Nivard Cabraal as the keynote speaker. Other speakers included H. E. Malraj de Silva, High Commissioner of Sri Lanka, Embassy of UAE, Mr. Viraj Dayaratne PC, Chairman, SEC, Director General of SEC, Mr. Chinthaka Mendis, Mr. Dumith Fernando, Chairman of the CSE and Consul General of the Sri Lankan High Commission Dubai, Mr. Nalinda Wijerathna.

Mr. Sanjeeva Fernando, Executive Director Research and Strategy of CT CLSA, Mr. Udeeshan Jonas Chief Strategist of CA and Head of Research of SC Securities and Mr. Charitha Gunasekera were featured in a technical session that covered the Market Outlook and Sectorial Presentations. Mr. Rajeeva Bandaranaike, CSE CEO joined the stockbroker representatives for an engaging panel discussion. Subsequent to the Dubai Investor Forum, the net flow has increased from Rs 5.6 Mn out flow to Rs 89 Mn inflow.

Showcase Sri Lanka as an Attractive Destination for Foreign Investment

With the Covid pandemic travel restrictions, the SEC in association with the Ministry of Foreign Affairs (MFA) commenced a series of virtual meetings to educate staff of Sri Lankan Missions overseas on the growth potential and investment opportunities available in the Capital Market of Sri Lanka. This initiative enabled the respective staff of Missions overseas to promote portfolio investments to Sri Lanka among the investor community in the respective countries and assist the SEC and the CSE in organising future overseas forums.

In this regard, virtual seminars were conducted for the staff of Embassies/ High Commissions in United Kingdom, Singapore, Sweden, Abu Dhabi, United Arab Emirates, Japan and Washington.

Thereafter the SEC commenced the second phase of this initiative by conducting an online forum for the expat Sri Lankan community in Japan in September 2021.

Awareness through Seminars and Workshops

To spread financial awareness, the SEC conducted online investor awareness programmes in association with the Kurunegala and Ambalanthota branches of the CSE. In addition, we conducted an online seminar for the Kandy Cooperative Officers. In addition, we conducted seminars to educate stakeholders.

A Discussion on the New SEC Act

The SEC organized two forums on 6th October 2021 and 6th December 2021 to enlighten senior officials of listed companies on the features of the new Securities and Exchange Commission Act No. 19 of 2021.

The SEC Chairman Mr. Viraj Dayaratne PC delivered the keynote address with a presentation featuring the salient aspects of the new SEC Act particularly in relation to listed public companies which was followed by a panel discussion. The forums brought together over 1000 participants.

Workshop for CFOs of Potential Listed Companies

The SEC conducted a forum for the Chief Financial Officers of several private companies to encourage them to list on the CSE. The aim of this forum was to reach out to companies that are not listed in

We also launched an “Investor Corner” a website devoted exclusively to educate investors and enable them to be more confident participants in the capital market.

order to make them aware of the benefits of getting listed and to apprise them of the key proposals included in the government’s budget for 2021 which has provided certain tax exemptions to companies who list prior to December 31, 2021.

Moreover, the SEC recently approved a new framework for listing of companies, granting complete autonomy to the CSE in the listing process and has also relaxed the Listing Rules in order to encourage more listings.

Listing Forum for Family Businesses to Achieve New Heights through a Listing Stock Market

The SEC together with the CSE engaged the family business community in Sri Lanka through the inaugural Issuer Forum for 2021 hosted on the theme ‘Founder to Family - Leveraging Going Public’, at the Shangri-La Hotel Colombo. The event was organised to feature how a family business can take advantage of going public while ensuring the Family retains control. Furthermore, the forum addressed the misconceptions of listing on the CSE.

Mr. Viraj Dayaratne PC, Chairman, SEC, and Mr. Dumith Fernando, Chairman of CSE addressed the gathering.

The programme also featured an interactive panel segment where Mr. Manil Jayasinghe SEC Commission Member, Mr. Chinthaka Mendis Director General SEC, Mr. Renuke Wijayawardhane CSE Chief Regulatory Officer and Mr. Purasisi Jinadasa the Head of Origination and Issuer Relations at the CSE joined the discussion.

National Financial Inclusion Strategy (NFIS)

The NFIS 2021-2024 provides a standardised and coordinated approach, including an action plan for all stakeholders to improve financial inclusion in Sri Lanka. It sets out how the strategy’s objectives can be achieved in a timely manner and encourages existing and new parties to create new initiatives to improve financial inclusion. The SEC is making a coordinated and cohesive effort to implement the action plan and improve financial inclusion.

Core (Coherent, Open Responsive and Effective) Justice Programme

The SEC facilitated a localised study tour programme on the functions and the Rules and Regulations of the SEC for selected female law students from state universities and the Sri Lanka Law College in order to enhance the governance, qualifications, and diversity of the Sri Lankan legal profession.

This program was done in conjunction with USAID was commenced to empower the students to witness the functions of the institutions such as the SEC (as the SEC has been chosen as one of the key institutions which is the focus of the study) and obtain an understanding of the different career opportunities in the legal sector.

OPERATIONAL REVIEW

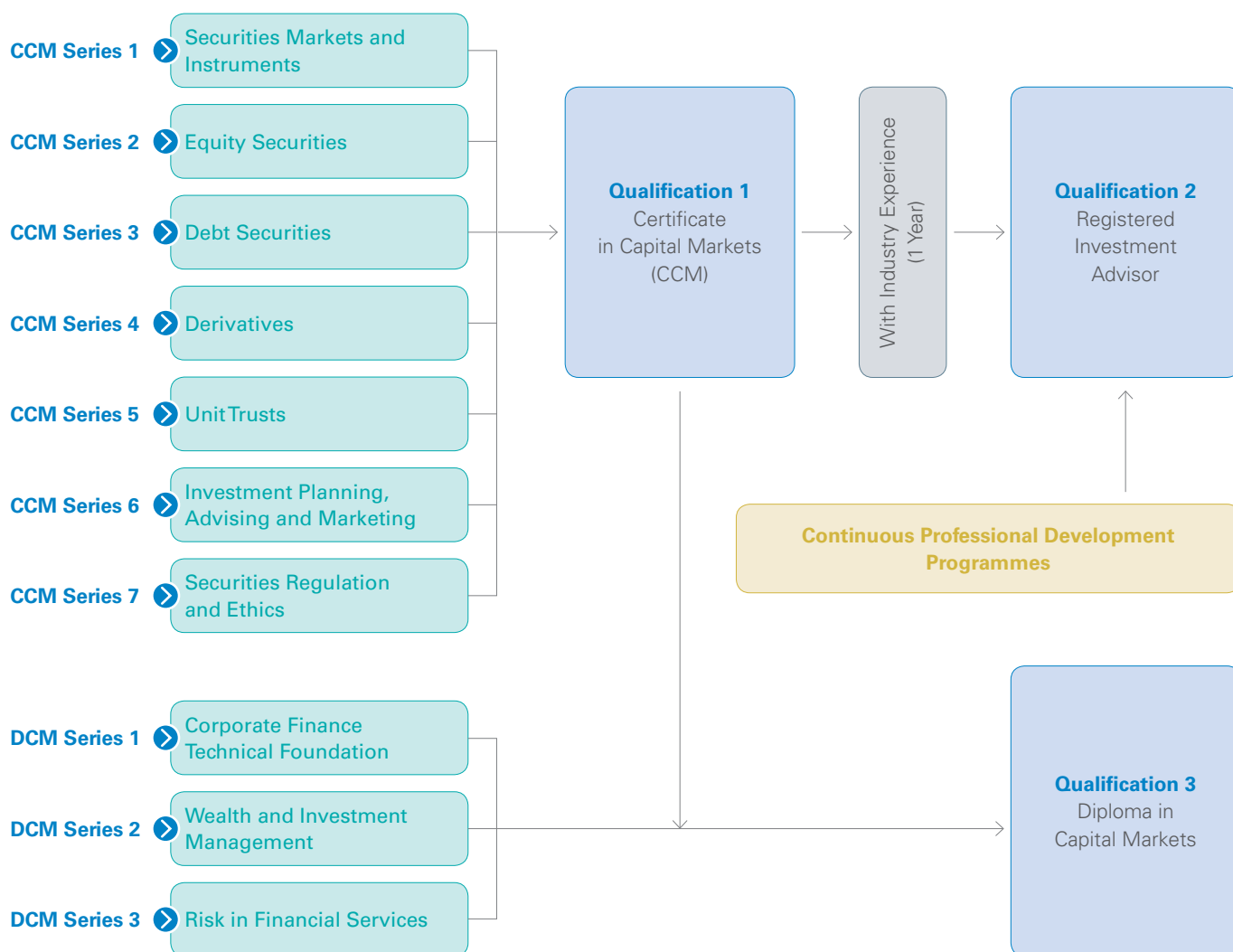
CAPITAL MARKET EDUCATION

The SEC develops and administers professional education and conducts Continuous Professional Development (CPD) programmes as part of the licensing regime for the capital market of Sri Lanka and also delivers structured programmes to impart basic theoretical and practical aspects of investing to the general public.

During the period under review, we continued to implement the revised Capital Market Qualification Framework introduced in 2019 which is aimed at offering a minimum level of proficiency for trainee investment advisors of stock broking companies. The said framework consists of Certified Investment Advisers for one or more asset classes. i.e. Equity Securities, Debt Securities, Derivatives and Unit Trusts.

The Registered Investment Advisor (RIA) qualification was enhanced to an apex qualification to include all asset classes in the securities industry.(Figure: 16)

Figure:16 Current Qualification Framework



Having recognised and understood the importance of adapting to the changes brought about by the pandemic, the SEC continued to conduct the programmes Certificate in Capital Markets (CCM) and Diploma in Capital Markets (DCM) in a virtual format to provide uninterrupted lectures. Examinations pertaining to these programmes were limited to quarter one and quarter four due to island wide lockdowns and government restrictions imposed for public gatherings.



Mr. Tushara Jayaratne

Director, External Relations and Capital Market Education



Mrs. Sajeewani Bakmedeniya

Senior Manager, Capital Market Education

As part of its licensing regime, the SEC administers the Registered Investment Advisor (RIA) and Certified Equity Securities Advisor (CESA) certification, which are mandatory to perform duties as an Investment Advisor in licensed stock broking firms. Therefore, continuous VIVA VOCE Examinations for investment advisors were held throughout the year amidst the pandemic and these consisted of students seeking the RIA License which caters for all four asset classes i.e. Equity Securities, Debt Securities, Unit Trust and Derivatives and the CESA license catering for a single asset class which is Equity Securities. Due to certain restrictions, the said examinations were mostly held online but during the latter part of 2021, physical VIVA VOCE examinations were conducted. In addition, CPD Programmes were conducted in the form of webinars to develop and maintain knowledge and skills related to professionals of market practitioners.

Further, CME conducted Programme in Investing (PI) in English medium which is an “investment” programme for existing and potential investors during the year 2021. These PI programmes were also conducted online.

Due to enhanced market performance in 2020 and 2021, increased interest and participation was seen for all our

programmes during the year under review. Number of participants doubled for CCM programmes showing an increase in the enrollments by non-industry individuals, undergraduates, school leavers and professionals from other sectors in addition to capital market professionals. A growth in registrations by investors and potential investors for the Programme in Investing was witnessed during 2021. Moreover, a rise in walk in students also indicated the keen interest by the general public towards capital market education.

CERTIFICATE IN CAPITAL MARKETS (CCM), CERTIFICATE IN EQUITY SECURITIES (CES), CERTIFICATE IN DEBT SECURITIES (CDS) AND CERTIFICATE IN UNIT TRUSTS (CUT)

The aforesaid programmes were conducted in English medium and were inaugurated during the year 2021. The 24th Batch which was a crash course and 25th Batch commenced in February and October 2021 respectively. A total of 132 participants have registered indicating a 78% increase in enrollments for this programme. (Figure: 17)

Figure: 17 Statistical Performance

Number of Students						
Total Registered	Completed Securities Markets and Instruments series	Completed Equity Series	Completed Debt Series	Completed Unit Trust series	Completed Financial Planning, Advising and Marketing series	Completed Securities Regulations and Ethics series
132	60	29	32	61	68	53

REGISTERED INVESTMENT ADVISOR (RIA), CERTIFIED EQUITY SECURITIES ADVISOR (CESA) AND RE-INSTATEMENTS

During the year, 8 VIVA VOCE Examinations were held to grant licenses to students seeking the RIA licence, CESA licence and also in order to re-instate investment advisors whose licence has expired due to non-compliance with the annual CPD requirement.

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Accordingly, a total of 27 students participated in these VIVA VOCE Examinations and the average pass rate is 85%. Out of the successful students, 6 students obtained the RIA licence indicating a pass rate of 86% while 2 students have obtained the CESA licence which indicates a 67% pass rate. A majority of 15 investment advisors were re-instated during the year indicating a pass rate of 88% (Figure: 18)

Figure 18: Statistical Performance of VIVA VOCE Examinations

VIVA VOCE Examination	Participated No. of Students	Average Pass %
RIA / CESA / Re-instatements	27	85%

DIPLOMA IN CAPITAL MARKETS (DCM)

In 2021, the SEC continued to administer the DCM programme which is offered jointly with the Chartered Institute for Securities and Investments (CISI), UK. Batch 14 which was inaugurated in February 2020 was completed during the year 2021 with 17 students. Batch 15 was inaugurated in February 2021 with a total of 9 registrations.

CONTINUOUS PROFESSIONAL DEVELOPMENT (CPD) PROGRAMMES

During the year under review, 7 CPD programmes were conducted for existing investment advisors of stock broking companies to enable them to constantly assess and update themselves with the latest trends in the local and global capital markets. Out of the 7 programmes, the 3 programmes held on 21st August 2021 were mandatory for all investment advisors. These programmes attracted more than 1100 participants, which included Chief Executive Officers of stock broking companies, investment advisors and analysts. ALL CPD's were conducted online as webinars

The SEC maintained its mandatory requirement for the existing investment advisors to obtain a minimum of 4 CPD seminar credits for a year to renew their RIA Status for the following year. (Figure: 19)

Figure 19: Summary of CPD Programmes: Year 2021

Title of the CPD Programme	No. of participants
Financial Planning, Advising and Marketing	176
Market Surveillance at the Stock Broker Level and Self-Regulation	316
Timing the Market with Active Trading Strategies	266
Securities Markets and Instruments	204
Unit Trusts	
Financial Planning Advising and Marketing	194
Improving your Trading with Technical Analysis Setups	

PROGRAMME IN INVESTING (PI)

PI was initiated with the intention of providing basic theoretical and practical aspects of share trading for potential investors. Two English medium programmes were conducted during the year spanning six weeks. 26th Batch and 27th Batch were inaugurated in January and July 2021 respectively. During the year, 36 participants were registered for these programmes.

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 universities. Under this project, a gold medal and cash prize is awarded to the best performing undergraduate in the area of capital markets in the national universities in Sri Lanka. Memoranda of Understanding (MOU) have been signed with eleven national universities with regard to the above project.

Due to several implications of the pandemic, most national universities were not able to successfully conduct examinations and hence only the following national universities were awarded with gold medals and cash prizes during the year 2021.

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

Capital Market Information Center

The SEC as the regulator of the capital market always strives to improve financial literacy in the country as we firmly believe the creation of a knowledge-based, knowledge-led industry is pivotal for the sustainable development of the capital market. With the intention of popularising the subject of Capital Market and encourage research, a project was initiated to establish Capital Market Information Centers (CMIC) at National Universities in Sri Lanka and it was continuously updated as we expect to offer an e-learning environment through which capital market information, data and other educational tools are provided to academics and undergraduates seeking to further their understanding about the capital market for research and academic purposes as well as to upgrade their knowledge in investing. Importance of such an initiative is highlighted in the current context and currently, we are in the process of revamping the website.

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The SEC's expert panel briefed potential market entrants on the benefits

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ESG reporting extremely important – SEC Chairman

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The Securities and Exchange Commission (SEC) act as a catalyst for economic growth and development.

Portfolio investment will *Contd. on page*

...and the world of science. What if we are the

grasas y aceites, vinagre, alcohol, etc. Este tipo de alimentos se consumen en grandes cantidades y son la base de la alimentación humana.

