

UPHOLDING CLARITY

IN AN ECONOMY THAT IS PICKING UP PACE IT IS EASY TO LOSE SIGHT OF WHAT IS FAIR AND RIGHT. IN LIGHT OF THIS OUR ROLE BECOMES MORE IMPERATIVE AS A WIDER SECTION OF THE SOCIETY SEE THE POTENTIAL IN INVESTING IN OUR GROWING ECONOMY. THEREFORE IT IS OUR DUTY TO CREATE AN ENVIRONMENT IN WHICH THE INTERESTS OF THE INVESTORS ARE PROTECTED. GIVING DUE CONSIDERATION TO THIS WE WILL STRENGTHEN THE REGULATORY SYSTEM WHICH UPHOLDS CLARITY, CONSISTENCY AND CREDIBILITY.

**ANNUAL REPORT
2014**

VISION

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

MISSION

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

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CHAIRMAN'S REVIEW



"I think it is time we gave serious consideration to achieve concrete outcomes on several important fronts by defining realistic timelines. I am of the belief that before the end of the year 2016 we will be able to establish the CCP, amend the SEC Act and facilitate the demutualisation of the CSE."



Thilak Karunaratne
Chairman

The capital market is considered a vital conduit for long term fund mobilisation and a key driver of economic growth. As the capital market regulator, our focus is to facilitate a fair, efficient, orderly and transparent market, in which issuers can raise funds with adequate safeguards provided to protect investors. Hence, the regulatory framework of the securities market has been designed to fulfill this mandate and ensure a reliable price discovery mechanism, reasonable market access to all investors, prompt action to contain market failures and timely and efficient dissemination of market disclosures. The Securities and Exchange Commission of Sri Lanka (SEC) continues to ensure that it strikes a balance in regulation since over regulation can stifle growth and discourage active stakeholder participation.

A vital aspect in maintaining the integrity of the market, as well as making certain that investors are protected is the dissemination of

quality and reliable information on an ongoing basis. Disclosures increase the ability of investors to make informed investment decisions, improve shareholder sentiment, as well as deter management from engaging in improper behaviour. When material information is made available in a timely manner it can also reduce the herd instinct of many investors. Since the lack of reliable and timely information hinders market development as well as investor confidence, the SEC will continue to impose stringent rules and undertake rigorous enforcement action against non compliance.

In line with our mandate we continue to monitor, mitigate and manage risk with the aim of promoting integrity in the market. Since systemic risk has the potential to not only affect the financial market but the entire economy as well, our scope of supervision encompasses the identification of risk in regulated entities, issuers, transactions and

the market. Through our Risk Based Supervisory Framework we attempt to focus on capital and other prudential requirements for market intermediaries, protect client assets and compliance with internal controls on a regular basis. Our supervisory role further extends to mitigating the settlement risk in the securities market. Towards achieving this objective we are getting together with the Colombo Stock Exchange (CSE) to setup up a Clearing House which will act as a Central Counterparty (CCP) for settlement of securities, shares, corporate debt and any other instruments coming under our purview. Hence, a consultancy firm specialising in capital market related assignments globally, was entrusted with the task of implementing a fully fledged CCP. This is expected to significantly minimise the risk of settlement failure and counterparty risk.

The SEC is firmly committed to taking rigorous action against those who

CHAIRMAN'S REVIEW CONTD.

commit regulatory breach, which include market manipulation, misconduct by regulated entities, as well as corporate disclosure-related offences etc. However, the current Sri Lanka securities law, which was enacted 28 years ago, has its drawbacks *inter alia* the enforcement framework built on criminal prosecution and compounding of offences. Therefore, in the past the SEC has mainly resorted to issuing warning letters, imposing suspensions on investment advisors and compounding. In tandem with the expansion of the capital market it has been considered necessary to make changes to the SEC Act with a view to broaden the range of enforcement powers. The proposed amendments to the SEC Act will introduce a range of administrative and civil sanctions, including the seeking of restitution to any person aggrieved. The SEC increased its efforts to expedite the amendments since this will pave the way for credible regulation and market confidence. In addition the amendments to the Act will align the SEC governance structure with International Organisation of Securities Commissions (IOSCO) standards, facilitate the introduction of new categories of market intermediaries and regulation of their business conduct and provide for the regulation of derivative products.

Investor confidence can be described as the foundation on which the capital market is built, and sound governance will be able to contribute towards attracting both local and foreign investors and stimulate economic growth. As the capital market regulator, the SEC strives to promote good corporate governance practices through a framework of rules and regulations which ensure accountability, fairness, and transparency. However, upholding good corporate governance requires the concerted efforts of all stakeholders of the capital market. We have achieved a lot in the area of facilitating this but there is still much to be done and we will

continue to work in partnership with the capital market industry to enhance corporate governance standards.

As a regulator we are of the view that the need for investor education and financial literacy has never been more important than today. Our investor education initiative is centered on providing basic skills and knowledge to enhance investor protection, promote investor confidence and foster investor participation in the capital market. Since investor education is an essential regulatory tool for empowering investors we deployed various channels and outreach programmes such as seminars, trade fairs, radio and television talk shows to impart proper knowledge on investing in the capital market to different segments of society. We anticipate that empowered investors will take on more responsibility for their investment decisions. We understand that investor education is a shared responsibility and therefore we work in affiliation with other stakeholders to achieve this objective.

Since the quality of investment advice given to clients is dependent on the quality of investment advisers, the SEC provides capital market professionals with the knowledge and skills necessary to perform their duties in the industry. The SEC anticipates that stock broking firms would adopt a robust training regime in order to ensure industry participants perform their duties in the clients' best interests.

Facilitating the Demutualisation initiative of the CSE has been a priority of the SEC for a considerable period of time. This important exercise which requires extensive legislative changes and support of the government is expected to transform the CSE's business model to a for - profit Exchange, reform its governance structure and increase the ability of the Exchange to unlock value. During the year the Legal Draftsman finalised the draft of the Demutualisation

Bill and the SEC forwarded it to the Ministry of Finance for necessary action.

Regulation begins with setting standards. We have been mindful of avoiding burdensome standards as well as overly lenient rules for compliance by Market Intermediaries, codes and guideline aimed at protecting investors' interests. Regulation has also provided minimum entry standards as well as initial and ongoing capital and other prudential requirements for Market Intermediaries that reflect the risks that the Intermediaries undertake. We are of the view that our minimum entry standards and ongoing prudential requirements need to be enhanced more, to be on par with international standards and practices, in order to ensure sound business practices, appropriate safeguards for investors and market confidence.

Credit ratings assigned to a corporate bond issue provides an objective opinion of the credit worthiness and financial strength of an issuing company which enables potential investors to make well informed investment decisions. In addition, each credit rating agency has its own rating methodology. In light of this, the SEC took an important policy decision to mandate the inclusion of a rating rationale in the prospectus to reduce information asymmetries by providing information on the rated security.

Stock broking companies perform an important role in the capital market by facilitating trades for investors. In the recent past the stock broking industry has progressed considerably in the provision of services as well as in terms of the number of players in the market. In order to enable especially retail investors to select a stock broker by ascertaining the credibility of the firm, the SEC is exploring the possibility of introducing a mandatory rating for stock broking firms. It is envisaged that this

rating will aim to preserve the integrity of the market and protect investor interest. The SEC will have an industry consultation before implementing this.

Moving forward, I think it is time we gave serious consideration to achieve concrete outcomes on several important fronts by defining realistic timelines. I am of the belief that before the end of the year 2016 we will be able to establish the CCP, amend the SEC Act and facilitate the Demutualisation of the CSE.

I am thankful to the, Hon. Prime Minister under whose purview the SEC comes, for appointing a Commission comprising of extremely competent and proactive professionals. I am thankful to the Hon. Deputy Minister Dr. Harsha de Silva and the Secretary to the Ministry Prof. Kithsiri Liyanage for all the support extended. I also wish to thank the former Chairman and Commission for their efforts in 2014. We have been able to achieve our objectives more efficiently due to the high degree of dedication shown by the staff of the secretariat and the cooperation extended by all our stakeholders. We will continue to pursue a proactive regulatory framework in conjunction with effective supervision, surveillance and enforcement, in order to achieve an orderly securities market that can fulfill the needs of the Sri Lankan economy.



Thilak Karunaratne
Chairman

23rd May 2015



DIRECTOR GENERAL'S REVIEW



"I believe, regaining public trust and confidence requires a stronger ethical dimension to the actions of individual participants. Good conduct cannot simply be legislated and regulated, it must be encouraged and internalised by companies."

A handwritten signature in black ink, which appears to read "Vajira". The signature is stylized and fluid.

Vajira Wijegunawardane
Director General

I am pleased to present the 2014 annual report which provides an account of the activities undertaken by the SEC in pursuance of its mandate to protect the interests of investors, maintain a fair, efficient and transparent market and facilitate capital formation.

As the regulator for the capital market of Sri Lanka it is our responsibility to ensure its orderly functioning as an efficient and effective conduit for the mobilisation of savings and investment into financing the real economy.

Our developmental agenda for the year continued to be driven with emphasis on promoting sustainable and inclusive growth of the market. The capital market development drive was initiated by the SEC through its Master Plan 2006-2015 with a view to expanding the role of the capital market in propelling the country's economic development, was prioritised through a ten project initiative in 2012 and continued during the year 2014.

The SEC Act which was enacted 28 years ago (amended in 1991, 2003 and 2009) is not equipped to deal with future needs and emerging challenges facing modern capital markets. Subsequent to the enactment of the amendments to the SEC Act it is expected that gaps in the current law will be addressed and that our regulatory mandate will be expanded. The SEC Act amendments will give us powers to introduce civil and administrative sanctions, issue reprimands, disgorge ill-gotten gains and compensate investors. We would be able to regulate the business conduct of individual participants, hitherto unregulated capital market intermediaries such as investment banks and the unlisted corporate bond market.

Our supervisory role to strengthen and provide stability to the market, also extends to financial market infrastructures which play an important role in clearing and settlement of transactions. The importance of

implementing a CCP mechanism has been in the pipeline for many years to address the counterparty risk, asset commitment risk and minimising the risk of settlement failure in the present equity market. The SEC, CSE and the Central Bank of Sri Lanka (CBSL) commenced a joint initiative to set up a CCP for settlement of securities, including shares, corporate debt and Government securities thereby implementing a blueprint for a national securities CCP to support Sri Lanka's growing capital market. In 2014, the contractual agreement was signed with the consultancy firm and the project work commenced for a new era in securities trading in Sri Lanka. The specific design is compliant with international standards of IOSCO, Bank for International Settlement (BIS) and European Association CCP Clearing Houses (EACH). Further, the implementation of the CCP will also enable the capital market of Sri Lanka to be compliant with international

DIRECTOR GENERAL'S REVIEW CONTD.

requirements from the G20 to migrate all capital markets to a centrally cleared environment as well as provide a prerequisite for enabling products such as derivatives.

A vibrant bond market can play a vital role in supporting economic development by supplementing the banking system and supporting the long-term capital requirements of the corporate sector. Further, a well-developed corporate bond market also plays a vital role in risk diversification of the financial system, and adopting a market mechanism in the allocation and pricing of credit to ensure greater efficiency in the allocation of funds to borrowers. The key initiative facilitated by SEC on exemption of withholding tax by the Government on corporate bond issues among others resulted in fund raising via the corporate bond market surging in 2013 and 2014 where the amounts raised were Rs. 68.3 billion and Rs. 54.2 billion respectively. Given the increased focus on credit and default risks globally, a number of key policy decisions undertaken during the year included enabling Primary Dealers and other capital Market Intermediaries to engage in corporate debt trading, streamlining of the CSE issuing process and listing requirements for issuers, improvements to trading and reporting infrastructure, enabling Repo facility for corporate bonds between counter parties to enhance secondary market liquidity and setting up a mechanism for publishing of information pertaining to unlisted corporate bond issues to develop the corporate bond market of Sri Lanka. These initiatives will provide issuers and intermediaries with greater flexibility when strategising and structuring bond issuances.

Demutualisation of the CSE, is a key initiative which is necessary in order for the strategic interests of the Exchange to be pursued in an efficient

and aggressive manner and serve the interests of all stakeholders better along with meeting the challenges of a more dynamic and competitive global business environment. However, the process of demutualisation of the CSE can only commence after the Demutualisation Bill which was finalised during the year is enacted into law by the Parliament. Discussions on the value allocation and modality for Demutualisation were on-going during the year which would require the approval of the Commission. It is envisaged that subsequent to Demutualisation, the CSE will be in a better position to pursue its strategic interests, streamline decision making and act as a catalyst for growth of the capital market of Sri Lanka.

Economic growth centers on efficient capital markets that pool savings and mobilises capital for productive investments. Capital markets can be utilised to attract both local and foreign funds and creating an enabling environment to attract foreign portfolio investments would be crucial going forward. With a view to projecting the opportunities available in the capital market, the SEC together with CSE continued to conduct local and foreign investor forums in 2014. The Capital Market Conference which was held in Colombo in October 2014 attracted many international fund managers whilst the investor forums held in Singapore, London and New York led to an increase in foreign trading activity from those destinations.

Furthermore, we continued to foster a culture of good conduct among market participants and it remains as one of the most important factors influencing investor confidence in the capital market. Recognising the need for early mitigation of such risks, the SEC continued to conduct risk focused supervision emphasising on the effectiveness of

governance and internal controls of the market participants.

The SEC is committed to ensuring that capital Market Intermediaries implement the highest standards of pre-emptive measures to counter money laundering. During the year, we participated in the assessment undertaken by Sri Lanka with respect to its adherence with the recommendations of the Financial Action Task Force (FATF), an independent inter-governmental body responsible for developing and promoting policies to protect the global financial system against money laundering and terrorist financing.

Investor protection and empowerment continued to be a key priority for the SEC. We are of the view that it is important to encourage more informed and engaged participation among investors. During the year we further expanded our investor outreach programmes with initiatives such as educational seminars, newspaper articles, studio discussions on radio and television etc. In addition, the SEC and CSE in collaboration with Sirasa TV conducted Sri Lanka's first ever Reality Quiz to continue to build awareness on the capital market. The feedback we received from our evaluations enabled us to measure the impact of our programmes with the aim of shaping our investor education strategy.

Looking towards the future, in Sri Lanka the fund raising and investment activity is currently dominated by the banking sector. The capital market size is around 30% of Gross Domestic Product (GDP) and this presents a unique opportunity for all stakeholders. The capital market should be positioned to complement the banking sector and support the growth targets of the country. The deepening of capital markets has been critical for sustaining rapid economic expansion in

many countries and to achieve this end, investor and public confidence as well as the integrity of markets and their participants is essential.

It is noteworthy that no amount of regulation can substitute for high standards of industry wide ethics. Capital market participants are required to ensure a strong culture of professionalism and ethics which is central to the growth, sustainability and stability of the market. In this industry, trust is imperative in order to create and maintain sustainable relationships, and no legal or regulatory requirement can create or replace the trust firms build with their clients.

The growth of the capital market as a whole reflects the trust and confidence placed in a market. We have seen how a deficit of trust has affected many markets around the world as we have witnessed a number of crises. Very often underlying these events is some event associated with lack of good governance and ethics, misconduct and a lack of professionalism driven by short term profits, which has severe ramifications on the trust and confidence that is integral to markets and the financial system.

I believe, regaining public trust and confidence requires a stronger ethical dimension to the actions of individual participants. Good conduct cannot simply be legislated and regulated, it must be encouraged and internalised by companies. The significance of our capital market can only be ensured if our regulatory and governance framework is reinforced by a culture of accountability and propriety across all stakeholders.

Hence, the regulators where ever they maybe are faced with similar issues. As the regulator, our aim is to be in a position to ensure the existence of

fair, efficient and transparent markets, which should be at the core of any effort to protect investors. To play this role effectively, ideally the SEC needs to be made as independent as possible where the Secretariat will be empowered to carry out its mandate in a fair and impartial manner without any outside influence.

As such, the SEC will pursue a facilitative regulatory framework that is designed to ensure the protection of investors, efficiency in intermediation services, fair and orderly markets as well as mitigation of systematic risks and aggressively promote a culture of compliance. In formulating our policies we will benchmark ourselves against internationally-recognised and recommended standards such as IOSCO, which would be crucial to attracting foreign portfolio investments.

The SEC will focus on encouraging better business conduct among its regulatees and strive to ensure investors' needs are prioritised and managed by firms that are fit and proper, with the right governance mechanism and internal checks and balances. At the same time the SEC will utilise technology to the fullest for effective market monitoring and have strong oversight over conduct of market participants to keep a constant eye on all regulatees to detect wrong doing early and take preventive measures. If violations are detected we will take prompt action, as failure to act fast will only encourage unethical behaviour.

In order to accomplish our regulatory and capital market development mandate, we worked towards improving the competencies of our staff with the aim of motivating our workforce and equipping them with the knowledge required to perform their duties better. The progress that we made this year in

further strengthening the capital market would not have been possible without the diligence, commitment and expertise of the management and staff of the SEC.

In conclusion, I would like to take this opportunity to thank the Chairman, Members of the Commission, CSE, capital Market Intermediaries and other stakeholders. I wish to also thank the former Chairman and Commission Members for the contribution made in 2014. I look forward to the continued support and cooperation of all stakeholders in fulfilling our regulatory and capital market development mandate.

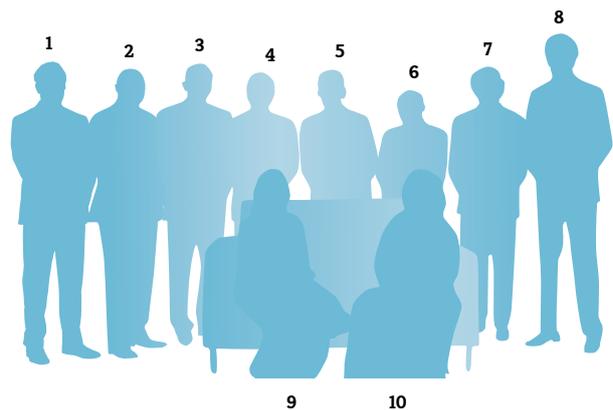


Vajira Wijegunawardane
Director General

23rd May 2015

MEMBERS OF THE COMMISSION*As at 20th May 2015*

1. Mr. Arjuna Herath
2. Mr. Suresh Shah
3. Mr. S. R. Attygalle
4. Mr. Ranel T. Wijesinha
5. Mr. Thilak Karunaratne
6. Mr. D. N. Siriwardena
7. Mr. P. Samarasiri
8. Mr. Rajeev Amarasuriya
9. Ms. Dilshani Wijayawardana
10. Ms. Marina Fernando



Mr. Thilak Karunaratne (Chairman)

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

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

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

Mr. D. N. Siriwardena

He has obtained a B.A. (Hons.) degree in Geography from the University of Peradeniya and a law degree (LL.B) from the Open University of Sri Lanka and is a registered student in the LL.M Degree Programme conducted by the University of Colombo. He is an Attorney at Law by profession. He joined the Department of Registrar of Companies in 1998 as a Companies Inspector and was promoted to as an Assistant Registrar of Companies in 2001. Now he has been appointed as the Registrar General of Companies (Cover up duty). He is an ex-officio member of the Institute of Chartered Accounts of Sri Lanka and an ex-officio member of the Insurance Board of Sri Lanka.

Mr. Arjuna Herath

Mr. Herath is the President of the Institute of Chartered Accountants of Sri Lanka and is a Partner at Ernst & Young heading the advisory services. He is also the President of the South Asian Federation of Accountants and a Director of the Confederation of Asia Pacific Accountants. He is also a member of the statutory Accounting Standards Committee and the statutory Auditing Standards Committee. He also serves as a member of the Professional Accountancy Organisation Development Committee of the International Federation of Accountants. Mr. Herath is a Chartered Accountant and holds a B.Sc. degree and a MA in Financial Economics from the University of Colombo and a MBA from the University of Strathclyde in UK.

Mr. Rajeev Amarasuriya

Mr. Rajeev Amarasuriya holds a Bachelor of Laws LL.B (Hons.) Degree from the University of Colombo, is an Attorney-at-Law, a Fellow Member of the Chartered Institute of Management Accountants (CIMA) (UK) and a Chartered Global Management Accountant (CGMA).

Mr. Amarasuriya is a regular practitioner before the Supreme Court and the Court of Appeal of Sri Lanka and he is also a Corporate and Legal Consultant.

In 2013, Mr. Amarasuriya was awarded the CIMA Star Gold Award by the Chartered Institute of Management Accountants (CIMA) as the most outstanding CIMA Member below the age of 40 years. He was also the recipient of the Gold Medal awarded by the Sri Lanka Law College, having topped the batch at the Attorneys-at-Law final examination in 2003.

Mr. Amarasuriya has been a visiting lecturer and examiner in Tax Law at the Faculty of Law of the University of Colombo, and has also been an examiner at the Sri Lanka Law College. He was the Chair of the National Law Conference 2015 of the Bar Association of Sri Lanka and was also the Chairman of the plenary session on Fundamental Rights at the National Law Conference 2014. Mr. Amarasuriya is presently the President of the Alumni Association of the University of Colombo.

Ms. Dilshani Wijayawardana

Ms. Dilshani Wijayawardana is an Attorney-at-Law of the Supreme Court of Sri Lanka and holds a Masters in Law Degree (LLM) from the University of Cambridge, specialising in commercial law. At the Law College entrance examination, she was placed within the first 10 in order of merit in the island and was awarded the government's "Mahapola Scholarship". At the final examination at the Sri Lanka Law College, she was placed within the top 2% in order of merit. She has been in active legal practice for the past 18 years in the Chambers of K. Kanag-Isvaran, President's Counsel, specialising in the fields of Primary and Court of Appeal litigation in Corporate, Banking and Commercial law matters including Intellectual Property and Insurance, Commercial Arbitration, drafting and settling of legal opinions in Corporate, Banking, Securities, Insurance and other commercial matters, and legal consultancy in matters pertaining to Corporate law, Banking and Arbitration. She also has work experience in Singapore with a leading law firm 'Shook

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Lin & Bok', Advocates and Solicitors. Ms. Wijayawardana has presented many papers at various forums, on topics ranging from arbitration, intellectual property, company law and various aspects of commercial law. In year 2014 she co-authored with K. Kanag-Isvaran President's Counsel, the book 'Company Law' which examines the legal provisions of the Companies Act No. 7 of 2007.

Ms. Marina Fernando

Ms. Fernando holds a Law Degree and a Masters in Public Law from the University of Colombo. She was admitted to the bar in December 1993.

She currently offers legal consultancy services in all areas of Commercial Law.

In January 2004 she was appointed Director Legal and Enforcement of the SEC.

In June 2007 she was appointed Deputy Director General, SEC, and worked in that capacity during the period 2007 - 2009.

She acted as Director General, SEC, during the period June 2007 - June 2008.

She led the SEC in the following regulatory initiatives:

- ▶ The formulation of a law to regulate securitisation (gazetted, March 2009)
- ▶ Introduction of standards of corporate governance for listed companies
- ▶ Introduction of regulation for margin providers, investment managers & credit rating agencies

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

Prior to her appointment in the SEC, she was a private practitioner in law and functioned as Legal Consultant to the Colombo Stock Exchange and Central Depositories (Pvt.) Limited, a fully owned subsidiary of the CSE.

Mr. S. R. Attygalle

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

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

Prior to the appointment as the Deputy Secretary to the Treasury, Mr. Attygalle had been serving as the Director General of the Department of Fiscal Policy and Department of Public Enterprises of the Ministry of Finance and Planning and has contributed substantially to the Government's endeavors in the fiscal consolidation process.

