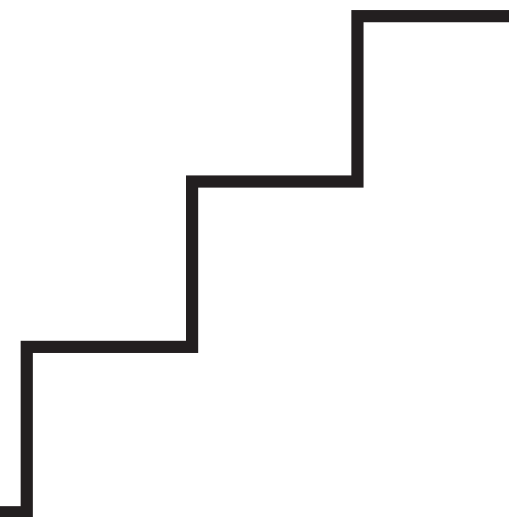


# Progressing into the Future





# Progressing into the Future

We believe that strategy goes hand in hand with a vision for the future, a committed team and a focus on growth. And we have done just that through our action plan which will see the market and in turn, the economy, improve and yield benefits for investors and other stakeholders. By centering our efforts towards expansion and attracting investments, while upgrading processes, we are taking strategic steps in creating a more innovating, dynamic and secure securities market that supports and revitalises the economy.

---

## CONTENTS

|                           |    |
|---------------------------|----|
| Vision                    | 1  |
| Mission                   | 1  |
| Chairman's Review         | 2  |
| Director General's Review | 6  |
| Members of the Commission | 8  |
| Senior Management         | 12 |
| Managers and Staff        | 14 |
| Macroeconomic Overview    | 16 |
| Capital Market Review     | 18 |
| Operational Review        | 21 |
| Additional Information    | 44 |
| Fact Sheet                | 48 |

## FINANCIAL STATEMENTS - SEC

|                                    |    |
|------------------------------------|----|
| Report of the Auditor General      | 52 |
| Statement of Financial Position    | 54 |
| Statement of Financial Performance | 55 |
| Statement of Changes in Reserves   | 56 |

|                                         |    |
|-----------------------------------------|----|
| Cash Flow Statement                     | 57 |
| Cash Flow Statement (Cess Fund)         | 58 |
| Cash Flow Statement (Compensation Fund) | 59 |
| Accounting Policies                     | 60 |
| Notes to the Financial Statements       | 62 |
| Report of the Auditor General           | 71 |

## FINANCIAL STATEMENTS - SGF

|                                    |            |
|------------------------------------|------------|
| Statement of Financial Position    | 74         |
| Statement of Financial Performance | 75         |
| Statement of Changes in Net Assets | 76         |
| Cash Flow Statement                | 77         |
| Accounting Policies                | 78         |
| Notes                              | 82         |
| Corporate Information              | Inner Back |

# 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

”

# CHAIRMAN'S REVIEW



“During the year the SEC was able to successfully make representations to the government to eliminate some impediments that hindered the capital market from realising its potential and also further develop the capital market. The government addressed these concerns which reflected its commitment to develop the capital market by proposing many reforms that were outlined in the National Budget.”

Despite the challenges faced by the weakening global economy, the Sri Lankan economy grew at a healthy rate of 6.4% in 2012. The performance of the stock market which witnessed an upsurge in both 2009 and 2010 remained subdued in 2011 and during the first half of 2012, but showed signs of recovery during the latter half. During the post war era the stock market grew by 400% within a time span of two years. Most new investors who entered the market did not have a good understanding of market dynamics. Speculative traders looking for short term gains thronged the market creating a high degree of volatility in the market. The herd mentality created a market bubble and the regulator stepped in at this juncture and introduced risk mitigation measures, which created debates within the industry. In 2012 the Securities and Exchange Commission of Sri Lanka (SEC) removed or amended some of these regulations.

Prior to relaxing these measures, we were mindful of obtaining the views of industry participants and held regular meetings with them. Our primary focus was to ensure responsive regulation that would offer appropriate safeguards for investors and provide impetus for capital market growth. And to this end we amended the adjusted net capital calculation of stock brokers for the purpose of granting credit to their clients, lifted the upper limit imposed on the price of transactions on the Crossings Board and lifted restrictions placed on share transactions of stock brokers.

It is noteworthy to mention that the market has recorded a gain of nearly 14% during the second half of 2012. Increased investor confidence and improved

macroeconomic situation of the country led to a net foreign inflow of Rs. 38.6 billion, the highest yearly net foreign inflow recorded at the Colombo Stock Exchange (CSE).

A well-functioning capital market is able to mobilise savings and channel capital to its most productive use and thereby ensure that investors get the best returns for the risk they take and businesses can access finance efficiently. During the year the SEC was able to successfully make representations to the government to eliminate some impediments that hindered the capital market from realising its potential and also further develop the capital market. The government addressed these concerns which reflected its commitment to develop the capital market by proposing many reforms that were outlined in the National Budget.

During the year we also focused our attention on taking a strategic approach to fulfilling our dual mandate of regulating and developing the capital market thereby being a catalyst for economic growth. We engaged in developing a capital market development master plan to make the regulatory system more proactive, in line with international standards and contribute effectively to the capital formation requirement of the country. This master plan will pursue 10 key strategies aimed at expanding the products offered, listing companies from both private and state owned enterprises, developing the unit trust and bond market, modernising market infrastructure, demutualising the CSE, amending the SEC Act and widening the opportunities for investors.

CHAIRMAN'S REVIEW *Contd.*

This capital market development master plan was carefully formulated in consultation with all the key capital market stakeholders and during the year a number of working groups were formed comprising of senior representatives from the securities industry, CSE and SEC to spearhead this plan and provide policy direction.

Though the capital market is an important source of long term finance, in Sri Lanka more companies are still reliant heavily on banks for their financing needs and the capital market is still underpenetrated. In order to encourage companies to list on the CSE, the SEC took several measures to refine the listing requirements, simplify the listing process and educate potential listed companies on the benefits of listing. The government provided further impetus in the Budget for companies to list by offering tax incentives for new companies that will be listed on the CSE before December 2013.

Demutualisation of the CSE was one of the highest priorities of the SEC and we fast tracked the process of developing modalities during the year. The need for a demutualised exchange has been increasingly felt since it would be able to operate more efficiently and develop into a profit oriented exchange which can respond to new challenges and changes.

To create an active and efficient corporate bond market which can offer the private sector an alternative source of funding with suitable maturity structures we stepped up our efforts to develop the corporate bond market. During the year we held discussions with the Central Bank, CSE and market participants to enhance market infrastructure as well as operational and trading procedures. We are confident that measures taken by the government to grant an exemption on withholding tax on interest income from listed bonds and debentures, on a request made by the SEC will facilitate the expansion and depth of the market.

Delivering responsive regulation that fosters investor confidence is a prerequisite for effective capital market regulation. The amendments to the SEC Act gathered momentum in 2012 and this was yet another noteworthy achievement towards building a fairer and more efficient capital market. The Financial

Sector Reform and Strengthening Arm of the World Bank provided necessary recommendations and proposals to reform the Act. These amendments to the Act will establish a regulatory framework for a derivatives exchange, clearing house, licensing of a demutualised stock exchange and give powers to the SEC to institute civil sanctions and administrative actions against capital market offenders.

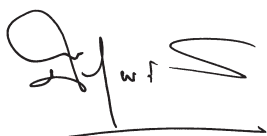
To mobilise domestic savings more efficiently and to allow investors with small funds to participate in the capital market, we worked towards inculcating market awareness on the diverse opportunities that exist in investing in unit trust funds. To further popularise investments in unit trusts the government permitted direct investments in foreign currencies in unit trusts for Sri Lankans living overseas without having to channel through Securities Investment Accounts. This inducement would undoubtedly encourage investors to invest in unit trusts and move away from traditional investment options.

In tandem with the surge in economic activity that took place in the post war era stock market activity also grew significantly. This has led to a rapid increase in the stock broker branch expansion. Due to the advancement in technology drastic changes have taken place in the investing landscape globally. To enable the stock broking industry to keep abreast with new technology and to modernise the infrastructure such as trading, back office systems etc. on a recommendation made by the SEC the government permitted stock broking firms to claim 100% depreciation allowance on capital items such as IT infrastructure and branch networking. This would enable stock broker firms to compete and grow and meet the requirements of investors efficiently.

During the year we were committed to improving the level of financial literacy among retail investors and assist them to make informed investment decisions. Our investor education initiatives comprised of regular articles in newspapers on investing in the capital market in all three languages, investor day programmes as well as a quiz programme to foster greater awareness on the capital market. We also communicated all our policy decisions to the media and embarked on a transparent media policy without having an arm's length approach.



We are hopeful that the new strategic initiatives will bring about a new era of growth for the capital market as well as the economy. I wish to thank the members of the Commission for the support extended to develop the capital market. I wish to express my appreciation to the Ministry of Finance and Central Bank for the assistance given throughout the year and industry stakeholders including the CSE, stock brokers, unit trusts and staff of the secretariat for their hard work and commitment to achieve our new strategic direction. Last but not least I would like to thank the media for their continued support.



**Dr. Nalaka Godahewa**  
*Chairman*

19<sup>th</sup> April 2013

# DIRECTOR GENERAL'S REVIEW





The year 2012 posed many challenges to the Sri Lankan capital market owing to the high interest rates on fixed income securities, exchange rate volatility, low investor confidence and the adverse impact of the global financial markets. Against this backdrop the SEC formulated a comprehensive capital market master plan with a balanced approach in consultation with the key industry participants to reposition the market to play an important role in capital formation and development of the economy.

As the country envisages becoming a strategically important economic centre in the region this master plan is intended to ensure a vibrant and efficient capital market that is aligned to support national growth. Some of the key initiatives outlined in the plan include the development of the unit trust industry and bond market, encourage companies to list and attract new funds, strengthen risk management, expedite the amendments to the SEC Act, enhance investor education and demutualise the CSE.

As the market showed signs of correction subsequent to escalating to untenable levels, the SEC re-visited some of the regulatory measures which it had taken to stabilise the market and thereby relaxed the limits on credit extension by stock brokers, removed the 10% price band which was imposed for 5 market days on volatile shares as well as lift the upper limit of 20% imposed on the price of transactions carried out on the Crossing Board of the CSE. At the same time several measures were introduced to mitigate settlement risk in the market.

Regulation is fundamental to ensure that the capital market is fair, orderly and transparent. To strengthen our regulatory framework to facilitate capital market development many significant provisions were included in the proposed amendments to the SEC Act. The draft Act which is awaiting the Attorney General's Department feedback will introduce a range of Civil and Administrative sanctions (to deal with capital market offenders) on par with global developments to efficiently handle regulatory matters, support the introduction of new products and facilitate the regulation of a demutualised exchange as well as establish a Central Counter Party.

When a significant number of shares are distributed among a large number of shareholders it provides liquidity to investors, improves the mechanism for fair and unbiased price discovery and facilitates the redistribution of wealth in the country. During the year we were able to draft rules on minimum public float as a continuous listing requirement and conduct further public consultation, in a bid to increase the depth and liquidity of the market, attract long-term investors and enhance market turnover.

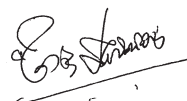
We carried out a range of initiatives designed to cultivate smart and savvy investors in the capital market. Our financial literacy programmes were conducted in all three languages and targeted schools, universities, members

of various organisations and the general public. We were able to expand the reach of our investor education programmes during the year under review via newspaper articles, seminars, workshops, television programmes and competitions. SEC also continued to administer licensing exams as well as conduct continuous professional development programmes to create qualified and successful capital market intermediaries. During the year we were able to award certificates and diplomas to over 800 students who had successfully completed their study programmes. To enhance regional cooperation and share knowledge on derivative market transactions, regulatory framework and types of derivative products, we hosted a Regional Seminar on "Regulation and Supervision of Derivatives Markets".

The SEC was committed to maintain a robust compliance presence to promote investor confidence in the market. We continued to conduct vigorous risk-based compliance reviews on market intermediaries to verify their levels of compliance. We held discussions with our regulated entities to educate them on their regulatory obligations with a view to fostering a culture of compliance. The new surveillance system with capabilities of market replay, alert parameters and effective report management capabilities enabled us to carry out our market surveillance activities successfully.

The unit trust industry plays an important role in developing our capital market by building the demand side as it plays a pivotal role in channelling capital into the real economy. To develop the unit trust industry we made representations to the Central Bank of Sri Lanka to include unit trusts that invest exclusively in Government securities within the definition of 'Government securities' for the purposes of calculating Statutory Liquid Assets by banks and finance companies.

Going forward, we are determined to make the Sri Lankan capital market more attractive to both local and foreign investors as well as boost market activity. In conclusion, I wish to convey my appreciation to the Chairman and Commission Members for their continued guidance, and the stakeholders and staff of the secretariat for their support and relentless efforts in performing their tasks with commitment and professionalism.



**Prof. Hareendra Dissabandara**  
Director General

19<sup>th</sup> April 2013

# MEMBERS OF THE COMMISSION



1

**Dr. Nalaka Godahewa**  
*Chairman*



2

**Mr. Lolitha Abeysinghe**



5

**Mr. Sujeewa Rajapakse**



6

**Dr. Sri Warnaprathepa Mahanamahewa**



3

**Mr. M. Z. H. Hashim**



4

**Mr. B. D. W. Ananda Silva**



7

**Mr. P. D. J. Fernando**



8

**Dr. B. M. S. Batagoda**

MEMBERS OF THE COMMISSION *Contd.***1. Dr. Nalaka Godahewa - Chairman**

Dr Nalaka Godahewa serves on the Boards of the Urban Development Authority, Lanka Hospitals Corporations PLC, Sri Lankan Catering Services Limited and Sri Lanka Handicrafts Board.

His previous appointments includes Chairman – Sri Lanka Tourism, Managing Director – Sri Lanka Insurance Corporation Ltd. and CEO – MAS overseas operations.

Academically qualified in three different disciplines, Dr Godahewa holds a BSc Honours degree in Electronics and Telecommunication Engineering, a Masters in Business Administration and a PhD in Marketing. Dr. Godahewa is a Fellow Member of the CIM (UK), CIMA (UK) and CMA (Australia).

**2. Mr. Lolitha Abeysinghe**

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

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

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

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

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

Mr. Abeysinghe has attended many Local and International Training Courses, Workshops and Conferences. He has presented papers at several international seminars.

**3. Mr. M. Z. H. Hashim**

Mr. Hashim is a Bachelor of Laws (LL.B) (Honours) London and Barrister at Law (Middle Temple). He is director at Malship group of companies, Development Interplan Ceylon Ltd and Kerry

Malship Logistics Lanka (Pvt) Ltd. He is the General Secretary of the Sri Lanka Fruit & Vegetable Producers', Processors' & Exporters Association. Mr. Hashim has represented Sri Lanka at various local and international business forums.

**4. Mr. B. D. W. Ananda Silva**

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

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

**5. Mr. Sujeewa Rajapakse**

Mr. Sujeewa Rajapakse is the President of the Institute of Chartered accountants of Sri Lanka (ICASL) and the Managing Partner of BDO Partners, a firm of Chartered Accountants and counts over 28 years of experience with the firm. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and holds a Masters in Business Administration (MBA) from the Postgraduate Institute of Management of the University of Sri Jayewardenepura.

Today, Mr. Rajapakse serves as the Technical Advisor of the South Asian Federation of Accountants (SAFA) and also a Member of the Confederation of Asia Pacific Accountants (CAPA). He is currently serving as a director at Asian Alliance PLC, National Development Bank PLC and Haycarb PLC. He is also a Board Member at the National Institute of Business Management (NIBM), Postgraduate Institute of Management (PIM), and the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAAMB) as an ex-officio nominated by the ICASL. He is also serving as a Committee Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka.

**6. Dr. Sri Warna Prathiba Mahanamahewa**

He obtained the Degree of LL.B. (Hons) Second Class from the University of Colombo, Sri Lanka in 1993 and the qualification of Attorney-at-Law in 1994 with first class Honours in the final examination conducted by the Sri Lanka Law College. He was awarded a Gold Medal for address to the jury contest in 1993 organized by the Faculty of Law and leader of the faculty debating team. He also obtained LL.M (Hons), University of Melbourne, Australia in 2000 and Ph.D in Law, from T.C Beirne School of Law, University of Queensland, Australia in 2005. He was a research fellow, Center for comparative Law, T.C Beirne School of Law, University of Queensland in 2002/2005. He was awarded the one of the best young lawyers award in 2003 by the International Bar Association.

Dr. Prathiba started his academic career as a visiting lecturer at the Sri Lanka Law College and later he was selected to the



permanent staff of the law faculty and promoted to the Grade of Senior lecturer. At present he is the Dean of Law, Kotelawala Defence University. Further he is a visiting lecturer in Human Rights law at the Sri Lanka Police Academy, Katana, Sri Lanka Navy Academy, Trincomalee, Sri Lanka Police Training College, Kalutara, Special task Force Training Center, Katukurunda and University of Tribuwan, Nepal(MA Programme). Further He teaches law for the M.Sc Degree programme at the Department of Computer Science and Engineering, University of Moratuwa, School of Computing, University of Colombo, and Sri Lanka Institute of Development Institute and Administration.

Dr. Prathiba is a thesis Supervisor for the Faculty of Computing, University of Stockholm, Sweden and Faculty of Graduate Studies, University of Colombo. He is also a project report supervisor, Institute of Human resource Advancement, University of Colombo and Ph.D thesis Examiner, Varanas Hindu University. He was the senior Treasurer for the Human Rights Student Society, University of Colombo.

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

He recently completed two research projects for Call Centre employees monitoring a research conduct for Telecommunication Regulatory Commission of Sri Lanka and E-Laws Outcome project for ICTA.

He has received several research grants such as National Science Foundation Grant, 2008, University of Johannesburg, South Africa, Telecommunication Regulatory Commission of Sri Lanka, Research Grant 2007/2008, World Bank Research Grant on Ph.D programme 2002-2005, University of Queensland travel grant for the World Data Protection Commissioners Conference, Poland 2004, University of Melbourne, Research Grant on Postgraduate Conference 2002 and Australian Research Council grant for the Future Researchers 2004

Dr. Prathiba received awards for his significant contribution in his field as well as to the community such as the International Institute of Human Rights scholarship France in 2000, International Bar Association Young Lawyers Award in 2003, San Francisco, California USA Electronic Privacy Information Centre (USA), Privacy in new era (2004) travel grant.

## 7. Mr. P. D. J. Fernando

Mr. Fernando has more than 35 years of experience in the banking sector. He was earlier attached to the Central Bank of Sri Lanka where he served in senior positions in diverse capacities. He was the Deputy Governor of the Central Bank during 2010-2011 in charge of the Financial System Stability and the Corporates Services cluster. Mr Fernando has extensive experience and expertise in the fields of banking and financial sector regulation, Strategic Planning and Management, Information Technology, National Accounting and Statistics, National Payment and Settlement Systems. At Central Bank he served as the chairman of the Financial Stability Committee, member of the Monetary Policy Committee, member of

the Risk Management Committee and chairman National Payments Council. In 2011 he led a team of officers at the Central Bank in restructuring seven “distressed” registered Finance Companies which were struggling financially.

During his tenure as the deputy Governor of the Central Bank he served as an ex-officio member in the SEC and in the Insurance Board of Sri Lanka, Chairman of the Credit Information Bureau, Institute of Bankers Sri Lanka. He had also held Board Member positions at the Employers Trust Fund, Lanka Clear Pvt Ltd and the Lanka Financial Services Bureau.

In addition to the SEC, Mr Fernando is currently serves as a board member at Union Bank, Commercial Finance and Leasing Ltd, Commercial Insurance Brokers Co Ltd, Taprobane Holdings Ltd and Hambana Petro-chemical Company Ltd.

During his career he has initiated and spearheaded several key projects of national importance, especially in the area of National Payments and Settlement Systems.

Moreover, Mr Fernando has served in a number of committees at national level covering a range of subjects and have represented Sri Lanka and the Central Bank in international forums.

## 8. Dr. B. M. S. Batagoda

Dr. Batagoda is a BA Honours (in Geography) Graduate from the University of Sri Jayawardanapura and also holds a Ph.D. in Environmental Science from University of East Anglia, UK, MSc in Natural Resources Management from Michigan State University, USA and an Attorney-at-Law of the Supreme Court of Sri Lanka. In addition, he holds a Certificate in Public Administration from the Institute of Development Administration, Sri Lanka.

Dr. Batagoda is a Board member of the Board of Directors of Ceylon Electricity Board, Litro Gas Lanka Ltd., SAARC Development Fund, Lanka Sugar Company, Sri Lanka Insurance, Regional Development Bank, Institute of Policy Studies and Post Graduate Institute of Management, Sri Lanka Carbon Fund and Sri Lanka Fulbright Commission. In addition, he is the Deputy Secretary to the Treasury. He was the Director-General of the Department of Public Enterprises and National Planning, Ministry of Finance and Planning. He held several senior positions in the Ministry of Public Administration, Ministry of Plantation Industries, Ministry of Environment and Natural Resources and Ministry of Finance and Planning. Further, he has served as an Assistant Secretary to his Excellency the President of Sri Lanka, Presidential Secretariat, Sri Lanka. Dr. Batagoda has authored several books including State of the Environment in Sri Lanka, The Economic Valuation of Alternative Uses of Mangrove Forests in Sri Lanka and co-authored books including Urban Air Quality Management in Sri Lanka, Theoretical Manual for Environmental Valuation in Sri Lanka and Fiscal Policies on Fuels and Vehicles in Sri Lanka etc.