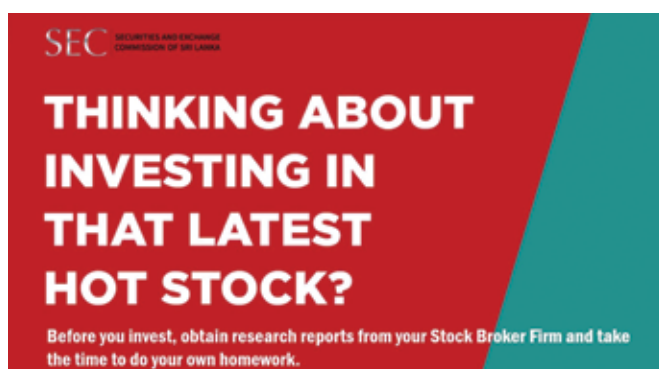
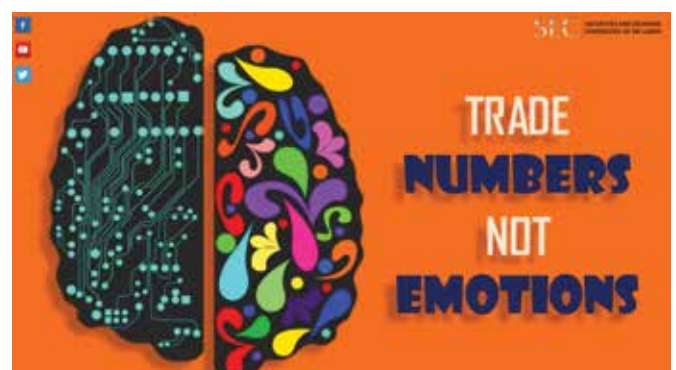
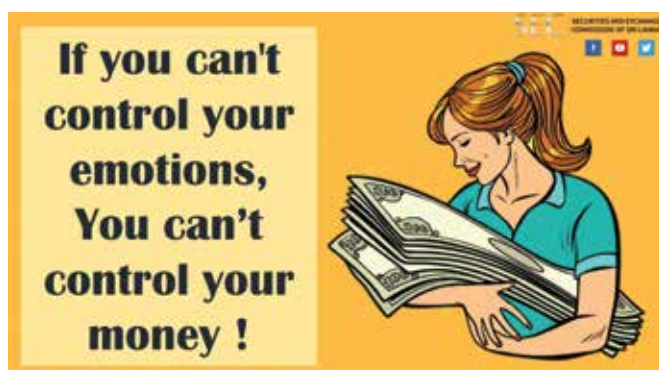
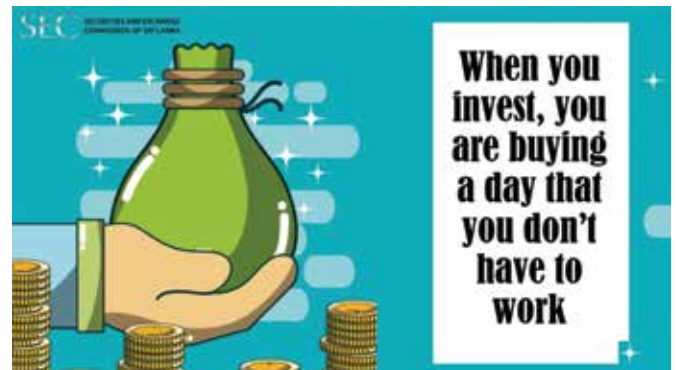
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THE new Act of the

Exchange Commission late the capital market two.

OPERATIONAL REVIEW

Creating Awareness through the SEC Social Media Platform



OPERATIONAL REVIEW

HUMAN RESOURCES

The staff of the SEC secretariat has demonstrated enviable capabilities to adjust to an ever-changing external environment, without losing their fundamental beliefs and core values. In such a setting, every employee of the organisation has both an individual and complementary role to play in building the SEC of tomorrow.

Human Resource Dynamics

The SEC can only grow stronger by having a diverse range of employees of all ages, nationalities, races, experiences and levels of hierarchy along with a conducive working environment where they exist in mutual understanding of one another's distinct values.

Further, the success of the SEC is directly tied to the creativity, knowledge, skills and integrity of our dedicated team of employees. Irrespective of the hierarchical differences, senior management, middle management, secretarial grade and non-executive grade collectively represent the SEC as one family. Talent has always been our top priority and our vision is to be a humane workplace where we put our people first.



Mrs. Prashanthi Sabesan
Director, Human Resources



Mrs. Ashoka Dayarathne
Manager, Human Resources

Coping with the Covid-19 pandemic

As a caring organisation, during the COVID-19 pandemic, the SEC took a firm stand to show employees how critical it is to embrace humanity and to be understanding and caring. During this unprecedented period of challenges, health and well-being became the top priority among our employees. Hence, prompt action was taken by the Secretariat to ensure that the health and wellbeing of the members of the staff was prioritised. Further, staffing strategies were developed by identifying core/key functions. Staff with critical job roles were assigned for remote working where they were provided with laptops, dongles and remote access to minimise the disruption to routine work, whilst ensuring data security. To minimise the exposure to the external environment, transport facilities were also provided during the pandemic period. Subsequently, depending on the severity of the conditions, strategies were developed to assign staff on roster basis to physically report to work to carry out routine and critical job roles. Thereby, pregnant mothers and mothers with toddlers were further given permission to work from home.

Staffing

Motivated and engaged staff is vital to cope with the challenges in the capital market. Therefore, the SEC continued with its recruitment drive where the Secretariat was successful in recruiting appropriately qualified and experienced personnel to fill the positions of one Director and fourteen Assistant Managers for key operational divisions. Further, necessary steps have been taken to fill a few other senior managerial positions during the ensuing year.

In order to improve operational efficiency and effectiveness a consultant was also hired on a fixed term contract during the year under review. (Figures: 20,21,22,23,24)

Figure 20: Service Information

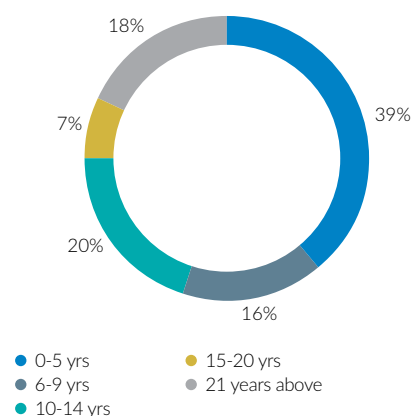


Figure 21: Educational Qualification Analysis

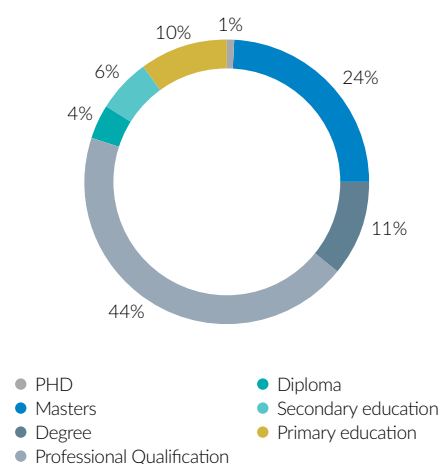


Figure 22: Gender Composition

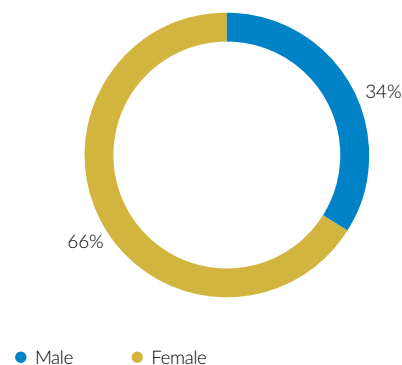


Figure 23: Age Analysis

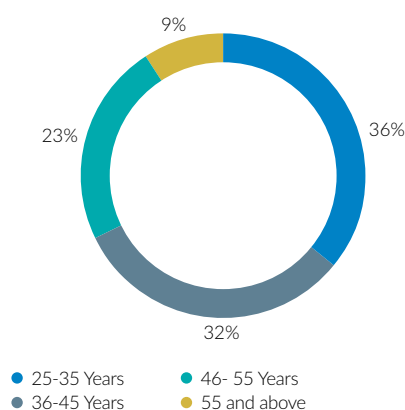
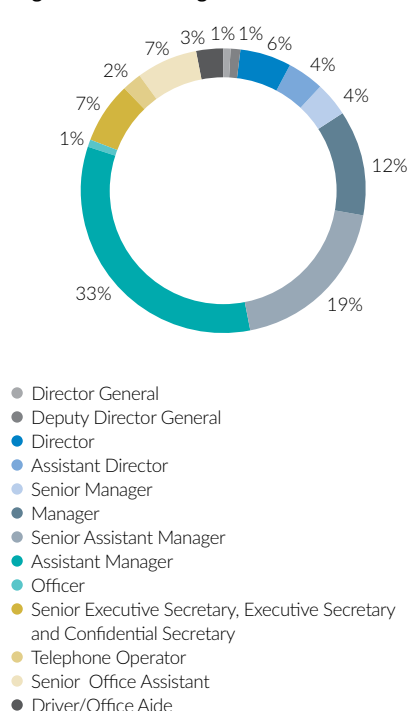


Figure 24: Existing Cadre



Learning and Development

The SEC believes that training philosophy and strategies should be revisited from time to time in order to incorporate the new trends and challenges in the environment and the necessary skills needed to face them. Training opportunities are extended to all staff to maximise their skills and competencies in order to meet organisational needs as well as facilitate personal growth,

thereby providing challenging careers to employees. A blend of virtual external local and foreign training offerings commenced in January.

During the year under review, the SEC has budgeted a sum of Rs. 25 million for staff overseas training. Unfortunately, organisations such as IOSCO, Asia Pacific Economic Corporation (APEC), Securities Regulatory Commissions of other countries and other international entities could not conduct programmes due to the COVID-19 pandemic. However, the staff of the Secretariat were provided with the opportunity to follow a few virtual seminars organised by the IOSCO, Japanese Securities Dealers Association (JSDA), Monetary Authority of Singapore, Securities Exchange Malaysia and IOSCO/ PIFS-Harvard Law School, etc.

Additionally, the staff also attended a few local training programmes such as the National Law Conference 2021, 'Creative Economy: Strategy for Sri Lankan Economic Development for Future' organised by the Centre for Banking Studies, Seminars on the 'New SEC Act' organised by Corporate Legal Consultants, 20th Confederation of Asian and Pacific Accountants, 42nd Chartered Institute of Sri Lanka National Conference and Sri Lanka Economic Summit 2021 during the year under review.

Demonstrating the commitment to staff education, the SEC training arm continuously provides opportunities to the staff to follow study courses to upgrade their capital market knowledge. The Institute of Chartered Financial Analysts (CFA) provides scholarships to the staff to follow the courses on discounted rates. In addition, the SEC provides sponsorships to the members of the staff to follow higher studies including postgraduate degrees subject to a two-year bond to serve the secretariat upon successful completion.

The SEC has also helped employees to be informed of the relevant training programmes that take place in the

organisation and ensure that the employees are committed to make an effort in looking out for training opportunities to stay ahead in terms of knowledge and skills. As part of this initiative, employees are encouraged to apply for training opportunities in consultation with their divisional heads. We believe that it is important to give our employees a competitive edge in the capital market; and we ensure that our employees are geared with the required competencies to face the challenges and lead the organisation towards success.

Engaging of Resources

Employee engagement is a valuable concept for understanding and encouraging exceptional performance. The SEC has long recognised the importance of fostering motivated, steadfast and trustworthy employees. Hence, training and development, and welfare activities are utilised to optimise employee engagement. Culture also plays a critical role in encouraging employee engagement and performance. Every employee of the Secretariat is a hands-on contributor, contributing on many levels and areas.

Additionally, in order to develop long term employee commitment, the management of the SEC tied up with EY consultants to carry out a market survey on compensation and benefits. The objective of the project was to study the existing anomalies in the compensation structure and rectify such anomalies and provide options for revisions in line with market survey findings.

Focused development initiatives as well as fostering a supportive working environment has given the Secretariat the stimulus to reach greater heights of excellence when operating in a challenging capital market. Initial steps have been taken to establish and regulate a contributory pension scheme for the Secretariat with the concurrence of the Ministry of Finance in response to the requests made by the staff members

OPERATIONAL REVIEW

who have served the SEC for a long period of time. The initiative reflects the level of commitment and indicates that the Secretariat wants staff members to be a part of the organisation for the long term, which in turn would promote more loyalty and buy in from employees.

Social Welfare

Amidst the COVID – 19 pandemic, the Human Resources department organised various social events for the employees with the aim to enhance the levels of employee engagement, to provide an opportunity to understand one another, to increase job satisfaction and to boost the morale of the employees.

The SEC maintained an active social calendar incorporating aspects such as celebration of the New Year on the 1st working day of the year, overnight pirith chanting ceremony, New Year staff celebration and a formal year end Christmas get – together.

Further, the Human Resources department with the guidance of the Director General introduced the ‘Raise a Reader’ initiative as part of the national literacy month celebrations in order to develop a passion for reading among children of SEC staff members. The objective of the programme was to help employees create a culture of literacy for their children with the support of the SEC by providing choice and access to books during the COVID - 19 pandemic situation and encourage a lifelong love for reading. Additionally, art and essay competitions, short story writing competitions were also held. The winners were awarded gift vouchers from a bookshop.

These initiatives clearly indicates the commitment of the SEC in looking after its employees’ well-being.

Striving for Excellence

Flexibility has become an essential virtue as the HR function reevaluates the goals and performance metrics in a disruptive year. The changes 2021

brought, are setting the pace for the next year to be another year of transformation. Understanding industry shifts is crucial to keeping pace with the rapid developments taking place, especially in light of the pandemic. To that end, the SEC believes that 2022 would be an important year where HR would focus on organisation development and shaping of the future of work.

STATUTORY FUNDS

Cess Fund

Cess Fund of the SEC was established under the Section 14B (1) of the Securities and 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 (Old SEC Act) which was repealed and replaced by Section No 156 (1) of the SEC Act No. 19 of 2021 (New SEC Act) with effect from 21st September 2021.

In terms of Sections 14A and 14B of the Old SEC Act, the procedure for operation and the objectives of the Cess Fund are as follows.

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

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

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

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

- (a) developing the securities market;
 - (b) enhancing monies lying to the credit of the Compensation Fund established under Section 38; and
 - (c) exercising, performing and discharging the powers, duties and functions of the Commission for the purpose of achieving its objects.
- (3) The money lying to the credit of the Cess Fund may be invested by the Commission in such manner as may be determined by the Commission.

In terms of Sections 155 (1) & (2) and 156 (1), (2) & (3) of the New SEC Act, No. 19 of 2021, the procedure for operation and the objectives of the Cess Fund are as follows.

- 155 (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.
- 156 (1) There shall be established a fund called the Cess Fund to which shall be credited the proceeds of the Cess imposed under Section 155.
- (2) The monies lying to the credit of the Cess Fund shall only be utilized for the purpose of -
- (d) developing the securities market;
 - (e) enhancing monies lying to the credit of the Compensation Fund or the Fund of the Commission established under this Part;

- (f) meeting all expenditure incurred by the Commission in the management, administration, and operation of the Commission in the exercise, performance and discharge of its duties and functions.
 - (g) granting loans for housing, educational, health and transport purposes to the staff of the Commission as the Commission deems appropriate;
 - (h) to make contributions to pension and provident funds and other schemes established for the benefit of the Director General and its officers and servants and their dependents and nominees; and
 - (i) to defray the costs of study, in Sri Lanka or abroad of the officers and servants of the Commission who are of proven merit as determined by the Commission.
- (3) Any excess 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 the purpose of developing the Cess Fund.



Mrs. Nirosha Kodikara
Director, Finance and Administration



Mrs. Lakshmi Wickramanayake
Manager, Finance and Administration

SEC Cess for Equity Securities

As per the CSE Guidelines, the rate of Cess charged by the SEC on equity securities had been reduced for the second time to 0.072% per transaction from 0.09% per transaction with effect from 1st August 2010. The subsequent reduction took effect from 1st December 2003 when the applicable rate of Cess was reduced from 0.1% to 0.09% per transaction.

Further, the applicable threshold for the above rates was revised to Rs.100 Mn with effect from 27th June 2017. Earlier, with effect from 1st January 2011, the SEC Cess for transactions up to Rs.50 million and over Rs.50 million were levied at 0.072% and 0.045% respectively. Subsequently, with effect from 27th June 2017, as per the revised threshold the SEC Cess for transactions up to Rs.100 million and over Rs.100 million are levied at 0.072% and 0.045% respectively.

In addition, the transaction fee due to the SEC on Intraday trades, where a client buys and sells the same security (or contrariwise) on the same day through the same broker, will not be charged on one side of the transaction with effect from 15th February 2006.

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 transaction. And the total purchases and sales of a client on the same security will be considered for the purpose of determining the exemption of SEC transaction fee. Yet, the Government Share Transaction Levy of 0.30% will be charged on both sides of the transactions.

Behaviour of the Cess Fund

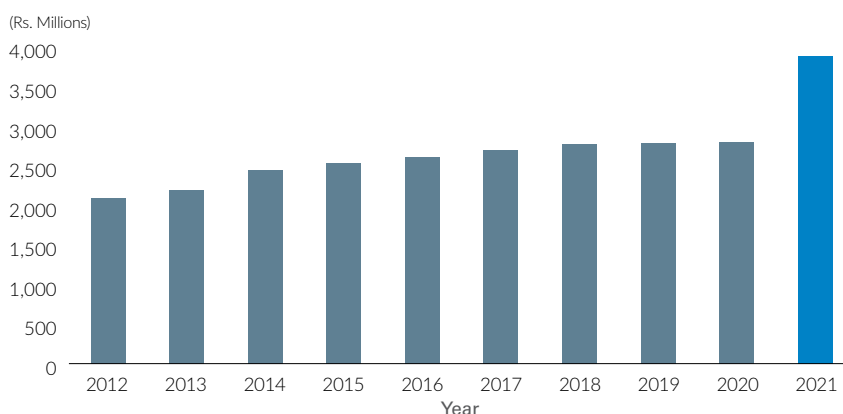
To strengthen the Compensation Fund, a sum of Rs. 50 million was transferred during the year 2009 from the Cess Fund. A further Rs.100 million was transferred from the Cess Fund to the Settlement Guarantee Fund of Rs.50 million each during the years 2009 and 2010.