Mr. Attygalle had also served as a Director and Acting Chairman of National Savings Bank and a Director of the Board of the Bank of Ceylon and also represented the Treasury as a Board Member in several Boards in key Government institutions such as the Sri Lanka Ports Authority, University Grants Commission and Insurance Board of Sri Lanka.

At present Mr. Attygalle is representing the Treasury at the Board of the Regional Development Bank, Airport and Aviation Services Ltd. and the Sevana Fund.

Mr. Suresh Shah

Mr. Suresh Shah is a Director and Chief Executive Officer of Ceylon Beverage Holdings PLC and Lion Brewery (Ceylon) PLC. He is also a Director of Carson Cumberbatch PLC, Bukit Darah PLC and of the Sri Lanka Business Development Centre.

He is the current Chairman of the Ceylon Chamber of Commerce & Vice Chairman of The Employers Federation of Ceylon

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

Mr. Ranel T. Wijesinha

Mr. Ranel T. Wijesinha, a Chartered Accountant, is a Fellow of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and a holder of a Masters Degree in Business Administration, from the University of Pittsburgh, in Pennsylvania USA. He pursued special studies in multilateral corporations and political risk analysis at the University's Graduate School of Public and International Affairs and researched national economic strategies and action plans of several South East Asian nations. Based thereon he has contributed extensively to national economic policy dialogue, while serving on several honorary advisory committees, which designed investment and fiscal incentives and strategies for institutional reform.

Having trained with KPMG, his post qualification experience included working with the largest diversified public quoted company in Sri Lanka - the John Keells Holdings Group, with Deloitte, in The Bahamas, and as Partner and Head of Consulting of PricewaterhouseCoopers, Sri Lanka. He has served the venture capital and fund management industry as Chairman, Ayojana Fund Management,

as Founder Director, Lanka Ventures, and as Founder Chairman of the National Wealth Corporation. He has served as a regulator, on the SEC, the first Consumer Affairs Council and the Sri Lanka Accounting and Auditing Standards Monitoring Board. As an independent international consultant to the Asian Development Bank, he has conducted assignments for the Public Sector, in Afghanistan, India, Armenia, Kyrgyzstan and Azerbaijan.

Thus over a career of three and a half decades, he has acquired a unique blend of experience and exposure to Sri Lanka and several foreign countries and has a distinctive balance of work experience between private professional practice and private industry, and also between advisory and regulatory roles in the Public Sector, in Sri Lanka and for foreign Governments.

A past President of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) he is also a Past President of the 23 nation Confederation of Asian and Pacific Accountants, having been the first Sri Lankan to be elected to this position over a 40 year period.

He presently serves as a Director of John Keells Hotels PLC and functions as the Chairman of its Audit Committee. In February 2015, he was appointed as a Director of the Bank of Ceylon where he chairs the Audit Committee, and as a Commissioner of the Securities and Exchange Commission of Sri Lanka.

Mr. P. Samarasiri

Mr. P. Samarasiri is currently a Deputy Governor of the Central Bank of Sri Lanka. Prior to being appointed to the post of Deputy Governor, he has served in many senior positions such as Assistant Governor, Secretary to the Monetary Board, Compliance Officer

and Director of Bank Supervision in the Central Bank. He also holds the post of Vice Chairman of the Institute of Bankers of Sri Lanka for the past four years and is a Member of Insurance Board of Sri Lanka and held the post of the Chairman of the Sri Lanka Accounting and Auditing Standards Monitoring Board for the past five years until February, 2015.

Mr. Samarasiri holds a BA Degree (Hons.) in Economics from University of Colombo and a MA in Economics from the University of Kansas, USA. Mr. Samarasiri counts 33 years of experience in the Central Bank in areas of statistics, economic policies, regulation and supervision of banks and non-bank financial institutions, financial system stability, corporate governance, currency management, foreign exchange policies, financial intelligence and regional development.

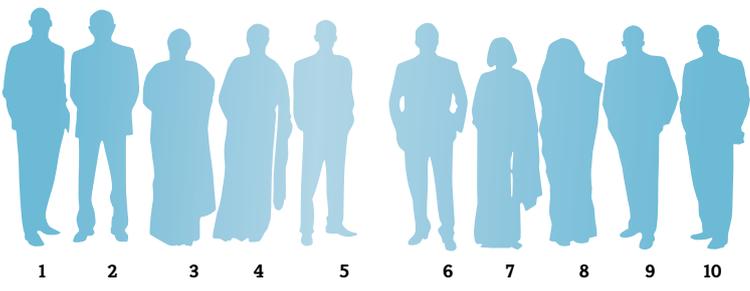
Mr. Samarasiri has authored three books "මුදල් ගනුදෙනු, බැංකු සහ ආර්ථිකය", "මූලික ආර්ථික විද්‍යා මූලධර්ම විග්‍රහය" සහ "ආර්ථික විද්‍යා මූලධර්ම සහ ප්‍රතිපත්ති" published by the Central Bank. He has also published several articles on economic and financial topics in various publications and newspapers.

SENIOR MANAGEMENT*As at 20th May 2015*

1. Vajira Wijegunawardane (*Director General*)
2. Dhammika Perera (*Deputy Director General*)
3. Ianthie Jayaratne (*Director Finance & Administration*)
4. Surana Fernando (*Director, Supervision*)
5. Tushara Jayaratne (*Director, External Relations and Surveillance*)
6. Rohan Senewiratne (*Consultant, Special Projects*)
7. Ayanthi Abeyawickrama (*Director, Legal and Enforcement*)
8. Usha Sivagurunathan (*Assistant Director, Supervision*)
9. Chinthaka Mendis (*Director, Investigations*)
10. Harshana Peiris Suriyapperuma (*Director, Corporate Affairs*)

Absent:

Inthikab Sameem (*Director, Research and Policy*)



ECONOMIC REVIEW

WORLD ECONOMY

The year that was, 2014 can be termed a year with a strong positive overtone. Yet it was also a year defined with diminished expectations. The global economy on the path of gradual recovery expanded at a slightly faster pace in 2014, riding on the curve of a modest revival in the Eurozone and a pickup in India which helped even out slowdowns in China and Japan.

G20 ECONOMIES

The Organisation for Economic Cooperation and Development noted that the combined gross domestic output of the Group of 20 Largest economies expanded 3.4% in 2014, a slight inclination from the 3.2% in 2013. The G-20 Economies on a cumulative basis accounted for approximately 90% of global economic output.

This pickup was aided by a return to growth in the Eurozone, where economic output rose 0.9%, having contracted by 0.5% in 2013. Economic growth in the United States of America (USA) was little changed, whilst China's rate of expansion slowed to 7.4% from 7.8%. India and the United Kingdom (UK) recorded significant pickups in economic growth, while Japan slowed sharply. (Figure 01)

ORGANISATION OF PETROLEUM EXPORTING COUNTRIES (OPEC) AND OIL PRICES

Furthermore the year also characterised some key developments that punctuated global headlines. The decline in oil prices driven by unforeseen demand weakness from major and emerging economies inclusive of the BRICS (Brazil, Russia, India, China and South Africa), was also corroborated with a steady decline in metal prices. The decision by the OPEC to maintain status quo whilst Non OPEC notably the USA, continuing to up production, remained a contiguous factor.

In advanced economies the legacies that pervaded the pre crisis boom and the follow through effects of high private and public debt continued to be a drag on the recovery prospects. On the other hand Emerging Markets had to undergo an adjustment phase, the so called reverse osmosis in capital flow after enjoying the benefits of capital inflows during quantitative easing.

DIVERGENCES IN THE MAJOR ECONOMIES

The growth percentage did however mask the expansion divergences in major economies. Global Financial markets remained buoyant with reasonably priced equity valuations, and compressed spreads accompanied by marginal volatility. But despite such overtures this situation did not translate into a tangible rise in investments. In the advanced economies in particular, the investment quotient as a percentage of the GDP remained muted. Interest rate spreads and corresponding risk spreads did show a propensity for upward inclination in emerging market economies whilst in contrast the long term government bond yields continued to decline in major advanced economies.

FIGURE 01: ECONOMIC GROWTH RATES

	2013 %	2014 %
World Output	3.4	3.4
Advanced Economies	1.4	1.8
United States	2.2	2.4
Euro Area	-0.5	0.9
Japan	1.6	-0.1
United Kingdom	1.7	2.6
Emerging and Developing Asia	7.0	6.8
Russia	1.3	0.6
China	7.8	7.4
India	6.9	7.2
ASEAN-5	5.2	4.6

IMF - World Economic Outlook

LOCAL ECONOMY

For Sri Lanka, 2014 was a year interspersed with a strong positive macroeconomic nuance but yet accompanied by external headwinds. On one side the growth momentum set in place on post war foundation continued on, making Sri Lanka one of the faster growing economies in the Asian region. On the other hand, despite such positive proclivities challenges and concerns did remain. A weak external position, a marginal balance of payments position and a chronic trade deficit which continued to exert pressure on the currency, in conjunction with an incessant current account deficit remained top concerns.

FIGURE 02: REAL GDP GROWTH OF SRI LANKA

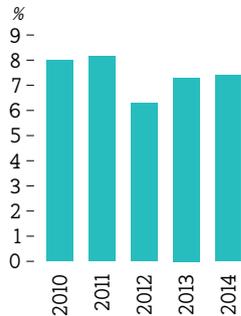


FIGURE 03: EASE OF DOING BUSINESS INDEX 2014

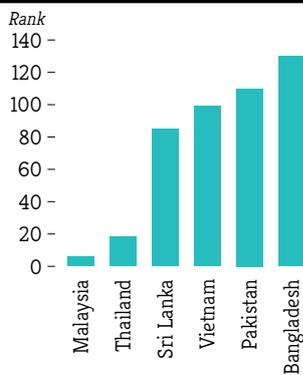
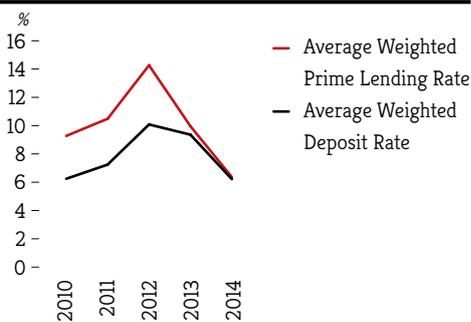


FIGURE 04: INFLATION



FIGURE 05: INTEREST RATES



GDP GROWTH & SECTORS

Sri Lanka's GDP grew by 7.4% in 2014 slightly better than the 7.2 % recorded in 2013 in keeping with upper trajectory of growth put into motion on post war outlook. Sri Lanka's growth percentage of 7.4 % was higher than the Emerging economies at 6.8 %, and India at 7.2 % and the Association of Southeast Asian Nations (ASEAN-5) at 4.6%. The service sector continued to be the primary driver of the Macro economy accounting for 58 % of the overall GDP along with a growth proposition of 6.5 % largely aided by enhanced activities in tourism, and hotel trade. The economy also enjoyed the spin off benefits in the rising tourism numbers with increased construction activities now accounting for nearly 10% of the GDP. (Figure 02)

GDP SIZE AND SCALE

The GDP in US dollar terms stood at US dollars 75 billion as of 2014, compared to US dollars 67 billion in 2013. Furthermore the GDP per capita crossed US dollars 3,600 confirming the Island nations advance towards the domain of the upper tier middle income Economy and within objective of CBSL target of US dollars 7,000 per capita by 2020.

WORLD BANK RANKINGS

According to World Bank Classifications, Sri Lanka stood at a ranking of 65 in the Global Competiveness Index, but declined in the Ease of Doing Businesses Index from 81st in 2013 to 85th in 2014. Rankings by the rating agencies on Sovereign debt were BB- by Fitch and B+ by S&P, still non investment grade but with a stable outlook. (Figure 03)

INFLATION

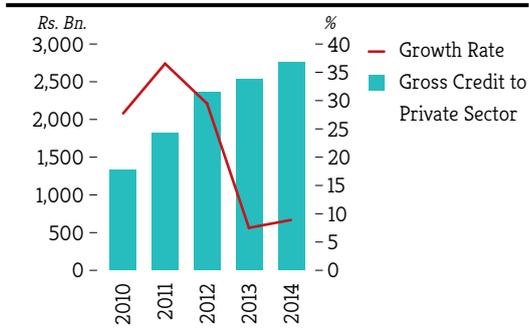
Inflation continued to be constrained to single digits for 71 consecutive months. Inflation as measured by the Colombo Consumer Price Index (CCPI) remained at a low 2.1 % YoY in December 2014. The single digit inflationary figure was supported at large by a steep decline in energy prices and lower commodity prices notwithstanding supply side factors and adverse weather conditions. (Figure 04)

MONETARY POLICY AND INTEREST RATES

In keeping with CBSL policy of enabling environment Monetary Policy continued to be accommodative and acted as a conduit towards growth. Interest rates declined further in 2014 acting as a primary driver towards credit to the private sector and indirectly to GDP enhancement. Moreover, interest rates on Government securities declining significantly in comparison to the interest rates on loans and deposits. The Benchmark 364 Treasury Bill rate remained stable at 6.0 % in December 2014, a declination of 229 basis points from the 8.29 % that was in December 2013. Furthermore the 5 year Bond declined 250 basis points over 2014. (Figure 05)

ECONOMIC REVIEW CONTD.

FIGURE 06: BANKING CREDIT TO PRIVATE SECTOR

**CREDIT GROWTH**

However despite such economic thrust factors, banking credit to private sector remained a lagging indicator with only a marginal improvement in 2014. In 2013 credit to the private sector grew by 7 % whilst in 2014 the percentage improved to 9% whilst the M2b growth remained stable as well. (Figure 06)

TRADE BALANCE AND THE BALANCE OF PAYMENTS

In Economic matrices the trade balance widened to US dollars 8.2 billion compared to the US dollars 7.6 billion for 2013. On the external side there were some key improvements. A recovery in the export trade combined with a slower import growth and inflows to the Service account helped the overall Balance of payments cross the US dollars 1 billion mark to stand at US dollars 1.37 billion compared to US dollars 0.98 billion as of the end 2013. As it has been the norm for many years running, remittances continued to act as a major mitigation in addressing the trade deficit.

The reduction in current account deficit in conjunction with global bond issuances aided in the replenishment of the external reserve position in addition to increasing worker remittances and tourism inflows. Total foreign assets in US dollars improved from US dollars 8.5 billion to US dollars 9.8 billion in 2014. Foreign assets in months of imports improved to 6.1 months in 2014 from the 5.7 months recorded the preceding year.

FOREIGN EXCHANGE MARKET

The domestic foreign exchange market remained relatively stable during the year trading in the narrow range 130 - 132 versus the US dollar. The Lanka Rupee relatively held fort without undue depreciation in 2014 at only 0.79 %. Based on cross currency exchange rate the Rupee appreciated versus the Euro, the Japanese Yen and UK sterling Pound.

CAPITAL MARKET REVIEW

BROAD MARKET MILESTONES

The CSE performed admirably well in 2014, despite the varying degrees of volatility that pervaded other emerging markets, by returning positive figures. If 2013 was to be classified as a year when the market crossed over to positive domain, albeit marginally, then 2014 can be summed up as the year where the market gained further traction and momentum in conjunction with rising investor sentiment. (Figure 07)

Furthermore, it was also a milestone year where the All Share Price Index (ASPI) crossed the 7,000 mark, whilst the fundamentally weighted S&P SL20 also followed suit by crossing the 4,000 threshold. The Broad Market Magnitude pointer i.e, market capitalisation value reached Rs. 3104 billion, equating to a noteworthy 31% of the GDP. Foreign investor sentiment continued to be positive with inflows for 3 consecutive years providing that vital liquidity boost. These positive outcomes were largely aided by improved macro economic variables, upward sloping company earnings and stronger balance sheet positions. A steady exchange rate of the Sri Lankan Rupee versus the US dollar without unwarranted depreciation, also acted as a liquidity catalyst in the market. Moreover, the average daily turnover displayed upward trajectory by improving 70 % from 2013 values.

MARKET RETURNS

Market returns were laudable in 2014 aided by a historically low interest rate regime. The Colombo Bourse returned a tangible 23.5% in 2014 compared to the marginal index growth of 4.78 %, for 2013. The Colombo Stock Market is currently classified by Morgan Stanley as belonging to the Frontier Market category, a subset of the Broader Emerging Market Classification, along with Bangladesh, Vietnam and Pakistan. (Figure 08)

FIGURE 07: ASPI VS TREASURY BILL RATES

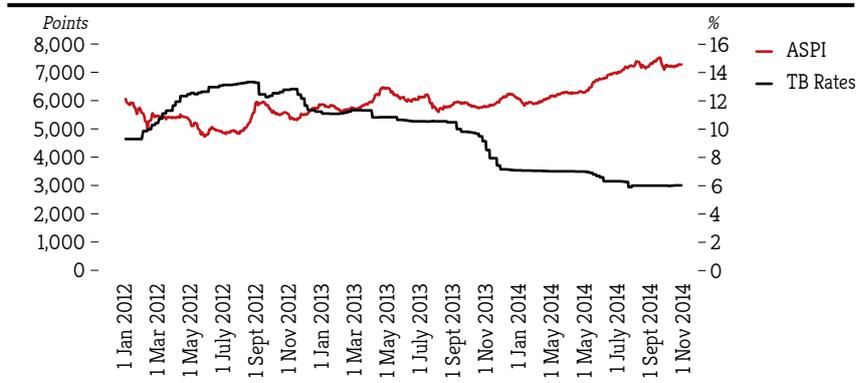
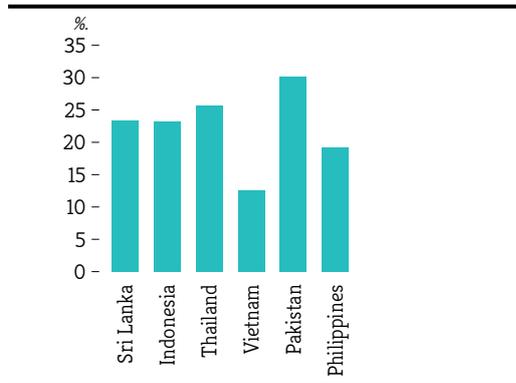


FIGURE 08: MARKET RETURNS - 2014



CAPITAL MARKET REVIEW CONTD.

The ASPI comfortably outpaced the MSCI Frontier Index, which yielded only 4.71 % and the broader Emerging Market Index, which posted a negative 1.97 % In the Regional context, the CSE comfortably outperformed its Frontier Market peers of Vietnam (8.1 %) whilst marginally outpacing Jakarta (22.3%) and Philippines (18 %). A key highlight in Emerging markets in 2014, was that United Arab Emirates and Qatar graduated from the Frontier Market grouping to the Emerging market index. (Figure 09)

FUNDS RAISED VIA EQUITY AND DEBT

The primary market remained relatively active in 2014, abetted by stronger investor sentiment compared to the muted environment that prevailed in 2013. A total of Rs. 2,694 million was raised via 5 new listings by way of IPO's, in contrast to the marginal amount of Rs. 494 million raised in 2013. New funds raised via debt (debentures) amounted to Rs. 54,234 million. In addition a total of Rs. 8,099 million was absorbed into the companies' balance sheets via Rights Issues. Furthermore it is noteworthy that companies decided to tap the capital market for funding despite the unprecedented low interest rate regime that prevailed during the year.

FOREIGN POSITION AND MARKET VALUATION

Foreign Participation was significant as foreign purchases reached a figure of US dollars 805 million a favourable increase from the purchase quotient of US dollars 647 million for 2013. However, foreign selling mostly on account of profit taking and or strategic buy outs amounted to US dollars 637 million, leaving a positive differential of US dollars 168 million. Although this inflow amount cannot be deemed commendable it nevertheless corroborates positive foreign investor sentiment.

The market valuation ratios also remained within relevant range of Frontier Market at 19 X of the earnings in absolute terms, compared to the 15.9 X earnings that prevailed in 2013. (Figure 10)

FIGURE 09: MARKET RETURNS

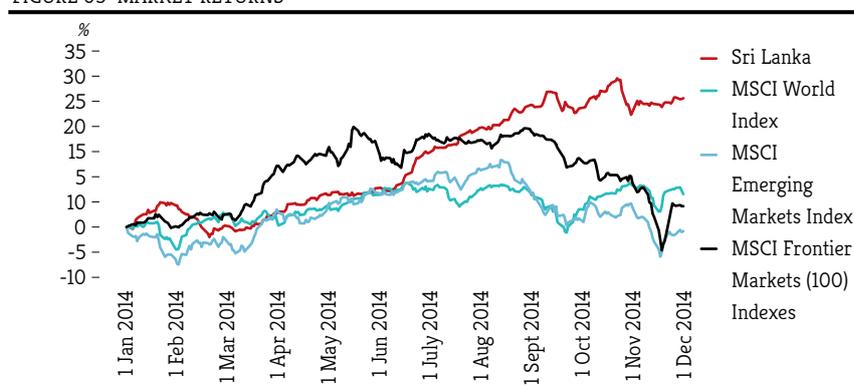


FIGURE 10: MARKET VALUATIONS



SECTOR PERFORMANCE

With the exception of the IT sector, all the other sectors posted positive returns. A total of 12 sectors performed at 20 % or better. Power and Energy posted 55 % and remained the top performing sector followed by manufacturing and Telecom. Diversified sector the so called market proxy returned 19 % and the other key sector of Banking and Finance did 40 % despite the sluggish environment for Private sector credit.

UNIT TRUST INDUSTRY

The Unit Trust Industry also had a notable year in 2014. The removal of the withholding tax also served as a catalyst to rising interest in the industry. The Net Asset Value of unit trust funds amounted to Rs. 127,356 million as of December 2014 a sharp increase from the Rs. 54,304 million that was for the prior year. The number of unit trust funds also increased from 62 in 2013 to 74 in 2014 whilst the number of unit holders also improved by 10 % to 32,619 from 29,648 YoY.

MANAGERS



1 2 3 4

- 1. Suneth Perera (Manager, Capital Market Education and Training)
- 2. Madhugayanie Balapitiya (Manager, Investigations)
- 3. Sharmila Panditaratne (Manager, Legal and Enforcement)
- 4. Ranmini Jayathilake (Manager, Information Systems)

STAFF MEMBERS



Sajeevani Bakmedeniya



Saumi Kodippily



Sheena Goonaratna



Manjula Chandraratne



D M G Priyantha



Lakshmi Wickramanayake



Prabhashini Samarakoon



Sugath Alwis



Ashoka K Dayarathne



R K Wasantha Sunimal



Mekhala Jayapala



Anula Wijesinghe



Prathibhani Herath



Rakhitha Bandara



P M Niroshika Udayanganie



Mahesh Abeysekera



Thakshila Francis



Rajmi Manatunga



Suhadini Wickramasinghe



Bimba Gamaathige



Y D Sandamali



Buddhinee Herath



Nimal Kumarasinghe



J K Priyadarshini



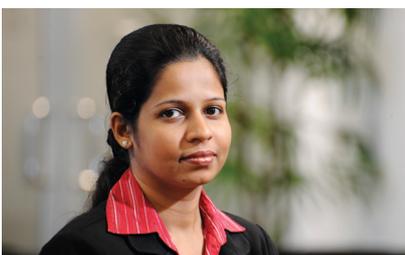
Chamari Eranga Manthirathna



C Erandathie Waidyasekara



Dhanesha Rajapura



Preenika Nilakshi Perera



Samantha Gunawardana



Indika S Jayaweera

STAFF MEMBERS CONTD.