# SENIOR MANAGEMENT



**Prof. Hareendra Dissabandara**

*Director General*

*Director Capital Market Education and Training*

*(Resigned with effect from 27<sup>th</sup> May 2013)*



**Mr. Dhammika Perera**

*Deputy Director General*

*Director Investigations*



**Mr. Vajira Wijegunawardane**

*Director Capital Market Development*



**Mr. Namal Kamalgoda**

*Director Surveillance*



**Mr. Tushara Jayaratne**

*Assistant Director External Relations and Market Development*





**Ms. Ianthie Jayaratne**  
*Director Finance and Administration*



**Ms. Surana Fernando**  
*Director Supervision*



**Mrs. Ayanthi Abeywickrama**  
*Director Legal and Enforcement*



**Ms. Himani Weerasekera**  
*Assistant Director Supervision*



**Mrs. Ruwani Munasinha**  
*Assistant Director Corporate Affairs*

# MANAGERS AND STAFF

## MANAGERS



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

## STAFF



**Left to right:** Mr Anura Perera, Miss Buddhinee N Herath, Mrs. Nisansala Herath, Mrs Dhanesha Rajapura, Mrs Lakshmi Wickramanayake, Miss Shalini Perera, Miss Ruwanganie Gooneratne, Miss Ranithri Molligoda, Mrs Thakshila Francis, Mrs Ashoka K Dayarathne, Mr W Ariyaratna



**Left to right:** Mrs Sithara Tissera, Mr S D Dharmasiri, Mrs Erandathie Waidyasekara, Mrs H K A Chamari Buddhika, Mrs Bimba Gammathige, Mr Sugath Alwis, Mrs Manjula Chandraratne, Mrs Krishanthi Muthuthantrige, Mr D M G Priyantha, Miss Christobel Silva, Miss Y D Sandamali





**Left to right:** Mr Mahesh Abeysekera, Miss Nuala Thevathasan, Mrs J K Priyadarshini, Miss Lakshmi Atapattu, Mrs. Sithy Maleeha, Mrs Anula Wijesinghe, Mr D Pathum Niroshana, Miss Lushanthini Sivaneasharajah, Mr Anslam Dias, Mr Rakitha Bandara



**Left to right:** Miss P M Niroshika Udayanganie, Mr Sandaruwan Wijeratne, Mr G D Kapila Kumara, Ms Sheena Goonaratna, Miss Ann Chrishanthi Fernando, Mrs. Jansenidevi Kuhanesan, Mrs Prabashini Samarakoon, Mrs Nishoka Jayathunga, Mr M A Imran, Miss Rajmi Manatunga, Mr D M G Priyantha



**Left to right:** Mr M Jayasekara, Mr R K Wasantha Sunimal, Miss Mekhala Jayapala, Mr Nimal Kumarasinghe, Mrs Prathibhani Herath, Miss, Eranga Manthrirathna, Mrs Gayathri Weerasinghe, Mrs Joelene Karunaratne, Mrs Julie AllegaKoen, Mrs Saumi Kodippily, Miss Suhadini Wickremasinghe, Mr Chandran Nagendran, Mrs Aeshini Bandara

**Absent:** Mrs Sajeevani Bakmedeniya, Mr P W L Piyatissa, Ms P D Pathmarani

# MACROECONOMIC OVERVIEW

## Economic Output

In comparison to the rest of the world and similar economies, the Sri Lankan economy confidently weathered several global and domestic challenges and fared reasonably well in 2012. Despite a slowdown, the overall Gross Domestic Product (GDP) grew at a healthy 6.4% to push up the per capita income to US dollars 2,923. The Services sector, which includes the capital market activities has contributed 58.5% to the overall economic output and according to the Central Bank has grown 4.6% in 2012. The Industry and Agriculture sectors have grown by 10.3% and 5.8% respectively, while the contribution of Industry sector to the overall economy has increased to 30.4% in 2012 compared to 29.3% in the previous year.

The CSE had to face a few challenges at the start of the year with the Sri Lankan Rupee losing value subsequent to the flotation of the currency and rising domestic interest rates. With the overall infrastructure investments and private sector investments, mainly in the tourism and hotel industry not been compromised demand for domestic funding remained high. However it is noteworthy to mention that in 2012 the country managed to issue a few US Dollar denominated long term bonds at the lowest ever rates secured by any other Sri Lankan bond issued previously. The relatively low cost overseas funding assisted in maintaining the domestic interest rates from rising further while the prudent actions of the authorities' enabled the economy to record robust growth without compromising overall economic health. These positive developments were treated favourably by the investors with net foreign inflows of SL Rupees 38.6 billion being recorded at the CSE while total market capitalisation was SL Rupees 2,167.6 billion which was 29% of the total annual GDP as at end 2012.

## Inflation, Exchange Rates, Interest Rates and Credit

The policy makers managed to maintain inflation at single digit level despite volatility in crude oil prices, seasonal drought which affected agriculture produce and hydro power generation and more so the depreciation of the SL Rupee. Exchange rate was under pressure since end 2011 where the currency was devalued overnight and then the widening trade deficit necessitated the Central Bank to withdraw from defending the SL Rupee any further. Despite the initial panic and sell down of the SL Rupee, stability returned to the exchange rate market with local currency gaining marginally from its low level, despite losing 13.3% from a year ago. The measures introduced by the authorities proved correct with the trade deficit falling by 3.1% in 2012. Further according to the Central Bank income from Tourism grew by 25.1% and Transport services by 17.4% resulting in

foreign exchange earned by Services growing 13.8% during the year. The income from Services and the 16.3% growth in remittances by our migrant workers assisted in reducing the current account deficit by 15.3% in 2012 and assisted in stabilising the exchange rate.

The tighter Monetary Policy stance adopted by the Central Bank managed to curtail excess liquidity and excessive credit expansion which was evident in 2011, and managed to contain inflationary pressures while balancing overall economic growth. As a result market interest rates remained high and above mid-teens which affected the trading activities at the CSE with investors switching from equity to high yield fixed income instruments. This resulted in a sharp decline in trading activities at the CSE with turnover value falling by 60.8% to SL Rupees 213.8 billion.

## Government Finance, Investment and Deficit

Due to the tighter monetary policy and reduction of consumption led imports the government income as a percentage of total GDP has fallen from 14.3% to 13.0% in 2012. Nevertheless despite the fall in revenue the authorities have not withheld investments which would derive long term economic benefit to the country. The expansion of the road and highway network, port and airport development and expansions are a few such investments which have progressed seamlessly during the year. According to the Central Bank, total investments in 2012 have increased in absolute terms and have also grown to 30.6% of GDP from 30% a year ago.

Further despite the revenue generation falling behind target it is quite comforting that the fiscal health has not suffered but improved by reducing the overall fiscal deficit to 6.4% of GDP. Therefore the trend of narrowing fiscal deficit has continued despite the many challenges, though the declining trend of the Government Debt had reversed and marginally increased to 79.1% of GDP. The increased debt could be attributed to the investment expenditure and the slower economic growth experienced in 2012.

Another positive economic attribute visible in 2012, is that Domestic Savings has increased by 27.6% to SL Rupees 1,286.5 billion which is now 17% of GDP. Further given the strong inflow of remittances National Savings also has increased to 24% of GDP in 2012 compared to 22% of GDP during the previous year. This trend if continued would be beneficial to the economy with the National Savings-Investment Gap having fallen to 6.6% of GDP from 7.9% of GDP a year ago.

### Concluding Remarks

The Sri Lankan economy can expect several years of relatively high growth and improved living standards for its population if the government finances and policies are managed properly and infrastructure is in place to harness the highest potential from the private sector. We believe the government has already taken steps to uplift the economic output of the Small-to-Medium Scale Enterprises (SME's) and if cohesive support is extended to all private sector enterprises including the large scale organisations the economic growth rates could be boosted. Further the economy should build upon the increasing National Savings and broad base availability of multiple investment/savings products while viewing the capital markets as an avenue of investment/savings and high returns.

*Data Source: Annual Report 2012, Central Bank of Sri Lanka*

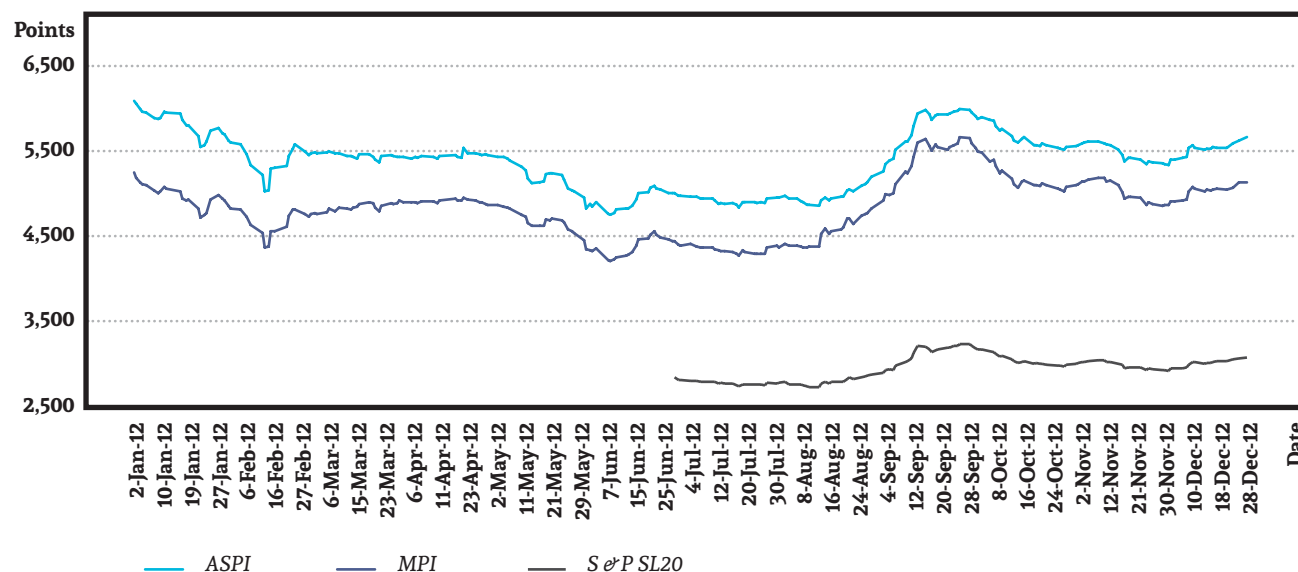


# CAPITAL MARKET REVIEW

## EQUITY MARKET 2012

One impressive pillar of Sri Lanka's post-conflict recovery has been the revival of its stock market. In 2012 the CSE was subject to some volatility partly reflected by global sentiments and partly by domestic factors. (Figure:- 01)

Figure 01 : Performance of Market Indices



The year 2012 commenced on an optimistic note, with expectations of a turnaround in the market's prospects with the SEC's decision to relax credit rules which was welcomed by the stock broking community.

The Central Bank's decision to shift from a fixed exchange rate regime to a managed exchange rate represented a paradigm shift in the Sri Lankan economy. The sharp depreciation of the rupee as well as a slowdown in YoY earnings growth for many sectors dampened investor expectations resulting in the market going below the 5,000 level by late May. The overall impact was a drop in YTD performance of the All Share Price Index (ASPI) to negative 20% by the end of May.

The market also reacted negatively to a series of tightened regulations and stringent trading measures for market insiders. These actions were taken by the SEC subsequent to the CSE suspending a custodial service provider over its failure to honour a purchase. The SEC was forced to bring in some temporary measures in a bid to ensure the smooth functioning of the capital market, especially with regard to the settlement cycle until a comprehensive Delivery vs Payment (DVP) system is implemented.

The market continued its slide in the month of June as a high interest rate environment was in place in order to limit excessive credit growth. The higher returns offered by stable fixed income instruments such as time deposits and debentures became a more attractive option to retail investors as compared to the share market.

In the third quarter the economy was boosted by IMF's positive outlook on the country and the release of the final tranche of US dollars 2.5 billion SBA (Stand-By Agreement). The third quarter of the year was also marked by SEC's decision to further relax several regulations such as loosening the broker credit margins, lifting 20% upper price limit on off market deals and lifting the ban on directors and employees of broking firm selling shares within six months from their purchases. As the market declined, market valuation became more attractive and this increased foreign participation. With these developments the market rallied with the ASPI propelling to a yearly high of 5971.99 by the end of September 2012.

During the last quarter the government presented a capital-market friendly budget and the CSE reacted positively to the budget which gave several concessions for the development of the capital markets.

### Performance of the Market Indices

As measured by the Milanka Price Index (MPI), the equity market lost a marginal 2 % on a year to year basis whilst the broader ASPI declined 7%. The ASPI opened the year at 6,074.42 points and closed the year at 5,643.00 points whilst the MILANKA Price Index opened the year at 5,229.16 points and closed at 5,119.09 points.

In June 2012, Standard & Poor's (S&P) Indices launched the S&P Sri Lanka20, which is a joint development together with the CSE. The index is designed to represent liquid and tradable stocks in the CSE.

**Market Capitalisation and Price Earnings**

The market capitalisation declined to Rs 2,167.5 billion as of December 2012 compared with Rs 2,213.9 Billion as at the end of 2011. The market capitalisation to GDP ratio is an important parameter for evaluation of stock markets. At the end of 2012, market capitalisation stood at 29% of GDP, down from 33.8% at the end of 2011.

The valuation of the shares might be gauged from the price-earnings ratio. Due to the relatively lower share prices that prevailed in the year under review the market witnessed a decline of P/E ratio to 15.9 times at the end of 2012, which compares with 15.8 times in 2011. Although there was a decline in P/E ratios over the past year, they still reigned high in comparison with other emerging markets.

**Primary Markets / New Listings**

The amount raised through IPOs and Introductions was substantially lower during 2012 compared to the previous year. 2012 saw six IPOs on the CSE representing companies in the Tourism, Construction & Energy, and Financial Services sectors which raised Rs. 1.7 billion. In addition 11 companies attained listing on the CSE through Introductions.

In an attempt to boost the number of listings on the CSE this year, a proposal has been put forward in the 2013 budget to give a 3-year, half tax holiday for new companies that list before December 2013 and maintain at least 20% of their shares with the public. Such a move would help Sri Lanka's bourse by introducing more liquidity and decreasing volatility. Several state-owned enterprises are considering listing in 2013. (Figures 02,03)

**Figure 02: New Listings Equity**

| Name                       | No. of shares offered | Offer Price (Rs.) | Funds raised (Rs.Mn) | Date listed |
|----------------------------|-----------------------|-------------------|----------------------|-------------|
| Kalpitiya Beach Resort PLC | 16,200,000            | 17.50             | 283.50               | 3-Jan-12    |
| Waskaduwa Beach Resort PLC | 15,600,000            | 12.50             | 195.00               | 3-Jan-12    |
| Asia Asset Finance Ltd     | 170,160,129           | 2.50              | 295.70               | 12-Jan-12   |
| Access Engineering PLC     | 20,000,000            | 25.00             | 500.00               | 27-Mar-12   |
| Mackwoods Energy PLC       | 25,000,000            | 14.00             | 350.00               | 25-Apr-12   |
| Hikkaduwa Beach Resort Ltd | 5,757,390             | 20.00             | 115.10               | 17-Dec-12   |
| Total                      |                       |                   | 1,739.3              |             |

**Figure 03: Introductions**

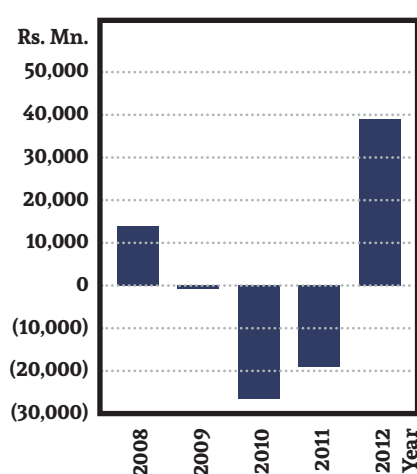
| Name                                | Date listed | Name                             | Date listed |
|-------------------------------------|-------------|----------------------------------|-------------|
| PC Pharma PLC                       | 18-Jan-12   | PCH Holdings Ltd                 | 28-Jun-12   |
| Agstar Fertilizers PLC (Voting)     | 16-Feb-12   | Orient Finance                   | 7-Jun-12    |
| Agstar Fertilizers PLC (Non-voting) | 16-Feb-12   | Commercial Leasing & Finance PLC | 5-Jun-12    |
| Sanasa Development Bank PLC         | 31-May-12   | Beruwala Resorts PLC             | 4-Jul-12    |
| Taprobane Holdings Ltd              | 17-May-12   | George Steuart Finance PLC       | 12-Sep-12   |
| Ramboda Falls Ltd                   | 18-Jun-12   | Asia Siyaka Commodities Ltd      | 12-Sep-12   |

**Secondary Market Activity**

In tandem with the decline in stock prices in 2012 there was a significant decline in annual turnover and number of trades executed across the board. Relatively low activity levels were witnessed in the year 2012 in which the daily average turnover was Rs. 884 million, a substantial decrease of 61% from Rs. 2,286 daily average turnover in 2011. 75% of the total equity turnover of Rs. 213.8 billion was dominated by domestic investors in 2012, while foreign participation accounted for 25%. The daily average number of trades executed in 2012 recorded 7,675 and a vast decline of 60% from daily average 19,160 trades executed in the previous year. During the year under review, daily average of 40 million shares changed hands compared to the daily average of 103 million shares changing hands in the previous year 2011.

CAPITAL MARKET REVIEW *Contd.***Foreign Participation**

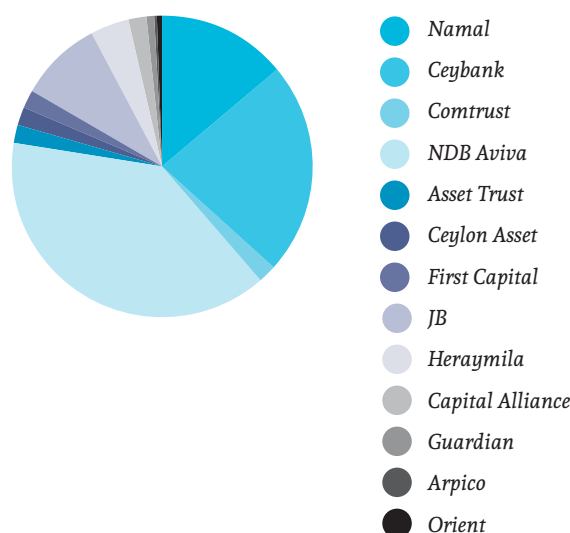
With the stabilisation of the Sri Lankan rupee and attractive valuations, foreign participation increased significantly in the latter half of the year. Overall foreign investors contributed to 25% of the market's turnover. In 2011, it was 11%. The CSE recorded an inflow of foreign capital in the year of US \$303.8 million approximately Rs 38.7 Billion. (Figure 04)

**Figure 04: Net Foreign Inflow****Sector Performance**

Compared to the previous year 2011, the best-performing sector on the CSE in 2012 was the Beverages Food & Tobacco sector, which rose 31%. However, the rest of the 19 Sectors at the CSE reported negative growth. The worst performing Sector Indices were IT and Motors recording a negative growth of 53% and 42% respectively.

**Unit Trust Funds**

The Net Asset Value of unit trust funds stood at Rs. 31 billion (approx) as at 31 December 2012. The market share of each unit trust managing company in terms of the Net Asset Value in the year 2012 is reflected in the following figure: (Figure 05)

**Figure 05: Market share of Unit Trust Managing Companies as at 31st December 2012****The Overall Position of Unit Trust Funds**

The comparative statistics on the performance of the Unit Trust Funds during 2012 and 2011 are given below: (Figure 06)

**Figure 06: The Overall Position of Unit Trust Funds**

|                                                         | As at 31<br>December<br>2011 | As at 31<br>December<br>2012 | Change<br>% |
|---------------------------------------------------------|------------------------------|------------------------------|-------------|
| Number of unit trusts                                   | 33                           | 48                           | 45.45       |
| Net Asset Value of<br>unit trusts (Rs. Mn.<br>approx)   | 24,059                       | 31,062                       | 29.10       |
| Number of unit<br>holders                               | 26,636                       | 27,952                       | 4.94        |
| Number of units issued<br>(No. Mn. approx)              | 1,506                        | 2,251                        | 49.47       |
| Investment in Equity<br>(Rs. Mn. Approx)                | 9,555                        | 8,944                        | (6.39)      |
| Investment in treasury<br>bills (Rs. Mn. approx)        | 10,326                       | 5,449                        | (47.23)     |
| Investment in other<br>instruments* (Rs. Mn.<br>approx) | 4,186                        | 16,596                       | 296.46      |

\* commercial papers, trust certificates, debentures and bank deposits

Source: Regulatory submissions by unit trust managing companies  
CSE

# OPERATIONAL REVIEW

“The new Act will provide for the all-time licensing of demutualised stock exchanges, derivative exchanges, clearing houses and central depositories as market institutions are subject to certain safeguards.”

## REGULATION

### Licensing and Registrations

SEC performs the task of granting licences and registrations to market participants to be engaged in capital market functions. Licensing and registration also ensures the integrity of the market and investor confidence on the ability of market participants to be engaged in regulated activities. Details of the licences and registrations granted during the year are given below. (figure 07)

Figure 07: Licensing and Registration of Market Participants

| Market Participant                | Total No. of Licensed/ Registered Entities | Licences/ Registrations granted during 2012 |
|-----------------------------------|--------------------------------------------|---------------------------------------------|
| Stock Exchange                    | 01                                         | -                                           |
| Stock Broking Companies           | 29                                         | -                                           |
| Stock Dealing Companies           | 06                                         | -                                           |
| Managing companies of Unit Trusts | 13                                         | 03                                          |
| Investment Mangers                | 35                                         | 08                                          |
| Margin Providers                  | 33                                         | 01                                          |
| Underwriters                      | 11                                         | 02                                          |
| Credit Rating Agencies            | 03                                         | -                                           |
| Clearing House                    | 01                                         | -                                           |

### Policy Initiatives

During the year under review the following policy initiatives were undertaken to enhance the existing legal framework of the capital market.

#### Takeovers and Mergers Code

Amendments to the Takeovers and Mergers Code as proposed by Justice Saleem Marsoof PC, Judge of the

Supreme Court were approved by the Commission this year. However a further review of the Code is underway due to certain developments which took place in the market during the year under review.

The new Code will mandate inter alia:

- Indirect takeovers by persons of listed companies to make a mandatory offer when certain thresholds have been triggered.
- For the establishment of a consultative panel to advice the Commission in respect of any matter that may arise in administering the New Takeovers and Mergers Code.
- All offerors and target companies to appoint compliance auditors who will ensure that all parties to an offer will comply with the Code; and
- The introduction of “white wash resolutions” to cure the need for having to make a mandatory offer under certain specified circumstances.

#### Amendments to the SEC Act

The World Bank through FIRST Initiative (Financial Sector Reform and Strengthening Arm of the World Bank) assisted SEC to propose amendments to the SEC Act. The proposed amendments when implemented will provide a robust legal framework to the SEC to regulate the capital market and also will harmonise the law with the International Organisation of Securities Commissions (IOSCO) standards. The first mission was in June, 2011 and the final mission was in December, 2012.

The new Act will provide for the all-time licensing of demutualised stock exchanges, derivative exchanges, clearing houses and central depositories as market institutions are subject to certain safeguards. In addition corporate finance advisors, financial planners, analysts, derivative brokers and dealers will be brought under the purview of the SEC. Further the jurisdiction of the SEC will be extended in respect of companies and market intermediaries making or advising on the offering of



## OPERATIONAL REVIEW *Contd.*

debentures to the public in order to provide an impetus to develop the corporate bond market in Sri Lanka.

In addition the SEC will be empowered to institute civil sanctions and administrative actions against capital market offenders in order to disgorge investors who have incurred losses due to their actions. Many provisions have been included to enhance the protection of the investors including whistle blow protection and powers to protect investors' assets.

The position papers on the above amendments were released for public consultation during the beginning of the year, and the draft provisions have been identified.

### ***Draft Bill to Demutualise the CSE***

The draft bill to demutualise the CSE that was prepared by the Legal Draftsman on the direction of the Cabinet of Ministers, was further discussed with the Registrar of Companies and the CSE. The comments of the Registrar of Companies and the CSE have been forwarded to the Honourable Attorney General for his opinion and the receipt of the said opinion is pending.