Transfers to the Consolidated fund on five occasions amounted to Rs.276 million, Rs.380 million, Rs.94 million, Rs.52 million and Rs.312 Mn in 2010, 2012, 2013, 2019 and 2020, respectively.

The balance lying to the credit of Cess Fund reached Rs. 3,884.3 million as at the end of 2021, of which Rs. 355.7 million is invested in Treasury Bonds expected to realise within twelve months, Rs 3,159.1 million is invested in Treasury Bonds expected to realise after twelve months and Rs.452.2 million is invested in Repo.

The movement of the fund during the period 2012 to 2021 is depicted below (Figure 25):

Figure 25: CESS Fund



OPERATIONAL REVIEW

COMPENSATION FUND

The Compensation Fund came into operation along with the establishment of the SEC in 1987. Under Section 38 of the SEC Act No. 36 of 1987 (as amended) (Old SEC Act) which was effective till 20th September 2021, it is a statutory responsibility of the SEC to establish and maintain a Compensation Fund.

In terms of Sections 38 and 39 of the Old SEC Act, the objective and guidelines for maintaining the Compensation Fund are as follows.

- 38 (1) 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 stockbroker or licensed stock dealer being found incapable of meeting his contractual obligations.
- (2) The Compensation Fund shall consist of;
- (a) Such sums of money as may be voted upon by Parliament for the purpose of the Fund.
 - (b) Such sums of money may be credited to the Fund under Section 51A; (Section 51A is on compounding offences).
 - (c) Such sums of money as may be credited from Cess Fund under Section 14B of the SEC Act.
- (3) Moneys belonging to the Compensation Fund may be invested by the Commission in such manner as may be determined by the Commission.

Section 39(1) of the SEC Act requires the Minister to appoint from amongst the Members of the Commission three members who shall comprise the Compensation Committee.

Under Section 158 of the SEC Act No. 19 of 2021 (New SEC Act) with effect from 20th September 2021, it is a statutory responsibility of the SEC to establish and maintain a Compensation Fund. In terms of Sections 158 and 159 of the New SEC Act, the objective and guidelines for maintaining the Compensation Fund are as follows.

- 158 (1) 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 stockbroker or licensed stock dealer being found incapable of meeting his contractual obligations.
- (2) The Compensation Fund shall consist of;
- (a) Such sums of money as may be voted upon by Parliament.
 - (b) Such sums of money as may be credited to the fund under the provisions of this Act; and
 - (c) Such sums of money as may be credited from the Cess Fund as approved by the Commission.
- (3) Moneys belonging to the Compensation Fund may be invested by the Commission in such manner as may be determined by the Commission.

Section 159 of the SEC Act requires the Commission to appoint from amongst 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. Yet, there have been no claims made from the Compensation Fund up to now.

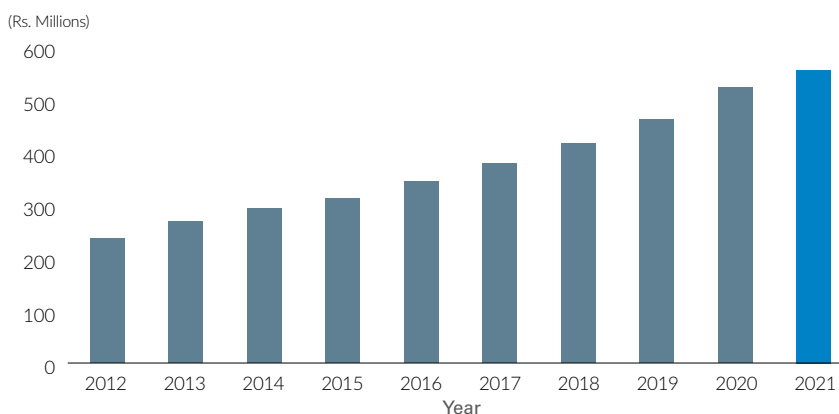
Behaviour of the Compensation Fund

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 reached Rs.561.6 million as at the end of 2021, of which Rs. 113.6 million is invested in Treasury Bonds expected to realise within twelve months, Rs 394.2 million is invested in Treasury Bonds expected to realise after twelve months and Rs.40 million is invested in Repo.

The movement of the Fund during the period 2012 to 2021 is depicted below (Figure 26).

Figure 26: Compensation Fund



THE SETTLEMENT GUARANTEE FUND (SGF)

The SGF was launched on 22 May 1998. The Fund was established for the purpose of guaranteeing the settlement of trades between participants of the CDS of the CSE. The operation of the SGF is described below.

- Ownership of shares traded is transferred no sooner a trade is executed. From 10 December 2007, the CSE adopted a single tier settlement cycle. The buyer is required to pay on T+3 i.e., on the 4th Market Day including the day of trading and the seller to receive the settlement on T+3 i.e., on the 4th Market Day. The relatively long interval between transfer of ownership and receipt of proceeds leaves the settlement risk uncovered which in turn necessitated the establishment of the SGF.
- The Trustees of the Fund hold office of ex-officio and comprise the Chairman of SEC, the Chairman of CSE, the Deputy Secretary to the Treasury, the Director General of SEC, and the Director General of CSE.
- The Government of Sri Lanka has contributed a sum of Rs 50 million to set up 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.
- However, since the SGF is found to be inadequate to properly address the issue of settlement risk, steps are being taken to establish a Central Counterparty Mechanism to effectively address the settlement risk. From the inception of the Fund no claims have been recorded from the SGF.

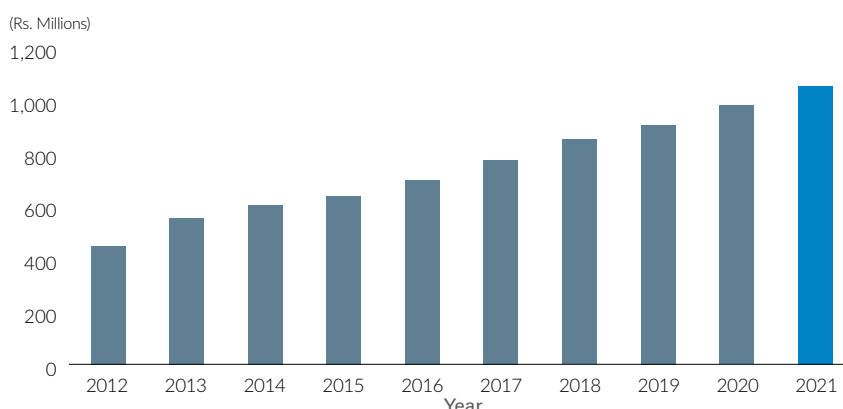
Behaviour of the SGF

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.

The balance lying to the credit of the SGF reached Rs.1065.9 million as at the end of 2021, of which Rs. 278.7 million is invested in Treasury Bonds expected to realise within twelve months, Rs 194.8 million is invested in Treasury Bonds expected to realise after twelve months, Rs.300 million is invested in Fixed Deposits of state banks and Rs. 242.9 million is invested in Repo.

The movement of the Fund during the period 2012 and 2021 is depicted in the following graph (Figure 27).

Figure 27: Settlement Guarantee Fund



INFORMATION TECHNOLOGY

During the year under review, the consultancy contract was awarded to KPMG Sri Lanka and AAM Management Information Consulting (Hungary) to develop an Institutional IT Strategy and Road Map for next 5 years to improve the SEC IT infrastructure and enable a secure IT environment at the SEC under the FSMP of the World Bank.

As such, the above consultancy assistance under the FSMP is expected to be of great importance, as it will improve operational efficiency.

The project will be implemented in two phases. Phase one is to formulate an institutional IT Strategy and Road Map for SEC for the next five years and phase two is to provide implementation/monitoring support for the implementation of the Strategy and also to provide assistance for preparation of bidding documents for IT Goods and Services procurements.

The appointed project review committee succeeded in finalising the Inception report and the Diagnostic report upon reviewing the existing systems, business processes, information system architecture, IT policies and Identify gaps/deficiencies by benchmarking International best practices.

Further, steps have been taken to review the functional requirement specifications of the identified systems.

ADDITIONAL INFORMATION

MARKET INTERMEDIARIES

Licensed Market Intermediaries under the Category of Margin Provider:

1. Acuity Partners (Private) Limited
2. Assetline Leasing Company Limited
3. Bansei Securities Capital (Pvt) Ltd
4. Capital Trust Credit (Private) Limited
5. Citizen Development Business Finance PLC
6. Commercial Bank of Ceylon PLC
7. DFCC Bank PLC
8. Dialog Finance PLC (formerly Colombo Trust Finance PLC)
9. Hatton National Bank PLC
10. J B Credit (Pvt) Ltd
11. LOLC Finance PLC
12. Merchant Bank of Sri Lanka & Finance PLC
13. Nation Lanka Capital Ltd
14. National Development Bank PLC
15. Pan Asia Banking Corporation PLC
16. People's Leasing and Finance PLC
17. People's Merchant Finance PLC
18. Richard Peiris Financial Services (Pvt) Ltd1
19. Sampath Bank PLC
20. Seylan Bank PLC

Licensed Market Intermediaries under the Category of Investment Manager:

1. Amana Asset Limited1
2. Asia Securities Wealth Management (Private) Limited
3. Asset Trust Management (Private) Limited
4. Assetline Capital (Private) Limited
5. Bank of Ceylon
6. Capital Alliance Investments Limited
7. Capital Trust Wealth Management Ltd
8. Ceybank Asset Management Ltd
9. Comtrust Asset Management Limited
10. First Capital Asset Management Limited
11. Guardian Acuity Asset Management Limited

12. Guardian Fund Management Limited
13. Helios Ventures (Pvt) Ltd1
14. Innovest Investments (Private) Limited
15. JB Financial (Private) Limited
16. Lyneer Wealth Management (Pvt) Ltd
17. Merchant Bank of Sri Lanka & Finance PLC
18. National Asset Management Ltd
19. NDB Wealth Management Limited
20. NSB Fund Management Company Limited
20. Orion Fund Management (Private) Limited
21. Premier Wealth Management Limited
22. Senfin Asset Management (Private) Limited
23. Softlogic Asset Management (Pvt) Ltd
24. Waldock Mackenzie Limited

Licensed Market Intermediaries under the Category of Underwriter:

1. Bank of Ceylon
2. Commercial Bank of Ceylon PLC
3. DFCC Bank PLC
4. Hatton National Bank PLC
5. Merchant Bank of Sri Lanka & Finance PLC
6. National Development Bank PLC
7. Sampath Bank PLC
8. Seylan Bank PLC

Licensed Market Intermediaries under the Category of Credit Rating Agency:

1. Fitch Rating
2. ICRA Lanka Limited
3. Lanka Rating Agency Limited

Licensed Market Intermediaries under the Category of Stock Brokers:

1. Acuity Stockbrokers (Private) Limited
2. Asha Securities Limited
3. Asia Capital Stock Brokers (Pvt) Ltd2
4. Asia Securities (Private) Limited
5. Assetline Securities (Private) Limited2
6. Bartleet Religare Securities (Pvt) Limited

7. Candor Equities Limited
8. Capital Alliance Limited (Debt Securities)
9. Capital Alliance Securities (Private) Limited
10. Capital Trust Securities (Private) Limited
11. CT CLSA Securities (Pvt) Limited
12. Enterprise Ceylon Capital (Pvt) Ltd
13. First Capital Equities (Private) Limited
14. First Guardian Equities (Pvt) Limited
15. JB Securities (Private) Limited
16. John Keells Stock Brokers (Private) Limited
17. Lanka Securities (Private) Limited
18. LOLC Securities Limited
19. Nation Lanka Equities (Pvt) Limited
20. NDB Securities (Private) Limited
21. Nestor Stock Brokers (Private) Limited
22. NSB Fund Management Co. Ltd (Debt Securities)
23. Richard Pieris Securities (Private) Limited
24. SC Securities (Private) Limited
25. Softlogic Stockbrokers(Pvt) Ltd
26. Somerville Stock Brokers (Private) Limited
27. Taprobane Securities (Private) Limited
28. TKS Securities (Private) Limited2
29. Wealth Trust Securities Ltd (Debt Securities)

Licensed Market Intermediaries under the Category of Stock Dealers:

1. Asia Securities (Private) Limited
2. Bartleet Religare Securities (Pvt) Ltd (Debt)
3. Capital Alliance Limited (Debt)
4. CT CLSA Securities (Private) Ltd
5. Enterprise Ceylon Capital (Pvt) Ltd
6. JB Securities (Private) Limited
7. Nation Lanka Equities (Private) Ltd
8. Nestor Stock brokers (Private) Limited (Debt)
9. NSB Fund Management Company Limited (Debt)
10. Seylan Bank PLC (Debt)
11. Softlogic Stockbrokers (Pvt) Ltd
12. Wealth Trust Securities Limited (Debt)

Licensed Market Intermediaries under the Category of Managing Companies of Unit Trusts:

1. Arpico Ataraxia Asset Management (Private) Limited
 - I. Arpico Ataraxia Cash Management Trust Fund (CMT)
 - II. Arpico Ataraxia Equity Income Fund
 - III. Arpico Ataraxia Repo Investment Fund
 - IV. Arpico Ataraxia Sri Lanka Bond Fund
 - V. Arpico Ataraxia USD Fixed Income Fund
2. Asia Securities Wealth Management (Pvt) Ltd
 - I. Asia Securities Money Market Fund
3. Asset Trust Management (Pvt) Ltd
 - I. Astrue Active Income Fund
 - II. Astrue Alpha Fund
4. Assetline Capital (Pvt) Ltd
 - I. Assetline Income Fund
 - II. Assetline Income Plus Growth Fund
5. Capital Alliance Investments Ltd
 - I. CAL Balanced Fund
 - II. CAL Corporate Debt & Gilt Trading Fund
 - III. CAL Corporate Treasury Fund
 - IV. CAL Gilt Fund
 - V. CAL Gilt Money Market Fund
 - VI. CAL Gilt Trading Fund
 - VII. CAL High Yield Fund
 - VIII. CAL Income Fund
 - IX. CAL Investment Grade Fund
 - X. CAL Medium Risk Debt Fund
 - XI. CAL Quantitative Equity Fund
 - XII. CAL Sri Lanka Dollar Fund
6. Ceybank Asset Management (Pvt) Limited
 - I. Ceybank Century Growth Fund
 - II. Ceybank Gilt Edged Fund (A Series)
 - III. Ceybank Gilt Edged Fund (B Series)
 - IV. Ceybank High Yield Fund
 - V. Ceybank Savings Plus Money Market Fund
 - VI. Ceybank Surakum Gilt Edged Fund
 - VII. Ceybank Unit Trust Fund
7. Ceylon Asset Management Company Limited
 - I. Ceylon Dollar Bond Fund
 - II. Ceylon Financial Sector Fund
 - III. Ceylon Income Fund
 - IV. Ceylon Index Fund
 - V. Ceylon IPO Fund
 - VI. Ceylon Money Market Fund
 - VII. Ceylon Tourism Fund
 - VIII. Ceylon Treasury Income Fund
8. Comtrust Asset Management (Private) Limited
 - I. Comtrust ADL Mudarabah Fund
 - II. Comtrust Equity Fund
 - III. Comtrust Gilt Edged Fund
 - IV. Comtrust Money Market Fund
9. First Capital Asset Management Limited
 - I. First Capital Equity Fund
 - II. First Capital Fixed income Fund
 - III. First Capital Gilt Edged Fund
 - IV. First Capital Money Market Fund
 - V. First Capital Wealth Fund
10. Guardian Acuity Asset Management Ltd
 - I. Guardian Acuity Equity Fund
 - II. Guardian Acuity Money Market Fund
 - III. Guardian Acuity Income Fund
11. J B Financial (Pvt) Ltd
 - I. JB Vantage Money Market Fund
 - II. JB Vantage Short Term Gilt Fund
 - III. JB Vantage Value Equity Fund
12. National Asset Management Limited
 - I. NAMAL Bank Fund
 - II. NAMAL Growth Fund
 - III. NAMAL High Yield Fund
 - IV. NAMAL Income Fund
 - V. National Equity Fund
13. NDB Wealth Management Limited
 - I. NDB Wealth Gilt Edged Fund
 - II. NDB Wealth Growth & Income Fund
 - III. NDB Wealth Growth Fund
 - IV. NDB Wealth Income Fund
 - V. NDB Wealth Income Plus Fund
 - VI. NDB Wealth Islamic Money Plus Fund
 - VII. NDB Wealth Money Fund
 - VIII. NDB Wealth Money Plus Fund
14. Premier Wealth Management Ltd
 - I. Premier Growth Fund
 - II. Premier Money Market Fund
15. Senfin Asset Management (Pvt) Ltd
 - I. Senfin Dynamic Income Fund
 - II. Senfin Dividend Fund
 - III. Senfin Growth Fund
 - IV. Senfin Money Market Fund
 - V. Senfin Shariah Balanced Fund
 - VI. Senfin Shariah Income Fund
16. Softlogic Asset Management (Pvt) Ltd
 - I. Softlogic Equity Fund
 - II. Softlogic Money Market Fund