Yohan Edirisinghe



A C Dias



Nisansala U Herath



G D Kapila Kumara



L Sivaneasharajah



M M Imran



Roshini Peiris



Thanishka Tillekeratne



Lalinda Dayarathne



Tharaka Kulathilaka



Christobel Silva



Krishanthi Muthuthanthrige



Shalini Perera



Julie Allegakoen



Kumari Siriwardena



Nishoka Jayathunga



Nuala Thevathasan



Lakshmi Atapattu



Anne Chrisanthi Fernando



S D Dharmasiri



M Jayasekara



P W L Piyatissa



Chandran Nagendran



W Ariyaratna



Anura Perera



D Pathum Niroshana



Sandaruwan Wijeratne



P D Pathmarani



K M Ranjith



G R Sarath Jayasinghe

Absent: Aeshini Bandara, Priyantha Herath, Olivi Solangaarachchi

OPERATIONAL REVIEW

REGULATION

Regulation enables capital markets to function more efficiently, transparently and impartially and spur economic development. In addition, SEC's regulatory jurisdiction extends over market participants, institutions, and instruments that are traded in the market.

Licensing and Registrations

The SEC regulates the following capital market entities and grants licences and registrations to them. (Figure 11)

FIGURE 11: LICENSING AND REGISTRATION OF MARKET PARTICIPANTS

Market Participants	Total No. of Licensed/Registered Entities	Licences/ Registrations Granted during 2014
Stock Exchanges	01	0
Stockbroking Companies	35	05
Stock Dealing Companies	14	08
Managing companies of Unit Trusts	14	01
Unit Trust Funds	74	14
Investment Managers	38	03
Margin Providers	32	01
Underwriters	10	0
Credit Rating Agencies	03	0
Clearing House	01	0

policy initiatives

The SEC undertakes policy initiatives to enhance the existing legal framework to regulate all regulatees within its purview.

Amendments to the SEC Act

The proposed amendments to the SEC Act, were forwarded in 2013 to the Ministry of Finance and Planning for necessary action. The Ministry appointed a special committee headed by Mr. Sajith Attygala, Deputy Secretary to the Treasury, to review the proposed amendments prior to them being tabled before the Cabinet of Ministers. The Special Committee completed the review of three parts and commenced the fourth during the year. The amendments deal with the legal framework necessary to facilitate the capital market of Sri Lanka to move to the next stage of development whilst enhancing the protection granted to investors.

The Review Committee appointed by the Ministry of Finance and Planning completed 13 meetings and reviewed up to Part IV of the proposed amendments by the end of 2014.

Draft Bill to Demutualise the CSE

The final English draft of the Demutualisation Bill of the CSE which was submitted by the Legal Draftsman was sent to the Ministry of Finance and Planning for information and necessary action. The Sinhala and Tamil drafts of the Bill are being finalised by the Legal Draftsman at present. The Certificate of Conformity with the Constitution has also been conveyed by the Attorney General to the Ministry of Finance and Planning during the period under review.

Takeovers and Mergers Code

A draft of the new Takeovers and Mergers Code was finalised by the SEC under the leadership and guidance of Justice Saleem Marsoof. The finalised copy of the draft has been submitted for a final public consultation prior to being forwarded to the Legal Draftsman for gazetting of same.

The salient features of the new Takeovers and Mergers Code include the following:

- ▶ Introduce a Takeover Panel who will act as advisors to the Commission in respect of complicated issues that may arise in a takeover and to issue rulings, practice statements and guidelines that will become binding once approved by the Commission;
- ▶ Articulate the spirit of the Code and the general principles governing the Takeover Law to enable a reader to understand the rules and its purpose more clearly;
- ▶ Set out lucidly, the standards of conduct required from an offeror and the Board of Directors of an offeree company during a takeover or merger offer, in a bid to better protect the rights of the minority shareholders of an offeree company during the period of a takeover, or a merger;
- ▶ Provide expressly for the "Chain Principle" in respect of mandatory takeover offers and provide for mechanisms to arrive at the offer price;
- ▶ Recognise "Compliance Auditors" who will ensure that both the offeror and offeree in a takeover bid will comply with the Code;
- ▶ Widen the scope of a takeover bid to embrace acquisitions of not only "shares" carrying voting rights but also "interests in shares" carrying voting rights, to enhance the

protection extended to minority shareholders of a Public Listed Company, under a takeover bid;

- ▶ Widen the discretionary power of the Commission to dispense with mandatory offers in certain specified circumstances and introduce the concept of "whitewash resolutions" to deal with dispensations when having to make a mandatory offer in circumstances deemed appropriate by the Commission;
- ▶ Introduce special provisions relating to mergers;
- ▶ Articulate the powers of the Commission in respect of violations of the Code without prejudice to the general powers of the Commission as enshrined in the SEC Act; and above all
- ▶ Enable the Commission in appropriate circumstances to make order permitting any derogation or deviation from the application of the Code, if the Commission considers that they would operate unduly harshly, or in an unnecessarily restrictive, burdensome or otherwise inappropriate manner. Where any such derogation or deviation is permitted by the Commission, the reasons for the order of the Commission shall be recorded and duly published.

Publication of Market Intermediary Rules

The Commission decided to publish the existing Market Intermediary Rules in the Government Gazette in terms of Section 53(2) of the SEC Act. The SEC forwarded the approved set of rules to the Legal Draftsman in order to publish the same. The matter is still pending.

Directives Issued by the SEC Rules on Minimum Public Holding

These draft rules came into effect on 01st January 2014 through the SEC's directive SEC/LEG/13/12/37. The draft

rules that were forwarded by the CSE were incorporated in to the Listing Rules of the CSE after being approved by the Commission.

In terms of Rule 7.13.1 (d) of these Rules the SEC was in receipt of the share distribution of Public Listed Companies as at 01st January 2014.

The SEC was in receipt of 179 responses from Public Listed Companies to this direction and requested the CSE to inform all the remaining companies to submit their respective reports in compliance with this Rule on or before 15th May 2014.

Regulatory Interventions to Protect Investors

- ▶ Suspension of trading and prevention of alienation of non-current assets of a Public Listed Company

A directive was issued by the SEC on Touchwood Investments PLC, to prevent the alienation of non-current assets and suspend the trades of the company to protect investors pending an investigation by the SEC. This directive was also extended after the investigation into the company was concluded for the protection of investors. The company was also under liquidation on an application made by creditors to the Commercial High Court of Colombo.

The Commission considering the findings of the investigation reports and the serious consequences that would befall the investors, decided to issue a directive preventing the Company from removing or destroying any records of the company.

The SEC also directed the CSE to suspend trading of shares of Touchwood Investments PLC until the Company releases its interim financial statements to the market. The SEC in doing so took into consideration inter alia the fact that the company has been transferred to the Default Board of the CSE for non-submission of its interim financial statements and the possibility of a

liquidator being appointed to wind up the company.

- ▶ Court interventions on behalf of Investors:

The SEC took an unprecedented step to intervene in the winding up action against Touchwood Investments PLC in a bid to protect the interest of investors and brought to the notice of Court, the findings of the SEC in respect of an investigation conducted into the business affairs of the company that was being sought to be wound up.

Extracts of the investigation report conducted into the affairs of the company was filed in the Commercial High Court for the information of the Court and the liquidator.

- ▶ Reversal of trade

A sale of shares by Adam Investments PLC in breach of the Takeovers and Mergers Code was reversed whilst a takeover bid was pending by the said company on PC Pharma PLC and compensation was ordered to be paid to all investors who were affected by the alienation done without the prior approval of the CSE.

Accordingly, the CSE was directed to cancel the sale of PC Pharma PLC shares by Adam Investments PLC done without the prior approval of the CSE which caused the pending mandatory offer to lapse.

Other Directives Market Intermediaries

The SEC directed all Investment Managers to commence operations within six months of obtaining registration. This was due to a finding that some Investment Managers had not commenced operations although they had obtained a registration to function as Investment Managers.

OPERATIONAL REVIEW CONTD.**Facilitation of the Financial Consolidation Plans**

In a bid to facilitate the consolidation of banks and financial institutions, the SEC directed the CSE to lift the 5% floor of the price limitation imposed on the Crossings Board for share transactions falling within the ambit of the Financial Consolidation Plan, on a case by case basis, if required. The SEC issued this directive in terms of its power and duties to implement the policies and programmes of the Government with respect to the market in securities.

Development of the Unit Trust Industry

All managing companies and trustees of unit trust funds were mandated to maintain a minimum number of 50 unit holders in a bid to facilitate the broad-basing of the unit trust industry in Sri Lanka.

Minimising the negative impact by over-valued and under-priced shares at IPO's

A directive was issued to mandate disclosures in respect of the basis of an offer price at an initial public offer (IPO) of shares in a prospectus and

accordingly a directive to the CSE was issued. The reasons behind the directive was to mitigate the negative impact that could be caused due to an undervalued or overvalued offer price at an IPO.

Definition of Public Holding

The CSE was directed to adopt and incorporate the definition of 'Public Holding' provided in the Directive on maintenance of minimum public float, as the common definition of Public Holding and to amend the definition of non-public shareholder accordingly. This directive was issued, on the approval of the Commission to address the practical issues arising from the calculation of the number and percentage of public shareholding pursuant to the different definitions adopted in respect of Public Holding in the lock-in rules and the rules on Minimum Public Float in listed companies.

De-listings

A directive was issued clarifying Rule 5(4) of the SEC Rules on voluntary de-listing in respect of the requirement to continue the trading suspension where the Commission approves the de-listing of the company.

Approvals**Country, Regional and Global Funds**

Upon the recommendation of the Central Depository Systems (Pvt) Ltd (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 Reporting Transactions Act No.06 of 2006 and the laws relating to securities in Sri Lanka.

During the year 2014, the SEC approved 171 global, regional and country funds to invest in listed securities in Sri Lanka.

Administration of the TOM Code

The year 2014 was marked with a record 20 takeovers (two of which were voluntary takeovers) that took place in respect of companies listed on the CSE. Out of the 20 takeovers, eight were in relation to bank/financial institution consolidations. The following takeovers were administered by the SEC during the period under review: (Figure 12)

FIGURE 12: OFFERS EXTENDED UNDER THE TAKEOVERS AND MERGERS CODE

Offeror	Offeree	Nature of the Offer	Shareholding at the Closure of the Offer
Adam Investments Limited	PC Pharma PLC	Mandatory Offer	32.556%
Softlogic Holdings PLC & Softlogic Retail Private Limited	Odel PLC	Joint Mandatory Offer	93.2%
Hayleys PLC	Alufab PLC	Mandatory Offer	62.51%
Adam Investments Limited	PCH Holdings PLC	Mandatory Offer	53.51%
Commercial Credit And Finance PLC	Trade Finance And Investments PLC	Mandatory Offer	98.34%
Mr. G. Ramanan	Industrial Asphalts (Ceylon) PLC	Mandatory Offer	66.66%
Cargills Bank Limited	Capital Alliance Finance PLC	Mandatory Offer	75.70%
ACL Cables PLC	Resus Energy PLC (Formerly known as Hemas Power PLC)	Joint Mandatory Offer	75.24%
NDB Capital Holdings PLC, & Trydan Partners Private Limited			
Richard Pieris Finance Limited	Chilaw Finance PLC	Mandatory Offer	85.49%

Offeror	Offeree	Nature of the Offer	Shareholding at the Closure of the Offer
Nawaloka Construction Company Private Limited	Millennium Housing Developers PLC	Mandatory Offer	68.75%
Associated Motor Finance Company PLC	Arpico Finance Company PLC	Mandatory Offer	93.806%
SG Holdings Global Private Limited	Expolanka Holdings PLC	Mandatory Offer	51.48%
Taprobane Holdings PLC	Lanka Century Investments PLC	Voluntary Offer	80.76%
Dr. T. Senthilvel	Orient Garments PLC	Mandatory Offer	39.832%
Senior Marketing Systems Asia Private Limited	E-Channelling PLC	Mandatory Offer	87.29%
Culture Financial Holdings Limited	Union Bank Of Colombo PLC	Mandatory Offer to accept up to 2% of the Offeree Company	70%
Deshodaya Development Finance Company Limited	George Steuart Finance PLC	Mandatory Offer	75.54%
Muthoot Finance Limited	Asia Asset Finance PLC	Mandatory Offer	51%
Cargills (Ceylon) PLC	Kotmale Holdings PLC	Voluntary Offer	97.13%
Commercial Leasing & Finance PLC	Brac Lanka Finance PLC	Mandatory Offer	94.35%

Approvals Under Section 28A of the SEC Act

All public companies seeking listings on the CSE are not allowed to list shares which have been allotted to any person within a period of one year prior to its listing on an Exchange, unless the prior written approval of the Commission is obtained for that purpose. The following approvals were granted during the year. (Figure 13)

FIGURE 13: APPROVALS UNDER SECTION 28A OF THE SEC ACT

Name of the Company
1 Standard Credit Finance Limited
2 Coral Rock Hotels Limited
3 Arpico Insurance Limited
4 Singhe Hospitals Limited
5 Lucky Lanka Milk Processing Company Limited

Approvals Under Section 29A of the SEC Act

In terms of Section 29A of the SEC Act, applications relating to issuance of unlisted securities by listed companies need to be submitted to the SEC. Approval of the Commission was granted to the following entities. (Figure 14)

FIGURE 14: APPROVALS GRANTED TO ISSUE UNLISTED SECURITIES

Name of the Issuer	Nature of the Issue	Type of Security	Amount Approved	Duration
Nation Lanka Finance PLC	Private Placement	Ordinary Voting Shares	Rs. 700 Million	-
Nation Lanka Finance PLC	Private Placement	Unlisted Warrants	Maximum amount to be raised from conversion Rs. 674 Million	Exercise Period within 4 years
Union Bank of Colombo PLC	Private Placement	Unlisted Warrants	Amount to be raised from conversion Rs. 3,492.5 Million	Exercise Period within 6 years

OPERATIONAL REVIEW CONTD.**Approval of Off-the-Floor Share Transactions**

Approval was granted for 533 exceptional transfers and 162 gifting of shares during the year under review. The exceptional transfers were in order to facilitate margin trading, fund management, de-listing and restructuring of entities and portfolios, where beneficial ownership does not change.

Waivers in terms of Rule 5.4 of the Listing Rules

The SEC processes applications of Public Listed Companies seeking to issue shares by Private Placements which exceed 20% of the shares in issue immediately subsequent to such issue of shares through the Private Placement. During the year under review the following waivers were processed:

- ▶ The Proposed Investment in to Commercial Credit and Finance PLC by way of a Private Placement – Request for waiver of Rule 5.4 (b) and (c) of the Listing Rules of the CSE.

Commercial Credit and Finance PLC made an application to the SEC for the waiver of Rules 5.4 (b) and (c) of the Listing Rules on a proposed investment of Rs 1.680 billion (approximately US dollar 12.9 million) by a private equity fund, called Creation Investments Sri Lanka LLC through a Private Placement.

The Commission approved the said waivers in terms of Rules 5.4(b) and (c) of the Listing Rules of the CSE and this was conveyed to Commercial Credit and Finance PLC subject to the relevant regulatory approvals and shareholder approval.

- ▶ Nation Lanka Finance PLC – Private Placement of Shares and Issue of unlisted debentures

Approval was granted by the Commission for Nation Lanka Finance PLC to waive Rule 5.4(b) and

Rule 5.4(c) of the Listing Rules of the CSE with respect to a proposed investment in the company by GEM Global Yield Fund LLC SCS (GEM), a company incorporated under the Laws of Luxembourg for the purposes of meeting its lending operation and to maintain the core capital requirements imposed by the CBSL.

The Commission granted approval to the said application of the company, subject to two conditions.

- ▶ Potential investment in Union Bank of Colombo PLC

The Commission granted waivers from Rules 5.4 and 5.10.1 (iii) and (iv) of the Listing Rules of the CSE to Union Bank of Colombo PLC with regard to lifting of the restrictions imposed in respect of the proposed Private Placement in excess of 20% and the issuance of warrants in excess of 15% for a period of 6 years. The said approval was granted subject to Union Bank of Colombo PLC obtaining necessary regulatory approval for the fund and shareholder approval for the proposed investment.

- ▶ The application of Hotel Developers (Lanka) PLC for the waiver of Rule 5.4(c) of the Listing Rules of the CSE on the proposed conversion of loan into equity

The Commission granted approval to waive Rule 5.4 (b) of the Listing Rules of the CSE for the proposed issue of 1,766,389,577 ordinary shares of HDL to the Secretary to the Treasury as a Private Placement in settlement of the 80% of the Government of Sri Lanka loan and the hotel land lease rental as per Cabinet approval of same.

Hotel Developers (Lanka) PLC (HDL) applied for a further waiver under Rule 5.4 (c) of the Listing Rules of

the CSE arising due to the Cabinet decision to convert the balance of the Government of Sri Lanka Loan outstanding as at 31st December 2013 amounting to Rs. 2.35 billion into equity.

The Commission approved the said waiver in terms of Rules 5.4 (c) of the Listing Rules of the CSE to HDL to issue 235,029,968 fully paid ordinary shares in lieu of the value of the balance of the Government of Sri Lanka loan as at 31st December 2013 amounting to Rs. 2,350,299,678/- to the Secretary to the Treasury by way of a Private Placement.

Amendments to Listing Rules of the CSE

During the year under review the following amendments to the Listing Rules of the CSE were approved by the Commission.

- ▶ Amendments to Sections 7 and 9 of the Listing Rules of the CSE:
 - a) with respect to Director's and CEO's dealings in shares issued by a listed entity; and
 - b) new rules on Related Party Transactions (RPT) were introduced.
- ▶ Amendments to Rule 2.2.1 (e) of the Listing Rules of the CSE:

The Commission approved the amendment of Rule 2.2.1 (e) of the Listing Rules relating to rating requirements for the listing of debt wherein the existing rule was revised to mandate issuers to disclose all ratings in terms of revisions done on a debt instrument during the tenor of the instrument. This rule mandates the disclosure to the capital market of all revisions, capturing both upward and downward ratings given to a debt instrument.

Amendments to the Stock Broker Rules

Amendments to Rule 5.2 of the Stockbroker Rules:

The Commission granted approval to Section 5.2 of the Stock Broker Rules relating to the liquidity requirements applicable to stock broker firms.

Additionally the SEC is reviewing the draft amendments to the Stock Broker Rules to enable Primary Dealers to trade in corporate debt on the CSE.

Amendments to the CDS Rules

- ▶ Amendments to Rule 1 was approved incorporating definitions to 'freeze balance', 'locked balance' and 'balance free'.
- ▶ Amendments to Rule 6 was approved wherein a custodian bank was mandated to affirm or reject trades carried out on behalf of account holders by 14.30 hours on T + 1 day in the manner specified therein.
- ▶ Amendments to Rules 11 and 13 of the CDS Rules of the CSE in order to:
 - * Provide e-statements to its account holders, considering the successful implementation of the e-statement facility in other countries in the region;
 - * To send SMS alerts on information pertaining to client accounts to the account holders; and
 - * To charge fees directly from the CDS account holder for the services rendered by the CDS.

The decision of the Commission granting approval to the amendments proposed were conveyed to the CSE subject to the following requirements:

- ▶ The consent of the CDS account holder to be obtained to accept e-statements;
- ▶ A verification to be done of the e-mail addresses by sending a confirmation to the correspondence address indicated in the application form; and

▶ To amend the 'CDS Guidelines for Participants' incorporating the above changes.

▶ Further amendments were proposed by the CSE to Rule 11.2 of the said Rules, wherein the stock broker participant is required to take adequate steps to trace the account holder prior to recovering monies due to the stock broker participant by the account holder, upon lifting the suspension imposed on a client account in the event an account holder is not traceable.

▶ Introduction of a fee structure for the services offered by the CDS -

The CSE informed the SEC of the additional fee structure to be introduced for the range of services provided by the CDS with a view to covering the expenses incurred by the CDS in rendering services to its stakeholders; and diversifying the revenue streams of the CDS.

De-listing Applications

During the year under review 04 companies were de-listed in terms of the De-listing Rules set out in the SEC Rules.

The Companies are:

- ▶ Kuruwita Textile Mills PLC
- ▶ Beruwala Walk Inn PLC
- ▶ Asiri Central Hospitals PLC
- ▶ NDB Capital Holdings PLC

OVERSIGHT AND COMPLIANCE

Promoting stability is a fundamental objective of capital market regulation. Since the failure of a licensed entity can transmit risks throughout the financial system the SEC monitors, mitigates and manages risk in the market. To promote risk management the SEC addresses minimum entry standards for Market Intermediaries, capital and other prudential requirements, proper management of risk and consequences of default and failure.

Oversight of Listed Companies

Regulation of listed companies is a vital component in order to offer investors a fair and efficient market and ensure protection. Listed companies are expected to disseminate material information promptly in order to establish transparency and accountability in the securities market, and to ensure that professional standards are maintained.

Hence 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. In reviewing the annual reports the SEC focuses on the following areas:

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

During the year the SEC commenced financial statement reviews of 109 Public Listed Companies out of which 106 have been concluded with 71 Letters of Comment being sent.

Supervision of Market Participants Stock Broking Companies

The supervisory role of the SEC involves monitoring and supervising the financial stability and operational viability of licensed stock broking companies towards strengthening investor protection and thereby building investor confidence in the capital market.

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Our on-site examination was focused on directing the stock broking industry towards achieving the highest professional standards through a risk based approach focusing on different risk categories such as prudential, liquidity, financial, credit, legal and operational risks with an emphasis on compliance with applicable Rules and Regulations.

Off-site reviews were focused on assessing due compliance by stock broking companies with the regulatory requirements primarily on maintenance of net capital, adequacy of client funds, and the liquidity requirements. Further it was aimed at detecting companies and activities that could pose a risk of failure and non compliance with applicable Rules and Regulations. During the year 2014, the companies in breach of regulatory requirements were required to take necessary steps to ensure compliance within a reasonable time period.

We continued to facilitate and reinforce a high level of compliance by stock broking companies in line with Anti Money Laundering regulations/ standards imposed by the Financial Intelligence Unit on securities sector participants.

During the year, the SEC requested the stock broking companies to align margin trading rates with policy rates so that the investing public could derive the benefit of the declining interest rates.

Total turnover of the stock broking industry increased during the year 2014 compared to the year 2013. The following table provides comparative statistics on the performance of the stock broking companies. (Figure 15)

FIGURE 15 : HIGHLIGHTS OF THE STOCK BROKING INDUSTRY

	2014 (Rs.'000)	2013 (Rs.'000)	Change %
Turnover	3,087,228	1,745,186	76.9
Net brokerage	2,833,873	1,541,338	83.9
Operating loss	794,562	(619,374)	228.3
Other income	510,000	810,282	(37.1)
Net loss before tax	727,606	(711,484)	202.3
Net loss after tax	604,053	(711,091)	184.9
Total assets*	11,333,864	10,265,557	10.4
Total liabilities *	4,924,007	4,462,858	10.3
Net capital*	4,966,033	4,742,514	4.7

*As at 31 December 2014/2013

Source: un-audited financial statements submitted to SEC

Regulatory Assessment on the CSE

The SEC successfully conducted the audit on the CSE during the year 2014. The regulatory assessment entailed a holistic approach in assessing the state of governance and controls in the CSE in discharging its duties and responsibilities.