In the meantime a special committee has been formulated by the Commission to carry out the demutualisation process.

### ***Rules on Minimum Public Float as a Continuous Listing Requirement***

The draft rules on the above were finalised this year and will be submitted for a further public consultation before implementation.

### ***Rules on Related Party Transactions***

A consultation paper was circulated in September 2012 in order to obtain the public comments pertaining to the draft rules on Related Party Transactions. The said consultation paper covered the following aspects of Related Party Transactions:

- Immediate market disclosure if the value of Related Party Transactions exceeds the prescribed threshold.
- Minimum disclosures that should be made in the Annual Report pertaining to Related Party Transactions.
- Independent approval for all Related Party Transactions.
- Shareholder approval if the value of Related Party Transactions exceeds the prescribed threshold.
- Restricting the acquisition of substantial assets from or disposal of substantial assets to, any Related Party of the entity or its associates without obtaining the special approval of the independent ordinary shareholders of the entity.

### ***Regulation of Market Participants***

#### ***Amendments to Automated Trading System (ATS) Rules of the CSE***

Amendments introduced to the existing ATS Rules of the CSE with the implementation of the new ATS Version 7 in February 2012 were approved by the Commission. These Rules provide for a single trading platform for transacting trades for both equity and debt.

#### ***Stock Broker Rules***

The amended Stock Broker Rules of the CSE were approved by the Commission this year.

#### ***Amendments to the Listing Rules of the CSE***

Following amendments were made to the CSE Listing Rules;

- The requirement of releasing Interim Financial Statements on a quarterly basis to all entities listed on the Diri Savi Board of the CSE was extended by an amendment to Rule 7.4 of the Listing Rules of the CSE.
- Suspension of the "Introduction" as a method of equity listing with effect from 31<sup>st</sup> March 2012.
- Introduction of a lock-in period for all shares issued prior to Initial Public Offerings (IPOs) in the following manner:
  - \* Shares held by the promoters and all other shareholders prior to an offering to the public shall be locked-in for a period of 09 months from the date of listings on the CSE:
  - \* where a public company has allotted shares within a period of one year prior to the date of the initial listing application, all shares shall be locked-in for a period of 12 months from the date of listing on the CSE.
- When a company makes an application to list by way of "Offer for Sale", the shareholders considering divesting their shareholding through the IPO should have held such shares at least for a period of 18 months prior to the date of the initial listing application.

### ***Directives issued by the SEC***

The following Directives were issued on the direction of the Commission.

- Permitting all licensed stock brokers to extend credit to investors up to a limit of three times that of their adjusted net capital, as computed on the basis as per the format specified in the Broker Rules of the CSE.
- Investment advisors attached to licensed stock broker companies were mandated to maintain trader codes assigned to them by the CSE. The respective investment advisors were also made responsible for all trades executed under the assigned codes.

- The CSE was directed to repeal the provisions relating to listing of equity by way of an introduction and also was directed to introduce a “lock-in period” for all shares allotted to persons prior to an Initial Public Offer in the manner specified in the said Directive.
- The CSE was directed to restrict the extension of trading periods granted to warrants issued by Public Listed Companies under certain stipulated conditions.
- The CSE was directed to lift the 10% price band imposed on listed securities which were captured under a formula designed by the CSE with immediate effect from the dated thereof.
- The SEC on 22<sup>nd</sup> May 2012 having considered the purchase of The Finance Company PLC shares by the National Savings Bank through the stock broker Taprobane Securities (Pvt) Ltd which also led to a settlement failure by the custodian bank, introduced certain interim measures to enhance the smooth functioning of the payment and settlement cycle for trades carried out through the CSE. As such the CSE was inter alia directed;
  - I. To introduce an upper limit on the price of transactions carried out on the Crossings Board where the price variance of a unit share price did not exceed 20% from that of the closing price as in the Automated Trading Rules of the CSE;
  - II. To amend the relevant provisions of the Automated Trading Rules to incorporate clause I above;
  - III. All licensed stock brokers were required to obtain a certified Board Resolution in respect of all transactions of rupees 20 million and above when undertaking transactions for and on behalf of the National Savings Bank;
  - IV. The Central Depository Systems (Pvt) Ltd (CDS) was required to ensure that the National Savings Bank uses a third party custodian bank in respect of all custodial trades of the National Savings Bank in the future. The CDS was also advised to ensure strict compliance with the CDS Rules by all its participants and to discourage the adoption of practices deviating from the Rules of the CDS; and
  - V. The CSE was directed to prohibit Executive Directors, employees spouses and the nominees of all licensed stock brokers and stock dealers from selling listed shares purchased from the secondary

market for a period of six months from the date of purchase. Share purchases at IPOs, and entitlements under employee share option schemes and rights issues were exempted from this prohibition.

The Commission in October 2012 lifted the restrictions imposed by clause I, II and V above.

## Approvals

### Country, Regional and Global Funds

Upon the recommendation of the CDS the SEC grants approval to global, regional and country funds to invest in shares of companies listed on the CSE. Approval is 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 under review approvals were granted to 124 global, regional and country funds and acknowledged name changes of 37 approved funds.

### Administration of the Takeovers and Mergers Code

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

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

During the year under review the SEC administered two mandatory offers which were made in compliance with the Sri Lankan Company Takeovers and Mergers Code, details of which are as follows. ( Figure 08)

Figure 08: Offers Extended under the Takeovers and Mergers Code

| Offeror                     | Offeree            | Nature of the Offer |
|-----------------------------|--------------------|---------------------|
| Access Engineering Limited  | Sathosa Motors PLC | Mandatory Offer     |
| Parkson Retail Asia Limited | Odel PLC           | Mandatory Offer     |

There were no voluntary or partial offers made during the year 2012.

OPERATIONAL REVIEW *Contd.***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.

- Orient Financial Services Corporation Limited
- Asia Siyaka Commodities Limited
- Ramboda Falls Limited
- Hikkaduwa Beach Resort Limited
- Millennium Housing Developers Limited
- Sanasa Development Bank 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.

During the year the SEC developed criteria to delegate the authority to the SEC Secretariat in granting approval for Section 29A applications to enable an efficient process.

Approval of the Commission was granted to the following entities. ( Figure 09)

**Figure 09: Approvals Granted to Issue Unlisted Securities**

| Name of the Issuer                                    | Nature of the Issue | Type of Security    | Amount Approved              |
|-------------------------------------------------------|---------------------|---------------------|------------------------------|
| People's Leasing Company PLC - Local                  | Private Placement   | Unlisted Debentures | Rs. 5,000,000,000/-          |
| People's Leasing Company PLC - Foreign                | Private Placement   | Unlisted Debentures | USD 150 Mn                   |
| Alliance Finance Company PLC                          | Public Issue        | Unlisted Debentures | Rs. 1,000,000,000/-          |
| Bank of Ceylon - Foreign                              | Private Placement   | Unlisted Debentures | USD 500 Mn                   |
| Softlogic Finance PLC                                 | Private Placement   | Unlisted Debentures | Rs. 500,000,000/-            |
| Seylan Bank PLC                                       | Private Placement   | Unlisted Debentures | Rs. 2,000,000,000/-          |
| DFCC Bank PLC                                         | Private Placement   | Unlisted Debentures | Rs. 3,500,000,000/-          |
| Singer (Sri Lanka) PLC - III Issue                    | Private Placement   | Unlisted Debentures | Rs. 356,000,000/-            |
| Softlogic Finance PLC - Foreign Issue                 | Private Placement   | Unlisted Debentures | USD 4 Mn                     |
| Senkadagala Finance PLC                               | Private Placement   | Unlisted Debentures | Rs. 750,000,000/-            |
| Dialog Axiata PLC                                     | Private Placement   | Unlisted Debentures | Ringgit Malaysia 1.2 Billion |
| Multi Finance PLC                                     | Private Placement   | Unlisted Debentures | Rs. 200,000,000/-            |
| Ceylon Tea Brokers PLC                                | Private Placement   | Unlisted Debentures | Rs. 100,000,000/-            |
| Pan Asia Bank PLC                                     | Private Placement   | Unlisted Debentures | Rs. 750,000,000/-            |
| Singer (Sri Lanka) PLC - I Issue                      | Private Placement   | Unlisted Debentures | Rs. 500,000,000/-            |
| Vallibel Finance PLC                                  | Private Placement   | Unlisted Debentures | Rs. 150,000,000/-            |
| Singer (Sri Lanka) PLC - II Issue                     | Private Placement   | Unlisted Debentures | Rs. 644,000,000/-            |
| Central Finance Company PLC - (1 <sup>st</sup> issue) | Private Placement   | Unlisted Debentures | Rs. 600,000,000/-            |
| Central Finance Company PLC - (2 <sup>nd</sup> issue) | Private Placement   | Unlisted Debentures | Rs. 700,000,000/-            |

**Conversion of Warrants-2012 into New Ordinary Shares of Citrus Leisure PLC by Divasa Equities (Pvt) Ltd and George Stuart Engineering (Pvt) Ltd**

Approval was granted by the SEC to exempt the two companies mentioned above from having to make a mandatory offer to the shareholders of Citrus Leisure PLC in terms of Rule 31(1)(b) of the Takeovers and Merges Code, subject to Divasa Equities (Pvt) Ltd and George Stuart Engineering (Pvt) Ltd fulfilling certain conditions as stipulated by the Commission.

**Proposed Change in the Shareholding Structure of Aviva NDB Insurance PLC**

On the acquisition of voting control of 93% of the shares of Aviva NDB PLC by American Insurance Alliance (AIA) of Hong Kong, the SEC has called upon AIA to make an offer to the minority shareholders of Aviva NDB Insurance PLC.

**De-listing of a Public Listed Company**

Ferntea PLC was delisted from the Main Board of the CSE, upon the approval granted by the SEC pursuant to the District Court of Colombo issuing an Order to windup the company in terms of Rule 4(2) of the SEC Rules.

**Approval of Off-The-Floor Share Transactions**

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

Approval was granted for 563 exceptional transfers and 335 gifting of shares during the year under review. The exceptional transfers were in order to facilitate transactions such as margin trading, mandatory offers, voluntary offers, de-listing, single account to joint account transfers, data entry errors etc.

**OVERSIGHT AND COMPLIANCE**

The SEC's supervision role attempts to ensure that the investing public is protected by ascertaining the business conduct, financial soundness and compliance with regulatory requirements of all regulated entities. Furthermore, we conduct risk based compliance reviews and facilitate discussions to assist market participants to understand their regulatory obligations.

**Oversight of Listed Companies**

All Listed Companies are required to submit Annual Reports within 5 months from the close of the financial year to their shareholders and the CSE.

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

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

The Annual Reports were reviewed based on the following areas:

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

During the year we reviewed 98 Annual Reports of Listed Companies and issued 50 letters of Comments.

**Supervision of Market Participants****Stock Broking Industry**

During the year 2012, the turnover and profitability of the entire stock broking industry declined, whilst market indices slumped and trading volumes dropped in the CSE. The comparative statistics on the performance of the stock broking companies are given below. (Figure 10)

**Figure 10: Financial Highlights of the Stock Broking Industry**

|                       | <b>2012</b><br><b>(Rs.'000)</b> | <b>2011</b><br><b>(Rs.'000)</b> | <b>Change</b><br><b>%</b> |
|-----------------------|---------------------------------|---------------------------------|---------------------------|
| Turnover              | <b>1,921,489</b>                | 5,749,765                       | -67%                      |
| Net brokerage         | <b>1,756,498</b>                | 5,522,411                       | -68%                      |
| Operating profit/loss | <b>(436,094)</b>                | 2,602,612                       | -117%                     |
| Other income          | <b>786,300</b>                  | 921,809                         | -15%                      |
| Net profit before tax | <b>(557,819)</b>                | 2,389,061                       | -123%                     |
| Net profit after tax  | <b>(299,234)</b>                | 1,768,246                       | -117%                     |
| Total assets*         | <b>10,781,900</b>               | 10,951,135                      | -2%                       |
| Total liabilities *   | <b>4,308,204</b>                | 4,250,390                       | 1%                        |
| Net capital*          | <b>4,926,718</b>                | 3,346,937                       | 47%                       |

\* As at 31 December 2012/2011

Source: un-audited financial statements submitted to SEC

Against this backdrop, credit extension Rules imposed on stock broking companies were in the limelight and were reviewed at length. The stock broking companies constantly voiced their requirement for ease in restrictions on credit extension, to the SEC. The SEC convened several consultative meetings with the officials of stock broking companies to discuss issues pertinent to existing credit extension Rules. Consequently, in October 2012 the SEC



## OPERATIONAL REVIEW *Contd.*

relaxed the credit extension restrictions to a great extent with less stringent guidelines on Net Capital computation.

Accordingly the Net Capital computation would reflect the deduction of the difference between the cost and market value of unsettled purchase transactions in the event the current market value is less than the purchase price. Further, the SEC repealed all previous directives on credit extension except for the directive issued in January 2012 which permits all licensed stock broking companies to extend credit up to 3 times of "Adjusted Net Capital."

However minimum reporting and recording requirements were imposed on stock broking companies to enable the regulator to have a close watch on credit risk exposure. Accordingly a fortnightly debtor information reporting framework was introduced to strengthen the off-site supervision of credit risk exposure.

During the final quarter of 2012, the SEC initiated the implementation of a Risk Management System (RMS) and Common Broker Back Office System, to the stock broking industry. The regulatory oversight and the risk management framework of the entire industry are expected to be fortified by the above initiatives.

### **Unit Trust Industry**

In light of the evolving regulatory framework the SEC took measures to assist the development of the unit trust Industry by relaxing investment restrictions for specialised IPO Funds which allowed investing up to 30% of the deposited property in a single IPO.

The SEC convened consultative meetings with the unit trust managing companies and the trustees towards enhancing competitiveness of the Sri Lankan capital market. These efforts facilitated discussions on new policies and changes to the existing policies and guidelines of the SEC.

SEC deliberated on reviewing the format for financial statements of unit trusts under the new framework on Sri Lanka Financial Reporting Standards approved by the Accounting Standards Committee.

During the year 2012 concessions were granted through the National Budget on exemption of profits and income from the redemption of a unit of a unit trust or a mutual fund from income tax as well as an exemption of VAT on Financial Services

In the year 2012, we conducted risk based on-site examinations of two unit trust managing companies encompassing a wide range of risk areas under prudential, operational and management policies to assess adequacy of

their financial strength, compliance with internal controls and procedures, governance, information systems, Rules and Regulatory requirements. The managing companies were found to be compliant with the relevant Rules and Regulations pertaining to operations of unit trusts.

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

### **Market Intermediaries**

The SEC is empowered to grant registrations for five categories of Market Intermediaries, namely margin providers, investment managers, credit rating agencies, underwriters and clearing houses, to carry on their functions in the capital market as participants. Also, the regulatory role of the SEC involves supervising and monitoring the activities of the capital market intermediaries to ensure that all licensed entities are financially stable and operationally viable.

With the objective of developing and regularising the capital market activities, many regulatory reforms took place during the past few years and as a consequence approximately 20 new companies were granted new registrations to operate as margin providers widening the boundaries of the industry.

The SEC strengthened its supervisory and monitoring procedures of margin providers during the year 2012. Hence the number of risk based on-site inspections and off-site reviews carried out by SEC increased to monitor, mitigate and manage the risks involved. High risk concentrated entities were identified through application of a precise monitoring methodology and by adhering to a careful supervisory mechanism we were able to mitigate escalating risk positions of such entities.

As an initiative to constructively develop the margin trading industry, the SEC facilitated several consultative meetings with industry participants to obtain their concerns and proposals during the latter part of the year. Having evaluated them, the SEC has embarked on several strategic initiatives to enforce feasible proposals in the upcoming year to ensure a fair, efficient and orderly market. (Figure 11)

Figure 11: Financial Highlights of Market Intermediaries (as at 31<sup>st</sup> December 2012)

| Category                | Total Revenue<br>(Rs.) | Total Net Profit before Tax<br>(Rs.) | Total Assets<br>(Rs.) | Total Liabilities<br>(Rs.) |
|-------------------------|------------------------|--------------------------------------|-----------------------|----------------------------|
| Margin Provider         | 369,990,417            | 65,434,417                           | 1,915,156,209         | 1,009,364,015              |
| Investment Manager      | 286,355,825            | (455,791,808)                        | 13,875,361,683        | 3,201,403,820              |
| Underwriter             | 8,378,670,997          | 7,002,695,254                        | 21,915,671,157        | 1,467,550,390              |
| Credit Rating Agencies  | 70,067,750             | (1,367,558)                          | 191,363,890           | 23,466,068                 |
| Multipurpose Entities** | 883,405,895            | 168,267,521                          | 8,257,665,160         | 3,050,675,308              |
| <b>Total</b>            | <b>9,988,490,884</b>   | <b>6,779,237,826</b>                 | <b>46,155,218,099</b> | <b>8,752,459,601</b>       |

\* Information pertaining to Licensed Banks, Registered Finance Companies and Specialized Leasing Companies which are regulated by the Central Bank of Sri Lanka had been excluded to present a fair industry position.

## SURVEILLANCE, INVESTIGATIONS AND ENFORCEMENT

Effective monitoring and enforcement are an integral part of our regulatory process and it ultimately helps to build and maintain investor confidence in the system.

### Market Surveillance

The SEC is responsible for effectively monitoring trading activities of the CSE, and detecting and preventing any transactions or trades that violate the SEC Act. The scope of its activities include monitoring daily market activity that may interfere with the integrity of the price discovery mechanism. This is done by real time monitoring of trading activity, which is carried out, using a state of the art surveillance system. This system reports any suspicious activity when detected. Appropriate action is initiated by preparing a referral to the Surveillance and Investigations Committee (the Committee).

During the year 2012, a total of 54 surveillance referrals were prepared on various issues. In addition, the SEC also received 14 surveillance referrals from CSE. The number of surveillance referrals increased to 54 in 2012, compared to 33 in 2011, an increase of 64%. This increase in referrals can be attributed to the full implementation of the new surveillance system. Apart from the alerts that are generated by the system itself, additional data and analysis tools are available and this has led to both increased detection as well as the ability to build better cases of any perceived market malpractices. (Figure 12, 13)

The upgraded Automated Trading System (ATS) version 7 of the CSE was implemented during February 2012. This version facilitated the broker firms having internet trading system to generate 50% of orders through the system, resulting in an increased internet trading activity at the CSE. The new ATS merged the odd lot board with the main board and trading of odd lots can take place through the normal board.

Figure 12: Surveillance Referrals

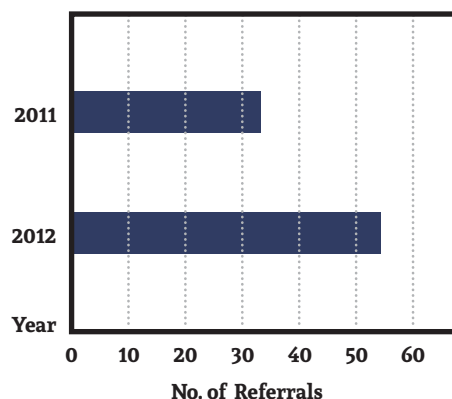
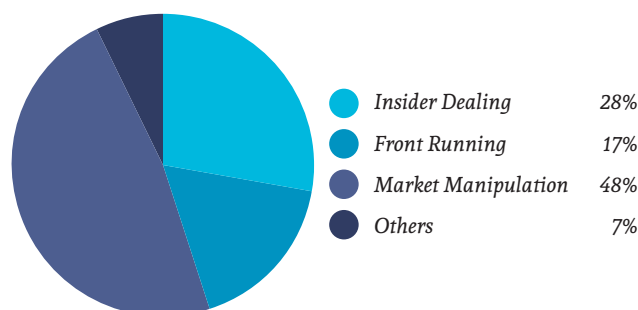


Figure 13: Categorisation of Surveillance Detections



The Committee chaired by the Director General of the SEC met 29 times, during the year, to discuss surveillance issues as well as investigation reports. 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

## OPERATIONAL REVIEW *Contd.*

to refrain from engaging in such trading practices in the future. The summary of the enforcement action taken against such parties are stated in a table. (Figure: 14)

**Figure 14: Enforcement Action**

| Enforcement Action                                                                                                    | Nos |
|-----------------------------------------------------------------------------------------------------------------------|-----|
| Summoned Brokers/Traders                                                                                              | 13  |
| Summoned Investors                                                                                                    | 2   |
| Cautioned investors, that we compelled to direct Broker to discontinue their internet trading facility                | 8   |
| Sought explanation from the parties who have traded in stocks prior to declare dividends/release financial statements | 9   |
| Sought clarification from other parties                                                                               | 1   |
| Sought clarification from Brokers/Investors/CSE on minor issues                                                       | 1   |
| Expressed concerns of the Committee                                                                                   | 2   |

The Committee also cautioned certain investors who traded through the internet, against inappropriate trading patterns at the first instance and compelled to direct their brokers to discontinue the internet trading facility if it continues. Out of the total referrals, 8 issues had been warranted for investigation with the approval of the Commission.

Under the instructions of the Committee the SEC sought explanations from certain parties who were involved in suspected market abuse. A register is maintained whenever we call brokers (or CSE) and seek clarifications verbally on minor issues where urgent attention is needed.

In 2012 the new surveillance system was fully functional. Some of the most important features of the new system are given below

### **On-line**

- Graphically enriched multi-dimensional views of brokers and trading members, allow market monitors to scrutinise the market as all required information is available at a glance.
- A wide range of sort, search and filter options are available to manage the displayed data.
- When abnormal trading patterns are detected, alters generates based on real time pattern analysis and users can drill down and directly access the market replay functionality to review market activity for a given period.

### **Investigation Manager**

- Investigations manager maintains the patterns, reports and facilitates off-line pattern mining.
- Effective report management capabilities are provided in the system, and such reports can be attached to cases or stored in a report repository for future references.

### **Market Replay**

- The surveillance staff can immediately drill down and replay market activity to investigate detected patterns or replay historical data.

- This can replay a single or multiple instruments simultaneously

### **System Manager**

- This application focuses on the administrative tasks of the system.

### **Backend Data Management**

In addition to the successful implementation of the new system, we also enhanced our storage of data. In the previous setup, only six months of old trading data was stored online and at any given time market activities could only be instantly replayed within this six months. During the year under review, old trading data exceeding one year was compressed and retained on-line. Trading data exceeding this period is stored on tapes and are considered as offline backups.

### **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 upon it by the SEC Act, the SEC, in the year 2012, 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 behavior in the market, and deterring future transgressions by market intermediaries, Listed Companies and investors.

During the year 2012, a total number of 19 investigations were conducted by the SEC into instances of suspected market misconduct, including market/price manipulation, insider dealing, front-running, etc.

The year under review also saw several enforcement actions 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 warnings issued to two investment advisors and three investors following an investigation conducted into suspected market/price manipulation, upon the conclusion of which the stock broking firm through which the manipulative trades had been executed was also cautioned by the SEC.