MARKET INSTITUTIONS

1. Colombo Stock Exchange
2. Central Depository Systems (Private) Limited

ADDITIONAL INFORMATION

Year	2017	2018	2019	2020	2021
Annual Turnover (Rs Mn) Equity	220,591	200,069	171,408	396,882	1,173,157
Domestic (Rs. Mn)	117,135	111,378	109,003	318,354	1,112,817
Foreign (Rs. Mn)	103,456	88,691	62,405	78,527	60,340
Market Days (No.)	241	240	241	209	240
Daily Average Turnover (Rs. Mn) Equity	915	834	711	3,217	4,888
Shares traded (No. Mn) Equity	8,468	6,001	9,855	21,349	59,772
Domestic (No. Mn)	6,529	4,821	7,091	19,808	57,905
Foreign (No. Mn)	1,939	1,180	2,764	1,541	1,866
Trades (No.) Equity	981,977	885,657	1,197,205	3,070,021	8,131,508
Domestic (No.)	928,276	838,784	1,150,486	2,968,092	8,009,816
Foreign (No.)	53,701	46,873	46,719	101,929	121,692
New Listing (No.)	3	3	2	1	17
Delisting (No.)	2	2	10	7	3
Companies Listed	296	297	289	283	296
Companies Traded	279	279	279	266	240
Market Capitalization (Rs. Bn)	2,899.29	2,839.45	2,851.31	2,960.65	5,489.17
Market PER year end (Times)	10.60	9.65	10.83	11.3	13.6
Turnover to Market Capitalization (%)	7.6	7.0	6.01	13.4	21.4
Dividend Yield Year End (%)	3.19	3.09	3.2	2.7	2.17
Price to Book Value Year End (Times)	1.31	1.18	1.1	1.1	1.67
Market Cap. As a % of GDP	24%	21%	21%	19%	37%
Price Indices					
All Share Price Index (ASPI)	6,369.26	6,052.37	6,129.21	6,774.22	12,226.01
y-o-y Change %	2.3	(5.0)	1.3	10.52	80.48
S&P Sri Lanka 20	3,671.72	3,135.18	2,936.96	2,638.10	4,233.25
y-o-y Change %	5.0	(14.6)	(6.32)	(10.18)	60.47
Total Return Indices					
Total Return Index on ASPI (ASTRI)	8,457.09	8,066.97	8,203.82	9,078.65	16,423.75
y-o-y Change %	2.7	(4.6)	1.70	10.7	80.91
Total Return Index on S&P Sri Lanka 20 (S&P Sri Lanka 20TRI)	5,259.85	4,686.71	4,603.57	4,332.84	7,241.29
y-o-y Change %	8.6	(10.9)	(1.8)	(5.9)	67.13

Year	2017	2018	2019	2020	2021
Non-National Activity*					
Annual Turnover (Rs. Mn)	103,456	88,691	62,405	78,527	60,340
Purchases (Rs. Mn)	112,285	77,067	56,537	52,889	34,016
Sales (Rs. Mn)	94,627	100,315	68,272	104,165	86,665
Net Foreign Flow (Rs. Mn)	17,657.4	(23,247.5)	(11,735)	(51,276)	(52,649)
Shares Traded (No. Mn)	1,939	1,180	2,764	1,541	1,866
Purchases (No. Mn)	2,062	1,060	3,896	928	1,308
Sales (No. Mn)	1,817	1,299	1,631	2,154	2,425
Trades	53,701	46,873	46,719	101,929	121,692
Purchases (No.)	56,643	37,855	25,759	42,134	74,172
Sales (No.)	50,760	55,892	67,680	161,725	169,213
Debt Market					
Corporate Debt					
Turnover (Rs. 000)	3,592,905.5	4,540,599	5,677,080	5,856,002	1,244,587
No of Trades	529	293	234	243	93
No of Debentured Traded (000)	35,696	44,024	55,643	54,230	11,439
Market Cap (Mn)					
Unit Trusts					
Net Asset Value (NAV)(Rs. Bn)	128,804	64.22	104.79	201	194
Unit Holders (No.)	41,037	42,093	46,481	52,402	59,426
Units Issued (No. 000)	7,639	3,368	4,769	8,014	7,835
Investment in Equity (Rs. Mn)	12,466	9,416	9,841	14,019	17,586
Investment in Treasury Bills (Rs. Mn)	24,386	3,379	9,150	28,803	28,755
Investment in other Instruments ** (Rs. Mn)	91,732	50,601	84,542	158,656	148,907

A NEW PERSPECTIVE

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AUDITOR GENERAL'S REPORT



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல. } BAN/G/SEC/FA/2021/2
My No. }

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி } 29 March 2022
Date }

Chairman

Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2021 in terms of Section 12 of the National Audit Act, No. 19 of 2018

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Securities and Exchange Commission of Sri Lanka ("Commission") for the year ended 31 December 2021 comprising the Statement of Financial Position as at 31 December 2021 and the Statement of Financial Performance, Statement of Changes in net assets and Cash Flow Statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act, No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Commission as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.





1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Commission is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Commission.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial

SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA
AUDITOR GENERAL'S REPORT



statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

2.1 National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

2.1.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Commission as per the requirement of Section 12 (a) of the National Audit Act, No. 19 of 2018.

2.1.2 The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

2.1.3 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

- 2.2 Based on the procedures performed and evidence obtained which were limited to matters that are material, nothing has come to my attention;
- 2.2.1 to state that any member of the governing body of the Commission has any direct or indirect interest in any contract entered into by the Commission which are out of the normal course of business as per the requirement of Section 12 (d) of the National Audit Act, No. 19 of 2018.
- 2.2.2 to state that the Commission has not complied with any applicable written law, general and special directions issued by the governing body of the Commission as per the requirement of Section 12 (f) of the National Audit Act, No. 19 of 2018.
- 2.2.3 to state that the Commission has not performed according to its powers, functions and duties as per the requirement of Section 12 (g) of the National Audit Act, No. 19 of 2018.
- 2.2.4 to state that the resources of the Commission had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of Section 12 (h) of the National Audit Act, No. 19 of 2018.


W. P. C. Wickramaratne
Auditor General

SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

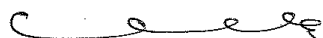
STATEMENT OF FINANCIAL POSITION

As at 31st December 2021	Note	2021 Rs.	2020 Rs.
Assets			
Non Current Assets			
Property, Plant & Equipment	7	64,954,716	75,447,839
Current Assets			
Inventories	8	3,005,873	2,033,967
Receivables	9	226,209,609	47,213,119
Investments in Fixed Deposits	10	642,737	639,895
Deposits, Advances and Prepayments	11	62,548,982	64,685,096
Cash and Cash Equivalents	12	109,037,723	103,007,105
Total Assets		466,399,640	293,027,021
Funds and Liabilities			
Funds Employed and Reserves			
Accumulated Fund	13	0	0
Non Current Liabilities			
Grant - Transfer from Cess Fund for Capital Expenditure	14	58,702,817	69,195,940
Retirement Benefit Obligation	15	59,054,227	50,378,208
Current Liabilities			
Tax Payable	16	323,018,972	23,339,815
Creditors and Accruals	17	19,436,181	145,547,211
Payable to Vendors - FSMP	18	68,134	558,060
Receipts in Advance		6,119,309	4,007,787
Total Funds and Liabilities		466,399,640	293,027,021

The notes appearing on pages 87 to 100 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



Chinthaka Mendis
Director General
Securities and Exchange Commission of Sri Lanka



Viraj Dayaratne
Chairman
Securities and Exchange Commission of Sri Lanka



Niroscha Kodikara
Director Finance & Administration
Securities and Exchange Commission of Sri Lanka

Colombo
15th March 2022

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31st December 2021	Note	2021 Rs.	2020 Rs.
Income			
License Fees		2,793,194	3,610,706
Administration Levy		6,360,039	1,172,909
Educational Programmes		5,542,684	3,480,239
Interest Income		1,820,617	5,360,805
Other Income		448,073	78,755
Interest on Staff Loans		818,946	738,471
Profit/(Loss) on Disposal of Property, Plant and Equipment		0	(44,525)
Government Grant - FSMP		104,804,128	11,720,560
Recognition of Grants	14	21,735,241	23,631,788
Total Income		144,322,923	49,749,708
Expenditure			
Personnel Costs	19	(269,419,695)	(236,519,212)
Administration & Establishment Expenses	20	(172,148,244)	(166,024,494)
Capital Market Development Expenses	21	(55,241,934)	(32,367,005)
Finance Charges	22	(103,030)	(40,887)
Total Expenditure		(496,912,903)	(434,951,598)
Income Tax Expense		0	0
Excess of Income over Expenditure		(352,589,980)	(385,201,890)
Funds transferred from Cess Fund towards Excess of Expenditure over Income		352,589,980	385,201,890

The notes appearing on pages 87 to 100 form an integral part of the financial statements.

SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31st December 2021	Accumulated Fund Rs.	Total Rs.
Balance as at 1st January 2020	0	0
Excess of Income over Expenditure for the year	(385,201,890)	(385,201,890)
Funds transferred from Cess Fund towards Excess of Expenditure over Income	385,201,890	385,201,890
Balance as at 31st December 2020	0	0
Balance as at 1st January 2021	0	0
Excess expenditure over income for the year	(352,589,980)	(352,589,980)
Transfer from Cess Fund towards Excess of Expenditure over Income	352,589,980	352,589,980
Balance as at 31st December 2021	0	0

The notes appearing on pages 87 to 100 form an integral part of the financial statements.

CASH FLOW STATEMENT

For the year ended 31st December 2021	Note	2021 Rs.	2020 Rs.
Cash Flows from Operating Activities			
Net Increase/(Decrease) after transfers from Cess Fund		0	0
Adjustment for			
Depreciation	7	21,735,241	23,631,788
(Profit)/Loss on disposal of Property, Plant & Equipment		0	44,525
Recognition of Grant	14	(21,735,241)	(23,631,788)
Provision for Gratuity	15	9,591,504	11,027,205
Net Increase/(Decrease) before Working Capital Changes		9,591,504	11,071,730
Change of Working Capital			
(Increase)/Decrease of Stocks		(971,906)	(553,314)
(Increase)/Decrease of Receivable		(178,996,490)	(39,297,046)
(Increase)/Decrease of Deposits Advances & Prepayments		2,136,114	(49,240,164)
Increase/(Decrease) of Receipt in Advance		2,111,522	658,691
Increase/(Decrease) of Tax Payable		299,679,157	(9,976,390)
Increase/(Decrease) of Creditors & Accruals		(126,111,030)	25,705,503
Increase/(Decrease) Payables		(489,926)	558,060
Net Increase/(Decrease) after Working Capital Changes		(2,642,559)	(72,144,660)
Cash generated from Operating Activities		6,948,945	(61,072,930)
Gratuity paid during the year		(915,485)	(4,113,265)
Net Cash Inflow/(Outflow) from Operating Activities		6,033,460	(65,186,195)
Cash Flows into Investing Activities			
Purchase of Property Plant and Equipment	7	(11,242,118)	(11,255,932)
Investments in Fixed Deposits		(2,842)	(573,052)
Proceeds from Sale of Property, Plant & Equipment		0	53,277
Net Cash Inflow/(Outflow) from Investing Activities		(11,244,960)	(11,775,707)
Cash Flows from Financing Activities			
Capital transfer from Cess Fund	14	11,242,118	11,255,932
Net Cash Inflow/(Outflow) from Financing Activities		11,242,118	11,255,932

SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

CASH FLOW STATEMENT

For the year ended 31st December 2021	Note	2021 Rs.	2020 Rs.
Net Increase/(Decrease) in Cash and Cash Equivalents		6,030,618	(65,705,970)
Cash and Cash Equivalents at the beginning of the period (Note A)		103,007,105	168,713,075
Cash and Cash Equivalents at the end of the period (Note B)		109,037,723	103,007,105
Note (A)			
Cash and Cash Equivalents at the beginning of the period			
Investments in Repo		64,610,002	167,595,925
Cash at Bank		38,357,103	1,077,150
Cash in Hand		40,000	40,000
		103,007,105	168,713,075
Note (B)			
Cash and Cash Equivalents at the end of the period			
Investments in Repo	12	74,999,999	64,610,002
Cash at Bank	12	33,997,724	38,357,103
Cash in Hand	12	40,000	40,000
		109,037,723	103,007,105

The notes appearing on pages 87 to 100 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 REPORTING ENTITY

Securities and Exchange Commission of Sri Lanka (SEC) is a nonprofit making statutory board established under the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 as amended by Act No. 26 of 1991, Act No. 18 of 2003 and Act No. 47 of 2009 (Old SEC Act) which was repealed by the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021 (New SEC Act) with effect from 21st September 2021.

The SEC is domiciled in the Democratic Socialist Republic of Sri Lanka and situated at Level 28 and 29, East Tower - World Trade Center, Echelon Square, Colombo 01.

1.2 NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

According to Section 12 of the Old SEC Act which was effective till 20th September 2021, the objects of the SEC shall be,

- (a) the creation and maintenance of a market in which securities can be issued and traded in an orderly and fair manner;
- (b) the protection of the interest of investors;
- (c) the operation of a Compensation Fund to protect investors from financial loss arising as a result of any licensed stock broker or licensed stock dealer being found incapable of meeting his contractual obligations; and
- (d) the regulation of the securities market and to ensure that professional standards are maintained in such market.

According to Section 03 of the New SEC Act which is effective from 21st September 2021, the object & purpose of the Act shall be,

- (a) To establish the Securities and Exchange Commission of Sri Lanka;
- (b) To create, maintain and regulate a fair, orderly, efficient and transparent securities market;
- (c) To protect the interest of local and foreign investors; and
- (d) To ensure the maintenance of high professional standards in the provision of services in relation to securities market.

1.3 STATEMENT OF COMPLIANCE

The Securities and Exchange Commission of Sri Lanka prepared its financial statements in accordance with the Sri Lanka Public Sector Accounting Standards (SLPSAS) issued by the Institute of Chartered Accountants of Sri Lanka. The financial statements comprise the statement of financial position, statement of financial performance, Statement of Changes in Net Assets and Cash Flow Statement together with the Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information.

1.4 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

1.5 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 and the accounting policies have been applied consistently throughout the period.

1.6 BASIS OF PREPARATION

Based on a recommendation made by the SEC Audit Committee in terms of the provisions of the SEC Act, the Commission decided to prepare separate sets of financial statements for the Cess Fund and the Compensation Fund of the SEC with effect from 01st January 2020. Hence, this set of Financial Statements contains only the Statement of Financial Position, the Statement of Financial Performance, the Statement of Changes in Net Assets and the Cash Flow Statement together with the Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information of the Securities and Exchange Commission of Sri Lanka.

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 and on the historical cost basis except in the case on the Defined Benefit Obligation where the Net liability is recognized as the present value of the defined benefit obligation. Appropriate adjustments are made in respect of interest cost, current service cost, gratuity paid/payable for those who left during the period and actuarial (gain)/loss in arriving at the Defined Benefit Obligation as at the end of the period. Where appropriate accounting policies are disclosed in succeeding notes.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

1.7 USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about judgements made in applying accounting policies that have the most significant effect on the amount recognized in the financial statements is described in the Note on Defined benefit obligation. The cost of defined benefit obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates, etc. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty. Assumptions used in the actuarial valuation are disclosed in Note 15 to the Financial Statements.

1.8 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the SEC's functional currency. There was no change in the entity's presentation and functional currency during the year under review. Foreign exchange transactions are converted to Sri Lankan Rupees at the rate of exchange prevailing at the time of the transaction.

1.9 MATERIALITY AND AGGREGATION

Each material class of similar item is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.10 OFFSETTING

Assets & liabilities and revenue & expenses are not offset unless required or permitted by a SLPSAS or the offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and condition that occurred and to assess the SEC's future cash flows.

1.11 COMPARATIVE INFORMATION

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

1.12 EVENTS AFTER THE REPORTING DATE

All material events after the Reporting date are considered and appropriate adjustments or disclosures are made in the financial statements, where necessary.

1.13 CHANGES IN ACCOUNTING POLICIES

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

2 ASSETS AND BASES OF THEIR VALUATION

2.1 PROPERTY, PLANT AND EQUIPMENT

OWNED PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, Plant & Equipment (PPE) & Intangible Assets together with any incidental expenses thereon are stated at cost and depreciated/amortized at their respective useful lives. These assets received as grants, were accounted at cost and depreciation/amortization thereof is charged against the respective reserve account. The depreciation/amortization is provided on the straight-line basis. The Motor Vehicles, Office Equipment, EDP Equipment including Software and Training Equipment were depreciated/amortized taking into consideration the economic useful lives of the assets applying the following rates.