Unit Trust Industry

During the year 2014, the unit trust industry has reflected a positive trend with the Net Asset Value of the funds reflecting a substantial growth (135%) compared to the previous year.

The SEC licensed the first ever dollar denominated unit trust fund and fourteen other unit trust funds during the year. In addition, one unit trust managing company and a trustee entered the market during the year 2014.

With a view to encouraging unit trust managing companies to increase retail participation in the funds under their management the SEC issued a directive to all unit trust managing companies to maintain a minimum of 50 unit holders at all times. The managing companies were also directed to obtain a minimum of 50 unit holders during the Initial Offer Period.

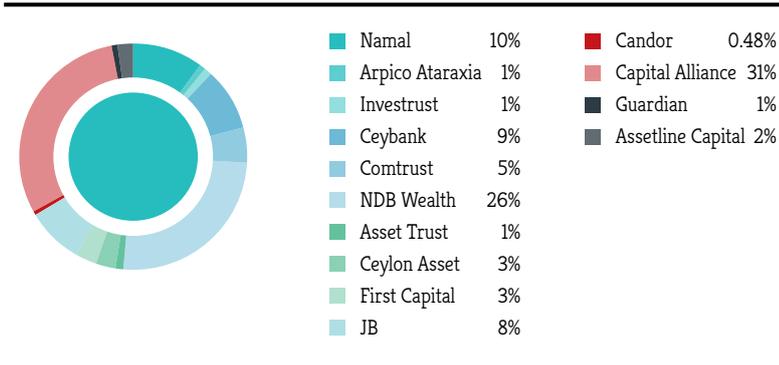
The SEC conducted Risk based on-site examinations of the managing companies during the year encompassing a wide range of risk areas under prudential, operational and management policies to assess the adequacy of their financial strength, compliance with internal controls and procedures, governance, information systems, Rules and Regulatory requirements.

The monthly unaudited financial statements of unit trust managing companies were also examined to ensure that the managing companies were financially stable and have maintained the minimum net capital requirement as stipulated by the SEC. In addition monthly returns of the unit trust funds were scrutinised to ensure that exposure levels and liquidity of the unit trust funds were within acceptable limits as set out in the Unit Trust Code, the relevant trust deeds and directives issued by the Commission.

Unit Trust Funds

The Net Asset Value of unit trust funds stood at Rs. 127 billion (approx) as at 31st December 2014. The market share of each unit trust managing company in terms of the Net Asset Value in the year 2014 is reflected in the following figure. (Figure 16)

FIGURE 16: MARKET SHARE OF UNIT TRUST MANAGING COMPANIES AS AT 31ST DECEMBER 2014



The Overall Position of Unit Trust Funds

The comparative statistics on the performance of the unit trust funds during 2014 and 2013 are given below. (Figure 17)

FIGURE 17: OVERALL POSITION OF UNIT TRUST FUNDS

	As at 31.12.2014	As at 31.12.2013	% Change
Number of approved Unit Trust Funds	74	62	19%
Net Asset Value of Unit Trusts (Rs. Mn. approx.)	127,356	54,304	135%
Number of Unit Holders	32,619	29,648	10%
Number of Units Issued (No. Mn. approx)	9,772	4,134	136%
Investment in Equity (Rs. Mn. approx)	14,591	9,453	54%
Investment in Treasury Bills (Rs. Mn. approx)	60,897	17,825	242%
Investment in Other Instruments** (Rs. Mn. approx)	52,202	27,000	93%

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

Source : Regulatory submissions by unit trust managing companies

Market Intermediaries

The SEC is empowered to grant registrations for margin providers, investment managers, credit rating agencies, underwriters and the clearing house to carry on their functions in the capital market as Market Intermediaries. Through a variety of rulemaking and other initiatives, the SEC continued to refine its regulations in order to promote growth and competitiveness of the market whilst protecting the interests of investors.

During the year 2014, the SEC assessed the risk of renewing the registration of investment managers who have not commenced business operations to date and issued a directive to all investment management companies registered in terms of the provisions of the SEC Act as amended, to commence business within 6 months from the date of the said directive. Upon the expiry of the six months, the SEC visited all registered investment managers to evaluate their business plans and operational status. Based on the observations made the SEC extended a further period of one month for the investment managers who were unable to commence business operations as per the directive issued.

At the end of the year 2014, all investment managers had complied with the regulatory requirement. Further, as per the said directive, a company that intends to obtain a new registration under the SEC Act is required to commence business within 6 months from the date of the grant of its registration. Hence this measure would discourage companies from obtaining the registration without proper systems and processes in place to commence business operations for which the registration is obtained and thereby deter companies from misusing the registration obtained to function under the capacity of the investment manager.

In response to the favourable economic condition derived from declining Average Weighted Prime Lending Rate (AWPLR) of the CBSL during the year 2014, the SEC urged the margin providers to adjust the lending rates on margin trading. This transferred the benefits of declined rates to the clients. Further during the latter part of the year, the SEC facilitated a consultative meeting with margin providers to emphasise on the main regulatory concerns pertaining to margin providers and to obtain their views and proposals to further strengthen the Industry. (Figure 18)

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FIGURE 18 : FINANCIAL HIGHLIGHTS OF OTHER MARKET INTERMEDIARIES (AS AT 31ST DECEMBER 2014)

Category	Total Revenue Rs	Segmental Revenue (from the Registered Business Under the SEC Act) Rs.	Total Net Profit Before Tax Rs	Total Assets Rs	Total Liabilities Rs
Margin Provider	176,556,203	169,349,554	(80,076,019)	1,180,001,061	344,394,477
Investment Manager	528,671,984	299,974,359	361,527,645	5,059,907,948	1,051,087,521
Underwriter	2,632,607,000	-	2,718,912,000	17,532,866,000	126,472,000
Credit Rating Agencies	130,136,218	117,603,718	19,985,630	300,298,990	74,873,797
Multipurpose entities **	558,705,350	342,485,764	267,925,051	4,992,901,614	1,077,002,381
Total	4,026,676,755	929,413,395	3,288,274,307	29,065,975,613	2,673,830,176

Source: un-audited financial statements submitted to the SEC

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

** "Multipurpose Entities" are the regulated entities who had been granted registration to carry out more than one regulated activity

SURVEILLANCE, INVESTIGATIONS AND ENFORCEMENT

Surveillance

As a part of the SEC's mandate to develop an efficient, effective and transparent capital market in addition to inculcating integrity and fairness in the trading activity, the SEC is responsible for effectively monitoring trading activities in the CSE in conjunction with detecting and preventing any transactions that violate the SEC Act.

The SEC monitors day-to-day trading in the CSE to identify and inquire into unusual price and turnover movements that signal insider dealing, market manipulation and any other market misconduct/malpractice.

Equipped with a state of the art surveillance system, we identify and inquire into unusual price and turnover movements, which may be signs of market misconduct to include insider dealing and market manipulation. The surveillance system reports any suspicious trading activity. Once detection is made appropriate action is then initiated by preparing a referral to the Surveillance Committee (the Committee) comprising of senior officials who collectively determine the necessity for a full scale investigation prior to the final recommendations made to the Commission. A large number of surveillance concerns were raised due

to the additional, data and analysis tools available at the SEC.

During the year 2014, we prepared a total of 18 surveillance referrals on a number of issues, which are categorised in the following suspected market offences. (Figure 19)

FIGURE 19: SURVEILLANCE REFERRALS

Surveillance Referrals	No
Insider Dealing	6
Front Running	3
Market Manipulation	10
Others	2

In addition, we also received 15 surveillance referrals from the CSE, which conducts its own parallel independent surveillance activities.

The prioritisation of surveillance concerns, where only the most important and significant market impacting observations eventually became referrals. Whilst the others were categorised as "surveillance concerns". The SEC made over 350 surveillance concerns relating to erratic share price & volume movements and abnormal trading patterns.

The "surveillance concerns", which did not warrant full referral reports, were then sorted for further monitoring and

analysis. Once flagged, the concerned traders and stocks were continuously monitored to observe if a new/particular trend emerged and if a fully-fledged referral was warranted.

The Committee chaired by the Officer in Charge/ Deputy Director General of the SEC met 9 times (approx.), during the year, to discuss surveillance referrals and other surveillance matters. During the period under review, the Committee decided various enforcement actions against certain traders, brokers, investors and market participants on various suspected market malpractices.

The Committee summoned minor offenders and subsequently warned them to refrain from engaging in such trading practices in the future. Under instructions from the Committee, written explanations were sought from parties involved who were involved in suspected market abuse and their responses were reported to the Committee.

A register is maintained whenever SEC Surveillance calls brokers (or CSE) to seek clarifications verbally on minor issues where urgent attention is needed. On many occasions, the early inquiries prevented improper trading activities from perpetuating further.

Investigations

Investigations constitute a salient aspect of the SEC's role as the regulator of the capital market. The swift and efficient conduct of investigations into instances of suspected market misconduct serves to maintain an orderly and fair market, boosts investor confidence and thereby contributes to the development of the Sri Lankan capital market.

In keeping with the mandate conferred by the SEC Act, in the year 2014, the SEC continued to carry out investigations into cases of suspected market malpractice and recommend appropriate enforcement action in relation to the same, thus fostering high standards of professional conduct and corporate behaviour in the market, and deterring future transgressions by market intermediaries, listed companies and investors.

During the year 2014, the SEC conducted investigations into instances of suspected market misconduct including market/price manipulation, insider dealing, front-running, etc. Some of the said investigations were commenced prior to 2014. In addition, an opinion which was solicited from the Honourable Attorney

General in the year 2012 regarding an investigation commenced and concluded in the same year, was pending during the year under review.

The year under review also saw several important enforcement action being taken by the SEC in respect of offences/irregularities committed under the SEC Act and the Rules/Regulations made thereunder. Of significance in this respect were the decisions to institute legal action against 5 persons based on the findings of two investigations conducted into suspected market/price manipulation, and suspected market/price manipulation and/or insider dealing in the shares of two listed companies. In addition to the infringements of the securities law, a suspected violation of Exchange Control legislation which was identified during one of the investigations mentioned above was also referred to the Controller of Exchange.

Pursuant to another investigation conducted by the SEC into the business affairs of a listed company, 20 individuals who functioned as directors and/or officers of the listed company in question including the company itself

were served with notices of action. The details pertaining to the said investigation have been forwarded to the Honourable Attorney General for the identification of the persons against whom legal action is to be instituted.

Following another investigation conducted into suspected insider dealing in the shares of a listed company, the chairman of the listed company in issue was severely cautioned.

In addition to the above, pursuant to an order from the Supreme Court in respect of a matter involving an entity connected to a listed company, an inquiry was conducted into the legal nature of the entity concerned and the findings thereof were submitted to the Supreme Court.

Further, assistance was extended to the Financial Intelligence Unit (FIU) of the Central Bank in respect of an inquiry conducted by the FIU into suspected money laundering.

The details and a brief description of the action taken/status of the said investigations as at end December 2014 are provided in the table below: (Figure 20)

FIGURE 20: DETAILS OF INVESTIGATIONS

Nature of the Investigation	Number of Investigations	Action Taken/Current Status
Insider Dealing ¹	3	<p>As at the end of the year 2013, three investigations into suspected Insider Dealing were pending.</p> <ul style="list-style-type: none"> ▶ During the year 2014, a letter of severe caution was issued to an individual based on the findings of one such Insider Dealing investigation. ▶ Another investigation into suspected insider dealing was concluded in the year 2014 without taking any enforcement action owing to the absence of material/evidence to legally sustain a case of insider dealing against the persons concerned. ▶ As of December 2014, the other investigation into suspected insider dealing had been concluded and the report pertaining thereto was being compiled.

¹ Trading in the shares of a listed company whilst in the possession of unpublished price sensitive information in respect of the securities of the said Company.

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Nature of the Investigation	Number of Investigations	Action Taken/Current Status
Market/Price Manipulation ²	2	<p>As at the end of the year 2013, one investigation into suspected Market/Price Manipulation was pending.</p> <ul style="list-style-type: none"> ▶ The aforesaid investigation was concluded during the year 2014 and based on the findings of the investigation, it was decided to institute legal action against two persons. ▶ During the year 2014, an inquiry was commenced into trades executed by certain investment advisors in the shares of two listed companies. As at end December 2014, the said investigation was in progress.
Market/Price manipulation and/or Insider Dealing	3	<p>During the year 2014, three investigations into suspected market/price manipulation and/or insider dealing were commenced.</p> <ul style="list-style-type: none"> ▶ Following one such investigation, it was decided to institute legal action against three persons, and the matter has been forwarded to the Honourable Attorney General for same. ▶ The other two investigations into suspected market/price manipulation and/or insider dealing commenced in 2014 are on-going.
Front Running ³	01	<p>At the end of the year 2013, one investigation into suspected Front Running was pending. The said investigation was concluded in 2014 and the report pertaining to the same is being compiled.</p>
Investigation pertaining to suspected irregular activities pertaining to trades executed by a stock broking firm	01	<p>The respective investigation was commenced and concluded in the year 2012. However, as recommended by the Secretariat and advised by the Members of the Commission a formal opinion regarding the matter was solicited from the Hon. Attorney General.</p> <p>The said formal opinion was pending as at December 2014.</p>
Complaints	02	<p>During the year 2013, two investigations were commenced based on investor complaints against a stock broking firm. The said investigations were concluded in 2014 and the reports pertaining to the same were being compiled as at end December 2014.</p>
Investigation pertaining to the business affairs of a Listed Company	01	<p>During the year 2013 an investigation pertaining to the business affairs of a listed company was commenced and the said investigation was concluded in 2014.</p> <p>Based on the findings of the investigation, 20 persons who functioned as directors and/or officers of the listed company in question including the company itself were served with notices of action. The details pertaining to the said investigation have been forwarded to the Honourable Attorney General for the identification of the persons against whom legal action is to be instituted.</p>
Investigation into the suspected violation of the Takeovers and Mergers Code by a listed company	01	<p>During the year 2014, an investigation was commenced into a suspected violation of the Takeovers and Mergers Code by a listed company. As at end December 2014, the said investigation was in progress.</p>

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

³ Trading in securities of a company ahead of a significant purchase or sale of securities of such company, for a client, with the intent to profit by trading in the said securities thereafter.

Complaints

The SEC handled 25 complaints in relation to Public Listed Companies and resolved 23 during the year under review.

Litigation

Magpek Exports (Private) Limited vs SEC Case No. HCMCA 217/2007

Four of the accused in this case who were convicted for not immediately disclosing certain material information in contravention of the SEC Rules by the Learned Magistrate of Colombo Fort, appealed against the judgment and their sentence to the Provincial High Court. In respect of three of the accused the matter was concluded when the High Court Judge affirmed the conviction of the Learned Magistrate but set aside the sentence of imprisonment by imposing a fine of Rs.3.3. million each. The appeal against the conviction and sentence is pending against the 6th accused appellants in the High Court of Colombo.

SEC vs Mr. B. A. Jayasekera and 8 others Case No. S/64721/2006

The SEC filed action against nine persons alleging market manipulation of the shares of Nawaloka Hospitals PLC. The SEC compounded the offence in respect of seven accused whilst charges were withdrawn against one accused on the advice of the Hon. Attorney General. The trial was pending against the 09th accused in the year under review and on an appeal by the 09th accused, the SEC compounded the offence for a sum of Rs. 1.1 million which was credited to the Compensation Fund of the SEC.

P.B. Sanjeewa Mihira Kumara and P.B. Sujith Sameera Kumara vs SEC & Others (CA (W) 265/2013)

SEC was served with notice of a Writ Application (CA (W) 265/2013) filed before the Court of Appeal by two investors ('the Petitioners') who were clients of a stock broking company and a margin provider. The two investors have complained inter alia, that their stock broking and their margin provider without due regard to their interests

have depleted their share portfolios to a nil balance by the execution of a Margin Trading Agreement, which they claim was originally valued at Rs. 20 million.

All respondents filed their objections, and petitioners filed their counter thereto. However, the Petitioners withdrew the application during the course of the year under review and the Court dismissed the application without costs. The SEC is conducting an investigation to ascertain whether any provisions of the SEC Act have been violated by the stock broker and/or the margin provider.

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

Charges were filed in the Magistrate's Court Fort on 04th November 2010 against Miramar Beach Hotels PLC and its directors for the non-submission of annual reports of the company for the financial years ended 31st March 2008 and 31st March 2009, in contravention of Rule 3(1) and 17 of the SEC Rules. The company during the year only released audited financial accounts for the financial years ended from 31st March 2008 and 31st March 2009 to the Market. The matter is pending before the Colombo Fort Magistrate's Court.

Ceylinco Insurance Employees Share Ownership Trust (CIESOT) - SC (FR) 191/2009

The SEC was directed by the Supreme Court to conduct an investigation in to Ceylinco Insurance Employees Share Ownership Trust (CIESOT) to ascertain the nature of the Trust and violations if any of the SEC Act or Rules or Regulations. The investigation report conducted by the SEC was filed in the Supreme Court.

The SEC was also directed to freeze

- ▶ The Ceylinco Insurance PLC shares belonging to the trading account of PICTET AND CE until further notice; and

- ▶ The Ceylinco Insurance PLC shares belonging to the trading account of CIESOT until further notice.

The SEC took steps to ensure that the above said orders were implemented by the CSE and the CDS and informed Court of same. The completed investigations report of the SEC was also filed in the Supreme Court through the Attorney General's Department.

Intervention by the SEC in a Creditor's Winding-up Application of Touchwood Investments PLC [CHC/31/13/CO]

A depositor of the company who had been defaulted of payment on his deposits filed this winding up application for the winding up of the company before the Commercial High Court.

The SEC on the direction of the Commission intervened in this matter and informed Court of the steps taken by the SEC in respect of the company to protect the interests of investors and also filed extracts of the investigations report for the information of Court.

The Court was informed of the following steps taken by the SEC:

- ▶ Has served Notices of Action on the directors of the Company sought to be wound up and certain Directors of the company;
- ▶ Imposed a trading suspension for non-submission of interim financials; and
- ▶ Has re-imposed the directive inter alia desisting the company from alienating its non-current assets.

The Commercial High Court of Colombo after having heard all parties including the intervenient parties and after considering the written submissions of all the parties, made order on 05th June 2014 appointing a liquidator to liquidate the Company.

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Enforcement Actions

Enforcement actions were taken by the SEC on the direction and determination of the Commission.

Compensation to Investors

The SEC directed a Public Listed Company to award compensation to the investors who were negatively affected by the breach of the provisions of the TOM Code by the Company. Accordingly, approximately Rs. 1, 227, 761/= were awarded to investors as compensation by the Public Listed Company.

Imposition of Fines

The SEC imposed a fine of Rs. 1.1 million on an investment advisor in order to compound an offence of conspiracy to manipulate the market/ price, on the request made by the accused in a case that was pending before the Magistrate's Court Fort. The matter was compounded with the concurrence of the Magistrate's Court as seven other co-accused were also compounded on similar applications. The fine was credited to the Compensation Fund of the SEC.

Caution Against a Director of a Public Listed Company

The Commission having deliberated on the circumstances and certain mitigatory factors surrounding the purchase of shares and the representations and submissions made to the SEC; a director of a Public Listed Company was cautioned by the Commission against his purchase of shares during a potentially sensitive period.

Notices of Action

Directors and Officers of a Public Listed Company for Non-Disclosures and Suspected Market/Price Manipulation

Based on the findings of the investigations by the SEC, 20 persons who functioned as Directors and/or officers of a Public Listed company including the Company were served with Notices of Action. Thereafter, on the decision of the Commission, documents

were referred to the Hon. Attorney General for his advice and necessary action.

Directors of a Public Listed Company for the Suspected Market/Price Manipulation and/or Insider Dealing in the Shares of the Public Listed Company

The Commission decided to file action against three directors of a Public Listed Company for suspected Market/Price Manipulation and/or Insider Dealing in the shares of the Public Listed Company. Accordingly, the matter was referred to the Honourable Attorney General for his advice and necessary action.

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

Based on the decision of the Commission two persons who traded in the shares of a Company were served with Notices of Action for suspected Market/Price Manipulation in the shares of the Company and the matter was referred to the Honourable Attorney General to file action for Market/Price Manipulation for the violation of Rule 12 of the SEC Rules.

Warning for the Violation of the TOM Code

- ▶ The Board of Directors of a company were warned for selling the shares of a Public Listed Company in which it had made a takeover bid, without obtaining the prior approval of the CSE after having considered the regulatory intervention in the aftermath of the sale, the cooperation extended by the Company to restore the status quo and negate the negative impact to the market arising from the said breach by compensating the affected investors.
- ▶ Four former directors of another Public Listed Company were warned for breaching their obligations under the TOM Code 1995 owed to the shareholders of the target company.

Notice of Malfeasance

A notice of malfeasance was published for the failure of a listed company to discharge the legal obligations owed to the shareholders of the company to enable them to decide on the merits and demerits of a mandatory offer that was pending at the time, in breach of Rules 12 (1) and 13 (2) of the TOM Code 1995.

Pending Legal Opinion of the Hon. Attorney General into the investigation in relation to the trades executed by Taprobane Securities (Pvt) Limited (TSL) in the shares of The Finance Company PLC (TFC)

Several reminders in respect of the opinion sought from the Honourable Attorney General enumerating the specific matters that have been raised by the SEC in 2012, with regard to the findings in this investigations report was sent to the Attorney General during the period under review.

Default Board

The SEC directed the CSE to suspend the trading of two companies which were transferred to the Default Board of the CSE for the non-submission of the annual reports and audited financial statements until compliance with the continuing listing requirements of the CSE. The two suspended companies were Touchwood Investments PLC and Miramar Beach Hotel PLC. The SEC is closely monitoring the following companies whose securities have been transferred to the Default Board of the CSE:

- ▶ Lanka Cement PLC
- ▶ Central Investments & Finance PLC
- ▶ Huejay International Investments PLC
- ▶ PC House PLC
- ▶ PC Pharma PLC
- ▶ PCH Holdings PLC

CAPITAL MARKET DEVELOPMENT

Capital markets channel savings into effective long term investments and form the heart of any economy. With the objective of further nurturing the Sri Lankan capital market, the SEC facilitated the following initiatives during the year:

Implementation of a Central Counter Party (CCP) Mechanism

- To develop Sri Lanka's capital market infrastructure the SEC fast tracked the establishment of an integrated CCP mechanism for all financial market transactions with an effective risk management framework for trading of equity, government securities, corporate debt and derivative products. Hence, a decision was made to call for consultancy and project management services to implement the project along with an evaluation committee made up of all stakeholders to drive the initiative. The Steering Committee which is the final decision making body comprised of the Governor of CBSL, Chairman SEC and Chairman CSE.
- Fifteen parties responded to the Expression of Interest (EOI) published both locally and internationally and seven parties were short listed to make presentations to the evaluation committee. Upon further evaluation three parties, Bourse Consult LLP, Oliver Wyman and BTA Consulting Ltd were short listed prior to the final evaluation and selection. After independently verifying the CCP projects implemented by the short listed parties and their involvement by visiting at least one of the reference sites, BTA Consulting Ltd, a UK based consultancy firm specialising in capital market related projects globally was awarded the assignment in view of their thorough understanding of the CCP framework and hands-on experience in implementing a fully-fledged CCP.
- A decision was made for CSE to establish the contractual relationship with BTA by signing the necessary legal contracts/agreements and a Tripartite Agreement stipulating the responsibilities of each institution to be executed by all the stakeholders namely SEC, CSE and CBSL. Implementation will start in 2015.
- The scope of the project included a review of the current clearing and settlement arrangement, identify gaps and implement best practices in areas of business, operational, legal, risk management, financial, tax and information technology in line with international standards of International Organisation of Securities Commissions (IOSCO) and Bank for International Settlement (BIS) principles.
- The project objectives under the scope of BTA were within the ambit as follows but not limited to:

 - * Implement a fully operational CCP for the Sri Lankan financial market with emphasis on laws and regulations, information technology, and operational aspects within agreed time and budget parameters;
 - * Design the Risk Management Framework and the financial model for the CCP system;
 - * Recommend the legal structure and identify legal and regulatory reforms required to implement the CCP;
 - * Improve investor confidence by enhancing the robustness of the clearing and settlement systems;
 - * Encourage more activities in the market by upgrading the investible status of the Sri Lankan financial market;
- BTA Consulting Ltd is expected to deliver an Inception Report by May 2015 recommending the legal structure and the settlement model of the CCP. The recommendations

by BTA shall be approved by the Steering Committee and the Commission. Once it is approved by the Steering Committee and Commission, the work of project phases shall commence simultaneously. Project completion is targeted for 4 quarter 2016.