Pursuant to another investigation conducted by the SEC into a case of suspected front-running, two investment advisors were warned, and such warnings were publicised on the website of the SEC.

Out of the total number of investigations conducted in 2012, two investigations remained suspended throughout the year owing to the reason that the issues pertaining to the said investigations formed the subject matter of pending litigation.

The details and a brief description of the action taken/ regarding current status of the said investigations are given in the figure. (Figure 15)

Figure 15: Details of Investigations

| Nature of the Investigation                                                                                      | No. of Investigations | Action Taken/Current Status                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------------------------------------------------------------------------------------------------------|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Insider Dealing <sup>1</sup>                                                                                     | 4                     | <ul style="list-style-type: none"> <li>During the year under review four investigations into suspected Insider Dealing were conducted.</li> <li>As at the end of the year whilst one such investigation report was already finalised the other three matters were at the report compilation stage.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Market/Price Manipulation <sup>2</sup>                                                                           | 11                    | <ul style="list-style-type: none"> <li>During the year 2007, the opinion of the Hon. Attorney General was sought to ascertain whether the SEC could conduct an investigation relating to a particular matter whilst there was on-going litigation in connection with the said matter. The Hon. Attorney General advised to suspend the investigation until the finality of pending litigation. Hence the matter was suspended throughout the year 2012.</li> <li>During the year 2012, upon conclusion of a market/price manipulation investigation two investment advisors were warned and such warning was publicised. Based on the findings of the same matter three investors were also warned and the stock broking firm through which the manipulative trading activity was carried out was cautioned.</li> <li>During the year under review, four other investigations into suspected market/price manipulation were concluded without taking any enforcement action in the absence of material/evidence to legally sustain any manipulative conduct against the investors and/or the investment advisors concerned. However, further investigations into the Insider Dealing aspect pertaining to one such matter was pending as at the end of the year.</li> <li>One comprehensive investigation was conducted regarding nine surveillance referrals pertaining to suspected market/price manipulative activity by the same cartel of investment advisors. As at the end of the year 2012, the matter was at the report compilation stage.</li> <li>At the end of year 2012, five investigations into suspected market/price manipulation inclusive of the one referred to above were pending.</li> </ul> |
| Front Running <sup>3</sup>                                                                                       | 02                    | <ul style="list-style-type: none"> <li>Based on the findings of a Front Running investigation which was concluded in the year 2012 two investment advisors were warned and such warning was publicised.</li> <li>At the end of the year under review one investigation was pending.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Investigation pertaining to suspected irregular activities pertaining to trades executed by a stock broking firm | 01                    | <ul style="list-style-type: none"> <li>The matter was concluded within the year under review. 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.</li> <li>As at the end of the year said formal opinion was pending.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Complaints                                                                                                       | 01                    | <ul style="list-style-type: none"> <li>Deliberations relating to a complaint were suspended until the finality of certain on-going litigation since the issues pertaining to the said complaint form the subject matter of pending litigation.</li> <li>The SEC receives and assesses complaints concerning alleged market misconduct.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

## Complaints

The SEC handled and resolved 14 complaints during the year under review.

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

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

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



OPERATIONAL REVIEW *Contd.***Litigation*****SEC vs. B. A. Jayasekera and 8 others, S/64721/2006***

Nine accused in this case were charged in the Colombo Fort Magistrate's Court for alleged market manipulation in respect of the shares of Nawaloka Hospitals PLC. Earlier the Commission with the permission of the Court and the Attorney General compounded the offence in respect of the 01<sup>st</sup>, 02<sup>nd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup> and the 8<sup>th</sup> accused on their payment of fines to the Compensation fund of the Commission. The Commission withdrew the charges in favour of the 3<sup>rd</sup> accused subject to a severe reprimand on the advice of the Honourable Attorney General.

The trial is pending in respect of the 9<sup>th</sup> accused in this case.

***Magpek Exports (Private) Limited vs. SEC, H.C.M.C.A. 217/2007 and S.C. (Special Leave to Appeal) 194/2011***

The SEC filed charges against the company and its Directors in the Colombo Fort Magistrate's Court for not immediately disclosing certain material information to the market in contravention of the SEC Rules. Charges against three of the accused were compounded in 2001. The Learned Magistrate after summary trial fined the 3<sup>rd</sup>, 5<sup>th</sup>, 6<sup>th</sup>, and 8<sup>th</sup> accused, Rs.2.5 million on each count and sentenced them each to a two year prison term.

The four accused in this case who were convicted by the Learned Magistrate of Colombo Fort have appealed against the judgment and their sentence to the Provincial High Court. The Learned Judge of the Provincial High Court confirmed the judgment of the Magistrate's Court in respect of the 3<sup>rd</sup>, 5<sup>th</sup>, and 8<sup>th</sup> accused appellants and fined them Rs. 3 million each on both counts. The jail term imposed on them by the Learned Magistrate was set aside.

The 6<sup>th</sup> accused appellant in this case continued with the appeal against the judgement and sentence of the Magistrate's Court. The SEC raised preliminary objections in respect of the 6<sup>th</sup> accused appellant submitting two petitions of appeal against the judgement and sentence. The Learned Judge of the provincial high court upheld the preliminary objections of the SEC and determined that the 6<sup>th</sup> accused can continue his appeal only on the sentencing of the Learned Magistrate.

The 6<sup>th</sup> accused appellant thereupon appealed to the Supreme Court against the order of the High Court of Colombo upholding the preliminary objections of the SEC. The Supreme Court granted special leave to appeal on the matter.

Whilst this application was pending, the Supreme Court on an identical issue in another case upheld the same points of Law as was the subject matter in this case. Due to this fact the Supreme Court set aside the Learned High Court Judge's order and directed the High Court to hear the petition

of appeal against both the judgment and sentence of the Magistrate in respect of the 6<sup>th</sup> accused appellant.

The appeal of the 6<sup>th</sup> accused is pending before the High Court of Colombo.

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

Charges were filed in the Magistrate's Court Fort against Miramar Beach Hotels PLC and its Directors for the non-submission of Annual Reports of the Company for the financial years ended 31<sup>st</sup> March 2008 and 31<sup>st</sup> March 2009, in contravention of Rule 3(1) and 17 of the SEC Rules.

The matter is pending before the Magistrate's Court.

***Melstacorp Limited vs. SEC and 10 Others, C.A. (Writ) 127/2012***

On or about February 2012 Melstacorp Limited informed the SEC that it had triggered Rule 31(1)(b) of the Takeovers and Mergers Code on 13<sup>th</sup> September 2011 when it acquired shares carrying over 2% of voting control of Lanka Milk Foods PLC. The company in its announcement to the market in February 2012 stated that it failed to make the offer due to a bona fide error and sought the Commission's approval to make the mandatory offer and to determine the offer price. The company on 15<sup>th</sup> February 2012 also purchased a further parcel of shares carrying over 2% of Lanka Milk Foods PLC.

Melstacorp Ltd claimed that it was acting in concert with Milford Exports (Ceylon) Ltd and Distilleries Company of Sri Lanka PLC in respect of the acquisition of shares of Lanka Milk Foods PLC and stated that they controlled an aggregate shareholding of 36.27% as at 12<sup>th</sup> September 2011 and 41.27% as at 13<sup>th</sup> September 2011. On 15<sup>th</sup> February 2012 Melstacorp purchased a further 8.85% of shares of Lanka Milk Foods PLC.

Rule 31(1)(b) of the Takeovers and Mergers Code requires a person who together with persons acting in concert holds between 30% to 50% of the voting rights of a company to make a mandatory offer if such person in any period of 12 months acquires additional shares carrying more than 2% of the voting rights of a Public Listed Company.

The Commission having considered the failure of the company to make the mandatory offer in terms of their own declaration, determined on 5<sup>th</sup> March 2012 that the company should extend a mandatory offer to all the shareholders of Lanka Milk Foods PLC as at 13<sup>th</sup> September 2011 and to all the current shareholders of Lanka Milk Foods PLC other than the parties acting in concert with Melstacorp Ltd. The Commission also directed that if any of the shareholders had disposed of any Lanka Milk Foods PLC shares during the period 13<sup>th</sup> September 2011 to 15<sup>th</sup> February 2012 at prices below that of Rs. 105/- per share (the Offer Price) that Melstacorp Ltd should pay the

balance to the shareholders irrespective of to whom the shares had been sold to. However Melstacorp Ltd failed to implement the above said Directive of the SEC.

Melstacorp Limited filed a writ application in the Court of Appeal citing the SEC and the Members of the Commission as Respondents seeking inter alia, writ and/or writs of certiorari quashing the determinations of the SEC contained in its letter dated 05<sup>th</sup> March 2012 that the Company pay the balance to such shareholders of Lanka Milk Foods PLC who have disposed of any Lanka Milk Foods PLC shares during the period 13<sup>th</sup> September 2011 to 15<sup>th</sup> February 2012.

Whilst this matter was pending SEC filed action against Melstacorp Ltd and nine others in the Magistrate's Court Fort for the violation of rule 31(1)(b) of the Takeovers and Mergers Code.

***SEC vs. Melstacorp Limited and 09 Others, S/74140/2012***

By way of its plaint dated 13<sup>th</sup> June 2012, the SEC filed action in the Colombo Fort Magistrate's Court, against Melstacorp Limited and its Board of Directors for violating Rule 31 (1) (b) of the Takeovers and Mergers Code, in respect of the acquisition of over 2% of voting control of the shares of Lanka Milk Foods PLC on 13<sup>th</sup> September 2011.

The matter is pending before the Magistrate's Court.

After the above action was filed Melstacorp Ltd made an application to the Commission to settle the matter agreeing to comply with SEC's determination dated 05<sup>th</sup> March 2012.

The Commission agreed to settle the matter subject to Melstacorp's prior implementation of SEC's determination dated 05<sup>th</sup> March 2012. However Melstacorp Ltd although it withdrew case no.127/2012 CA (Writ) failed to implement SEC's determination dated 05<sup>th</sup> March 2012 in spite of an undertaking given to the SEC to do so and instead filed CA Writ 204/2012 in the Court of Appeal against the SEC, seeking inter alia a Writ of Certiorari quashing the determination of the SEC dated 05<sup>th</sup> March 2012.

***Melstacorp Limited vs Securities and Exchange Commission of Sri Lanka and 3 others, C.A. (Writ ) 204/2012***

Melstacorp Ltd filed an application in the Court of Appeal against the SEC on the basis that the Company is not liable under Rule 31(1)(b) of the Takeovers and Mergers Code, to make a mandatory offer to the shareholders of Lanka Milk Foods PLC alleging that the Company was already in management control of Lanka Milk Foods (CWE) PLC.

The SEC, LMF, Distilleries Company of Sri Lanka PLC and Milford Exports (Ceylon) Limited were cited as the 01<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and the 04<sup>th</sup> Respondents respectively.

This matter is pending before the Court of Appeal.

***SEC vs Touchwood Investments Ltd., C.A. (Writ )323/2007 and S.C. App. 100/2011***

The company filed an application in the Court of Appeal against SEC and Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) seeking writs of Certiorari quashing the determination of SLAASMB and the Directive of the SEC issued to the company dated 09<sup>th</sup> March 2007 through which the company was directed to prepare financial statements for the years ended 31<sup>st</sup> March 2005 and 2006 on a cost basis in terms of IAS 41.

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

Since the Supreme Court decision will have a bearing on the case against the SEC, the Court of Appeal laid by the case against the SEC pending the decision of the Supreme Court in respect of the appeal lodged by SLAASMB.

***NDB vs fast Gain International Ltd of Singapore, 13/2009/CO***

***NDB vs Catana Limited of Bahamas, 14/2009/CO***

***NDB vs Anand Prakash Jagaiya of Malaysia, 15/2009/CO***

The National Development Bank (NDB) had filed three applications in the Commercial High Court seeking the Court's opinion in respect of the beneficial interests accruing to three shareholders who have bought shares in NDB but whose names were not entered in the shareholders' register on the allegation that they triggered the restrictions imposed by the Banking Act in respect of public quoted licensed commercial banks. The bank added the CDS, the SEC and the Attorney General as the 1<sup>st</sup>, 2<sup>nd</sup>, and the 3<sup>rd</sup> respondents respectively.

The cases have been withdrawn by the parties on settlement being reached out of Court.

***Free Trade Zone and General Services Employees Union and Others vs Monetary Board of the Central Bank of Sri Lanka and Others, S.C.F.R 587/2012***

The SEC has been cited as the 8<sup>th</sup> respondent in this fundamental rights application filed before the Supreme Court against the Members of the Monetary Board. The petitioners have alleged that certain trades done on the CSE by EPF are in violation of Capital Market Law.

The matter is pending before the Supreme Court.

## OPERATIONAL REVIEW *Contd.*

### Enforcement Actions

#### ***Suspending CEO/Managing Director of a Stock Broking Company***

The SEC launched an investigation into the circumstances surrounding the purchase of 'The Finance Company' shares by the National Savings Bank on 27<sup>th</sup> April 2012 which resulted in the Bank's failure to make settlement for the said purchase to Sampath Bank which acted as the settlement bank in respect of the transaction. Pending the investigations, the SEC suspended the Chief Executive Officer/Managing Director of the stock broking company that brokered the impugned purchase pending the conclusion of the investigation of the SEC into the stock broking company. In the meantime the SEC facilitated the repurchase of The Finance Company shares to the persons identified by the stock broking company to enable the payment due to Sampath Bank as a result of this trade. The said repurchase was facilitated under Section 28(1) of the SEC Act.

The Commission subsequently re-instated the Chief Executive Officer/Managing Director of the stock broking company on the conclusion of the investigations into the company pending the final determination of the Commission on the outcome of the investigations report which has been referred to the Honourable Attorney General for an opinion.

### Warnings

- On the direction of the Commission Letters of Warning were issued to three investors who carried out trades in order to overcome settlement failures in a manner that created an impression of manipulation. The investors were strongly advised against repeating similar conduct in the future and were warned that action will be taken against them in the event of any repetition.

The Commission also warned the two investment advisors who facilitated the trading of the above said three investors and the stock broking company which acted as the stock brokers to the above said three investors was cautioned and advised to ensure that their employees adopt ethical business practices when advising clients in investing in the stock market.

- On the direction of the Commission two other investment advisors who carried out impugned trades in relation to listed securities were also severely warned in respect of the role played by them with regard to front running different clients belonging to the same stock broking company.

### Notices of Malfeasance

- On the order of the Commission a notice of malfeasance was caused to be published by a Public Listed Company

in terms of Section 13(j) of the SEC Act for issuing unlisted debentures without the prior approval of the SEC as required by Section 29A of the SEC Act

- A second notice of malfeasance was also caused to be published by another Public Listed Company for allegedly making a misleading statement in the Introductory Document issued by the company when making an application to list on the CSE in relation to a Director's interests in assets and contracts of the company.

### Alleged Non-Compliance with the Listing Rules of the CSE

On the direction of the Commission the Chairman and the Board of Directors of a Public Listed Company were cautioned in respect of the standards of accuracy practiced by the company in omitting certain vital information when making corporate disclosures to the market in respect of a sale of the company's asset to a related party and strongly advised the Company to desist in the future from making any similar omissions when giving any information to the CSE and the market which would make the information so given to be inadequate.

A Directive was also issued on the listed company to appoint a minimum number of two independent non-executive Directors to the Board of the Company within a specified time period in accordance with the criteria of 'independence' as stipulated in the Corporate Governance Rules enshrined in the Listing Rules of the CSE.

### CAPITAL MARKET DEVELOPMENT

The capital market is a prerequisite for economic growth and a key driver in effective mobilisation of financial resources. In order to facilitate capital market development the SEC took the following initiatives during the year under review.

#### **Formulated Proposals for Budget 2013 to Develop the Sri Lankan Capital Market**

Budget 2013 provided following tax and other incentives for this purpose:

- New equity listings – for companies that list on the CSE between 1 April 2013 and 31 March 2014 and maintain a minimum 20% free float over a 3 year period, a 50% reduction in income tax;
- New corporate bond issues – exemption of withholding tax and income tax on interest earned via listed corporate bonds issued after 1 Jan 2013 ;
- Investors – exemptions on stamp duty for transferring of share portfolios to obtain a margin trading facility from 1 Jan 2013 ;
- Stock brokering firms – allowed a 100% depreciation allowance on capital items such as IT infrastructure and branch networking from 1 April 2013



- Unit trust managing companies –
  - \* Tax applicable to profits and income reduced to 10% percent from 1<sup>st</sup> April 2013
  - \* VAT waived on managing company's services to unit trusts from 1<sup>st</sup> January 2013
  - \* Unit trusts allowed to structure funds in foreign currencies
- Unit trust investors –
  - \* Foreign investors, Sri Lankans living overseas and Sri Lankans operating foreign currency accounts locally permitted foreign currency deposits into unit trusts without having to open a Securities Investment Account (SIA)
  - \* Private pension funds and private provident funds can access capital market investments via unit trusts that invest exclusively in listed equities and listed corporate bonds, up to a 20% cap

#### **Initiating the Implementation of an Independent Research Scheme for Sri Lankan Equities**

Released a consultation paper calling for comments from market participants and the investing public on facilitating independent research coverage of Sri Lankan stocks and an IPO grading mechanism. The report covered independent equity research schemes launched in other markets such as Malaysia, India, Singapore, Indonesia, Australia, USA and Europe. The responses recognised a strong need for independent research on companies that are already listed and on new companies seeking a listing.

#### **Working to Attract Foreign Portfolio Investments into the Sri Lankan Capital Market**

Elevating the Sri Lankan index to the Morgan Stanley Capital International (MSCI) 'Emerging Market' status has been identified as one of the key measures for attracting foreign portfolio investments to Sri Lankan capital market. The SEC worked with the MSCI to gather data on the MSCI Market Classification framework, the MSCI Emerging Markets and MSCI Frontier Markets Index methodologies, MSCI country classifications for market liquidity, MSCI's Market Accessibility Assessment Ranking for Sri Lanka and on the Sri Lankan stocks currently classified under the MSCI Frontier Markets Index in order to identify the required measures to be implemented for possible elevation of Sri Lanka to 'Emerging Market' status in the future.

#### **Facilitating a New, Alternative IPO Payment Mechanism to Reduce the IPO Cycle Time Frame in Partnership with LankaClear, the CSE and the CDS**

Discussions were held with the officials of LankaClear, the CSE, the CDS and IPO Registrars to discuss the proposed new payment mechanism including the IPO process flow and the options available for implementation. Also the proposed IPO payment mechanism was presented to the

heads of licensed banks at the Annual General Meeting of the Sri Lanka Banks' Association.

#### **Consultative Meetings with the Unit Trust Association of Sri Lanka**

Consultative meetings were held with the Unit Trust Association of Sri Lanka (UTA) in order to gather ideas and discuss issues if any from the members of the UTA to develop the unit trust industry, the capital market in general and how the SEC and the government could support them.

#### **Representations Made to Central Bank**

Made representations to the Central Bank of Sri Lanka to include unit trusts that invest exclusively in Government securities within the definition of 'Government securities' for the purposes of calculating Statutory Liquid Assets by banks and finance companies and also to be eligible to be considered under mandatory investments in Government securities category by pension funds and provident funds as per Gazette 1704/18 by the Department of Inland Revenue

#### **Facilitating the Establishment of a Full Fledged Multi-Asset Class Commodities and Derivatives Exchange**

The SEC facilitated and supported two initiatives – selection of the most suitable Exchange operator, as well as selection of a consultancy firm to provide technical expertise – which need to be completed through the National Procurement Agency guidelines. The SEC also facilitated meetings of the three decision-making committees – the Cabinet Appointed Procurement Committee, the Technical Evaluation Committee and the Cabinet Appointed Consultancy Procurement Committee appointed by the Ministry of Finance and Planning which represent several Government organisations – and attended to the tasks/documentation necessary for these committees to function and make decisions.

#### **Mechanism for Voice Recording**

Initiated the implementation of a mechanism for recording stock broker client order instructions either as a voice recording or in written form. Provisions have been introduced under section 3.2 of the CSE Stock Broker Rules

#### **Margin Risk Management System**

Fast tracked the implementation of a margin based Risk Management System for the CSE and broker firms, Delivery versus Payment mechanism for stock market transactions and a Clearing Corporation for Central Counter Party (CCP) Guarantee

As per the Commission decision at the meeting held in February 2011, it was decided to prioritise the enabling of a CCP mechanism and to fast track improvements to Sri Lanka's capital market infrastructure. The Commission appointed the SEC-CSE CCP and Risk Management



OPERATIONAL REVIEW *Contd.*

Committee made up of senior representation from the SEC (2 Commission Members) and the CSE (2 CSE Directors), to fast track the implementation of the project. The Committee served its purpose. National Stock Exchange of India was awarded the contract for Delivery versus Payment and Risk Management System implementation by the CSE Board.

#### Facilitated the Approval of Changes to Waive the Minimum Brokerage and CDS Fees and Fees Charged from Custodian Banks

The Board lot size was changed to one (1) share, and the minimum brokerage fee of Rs. 10 and the minimum CDS fee of Rs. 5 levied on transactions were removed. As a result, a 0.64 percent brokerage fee and the CDS fee of 0.024 percent is applicable for all transactions up to Rs. 50Mn, with effect from 10 April 2012. Furthermore, the fee of Rs. 25 charged from Custodian Banks in respect of custodian trades was removed with effect from 19 March 2012.

#### Consultative Meetings with Investment Banks

Consultative meetings were held with investment banks to gather ideas and suggestions from the IPO Managers/Investment Bankers on what needs to be done to encourage listings that would boost liquidity at the CSE and developing the corporate bond market and also how the SEC and the Government could support them.

#### Representations made to the Government

Permission was granted to Private Provident Funds, Savings Funds, Pension Funds, Trust Funds and Gratuity Funds to invest in listed securities, subject to a 20% maximum threshold under Gazette notification 1704/18 of the Department of Inland Revenue. A press release and a newspaper article on the same were published to enhance the awareness among the investor community.

#### Other Initiatives

- Enabled the creation of an exclusive page which includes all SEC regulatory updates on Bloomberg newswires

- Facilitated a deferment on the approval granted to new trading members of CSE on the opening of new stock broker branches outside Colombo

All new trading members were granted a deferment of one year, on the requirement to open two new branches outside Colombo in the 2<sup>nd</sup> year of operations.

### CAPITAL MARKET EDUCATION AND TRAINING

The Capital Market Education and Training arm of the SEC continues to deliver licensing examinations, financial literacy programmes for various audiences as well as provide continuous learning opportunities for professionals in the securities industry.