Motor Vehicles	10.00%
Furniture, Fixtures and Fittings	12.50%
Training Equipment	20.00%
Electronic Data Processing (EDP) Equipment - including Software*	
EDP - Hardware	20.00%
EDP Equipment - Software	20.00 – 33.33%
EDP Equipment - Mobile phones	33.33%
EDP Equipment - Other	20.00 – 25.00%

Depreciation/amortization 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.

Subsequent expenditure on PPE & Intangible Assets are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

*Computer software not integral to computer hardware are shown as intangible assets and recognized at cost. Following initial recognition these intangible assets are carried at cost less any accumulated amortization.

2.2 INVESTMENTS

Investments are made in fixed deposits and short term investments at Licensed Government banks, in Government Treasury bills and Government Treasury 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 and net realizable value. The cost of inventories is valued on First-in First-out (FIFO) basis.

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

2.4 RECEIVABLES

Receivables are stated at the estimated realizable value.

3. LIABILITIES & PROVISIONS

3.1.1 DEFINED CONTRIBUTION PLANS - EPF/ETF

All employees of the SEC are members of the Employees' Provident Fund and

Employees' Trust Fund to which the SEC contributes 12% and 3% respectively of such employees' gross emoluments barring the vehicle and fuel allowance.

3.1.2 DEFINED BENEFIT OBLIGATION - GRATUITY

Gratuity is a post-employment benefit, the SEC is liable to pay to its employees as a post-employment benefit in terms of Gratuity Act No. 12 of 1983. The liability to an employee arises only on completion of five years of continued service. However, in terms of the SLPSAS 19 - 'Employee Benefits' which came in to effect from 01st January 2018, the liability recognized in the statement of financial position is the present value of the defined benefit obligation as at the reporting date. The liability is not externally funded. Unrecognized Actuarial gains or losses and unrecognized past and current service costs are recognized immediately in the Statement of Financial Performance. The net liability for defined benefit obligation will be determined by a qualified actuary as at 31st December 2021 using the Projected Unit Credit method as recommended in the SLPSAS 19.

3.2 LIABILITIES

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

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

3.3 GRANT

Capital expenditure transferred from the Cess Fund is treated as a grant and recognized in the Statement of Financial

Performance as revenue on systematic basis over the useful life of the related asset.

4. STATEMENT OF FINANCIAL PERFORMANCE

4.1 REVENUE RECOGNITION

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

4.2 INTEREST INCOME AND EXPENSES

Interest Income on investments and interest expenses are recognized in the Statement of Financial Position on an accrual basis.

4.3 OTHER REVENUE

Other income is recognized on an accrual basis.

4.4 PROFIT OR LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Profit or loss arising from the disposal of Property, Plant and Equipment are accounted in the Statement of Financial Performance as the excess of the proceeds on disposal after deducting the carrying amount of the assets and related selling cost.

5. EXPENDITURE RECOGNITION

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

6. CASH FLOW STATEMENT

For the purpose of the Cash Flow Statement, Cash and Cash Equivalents consist of cash in hand, cash at bank and REPO investments with a maturity of less than three months at banks.

SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

7 PROPERTY, PLANT & EQUIPMENT

Description	Motor Vehicles	Furniture, Fixtures & Fittings	Office Equipments & EDP Equipments	Training Equipments	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Cost					
Balance as at 01.01.2021	45,165,786	47,974,894	158,365,815	4,326,348	255,832,843
Transfers during the year	0	0	0	0	0
Additions during the year	0	2,343,304	8,898,813	0	11,242,118
Disposals during the year	0	0	0	0	0
Balance as at 31.12.2021	45,165,786	50,318,199	167,264,628	4,326,348	267,074,961
Accumulated Depreciation					
Balance as at 01.01.2021	28,891,714	35,217,840	112,214,715	4,060,735	180,385,004
Transfers during the year	0	0	0	0	0
Depreciation charge for the year	3,090,076	3,344,008	15,162,698	138,458	21,735,241
Accumulated depreciation on disposals	0	0	0	0	0
Balance as at 31.12.2021	31,981,791	38,561,849	127,377,413	4,199,192	202,120,245
W.D.V. as at 31.12.2021	13,183,995	11,756,350	39,887,215	127,156	64,954,716
W.D.V. as at 31.12.2020	16,274,072	12,757,054	46,151,099	265,614	75,447,839
Cost of the Fully Depreciated Assets as at 31.12.2021 (included in the above mentioned cost)	16,552,286	22,593,951	100,871,204	3,660,805	143,678,246
Useful LifeTime (No. of Years)	10	8	3-5	5	

	Note	2021 Rs.	2020 Rs.
8 INVENTORIES			
Stock of Stationery, Stamp & EDP Consumables		3,005,873	2,033,967
Total		3,005,873	2,033,967
9 RECEIVABLES			
Sundry Debtors		1,903,896	339,601
Festival Advances		2,055,000	2,100,000
Interest Receivable on Repo & Fixed Deposits		27,079	7,719
Staff Loans		17,690,604	20,437,628
Phone Advance		68,046	208,367
Insurance Claim Receivable		37,875	16,375
Receivable from CESS Fund		193,356,762	0
Receivable from Compensation Fund		5,845,532	18,890,614
EPF receivable		12,000	0
Receivable from an Interdicted Employee		5,212,815	5,212,815
Total		226,209,609	47,213,119

10 INVESTMENTS IN FIXED DEPOSITS

Amount reported under investments in fixed deposits represents the value of fixed deposits under lien to the Bank of Ceylon by the SEC for operational matters.

	Note	2021 Rs.	2020 Rs.
11 DEPOSITS, ADVANCES & PRE-PAYMENTS			
Fuel Deposit		78,000	78,000
Mobitel - Corporate Data Packages		15,000	15,000
Mobitel - Post paid Wingles		12,000	12,000
Deposits with Telecom Ltd		23,125	23,125
Deposits with Dialog		8,500	8,500
Frosty - Hot & Cold Water Dispensers		12,899	12,899
The Employers' Federation of Ceylon		62,500	62,500
DHL Courier Service		30,000	0
ORCL - Management Corporation Condominium Plan 1824		44,522,736	44,522,736
Advances to Suppliers		17,784,222	19,950,336
Total		62,548,982	64,685,096

SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

	Note	2020 Rs.	2019 Rs.
12 CASH & CASH EQUIVALENTS			
Investment in Repo		74,999,999	64,610,002
Cash at Bank		33,997,724	38,357,103
Cash in Hand		40,000	40,000
Total		109,037,723	103,007,105
13 ACCUMULATED FUND			
Balance at the beginning of the year		0	0
Excess expenditure over income for the year		(352,589,980)	(385,201,890)
Transfer from Cess Fund towards Excess of Expenditure over Income		352,589,980	385,201,890
Balance at the end of the year		0	0
14 GRANT - TRANSFERS FROM CESS FUND FOR CAPITAL EXPENDITURE			
Balance at the beginning of the Year		69,195,940	81,571,796
Transfer from Cess Fund for Capital Expenditure		11,242,118	11,255,932
Recognition of Grants		(21,735,241)	(23,631,788)
Balance at the end of the Year		58,702,817	69,195,940
NOTE:			
RECOGNITION OF GRANT			
The Grant is recognized at the following rates			
Motor Vehicles		10.00%	10.00%
Furniture, Fixtures & Fittings		12.50%	12.50%
Office Equipment - Electronic Data Processing & Others		20.00% to 33.33%	20.00% to 33.33%
Training Equipment		20.00%	20.00%
15 RETIREMENT BENEFIT OBLIGATION			
Balance at the beginning of the Year		50,378,208	43,464,268
Interest Cost		4,030,257	4,346,427
Current Service Cost		4,488,982	4,365,013
Gratuity paid during the Year		(915,485)	(4,113,265)
Net actuarial (gain)/ loss		1,072,265	2,315,765
Balance at the end of the Year		59,054,227	50,378,208

The Retirement Benefit Obligation is based on the actuarial valuation carried out by an independent professional valuer. The actuarial valuations involve making assumptions about discount rates, future salary increment rates, mortality rate, etc. Due to the long term nature of the plan, such estimates are subject to significant uncertainty. All assumptions will be reviewed at each reporting date.

The principle assumptions used in determining the cost of employee benefits were;

	Note	2021	2020
Retirement Age		60 years	60 years
Discount Rate		11.5% p.a.	8% p.a.
Future Salary Increment Rate		10% p.a.	7% p.a.

15.1 SENSITIVITY OF ASSUMPTIONS USED

A one percentage change in the assumptions would have the following effects.

	Discount Rate Rs.	Future Salary Increment Rate Rs.
1 % Increase	55,621,780	62,828,224
1 % Decrease	62,890,484	55,633,914

An actuarial valuation of the retirement gratuity obligation was carried out as at December 31, 2021 by a professional Actuary, M/S Actuarial and Management Consultants (Pvt) Ltd. The valuation method used by the Actuary to value the liability is the "Projected Unit Credit Method (PUC)"; a method recommended by the Sri Lanka Public Sector Accounting Standard - SLPSAS 19 on "Employee Benefit".

	Note	2021 Rs.	2020 Rs.
16 INCOME TAX PAYABLE			
Income tax payable for the Y/A 2019/20		0	14,315,868
Income tax payable for the Y/A 2020/21		(2,912,946)	9,023,947
Income tax payable for the Y/A 2021/22		325,931,918	0
Total		323,018,972	23,339,815

SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

	Note	2021 Rs.	2020 Rs.
17 CREDITORS AND ACCRUALS			
Stamp Duty Payable		58,375	59,000
E-Communication, Data Processing, Telephone & Internet		679,632	818,428
Electricity		363,744	325,327
Staff Medical Reimbursement		1,267,183	1,037,439
Leave Encashment		2,836,791	2,912,175
Overtime		177,653	118,583
External Audit Fees		900,000	1,060,000
Internal Audit Fees		598,620	1,500,000
Professional Charges		2,049,390	165,000
Legal Expenses		1,320,000	0
Public Awareness		6,535,418	51,773
Capital Market Development		0	915,833
Market Surveillance Cost		0	1,670,625
Courier Charges		0	9,860
Travelling - Local		0	20,100
Executive Subsistence		12,500	12,500
Staff Welfare		0	102,914
Rent Deposit Payable		1,536,792	1,536,792
General Expenses - FSMP		0	216,945
EPF Payable		0	2,217,897
Subscriptions Newspapers & Periodicals		0	23,680
Recruitment Expenses		0	323,163
Motor Vehicle Fuel		0	66,422
E-Futures monthly Maintenance		71,280	0
Interns Allowance		16,667	0
Interest Subsidy		68,857	
Other Payable		27,794	50,794
Gratuity Payment		915,485	0
Payable to Cess Fund		0	130,331,961
Total		19,436,181	145,547,211
18 FINANCIAL SECTOR MODERNISATION PROJECT (FSMP) OF THE WORLD BANK			
Payable to Vendors - FSMP		68,134	558,060
Total		68,134	558,060

The FSMP of the World Bank will achieve the Project Development Objective through modernizing the financial market infrastructure, upgrading the legal and regulatory framework for the financial system, and strengthening the institutional capacity of the financial sector regulators namely the Central Bank of Sri Lanka, Securities and Exchange Commission of Sri Lanka and the Insurance Regulatory Commission of Sri Lanka. In addition, the Ministry of Finance also assists in the overall project coordination by operating a Project Management Unit. As part of the FSMP, the SEC secured Technical Assistance and Investment Funding support for a number

of key initiatives. Accordingly, the SEC stands to gain approximately USD 10 million ; 2 million under the Results based Financing Component and 8 million under the Investment based Financing component for designated Goods and Consultancy procurements.

As at 31st December 2021, the SEC has received USD 1,038,515.90 (equivalent to Rs. 197,648,942.32) in total as part of the Result Based Financing Component of the FSPM. In addition, a sum of USD 367,000 has been disbursed to the Ministry of Finance by the World Bank as part of the Investment Project Financing Component of the FSMP of which USD 34,100 has been withdrawn by the SEC in order to pay for the local vendors in LKR and USD 16,024.39 has been directly paid to the foreign vendors as at 31st December 2021.

	Note	2021 Rs.	2020 Rs.
19 PERSONNEL COSTS			
Staff Salaries		148,971,963	132,419,676
Chairman's Allowance		1,200,000	1,030,000
Reimbursements to the Attorney General's Department		6,245,252	5,814,518
Overtime		2,454,684	1,669,163
EPF & ETF		22,657,813	20,241,694
Staff Gratuity	15	9,591,504	11,027,205
Special Payment		18,085,294	16,606,045
Leave Encashment		2,973,891	2,767,429
Staff Medical Expenses & Insurance		15,350,619	7,914,882
Personnel Accident Insurance Cover		0	667,100
Staff Housing Loan Interest Subsidy		2,266,022	2,341,631
Staff Welfare		7,335,081	4,052,758
Executive Subsistence		85,000	137,500
Staff Vehicle Allowance		26,662,653	23,298,500
Overseas Training and Travelling		0	2,309,872
Staff Training - Local		705,210	397,250
Subscription of Membership		1,413,666	1,410,345
Sponsorship for Studies *		503,063	795,545
Advertising-Recruitment		838,399	1,343,099
Interns Allowance		2,079,583	275,000
Total		269,419,695	236,519,212

* 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 should be reimbursed by the employee proportionately for the remaining bonded period.

SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

	Note	2021 Rs.	2020 Rs.
20 ADMINISTRATION & ESTABLISHMENT EXPENSES			
Rent & Car Park Rental		101,143,670	96,216,435
Electricity Charges		4,027,541	3,688,801
Office Upkeep		154,900	501,455
Office Equipment Maintenance & Insurance		7,896,974	11,365,646
Telephone, Internet, E- mail & Web		694,479	697,283
E-Communication ,Data processing		7,761,880	7,894,251
Motor Vehicle Fuel, Maintenance, License & Insurance		4,699,751	3,002,346
Professional Fees		3,202,982	2,015,000
Meeting Fees		750,000	1,532,000
Meeting Expenses		953,363	964,110
Library Books		3,000	9,600
News Papers & Periodicals		330,276	360,964
Printing & Stationery		4,314,634	3,582,116
Travelling Local		7,030,161	3,176,561
Insurance- All Risk , Public Liability, Cash in Transit &Fire		254,726	1,653,300
Postage and Stamp Duty		1,129,186	688,711
Courier Charges		151,038	97,225
Legal Expenses		2,803,360	1,643,885
Audit Fees - Internal		1,762,980	1,539,580
Audit Fees - External		344,000	1,290,000
General Expenses		999,101	445,040
Trade Tax		5,000	5,000
VAT Expenses		0	23,397
Depreciation	7	21,735,241	23,631,788
Total		172,148,244	166,024,494

	Note	2021 Rs.	2020 Rs.
21 CAPITAL MARKET DEVELOPMENT EXPENSES			
Capital Market and Product Development		14,862,714	16,920,166
Public Awareness Programmes		24,840,257	1,354,648
Educational Programmes		1,802,431	1,609,193
International Membership Fees - IOSCO		4,210,388	3,684,862
Publicity and Advertising		146,664	0
Market Surveillance Cost		9,349,152	8,795,002
Investigation and Inspection Expenses		30,329	3,134
Total		55,241,934	32,367,005

	Note	2021 Rs.	2020 Rs.
22 FINANCE CHARGES			
Bank Charges		103,030	40,887
Total		103,030	40,887

	ACTUAL 2021 Rs.	BUDGET 2021 Rs.	VARIANCE Rs.
23 COMPARISON OF ACTUAL INCOME AND EXPENDITURE AGAINST THE BUDGET			
Income			
License Fees	2,793,194	3,415,000	(621,806)
Administration Levy	6,360,039	3,000,000	3,360,039
Educational Programmes	5,542,684	4,995,000	547,684
Interest Income	1,820,617	600,000	1,220,617
Other income	448,073	0	448,073
Interest on Staff Loans	818,946	924,000	(105,054)
Government Grant - FSMP	104,804,128	97,500,000	7,304,128
Profit/(Loss) on Disposal of Property, Plant and Equipment	0	9,500,000	(9,500,000)
Total Income generated by SEC	122,587,682	119,934,000	2,653,682
Less: Expenditure			
Personnel costs	(269,419,695)	(294,929,730)	25,510,035
Administration & establishment cost	(150,413,003)	(162,403,707)	11,990,704
Capital market development	(55,241,934)	(82,920,557)	27,678,623
Financial charges	(103,030)	(44,976)	(58,054)
Total Revenue Expenditure	(475,177,662)	(540,298,970)	65,121,308
Less: Income Tax Expense	0	0	0
Excess of Revenue Expenditure over Income	(352,589,980)	(420,364,970)	67,774,990

24. CAPITAL COMMITMENTS

There were no capital commitments as at 31.12.2021.

25. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31.12.2021.