Development of the Corporate Bond Market

- Fund raising via the corporate bond market surged in 2013 and 2014 with the exemption of withholding tax on corporate bond issues by the Government. Over the last few years key initiatives and proposals promulgated by the SEC facilitated the development of the corporate bond market, As a result, the amounts raised in 2013 and 2014 were Rs.68.3 billion and Rs.49.1 billion respectively.
- In order to further develop the corporate bond market the SEC formulated a policy paper with input from the CSE to widen the breadth and depth of the market. Key policy decisions included:

 - * Approved Primary Dealers (PDs) and other market intermediaries to engage in corporate debt trading (8 PDs have already got trading membership for debt at CSE).
 - * Streamlined the issuing process and listing requirements at the CSE in order for issuers to easily access the corporate bond market
 - * Finalised eligibility criteria for brokering and dealing in corporate debt securities including the SEC qualification framework which has been included in the CSE Member rules.
 - * Established the need for improvements to the trading and reporting infrastructure for corporate debt at the CSE and the upgrades are underway.
 - * Established a robust clearing & settlement system (Central Counter Party Framework) for corporate bonds.

OPERATIONAL REVIEW CONTD.

- * Imposed a minimum subscription ceiling of Rs.10,000 as a result of issuers imposing minimum subscription limits of Rs. 1 million and above. This was in order to enable retail participation in the corporate bond market to extend the benefits of tax exemptions.
 - * Introduced more corporate bond market information into the awareness building activities of the SEC and CSE.
 - * Enabled Repo facility for corporate bonds between counter parties to enhance secondary market liquidity.
- ▶ Common disclosure template to be incorporated in the issue prospectus
 - * The criteria to be included in the rating rationale in the issue prospectus was finalised incorporating industry input. This would be adopted upon Commission approval.
 - ▶ Enabled publishing information pertaining to unlisted corporate bond issues through representations made to the Department of Registrar of Companies (ROC) as an overall corporate bond market development initiative.
 - * Accordingly, copies of Form 6 containing relevant information on unlisted corporate bond issues which are filed with the ROC by respective unlisted debt issuers for issue size above Rs.100 million to be publicly disclosed.

Attracting New Funds (Local & Foreign)

- ▶ In order to showcase the capital market opportunities in an effort to attract foreign portfolio investments into the country, the SEC in collaboration with the CSE conducted investor forums in a number of selected foreign destinations during the year 2014.

Singapore Investor Forum and Pre Event

- ▶ The Pre Investor Forum Event was held at the Tower Club, Raffles place, Singapore on 20th January 2014 in collaboration with the Singapore Sri Lanka Business Association (SLBA). 79 participants including 41 Sri Lankans and 38 non Sri Lankans attended the event.
- ▶ The Singapore Investor Forum was held on the 21st January at Ritz Carlton Hotel, Singapore. Out of 214 registrants, 187 attended the event including fund managers, investment bankers, investment analysts and high net worth individuals.

The London Investor Forum and the High Commission Event*The London Investor Forum*

- ▶ The London investor forum was held at the Savoy, London on 30th May 2014 jointly with the LSE and Bloomberg. Out of 152 registrants, 138 attended the event including UK fund managers, investment bankers and analysts. The official Sri Lankan delegation participated at the Market Opening Ceremony at the London Stock Exchange that morning before the event.

The High Commission Event

- ▶ A networking event for Opinion Leaders of British origin was held at the High Commission premises the day before the main event, on 29th May 2014. About 40 Opinion Leaders of British origin attended the event.

The New York Investor Forum and Visit to the New York Stock Exchange (NYSE)*The New York Investor Forum*

- ▶ The SEC and the CSE in association with the Sri Lankan Embassy in Washington D.C, Bloomberg and the American Chamber of Commerce (AMCHAM), successfully held the

"Invest Sri Lanka" Investor Forum at the J.W. Marriot Essex House Hotel, New York on 4th September 2014. Out of 194 registrants, 146 attended the event including fund managers, analysts and high net worth individuals.

Capital Market Conference - Colombo, Sri Lanka

- ▶ The SEC in collaboration with the CSE successfully hosted the Capital Market Conference 2014 at the Cinnamon Lakeside, Colombo on 9th October 2014.
- ▶ Out of 85 registrants for the Conference, 71 international fund managers from UK, US, Switzerland, India, Singapore, Thailand, Pakistan, Hong Kong, Netherlands, Dubai, Bahrain, India, Japan, Maldives and Germany attended the event.

Analysis of Movement in Foreign Trading Flows Post Investor Forums

- ▶ Subsequent to the hosting of international forums, data was obtained from the CSE and analysed in order to assess the movement in foreign trading flows. It was noteworthy that there have been a sizeable number of new CDS accounts opened by foreign investors and a significant improvement in foreign trading activity levels from the countries where Investor Forums were held. (Figure 21)

FIGURE 21: FOREIGN TRADING ACTIVITY AT CSE POST INVESTOR FORUMS

Country	Net flow (Rs Mn) 2013 & 2014		No of new A/Cs - 2014	Net flow from new A/Cs (Rs Mn) - 2014
	2013	2014		
India	(106.7)	218.7	24	268.5
UAE	(134.9)	43.0	7	43.8
Hong Kong	(175.0)	25.7	3	-
Singapore	(2,054.4)	4,984.8	18	6,385.6
United Kingdom	101.0	4,332.6	27	451.6
United States	2,308.9	7,078.6	27	62.6

Source: CSE

Facilitating a Comprehensive Marketing Campaign

- ▶ Subsequent to the request made by the Unit Trust Association (UTA) for financial assistance to conduct a sustainable marketing campaign for the unit trust industry, UTA was instructed by the SEC to submit a cost proposal for the awareness building campaign.
- ▶ The party selected by the UTA, made a presentation to the Commission on the proposed campaign and a cost proposal was submitted by the UTA for the consideration of the Commission.
- ▶ Later, a decision was made to expand the scope of the promotional campaign to include the entire market as a whole in collaboration with the CSE.
- ▶ Subsequently, the CSE called for proposals from eight advertising agencies and a committee made up of all stakeholders was appointed to evaluate the proposals
- ▶ Upon detailed evaluations, a proposal made by an advertising agency with a reality show concept was accepted for implementation as the most suitable to build awareness on the capital market.

Facilitating the implementation of a Stock Market Simulator and Games Portal

- ▶ An EOI was finalised and published in newspapers calling for proposals for implementation of a comprehensive Stock Market Simulator and Games Portal. In response, 5 proposals were received.
- ▶ The RFP was finalised for the purpose and approved by the Commission.
- ▶ Consultative Procurement Committee (CPC) was appointed as per the National Procurement Agency guidelines to proceed further with the project.

Introduction of New Products

SEC focused on developing an appropriate policy framework to facilitate the introduction of new products and diversify the product range in order to benefit current and prospective investors. Hence, the SEC successfully facilitated the introduction of Dollar Bond Funds in the Unit Trust industry, the first ever foreign currency denominated investment product in the capital market.

Ceylon Asset Management, a licensed unit trust managing company was the first market participant to introduce a Dollar Bond Fund. The fund was authorised to invest in USD denominated Sri Lankan Government Securities listed in a foreign stock exchange, USD denominated securities issued by Sri Lankan commercial banks, state owned enterprises and in USD deposits in licensed commercial banks.

Creating Awareness on the Benefits of Listings

During the year the SEC with the input of the CSE has established dialogue with the management of 147 business organisations to create awareness on the benefits of listing on the CSE. The SEC also supported the CSE in creating the unique publication, "The Guide to Listing on the Stock Exchange". The Sinhala and Tamil translation of this has also been completed. The following listing forums were conducted to create awareness during the year.

- ▶ Forum for Sri Lanka Association of Software and Service Companies (SLASSCOM) to create awareness about the capital market to IT industry entities
- ▶ Kandy Forum for entrepreneurs
- ▶ Forums for entrepreneurs of Small and medium-sized enterprises organised together with the National Chamber of Commerce, Industrial Development Board and Export Development board to evaluate the possibility of creating a SME Board.
- ▶ Forum for entrepreneurs from the Anuradhapura District
- ▶ 'Family Owned Business Forum' held together with the Chartered Institute of Management Accountants

OPERATIONAL REVIEW CONTD.**Other Capital Market Development Initiatives**

- ▶ The SEC took the initiative to evaluate the possibility of assessing the valuations contained in the financials of listed entities by setting up a panel of valuers. This will enable the SEC to refer matters for further perusal by experts. Public consultation was completed to obtain the views of stakeholders to set up a suitable mechanism.
- ▶ To broaden the available investment options in the capital market, Real Estate Investment Trusts (REITs) were identified and evaluated. The SEC completed the drafting of guidelines to launch a REIT in Sri Lanka while accommodating existing requirements of the local market together with the concept paper compiled for REITs.
- ▶ Assessed the possibility of setting up an Association for Minority Investors to represent the concerns of Minority Investors and to protect their rights and interests. Public consultation in this regard was completed
- ▶ With the introduction of a minimum public float to the Sri Lankan capital market, structural changes to migrate from Main Board to Dirisavi Board was facilitated for better representation of 'Boards' in which entities are listed.
- ▶ The SEC contributed to the publication titled 'Sri Lanka Valuation Guidelines' which was initiated jointly with the Institute of Chartered Accountant of Sri Lanka (ICASL) and other participating stakeholder institutions. This publication is expected to improve disclosures by listed entities.

- ▶ To recognise the governance of listed entities, an initiative commenced with ICASL to set up a 'Corporate Governance Score Card'. The initiative is in progress to set up a suitable mechanism to recognise listed entities demonstrating benchmark corporate governance practices.
- ▶ An applicable scope of capital market regulatory framework was prepared to create clarity among the stakeholders who were required to comply with finance sector consolidation initiated by CBSL. This initiative is expected to facilitate a smooth transition.
- ▶ To facilitate the regulatory initiative by the Insurance Board of Sri Lanka to segregate insurance entities, Regulatory Framework applicable for listed insurance entities was prepared for smoother transition considering both Pre and Post segregation requirements.
- ▶ Auditors of listed companies play a vital role particularly in relation to the opinions expressed on the financials. SEC referred the conduct of auditors of certain listed entities to SLAASMB for appropriate course of action.
- ▶ The SEC carried out formal communications with the CBSL to discuss matters pertaining to Central Investments and Finance PLC (CIFL). The possible impact and concerns relating to the capital market due to the present crisis of CIFL were highlighted and brought to the notice of the CBSL as CIFL is an entity listed on the CSE.

- ▶ The SEC also enabled a scheme of independent equity research coverage to provide visibility and transparency for public listed companies. Independent research coverage has been initiated on 16 listed companies included in the S&P SL20 index, which is freely accessible to the general public on the CSE website

Representations Made by the SEC

- ▶ The SEC submitted Budget Proposals to the Ministry of Finance to facilitate SME financing via the capital market. Furthermore, a proposal was made to the Ministry of Finance in coordination with the Department of Inland Revenue to extend the tax reliefs until 2017 to 'all' industry sectors.
- ▶ Representations were made to the Ministry of Finance on the possible impact on listed entities due to the "Proposed Land Alienation Bill".
- ▶ To enhance the capital market profile among other participating jurisdictions, representations were made to the Doing Business Ranking evaluation team by the SEC and the CBSL.

CAPITAL MARKET EDUCATION AND TRAINING

The capital market education and training arm of the SEC continues to play a significant role in raising the professional standards of market participants with relevant competencies and knowledge. In addition the Continuous Professional Development programme that licensed investment advisors are able to embrace innovation and keep abreast with emerging developments. (Figures 22, 23)

Certificate in Capital Markets (CCM)

FIGURE 22: STATISTICAL SUMMARY OF CCM EXAMINATIONS: 2014

Medium of Instruction	Total Registered Students (No)	Completed Equity Series (No)	Completed Debt Series (No)	Completed Securities Regulations & Ethics		RIA Completed(No)
				Ethics (No)	CCM Completed(No)	
Sinhala Medium	74	14	17	13	18	18
English Medium	131	32	32	42	44	23
Total	205	46	49	55	62	41

FIGURE 23: SYNOPSIS OF EXAMINATIONS CONDUCTED FOR THE CCM AND RIA: 2014

Programme	Series	No of Exams Conducted during the year	Pass %
Certificate Course in Capital Markets (Sinhala Medium)	Equity Securities	2	51%
	Debt Securities	2	68%
	Securities Regulations & Ethics	2	59%
Certificate Course in Capital Markets (English Medium)	Equity Securities	4	60%
	Debt Securities	4	75%
	Securities Regulations & Ethics	4	67%
Registered Investment Advisor (Sinhala Medium)	N/A	9	72%
Registered Investment Advisor (English Medium)	N/A	9	77%

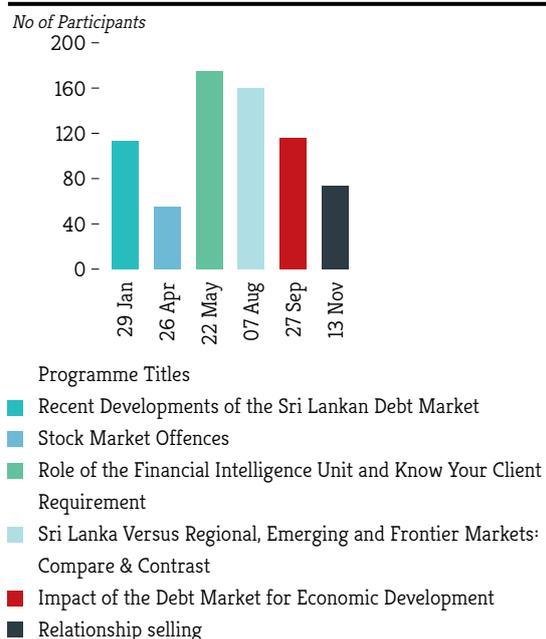
Diploma in Capital Markets (DCM)

The SEC continued the DCM programme which is conducted jointly with the Chartered Institute for Securities and Investments (CISI), UK. Lectures for two batches were completed during the period under review.

Continuous Professional Development (CPD) Programmes

During the year under review, 6 tailor made CPD programmes were conducted for the existing investment advisors in the capital market to enable them to constantly assess and update themselves with the latest trends in the local and global capital markets. These programmes attracted more than 690 participants which included CEO's of stock broking companies, investment advisors and industry professionals. The SEC has made it mandatory for existing investment advisors to participate in at least 2 CPD programmes for a year to renew their trading licences. (Figure 24)

FIGURE 24: CONTINUOUS PROFESSIONAL DEVELOPMENT PROGRAMME CONDUCTED DURING 2014



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Gold Medal and Cash Award Project

The SEC continued the gold medal and cash award project which was initiated with the intention of encouraging undergraduates to study capital market related subjects in the universities. Under this project, gold medals and cash prizes were awarded to the best performing undergraduates in the area of capital markets in the national universities in Sri Lanka. Memoranda of Understanding have been signed with 11 national universities with regard to the above project.

Ten undergraduates from the universities mentioned below were awarded gold medals and cash prizes during the year under review.

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

Programmes for Existing and Potential Investors

With the intention of providing basic theoretical and practical aspects of share trading 2 programmes were conducted for potential and existing investors. This seven week programme attracted a total of 53 participants.

Certificate Programme in Unit Trusts

The "Certificate Programme in Unit Trusts" was launched in November 2014. This programme was especially designed to introduce a minimum qualification for sales and marketing staff of the unit trust management companies. 26 participants were registered for this programme.

Training Programmes for Directors MOU Entered between SEC and ICASL

A Memorandum of Understanding (MoU) was entered between ICASL and the SEC to introduce a training programme for directors with a view to enhance the governance of listed entities. The syllabus for the programme was developed in collaboration ICASL to capture capital market regulations and requirements. This programme is also expected to complement the Corporate Governance Code jointly developed by the ICASL and the SEC.

MOU Entered between SEC and SLID

An MOU was signed between the SEC and the Sri Lanka Institute of Directors to provide training to company directors on securities laws and regulations and to inter alia create awareness on directors about their responsibilities in respect of matters relating to the capital market of Sri Lanka. The MOU encompassed duties with regard to Related Party Transactions; Takeovers and Mergers; Insider Dealing and additionally provide practicing directors and aspiring directors a vehicle to cater to their professional needs through awareness of best practices, learning and development and similar interventions and to promote excellence in boardroom governance.

CAPITAL MARKET AWARENESS

The SEC is mandated to take adequate measures to protect the interest of investors. To achieve this goal we undertake extensive investor education programmes to raise investor awareness on the benefits and risks associated with investing in the capital market as well as provide investors with the requisite skills, knowledge and tools to make informed investment choices. Our investor education programmes were designed to cater to various investor segments and reach the widest possible

audience. The methods we used to deliver investor education programmes include distribution of written materials, seminars, workshops and engagement with both print and electronic media.

Awareness through Electronic Media

"Going Public" Television Series on Capital Formation

The first ever one hour pre-recorded television programme titled "Going Public" comprising of 13 episodes was telecast on MTV Sports on Sundays at 10 a.m. from February to May 2014 to educate the corporate sector and top business executives of potential listed companies on listing on the CSE. The series which was a joint undertaking of the SEC and CSE comprised of studio discussions on the benefits and myths associated with listing, success stories of listed companies, role of investment banks, listing process, requirements and governance concerns etc. A repeat telecast of the series took place on Tuesdays at 8 p.m. and Sunday at 10 a.m.

"Ayojana" Radio Programme

A live radio chat show titled "Ayojana" comprising of 18 programmes was facilitated by the SEC and aired on Lakhanda Radio on Sundays at 9.00 a.m. from May to August 2014. The series comprised of discussions on various aspects of investing in the capital market and was also aired with a view to enhance investor education and broad base the investor base. The series encompassed aspects on savings and investments, role of a stockbroker, investor protection, how to buy shares in the primary and secondary markets etc. "Ayojana" was the first Radio series aired on the capital market since 1998.

We conducted a weekly quiz on the chat show and developed a mechanism to ensure that the winners invested their prize money in the capital market.

“Danno Dinanno” Reality Quiz programme

The SEC and the CSE together with Sirasa TV successfully conducted a television Quiz programme titled “Danno Dinanno” comprising of 12 programmes to disseminate comprehensive knowledge on investing in the stock market as well as unit trusts. This programme was telecast on Sundays at 11 a.m. from August to November 2014 and was Sri Lanka’s first ever Reality Quiz on the capital market and became the best rated programme within that time belt. Thereafter a repeat of the programme was telecast during the same time belt and yet another repeat of the “Danno Dinanno” series was telecast on Wednesdays at 10.45 p.m..

In addition, each programme gave viewers the opportunity to win cash prizes for accurately answering a question which was posed during the programme. The weekly Quiz programme generated over 30,000 responses.

Awareness through Print Media

To convert the general public from savers to investors as well as spread financial literacy among the masses we partnered with the print media to publish investor education content on a regular basis in all three languages. The SEC published more than 250 weekly/monthly newspaper articles pertaining to the capital market during the year in Daily Mirror, Ada, Thinakural, Change and Business LK. Apart from the weekly/monthly articles separate articles were published on investing in the capital market on a regular basis in other news papers/magazines. The SEC also conducted frequent TV interviews / Radio interviews on the capital market.

Awareness through Seminars and Forums

Capital Market Conference 2014

The SEC in partnership with the CSE conducted a capital market conference on 9th October 2014 at the Cinnamon Lakeside Hotel with approximately 400 local and foreign participants. Fund managers as well as high net worth investors got an excellent opportunity to study and understand the potential of the capital of market Sri Lanka. To coincide with this important event Newspaper supplements were published in both Sinhala and English comprising of 6 pages and 16 pages respectively.

APEC FRTI Regional Seminar on Enforcement – Assessing, Planning and interviewing

With a view to strengthening cooperation and enhancing knowledge sharing among regulators the SEC in association with the Asia Pacific Economic Cooperation (APEC) Financial Regulators Training Initiative (FRTI) hosted a seminar titled “Enforcement – Assessing, Planning and interviewing” from 17th March to 24th March 2014.

The seminar covered a wide range of topics i.e. preparing investigation plans, conducting interviews of witnesses and suspects using the PEACE interview model (Planning &

Preparation, Engage and Explain, Account, Closure, Evaluation), market manipulation, investigation planning etc.

Participants from local regulatory organisations as well as regional participants from Malaysia, Nepal, Nigeria, Philippines, Taipei, Thailand, People’s Republic of China, Cambodia, India and Brunei attended the seminar.

Regulatory Compliance Symposium

The SEC together with the CSE conducted the aforesaid symposium to guide the Public Listed Companies on the recently issued SEC Directives on maintenance of minimum Public Holding as a continuous Listing Requirement, Code of Best Practices on Related Party Transactions and disclosure requirements for directors’ dealings in shares. The forum was well attended with over 325 officials representing Public Listed Companies in Sri Lanka.

Independent Directors’ Symposium

The SEC together with the CSE conducted a symposium on the Role of Independent Directors’. The programme was intended to create awareness among Independent Non Executive Directors on the importance of their role and enhance corporate governance.

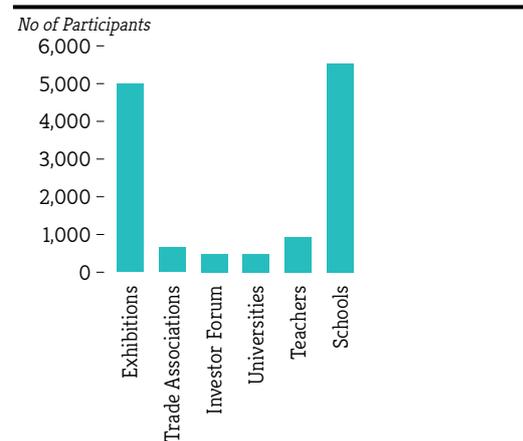
Jaffna Investor Forum

The SEC in collaboration with the CSE organised an Investor Forum in Jaffna on 6th December 2014 at the Tilko City Hotel to educate the general public on the investment opportunities available in the Capital Market. More than 250 participants including eminent professionals, high net worth investors, academics and the business community participated at the forum.