#### Qualification Framework

The qualification framework has three main qualifications namely; Certificate in Capital Markets (CCM), Registered Investment Advisor (RIA) and the Diploma in Capital Markets (DCM). During the year we continued to implement the qualification framework which is aimed at offering a minimum level of proficiency for trainee investment advisors of stock broking companies whilst assisting practitioners to progress to more advanced qualifications through the development of continuous professional development programmes. The temporary licensing process which was introduced in 2011 ended on 31st December 2012. The licence was titled "Provisional Status" and was implemented by a Directive under Section 13 (c) of the SEC Act. Investment Advisors who are employed in stock brokering companies and have completed the Equity Securities series of the CCM programme and had participated in a mandatory seminar on "Financial Regulations and Ethics" (FR & E) were eligible to obtain this temporary license. During the validity period of the Directive, 6 mandatory seminars were conducted and 238 temporary licenses were granted to trainee investment advisors. (Figures 16, 17)

Figure 16: Statistical Summary of CCM Examinations- 2012

|                       | Total Registered Students for CCM Programmes | Completed Equity Series | Completed Debt Series | Completed FR & E Series | CCM Completed | RIA Completed |
|-----------------------|----------------------------------------------|-------------------------|-----------------------|-------------------------|---------------|---------------|
| <b>Sinhala Medium</b> |                                              |                         |                       |                         |               |               |
| SUB TOTAL             | 108                                          | 98                      | 136                   | 151                     | 132           | 60            |
| <b>English Medium</b> |                                              |                         |                       |                         |               |               |
| SUB TOTAL             | 222                                          | 85                      | 106                   | 94                      | 118           | 45            |
| TOTAL                 | 330                                          | 183                     | 242                   | 245                     | 250           | 105           |

Figure 17: Synopsis of Programmes Conducted for the CCM and RIA (2012)

| Programme                                                          | Series                         | No of Exams Conducted during the year | Pass % |
|--------------------------------------------------------------------|--------------------------------|---------------------------------------|--------|
| Certificate in Capital Markets - English Medium                    | Equity Securities              | 6                                     | 66%    |
|                                                                    | Debt Securities                | 4                                     | 75%    |
|                                                                    | Financial Regulations & Ethics | 3                                     | 73%    |
| Certificate in Capital Markets - Sinhala Medium                    | Equity Securities              | 2                                     | 74%    |
|                                                                    | Debt Securities                | 2                                     | 71%    |
|                                                                    | Financial Regulations & Ethics | 2                                     | 79%    |
| Registered Investment Advisor (English Medium)<br>(Sinhala Medium) | N/A                            | 14                                    | 70%    |
|                                                                    | N/A                            | 19                                    | 75%    |

**Diploma in Capital Markets (DCM)**

We continued the Diploma programme during the year under review and completed lectures for the first batch. Students were also advised to complete the examinations during the period.

**Programme for Investors and Advanced Programme for Investors**

We conducted two programmes targeting potential investors and existing investors with the intention of providing them with theoretical and practical aspects of share trading. 56 participants attended both programmes.

**Certificate in Financial Journalism**

The “Diploma in Economics, Banking and Finance for Journalists” was conducted in Sinhala Medium with the Centre for Banking Studies as in the year 2012. One programme was completed and the second programme commenced during the period under review. This programme was designed to educate and train financial journalists in Sri Lanka and to attract young prospective journalists to the industry.

**Annual Awards Ceremony**

The second Certificates and Diploma Award Ceremony of the CMET was held in December 2012 at the Bandaranayke Memorial International Conference Hall (BMICH) under the distinguished patronage of Dr. Sarath Amunugama, Hon. Minister of International Monetary Cooperation and Deputy Minister of Finance and Mr. Ajith Nivard Cabraal, Governor, Central Bank of Sri Lanka. Over 700 students received their awards on this day.

**Continuous Professional Development (CPD) Programmes**

During the year under review, 11 tailor made CPD programmes were conducted for 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 1130 participants which included CEOs of stock broking companies, investment advisors and industry professionals. The SEC has made it mandatory for industry professionals to participate in at least 2 CPD programmes a year to renew their trading licences.

**Programme for Directors of Listed Companies**

A programme for directors of listed companies titled “Related Party Transactions” was conducted in November 2012 at Taj Samudra Hotel, Colombo. Mr. Nishan Fernando, Managing Director, BDO Consultancy, addressed the forum. Mr. Sujeewa Rajapakse, President, Institute of Chartered Accountants of Sri Lanka (ICASL), Mr. Ronnie Peiris, President, Institute of directors, Prof. Hareendra Dissabandara Director General, SEC and Ms. Surana Fernando, Director Supervision, SEC were invited as panelists. A total of 256 officials including directors of listed companies and market professionals representing 102 companies attended this programme.

**Computer Based Testing System**

The Computer Based Testing System (CTS) was launched in August 2012 at the SEC under the patronage of Mr. Thilak Karunaratne, former Chairman of the SEC. Directors and staff of the SEC was also present at this event.

**Gold Medal and Cash Award Project**

The Gold Medal and Cash Award Project continued during the year under review. 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 of Sri Lanka. Memoranda of Understanding (MOU) have been signed with 11 national

## OPERATIONAL REVIEW *Contd.*

universities with regard to the above project. University of Kelaniya, Wayamba University of Sri Lanka, South Eastern University of Sri Lanka, Uva Wellassa University, Rajarata University of Sri Lanka, University of Ruhuna, University of Sri Jayewardenepura and Sabaragamuwa University of Sri Lanka were awarded with gold medals and cash prizes during the year under review.

### **Research Grants Project**

The Research Grants Project was completed and cash prizes were awarded to four selected researchers during the period under review. The project was initiated to invite academics and professionals to undertake various research assignments pertaining to the capital market of Sri Lanka to promote and stimulate high quality research among graduates, academics and professionals.

### **CAPITAL MARKET AWARENESS**

The SEC strives to improve the level of financial literacy among various segments of society to enable them to make informed investment decisions.

#### **Education through Electronic and Print Media**

Electronic and print media play an important role in raising awareness about the capital market by reaching out to various target audiences. SEC used various tools to expand the knowledge base of the masses.

#### **Capital Market Quiz 2012**

The all island inter school capital market quiz programme which is conducted annually was held this year as well. It targeted students in all government schools taking the G.C.E. Advanced Level Commerce stream in the Sinhala medium. The programme was conducted in 03 stages; the preliminary selection examination, semi finals and the grand finale. Six students who scored the highest marks from each province were selected to participate in the semi finals held amongst the provinces and the winners of these 8 semi final rounds competed in the finals. The winner for 2012 was a student representing Good Shepherd Convent Nuwara Eliya. Attractive cash prizes and certificates were awarded to the winners. The quiz was telecast on ITN.

#### **Press Article Series**

The weekly articles series published in Daily Lankadeepa and Daily Mirror news papers on various topics on the capital market that commenced in year 2011 continued during the year 2012. Further article series were also published in "Ada" and "Virakesari" newspapers as well. These articles serve as an ideal channel to reach a wider audience of existing and potential investors at a minimal

cost to enhance their knowledge on the subject and make informed financial decisions. Over 200 articles were published in all 3 languages in print media in 2012. Apart from articles discussions were conducted in several TV channels during the year.

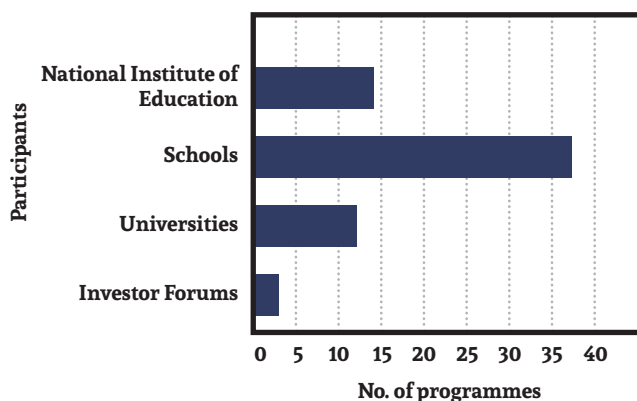
### **Education and Awareness through Seminars, Workshops and Exhibitions**

We also conduct seminars and participate in exhibitions, trade fairs and talk shows to reach out to various target groups and provide investors and prospective investors a platform to obtain information on investing in the capital market.

#### **Seminars and Workshops**

Keeping with the mandate of creating a pool of knowledgeable investors, a number of seminars and workshops were conducted targeting various groups such as students, teachers, professional bodies and investors in different Provinces in the island to enhance their knowledge and understanding of the capital market. (Figure 18)

Figure 18: Awareness Initiatives



#### **Investor Day Programmes**

The SEC in association with the regional network of the Chamber of Commerce and Industry organized investor day programmes in Batticaloa, Matale and Trinomalee for Year 2012. Representatives of the SEC, CSE, stock brokers, and unit trust management companies joined hands to make these programmes productive and investor friendly. Investor days mainly focused on addressing the low financial literacy levels of the rural masses. Lectures and presentations are made by industry professionals followed by question and answer sessions. These programmes enable the general public to step out from the traditional banking solutions into different investment options such as securities and debt.

**Exhibitions and Trade fairs**

The SEC participated at the 6<sup>th</sup> “Deyata Kirula” exhibition held in conjunction with the 54<sup>th</sup> Independence Day celebrations in Oyamaduwa, Anuradhapura. The annual national development exhibition created an ideal interface to link up with the rural masses to impart capital market knowledge and information to expand the investor base

The SEC also conducted a stall at the educational and trade exhibition organised by Ananda College Colombo to celebrate its 125<sup>th</sup> anniversary in March. This initiative was an ideal platform to educate children and youth about personal finance savings and investments.

**Other Activities**

APEC FRTI Regional Seminar on “Regulation and Supervision of Derivatives Markets” 2012, Colombo Sri Lanka

The SEC hosted the Regional Seminar on “Regulation and Supervision of Derivatives Markets” 2012 organized by the Asian Pacific Economic Cooperation (APEC) Financial Regulators Training Initiative (FRTI) of the Asian Development Bank from 8<sup>th</sup> - 12<sup>th</sup> October 2012 in Colombo. The programme was conducted by 3 resource personnel from the Australian Securities and Investments Commission (ASIC), Securities and Exchange Board India (SEBI) and the Korea Exchange respectively. The programme addressed the regulation and supervision of each stage of a derivatives market transaction, commencing with the regulatory framework, types of derivative products and their characteristics, trading mechanisms, supervision and risk management, surveillance and clearing. Twenty four foreign participants from 13 countries attended the programme including 21 local participants from the SEC.

**HUMAN RESOURCES**

Human Capital is considered the most strategic asset of the SEC and hence the human resources of the SEC are appreciated, respected, nurtured and valued for their dedication and professionalism. Human talents from specialised disciplines are engaged to accomplish the organisational goals of the SEC.

**Cadre Composition**

We relentlessly try to recruit the best fit and attention is focused to retain the right talent. During the year six new recruitments were recorded consisting of five Executives and one Office Aide along with one resignation of an Executive. One Executive was promoted as a Senior Executive in recognition of her past performance and good conduct.

Opportunity is always provided for internal candidates to apply for higher positions provided they are suitably qualified with appropriate experience in terms of the recruitment criteria. Accordingly the position of Director General, Director Legal and Enforcement and a Confidential Secretary was internally recruited after a competitive selection process. The Commission also promoted the former Director Investigations as the Deputy Director General taking into consideration his contribution during a period of 18 years to the SEC.

As recommended by the Commission the Ministry of Finance and Planning as at end of the year under review approved twelve new cadre positions which are vital to meet the development initiatives and the challenges of the Sri Lankan capital market.

Accordingly the SEC Cadre details as at 31.12.2012 are as follows. (Figure 19)

Figure 19: Cadre Composition

| Category                | Total Approved Cadre (No) | Present Cadre in Employment (No) |          | Vacant (No) |              |
|-------------------------|---------------------------|----------------------------------|----------|-------------|--------------|
|                         |                           | Permanent                        | Contract | Suppressed  | To be filled |
| Director General        | 1                         | -                                | 1        |             | -            |
| Deputy Director General | 1                         | 1                                |          |             | -            |
| Directors               | 11                        | 6                                |          | 1           | 4            |



## OPERATIONAL REVIEW *Contd.*

| Category                 | Total<br>Approved<br>Cadre (No) | Present Cadre in<br>Employment (No) |          | Vacant (No) |              |
|--------------------------|---------------------------------|-------------------------------------|----------|-------------|--------------|
|                          |                                 | Permanent                           | Contract | Suppressed  | To be filled |
| Assistant Directors      | 5                               | 2                                   |          |             | 3            |
| Managers                 | 8                               | 5                                   |          |             | 3            |
| Senior Executives        | 43                              | 9                                   |          |             | -            |
| Executives               |                                 | 27                                  |          |             | 7            |
| Non Executives           | 17                              | 17                                  |          |             | -            |
| Senior Office Assistants | 10                              | 6                                   |          |             |              |
| Office Assistant         |                                 | 1                                   |          |             |              |
| Office Aide              |                                 | 1                                   |          |             | 2            |
| Total                    | 96                              | 75                                  | 1        | 1           | 19           |

As at 31 December 2012, 76 staff members served the SEC consisting of 26 males and 56 females. The Cadre composition, service analysis, gender analysis and age analysis of the staff as at end of the year are depicted in pictorial form below. (Figures 20,21,22,23)

Figure 20: Cadre Information Based on Employee Grade

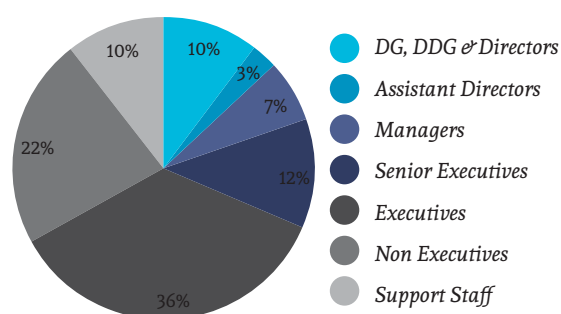


Figure 21: Gender Analysis

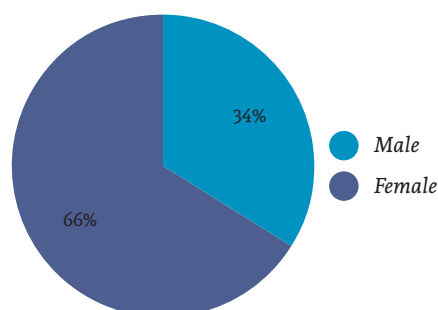


Figure 22: Service Information

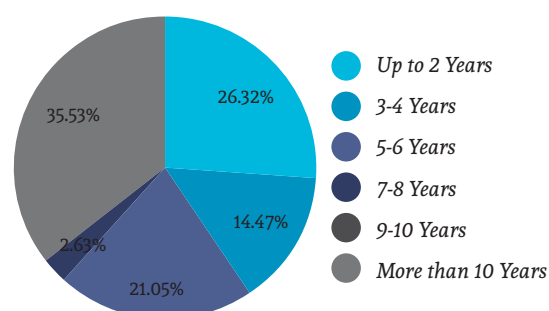
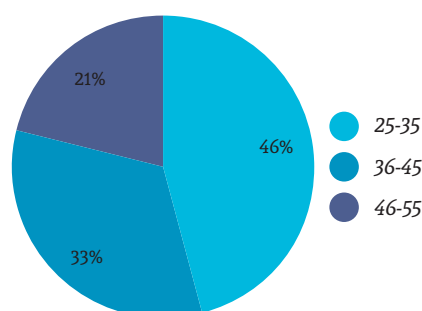


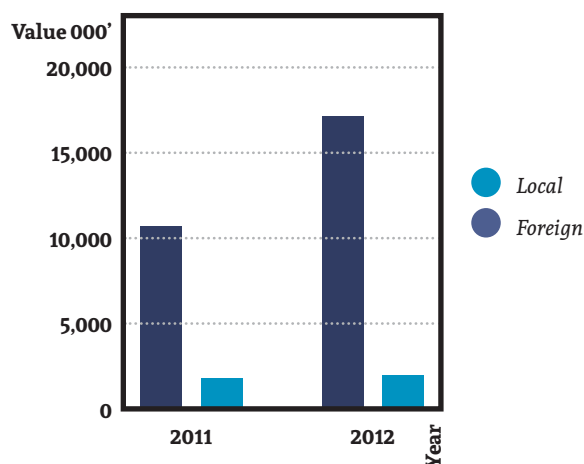
Figure 23: Age Analysis



### Training and Development

We believe developing staff skills to their maximum potential will propel the organisation's growth. Therefore SEC provides ample development opportunities to the staff in other jurisdictions. These programmes enlighten the staff regarding best practices adopted in other regulatory agencies and case studies amply demonstrate regulatory complexities faced by fellow regulators and steps taken to ensure a orderly and well regulated capital markets. Appreciation is extended to IOSCO and other capital market regulatory agencies, Asia Pacific Economic Cooperation (APEC) etc. for their support extended and the efforts taken to organise pertinent training programmes which are of immense benefit to the staff. (Figure 24)

Figure 24: Training



SEC's training arm provides an opportunity to the staff to follow study courses pertaining to capital markets to upgrade their capital market knowledge. Apart from that SEC provides sponsorship to the members of the staff to follow higher studies including Postgraduate Degree subject to a two year bond to serve the SEC upon successful completion. During the year under review in-house training programmes were organised to keep abreast with the International Financial Reporting Standards (IFRS) and Tamil language.

In addition the staff attended relevant local training and development programmes including the programmes organised by the Centre for Banking Studies (CBS) in the areas of Fraud Detection in Financial Institutions, Risk based Auditing, Procurement Management and Tender Procedures. In addition the annual residential training programme was based on topics "Personal Character" and "Training Needs Analysis" which was conducted by a Human Resources Guru.

The SEC incurred Rs.18,961,953/- for the year 2012 for local and foreign training as against Rs. 12,362,617/- during the year 2011.

### Employee Involvement

The staff was given the opportunity to contribute to the development of SEC and to provide their creative ideas to achieve SEC's strategic intent by serving on cross-functional teams.

### Employee Rewarding

With a view to a formalising the reward management system a Remuneration Committee was formed in the year under review consisting of the Chairman and two Members of the Commission. The Committee recommended to the Members of the Commission an interim salary increase which was approved to ease the burden of the staff until such time the remuneration package is carefully studied to arrive at an appropriate Reward Management policy for the staff of the SEC.

### Staff Welfare

We continued to facilitate the medical and health insurance schemes, the loan schemes, interest subsidy etc. amongst the many other welfare facilities offered to the staff. A survey was also conducted to ascertain "Satisfaction at Work" which captured the employee rewards as well.

Annual calendar of events such as the sports day and christmas party etc. facilitates interaction between the staff and their families which will boost employee morale, identify hidden employee talents, create understanding amongst each other and enhance bonding of the SEC family.

### Internship

The SEC also continued to extend a hand to the university undergraduates to gain exposure with regard to the work at the SEC.

### 25<sup>th</sup> Anniversary Celebrations

Multi religious blessings were evoked upon the SEC, its present and past Chairmen, Members of the Commission and staff at the time the SEC stepped into mark its 25<sup>th</sup> anniversary. Requisite approvals were also received to appreciate the staff serving the SEC with special emphasis for the long standing employees. The presentation of appreciation awards was postponed to the ensuing year.

### Information Technology

Successfully completed the Server Virtualization project during the year under review. virtualisation brings both business and operational benefits to SEC such as efficient

OPERATIONAL REVIEW *Contd.*

utilisation of resources, reducing expenses, improve business continuity and recovery management along with increasing business agility. virtualisation enables less IT system failures and faster server restoration which minimise the cost of downtime and enhances organisation reputation.

Launched the Capital Market Education and Training (CMET) website during the year along with Tri-lingual Content Management System (CMS)

Successfully installed and implemented the automated Attendance Management System during the year. The system is capable of handling staff attendance, leave, over time, out of office attendance etc. along with management reports.

**International Relations**

As a member of IOSCO SEC has maintained a steady relationship with the Emerging Markets Committee (EMC) of IOSCO. We have obtained access to the Global International Financial Reporting Standards (IFRS) Database as a result of the agreement signed between the SEC and IOSCO in 2008.

During the year under review we responded to detailed surveys on sharing of information on assistance sought from other jurisdictions. The SEC also obtained information from IOSCO members in respect of Rules and Regulations applicable to brokers in other jurisdictions with regard to maintaining tape recordings of trading instructions received from clients. The SEC also responded to surveys carried out in respect of brokers trading on their own account through other brokers and on issues related to risk based supervision.

**STATUTORY FUNDS****CESS Fund**

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

**14A**

- (1) There shall be charged, levied and paid a Cess at such rates as may be specified by the Minister by Order published in the Gazette on every purchase and sale of securities recorded in a licensed stock exchange or notified to it under its rules by both the purchaser and the seller. Different rates may be specified in respect of different classes of securities.
- (2) The Cess imposed under this Section shall be in addition to any other tax or Cess levied under any other written law.

**14B**

- (1) There shall be established a fund called the Cess Fund to which shall be credited the proceeds of the Cess imposed under Section 14A.
- (2) There shall be paid out the Cess Fund such sums as may be authorized by the Commission for the purpose of-
  - (a) developing the securities market;
  - (b) enhancing monies lying to the credit of the Compensation Fund established under Section 38; and
  - (c) exercising, performing and discharging the powers, duties and functions of the Commission for the purpose of achieving its objects.
- (3) The money lying to the credit of the Cess Fund may be invested by the Commission in such manner as may be determined by the Commission.

The rate of Cess charged by the SEC after a series of deliberations was reduced for the second time to 0.72% per transaction from 0.09% per transaction with effect from 1 August 2010. Earlier reduction took place with effect from 1 December 2003 when the applicable rate of Cess was reduced from 0.1% to 0.09% per transaction.

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

- (a) In the event the number of shares purchased does not equal the number of shares sold, the transaction fees will not be levied on the lower quantity of shares either purchased or sold.
- (b) In the event the quantity purchased is equal to the quantity sold transaction fees will not be levied from the second transaction whether it be a purchase or sales transaction.

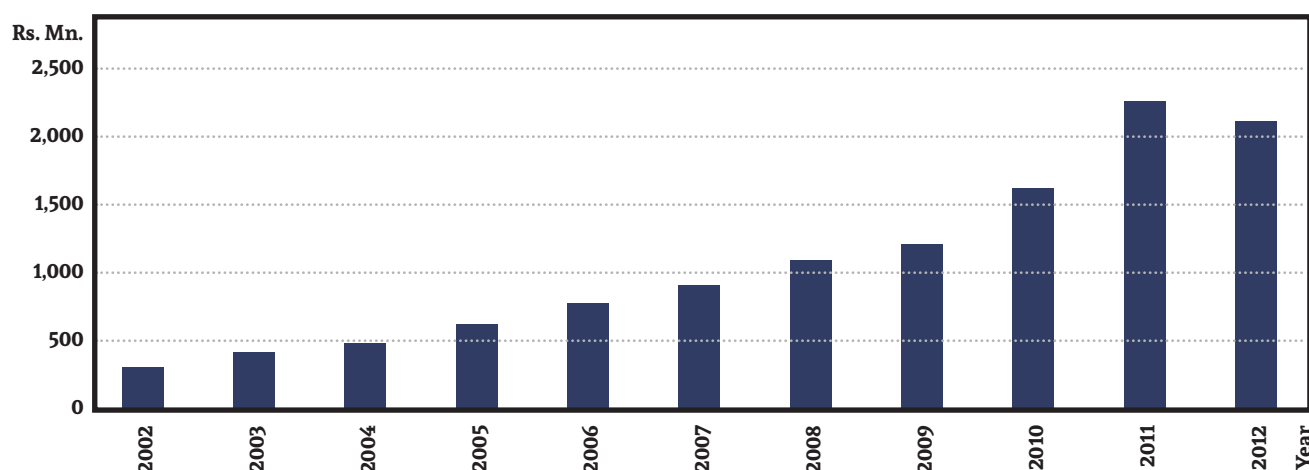
Intraday trade is where a client buys and sells or sells and buys the same security on the same day through the same broker.