26. EVENTS AFTER THE REPORTING DATE

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

SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

27. RELATED PARTY DISCLOSURES

Mr. Viraj Dayaratne, PC was appointed as the Chairman of the SEC with effect from 8th January 2020 and assumed duties with effect from 22nd January 2020.

The following Members of the Commission held office during the year 2021 as stated below.

- Mr. Sanjaya Bandara was appointed as an Ex-officio member by virtue of him holding office as the President of the Institute of Chartered Accountants of Sri Lanka with effect from 21st December 2021.
- Mr. Sanjeewa Dissanayake was appointed as an Ex-officio member by virtue of him holding office as Registrar General of Companies with effect from 08th July 2021.
- Mr. R. M. P. Rathnayake was appointed as an Ex-officio member by virtue of him holding office as Deputy Secretary to the General Treasury with effect from 16th January 2020.
- Mr. N. W. G. R. D. Nanayakkara was appointed as an Ex-officio member by virtue of him holding office as Deputy Governor to the Central Bank of Sri Lanka with effect from 01st January 2021.
- Mr. Suhada Gamalath, PC was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Sisira Rathnayake was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Sunil Lankathilake was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Naresh Abeysekera was appointed as a Member of the Commission with effect from 16th January 2020.

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

- Mr. Manil Jayasinghe who was appointed with effect from 07th January 2020 as an Ex-officio member by virtue of him holding office as the President of the Institute of Chartered Accountants of Sri Lanka ceased to be a member with effect from 21st December 2021.
- Mr. D. N. R. Siriwardene who was appointed as an Ex-officio member by virtue of him holding office as Registrar General of Companies ceased to be a member with effect from 01st January 2021.

The following table depicts the relationships held by the Members of the Commission who held office during the year under review.

Name	Name of Related Institution	Relationship	Shareholding, if any
Mr. Viraj Dayaratne, PC	Settlement Guarantee Fund	Trustee appointed with effect from 08th January 2020 and assumed duties with effect from 22nd January 2020	Nil
Mr. Sanjaya Bandara	Institute of Chartered Accountants of Sri Lanka	President with effect from December 2021	Nil
	Mercantile Investments & Finance PLC	Director/ Chairman for the period from February 2012 to February 2021	Nil
	Prime Land Residencies PLC	Director with effect from March 2021	Nil
Mr. Sanjeewa Dissanayake	The department of the Register of Companies	Register General of Companies with effect from 08th July 2021	Nil
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member	Nil
	Accounting Standards Committee of the Institute of Chartered Accountants of Sri Lanka	Ex-Officio Member	Nil
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Ex-Officio Member	Nil

Name	Name of Related Institution	Relationship	Shareholding, if any
Mr. R. M. P. Rathnayake	General Treasury	Deputy Secretary with effect from 08th January 2020	Nil
	Bank of Ceylon	Ex-Officio Member with effect from 28th April 2020	Nil
	Academy of Financial Studies (Guarantee) Limited	Ex-Officio Member until 06th September 2021	Nil
	Local Loan Development Fund	Commissioner & Chairman with effect from 14th September 2020	Nil
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member with effect from 22nd January 2021	Nil
	Settlement Guarantee Fund	Trustee with effect from 16th January 2020	Nil
Mr. N. W. G. R. D. Nanayakkara	Central Bank of Sri Lanka	Deputy Governor with effect from 14th December 2020	Nil
Mr. Suhada Gamalath, PC	Nil	Nil	Nil
Mr. Sisira Ratnayake	Nil	Nil	Nil
Mr. Sunil Lankathilake	Ministry of Finance	Member of Board of Inquiry of Foreign Exchange Act for three years from 01st February 2021	Nil
	LOLC Development Finance PLC	Non-Executive Independent Director with effect from 24th August 2021	Nil
Mr. Naresh Abeysekera	Nil	Nil	Nil

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

Name	Name of Related Institution	Relationship	Shareholding, if any
Mr. Manil Jayasinghe	Institute of Chartered Accountants of Sri Lanka	President until December 2021	Nil
	Ernst & Young	Managing Partner – Sri Lanka & Maldives	Nil
Mr. D. N. R. Siriwardene	The Department of the Registrar of Companies	Registrar General of Companies until 01st January 2021	Nil
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member	Nil
	Institute of Chartered Accountants of Sri Lanka	Ex-Officio Member	Nil
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Ex-Officio Member	Nil

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

The SEC maintains the following five Current Accounts at Bank of Ceylon (BOC) and the bank balances are tabulated below;

Name of the Current Account	Account Number	Balance as at 31.12.2021	Balance as at 31.12.2020
Securities and Exchange Commission of Sri Lanka	0000001694	23,794,693	32,730,612
	0009919753	10,146,896	4,777,980
	83810081	56,134	856,470

SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

27. RELATED PARTY DISCLOSURES (CONTD.)

The following investments were channeled through BOC during the year 2021.

Investment Type	Investments made in BOC during the year (Rs.)	Balance as at 31st December 2021 at BOC (Rs.)
Investment in Repo	599,782,566	75,000,000
Fixed Deposits	640,563	642,737
Total	600,423,129	75,642,737

The Members of the Commission at its 444th Meeting held on 18th December 2020 approved to obtain the service of an independent auditor or a professional agency to conduct a salary survey with the additional function of making recommendations to rectify the salary anomalies which exist in the current salary structure of the Secretariat. Accordingly, after following proper procurement procedures, the assignment to conduct the said salary survey was awarded to M/s. Ernst and Young Sri Lanka, fully compliant service provider, for a total cost of Rs. 1,380,000.00 (excluding tax). The salary survey was started by M/s. Ernst and Young Sri Lanka in 2021 and no payments have been made for the same in 2021.

In addition, the following table depicts the other transactions taken place during the year under review with the entities with which the Members of the Commission act as Members of the Governing Bodies.

Payee	Description of the Payment	Date of Payment	Amount paid
Institute of Chartered Accountants of Sri Lanka	Renewal of a training partner of the SEC for the year 2021	3/9/2021	17,500.00
	Payment made for the National Conference of CA Sri Lanka for the year 2021 to participate employees of the SEC	9/27/2021	113,500.00
	Membership Renewal Fee for the year 2022 for the CA Membership Holders work in the SEC	12/20/2021	184,000.00
Secretary, State Ministry of Money & Capital Market & State Enterprise Reforms	Contribution of Government Campaign for Colombo Port City	7/1/2021	8,821,948.32
Academy of Financial Studies	Hall hiring charges to conduct exams of the Capital Market Education Division of the SEC	10/18/2021	90,000.00
		11/23/2021	95,000.00
		12/27/2021	65,000.00
		12/27/2021	65,000.00

AUDITOR GENERAL'S REPORT



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

BAN/G/CESS/FA/21/3

මගේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

29 March 2022

Chairman

Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Cess Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2021 in terms of Section 11 (1) of the National Audit Act No.19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Cess Fund of the Securities and Exchange Commission of Sri Lanka ("Fund") for the year ended 31 December 2021 comprising the Statement of Financial Position as at 31 December 2021 and the Statement of Financial Performance, Statement of Changes in Cess Fund and Cash Flow Statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018. The report of the Auditor General in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka will be tabled in Parliament in due course.

In my opinion, the financial statements of the Fund give a true and fair view of the financial position as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

අංක 306/72, පොල්දූව පාර, මත්තරමුල්ල, ශ්‍රී ලංකාව.



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AUDITOR GENERAL'S REPORT



ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

CESS FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

AUDITOR GENERAL'S REPORT



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

The National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- 2.1 The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- 2.2 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

A handwritten signature in black ink, appearing to read 'W. P.C Wickramaratne'.

W. P.C Wickramaratne
Auditor General

STATEMENT OF FINANCIAL POSITION

As at 31st December 2021	Note	2021 Rs.	2020 Rs.
Assets			
Non Current Assets			
Investment in Treasury Bonds		3,159,199,611	969,902,655
Current Assets			
Investment in Treasury Bonds		355,702,975	204,156,542
Interest Receivable on Treasury Bonds		76,520,029	46,794,137
Interest Receivable on Repo		146,132	183,599
Cess Receivable		27,289,951	11,266,847
Receivable from SEC		0	130,331,961
Cash and Cash Equivalents	7	459,076,390	1,437,680,052
Total Assets		4,077,935,087	2,800,315,793
Funds and Liabilities			
Funds Employed and Reserves			
Accumulated Fund		3,884,378,325	2,800,315,793
Current Liabilities			
Payable to SEC		193,356,762	0
Audit Fees		200,000	0
Total Funds and Liabilities		4,077,935,087	2,800,315,793

The notes appearing on pages 109 to 113 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 CESS FUND OF SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA



Chinthaka Mendis
Director General
Securities and Exchange Commission of Sri Lanka



Viraj Dayaratne
Chairman
Securities and Exchange Commission of Sri Lanka



Nirossha Kodikara
Director Finance & Administration
Securities and Exchange Commission of Sri Lanka

Colombo
15th March 2022

CESS FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31st December 2021	Note	2021 Rs.	2020 Rs.
Income			
Cess Received during the year		1,554,518,067	528,483,025
Interest on Treasury Bonds		144,908,971	167,565,413
Interest on Treasury Bills		0	5,724,385
Interest on Repo Investments		91,940,659	46,017,563
Total Income		1,791,367,697	747,790,386
Expenditure			
Funds transferred to the SEC for Operational & Capital Expenses		(363,832,098)	(396,457,822)
Audit Fees		(398,000)	0
Bank Charges		(18,442)	(13,796)
Total Expenditure		(364,248,540)	(396,471,618)
Income Tax Expense	8	(343,056,625)	(28,434,785)
Excess of Income over Expenditure		1,084,062,532	322,883,983

The notes appearing on pages 109 to 113 form an integral part of the financial statements.

STATEMENT OF CHANGES IN CESS FUND

For the year ended 31st December 2021	2021 Rs	2020 Rs.
Accumulated Fund		
Balance at the beginning of the year	2,800,315,793	2,789,763,682
Excess of Income over Expenditure for the year	1,084,062,532	322,883,983
Funds transferred to the Consolidated Fund	0	(312,331,872)
Balance as at the end of the year	3,884,378,325	2,800,315,793

The notes appearing on pages 109 to 113 form an integral part of the financial statements.

CESS FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

CASH FLOW STATEMENT

For the year ended 31st December 2021	2021 Rs.	2020 Rs.
Cash Flows from Operating Activities		
Excess of Income over Expenditure	1,084,062,532	322,883,983
Net Increase/ (Decrease) before Working Capital Changes	1,084,062,532	322,883,983
Change of Working Capital		
(Increase)/ Decrease of Staff Loans	0	21,347,330
(Increase)/ Decrease of Cess Receivable	(16,023,104)	(8,035,772)
(Increase)/ Decrease of Receivable - SEC	130,331,961	(46,180,984)
(Increase)/ Decrease of Interest Receivable on Treasury Bonds	(29,725,892)	16,710,292
(Increase)/ Decrease of Interest Receivable on Repo	37,467	187,976
(Increase)/ Decrease of Lease Rent Deposit	0	42,985,944
Increase/ (Decrease) of Payables	193,556,762	0
	278,177,195	27,014,786
Net Cash Inflow/ (Outflow) from Operating Activities	1,362,239,726	349,898,769
Cash Flows into Investing Activities		
Investment in State Institutions Temporary Surplus Fund	0	306,607,487
Funds transferred to the Consolidated Fund	0	(312,331,872)
Investment in Treasury Bonds	(2,340,843,389)	738,949,681
Net Cash Inflow/ (Outflow) from Investing Activities	(2,340,843,389)	733,225,296
Net Increase/ (Decrease) in Cash and Cash Equivalents	(978,603,662)	1,083,124,065
Cash and Cash Equivalents at the beginning of the period (Note A)	1,437,680,052	354,555,986
Cash and Cash Equivalents at the end of the period (Note B)	459,076,390	1,437,680,052
Note (A)		
Cash and Cash Equivalents at the beginning of the period		
Investments in Repo	1,425,824,301	350,000,000
Cash at Bank	11,855,751	4,555,986
	1,437,680,052	354,555,986
Note (B)		
Cash and Cash Equivalents at the end of the period		
Investments in Repo	452,265,729	1,425,824,301
Cash at Bank	6,810,660	11,855,751
	459,076,390	1,437,680,052

The notes appearing on pages 109 to 113 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 REPORTING ENTITY

Cess Fund of the Securities and Exchange Commission of Sri Lanka (Cess Fund) was established under the Section 14B (1) of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 as amended by Act No. 26 of 1991, Act No. 18 of 2003 and Act No. 47 of 2009 (Old SEC Act) which was repealed and replaced by Section No 156 (1) of the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021 (New SEC Act) with effect from 21st September 2021.

Section 14B (1) of the Old SEC Act reads as 'There shall be established a fund called the Cess Fund to which shall be credited the proceeds of the Cess imposed under Section 14A.'

Section 156 (1) of the New SEC Act reads as 'There shall be established a fund called the "Cess Fund" to be administrated by the Commission to which shall be credited the proceeds of the Cess imposed under Section 155.'

The Cess Fund is domiciled in the Democratic Socialist Republic of Sri Lanka and situated at Level 28 and 29, East Tower – World Trade Center, Echelon Square, Colombo 01.

1.2 NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

According to Section 14B (2) of the Old SEC Act which was effective till 20th September 2021, there shall be paid out of 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.

Further, in terms of the Section 14B (3) of the Old SEC Act, 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.

According to Section 156 (2) of the New SEC Act which is effective from 21st September 2021, the monies lying to the credit of the Cess Fund shall only be utilized for the purpose of:

- (a) developing the securities market;
- (b) enhancing monies lying to the credit of the Compensation Fund or the Fund of the Commission established under this part;
- (c) meeting all expenditure incurred by the Commission in the management, administration, and operation of the Commission in the exercise, performance and discharge of its duties and functions;
- (d) granting loans for housing, educational, health and transport purposes to the staff of the Commission as the Commission deems appropriate;
- (e) to make contributions to pension and provident funds and other schemes established for the benefit of the Director General and its officers and servants and their dependents and nominees; and
- (f) to defray the cost of the study, in Sri Lanka or abroad of the officers and servants of the Commission who are of proven merit as determined by the Commission.

Further, in terms of the Section 156 (3) of the New SEC Act, any excess 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 the purpose of developing the Cess Fund.

1.3 STATEMENT OF COMPLIANCE

Cess Fund of the Securities and Exchange Commission of Sri Lanka prepared its financial statements in accordance with the Sri Lanka Public Sector Accounting Standards (SLPSAS) issued by the Institute of Chartered Accountants of Sri Lanka. The financial statements comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Cess Fund and Cash Flow Statement together with the Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information.

1.4 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

1.5 GOING CONCERN

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

1.6 BASIS OF PREPARATION

Based on a recommendation made by the SEC Audit Committee in terms of the provisions of the Old SEC Act, with effect from 01st January 2020 the Commission of the Securities and Exchange Commission of

CESS FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

Sri Lanka decided to prepare a separate set of financial statements for the Cess Fund of the SEC. Hence, this set of Financial Statements contains the Statement of Financial Position, the Statement of Financial Performance, the Statement of Changes in Cess Fund and the Cash Flow Statement together with the Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information of the Cess Fund of the SEC.

The financial statements of the Cess Fund are presented in Sri Lankan Rupees rounded to the nearest Rupee.

The financial statements are prepared on accrual basis and on the historical cost basis. Where appropriate accounting policies are disclosed in succeeding notes.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

1.7 USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

1.8 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Cess Fund's functional currency. There was no change in the entity's presentation and

functional currency during the year under review. Foreign exchange transactions, if any are converted to Sri Lankan Rupees at the rate of exchange prevailing at the time of the transaction.

1.9 MATERIALITY AND AGGREGATION

Each material class of similar item is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.10 OFFSETTING

Assets & liabilities and revenue & expenses are not offset unless required or permitted by a SLPSAS or the offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and condition that occurred and to assess the Cess Fund's future cash flows.

1.11 COMPARATIVE INFORMATION

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

1.12 EVENTS AFTER THE REPORTING DATE

All material events after the reporting date are considered and appropriate adjustments or disclosures are made in the financial statements, where necessary.

1.13 CHANGES IN ACCOUNTING POLICIES

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

2 ASSETS AND BASES OF THEIR VALUATION

2.1 INVESTMENTS

Investments are made in fixed deposits and short term investments at Licensed Government banks, in Government Treasury bills and Government Treasury Bonds which are stated at cost and interest accrued up to

the end of the reporting period.

2.2 RECEIVABLES

Receivables are stated at the estimated realizable value.

3 LIABILITIES & PROVISIONS

3.1 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.

4 STATEMENT OF FINANCIAL PERFORMANCE

4.1 INTEREST INCOME

Interest Income on investments are recognized in the Statement of Financial Performance on an accrual basis.

4.2 OTHER INCOME

Other income, if any is recognized on an accrual basis.

5 EXPENDITURE RECOGNITION

All expenditure of the Cess Fund is recognized on accrual basis and charged to revenue in ascertaining the financial performance.