Other Awareness Initiatives

The SEC continued its efforts to create prudent investors through various investor education programmes. We successfully imparted knowledge on investing in the capital market to members of trade associations, school teachers, students, undergraduates, private and public sector employees etc. (Figure 25)

FIGURE 25: AWARENESS INITIATIVES



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OUR STRENGTH

People are of paramount importance to an organisation. Hence the staff of the SEC is valued, appreciated, respected and nurtured to respond to the emerging market needs. Furthermore, integrity and confidentiality are underlining prerequisites for all categories of staff at the SEC.

Cadre Composition

To face the challenges of the capital market and to fulfill the mandate of the SEC effectively, the Secretariat revised the scheme of recruitment to address a few anomalies and approved revised salary scales in a modest manner during the year under review. A Human Resources (HR) consultant also addressed issues to streamline the HR processes and procedures.

During the year two appointments were made under a very competitive selection process to fill the posts of an executive and an officer. Four staff members consisting of a director, assistant director and two executives resigned during the year whilst the tenure of a consultant concluded.

In recognition of the past performance, long service and good conduct two executives attached to the Supervision Division and one executive attached to the Investigations Division were promoted as senior executives, an executive secretary was promoted as a senior executive secretary and one officer attached to the HR Division was promoted as an executive. (Figure 26)

FIGURE 26: CADRE COMPOSITION AS AT 31ST DECEMBER 2014

Categories	Total approved Cadre	Present Cadre in employment		Vacancies To be filled
		Permanent	Contract	
Director General	1	-		1
Deputy Director General	1	1		-
Directors	11	7	2	2
Assistant Directors	5	1		4
Managers	8	4		4
Senior Executives	43	16		-
Executives		22	1	4
Non - Executives	17	16		1
Senior Office Assistants		6		
Office Assistants	10	1	2	
Office Aide		1		
Total	96	75	5	16

As at 31st December 2014, 80 staff members served the SEC consisting of 32 males and 48 females. The gender, age and the period of service of the staff as at end of the year are depicted in pictorial form below. (Figures 27, 28, 29, 30)

FIGURE 27: IN EMPLOYMENT



FIGURE 28: GENDER ANALYSIS



FIGURE 29: EMPLOYEE AGE ANALYSIS

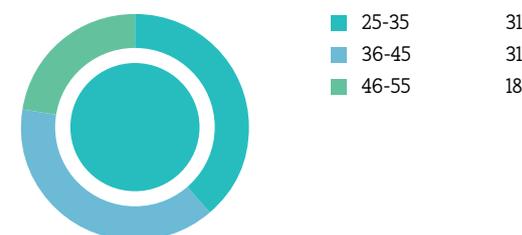
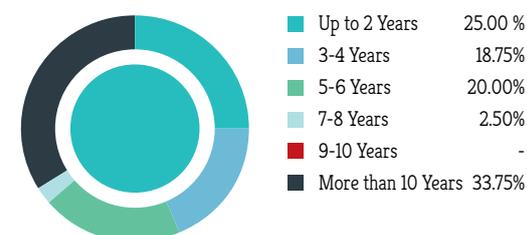


FIGURE 30: NO. OF YEARS OF SERVICE (%)



Training and Development

Continuous emphasis was placed on developing the staff in technical and other related skills to discharge the mandate entrusted to the SEC effectively and efficiently. Taking a step forward, the Commission approved study leave for one executive selected to follow a Masters degree programme under the Japan - International Monetary Fund (IMF) Scholarship programme for Asia for a duration of little over 2 years.

A sum of approximately Rs. 16.4 million was invested towards overseas training, Rs. 2.1 million for local training and Rs. 1.71 million for sponsorship for higher studies and professional membership fees during the year under review. We extend our appreciation to IOSCO, other regulatory agencies, Asia Pacific Economic Cooperation (APEC) etc for extending very relevant training and awareness opportunities to the staff to keep abreast with current capital market trends and developments.

During the year under review members of staff were sent on 23 foreign training programmes to countries in the region and to Japan, USA, UK, Switzerland and South Korea etc.

In addition the staff also received related local training such as Legal and Tax Implications of Amalgamations, Statistical Programming and Modelling using SPSS Software, Property Development & Real Estate Investment in Sri Lanka, Law for Non Lawyers, National HR Conference 2014, Sri Lanka Economic Summit 2014, Seminar on Private Equity funding, National Information Technology Conference 2014 and Corporate Law Conference 2014 etc.

Demonstrating the commitment to staff education, SEC's training arm continuously provides opportunities to the staff to follow study courses focused to upgrade their capital market knowledge. The Institute of Chartered Financial Analyst (CFA) too 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 SEC upon successful completion.

An adventure based two day Outward Bound Training programme which was postponed due to bad weather conditions in 2013 was successfully conducted at Kithulgala beginning of 2014. The main objective of the programme was to provide an effective outdoor training programme by facilitating activities that would inject positive energy to develop the ability and confidence required to maintain productive relationships with colleagues and external parties and to enhance the personality and the positive outlook of the staff towards day to day work and life.

Staff Welfare

We recognise that health and welfare of all employees are vital in achieving the mission of the SEC. Therefore steps were taken to increase the staff outdoor medical scheme with effect from 1st January 2015. In addition the indoor medical scheme, flexi timing, vehicle and distress loan schemes and festival advances etc could be availed subject to terms and conditions.

Opportunities are extended to the staff and their families to interact with each other with a view to fostering understanding and cultivate

relationships with fellow members and their families during the annual sports day and residential training programme. The staff and their families immensely enjoyed the annual Christmas party too.

Internships

We continued to award Internship opportunities to undergraduates of all National Universities with a view to providing work exposure and mould them to be employed in future.

OPERATIONAL REVIEW CONTD.**STATUTORY FUNDS****Cess Fund**

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

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

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

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

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

- ▶ Developing the securities market;
- ▶ Enhancing monies lying to the credit of the Compensation Fund established under Section 38; and
- ▶ Exercising, performing and discharging the powers, duties and functions of the Commission for the purpose of achieving its objects.

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

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

The SEC Cess for transactions up to Rs.50 million and over Rs.50 million is levied at 0.072% and 0.045% respectively with effect from 1st January 2011.

With effect from 15th February 2006, the transaction fee due to the broker, CSE, CDS and SEC on intraday trades, where a client buys and sells or sells and buys the same security on the same day through the same broker will not be charged on one side of the transaction. Share Transaction Levy of 0.30% will be charged on both sides of the transactions;

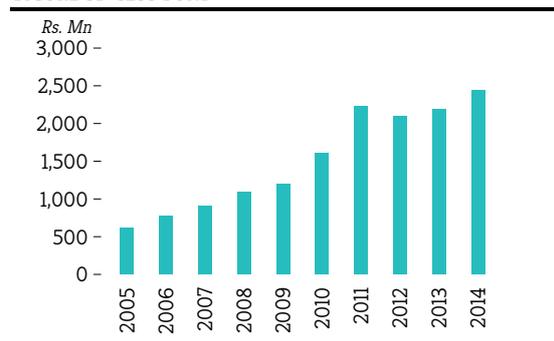
- ▶ In the event the total number of shares purchased does not equal the total number of shares sold, the transaction fees as detailed above will not be levied on the lower quantity of shares either purchased or sold,
- ▶ In the event the total quantity purchased is equal to the total quantity sold the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

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

To strengthen the Compensation Fund a sum of Rs. 50 million was transferred during year 2009 from the Cess Fund. A further sum of Rs.100 million was transferred from the Cess Fund to the Settlement Guarantee Fund equally during the years 2009 and 2010. Transfers to the Consolidated Fund on three occasions amounted to Rs.276 million, Rs.380 million and Rs.94 million on 30.9.2010, 24.9.2012 and 31.12.2013 respectively.

The balance lying to the credit of Cess Fund as at 31 December 2014 amounted to Rs.2,447,738,612/- The Cess Fund balances during the period 2005-2014 is depicted below: (Figure 31)

FIGURE 31: CESS FUND



Compensation Fund

The Compensation Fund came into operation along with the establishment of the SEC in 1987. Section 38 of the Securities and Exchange Commission Act No 36 of 1987 as amended states as follows:

- There shall be established a fund called the Compensation Fund, for the purpose of granting compensation to any investor who suffers pecuniary loss as a result of any licensed stock broker or licensed stock dealer being found incapable of meeting his contractual obligations.
- The Compensation Fund shall consist of;
 - * Such sums of money as may be voted upon by Parliament for the purpose of the Fund.
 - * Such sums of moneys may be credited to the Fund under Section 51A; (Section 51A is on compounding offences).
 - * Such sums of money as may be credited from Cess Fund under Section 14B of the SEC Act.
- Moneys belonging to the Compensation Fund may be invested by the Commission in such manner as may be determined by the Commission.

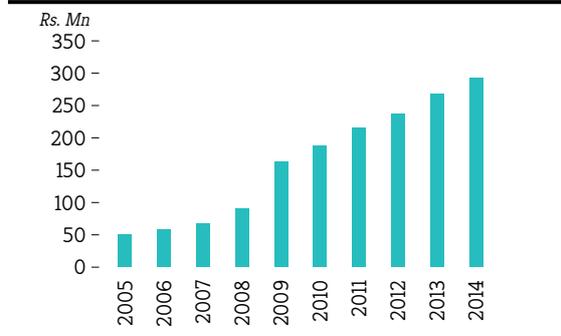
The Minister shall appoint from among the Members of the Commission three members who shall comprise the Compensation Committee.

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

The Act also provides for the procedure to apply for compensation. According to the Act, the Committee may, after examination of the documents and other evidence produced in support of the claim by an applicant, or in any case where an inquiry was held on the conclusion of such inquiry, allow or disallow such claim for compensation. To strengthen the Compensation Fund a sum of Rs.50 million was transferred from the Cess Fund during the year 2009. Up-to-date there have been no claims made from the Compensation Fund.

The balance lying to the credit of the Compensation Fund as at 31.12.2014 amounted to Rs.293,242,099/-. The growth of the Fund during the period 2005 to 2014 is depicted below. (Figure 32)

FIGURE 32: COMPENSATION FUND



OPERATIONAL REVIEW CONTD.

The Settlement Guarantee Fund (SGF)

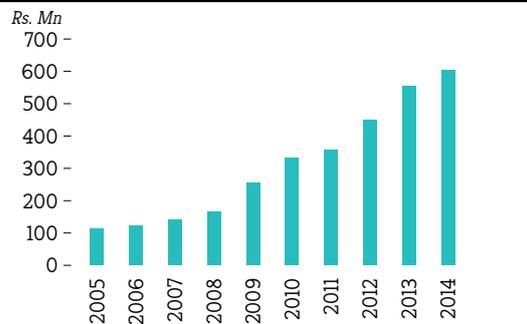
The SGF was launched on 22 May 1998. The Fund was established for the purpose of guaranteeing the settlement of trades between participants of the Central Depository System of the Colombo Stock Exchange (CSE). The operation of the SGF is described below.

- Ownership of shares traded is transferred no sooner a trade is executed. From 10 December 2007 the CSE adopted a single tier settlement cycle. The buyer is required to pay on T+3 i.e. on the 4th Market day including the day of trading and the seller to receive the settlement on T+3 i.e. on the 4th Market day. The relatively long interval between transfer of ownership and receipt of proceeds leaves the settlement risk uncovered which in turn necessitated the establishment of the SGF.
- The Trustees of the Fund hold office of ex-officio and comprise the Chairman of SEC, the Chairman of CSE, Deputy Secretary to the Treasury, Director General of SEC and the Director General of CSE.
- The Government of Sri Lanka contributed a sum of Rs. 50 million to setup Fund. This money has been invested in terms of the Trust Deed. SGF can also receive donations, gifts and endowments as replenishments. The broker/custodian banks are presently not required to contribute to the Fund.
- With a view to strengthen the Fund a sum of Rs. 100 million was transferred equally from the Cess Fund during the years 2009 and 2010. The CSE also transferred Rs.100 million in January 2012 after changing the Deed of Trust of the SGF to accommodate such receipts to the Fund.

However, since the SGF is found to be inadequate to properly address the issue of settlement risk steps are been taken to establish a Central Clearing Corporation (CCP) to effectively address the settlement risk. Upon establishing the CCP the SGF could form part of the capital of the CCP.

Up-to-date there have been no claims made from the SGF. The balance lying to the credit of the SGF as at 31.12.2014 amounted to Rs. 604,157,532/-. The growth of the Fund during the period 2004 to 2014 is depicted in the following graph. (Figure 33)

FIGURE 33: SGF FUND



ADDITIONAL INFORMATION

UNIT TRUSTS

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

- 1. Ceylon Asset Management Company Limited**
 - Ceylon Index Fund
 - Ceylon Income Fund
 - Ceylon Tourism Fund
 - Ceylon Financial Sector Fund
 - Ceylon IPO Fund
 - Ceylon MTI Shariah Fund
 - Ceylon Global Compact sustainability Fund
 - Ceylon Gilt-edged Fund
 - Ceylon Treasury Bill Fund
 - Ceylon Dollar Bond Fund
- 2. Com Trust Asset Management (Private) Limited**
 - Comtrust Equity Fund
 - Crescent i Fund
 - Comtrust money market Fund
 - Comtrust ADL Mudarabah Fund
 - Comtrust Gilt-edged Fund
- 3. NDB Wealth Management Limited**
 - Eagle Growth and Income Fund
 - Eagle Gilt Edged Fund
 - Eagle Fixed Income Fund
 - Eagle Growth Fund
 - Eagle Money Fund
 - Eagle Money Plus Fund
 - Short term LKR Treasury Fund
- 4. Ceybank Asset Management Limited**
 - Ceybank Unit Trust
 - Ceybank Century Growth Fund
 - Ceybank Gilt Edged Fund (closed end)
 - Ceybank Savings Plus Money Market Fund
 - Ceybank Surakum
 - Ceybank Gilt Edged Fund (B series)
 - Ceybank Gilt Edged Fund (B series)
- 5. National Asset Management Limited**
 - NAMAL Income Fund
 - NAMAL Money Market Fund
 - National Equity Fund
 - NAMAL Growth Fund
 - NAMAL Acuity Value Fund (closed end)
 - NAMAL IPO Fund
 - NAMAL High Yield Fund
 - NAMAL Shariah Fund
 - NAMAL Guilt Fund
- 6. First Capital Asset Management Limited**
 - First Capital Wealth Fund
 - First Capital Fixed Income Fund
 - First Money Market Fund
 - First Capital Guilt edged Fund
- 7. J B Financial (Pvt) Ltd**
 - J B Vantage Money Market Fund
 - J B Vantage value Equity Fund
- 8. Guardian Acuity Asset Management Ltd**
 - Guardian Acuity Fixed Income Fund
 - Guardian Acuity Equity Fund
- 9. Candor Asset Management (Pvt) Ltd**
 - Candor Capital Growth Fund
 - Amana Candor Shariah Balanced Fund
 - Amana Candor Shariah income Fund
- 10. Asset Trust Management (Pvt) Ltd**
 - Astrue Gilt edged Fund
 - Astrue Money Market Fund
 - Astrue Alpha Fund
- 11. Capital Alliance Investments Ltd**
 - Capital Alliance High Yield Fund
 - Capital Alliance Corporate Treasury Fund
 - Capital Alliance Quantitative Equity Fund
 - Capital Alliance Gilt Fund
 - Capital Alliance Investment Grade Fund
 - Capital Alliance Income Fund
 - Capital Alliance Gilt Trading Fund
 - Capital Alliance Medium Risk Debt Fund
 - Capital Alliance Corporate Debt and Gilt Trading Fund
 - Capital Alliance Balanced Fund
 - Capital Alliance Gilt Money market Fund
- 12. Arpico Ataraxia Asset Management (Private) Limited**
 - Arpico Ataraxia Cash Management Trust Fund
 - Arpico Ataraxia Repo Fund
 - Arpico Ataraxia Sri Lanka Bond Fund -Gilt edged Fund
 - Arpico Ataraxia S&P -SL20 Index Fund
- 13. Investrust Wealth Management Limited**
 - Investrust Income Fund
 - Investrust Growth Fund
 - Investrust Gilt-edged Fund
 - Investrust Money market Fund
- 14. Assetline Capital (Pvt) Ltd**
 - Assetline Income plus growth fund
 - Assetline gilt edged fund
 - Assetline Income fund

ADDITIONAL INFORMATION CONTD.**STOCKBROKERS AND STOCK DEALERS****Stock Brokers licensed as at 31st December 2014**

Company
Acuity Stockbrokers (Private) Limited
Asha Phillip Securities Limited
Asia Securities (Private) Limited
Assetline Securities (Private) Limited
Bartleet Religare Securities (Private) Limited
Candor Equities Limited
Capital Alliance Limited - (Debt securities)
Capital Alliance Securities (Private) Limited
Capital Trust Securities (Private) Limited
Claridge Stockbrokers (Private) Limited
CT CLSA Securities (Private) Limited formerly known as CT Smith Stockbrokers (Pvt) Ltd
First Capital Equities (Private) Limited
First Capital Markets Limited- (Debt securities)
First Guardian Equities (Private) Limited
Enterprise Ceylon Capital (Pvt) Ltd formerly known as IIFL Securities Ceylon (Private) Limited
JB Securities (Private) Limited
John Keells Stock Brokers (Private) Limited
Lanka Securities (Private) Limited
LOLC Securities Limited
Nation Lanka Equities (Private) Limited
NDB Securities (Private) Limited
Navara Securities (Pvt) Ltd formerly known as New World Securities (Pvt) Ltd
Richard Pieris Securities (Private) Limited
SC Securities (Private) Limited
Serendib Stockbrokers (Private) Limited
SMB Securities (Private) Limited
Softlogic Stockbrokers(Pvt) Ltd
Somerville Stock Brokers (Private) Limited
Taprobane Securities (Private) Limited
TKS Securities (Private) Limited
NatWealth Securities Limited (Debt Securities)
Wealth Trust Securities Ltd (Debt Securities)
NSB Fund Management Co. Ltd (Debt Securities)
Acuity Securities Ltd (Debt Securities)
Perpetual Treasuries Ltd (Debt Securities)

Stock Dealers licensed as at 31st December 2014

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

ADDITIONAL INFORMATION CONTD.**REGISTERED MARKET INTERMEDIARIES****Registered as at 31st December 2014**

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

Company	Margin Provider	Investment Manager	Underwriter
Acuity Partners (Private) Limited	X	X	X
ADL Asset Management Limited		X	
ADL Equities Ltd	X		
Amana Capital Ltd		X	
Arpico Ataraxia Asset Management (Pvt) Ltd		X	
Asha Financial Services Limited	X		
Asset Trust Management (Pvt) Ltd		X	
Assetline Leasing Company Limited	X		
Assetline Capital (Private) Limited		X	
Bank of Ceylon		X	X
Bartleet Asset Management (Pvt) Ltd		X	
Bartleet Finance PLC	X		
Bartleet TransCapital Limited		X	X
Candor Asset Management (Private) Limited		X	
Candor Capital (Private) Limited	X		
Capital Alliance Finance PLC	X		
Capital Alliance Investments Limited		X	
Capital Trust Credit (Private) Limited	X		
Capital Trust Wealth Management (Pvt) Ltd		X	
Ceybank Asset Management Ltd		X	
Ceylon Guardian Investment Trust PLC			X
Ceylon Investment PLC			X
Citizen Development Business Finance PLC	X		
Commercial Bank of Ceylon PLC	X		X
Comtrust Asset Management (Pvt) Ltd		X	
DFCC Vardhana Bank PLC	X		
First Capital Asset Management Limited		X	
First Capital Markets Limited	X		
George Steuart Finance PLC	X		
Guardian Acuity Asset Management Limited		X	
Guardian Fund Management Limited		X	
Hatton National Bank PLC	X		X
Horizon Asset Ltd		X	
Ceylon Capital Market advisors Ltd formerly known as IIFL Capital Ceylon Ltd		X	
Innovest Investments (Pvt) Ltd		X	
J B Credit (Pvt) Ltd	X		
J B Financial (Private) Limited		X	
Kenanga Investment Corporation Ltd		X	
L B Finance PLC	X		

Company	Margin Provider	Investment Manager	Underwriter
Lanka ORIX Finance PLC	X		
Lexinton Financial Services (Private) Limited	X		
Lynear Wealth Management (Pvt) Ltd		X	
Merchant Bank of Sri Lanka & Finance PLC	X	X	X
Nation Lanka Capital Ltd	X		
Nation Lanka Equities (Pvt) Ltd		X	
National Asset Management Ltd		X	
National Development Bank PLC	X		
National Wealth Corporation Limited		X	
NDB Capital Holdings PLC			X
NDB Wealth Management Ltd		X	
Bansei Securities Finance (Pvt) Limited formerly known as NWS Financial Services (Pvt) Ltd	X		
NWS Management Services (Pvt) Ltd		X	
Investrust Wealth Management Limited formerly known as Orient Wealth Limited		X	
Orion Fund Management (Private) Limited		X	
Pan Asia Banking Corporation PLC	X		
People's Bank		X	
People's Leasing and Finance PLC	X		
People's Merchant Finance PLC	X		
Richard Peiris Financial Services (Pvt) Ltd	X		
Sampath Bank PLC	X		X
Sanasa Asset Management (Pvt) Ltd		X	
Seylan Bank PLC	X		
Softlogic Capital PLC		X	
Softlogic Finance PLC	X		
TKS Finance Ltd	X		
Union Bank of Colombo PLC	X		
Waldock Mackenzie Limited	X	X	
GIH Capital limited		X	
Navara Capital Partners Limited		X	
Trillion Investments Limited		X	

Registered Market Intermediaries under the Category of a Clearing House:

Central Depository Systems (Private) Limited

Registered Market Intermediaries under the Category of Credit Rating Agencies

Fitch Ratings Lanka Limited
Lanka Rating Agency Limited
ICRA Lanka Limited

FACT SHEET

Year	2009	2010	2011	2012	2013	2014
Equity Market						
Annual Turnover (Rs Mn) Equity	142,462.65	570,326.82	546,255.80	213,827.2	200,467.8	340,917.1
Domestic (Rs Mn)	99,010.83	464,733.62	486,959.40	160,543.3	128,227.6	246,796.8
Foreign (Rs Mn)	43,451.82	105,593.20	59,296.40	53,283.9	72,240.2	94,120.3
Market Days (No)	240	238	239	242	242	241
Daily Average Turnover (Rs Mn) Equity	593.6	2,396.33	2,285.60	883.6	828.4	1,414.6
Shares traded (No Mn) Equity	4,762.70	18,489.19	24,543.70	9,691.2	9,054.2	16,722
Domestic (No Mn)	3,784.20	16,684.45	23,151.60	8,289.6	7,861.6	14,726
Foreign (No Mn)	978.42	1,804.74	1,392.10	1,401.7	1,192.6	1,995
Trades (No) Equity	1,266,299	3,355,126	4,579,352	1,857,384	1,421,303	1,982,709
Domestic (No)	1,190,822	3,225,041	4,463,404	1,796,868	1,355,380	1,899,569
Foreign (No)	75477	130,085	115,948	60,516	65,923	83,140
New Listing (No)	3	10	32	17	2	7
Delisting (No)	6	1	0	2	1	3
Companies Listed	231	241	272	287	289	294
Companies Traded	231	238	265	280	278	284
Market Capitalisation (Rs Bn)	1,092.10	2,210.45	2,213.90	2,167.6	2,459.9	3,104.9
Market PER year end (Times)	16.6	25.16	15.8	15.9	15.9	19.7
Turnover to Market Capitalisation (%)	18	34.5	24.7	9.8	8.7	12.3
Dividend Yield Year End (%)	3	1.16	1.8	2.4	2.9	2.1
Price to Book Value Year End (Times)	1.7	2.98	2	2.1	2	2.2
Market Cap. as a % of GDP	22.6	39.4	33.8	28.6	32.4	31.0
Price Indices						
All Share Price Index (ASPI)	3,385.55	6,635.87	6,074.40	5,643.0	5,912.80	7,299.0
y-o-y Change %	125.25	96.01	(8.5)	(7.1)	4.8	23.4
Milanka Price Index (MPI)	3,849.38	7,061.46	5,229.20	5,119.1	-	-
y-o-y Change %	135.97	83.44	(25.9)	(2.1)	-	-
S&P Sri Lanka 20				3,085.3	3,263.90	4,089.1
y-o-y Change %					5.8	25.3
Total Return Indices						
Total Return Index on ASPI (ASTRI)	3,944.90	7,899.11	7,362.83	7,037.3	7,584.40	9,579.2
y-o-y Change %	121.18	100.24	(6.79)	(4.4)	7.8	26.3
Total Return Index on MPI (MTRI)	4,506.24	8,481.73	6,393.00	6,399.4	-	-
y-o-y Change %	129.6	88.22	(24.63)	0.1	-	-
Total Return Index on S&P Sri Lanka 20 (S&P Sri Lanka 20TRI)				3,780.4	4,132.4	5,331.1
y-o-y Change %					9.3	29.0