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. A sum of Rs. 276 million and Rs. 380 million transferred to the Consolidated Fund on 30.09.2010 and Rs. 24.09.2012 respectively.

The balance lying to the credit of Cess Fund as at 31 December 2012 amounted to Rs. 2,097,094,924/-.

The Cess Fund balances during the period 2002-2012 is depicted below: (Figure 25)

Figure 25: Growth of the CESS Fund



#### The Settlement Guarantee Fund (SGF)

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

- Ownership of shares traded is transferred no sooner a trade is executed. From 10 December 2007 the CSE adopted a single tier settlement cycle. The buyer is required to pay on T+3 i.e. on the 4<sup>th</sup> Market day including the day of trading and the seller to receive the settlement on T+3 i.e. on the 4<sup>th</sup> 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 Government securities in terms of the Trust Deed. SGF can also receive donations, gifts and endowments as replenishments. The broker/custodian banks are presently not required to contribute to the Fund.

- With a view to strengthen the Fund a sum of Rs. 100 million was transferred equally from the 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.

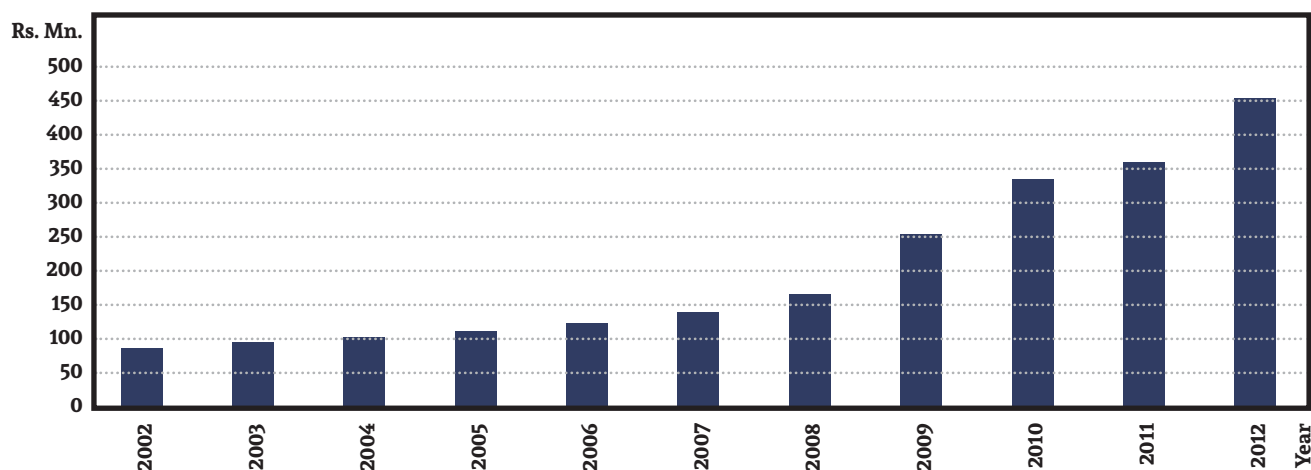
However, since the SGF is found to be inadequate to properly address the issue of settlement risk the SEC is looking at feasibility of establishing a clearing corporation to effectively address the settlement risk.

Up-to-date there have been no claims made from the SGF. The balance lying to the credit of the SGF as at 31.12.2012 amounted to Rs. 499,903,661/-. The growth of the Fund during the period 2002 and 2012 is depicted in the following graph. (Figure 26)



OPERATIONAL REVIEW *Contd.*

Figure 26: Growth of the Settlement Guarantee Fund (SGF)

**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.

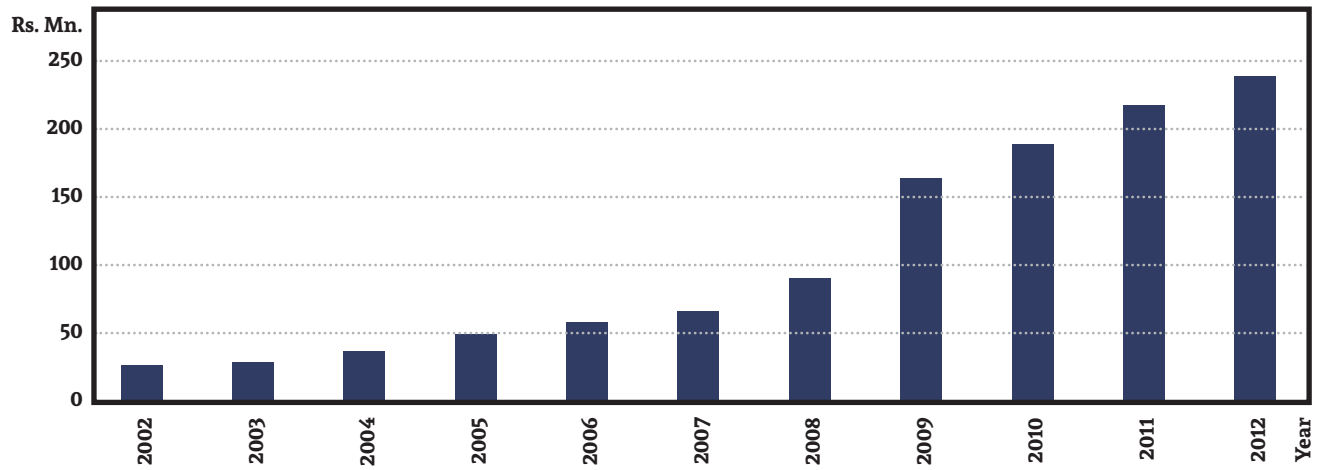
The Minister shall appoint from among the Members of the Commission three members who shall comprise the Compensation Committee.

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

The Act also provides for the procedure for applying for compensation. According to the Act, the Committee may, after examination of the documents and other evidence produced in support of the claim by an applicant, or in any case where an inquiry was held on the conclusion of such inquiry, allow or disallow such claim for compensation. To strengthen the Compensation Fund a sum of Rs. 50 million was transferred from the Cess Fund. 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 31.12.2012 amounted to Rs. 237,461,686/-. The growth of the Fund during the period 2002 to 2012 is depicted below. (Figure 27)

**Figure 27: Growth of the Compensation Fund**



# ADDITIONAL INFORMATION

## REGISTERED MARKET INTERMEDIARIES

Registered as at 31st December 2012

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 Capital Ltd                                  |                 | x                  |             |
| ADL Equities Ltd                                 | x               |                    |             |
| Amana Capital Ltd                                |                 | x                  |             |
| Arpico Ataraxia Asset Management (Pvt) Ltd       |                 | x                  |             |
| Asha Financial Services Limited                  | x               |                    |             |
| Asia Wealth Management Company (Private) Limited |                 | x                  |             |
| Asian Finance Ltd                                | x               |                    |             |
| Asset Trust Management (Pvt) Ltd                 |                 | x                  |             |
| Assetline Capital (Private) Limited              | x               | x                  |             |
| Bank of Ceylon                                   |                 | x                  | x           |
| Bartleet Asset management (Pvt) Ltd              |                 | x                  |             |
| Bartleet Finance Limited                         | x               |                    |             |
| Bartleet TransCapital Limited                    |                 | x                  | x           |
| Capital Alliance Finance Company Ltd             | x               |                    |             |
| Capital Alliance Holdings Ltd                    |                 |                    | X           |
| Capital Alliance Securities (Private) 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           |
| Cohort Capital (Pvt) Ltd                         |                 | x                  |             |
| Commercial Bank of Ceylon PLC                    | x               |                    | x           |
| Comtrust Asset Management (Pvt) Ltd              |                 | x                  |             |
| DFCC Vardhana Bank Limited                       | x               |                    |             |
| First Capital Asset Management Limited           |                 | x                  |             |
| First Capital Markets Limited                    | x               |                    |             |
| George Steuart Finance Ltd                       | x               |                    |             |
| Guardian Acuity Asset Management Limited         |                 | x                  |             |
| Guardian Fund Management Limited                 |                 | x                  |             |
| Hatton National Bank PLC                         | x               |                    | x           |
| Heraymila Capital (Pvt) Ltd                      |                 | x                  |             |
| Heraymila Financial Services (Pvt) Ltd           | x               |                    |             |
| Horizon Asset Ltd                                |                 | x                  |             |
| IIFL Capital Ceylon Ltd                          |                 | x                  |             |

| <b>Company</b>                                              | <b>Margin provider</b> | <b>Investment Manager</b> | <b>Underwriter</b> |
|-------------------------------------------------------------|------------------------|---------------------------|--------------------|
| Innovest Investments (Pvt ) Ltd                             |                        | x                         |                    |
| J B Credit (Pvt) Ltd                                        | x                      |                           |                    |
| J.B. Financial Services (Private) Limited                   |                        | x                         |                    |
| Kenanga Investment Corporation Ltd                          |                        | x                         |                    |
| L B Finance PLC                                             | x                      |                           |                    |
| L R Global Lanka Asset Management Company (Private) Limited |                        | x                         |                    |
| Lanka ORIX Finance Company Limited                          | x                      |                           |                    |
| Lexinton Financial Services (Private) Limited               | x                      |                           |                    |
| Liege Capital (Pvt) Ltd                                     |                        | x                         |                    |
| Merchant Bank of Sri Lanka PLC                              | x                      | x                         | x                  |
| Nation Lanka Capital Ltd                                    | x                      |                           |                    |
| National Asset Management Ltd                               |                        | x                         |                    |
| National Development Bank PLC                               | x                      |                           |                    |
| National Wealth Corporation Limited                         |                        | x                         |                    |
| NDB Aviva Wealth Management Ltd                             |                        | x                         |                    |
| NDB Capital Holdings PLC                                    |                        |                           | x                  |
| NWS Financial Services (Pvt) Limited                        | x                      |                           |                    |
| Orion Fund Management (Private) Limited                     |                        | x                         |                    |
| Pan Asia Banking Corporation PLC                            | x                      |                           |                    |
| People's Leasing Company Limited                            | x                      |                           |                    |
| People's Merchant PLC                                       | x                      |                           |                    |
| Richard Peiris Financial Services (Pvt) Ltd                 | x                      |                           |                    |
| Sampath Bank PLC                                            | x                      |                           | x                  |
| Sanasa Asset Management (Pvt) Ltd                           |                        | x                         |                    |
| Seylan Bank PLC                                             | x                      |                           |                    |
| Singer Finance (Lanka) Ltd                                  | x                      |                           |                    |
| Softlogic Capital Ltd                                       |                        | x                         |                    |
| Softlogic Finance PLC                                       | x                      |                           |                    |
| TKS Finance Ltd                                             | x                      | x                         |                    |
| Union Bank of Colombo Limited                               | x                      |                           |                    |
| Waldock Mackenzie Limited                                   | x                      | x                         |                    |

**Registered Market Intermediary under the Category of a Clearing House:**

Central Depository Systems (Private) Limited

**Registered Market Intermediaries under the Category of Credit Rating Agencies:**

Fitch Ratings Lanka Limited  
RAM Ratings (Lanka) Limited  
ICRA Lanka Limited



## ADDITIONAL INFORMATION *Contd.*

### STOCK BROKERS AND STOCK DEALERS

Licensed Stock Broker and Stock Dealer as at 31st December 2012

| Company                                         | Stock Broker | Stock Dealer                |                           |
|-------------------------------------------------|--------------|-----------------------------|---------------------------|
|                                                 |              | Dealer in Equity Securities | Dealer in Debt Securities |
| Acuity Stockbrokers (Private) Limited           | x            |                             |                           |
| Arrenga Capital (Pvt) Ltd                       | x            |                             |                           |
| Asha Phillip Securities Limited                 | x            |                             |                           |
| Asia Securities (Private) Limited               | x            |                             |                           |
| Assetline Securities (Private) Limited          | x            |                             |                           |
| Bartleet Religare Stockbrokers(Private) Limited | x            | x                           |                           |
| Capital Alliance Securities (Private) Limited   | x            | x                           |                           |
| Capital Trust Securities (Private) Limited      | x            |                             |                           |
| Nation Lanka Equities (Private) Limited         | x            |                             |                           |
| Claridge Stockbrokers (Private) Limited         | x            |                             |                           |
| CT Smith Stockbrokers (Private) Limited         | x            |                             |                           |
| DNH Financial (Private) Limited                 | x            |                             |                           |
| First Guardian Equities (Private) Limited       | x            |                             |                           |
| Heraymila Securities Limited                    | x            |                             |                           |
| IIFL Securities Ceylon (Private) Limited        | x            |                             |                           |
| JB Securities (Private) Limited                 | x            | x                           |                           |
| John Keells Stock Brokers (Private) Limited     | x            |                             |                           |
| Lanka Securities (Private) Limited              | x            |                             |                           |
| LOLC Securities Limited                         | x            |                             |                           |
| New World Securities (Pvt) Ltd                  | x            |                             |                           |
| NDB Stockbrokers (Private) Limited              | x            |                             |                           |
| Richard Pieris Securities (Private) Limited     | x            |                             |                           |
| SC Securities (Private) Limited                 | x            |                             |                           |
| SKM Lanka Holdings (Private) Limited            | x            | x                           |                           |
| SMB Securities (Private) Limited                | x            | x                           |                           |
| Somerville Stock Brokers (Private) Limited      | x            |                             |                           |
| Taprobane Securities (Private) Limited          | x            |                             |                           |
| TKS Securities (Private) Limited                | x            |                             |                           |
| First Capital Markets Limited-                  | x            | x                           | x                         |

## 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

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

Comtrust Equity Fund  
Crescent i Fund  
Comtrust money market Fund  
Comtrust ADL Mudarabah Fund

### 3 NDB Aviva 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

### 4 Ceybank Asset Management (Pvt) Limited

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

### 5 National Asset Management Limited

NAMAL Income Fund  
NAMAL Money Market Fund  
National Equity Fund

NAMAL Growth Fund

NAMAL Gilt Edged Fund 1 (closed end)

NAMAL Acuity Value Fund (closed end)

NAMAL IPO Fund

NAMAL High Yield Fund

NAMAL Shariah Fund

### 6 First Capital Asset Management Limited

First Capital Wealth 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 Haraymila Capital (Pvt) Ltd

Sri Lanka Haraymila Capital Growth Fund  
Amana Heraymila Shariah Fund

### 10 Asset trust Management (Pvt) Ltd

Astrue Gilt edged Fund

### 11 Capital Alliance Investments Ltd

Capital Alliance High Yield Fund  
Capital Alliance Gilt Fund  
Quantitative Equity fund

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

Cash Management Trust Fund  
Absolute Value Fund

### 13 Orient Wealth Limited

Orient Corporate Debt Fund  
Orient Equity Fund  
Orient Gilt-edged Fund

## FACT SHEET

| Year                                  | 2008             | 2009         | 2010               | 2011               | 2012            |
|---------------------------------------|------------------|--------------|--------------------|--------------------|-----------------|
| Annual Turnover (Rs Mn) Equity        | 110,453.90       | 142,462.65   | 570,326.82         | 546,255.80         | 213,827.2       |
| Domestic (Rs Mn)                      | 50,796.90        | 99,010.83    | 464,733.62         | 486,959.40         | 160,543.3       |
| Foreign (Rs Mn)                       | 59,656.90        | 43,451.82    | 105,593.20         | 59,296.40          | 53,283.9        |
| Market Days (No)                      | 238              | 240          | 238                | 239                | 242             |
| Daily Average Turnover (Rs Mn) Equity | 464.1            | 593.6        | 2,396.33           | 2,285.60           | 883.6           |
| Shares traded (No Mn) Equity          | 3,154.90         | 4,762.70     | 18,489.19          | 24,543.70          | 9,691.2         |
| Domestic (No Mn)                      | 1,934.90         | 3,784.20     | 16,684.45          | 23,151.60          | 8,289.6         |
| Foreign (No Mn)                       | 1,220.00         | 978.42       | 1,804.74           | 1,392.10           | 1,401.7         |
| Trades (No) Equity                    | 776,244          | 1,266,299    | 3,355,126          | 4,579,352          | 1,857,384       |
| Domestic (No)                         | 730,415          | 1,190,822    | 3,225,041          | 4,463,404          | 1,796,868       |
| Foreign (No)                          | 45,829           | 75,477       | 130,085            | 115,948            | 60,516          |
| New Listing (No)                      | 3                | 3            | 10                 | 32                 | 17              |
| Delisting (No)                        | 2                | 6            | 1                  | 0                  | 2               |
| Companies Listed (No)                 | 235              | 231          | 241                | 272                | 287             |
| Companies Traded (No)                 | 232              | 231          | 238                | 265                | 280             |
| Market Capitalization (Rs Bn)         | 488.8            | 1,092.10     | 2,210.45           | 2,213.90           | 2,167.6         |
| Market PER year end (Times)           | 5.4              | 16.6         | 25.16              | 15.8               | 15.9            |
| Turnover to Market Capitalization (%) | 16.9             | 18           | 34.5               | 24.7               | 9.8             |
| Dividend Yield Year End (%)           | 5.6              | 3            | 1.16               | 1.8                | 2.4             |
| Price to Book Value Year End (Times)  | 0.8              | 1.7          | 2.98               | 2                  | 2.1             |
| Market Cap. As a % of GDP             | 11.1             | 22.6         | 39.4               | 33.8               | 29.0            |
| <b>Price Indices</b>                  |                  |              |                    |                    |                 |
| All Share Price Index (ASPI)          | 1,503.00         | 3,385.55     | 6,635.87           | 6,074.40           | 5,643.0         |
| y-o-y Change %                        | (40.9)           | 125.25       | 96.01              | (8.5)              | (7.1)           |
| Milanka Price Index (MPI)             | 1,631.30         | 3,849.38     | 7,061.46           | 5,229.20           | 5,119.1         |
| y-o-y Change %                        | (50.4)           | 135.97       | 83.44              | (25.9)             | (2.1)           |
| S&P Sri Lanka 20                      |                  |              |                    |                    | 3085.3          |
| y-o-y Change %                        |                  |              |                    |                    | -               |
| <b>Total Return Indices</b>           |                  |              |                    |                    |                 |
| Total Return Index on ASPI (ASTRI)    | 1,783.60         | 3,944.90     | 7,899.11           | 7,362.83           | 7037.3          |
| y-o-y Change %                        | (38.1)           | 121.18       | 100.24             | (6.79)             | (4.4)           |
| Total Return Index on MPI (MTRI)      | 1,962.50         | 4,506.24     | 8,481.73           | 6,393.00           | 6399.4          |
| y-o-y Change %                        | (47.3)           | 129.6        | 88.22              | (24.63)            | 0.1             |
| <b>Non-National Activity</b>          |                  |              |                    |                    |                 |
| Annual Turnover (Rs Mn)               | 59,656.90        | 43,451.82    | 105,593.20         | 59,296.40          | 53,283.9        |
| Purchases (Rs. Mn.)                   | 66,632.20        | 43,057.32    | 92,425.53          | 49,776.80          | 72,614.2        |
| Sales (Rs. Mn.)                       | 52,681.70        | 43,846.32    | 118,760.87         | 68,816.00          | 33,953.6        |
| <b>Net Foreign Flow (Rs. Mn.)</b>     | <b>13,950.50</b> | <b>(789)</b> | <b>(26,335.34)</b> | <b>(19,039.20)</b> | <b>38,660.7</b> |
| Shares Traded (No. Mn.)               | 1,220.00         | 978.41       | 1,804.74           | 1,392.11           | 1,401.7         |
| Purchases (No. Mn.)                   | 1,286.20         | 908.97       | 1,541.49           | 1,186.80           | 1,520.6         |
| Sales (No. Mn.)                       | 1,153.90         | 1,047.87     | 2,067.99           | 1,597.42           | 1,282.7         |
| Trades                                | 45,829           | 75,477       | 130,085            | 115,948            | 60,516          |
| Purchases (No.)                       | 50,052           | 69,431       | 115,071            | 112,246            | 71,944          |
| Sales (No.)                           | 41,606           | 81,523       | 145,100            | 119,651            | 49,088          |

| <b>Year</b>                                        | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b>  | <b>2012</b>     |
|----------------------------------------------------|-------------|-------------|-------------|--------------|-----------------|
| <b>Debt Market</b>                                 |             |             |             |              |                 |
| <i>Corporate Debt</i>                              |             |             |             |              |                 |
| Turnover (Rs 000)                                  | 102,639.30  | 136,765     | 72,288      | 2,690,664.40 | <b>75,717.1</b> |
| No of Trades                                       | 27          | 42          | 92          | 62           | <b>39</b>       |
| No of Debentured Traded (000)                      | 953.5       | 1,020       | 693         | 25,861       | <b>740.4</b>    |
| Market Cap (Mn)                                    | N/A         | N/A         | N/A         |              | <b>46,311.0</b> |
| <i>Government Debt</i>                             |             |             |             |              |                 |
| Turnover (Rs 000)                                  | 195,157.40  | 98,977      | 45,673      | 28,356.80    | <b>6,128.0</b>  |
| No of Trades                                       | 69          | 42          | 18          | 7            | <b>2</b>        |
| No of Debentured Traded (000)                      | 208,182.60  | 102,778     | 46,794      | 28,912       | <b>6,743.6</b>  |
| <b>Unit Trusts</b>                                 |             |             |             |              |                 |
| Net Asset Value (NAV)(Rs. Mn)                      | 6,780       | 9,952       | 22,228      | 24,059       | <b>31,062</b>   |
| Unit Holders (No.)                                 | 22,685      | 23,117      | 24,649      | 26,636       | <b>27,952</b>   |
| Units Issued (No. 000)                             | 638,112     | 564,500     | 1,159       | 1,506        | <b>2,251</b>    |
| Investment in Equity (Rs. Mn.)                     | 2,589       | 6,036       | 11,349      | 9,555        | <b>8,944</b>    |
| Investment in Treasury Bills (Rs.Mn)               | 2,903       | 3,363       | 9,289       | 10,326       | <b>5,449</b>    |
| Investment in other Instruments <b>**</b> (Rs. Mn) | 1,293       | 1,106       | 1,223       | 4,186        | <b>16,596</b>   |

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

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



## Financial Statements - SEC

|                                         |    |
|-----------------------------------------|----|
| Report of the Auditor General           | 52 |
| Statement of Financial Position         | 54 |
| Statement of Financial Performance      | 55 |
| Statement of Changes in Reserves        | 56 |
| Cash Flow Statement                     | 57 |
| Cash Flow Statement (Cess Fund)         | 58 |
| Cash Flow Statement (Compensation Fund) | 59 |
| Accounting Policies                     | 60 |
| Notes to the Financial Statements       | 62 |

## Financial Statements - SGF

|                                    |    |
|------------------------------------|----|
| Report of the Auditor General      | 71 |
| Statement of Financial Position    | 74 |
| Statement of Financial Performance | 75 |
| Statement of Changes in Net Assets | 76 |
| Cash Flow Statement                | 77 |
| Accounting Policies                | 78 |



## REPORT OF THE AUDITOR GENERAL



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



මගේ අංකය  
எனது இல  
My No.