6 CASH FLOW STATEMENT

For the purpose of the Cash Flow Statement, Cash and Cash Equivalents consist of cash in hand, cash at bank and REPO investments with a maturity of less than three months at banks.

7. CASH AND CASH EQUIVALENTS

	2021 Rs.	2020 Rs.
Investments in Repo	452,265,729	1,425,824,301
Cash at Bank	6,810,660	11,855,751
Total	459,076,390	1,437,680,052

8. INCOME TAX EXPENSE

	2021 Rs.	2020 Rs.
Income Tax Expense for the Y/A 2019/2020	0	14,315,868
Income Tax Expense for the Y/A 2020/2021	(2,905,438)	14,118,917
Income Tax Expense for the Y/A 2021/2022	345,962,063	0
Total	343,056,625	28,434,785

The liability for the income tax is computed in terms of the Inland Revenue Act No. 24 of 2017, as amended.

9. CAPITAL COMMITMENTS

There were no capital commitments as at 31.12.2021.

10. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31.12.2021.

11. RELATED PARTY DISCLOSURES

The Cess Fund is managed by the Members of the Commission of the Securities and Exchange Commission of Sri Lanka. Mr. Viraj Dayaratne, PC was appointed as the Chairman of the SEC with effect from 8th January 2020 and assumed duties with effect from 22nd January 2020.

The following Members of the Commission held office during the year 2021 as stated below.

- Mr. Sanjaya Bandara was appointed as an Ex-officio member by virtue of him holding office as the President of the Institute of Chartered Accountants of Sri Lanka with effect from 21st December 2021.
- Mr. Sanjeewa Dissanayake was appointed as an Ex-officio member by virtue of him holding office as Registrar General of Companies with effect from 08th July 2021.
- Mr. R. M. P. Rathnayake was appointed as an Ex-officio member by virtue of him holding office as Deputy Secretary to the General Treasury with effect from 16th January 2020.
- Mr. N. W. G. R. D. Nanayakkara was appointed as an Ex-officio member by virtue of him holding office as Deputy Governor to the Central Bank of Sri Lanka with effect from 01st January 2021.
- Mr. Suhada Gamalath, PC was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Sisira Rathnayake was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Sunil Lankathilake was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Naresh Abeysekera was appointed as a Member of the Commission with effect from 16th January 2020.

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

- Mr. Manil Jayasinghe who was appointed with effect from 07th January 2020 as an Ex-officio member by virtue of him holding office as the President of the Institute of Chartered Accountants of Sri Lanka ceased to be a member with effect from 21st December 2021.
- Mr. D. N. R. Siriwardene who was appointed as an Ex-officio member by virtue of him holding office as Registrar General of Companies ceased to be a member with effect from 01st January 2021.

CESS FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

The following table depicts the relationships held by the Members of the Commission who held office during the year under review.

Name	Name of Related Institution	Relationship	Shareholding, if any
Mr. Viraj Dayaratne, PC	Settlement Guarantee Fund	Trustee appointed with effect from 08th January 2020 and assumed duties with effect from 22nd January 2020	Nil
Mr. Sanjaya Bandara	Institute of Chartered Accountants of Sri Lanka	President with effect from December 2021	Nil
	Mercantile Investments & Finance PLC	Director/ Chairman for the period from February 2012 to February 2021	Nil
	Prime Land Residencies PLC	Director with effect from March 2021	Nil
Mr. Sanjeewa Dissanayake	The Department of the Registrar of Companies	Registrar General of Companies with effect from 08th July 2021	Nil
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member	Nil
	Accounting Standards Committee of the Institute of Chartered Accountants of Sri Lanka	Ex-Officio Member	Nil
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Ex-Officio Member	Nil
Mr. R. M. P. Rathnayake	General Treasury	Deputy Secretary with effect from 08th January 2020	Nil
	Bank of Ceylon	Ex-Officio Member with effect from 28th April 2020	Nil
	Academy of Financial Studies (Guarantee) Limited	Ex-Officio Member until 06th September 2021	Nil
	Local Loan Development Fund	Commissioner & Chairman with effect from 14th September 2020	Nil
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member with effect from 22nd January 2021	Nil
	Settlement Guarantee Fund	Trustee with effect from 16th January 2020	Nil
Mr. N. W. G. R. D. Nanayakkara	Central Bank of Sri Lanka	Deputy Governor with effect from 14th December 2020	Nil
Mr. Suhada Gamalath, PC	Nil	Nil	Nil
Mr. Sisira Ratnayake	Nil	Nil	Nil
Mr. Sunil Lankathilake	Ministry of Finance	Member of Board of Inquiry of Foreign Exchange Act for three years from 01st February 2021	Nil
	LOLC Development Finance PLC	Non-Executive Independent Director with effect from 24th August 2021	Nil
Mr. Naresh Abeysekera	Nil	Nil	Nil

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

Name	Name of Related Institution	Relationship	Shareholding, if any
Mr. Manil Jayasinghe	Institute of Chartered Accountants of Sri Lanka	President until December 2021	Nil
	Ernst & Young	Managing Partner – Sri Lanka & Maldives	Nil
Mr. D. N. R. Siriwardene	The Department of the Registrar of Companies	Registrar General of Companies until 01st January 2021	Nil
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member	Nil
	Institute of Chartered Accountants of Sri Lanka	Ex-Officio Member	Nil
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Ex-Officio Member	Nil

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

The Cess Fund of the SEC maintains the following Current Account at Bank of Ceylon (BOC) and the bank balance is tabulated below;

Name of the Current Account	Account Number	Balance as at 31.12.2021	Balance as at 31.12.2020
Cess Fund of the Securities and Exchange Commission of Sri Lanka	0009834430	2,784,645	1,862,994

The following investments were channeled through BOC during the year 2021.

Investment Type	Investments made in BOC during the year (Rs.)	Balance as at 31st December 2021 at BOC (Rs.)
Treasury Bonds	2,544,999,931	3,218,095,441
Investment in Repo	16,680,238,374	436,000,000
Total	19,225,238,305	3,654,095,441

AUDITOR GENERAL'S REPORT



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මගේ අංකය
எனது இல.
My No.

BAN/G/COM/FA/21/4

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

29 March 2022

Chairman

Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Compensation Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2021 in terms of Section 11 (1) of the National Audit Act No.19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Compensation Fund of the Securities and Exchange Commission of Sri Lanka ("Fund") for the year ended 31 December 2021 comprising the Statement of Financial Position as at 31 December 2021 and the Statement of Financial Performance, Statement of Changes in Compensation Fund and Cash Flow Statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018. The report of the Auditor General in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka will be tabled in Parliament in due course.

In my opinion, the financial statements of the Fund give a true and fair view of the financial position as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

අංක 306/72, පොල්දූව පාර, මිත්තරමුල්ල, ශ්‍රී ලංකාව.

இல. 306/72, போல்தூவ வீதி, பத்தரமுல்லை, இலங்கை.

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1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

AUDITOR GENERAL'S REPORT



As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

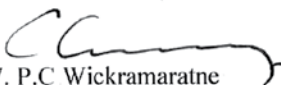
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

The National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- 2.1 The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- 2.2 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.


W. P.C Wickramaratne
Auditor General

COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

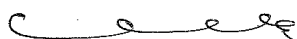
STATEMENT OF FINANCIAL POSITION

As at 31st December 2021	Note	2021 Rs.	2020 Rs.
Assets			
Non Current Assets			
Investments in Treasury Bonds		394,240,378	242,875,161
Current Assets			
Investments in Treasury Bonds		113,632,425	39,606,748
Interest Receivable on Treasury Bonds		13,002,217	9,308,709
Interest Receivable on Repo		13,406	32,027
Cash and Cash Equivalents	7	40,728,226	248,820,908
Total Assets		561,616,651	540,643,553
Funds and Liabilities			
Funds Employed and Reserves			
Accumulated Fund		555,571,118	521,752,939
Current Liabilities			
Payable to SEC		5,845,532	18,890,614
Audit Fees		200,000	0
Total Funds and Liabilities		561,616,651	540,643,553

The notes appearing on pages 122 to 126 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 COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA



Chinthaka Mendis
Director General
Securities and Exchange Commission of Sri Lanka



Viraj Dayaratne
Chairman
Securities and Exchange Commission of Sri Lanka



Niroscha Kodikara
Director Finance & Administration
Securities and Exchange Commission of Sri Lanka

Colombo
15th March 2022

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31st December 2021	Note	2021 Rs.	2020 Rs.
Income			
Interest on Treasury Bonds		33,305,523	33,778,140
Interest on Repo Investments		11,583,114	8,602,751
Compounded Fines Received during the year		0	36,300,000
Total Income		44,888,637	78,680,891
Expenditure			
Audit Fees		(398,000)	0
Bank Charges		(2,912)	(1,282)
Total Expenditure		(400,912)	(1,282)
Income Tax Expense	8	(10,669,546)	(18,890,614)
Excess of Income over Expenditure		33,818,179	59,788,995

The notes appearing on pages 122 to 126 form an integral part of the financial statements.

COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

STATEMENT OF CHANGES IN COMPENSATION FUND

For the year ended 31st December 2021	2021 Rs.	2020 Rs.
Accumulated Fund		
Balance at the beginning of the Year	521,752,939	461,963,944
Excess of Income over Expenditure	33,818,179	59,788,995
Balance at the end of the Year	555,571,118	521,752,939

The notes appearing on pages 122 to 126 form an integral part of the financial statements.

CASH FLOW STATEMENT

For the year ended 31st December 2021	2021 Rs.	2020 Rs.
Cash Flows from Operating Activities		
Excess of Income over Expenditure	33,818,179	59,788,995
Net Increase/ (Decrease) before Working Capital Changes	33,818,179	59,788,995
Change of Working Capital		
(Increase)/ Decrease of Interest Receivable on Treasury Bonds	(3,693,508)	1,091,126
(Increase)/ Decrease of Interest Receivable on Repo	18,621	41,462
Increase/ (Decrease) of Payable to SEC	(13,045,081)	18,890,614
Increase/ (Decrease) of Other Payables	200,000	0
	(16,519,968)	20,023,202
Net Cash Inflow/ (Outflow) from Operating Activities	17,298,211	79,812,197
Cash Flows into Investing Activities		
Investment in Treasury Bonds	(225,390,894)	98,973,250
Net Cash Inflow/ (Outflow) from Investing Activities	(225,390,894)	98,973,250
Net Increase/ (Decrease) in Cash and Cash Equivalents	(208,092,682)	178,785,447
Cash and Cash Equivalents at the beginning of the period (Note A)	248,820,908	70,035,461
Cash and Cash Equivalents at the end of the period (Note B)	40,728,226	248,820,908
Note (A)		
Cash and Cash Equivalents at the beginning of the period		
Investments in Repo	248,721,328	69,852,733
Cash at Bank	99,580	182,728
	248,820,908	70,035,461
Note (B)		
Cash and Cash Equivalents at the end of the period		
Investments in Repo	40,000,000	248,721,328
Cash at Bank	728,226	99,580
	40,728,226	248,820,908

The notes appearing on pages 122 to 126 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

1.1 REPORTING ENTITY

Compensation Fund of the Securities and Exchange Commission of Sri Lanka (Compensation Fund) was established under the Section 38 (1) of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 as amended by Act No. 26 of 1991, Act No. 18 of 2003 and Act No. 47 of 2009 (Old SEC Act) which was repealed and replaced by Section 158 (1) of the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021 (New SEC Act) with effect from 21st September 2021.

Section 38 (1) of the Old SEC Act reads as '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 stockbroker or licensed stock dealer being found incapable of meeting his contractual obligations'.

Section 158 (1) of the New SEC Act reads as 'There shall be established a fund called the "Compensation Fund", by the Commission for the purpose of granting limited compensation to any investor who suffers pecuniary loss as a result of any licensed stockbroker or licensed stock dealer being found by the Commission as being incapable of meeting his contractual obligations'.

The Compensation Fund is domiciled in the Democratic Socialist Republic of Sri Lanka and situated at Level 28 and 29, East Tower - World Trade Center, Echelon Square, Colombo 01.

1.2 NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

According to the Section 38 (1) of the Old SEC Act which was effective till 20th September 2021, the purpose of establishing the Compensation Fund is to grant compensation to any investor who

suffers pecuniary loss as a result of any licensed stockbroker or licensed stock dealer being found incapable of meeting his contractual obligations.

Further, the Section 38 (2) of the Old SEC Act stated that the Compensation Fund shall consist of;

- (a) such sums of money as may be voted upon by Parliament for the purpose of the Fund;
- (b) such sums of money as may be credited to the Fund under Section 51A; and
- (c) such sums of money as may be credited from the Cess Fund under Section 14B.

In addition, in terms of the Section 38 (3) of the Old SEC Act, moneys belonging to the Compensation Fund may be invested by the Commission in such manner as may be determined by the Commission.

According to the Section 158 (1) of the New SEC Act which is effective from 21st September 2021, the purpose of establishing the Compensation Fund is to grant limited compensation to any investor who suffers pecuniary loss as a result of any licensed stockbroker or licensed stock dealer being found by the Commission as being incapable of meeting its contractual obligations.

Further, the Section 158 (2) of the New SEC Act stated that the Compensation Fund shall consist of;

- (a) such sums of money as may be voted upon by Parliament;
- (b) such sums of money as may be credited to the Fund under the provisions of this Act; and
- (c) such sums of money as may be credited from the Cess Fund as approved by the Commission.

In addition, in terms of the Section 158 (3) of the New SEC Act, monies belonging to the Compensation Fund may be invested by the Commission in such manner as may be determined by the Commission.

1.3 STATEMENT OF COMPLIANCE

Compensation Fund of the Securities and Exchange Commission of Sri Lanka prepared its financial statements in accordance with the Sri Lanka Public Sector Accounting Standards (SLPSAS) issued by the Institute of Chartered Accountants of Sri Lanka. The financial statements comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Reserves and Cash Flow Statement together with the Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information.

1.4 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

1.5 GOING CONCERN

When preparing the financial statements the Members of the Commission assessed the ability of the Compensation Fund to continue as a going concern.

The Members of the Commission have a reasonable expectation that the Compensation Fund has adequate resources to continue in operational existence for the foreseeable future. The Compensation Fund does not foresee a need for liquidation or cessation of operations, taking into account all available information about the future. Accordingly, the Compensation Fund continues to adopt the going concern basis in preparing the financial statements and the accounting policies have been applied consistently throughout the period.

NOTES TO THE FINANCIAL STATEMENTS

1.6 BASIS OF PREPARATION

Based on a recommendation made by the SEC Audit Committee in terms of the provisions of the SEC Act, with effect from 01st January 2020 the Commission of the Securities and Exchange Commission of Sri Lanka decided to prepare a separate set of financial statements for the Compensation Fund of the SEC. Hence, this set of Financial Statements contains the Statement of Financial Position, the Statement of Financial Performance, the Statement of Changes in Compensation Fund and the Cash Flow Statement together with the Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information of the Compensation Fund of the SEC.

The financial statements of the Compensation Fund are presented in Sri Lankan Rupees rounded to the nearest Rupee.

The financial statements are prepared on accrual basis and on the historical cost basis. Where appropriate, accounting policies are disclosed in succeeding notes.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

1.7 USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying

amount of assets or liabilities affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

1.8 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Compensation Fund's functional currency. There was no change in the entity's presentation and functional currency during the year under review. Foreign exchange transactions, if any are converted to Sri Lankan Rupees at the rate of exchange prevailing at the time of the transaction.

1.9 MATERIALITY AND AGGREGATION

Each material class of similar item is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.10 OFFSETTING

Assets & liabilities and revenue & expenses are not offset unless required or permitted by a SLPSAS or the offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and condition that occurred and to assess the Compensation Fund's future cash flows.

1.11 COMPARATIVE INFORMATION

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

1.12 EVENTS AFTER THE REPORTING DATE

All material events after the Reporting date are considered and appropriate adjustments or disclosures are made in the financial statements, where necessary.

1.13 CHANGES IN ACCOUNTING POLICIES

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

2 ASSETS AND BASES OF THEIR VALUATION

2.1 INVESTMENTS

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

2.2 RECEIVABLES

Receivables are stated at the estimated realizable value.

3 LIABILITIES & PROVISIONS

3.1 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.

4 STATEMENT OF FINANCIAL PERFORMANCE

4.1 INTEREST INCOME

Interest Income on investments are recognized in the Statement of Financial Performance on an accrual basis.

4.2 FINE RECEIVED

Fine received to the Compensation Fund in terms of the provisions of the SEC Act is recognized on cash basis.

COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

4.3 OTHER INCOME

Other income, if any is recognized on an accrual basis.

5 EXPENDITURE RECOGNITION

All expenditure of the Compensation Fund is recognized on accrual basis and charged to revenue in ascertaining the financial performance.

6 CASH FLOW STATEMENT

For the purpose of the Cash Flow Statement, Cash and Cash Equivalents consist of cash in hand, cash at bank and REPO investments with a maturity of less than three months at banks.