Year	2009	2010	2011	2012	2013	2014
Non-National Activity						
Annual Turnover (Rs Mn)	43,451.82	105,593.20	59,296.40	53,283.9	72,240.20	94,120.3
Purchases (Rs. Mn.)	43,057.32	92,425.53	49,776.80	72,614.2	83,607.00	104,689.8
Sales (Rs. Mn.)	43,846.32	118,760.87	68,816.00	33,953.6	60,873.30	83,550.8
Net Foreign Flow	(789)	(26,335.34)	(19,039.20)	38,660.7	22,733.70	21,139.0
Shares Traded (No. Mn.)	978.41	1,804.74	1,392.11	1,401.7	1,192.60	1,995
Purchases (No. Mn.)	908.97	1,541.49	1,186.80	1,520.6	1,282.50	2,381
Sales (No. Mn.)	1,047.87	2,067.99	1,597.42	1,282.7	1,102.6	1,610
Trades	75,477	130,085	115,948	60,516	65,923.0	83,140
Purchases (No.)	69,431	115,071	112,246	71,944	77,511.0	94,752
Sales (No.)	81,523	145,100	119,651	49,088	54,335.0	71,529
Debt Market						
Corporate Debt						
Turnover (Rs 000)	136,765	72,288	2,690,664.40	75,717.1	2,229,221.3	7,139,730.4
No of Trades	42	92	62	39	173	401
No of Debentured Traded (000)	1,020	693	25,861	740.4	19,998.8	56,909
Market Cap (Mn)	N/A	N/A		46,311.0	N/A	N/A
Government Debt						
Turnover (Rs 000)	98,977	45,673	28,356.80	6,128.0		
No of Trades	42	18	7	2		
No of Debentured Traded (000)	102,778	46,794	28,912	6,743.6		
Unit Trusts						
Net Asset Value (NAV)(Rs. Mn)	9,952	22,228	24,059	31,062	54,304	127,356
Unit Holders (No.)	23,117	24,649	26,636	27,952	29,648	32,619
Units Issued (No. 000)	564,500	1,159	1,506	2,251	4,134	9,772
Investment in Equity (Rs. Mn.)	6,036	11,349	9,555	8,944	9,453	14,591
Investment in Treasury Bills (Rs.Mn)	3,363	9,289	10,326	5,449	17,825	60,897
Investment in other Instruments ** (Rs. Mn)	1,106	1,223	4,186	16,596	27,000	52,202

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

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

FINANCIAL INFORMATION

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AUDITOR GENERAL'S REPORT

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கணக்காய்வாளர் தலைமை அபிப்பதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல. }
My No. }

FB/K/SEC/1/14/3

මගේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி }
Date }

8 June 2015

The Chairman
Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2014

The audit of financial statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in reserves and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 37(2) of the Securities and Exchange Commission of Sri Lanka Act, No.36 of 1987.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.



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கணக்காய்வகத் திணைக்களம்
Auditor General's Department

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

Financial Statements

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Securities and Exchange Commission of Sri Lanka as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

Report to Parliament

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

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

W.P.C. Wickramaratne

Acting Auditor General

STATEMENT OF FINANCIAL POSITION - SEC

AS AT 31ST DECEMBER 2014

	Note	2014 Rs.	2013 Rs.
ASSETS			
NON CURRENT ASSETS			
Property ,Plant & Equipment	1	53,079,602	47,739,360
Cess Fund	2	49,057,155	48,664,796
CURRENT ASSETS			
Inventories	4	984,316	934,534
Receivables	5	5,432,548	2,663,416
Cess Fund	2	2,398,681,457	2,144,578,340
Compensation Fund	3	293,242,099	267,950,575
Deposits, Advance and Prepayments	6	6,210,649	8,000,888
Cash & Cash Equivalents	7	19,805,415	24,811,873
TOTAL ASSETS		2,826,493,242	2,545,343,782
FUNDS AND LIABILITIES			
FUNDS EMPLOYED AND RESERVES			
Accumulated Fund	8	(16,838,197)	6,352,068
Cess Fund	9	2,447,738,612	2,193,243,136
Compensation Fund	10	293,242,099	267,950,575
NON CURRENT LIABILITIES			
Grant - Transfers from Cess Fund for Capital Expenditure	12	48,675,770	42,207,192
Retirement Benefit Obligation	13	23,146,179	21,606,766
CURRENT LIABILITIES			
Creditors & Accruals	14	26,129,963	8,807,432
Receipts in Advance		4,398,816	4,418,064
Lease Creditors	11	-	758,549
TOTAL FUNDS AND LIABILITIES		2,826,493,242	2,545,343,782

The Accounting Policies and Notes appearing on pages 68 to 79 form an integral part of the financial statements.

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

FOR AND ON BEHALF OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA



Vajira Wijegunawardane
Director General
Securities and Exchange Commission of Sri Lanka



Thilak Karunaratne
Chairman
Securities and Exchange Commission of Sri Lanka

Colombo.
28th May 2015

STATEMENT OF FINANCIAL PERFORMANCE - SEC

FOR THE YEAR ENDED 31ST DECEMBER 2014

	Note	2014 Rs.	2013 Rs.
INCOME			
Broker License Fees		5,366,368	4,163,816
Administration Levy		2,460,174	3,225,066
Educational Programmes		4,614,910	7,009,985
Seminar Fee-Other		846,430	
Sale of Publications		57,700	144,350
Sundry Income		11,579	16,506
Profit/(Loss) on Disposal of Fixed Assets		906,683	(11,032)
Recognition of Grants	12	15,804,195	15,276,487
		30,068,039	29,825,178
EXPENDITURE			
Personnel Costs	15	(166,060,617)	(159,203,688)
Administration & Establishment Expenses	16	(108,071,048)	(110,011,824)
Capital Market Development Expenses	17	(102,721,061)	(66,228,055)
Finance Charges	18	(83,805)	(85,112)
Total Expenditure		(376,936,531)	(335,528,679)
Excess Expenditure over Income for the year		(346,868,492)	(305,703,501)
Transfers from Cess Fund to meet Operational Expenses		333,678,227	318,547,041
Surplus/(Deficit) for the year		(13,190,265)	12,843,540

The Accounting Policies and Notes appearing on pages 68 to 79 form an integral part of the financial statements.

STATEMENT OF CHANGES IN RESERVES - SEC

FOR THE YEAR ENDED 31ST DECEMBER 2014

	Note	Reserves Rs.	Accumulated Fund Rs.	Total Rs.
Balance as at 1st January 2013		-	9,508,528	9,508,528
Prior Year Adjustment-Change in the recognition of CMET income		-	-	-
Fund Transfer to Cess Fund to Invest in Treasury Bills		-	(16,000,000)	(16,000,000)
		-	(6,491,472)	(6,491,472)
Excess Expenditure over Income for the year		-	(305,703,501)	(305,703,501)
Fund Transfer from Cess Fund		-	318,547,041	318,547,041
Surplus/(Deficit) for the period		-	12,843,540	12,843,540
Balance as at 31st December 2013			6,352,068	6,352,068
Balance as at 1st January 2014		-	6,352,068	6,352,068
Fund Transfer to Cess Fund to Invest in Treasury Bills		-	(10,000,000)	(10,000,000)
		-	(3,647,932)	(3,647,932)
Excess Expenditure over Income for the year		-	(346,868,492)	(346,868,492)
Fund Transfer from Cess Fund		-	333,678,227	333,678,227
Surplus/(Deficit) for the year		-	(13,190,265)	(13,190,265)
Balance as at 31st December 2014		-	(16,838,197)	(16,838,197)

The Accounting Policies and Notes appearing on pages 68 to 79 form an integral part of the financial statements.

CASH FLOW STATEMENT - SEC

FOR THE YEAR ENDED 31ST DECEMBER 2014

	Note	2014 Rs.	2013 Rs.
Cash Flows from Operating Activities			
Net Increase/(Decrease) after transfers from Cess Fund		(13,190,265)	12,843,540
Adjustment for			
Depreciation	1	16,116,695	16,026,487
(Profit)/Loss on disposal of Property, Plant & Equipment		(906,683)	11,032
Recognition of Grant	12	(15,804,195)	(15,276,487)
Provision for Gratuity	13	3,585,799	2,997,885
Prior Year Adjustment			-
Net Increase/(Decrease) before working capital changes		(10,198,649)	16,602,457
Change of Working Capital			
(Increase)/Decrease of Stocks		(49,782)	(305,650)
(Increase)/ Decrease of Receivable		(2,769,132)	(879,036)
(Increase)/Decrease of Deposits Advances & Prepayments		1,790,239	(3,085,886)
Increase/(Decrease) of Receipt in Advance		(19,248)	179,922
Increase/(Decrease) of Creditors & Accruals		17,322,531	2,348,662
		16,274,607	(1,741,988)
Cash generated from Operating Activities		6,075,958	14,860,469
Gratuity paid during the year		(2,046,386)	(1,403,316)
Net Cash Inflow/(Outflow) from Operating Activities		4,029,572	13,457,153
Cash Flows into Investing Activities			
Purchase of Property Plant and Equipment	1	(22,272,773)	(7,432,959)
Fund Transfer to Cess Fund to Invest in Treasury Bills		(10,000,000)	(16,000,000)
Proceeds from Sale of Property Plant & Equipment		1,722,518	68,552
Net Cash Inflow/(Outflow) from Investing Activities		(30,550,255)	(23,364,407)
Cash Flows from Financing Activities			
Capital transfer from Cess Fund	12	22,272,773	7,432,959
Increase /(Decrease) in Finance Lease		(758,549)	(819,616)
Net Cash Inflow/(Outflow) from Financing Activities		21,514,224	6,613,343
Net Increase/ (Decrease) in Cash and Cash Equivalents		(5,006,458)	(3,293,911)
Cash and Cash Equivalents at beginning of period (Note A)		24,811,873	28,105,784
Cash and Cash Equivalents at end of period (Note B)		19,805,415	24,811,873
Note (A)			
Cash and Cash Equivalents at beginning of period			
Cash at Bank		24,771,873	28,065,784
Cash in Hand		40,000	40,000
		24,811,873	28,105,784
Note (B)			
Cash and Cash Equivalents at End of period			
Cash at Bank	7	19,765,415	24,771,873
Cash in Hand	7	40,000	40,000
		19,805,415	24,811,873

The Accounting Policies and Notes appearing on pages 68 to 79 form an integral part of the financial statements.

CASH FLOW STATEMENT - CESS FUND

FOR THE YEAR ENDED 31ST DECEMBER 2014

	2014 Rs.	2013 Rs.
Cash Flows from Operating Activities		
Net Increase/ (Decrease) of Cess Fund	254,495,476	96,148,212
Net Increase/ (Decrease) of before Working Capital Changes	254,495,476	96,148,212
Change of Working Capital		
(Increase)/Decrease of Staff Loans	565,718	484,191
(Increase)/Decrease of Cess Receivable	470,755	(1,168,813)
(Increase)/Decrease of Receivable-SEC	216,659	(216,659)
(Increase)/Decrease of Interest Receivable on Fixed Deposits	45,399,605	(84,209,335)
(Increase)/Decrease of Interest Receivable on Treasury Bills	(20,239,782)	86,464,170
(Increase)/Decrease of Capital Gain Receivable from State Institutions Surplus Trust Fund		107,627
(Increase)/Decrease of Rent Deposit	(1,183,908)	(11,408,568)
Increase/(Decrease) of Payables		11,771
	25,217,276	(9,935,616)
Net Cash Inflow/(Outflow) from Operating Activities	279,712,752	86,212,596
Cash Flows into Investing Activities		
Investment in State Institutions Temporary Surplus Fund	(13,578,193)	(25,096,023)
Investment in Treasury Bills	(171,679,656)	956,679,446
Investment in Fixed Deposits	(92,770,631)	(1,021,000,241)
Net Cash Inflow/(Outflow) from Investing Activities	(278,028,480)	(89,416,818)
Net Increase/(Decrease) in Cash and Cash Equivalents	1,684,272	(3,204,222)
Cash and Cash Equivalents at beginning of period (Note C)	5,499,017	8,703,239
Cash and Cash Equivalents at end of period (Note D)	7,183,289	5,499,017
Note (C)		
Cash and Cash Equivalents at beginning of period		
Cash at Bank	1,759,017	2,193,239
REPO Investments	3,740,000	6,510,000
	5,499,017	8,703,239
Note (D)		
Cash and Cash Equivalents at end of period		
Cash at Bank	4,883,289	1,759,017
Overnight-REPO	2,300,000	3,740,000
	7,183,289	5,499,017

The Accounting Policies and Notes appearing on pages 68 to 79 form an integral part of the financial statements.

CASH FLOW STATEMENT - COMPENSATION FUND

FOR THE YEAR ENDED 31ST DECEMBER 2014

	2014 Rs.	2013 Rs.
Cash Flows from Operating Activities		
Net Increase/(Decrease) of Compensation Fund	25,291,524	30,488,889
Net Increase/(Decrease) before Working Capital changes	25,291,524	30,488,889
Change of Working Capital		
(Increase)/Decrease of Other Payables	(15,863)	15,863
(Increase)/Decrease of Interest Receivable on Treasury Bills	(51,370)	15,294,372
(Increase)/Decrease of Interest Receivable on Fixed Deposits	7,115,333	(14,177,989)
	7,048,100	1,132,246
Net Cash Inflow/(Outflow)from Operating Activities	32,339,624	31,621,135
Cash Flows into Investing Activities		
Investment in Treasury Bills	(44,608,391)	111,573,749
Investment in Fixed Deposits	12,253,245	(143,182,471)
Net Cash Inflow/(Outflow)from Investing Activities	(32,355,146)	(31,608,722)
Cash Flows from Financing Activities		
Net Increase/(Decrease) in Cash and Cash Equivalents	(15,522)	12,413
Cash and Cash Equivalents at beginning of period (Note E)	100,000	87,587
Cash and Cash Equivalents at end of period (Note F)	84,478	100,000
Note (E)		
Cash and Cash Equivalents at beginning of period		
Cash at Bank	100,000	62,218
Call Deposits	-	25,369
	100,000	87,587
Note (F)		
Cash and Cash Equivalents at end of period		
Cash at Bank	84,478	100,000
	84,478	100,000

The Accounting Policies and Notes appearing on pages 68 to 79 form an integral part of the financial statements.

ACCOUNTING POLICIES - SEC

1. GENERAL ACCOUNTING POLICIES

1.1 Statement of Compliance

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

1.2 Responsibility for Financial Statements

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

1.3 Going Concern

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

1.4 Basis of Preparation

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

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

1.5 Foreign Currency Transactions

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

1.6 Events After the Balance Sheet Date

All material events after the Balance Sheet date are considered and appropriate adjustments or disclosures

are made in the financial statements, where necessary.

1.7 Changes in Accounting Policies

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

1.8 Comparative Figures

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

2. ASSETS AND BASES OF THEIR VALUATION

2.1 Property, Plant and Equipment Owned Property, Plant and Equipment

Property, Plant & Equipment together with any incidental expenses thereon are stated at cost and depreciated at their respective useful lives. Fixed assets received as grants, were accounted at cost and depreciation thereof is charged against the respective reserve account. The depreciation is provided on the straight-line basis. The Motor Vehicles (except Leased Vehicles), Office Equipment & EDP Equipment and Training Equipment were depreciated taking into consideration the economic useful life time of the asset applying the following rates.

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

Depreciation is provided for all assets purchased from the date it is available for use. In the year of disposal depreciation is provided up to the date the asset is derecognised.

2.2 Leased Motor Vehicles

A vehicle under the contributory lease scheme formed part of the remuneration package of Assistant Directors and above. Consequent to a decision taken by the Members of the Commission this scheme introduced in the year 2002 will

not be applicable to the new recruits from year 2012. As at end of the year 2014 only four employees were entitled to the said facility although none had availed same.

The assets on finance lease which effectively transfer to the SEC substantially all risks and benefits incidental to ownership of the leased item is capitalised at the capital value of lease obtained. Depreciation and finance charges arising out of such leasehold assets are charged to the Statement of Financial Performance whilst the payments of lease rental are recognised to reduce the lease liability.

Whilst the SEC pays the lease rental the staff concerned contributes towards the lease rental. In addition the staff should bear all expenditure in full pertaining license and maintenance. The SEC will also pay the cost of insurance to the extent of the lease entitlement. The ownership of the vehicle will be transferred to the member of the staff who participated in the contributory lease scheme at the expiration of the lease period i.e. after 48 months or upon settlement of the lease liability by the staff concerned in full. During the year under review the last vehicle in the said scheme was terminated a few months prior to the expiration of the lease period which is permitted in terms of the scheme. To maintain consistency the rate of depreciation decided from the inception of the scheme as 25% was applied for the said last vehicle.

2.3 Investments

Investments are made in Fixed Deposits at Licensed Government banks and in Government Treasury bills which are stated at cost.

2.4 Inventories

Inventories are valued at lower of cost or net realisable value. The cost of inventories is valued on First-in, First-out (FIFO) basis.

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

2.5 Receivables

Receivables are stated at the estimated realisable value.

3. LIABILITIES & PROVISIONS

3.1.1 Retirement Benefits

In terms of Gratuity Act No. 12 of 1983 the liability to an employee arises only upon completion of 5 years of continued service. To meet the liability a provision is made, equivalent to half a month salary based on the last drawn salary at the end of the financial year for all employees who have completed one year of service.

3.1.2 Defined Contribution Plans

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

3.2 Accounts Payable

Payables are stated at cost.

3.3 Grant

Capital Expenditure transferred from the Cess Fund is treated as a grant and recognised 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 Broker license fees, administration levy, sale of publications, seminar income for educational programmes. Revenue from the above mentioned services/fees is recognised in the period in which the related services are performed.

4.2 Interest on Investments

Interest on investments is recognised on an accrual basis.

4.3 Other Revenue

Other income is recognised on an accrual basis.

5. EXPENDITURE RECOGNITION

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

6. CASH FLOW STATEMENT

The Cash Flow Statement has been prepared using the indirect method. For the purpose of the Cash Flow Statement, Cash and Cash Equivalents consist of cash and deposits held at call with banks.

NOTES TO THE FINANCIAL STATEMENTS

1. PROPERTY, PLANT & EQUIPMENT

	Motor Vehicles	Furniture, Fixtures & Fittings	Office Equipment (EDP & Others)	Training Equipment	Assets on Finance Lease Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
COST						
Balance as at 1st January 2014	31,753,186	25,315,735	83,877,952	3,723,801	3,000,000	147,670,674
Reclassification of Fixed Assets	-	46,800	(135,848)	89,048	-	-
Additions during the Year	6,548,500	7,394,119	8,330,155	-	-	22,272,773
Disposals during the year	(3,700,000)	(3,501,459)	(4,205,915)	(189,356)	(3,000,000)	(14,596,730)
Balance as at 31st December 2014	34,601,686	29,255,195	87,866,344	3,623,493	-	155,346,718
ACCUMULATED DEPRECIATION						
Balance as at 1st January 2014	19,900,460	19,131,975	55,611,447	2,912,432	2,375,000	99,931,315
Reclassification of Fixed Assets	-	46,800	(133,121)	86,321	-	-
Depreciation Charge for the Year	2,045,222	3,053,637	10,427,070	278,265	312,500	16,116,695
Accumulated Depreciation on Disposal of Assets	(3,700,000)	(3,047,934)	(4,156,105)	(189,356)	(2,687,500)	(13,780,896)
Balance as at 31st December 2014	18,245,683	19,184,479	61,749,292	3,087,662	-	102,267,116
WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2014	16,356,003	10,070,716	26,117,052	535,831	-	53,079,602
WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2013	11,852,726	6,183,760	28,266,505	811,368	625,000	47,739,360
USEFUL LIFE TIME (NO OF YEARS)	10	8	5	5	4	

	Note	2014 Rs.	2013 Rs.
2 CESS FUND			
NON CURRENT ASSETS			
Staff Loans		19,244,199	20,035,748
Rent Deposits		29,812,956	28,629,048
		49,057,155	48,664,796
CURRENT ASSETS			
Invested in State Institutions Temporary Surplus Fund		220,165,512	206,587,319
Investment in Treasury Bills		956,999,661	785,320,005
Investment in Fixed Deposits		1,113,770,872	1,021,000,241
		2,290,936,045	2,012,907,565
Staff Loans Receivable within 12 months		5,487,932	5,262,101
Interest Receivable on Fixed Deposits		38,809,730	84,209,335
Interest Receivable on Treasury Bills		53,996,276	33,756,494
Cess Receivable		2,268,185	2,738,940
Receivable-SEC		-	216,659
Balance at Bank		7,183,289	5,499,017
		107,745,412	131,682,546
		2,398,681,457	2,144,590,111
TOTAL ASSETS		2,447,738,612	2,193,254,907
LIABILITIES			
Payable to SEC		-	11,771
NET ASSETS		2,447,738,612	2,193,243,136
3 COMPENSATION FUND			
CURRENT ASSETS			
Investment in Treasury Bills		152,583,879	107,975,488
Investment in Fixed Deposits		130,929,226	143,182,471
		283,513,105	251,157,959
Interest Receivable on Treasury Bills		2,581,860	2,530,490
Interest Receivable on Fixed Deposits		7,062,656	14,177,989
Balance at Bank		84,478	100,000
		9,728,994	16,808,479
TOTAL ASSETS		293,242,099	267,966,438
LIABILITIES			
Payable to SEC		-	15,863
NET ASSETS		293,242,099	267,950,575

NOTES TO THE FINANCIAL STATEMENTS CONTD.