FB/K/SEC/FA/ 2012

ඔබේ අංකය  
உமது இல  
Your No.

දිනය  
திகதி  
Date

30 May 2013

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 2012 in terms of Section 14 (2) (c) of the Finance Act No. 38 of 1971**

The audit of financial statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2012 comprising the balance sheet as at 31 December 2012 and the income statement, statement of changes in equity 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 Section 37(2) of the Securities and Exchange Commission Act, No.36 of 1987 and Section 13 (1) of the Finance Act, No. 38 of 1971.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor

අංක 306/72 පොල්දූව පාර,  
වත්තරමුල්ල, ශ්‍රී ලංකාව

දුරකථනය  
தொலைபேசி } 2887028 -34

இல. 306/72, பொல்துவ வீதி,  
பத்தரமுல்லை இலங்கை

ලැක්ෆ් අංකය  
பக்ஸ் இல } 2887223  
பக்ஸ் இல  
Fax No.

No.306/72, Polduwa Road,  
Battaramulla, Sri Lanka

ඉලෙක්ට්‍රොනික් තැපෑල  
ஈ-மெயில் } oaggov@slt.net.lk  
E-mail.

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. Subsections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

### **Financial Statements**

#### **Opinion**

In my opinion, the financial statements give true and fair view of the financial position of the Securities and Exchange Commission of Sri Lanka as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **Report to Parliament**

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



H.A.S. Samaraweera

Auditor General

## STATEMENT OF FINANCIAL POSITION

AS AT 31<sup>ST</sup> DECEMBER 2012

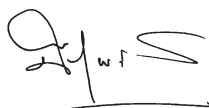
|                                                          | Note | 2012<br>Rs.          | 2011<br>Rs.          |
|----------------------------------------------------------|------|----------------------|----------------------|
| <b>ASSETS</b>                                            |      |                      |                      |
| <b>NON CURRENT ASSETS</b>                                |      |                      |                      |
| Property, Plant & Equipment                              | 1    | 56,412,469           | 61,322,318           |
| Cess Fund                                                | 2    | 37,905,567           | 34,083,560           |
| <b>CURRENT ASSETS</b>                                    |      |                      |                      |
| Inventories                                              | 4    | 628,884              | 530,456              |
| Receivables                                              | 5    | 1,784,380            | 855,030              |
| Cess Fund                                                | 2    | 2,059,189,357        | 2,205,795,838        |
| Compensation Fund                                        | 3    | 237,461,686          | 216,312,628          |
| Deposits, Advance & Prepayments                          | 6    | 4,915,002            | 2,512,899            |
| Cash & Cash Equivalents                                  | 7    | 28,105,784           | 27,691,271           |
| <b>TOTAL ASSETS</b>                                      |      | <b>2,426,403,129</b> | <b>2,549,104,000</b> |
| <b>FUNDS AND LIABILITIES</b>                             |      |                      |                      |
| <b>FUNDS EMPLOYED AND RESERVES</b>                       |      |                      |                      |
| Accumulated Fund                                         | 8    | 9,508,525            | 12,556,660           |
| Cess Fund                                                | 9    | 2,097,094,924        | 2,239,879,398        |
| Compensation Fund                                        | 10   | 237,461,686          | 216,312,627          |
| <b>NON CURRENT LIABILITIES</b>                           |      |                      |                      |
| Lease Creditors                                          | 11   | 619,317              | 2,367,534            |
| Grant - Transfers from Cess Fund for Capital Expenditure | 12   | 50,050,720           | 52,925,802           |
| Retirement Benefit Obligation                            | 13   | 20,012,197           | 14,427,557           |
| <b>CURRENT LIABILITIES</b>                               |      |                      |                      |
| Creditors & Accruals                                     | 14   | 6,458,770            | 5,907,450            |
| Receipts in Advance                                      |      | 4,238,142            | 3,138,389            |
| Lease Creditors                                          | 11   | 958,848              | 1,588,583            |
| <b>TOTAL FUNDS AND LIABILITIES</b>                       |      | <b>2,426,403,129</b> | <b>2,549,104,000</b> |

The Accounting Policies and Notes appearing on pages 60 to 70 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



**Dhammika Perera**  
Deputy Director General/Officer-in-Charge  
Securities and Exchange Commission of Sri Lanka



**Dr Nalaka Godahewa**  
Chairman  
Securities and Exchange Commission of Sri Lanka

Colombo.  
17<sup>th</sup> May 2013



# STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2012

|                                                       | Note | 2012<br>Rs.          | 2011<br>Rs.          |
|-------------------------------------------------------|------|----------------------|----------------------|
| <b>INCOME</b>                                         |      |                      |                      |
| Broker License Fees                                   |      | 4,999,634            | 3,605,563            |
| Administration Levy                                   |      | 1,487,168            | 3,204,082            |
| CMET Educational Programmes                           |      | 14,312,304           | 22,236,085           |
| SEC Seminar                                           |      | -                    | 77,657               |
| Sale of Publications                                  |      | 18,750               | 19,500               |
| Sundry Income                                         |      | 1,894,972            | 96,751               |
| Profit/(Loss) on Disposal of Fixed Assets             |      | 321,865              | 1,748,847            |
| Recognition of Grants                                 | 12   | 13,981,944           | 11,944,380           |
|                                                       |      | <b>37,016,637</b>    | <b>42,932,865</b>    |
| <b>EXPENDITURE</b>                                    |      |                      |                      |
| Personnel Costs                                       | 15   | (140,311,036)        | (114,022,626)        |
| Administration & Establishment Expenses               | 16   | (78,622,641)         | (72,645,015)         |
| Capital Market Development Expenses                   | 17   | (24,478,437)         | (41,098,269)         |
| Finance Charges                                       | 18   | (102,328)            | (160,908)            |
|                                                       |      | <b>(243,514,442)</b> | <b>(227,926,818)</b> |
| Excess Expenditure over Income for the year           |      | <b>(206,497,805)</b> | <b>(184,993,953)</b> |
| Transfers from Cess Fund to meet Operational Expenses |      | 218,522,637          | 192,395,343          |
| <b>SURPLUS/(DEFICIT) FOR THE YEAR</b>                 |      | <b>12,024,832</b>    | <b>7,401,390</b>     |

The Accounting Policies and Notes appearing on pages 60 to 70 form an integral part of the financial statements.

## STATEMENT OF CHANGES IN RESERVES

FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2012

|                                                        | Note | Reserves<br>Rs. | Accumulated<br>Fund<br>Rs. | Total<br>Rs.      |
|--------------------------------------------------------|------|-----------------|----------------------------|-------------------|
| Balance as at 1st January 2011                         |      | -               | 15,433,620                 | 15,433,620        |
| Prior Year Adjustment                                  |      | -               | (278,350)                  | (278,350)         |
| Fund Transfer to Cess Fund to Invest in Treasury Bills |      | -               | (10,000,000)               | (10,000,000)      |
|                                                        |      | -               | 5,155,270                  | 5,155,270         |
| Excess Expenditure over Income for the year            |      | -               | (184,993,953)              | (184,993,953)     |
| Fund Transfer from Cess Fund                           |      | -               | 192,395,343                | 192,395,343       |
| Surplus/(Deficit) for the Year                         |      | -               | 7,401,390                  | 7,401,390         |
| <b>Balance as at 31st December 2011</b>                |      | -               | <b>12,556,660</b>          | <b>12,556,660</b> |
| Balance as at 1st January 2012                         |      | -               | 12,556,660                 | 12,556,660        |
| Prior Year Adjustment                                  | 23   | -               | (5,072,967)                | (5,072,967)       |
| Fund Transfer to Cess Fund to Invest in Treasury Bills |      | -               | (10,000,000)               | (10,000,000)      |
|                                                        |      | -               | (2,516,307)                | (2,516,307)       |
| Excess Expenditure over Income for the year            |      | -               | (206,497,805)              | (206,497,805)     |
| Fund Transfer from Cess Fund                           |      | -               | 218,522,637                | 218,522,637       |
| Surplus/(Deficit) for the year                         |      | -               | 12,024,832                 | 12,024,832        |
| <b>Balance as at 31st December 2012</b>                |      | -               | <b>9,508,525</b>           | <b>9,508,525</b>  |

The Accounting Policies and Notes appearing on pages 60 to 70 form an integral part of the financial statements.

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2012

|                                                                    | Note | 2012<br>Rs.       | 2011<br>Rs.       |
|--------------------------------------------------------------------|------|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                        |      |                   |                   |
| Net Increase/ (Decrease) after transfers from Cess Fund            |      | 12,024,832        | 7,401,390         |
| <b>Adjustment for</b>                                              |      |                   |                   |
| Depreciation                                                       | 1    | 15,333,194        | 15,081,465        |
| (Profit)/Loss on disposal of Property, Plant & Equipment           |      | (321,865)         | (1,748,847)       |
| Recognition of Grant                                               | 12   | (13,981,944)      | (11,944,380)      |
| Provision for Gratuity                                             | 13   | 5,584,640         | 2,294,733         |
| Prior Year Adjustment                                              |      | (5,072,967)       | (278,350)         |
| Net Increase/(Decrease) before working capital changes             |      | 13,565,890        | 10,806,011        |
| <b>Change of Working Capital</b>                                   |      |                   |                   |
| (Increase)/Decrease of Stocks                                      |      | (98,428)          | 120,002           |
| (Increase)/ Decrease of Receivable                                 |      | (929,350)         | 358,270           |
| (Increase)/Decrease of Deposits Advances & Prepayments             |      | (2,402,103)       | 5,044,650         |
| Increase/(Decrease) of Receipt in Advance                          |      | 1,099,753         | 854,437           |
| Increase/(Decrease) of Creditors & Accruals                        |      | 551,320           | (11,908)          |
|                                                                    |      | (1,778,808)       | 6,365,451         |
| Cash generated from Operating Activities                           |      | 11,787,082        | 17,171,462        |
| Gratuity paid during the year                                      |      | -                 | (1,579,200)       |
| Net Cash Inflow/ (Outflow) from Operating Activities               |      | 11,787,082        | 15,592,262        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                        |      |                   |                   |
| Purchase of Property, Plant & Equipment                            | 1    | (11,106,862)      | (23,419,657)      |
| Fund Transfer to Cess Fund to Invest in Treasury Bills             |      | (10,000,000)      | (10,000,000)      |
| Proceeds from Sale of Property, Plant & Equipment                  |      | 1,005,384         | 4,688,853         |
| Net Cash Inflow/ (Outflow) from Investing Activities               |      | (20,101,478)      | (28,730,804)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                        |      |                   |                   |
| Capital transfer from Cess Fund                                    | 12   | 11,106,862        | 23,419,657        |
| Increase /(Decrease) in Finance Lease                              |      | (2,377,952)       | (6,368,350)       |
| Net Cash Inflow/ (Outflow) from Finance Activities                 |      | 8,728,910         | 17,051,307        |
| Net Increase/ (Decrease) in Cash and Cash Equivalents              |      | 414,513           | 3,912,765         |
| Cash and Cash Equivalents at the beginning of the period (Note A)  |      | 27,691,271        | 23,778,506        |
| <b>Cash and Cash Equivalents at the end of the period (Note B)</b> |      | <b>28,105,784</b> | <b>27,691,271</b> |
| <b>Note (A)</b>                                                    |      |                   |                   |
| <b>Cash and Cash Equivalents at the beginning of the period</b>    |      |                   |                   |
| Cash at Bank                                                       |      | 27,651,271        | 23,738,506        |
| Cash in Hand                                                       |      | 40,000            | 40,000            |
|                                                                    |      | 27,691,271        | 23,778,506        |
| <b>Note (B)</b>                                                    |      |                   |                   |
| <b>Cash and Cash Equivalents at the end of the period</b>          |      |                   |                   |
| Cash at Bank                                                       | 7    | 28,065,784        | 27,651,271        |
| Cash in Hand                                                       | 7    | 40,000            | 40,000            |
|                                                                    |      | 28,105,784        | 27,691,271        |

The Accounting Policies and Notes appearing on pages 60 to 70 form an integral part of the financial statements.

## CESS FUND

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2012

|                                                                                                        | 2012<br>Rs.      | 2011<br>Rs.      |
|--------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                            |                  |                  |
| Net Increase/ (Decrease) of Cess Fund                                                                  | (142,784,474)    | 632,945,123      |
| Net Increase/ (Decrease) before Working Capital changes                                                | (142,784,474)    | 632,945,123      |
| <b>Change of Working Capital</b>                                                                       |                  |                  |
| (Increase)/Decrease of Staff Loans                                                                     | (2,957,373)      | (4,573,091)      |
| (Increase)/Decrease of Receivables                                                                     | 807,815          | 4,391,217        |
| (Increase)/Decrease of Interest Receivable on Treasury Bills                                           | (6,817,772)      | 33,336,003       |
| (Increase)/Decrease of Capital Gain Receivable from State Institutions<br>Temporary Surplus Trust Fund | 2,803,527        | 21,382,804       |
| (Increase)/Decrease of Rent Deposit                                                                    | (1,614,420)      | (538,140)        |
|                                                                                                        | (7,778,223)      | 53,998,793       |
| Net Cash Inflow/ (Outflow) from Operating Activities                                                   | (150,562,697)    | 686,943,916      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                            |                  |                  |
| Investment in State Institutions Temporary Surplus Trust Fund                                          | 295,229,862      | (116,465,766)    |
| Investment in Treasury Bills                                                                           | (140,967,272)    | (566,025,248)    |
| Net Cash Inflow/ (Outflow) from Investing Activities                                                   | 154,262,590      | (682,491,014)    |
| Net Increase/(Decrease) in Cash and Cash Equivalents                                                   | 3,699,893        | 4,452,902        |
| Cash and Cash Equivalents at the beginning of the period (Note C)                                      | 5,003,346        | 550,444          |
| <b>Cash and Cash Equivalents at the end of the period (Note D)</b>                                     | <b>8,703,239</b> | <b>5,003,346</b> |
| <b>Note (C)</b>                                                                                        |                  |                  |
| <b>Cash and Cash Equivalents at the beginning of the period</b>                                        |                  |                  |
| Cash at Bank                                                                                           | 5,003,346        | (1,559,556)      |
| REPO Investments                                                                                       | -                | 2,110,000        |
|                                                                                                        | 5,003,346        | 550,444          |
| <b>Note (D)</b>                                                                                        |                  |                  |
| <b>Cash and Cash Equivalents at the end of the period</b>                                              |                  |                  |
| Cash at Bank                                                                                           | 2,193,239        | 5,003,346        |
| Overnight-REPO                                                                                         | 6,510,000        | -                |
|                                                                                                        | 8,703,239        | 5,003,346        |

The Accounting Policies and Notes appearing on pages 60 to 70 form an integral part of the financial statements.

## COMPENSATION FUND

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2012

|                                                                    | 2012<br>Rs.  | 2011<br>Rs.  |
|--------------------------------------------------------------------|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                        |              |              |
| Net Increase/ (Decrease) of Compensation Fund                      | 21,149,059   | 28,547,974   |
| Net Increase/ (Decrease) before Working Capital changes            | 21,149,059   | 28,547,974   |
| <b>Change of Working Capital</b>                                   |              |              |
| (Increase)/Decrease of WithHolding Tax Receivable                  | 72,445       | -            |
| (Increase)/Decrease of Interest Receivable on Treasury Bills       | (6,311,998)  | 1,203,771    |
|                                                                    | (6,239,553)  | 1,203,771    |
| Net Cash Inflow/ (Outflow) from Operating Activities               | 14,909,506   | 29,751,745   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                        |              |              |
| Investment in Treasury Bills                                       | (14,910,633) | (29,748,342) |
| Net Cash Inflow/ (Outflow) from Investing Activities               | (14,910,633) | (29,748,342) |
| Net Increase/(Decrease) in Cash and Cash Equivalents               | (1,127)      | 3,403        |
| Cash and Cash Equivalents at the beginning of the period (Note E)  | 88,715       | 85,312       |
| <b>Cash and Cash Equivalents at the end of the period (Note F)</b> | 87,587       | 88,715       |
| <b>Note (E)</b>                                                    |              |              |
| <b>Cash and Cash Equivalents at the beginning of the period</b>    |              |              |
| Cash at Bank                                                       | 63,346       | 59,943       |
| Call Deposits                                                      | 25,369       | 25,369       |
|                                                                    | 88,715       | 85,312       |
| <b>Note (F)</b>                                                    |              |              |
| <b>Cash and Cash Equivalents at the end of the period</b>          |              |              |
| Cash at Bank                                                       | 62,218       | 63,346       |
| Call Deposits                                                      | 25,369       | 25,369       |
|                                                                    | 87,587       | 88,715       |

The Accounting Policies and Notes appearing on pages 60 to 70 form an integral part of the financial statements.



# ACCOUNTING POLICIES

## 1. GENERAL ACCOUNTING POLICIES

### 1.1 STATEMENT OF COMPLIANCE

The Securities and Exchange Commission of Sri Lanka (SEC) a nonprofit making statutory authority 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

#### 2.1.1 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 derecognized.

#### 2.1.2 LEASED MOTOR VEHICLES

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

As part of the remuneration package the Assistant Directors and above are entitled to a vehicle under the contributory lease scheme. Whilst the SEC pays the lease rental the staff concerned contributes towards the lease rental. In addition the staff should bear all expenditure in full pertaining license and maintenance. The SEC will also pay the cost of insurance to the extent of the lease entitlement. The ownership of the vehicle will be transferred to the member of the staff who participated in the contributory lease scheme at the expiration of the lease period i.e. after 48 months or upon settlement of the lease liability by the staff concerned in full. Consequent to a decision taken by the Members of the Commission during the year 2012 this scheme will not be applicable to the new recruits.

### 2.2 INVESTMENTS

Investments are made in Government Securities and stated at cost.

**2.3 INVENTORIES**

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

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

**2.4 RECEIVABLES**

Receivables are stated at the estimated realizable value.

**3. LIABILITIES & PROVISIONS****3.1 EMPLOYEE BENEFIT****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 month 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 recognized in the Statement of Financial Performance as revenue on systematic basis over the useful life of the related asset.

**4. STATEMENT OF FINANCIAL PERFORMANCE****4.1 REVENUE RECOGNITION**

SEC revenue consists of Broker license fees, administration levy, sale of publications, seminar income and educational programmes. Revenue from the above mentioned services / fees is recognized in the period in which the related services are performed. Accordingly an adjustment was made to recognize the revenue from educational programmes to match the period of related services from year 2011.

**4.2 INTEREST ON INVESTMENTS**

Interest on investments is recognized on an accrual basis.

**4.3 OTHER REVENUE**

Other income is recognized on an accrual basis.

**5. EXPENDITURE RECOGNITION**

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

**6. CASH FLOW STATEMENT**

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. PROPERTY, PLANT & EQUIPMENT

|                                                   | Motor<br>Vehicles<br>Rs. | Furniture,<br>Fixtures<br>& Fittings<br>Rs. | Office<br>Equipment<br>& EDP<br>Rs. | Training<br>Equipment<br>Rs. | Assets on<br>Finance Lease<br>(Motor<br>Vehicles)<br>Rs. | Total<br>Rs.       |
|---------------------------------------------------|--------------------------|---------------------------------------------|-------------------------------------|------------------------------|----------------------------------------------------------|--------------------|
| <b>COST</b>                                       |                          |                                             |                                     |                              |                                                          |                    |
| Balance as at 1st January 2012                    | 31,725,186               | 23,986,892                                  | 72,555,253                          | 3,984,100                    | 12,280,000                                               | 144,531,432        |
| Additions during the Year                         | -                        | 1,352,222                                   | 8,982,440                           | 772,200                      | -                                                        | 11,106,862         |
| Disposals during the year                         | -                        | (24,948)                                    | (3,535,953)                         | (1,032,500)                  | (5,480,000)                                              | (10,073,401)       |
| <b>Balance as at 31st December 2012</b>           | <b>31,725,186</b>        | <b>25,314,167</b>                           | <b>78,001,740</b>                   | <b>3,723,800</b>             | <b>6,800,000</b>                                         | <b>145,564,894</b> |
| <b>ACCUMULATED DEPRECIATION</b>                   |                          |                                             |                                     |                              |                                                          |                    |
| Balance as at 1st January 2012                    | 16,601,398               | 13,347,984                                  | 40,995,602                          | 3,389,134                    | 8,875,000                                                | 83,209,118         |
| Depreciation Charge for the Year                  | 1,657,292                | 2,905,544                                   | 9,170,874                           | 248,234                      | 1,351,250                                                | 15,333,194         |
| Accumulated Depreciation on<br>Disposal of Assets | -                        | (20,185)                                    | (3,535,953)                         | (1,032,500)                  | (4,801,250)                                              | (9,389,888)        |
| <b>Balance as at 31st December 2012</b>           | <b>18,258,690</b>        | <b>16,233,343</b>                           | <b>46,630,523</b>                   | <b>2,604,868</b>             | <b>5,425,000</b>                                         | <b>89,152,424</b>  |
| <b>WRITTEN DOWN VALUE</b>                         |                          |                                             |                                     |                              |                                                          |                    |
| <b>AS AT 31ST DECEMBER 2012</b>                   | <b>13,466,496</b>        | <b>9,080,824</b>                            | <b>31,371,217</b>                   | <b>1,118,932</b>             | <b>1,375,000</b>                                         | <b>56,412,469</b>  |
| <b>WRITTEN DOWN VALUE</b>                         |                          |                                             |                                     |                              |                                                          |                    |
| <b>AS AT 31ST DECEMBER 2011</b>                   | <b>15,123,788</b>        | <b>10,638,910</b>                           | <b>31,559,652</b>                   | <b>594,966</b>               | <b>3,405,002</b>                                         | <b>61,322,318</b>  |
| <b>USEFUL LIFE TIME (NO OF YEARS)</b>             | <b>10</b>                | <b>8</b>                                    | <b>5</b>                            | <b>5</b>                     | <b>4</b>                                                 |                    |