7 CASH AND CASH EQUIVALENTS

	2021 Rs.	2020 Rs.
Investments in Repo	40,000,000	248,721,328
Cash at Bank	728,226	99,580
Total	40,728,226	248,820,908

8 INCOME TAX EXPENSE

	2021 Rs.	2020 Rs.
Income Tax Expense for the Y/A 2020/2021	(7,508)	18,890,614
Income Tax Expense for the Y/A 2021/2022	10,677,054	0
Total	10,669,546	18,890,614

The liability for the income tax is computed in terms of the Inland Revenue Act No. 24 of 2017, as amended.

9 CAPITAL COMMITMENTS

There were no capital commitments as at 31.12.2021.

10 CONTINGENT LIABILITIES

There were no contingent liabilities as at 31.12.2021.

11 RELATED PARTY DISCLOSURES

The Compensation Fund is managed by the Members of the Commission of the Securities and Exchange Commission of Sri Lanka. Mr. Viraj Dayaratne, PC was appointed as the Chairman of the SEC with effect from 8th January 2020 and assumed duties with effect from 22nd January 2020.

The following Members of the Commission held office during the year 2021 as stated below.

- Mr. Sanjaya Bandara was appointed as an Ex-officio member by virtue of him holding office as the President of the Institute of Chartered Accountants of Sri Lanka with effect from 21st December 2021.
- Mr. Sanjeewa Dissanayake was appointed as an Ex-officio member by virtue of him holding office as Registrar General of Companies with effect from 08th July 2021.
- Mr. R. M. P. Rathnayake was appointed as an Ex-officio member by virtue of him holding office as Deputy Secretary to the General Treasury with effect from 16th January 2020.
- Mr. N W G R D Nanayakkara was appointed as an Ex-officio member by virtue of him holding office as Deputy Governor to the Central Bank of Sri Lanka with effect from 01st January 2021.
- Mr. Suhada Gamalath, PC was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Sisira Rathnayake was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Sunil Lankathilake was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Naresh Abeysekera was appointed as a Member of the Commission with effect from 16th January 2020.

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

- Mr. Manil Jayasinghe who was appointed with effect from 07th January 2020 as an Ex-officio member by virtue of him holding office as the President of the Institute of Chartered Accountants of Sri Lanka ceased to be a member with effect from 21st December 2021.
- Mr. D. N. R. Siriwardene who was appointed as an Ex-officio member by virtue of him holding office as Registrar General of Companies ceased to be a member with effect from 01st January 2021.

The following table depicts the relationships held by the Members of the Commission who held office during the year under review.

Name	Name of Related Institution	Relationship	Shareholding, if any
Mr. Viraj Dayaratne, PC	Settlement Guarantee Fund	Trustee appointed with effect from 08th January 2020 and assumed duties with effect from 22nd January 2020	Nil
Mr. Sanjaya Bandara	Institute of Chartered Accountants of Sri Lanka	President with effect from December 2021	Nil
	Mercantile Investments & Finance PLC	Director/ Chairman for the period from February 2012 to February 2021	Nil
	Prime Land Residencies PLC	Director with effect from March 2021	Nil
Mr. Sanjeewa Dissanayake	The Department of the Registrar of Companies	Registrar General of Companies with effect from 08th July 2021	Nil
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member	Nil
	Accounting Standards Committee of the Institute of Chartered Accountants of Sri Lanka	Ex-Officio Member	Nil
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Ex-Officio Member	Nil
Mr. R. M. P. Rathnayake	General Treasury	Deputy Secretary with effect from 08th January 2020	Nil
	Bank of Ceylon	Ex-Officio Member with effect from 28th April 2020	Nil
	Academy of Financial Studies (Guarantee) Limited	Ex-Officio Member until 06th September 2021	Nil
	Local Loan Development Fund	Commissioner & Chairman with effect from 14th September 2020	Nil
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member with effect from 22nd January 2021	Nil
	Settlement Guarantee Fund	Trustee with effect from 16th January 2020	Nil
Mr. N. W. G. R. D. Nanayakkara	Central Bank of Sri Lanka	Deputy Governor with effect from 14th December 2020	Nil
Mr. Suhada Gamalath, PC	Nil	Nil	Nil
Mr. Sisira Ratnayake	Nil	Nil	Nil
Mr. Sunil Lankathilake	Ministry of Finance	Member of Board of Inquiry of Foreign Exchange Act for three years from 01st February 2021	Nil
	LOLC Development Finance PLC	Non-Executive Independent Director with effect from 24th August 2021	Nil
Mr. Naresh Abeysekera	Nil	Nil	Nil

COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

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

Name	Name of Related Institution	Relationship	Shareholding, if any
Mr. Manil Jayasinghe	Institute of Chartered Accountants of Sri Lanka	President until December 2021	Nil
	Ernst & Young	Managing Partner - Sri Lanka and Maldives	Nil
Mr. D. N. R. Siriwardene	The Department of the Registrar of Companies	Registrar General of Companies until 01st January 2021	Nil
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member	Nil
	Institute of Chartered Accountants of Sri Lanka	Ex-Officio Member	Nil
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Ex-Officio Member	Nil

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

The Compensation Fund of the SEC maintains the following Current Account at Bank of Ceylon (BOC) and the bank balances is tabulated below;

Name of the Current Account	Account Number	Balance as at 31.12.2021	Balance as at 31.12.2020
Compensation Fund of the Securities and Exchange Commission of Sri Lanka	75433985	728,226	99,580

The following investments were channeled through BOC during the year 2021.

Investment Type	Investments made in BOC during the year (Rs.)	Balance as at 31st December 2021 at BOC (Rs.)
Treasury Bonds	264,997,642	423,797,061
Investment in Repo	1,940,806,368	40,000,000
Total	2,205,804,010	463,797,061

SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

AUDITOR GENERAL'S REPORT



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல. } BAN/G/SGF/1/20/5
My No. }

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி } 29 March 2022
Date }

Chairman
Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2021 in terms of Section 11 (1) of the National Audit Act No.19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka ("Fund") for the year ended 31 December 2021 comprising the Statement of Financial Position as at 31 December 2021 and the Statement of Financial Performance, Statement of Changes in Net Assets and Cash Flow Statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Paragraph 11(d) of the Deed of Trust No. 1376 dated 21/22 May 1998 relating to establishment of the Fund as a proposal in the budget presented for the year 1998. The report of the Auditor General in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka will be tabled in Parliament in due course.

In my opinion, the financial statements of the Fund give a true and fair view of the financial position as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

අංක 306/72, පොල්දූව පාර, මිත්තරමුල්ල, ශ්‍රී ලංකාව

இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை.

No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.



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SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

AUDITOR GENERAL'S REPORT

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.


SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

AUDITOR GENERAL'S REPORT

2. Report on Other Legal and Regulatory Requirements

The National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- 2.1 The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- 2.2 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.



W. P.C Wickramaratne
Auditor General

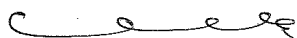
STATEMENT OF FINANCIAL POSITION

As at 31st December 2021	Note	2021 Rs.	2020 Rs.
Assets			
Non Current Assets			
Investments in Treasury Bonds		194,860,375	473,635,565
Investments in Fixed Deposits		300,000,000	300,000,000
Current Assets			
Investments in Treasury Bonds		278,775,190	155,151,060
Interest Receivable on Treasury Bond		18,034,969	18,480,637
Interest Receivable on Fixed Deposits		30,780,824	9,780,823
Interest Receivable on Repo		81,429	3,926
Cash and Cash Equivalents	5	243,458,440	30,725,513
Total Assets		1,065,991,227	987,777,524
Funds and Liabilities			
Funds Employed and Reserves			
Grant - Treasury		50,000,000	50,000,000
Grant - Cess Fund		100,000,000	100,000,000
Grant - Colombo Stock Exchange		100,000,000	100,000,000
Accumulated Fund		806,487,080	732,213,570
Current Liabilities			
Income Tax Payable	6	9,397,147	5,453,954
Audit Fees		107,000	110,000
Total Funds and Liabilities		1,065,991,227	987,777,524

The notes appearing on pages 135 to 138 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 THE SETTLEMENT GUARANTEE FUND



Chinthaka Mendis
Trustee - Settlement Guarantee Fund



Viraj Dayaratne
Trustee - Settlement Guarantee Fund

Colombo
15th March 2022

SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31st December 2021	Note	2021 Rs.	2020 Rs.
Income			
Interest on Investments - Repurchase Agreements		3,363,641	6,316,460
Interest on Investments - Treasury Bonds		66,380,973	75,022,727
Interest on Investments - Fixed Deposits		21,000,001	9,780,823
Total Income		90,744,615	91,120,010
Expenditure			
Audit Fees		(165,000)	(176,000)
Bank Charges		(2,164)	(750)
Total Expenditure		(167,164)	(176,750)
Income Tax Expense	7	(16,303,941)	(16,593,802)
Excess of Income over Expenditure		74,273,510	74,349,458

The notes appearing on pages 135 to 138 form an integral part of the financial statements.

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31st December 2021	2021 Rs.	2020 Rs.
Accumulated Fund		
Balance at the beginning of the year	732,213,570	657,864,112
Excess of Income over Expenditure for the year	74,273,510	74,349,458
Balance at the end of the year	806,487,080	732,213,570

The notes appearing on pages 135 to 138 form an integral part of the financial statements.

SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

CASH FLOW STATEMENT

For the year ended 31st December 2021	2021 Rs.	2020 Rs.
Cash Flow from Operating Activities		
Excess of Income over Expenditure	74,273,510	74,349,458
Net Increase/ (Decrease) before Working Capital Changes	74,273,510	74,349,458
Change of Working Capital		
(Increase)/ Decrease of Other Receivables	(20,631,836)	(6,271,072)
Increase/ (Decrease) of Payables	3,940,192	(30,408,206)
	(16,691,643)	(36,679,278)
Net Cash Inflow/ (Outflow) from Operating Activities	57,581,867	37,670,180
Cash Flow from Investing Activities		
Investments in Treasury Bonds	155,151,060	217,524,480
Investments in Fixed Deposits	0	(300,000,000)
Net Cash Inflow/ (Outflow) from Investing Activities	155,151,060	(82,475,520)
Net Increase/ (Decrease) in Cash and Cash Equivalents	212,732,926	(44,805,340)
Cash & Cash Equivalents at the beginning of the period (Note A)	30,725,513	75,530,853
Cash & Cash Equivalents at the end of the period (Note B)	243,458,440	30,725,513
Note (A)		
Cash & Cash Equivalents at the beginning of the period		
Investments in Repo	30,486,575	75,100,000
Cash at Bank	238,938	430,853
Total	30,725,513	75,530,853
Note (B)		
Cash & Cash Equivalents at the end of the period		
Investments in Repo	242,950,000	30,486,575
Cash at Bank	508,440	238,938
Total	243,458,440	30,725,513

The notes appearing on page 135 to 138 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1 STATEMENT OF COMPLIANCE

The Settlement Guarantee Fund (SGF) of the Securities and Exchange Commission of Sri Lanka is a nonprofit making Trust established in 1998 by virtue of the Deed of Trust No. 1376, as amended. 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 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.

1.4 EVENTS AFTER THE REPORTING DATE

All material events after the reporting date are considered and appropriate

adjustments or disclosures are made in the financial statements, where necessary.

1.5 CHANGES IN ACCOUNTING POLICIES

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

1.6 COMPARATIVE FIGURES

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

2. ASSETS AND BASES OF THEIR VALUATION

2.1 INVESTMENTS

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

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

For the purpose of the Cash Flow Statement, Cash and Cash Equivalents consist of cash in hand, cash at bank and REPO investments with a maturity of less than three months at banks.

5. CASH AND CASH EQUIVALENTS

	2021 Rs.	2020 Rs.
Investments in Repo	242,950,000	30,486,575
Cash at Bank	508,440	238,938
Total	243,458,440	30,725,513

6. INCOME TAX PAYABLE

	2021 Rs.	2020 Rs.
Income Tax Payable for the Y/A 2019/2020	0	224,015
Income Tax Payable for the Y/A 2020/2021	(101,382)	5,229,939
Income Tax Payable for the Y/A 2021/2022	9,498,528	0
Total	9,397,147	5,453,954

SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

7. INCOME TAX EXPENSE

	2021 Rs.	2020 Rs.
Income Tax Expense for the Y/A 2019/2020	0	224,015
Income Tax Expense for the Y/A 2020/2021	0	16,369,787
Income Tax Expense for the Y/A 2021/2022	16,303,941	0
Total	16,303,941	16,593,802

The liability for the income tax is computed in terms of the Inland Revenue Act No. 24 of 2017, as amended.

8. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2021.

9. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2021.

10. EVENTS AFTER REPORTING 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.

11. 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 Chief Executive Officer of the Colombo Stock Exchange (CSE) and the Deputy Secretary to the Treasury.

The following Trustees of the SGF held office during the year 2021;

- Mr. Viraj Dayarathne, Chairman SEC (appointed w.e.f. 08th January 2020 and assumed duties with effect from 22nd January 2020)
- Mr. Dumith Fernando, Chairman CSE (appointed w.e.f. 01st July 2020)
- Mr. Rajeeva Bandaranaike, Chief Executive Officer CSE
- Mr. R.M.P. Rathnayake, Commissioner SEC and the Deputy Secretary to the Treasury (appointed w.e.f. 16th January 2020)
- Mr. Chinthaka Mendis, Director General of SEC (appointed w.e.f. 02nd March 2020)

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

Name	Name of Related Institution	Relationship	Shareholding, if any
Mr. Viraj Dayarathne	Securities and Exchange Commission of Sri Lanka	Chairman appointed w.e.f. 08th January 2020 and assumed duties w.e.f. 22nd January 2020	Nil
Mr. Dumith Fernando	Colombo Stock Exchange	Chairman with effect from 01st July 2020	Nil
	Central Depository System	Director with effect from July 2017	Nil
	Panthera Ventures (Pvt) Ltd	Director with effect from September 2013	100%
	PV Galle Properties (Pvt) Ltd	Director with effect from June 2014	100%
	PV Hilltop Holdings (Pvt) Ltd	Director with effect from June 2014	100%
	Omak Technologies (Pvt) Ltd	Chairman with effect from November 2014	<10%
	Techkitez (Pvt) Ltd	Chairman/ Director with effect from July 2015	10.34%
	One Season Properties (Pvt) Ltd	Director with effect from June 2014	Nil
	Dew Paradise (Pvt) Ltd	Director with effect from July 2014	Nil
	Aniwa (Pvt) Ltd	Director with effect from July 2016	<11.8%
	Generator Solutions (Pvt) Ltd	Director with effect from October 2015	Nil
	Jewelex Agri Kumaragama (Pvt) Ltd	Director with effect from November 2015	15%
	Asia Securities (Pvt) Ltd	Director with effect from January 2015	76.70%
	Asia Securities Holdings (Pvt) Ltd	Director with effect from April 2016	27.64%
	Asia Securities Wealth Management (Pvt) Ltd	Director with effect from June 2017	Nil
	A-Sec Capital (Pvt) Ltd	Director with effect from February 2017	100%
	Asia Securities Advisors (Pvt) Ltd	Director with effect from October 2018	Nil
	Singer (Sri Lanka) PLC	Director with effect from October 2017	Nil
	Union Assurance PLC	Director with effect from August 2018	Nil
Mr. Rajeeva Bandaranaike	Colombo Stock Exchange	Chief Executive Officer	Nil
	Lanka Financial Services Bureau Limited	Director	Nil
Mr. R. M. P. Rathnayake	General Treasury	Deputy Secretary with effect from 08th January 2020	Nil
	Securities and Exchange Commission of Sri Lanka	Ex-Officio Member with effect from 16th January 2020	Nil
	Bank of Ceylon	Ex-Officio Member with effect from 28th April 2020	Nil
	Academy of Financial Studies (Guarantee) Limited	Ex-Officio Member until 06th September 2021	Nil
	Local Loan Development Fund	Commissioner & Chairman with effect from 14th September 2020	Nil
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member with effect from 22nd January 2021	Nil
Mr. Chinthaka Mendis	Securities and Exchange Commission of Sri Lanka	Director General with effect from 02nd March 2020	Nil
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Ex-officio Member with effect from 02nd March 2020	
	Construction Guarantee Fund	Trustee with effect from 02nd March 2020	

SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

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

The SGF maintains the following Current Account at Bank of Ceylon (BOC) and the bank balance is tabulated below;

Name of the Current Account	Account Number	Balance as at 31.12.2021	Balance as at 31.12.2020
Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka	1,833	508,440	238,938

The following investments were channeled through BOC during the year 2021.

Investment Type	Investments made in BOC during the year (Rs.)	Balance as at 31st December 2021 at BOC (Rs.)
Treasury Bonds	0	369,217,775
Investment in Repo	1,159,593,901	242,950,000
Total	1,159,593,901	612,167,775

NOTES

NOTES

CORPORATE INFORMATION

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Accounting Year

Year ended 31st December 2021

Auditors

The Auditor General

Bankers

Bank of Ceylon
Sampath Bank PLC
Commercial Bank of Ceylon PLC
Hatton National Bank PLC

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