	Note	2014 Rs.	2013 Rs.
4 INVENTORIES			
Stock of Stationery, Stamp & EDP Consumables		984,316	934,534
		984,316	934,534
5 RECEIVABLES			
Sundry Debtors Including Debit Notes		1,250,949	115,338
Institute of Chartered Accountants of Sri Lanka			
Receivable within One Year		1,505,100	
Receivable after One Year		203,900	
Phone Advance		331,192	680,890
Festival Advances		2,126,000	1,790,000
VAT Receivable		-	61,781
Insurance Claim Receivable		15,407	15,407
		5,432,548	2,663,416
6 DEPOSITS, ADVANCES & PRE-PAYMENTS			
Safe Vault Deposit - Bank of Ceylon		45,058	40,726
Fuel Deposit		60,000	60,000
Deposit for Vehicle Maintenance		500	500
Deposits with Telecom Ltd		42,125	42,125
Deposits with Dialog		9,000	9,000
Frosty-Hot & Cold Dispenser		28,000	28,000
Sponsorship for Higher Studies-University of Colombo		10,000	10,000
Advances to Suppliers		6,015,966	7,810,537
		6,210,649	8,000,888
7 CASH			
Cash at Bank		19,765,415	24,771,873
Cash in Hand		40,000	40,000
		19,805,415	24,811,873
8 ACCUMULATED FUND			
Balance at the beginning of the period		6,352,068	9,508,528
Fund Transfer to Cess Fund to invest in Treasury Bills		(10,000,000)	(16,000,000)
Surplus/(Deficit) for the Year		(13,190,265)	12,843,540
Balance at the end of the Year		(16,838,197)	6,352,068

	Note	2014 Rs.	2013 Rs.
9 CESS FUND			
Balance at the beginning of the Year		2,193,243,136	2,097,094,924
Add:			
Cess Received during the Year		408,658,830	233,725,415
Interest on Treasury Bills		103,593,131	181,209,284
Interest on Fixed Deposits		93,763,272	84,209,335
Interest on other Investments		1,395,893	1,329,370
Funds transferred from SEC		10,000,000	16,000,000
		2,810,654,262	2,613,568,328
Less:			
Funds transferred to SEC for Operational & Capital Expenditure		355,951,000	325,980,000
Fund Transfer to Consolidated Fund		-	94,250,000
Withholding Tax on Interest Income on Fixed Deposits		6,842,805	-
Bank Charges		121,845	95,192
		362,915,650	420,325,192
Balance at the end of the Year		2,447,738,612	2,193,243,136
10 COMPENSATION FUND			
Balance at the beginning of the Year		267,950,575	237,461,686
Compounding Fees Received During the Year		1,100,000	-
Add : Interest on Investment - Treasury Bills		11,222,720	16,314,351
Interest on Investment - Fixed Deposits		13,517,101	14,177,988
		293,790,396	267,954,025
Less: Withholding Tax on Interest on Fixed Deposits		543,937	-
Bank Charges		4,360	3,450
		548,297	3,450
Balance at the end of the Year		293,242,099	267,950,575

NOTES TO THE FINANCIAL STATEMENTS CONTD.

	Note	2014 Rs.	2013 Rs.
11 LEASE CREDITOR			
Gross Lease Liabilities		-	799,040
Interest in Suspense		-	(40,491)
		-	758,549
Payable within one Year-Current Portion of Lease Creditor		-	758,549
Payable after one Year- Non Current Portion of the Lease Creditor		-	-
		-	758,549
12 GRANT- TRANSFERS FROM CESS FUND TOWARDS CAPITAL EXPENDITURE			
Balance at the beginning of the Year		42,207,192	50,050,720
Transfers from Cess Fund towards Capital Expenditure		22,272,773	7,432,959
Recognition of Grants		(15,804,195)	(15,276,487)
Balance at the end of the Year		48,675,770	42,207,192
NOTE			
RECOGNITION OF GRANT			
The Grant is recognised at the following rates			
Motor Vehicles		10.00%	10.00%
Office Equipment - Electronic Data Processing & Others		20.00%	20.00%
Training Equipment		20.00%	20.00%
Furniture, Fixtures & Fittings		12.50%	12.50%
13 RETIREMENT BENEFIT OBLIGATION			
Balance at the beginning of the Year		21,606,766	20,012,197
Charge for the Year		3,585,799	2,997,885
Gratuity Paid during the Year		(2,046,386)	(1,403,316)
Balance at the end of the Year		23,146,179	21,606,766

	Note	2014 Rs.	2013 Rs.
14 CREDITORS AND ACCRUALS			
Telephone, Internet Expenses		228,611	413,580
Electricity		308,598	347,589
Staff Medical Reimbursement		464,439	388,044
Directors' Fuel Reimbursement		35,655	70,633
Leave Encashment		1,782,539	1,767,627
Overtime		203,286	156,779
External Audit Fees		1,100,000	825,000
Internal Audit Fees		139,740	205,600
Professional Charges		227,500	
Public Awareness		8,921,016	2,302,447
Courier Charges			7,528
Capital Market Development		12,062,140	480,000
VAT Payable		498,165	105,395
Stamp Duty Payable		8,675	-
Printing & Stationery		2,925	
Advertising		-	-
Executive Subsistence			5,000
Nation Building Tax		77,425	44,090
Staff Training - Local		1,650	1,190,500
Seminar expenses-CMET		19,000	110,250
Trade Tax		5,000	10,000
Travelling -Local		11,247	
Foreign Travel Insurance			156,349
Shredder Maintenance			686
Payable to Cess Fund			216,659
Other Payable		32,352	3,676
		26,129,963	8,807,432

NOTES TO THE FINANCIAL STATEMENTS CONTD.

	Note	2014 Rs.	2013 Rs.
15 PERSONNEL COSTS			
Staff Salaries		86,978,135	82,065,746
Chairman's Allowance		900,000	900,000
Overtime		1,466,350	1,495,885
E P F & E T F		13,595,107	12,679,165
Staff Gratuity	13	3,585,799	2,997,885
Bonus		11,437,446	10,638,789
Leave Encashment		2,074,787	2,032,563
Staff Medical Expenses & Insurance		5,004,133	4,849,756
Personnel Accident Insurance Cover		827,020	640,286
Staff Housing Loan Interest Subsidy		1,338,802	1,178,822
Staff Welfare		4,510,059	4,083,877
Executive Subsistence		108,000	98,500
Reimbursement of Fuel - Directors		3,648,441	3,393,178
Directors Vehicle Allowance		9,443,677	7,070,613
Lease Finance Charges		(23,740)	10,652
Overseas Training and Travelling		16,442,470	20,098,681
Staff Training - Local		2,130,583	2,043,342
Subscription of Membership		699,632	512,265
Sponsorship for Studies *		1,017,139	354,664
Advertising-Recruitment		365,475	1,715,581
Interns Allowance		511,302	343,438
		166,060,617	159,203,688

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

	Note	2014 Rs.	2013 Rs.
16 ADMINISTRATION & ESTABLISHMENT EXPENSES			
Rent & Car Park Rental		54,157,731	53,972,215
Electricity Charges		4,137,528	4,126,215
Office Upkeep		212,329	176,275
Office Equipment Maintenance & Insurance		3,455,132	8,125,058
Telephone, Internet, E- mail & Web		3,894,487	3,870,234
Motor Vehicle Fuel, Maintenance, License & Insurance		2,858,197	2,146,928
Professional Fees		880,212	500,426
Member Fees		1,135,500	985,895
Meeting Expenses		753,527	693,217
Entertainment		288,747	207,327
Library Books		39,114	25,490
News Papers & Periodicals		252,077	233,111
Printing & Stationery		2,288,732	2,204,796
Travelling Local		525,347	385,226
Insurance- All Risk , Public Liability, Cash in Transit & Fire		668,348	408,051
Postage and Stamp Duty		85,830	1,886,924
Courier Charges		147,537	141,475
Legal Expenses		2,373,060	1,357,000
Audit Fees -Internal		277,580	205,600
Audit Fees -External		275,000	480,000
General Expenses		477,470	138,689
Trade Tax		5,000	10,000
VAT Expenses		12,497,233	11,400,571
Nation Building Tax		268,635	304,614
Depreciation	1	16,116,695	16,026,487
		108,071,048	110,011,824
17 MARKET DEVELOPMENT			
Capital Market and Product Development		36,102,668	15,938,352
Public Awareness Programmes		48,708,493	38,755,180
Seminar Expenses		4,507,356	4,121,525
International Membership Fees - IOSCO		2,756,675	2,595,600
Publicity and Advertising		4,381,394	1,824,170
Market Surveillance Cost		6,254,155	2,885,430
Investigation Expenses		10,320	107,798
		102,721,061	66,228,055

NOTES TO THE FINANCIAL STATEMENTS CONTD.

	Note	2014 Rs.	2013 Rs.
18 FINANCE CHARGES			
Bank Charges		83,805	85,112
		83,805	85,112

19. TAXATION

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

20. CAPITAL COMMITMENTS

Four units of HP Laser Jet Multifunctional Printers costing Rs. 385,280/- from DMS Electronics (Pvt) Ltd and a wooden cupboard costing Rs.94,248/- from Powernet (Pvt) Ltd were the capital commitments as at 31.12.2014.

21. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31.12.2014.

22. EVENTS AFTER THE BALANCE SHEET DATE

Consequent to the formation of the new Government in Sri Lanka the Commission was reconstituted as follows:

- ▷ Mr. Thilak Karunaratne, Chairman an Appointed Member
- ▷ Mr. D N R Siriwardana, Ex-officio Member
- ▷ Mr. Arjuna Herath, Ex-officio Member
- ▷ Mr. Rajeev Amarasuriya, Appointed Member
- ▷ Ms. Dilshani Gayathri Wijayawardana, Appointed Member
- ▷ Ms. Marina Fernando, Appointed Member
- ▷ Mr. S R Attygalle, Ex-officio Member
- ▷ Mr. Suresh Shah, Appointed Member
- ▷ Mr. Ranel T Wijesinha, Appointed Member
- ▷ Mr. P Samarasiri, Ex-officio Member

23. RELATED PARTY DISCLOSURES

The Chairman and Members of the Commission held office during the year 2014 as stated below;

- ▷ Dr. Nalaka Godahewa, Chairman an Appointed Member
- ▷ Mr. Lolitha Abeysinghe, Appointed Member
- ▷ Mr. Mohamed Zuraish Hifaz Hashim, Appointed Member
- ▷ Mr. B D W A Silva, Ex-officio Member
- ▷ Dr. Prathiba Mahanamahewa, Appointed Member
- ▷ Mr. Priyantha Fernando, Appointed Member
- ▷ Dr. B M S Batagoda, Ex-officio Member
- ▷ Mr. D N R Siriwardana, Ex-officio Member
- ▷ Mr. Arjuna Herath, Ex-officio Member

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

Name	Name of Related Institution	Relationship
Dr. Nalaka Godahewa	▷ Sri Lanka Catering Ltd	Director
Mr. Lolitha Abeysinghe	▷ No Directorships on Listed Company Boards	-
Mr. Mohamed Zuraish Hifaz Hashim	▷ Development Interplan Ceylon Ltd	Director
	▷ Kerry Malship Logistics Lanka (Pvt) Ltd	Director
Mr. B D W A Silva	▷ Institute of Bankers of Sri Lanka	Chairman
	▷ Credit Information Bureau of Sri Lanka	Chairman
	▷ Board of Management of Api Wenuwen Api	Board Member
	▷ Insurance Board of Sri Lanka	Board Member
	▷ Ministry of Petroleum Industries - Special Standing Cabinet Appointed Procurement Committee	Member
	▷ West Coast Power (Pvt) Ltd	Board Member
Dr. Prathiba Mahanamahewa	-	-
Mr. P D J Fernando	▷ Union Bank	Independent Director
	▷ Hambana Petrochemicals Ltd	Independent Director
	▷ Commercial Leasing and Finance Ltd	Independent Director
	▷ Taprobane Holdings Ltd	Independent Director
	▷ Ceylon Leather Products Ltd	Independent Director
	▷ Imperial Institute of Higher Education	Independent Director
	▷ Commercial Insurance Brokers Ltd	Independent Director
	▷ Thomas Cook Travels Sri Lanka Ltd	Independent Director
	▷ Brac Lanka Ltd	Independent Director
	▷ Golden Key Credit Card Co Ltd	Chairman
	▷ CIESOT Pvt Ltd	Chairman
	Dr. B M S Batagoda	▷ CEB - Ceylon Electricity Board
▷ Sri Lanka Insurance Corporation Ltd		Board Director
▷ Urban Development Authority		Board of Management
▷ Regional Development Bank		Board Director
▷ Litro Gas Ltd		Board Director
▷ Institute of Policy Studies of Sri Lanka		Board Director
▷ Post Graduate Institute of Management		Board Member
▷ Sevena Fund		Board Director
▷ Lanka Sugar Company		Board Member
▷ Sri Lanka Carbon Fund (Pvt) Ltd		Managing Director and Board Member
Mr. D N R Siriwardena	▷ Sri Lanka Accounting and Auditing Standards Monitoring Board	Board Member
	▷ The Institute of Chartered Accountants of Sri Lanka	Member
	▷ Insurance Board of Sri Lanka	Board Member
Mr. Arjuna Herath	▷ Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)	Director
	▷ Postgraduate Institute of Management (PIM)	Director
	▷ Confederation of Asian & Pacific Accountants (CAPA)	Director
	▷ South Asian Federation of Accountants (SAFA)	Director
	▷ Ernst & Young	Partner

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

AUDITOR GENERAL'S REPORT

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கணக்காய்வாளர் தலைமை அறியுதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය }
எனது இல. } FB/K/SGF/1/14/4
My No. }

ඔබේ අංකය }
உமது இல. }
Your No. }

දිනය }
திகதி }
Date }

8 June 2015

The Chairman,
Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2014

The audit of financial statements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Paragraph 11 (d) of the Deed of Trust No.1376 dated 21/22 May 1998 relating to establishment of Settlement Guarantee Fund in terms of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.



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கணக்காய்வகம்
Auditor General's Department

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

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

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

3. Financial and Operating Review

3.1 Financial Results

According to the financial statement presented, the activities of the Fund for the year ended 31 December 2014 had resulted in a surplus of Rs.48,059,546 as compared with the corresponding surplus of Rs.56,244,470 for the preceding year, thus indicating a deterioration of Rs. 8,184,924 in the financial results. The decrease of interest income by Rs. 7,214,825 as compared with the previous year was the main reason for this deterioration.

3.2 Functions of the Fund

No any compensation had been paid during the year under review from the Fund due to non-reported of disputes between the Clearing Members of the Central Depository System in terms of Paragraph 5 (a) of the Deed of Trust No.1376 dated 21/22 May 1998.

W.P.C. Wickramaratne
Acting Auditor General

STATEMENT OF FINANCIAL POSITION - SGF

AS AT 31ST DECEMBER 2014

	Note	2014 Rs.	2013 Rs.
ASSETS			
CURRENT ASSETS			
Investment in Treasury Bills		468,319,230	435,743,484
Investment in Fixed Deposits		124,680,473	98,881,487
Receivables	5	10,999,631	21,330,438
Cash at Bank		158,198	26,424,697
TOTAL ASSETS		604,157,532	582,380,106
RESERVES AND LIABILITIES			
RESERVES			
Grant - Treasury		50,000,000	50,000,000
Grant- Cess Fund		100,000,000	100,000,000
Grant- Colombo Stock Exchange		100,000,000	100,000,000
Accumulated Fund		353,889,651	305,830,105
		603,889,651	555,830,105
CURRENT LIABILITIES			
Payables	6	267,881	26,550,001
		267,881	26,550,001
TOTAL NET ASSETS AND LIABILITIES		604,157,532	582,380,106

The notes appearing on pages 86 to 87 form an integral part of the financial statements.

The Trustees of the Settlement Guarantee Fund are responsible for the preparation of these financial statements.

FOR AND ON BEHALF OF SETTLEMENT GUARANTEE FUND



Vajira Wijegunawardane
Trustee-Settlement Guarantee Fund



Thilak Karunaratne
Trustee-Settlement Guarantee Fund

Colombo.
28th May 2015

STATEMENT OF FINANCIAL PERFORMANCE - SGF

FOR THE YEAR ENDED 31ST DECEMBER 2014

	2014 Rs.	2013 Rs.
INCOME		
Interest on Investments - Treasury Bills	38,377,130	53,475,225
Interest on Investments - Fixed Deposits	10,656,015	2,772,745
	49,033,145	56,247,970
Less:		
EXPENDITURE		
Audit Fees	10,000	-
Bank Charges	1,450	3,500
Withholding Tax on Interest on Fixed Deposits	962,149	-
Total Expenditure	973,599	3,500
EXCESS INCOME OVER EXPENDITURE FOR THE YEAR	48,059,546	56,244,470

The notes appearing on pages 86 to 87 form an integral part of the financial statements.

STATEMENT OF CHANGES IN NET ASSETS - SGF

FOR THE YEAR ENDED 31ST DECEMBER 2014

	2014	2013
	Rs.	Rs.
Accumulated Fund		
Balance at the beginning of the Year	305,830,105	249,585,635
Net Income for the Year	48,059,546	56,244,470
Balance at the end of the Year	353,889,651	305,830,105

The notes appearing on pages 86 to 87 form an integral part of the financial statements.

CASH FLOW STATEMENT - SGF
FOR THE YEAR ENDED 31ST DECEMBER 2014

	Note	2014 Rs.	2013 Rs.
Cash Flow from Operating Activities			
Net Surplus for the year		48,059,546	56,244,470
Adjustment for			
Change of Working Capital			
(Increase)/Decrease of Other Receivables	5	10,330,807	18,742,331
Increase/(Decrease) of Other Payables	6	(26,282,120)	26,231,975
		(15,951,313)	44,974,306
Net Cash Inflow/(Outflow) from Operating Activities		32,108,233	101,218,776
Cash Flow from Investing Activities			
Investment in Treasury Bills		(32,575,746)	23,894,240
Investment in Fixed Deposits		(25,798,986)	(98,881,487)
Net Cash Inflow/(Outflow) from Investing Activities		(58,374,732)	(74,987,247)
Net Increase/(Decrease) in Cash and Cash Equivalents		(26,266,499)	26,231,529
Cash & Cash Equivalents at the beginning of the period		26,424,697	193,168
Cash & Cash Equivalents at the end of the period (Note A)		158,198	26,424,697
Note (A)			
Cash & Cash Equivalents at the end of the period			
Cash at Bank		158,198	26,424,697
		158,198	26,424,697

The notes appearing on pages 86 to 87 form an integral part of the financial statements.

ACCOUNTING POLICIES - SGF

1. GENERAL ACCOUNTING POLICIES

1.1 Statement of Compliance

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

1.2 Responsibility for Financial Statements

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

1.3 Going Concern

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

1.4 Basis of Preparation

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

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

1.5 Events After the Balance Sheet Date

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

1.6 Changes in Accounting Policies

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

1.7 Comparative Figures

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

2. ASSETS AND BASES OF THEIR VALUATION

2.1 Investments

Investments are made in Fixed Deposits at Licensed Government banks and in Government Treasury bills which are stated at cost.

2.2 Receivables

Receivables are stated at the estimated realisable 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 recognised on an accrual basis.

4.2 Expenditure Recognition

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

4.3 Cash Flow Statement

The Cash Flow Statement has been prepared using the indirect method. For the purpose of the Cash Flow Statement, Cash and Cash Equivalents consist of cash and deposits held at call with banks.

5. RECEIVABLES

	2014 Rs.	2013 Rs.
Interest Receivable		
- Treasury Bills	9,052,006	18,557,693
- Fixed Deposits	1,947,625	2,772,745
	10,999,631	21,330,438

6. PAYABLES

	2014 Rs	2013 Rs
Audit Fees	267,881	257,882
Payable to Bank of Ceylon	NIL	26,292,119
	267,881	26,550,001

7. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2014.

8. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2014.

9. EVENTS AFTER BALANCE SHEET DATE

Consequent to the formation of the new Government in Sri Lanka, the trustees of the Settlement Guarantee Fund are Mr. Thilak Karunaratne, the Chairman of the SEC, Mr. Vajira Kulathilake, the Chairman of the CSE, Mr. Rajeeva Bandaranaike, Director General of the CSE, Mr. Vajira Wijegunawardane, Director General of the SEC and Mr. S R Attygalle, Deputy Secretary to the Treasury.

10. RELATED PARTY DISCLOSURE

The Trustees of the Fund consist of the Chairman and the Director General of the Securities and Exchange Commission of Sri Lanka (SEC), the Chairman and the Director General of the Colombo Stock Exchange (CSE) and the Deputy Secretary to the Treasury.

The following Trustees held office during the year 2014;

- ▶ Dr. Nalaka Godahewa, Chairman of the SEC
- ▶ Dr. B M S Batagoda, Deputy Secretary to the Treasury
- ▶ Mr. Rajeeva Bandaranaike, Chief Executive Officer of the CSE

Mr. Vajira Kulathilaka assumed duties as Chairman CSE on 5th June 2014. By virtue of holding office as Chairman CSE he was appointed as a Trustee of the SGF on 5th June 2014.

Mr. Krishan Balendra ceased to be a Trustee upon his resignation as the Chairman of the CSE on 5th June 2014.

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

Name of the Trustee	Name of Institution	Relationship
Dr. Nalaka Godahewa	▷ Sri Lanka Catering	Director
	▷ Securities and Exchange Commission of Sri Lanka	Chairman
Mr. Vajira Kulatilaka	▷ NDB Investment Bank Ltd	Director
	▷ NDB Securities Pvt Ltd	Director
	▷ NDB Wealth Management Ltd	Director
	▷ NDB Capital Ltd – Bangladesh	Director
	▷ NDB Capital Holding PLC	Director/Chief Executive Officer
	▷ NDB Zephyr Partners Ltd – Mauritius	Director
	▷ NDB Zephyr Partners Lanka (Private) Ltd	Director
	▷ Emerald Sri Lanka Fund1 Limited – Mauritius	Director
	▷ Colombo Stock Exchange	Chairman
	Dr. B M S Batagoda	▷ CEB - Ceylon Electricity Board
▷ Sri Lanka Insurance Corporation		Board Director
▷ Urban Development Authority		Board of Management
▷ Regional Development Bank		Board Director
▷ Litro Gas Ltd		Board Director
▷ Institute of Policy Studies in Sri Lanka		Board Director
▷ Postgraduate Institute of Management		Board Member
▷ Sevena Fund		Board Director
▷ Sri Lanka Carbon Fund (Pvt) Ltd		Managing Director & Board Member
▷ Lanka Sugar Company		Board Member
▷ Ministry of Finance and Planning		Deputy Secretary to the Treasury
Mr. Rajeeva Bandaranaike		Colombo Stock Exchange

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

Name of the Trustee	Name of Institution	Relationship
Mr. Krishan Balendra	▷ John Keells Stock Brokers (Pvt) Ltd	Director
	▷ JayKay Marketing Services (Pvt) Ltd	Director
	▷ Nations Trust Bank PLC	Director
	▷ Nexus Networks (Pvt) Ltd	Director
	▷ South Asia Gateway Terminals (Pvt) Ltd	Director
	▷ John Keells Capital (Pvt) Ltd	Director
	▷ John Keells BPO Holding Private Ltd	Director
	▷ John Keells BPO Solutions India Private Ltd	Director
	▷ British Overseas (Private) Limited	Director
	▷ Waldock Mackenzie Limited	Director
	▷ Allied Properties Limited	Director
	▷ John Keells BPO International PrivateLtd	Director
	▷ John Keells BPO Solutions Canada Inc	Director

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

CORPORATE INFORMATION

OFFICE ADDRESS:

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

TELEPHONE

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

FAX

+94 11 2439149

E-MAIL

mail@sec.gov.lk

WEB

www.sec.gov.lk

LEGAL FORM

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

The SEC falls under the purview of the Ministry of Policy Planning, Economic Affairs, Child, Youth and Cultural Affairs.

ACCOUNTING YEAR

Year ended 31st December
2014

AUDITORS

The Auditor General

BANKERS

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



www.sec.gov.lk