|                                                                              | Note | 2012<br>Rs.          | 2011<br>Rs.          |
|------------------------------------------------------------------------------|------|----------------------|----------------------|
| <b>2. CESS FUND</b>                                                          |      |                      |                      |
| <b>NON CURRENT ASSETS</b>                                                    |      |                      |                      |
| Staff Loans                                                                  |      | 20,685,087           | 18,477,500           |
| Rent Deposits                                                                |      | 17,220,480           | 15,606,060           |
|                                                                              |      | <b>37,905,567</b>    | <b>34,083,560</b>    |
| <b>CURRENT ASSETS</b>                                                        |      |                      |                      |
| Investment in State Institutions Temporary Surplus Trust Fund                |      | 181,491,296          | 476,721,158          |
| Investment in Treasury Bills                                                 |      | 1,741,999,451        | 1,601,032,179        |
|                                                                              |      | <b>1,923,490,747</b> | <b>2,077,753,337</b> |
| Staff Loans Receivable within 12 months                                      |      | 5,096,953            | 4,347,167            |
| Withholding Tax Receivable                                                   | 9    | -                    | 400,341              |
| Interest Receivable on Treasury Bills                                        |      | 120,220,664          | 113,402,892          |
| Cess Receivable                                                              |      | 1,570,127            | 1,977,601            |
| Capital Gain Receivable from State Institutions Temporary Surplus Trust Fund |      | 107,627              | 2,911,154            |
| Balance at Bank                                                              |      | 8,703,239            | 5,003,346            |
|                                                                              |      | <b>135,698,610</b>   | <b>128,042,501</b>   |
|                                                                              |      | <b>2,059,189,357</b> | <b>2,205,795,838</b> |
| <b>TOTAL ASSETS</b>                                                          |      | <b>2,097,094,924</b> | <b>2,239,879,398</b> |

|                                                | Note | 2012<br>Rs.        | 2011<br>Rs.        |
|------------------------------------------------|------|--------------------|--------------------|
| <b>3 COMPENSATION FUND</b>                     |      |                    |                    |
| <b>CURRENT ASSETS</b>                          |      |                    |                    |
| Investment in Treasury Bills                   |      | 219,549,237        | 204,638,604        |
|                                                |      | <b>219,549,237</b> | <b>204,638,604</b> |
| Withholding Tax Receivable on Call Deposit     | 10   | -                  | 72,445             |
| Interest Receivable on Treasury Bills          |      | 17,824,862         | 11,512,864         |
| Investment in Call Deposits                    |      | 25,369             | 25,369             |
| Balance at Bank                                |      | 62,218             | 63,346             |
|                                                |      | <b>17,912,449</b>  | <b>11,674,024</b>  |
|                                                |      | <b>237,461,686</b> | <b>216,312,628</b> |
| <b>4 INVENTORIES</b>                           |      |                    |                    |
| Stock of Stationery, Stamp & EDP Consumables   |      | 621,990            | 523,562            |
| Stock of Publications                          |      | 6,894              | 6,894              |
|                                                |      | <b>628,884</b>     | <b>530,456</b>     |
| <b>5 RECEIVABLES</b>                           |      |                    |                    |
| Sundry Debtors Including Debit Notes           |      | 34,380             | 129,631            |
| With Holding Tax Receivable                    | 16   | -                  | 5,399              |
| Festival Advances                              |      | 1,750,000          | 720,000            |
|                                                |      | <b>1,784,380</b>   | <b>855,030</b>     |
| <b>6 DEPOSITS, ADVANCES &amp; PRE-PAYMENTS</b> |      |                    |                    |
| Safe Vault Deposit - Bank of Ceylon            |      | 36,525             | 31,336             |
| Fuel Deposit                                   |      | 60,000             | 60,000             |
| Deposit for Vehicle Maintenance                |      | 500                | 500                |
| Deposits with Telecom Ltd                      |      | 42,125             | 42,125             |
| Deposits with Dialog                           |      | 4,500              | 3,500              |
| Frosty-Hot & Cold Dispenser                    |      | 28,000             | 28,000             |
| Employer Federation of Ceylon                  |      | 19,993             | 19,993             |
| Advances to Suppliers                          |      | 4,723,359          | 2,327,445          |
|                                                |      | <b>4,915,002</b>   | <b>2,512,899</b>   |
| <b>7 CASH</b>                                  |      |                    |                    |
| Cash at Bank                                   |      | 28,065,784         | 27,651,271         |
| Cash in Hand                                   |      | 40,000             | 40,000             |
|                                                |      | <b>28,105,784</b>  | <b>27,691,271</b>  |

## NOTES TO THE FINANCIAL STATEMENTS *Contd.*

|                                                                       | Note | 2012<br>Rs.          | 2011<br>Rs.          |
|-----------------------------------------------------------------------|------|----------------------|----------------------|
| <b>8 ACCUMULATED FUND</b>                                             |      |                      |                      |
| Balance at the beginning of the Year                                  |      | 12,556,660           | 15,433,620           |
| Prior Year Adjustment                                                 | 23   | (5,072,967)          | (278,350)            |
| Fund Transfer to Cess Fund to Invest in Treasury Bills                |      | (10,000,000)         | (10,000,000)         |
| Surplus/(Deficit) for the Year                                        |      | 12,024,832           | 7,401,390            |
| <b>Balance at the end of the Year</b>                                 |      | <b>9,508,525</b>     | <b>12,556,660</b>    |
| <b>9 CESS FUND</b>                                                    |      |                      |                      |
| Balance at the beginning of the Year                                  |      | 2,239,879,398        | 1,606,934,275        |
| Add Cess Received During the Year                                     |      | 246,562,437          | 673,005,097          |
| Interest on Investment & Others                                       |      | 210,657,028          | 162,980,420          |
| Capital Gain from the State Institutions Temporary Surplus Trust Fund |      | 107,627              | 2,911,154            |
| Fund Transfer from SEC to invest in Treasury Bills                    |      | 10,000,000           | 10,000,000.00        |
|                                                                       |      | <b>2,707,206,490</b> | <b>2,455,830,946</b> |
| Less Fund Transfers to SEC for Operational & Capital Expenditure      |      | 229,629,499          | 215,815,000          |
| Fund Transfer to Consolidated Fund                                    |      | 380,000,000          | -                    |
| Bank Charges                                                          |      | 81,726               | 136,548              |
| Withholding Tax Written Off                                           | 2    | 400,341              | -                    |
|                                                                       |      | <b>610,111,566</b>   | <b>215,951,548</b>   |
| <b>Balance at the end of the Year</b>                                 |      | <b>2,097,094,924</b> | <b>2,239,879,398</b> |
| <b>10 COMPENSATION FUND</b>                                           |      |                      |                      |
| Balance at the beginning of the Year                                  |      | 216,312,627          | 187,764,653          |
| Add Compounding Fees Received During the Year                         |      | -                    | 13,875,000           |
| Interest on Investment in Treasury Bills                              |      | 21,222,754           | 14,679,356           |
|                                                                       |      | <b>237,462,936</b>   | <b>216,319,009</b>   |
| Less: Bank Charges & Debit Tax                                        |      | 1,250                | 6,382                |
| Withholding Tax Written Off                                           | 3    | 72,455               | -                    |
|                                                                       |      | <b>73,695</b>        | <b>6,382</b>         |
| <b>Balance at the end of the Year</b>                                 |      | <b>237,461,686</b>   | <b>216,312,627</b>   |
| <b>11 LEASE CREDITORS</b>                                             |      |                      |                      |
| Gross Lease Liabilities                                               |      | 1,757,888            | 4,573,873            |
| Interest in Suspense                                                  |      | (179,723)            | (617,756)            |
|                                                                       |      | <b>1,578,165</b>     | <b>3,956,117</b>     |
| Payable within one Year - Current Portion of the Lease Creditors      |      | 958,848              | 1,588,583            |
| Payable after one Year - Non Current Portion of the Lease Creditors   |      | 619,317              | 2,367,534            |
|                                                                       |      | <b>1,578,165</b>     | <b>3,956,117</b>     |



|                                                                      | Note | 2012<br>Rs.       | 2011<br>Rs.       |
|----------------------------------------------------------------------|------|-------------------|-------------------|
| <b>12 GRANT - TRANSFERS FROM CESS FUND FOR CAPITAL EXPENDITURE</b>   |      |                   |                   |
| Balance at the beginning of the Year                                 |      | 52,925,802        | 41,450,526        |
| Transfers from Cess Fund to meet Capital Expenditure During the Year |      | 11,106,862        | 23,419,657        |
| Recognition of grants Transferred to Income for Assets Depreciation  |      | (13,981,944)      | (11,944,380)      |
| <b>Balance at the end of the Year</b>                                |      | <b>50,050,720</b> | <b>52,925,802</b> |
| <b>The Grant is recognized at the following rates</b>                |      |                   |                   |
| Motor Vehicles                                                       |      | 10.00%            | 10.00%            |
| Office Equipment & Electronic Data Processing EDP Equipment          |      | 20.00%            | 20.00%            |
| Training Equipment                                                   |      | 20.00%            | 20.00%            |
| Furniture, Fixtures & Fittings                                       |      | 12.50%            | 12.50%            |
| <b>13 RETIREMENT BENEFIT OBLIGATION</b>                              |      |                   |                   |
| Balance at the beginning of the Year                                 |      | 14,427,557        | 13,712,024        |
| Charge for the Year                                                  |      | 5,584,640         | 2,294,733         |
| Gratuity Paid during the Year                                        |      | -                 | (1,579,200)       |
| <b>Balance at the end of the Year</b>                                |      | <b>20,012,197</b> | <b>14,427,557</b> |
| <b>14 CREDITORS AND ACCRUALS</b>                                     |      |                   |                   |
| Telephone & Internet Expenses                                        |      | 321,223           | 343,000           |
| Electricity                                                          |      | 330,617           | 240,000           |
| Staff Medical Reimbursements                                         |      | 500,538           | 454,252           |
| Fuel Reimbursement                                                   |      | 72,357            | 80,018            |
| Staff Welfare                                                        |      | 80,983            | 89,149            |
| Leave Encashment                                                     |      | 1,747,453         | 1,449,482         |
| Overtime                                                             |      | 205,574           | 112,990           |
| External Audit Fees                                                  |      | 600,000           | 400,000           |
| Internal Audit Fees                                                  |      | 102,800           | 107,000           |
| Public Awareness                                                     |      | 1,750,000         | 2,028,000         |
| Courier Charges                                                      |      | 8,678             | 19,755            |
| Overseas Training Insurance                                          |      | -                 | 69,000            |
| VAT Payable                                                          |      | 262,035           | 119,319           |
| Stamp Duty Payable                                                   |      | 8,325             | 7,750             |
| Fuel Expenses                                                        |      | 21,536            | 10,130            |
| Newspapers & Periodicals                                             |      | 18,170            | 10,595            |
| Incentive Payable to Contract Employees                              |      | -                 | 209,210           |
| Nation Building Tax                                                  |      | 66,048            | -                 |
| Gifts & Entertainment                                                |      | 125,125           | -                 |
| Interns' Allowance                                                   |      | 15,766            | -                 |
| Staff Training - Local                                               |      | 3,000             | -                 |
| Seminar expenses-CMET                                                |      | 218,542           | -                 |
| Other Payable                                                        |      | -                 | 157,800           |
|                                                                      |      | <b>6,458,770</b>  | <b>5,907,450</b>  |

## NOTES TO THE FINANCIAL STATEMENTS *Contd.*

|                                     | Note | 2012<br>Rs.        | 2011<br>Rs.        |
|-------------------------------------|------|--------------------|--------------------|
| <b>15 PERSONNEL COSTS</b>           |      |                    |                    |
| Staff Salaries                      |      | 70,847,618         | 61,295,170         |
| Chairman's Allowance                |      | 851,405            | 789,373            |
| Overtime                            |      | 1,107,382          | 909,622            |
| E P F & E T F                       |      | 10,819,987         | 9,371,515          |
| Staff Gratuity                      | 13   | 5,584,640          | 2,294,733          |
| Bonus                               |      | 9,893,659          | 7,618,366          |
| Leave Encashment                    |      | 1,747,453          | 1,693,840          |
| Staff Medical Expenses & Insurance  |      | 4,774,004          | 4,211,638          |
| Personnel Accident Insurance Cover  |      | 588,460            | 702,305            |
| Staff Housing Loan Interest Subsidy |      | 1,221,314          | 875,977            |
| Staff Welfare                       |      | 2,740,156          | 3,173,907          |
| Executive Subsistence               |      | 21,000             | 60,000             |
| Reimbursement of Fuel - Directors   |      | 2,954,542          | 2,541,366          |
| Directors Vehicle Allowance         |      | 5,667,096          | 3,895,000          |
| Finance Charges for Lease           |      | 136,482            | 673,380            |
| Overseas Training & Travelling      |      | 17,017,101         | 10,586,084         |
| Staff Training - Local              |      | 1,944,852          | 1,776,533          |
| Subscription of Membership          |      | 392,145            | 333,563            |
| Sponsorship for Studies *           |      | 586,777            | 293,219            |
| Advertising for Recruitment         |      | 1,023,345          | 550,050            |
| Interns Allowance                   |      | 391,618            | 376,985            |
|                                     |      | <b>140,311,036</b> | <b>114,022,626</b> |

\* 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 | 2012<br>Rs. | 2011<br>Rs. |
|-------------------------------------------------------|------|-------------|-------------|
| <b>16 ADMINISTRATION &amp; ESTABLISHMENT EXPENSES</b> |      |             |             |
| Rent & Car Park Rental                                |      | 35,469,340  | 32,821,937  |
| Electricity Charges                                   |      | 3,927,226   | 2,835,964   |
| Office Upkeep                                         |      | 249,327     | 152,383     |
| Office Equipment Maintenance & Insurance              |      | 3,197,316   | 1,272,436   |
| Telephone, Internet, E- mail & Web                    |      | 4,009,795   | 3,798,417   |
| Motor Vehicle Fuel, Maintenance, License & Insurance  |      | 2,196,072   | 1,721,817   |
| Professional Fees                                     |      | 49,900      | 504,134     |
| Member Fees                                           |      | 829,856     | 1,015,850   |
| Meeting Expenses                                      |      | 870,597     | 769,903     |
| Entertainment                                         |      | 181,378     | 488,778     |
| Cost of Publication                                   |      | -           | 13,788      |
| Library Books                                         |      | 96,903      | 79,558      |
| News Papers & Periodicals                             |      | 175,496     | 141,688     |
| Printing & Stationery                                 |      | 1,910,306   | 1,919,601   |
| Travelling Local                                      |      | 211,973     | 224,778     |
| Insurance- Fire                                       |      | 380,679     | 466,875     |
| Postage & Stamp Duty                                  |      | 84,777      | 123,290     |

|                                                                | Note | 2012<br>Rs.       | 2011<br>Rs.       |
|----------------------------------------------------------------|------|-------------------|-------------------|
| <b>16 ADMINISTRATION &amp; ESTABLISHMENT EXPENSES (Contd.)</b> |      |                   |                   |
| Courier Charges                                                |      | 141,177           | 147,538           |
| Legal Expenses                                                 |      | 995,990           | 138,528           |
| Audit Fees -Internal                                           |      | 206,210           | 390,350           |
| Audit Fees -External                                           |      | 200,000           | 215,000           |
| General Expenses                                               |      | 604,420           | 904,384           |
| Withholding Tax Written Off                                    | 5    | 5,399             | -                 |
| Trade Tax                                                      |      | 10,000            | 5,000             |
| VAT Expenses                                                   |      | 6,749,801         | 6,696,669         |
| Nation Building Tax                                            |      | 535,509           | 385,277           |
| Compensation                                                   |      | -                 | 329,607           |
| Depreciation                                                   | 1    | 15,333,194        | 15,081,465        |
|                                                                |      | <b>78,622,641</b> | <b>72,645,015</b> |
| <b>17 CAPITAL MARKET DEVELOPMENT EXPENSES</b>                  |      |                   |                   |
| Capital Market & Product Development                           |      | 1,632,809         | 7,776,754         |
| Public Awareness Programmes                                    |      | 10,922,512        | 22,288,565        |
| Seminar Expenses -CMET                                         |      | 5,691,009         | 4,258,590         |
| International Membership Fees - IOSCO                          |      | 2,269,792         | 2,272,500         |
| Publicity & Advertising                                        |      | 913,366           | 1,790,835         |
| Market Surveillance Cost                                       |      | 3,048,949         | 2,646,336         |
| Investigation Expenses                                         |      | -                 | 2,722             |
| Inspection Expenses                                            |      | -                 | 61,967            |
|                                                                |      | <b>24,478,437</b> | <b>41,098,269</b> |
| <b>18 FINANCE CHARGES</b>                                      |      |                   |                   |
| Bank Charges                                                   |      | 102,328           | 133,975           |
| Debit Tax                                                      |      | -                 | 26,933            |
|                                                                |      | <b>102,328</b>    | <b>160,908</b>    |

**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**

Six computers costing Rs.578,340/- from Sri Lanka Telecom Services Ltd, two Printers costing Rs.96,000/- from ABC Computers (Pvt) Ltd, and the balance payment of Rs.582,857.14 to Cyber Concepts (Pvt) Ltd for developing, designing and hosting the SEC, Capital Market Information Centers and Capital Market Education and Training division Web Portal and were the Capital Commitments as 31.12.2012.

**21. CONTINGENT LIABILITIES**

There were no contingent liabilities as at 31.12.2012.

**22. EVENTS AFTER THE BALANCE SHEET DATE**

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

NOTES TO THE FINANCIAL STATEMENTS *Contd.***23. RECOGNITION OF CAPITAL MARKET EDUCATION AND TRAINING (CMET) REVENUE**

CMET revenue relevant for the year 2012 amounting to Rs.5,073,122/- was recognized in the year 2011 financial statements of the SEC. In the current financial period this amount was corrected.

**24. RELATED PARTY DISCLOSURES**

Dr Nalaka Godahewa assumed duties as Chairman SEC, on 28 August 2012 and holds office to-date.

The following Members of the Commission held office during the full year 2012.

- Mr. D. K. Hettiarachi Ex-officio Member
- Mr. Lolitha Abeysinghe Appointed Member
- Mr. Mohamed Zuraish Hifaz Hashim Appointed Member
- Mr. Sujeewa Rajapakse Ex-officio Member
- Mr. B. D. W. A. Silva Ex-officio Member

The following Members of the Commission were appointed during the year as stated below.

- Dr. Prathiba Mahanamahewa assumed duties as an Appointed Member on 12 March 2012.
- Mr. Priyantha Fernando assumed duties as an Appointed Member on 28 August 2012. He also served as an Ex-officio Member until his retirement as the Deputy Governor of the Central Bank of Sri Lanka.
- Dr. B. M. S. Batagoda assumed duties on 8 October 2012 as an Ex-officio Member by virtue of him holding office as Deputy Secretary to the Treasury.

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

- Mr. Thilak Karunaratne assumed duties as Chairman SEC on 7 December 2011 and ceased to hold office upon his resignation on 17 August 2012.
- Mr. D. K. Hettiarachchi ceased to be an Ex-officio Member, upon his retirement as the Registrar of Companies on 31 December 2012. It is noteworthy to record that he served as an Ex-officio Member for over 15 years at the SEC.
- Mr. Sajaya Kulatunga Appointed Member assumed duties on 23 May 2011 and resigned on 17 August 2012.
- Mr. S. R. Attigala Deputy Secretary to the Treasury ceased to be an Ex-officio Member, on 7 October 2012.

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   | ■ Urban Development Authority                                  | Director                  |
|                       | ■ Sri Lanka Catering Ltd                                       | Director                  |
|                       | ■ Sri Lanka Handicrafts Board                                  | Director                  |
|                       | ■ The Lanka Hospitals Corporation PLC                          | Director                  |
|                       | ■ Colombo Land & Development Ltd                               | Chairman                  |
|                       | ■ Liberty Holdings (Pvt) Ltd                                   | Director                  |
|                       | ■ Sri Lanka Tourism Development Authority                      | Chairman- until 28.9.2012 |
| Mr D K Hettiarachchi  | ■ Sri Lanka Accounting and Auditing Standards Monitoring Board | Member                    |
|                       | ■ Insurance Board of Sri Lanka                                 | Member                    |
| Mr Lolitha Abeysinghe | ■ No Directorships on Listed Company Boards                    | -                         |

| Name                             | Name of Related Institution                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Relationship                                                                                                                                                                                                                                                                                                                    |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mr. Sujeewa Rajapaksha           | <ul style="list-style-type: none"> <li>National Development Bank PLC</li> <li>Asian Alliance Insurance PLC</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                           | <p>Director</p> <p>Director</p>                                                                                                                                                                                                                                                                                                 |
| Mr. Mohamed Zuraish Hifaz Hashim | <ul style="list-style-type: none"> <li>Development Interplan Ceylon Ltd</li> <li>West Asia Trading (Pvt) Ltd</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                         | <p>Director</p> <p>Director</p>                                                                                                                                                                                                                                                                                                 |
| Mr. B. D. W. A. Silva            | <ul style="list-style-type: none"> <li>Institute of Bankers of Sri Lanka</li> <li>Credit Information Bureau of Sri Lanka</li> <li>Board of Management of Api Wenuwen Api</li> <li>Insurance Board of Sri Lanka</li> <li>Ministry of Petroleum Industries – Special Standing Cabinet Appointed Procurement Committee</li> <li>West Coast Power (Pvt) Ltd</li> </ul>                                                                                                                                              | <p>Chairman</p> <p>Chairman</p> <p>Board Member</p> <p>Board Member</p> <p>Member from 10.8.2012</p> <p>Board Member</p>                                                                                                                                                                                                        |
| Dr. Prathiba Mahanamahewa        | -                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | -                                                                                                                                                                                                                                                                                                                               |
| Mr. P. D. J. Fernando            | <ul style="list-style-type: none"> <li>Union Bank</li> <li>Hambana Petrochemicals Ltd</li> <li>Commercial Leasing and Finance</li> <li>Taprobane Holdings Ltd</li> </ul>                                                                                                                                                                                                                                                                                                                                        | <p>Independent Director</p> <p>Independent Director</p> <p>Independent Director</p> <p>Independent Director</p>                                                                                                                                                                                                                 |
| Dr. B. M. S. Batagoda            | <ul style="list-style-type: none"> <li>Ceylon Electricity Board</li> <li>Sri Lanka Insurance Corporation Ltd</li> <li>Urban Development Authority</li> <li>Sri Lanka Tourism Development Authority</li> <li>Sri Lanka Tourism Promotion Bureau</li> <li>Regional Development Bank</li> <li>Litro Gas Ltd</li> <li>Institute of Policy Studies in Sri Lanka</li> <li>Post Graduate Institute of Management</li> <li>Sevena Fund</li> <li>Sri Lanka Carbon Fund (Pvt) Ltd</li> <li>Lanka Sugar Company</li> </ul> | <p>Board Member</p> <p>Board Director</p> <p>Board of Management</p> <p>Board Director</p> <p>Board Director</p> <p>Board Director</p> <p>Board Director</p> <p>Board Director</p> <p>Board Director</p> <p>Board Member until 6.6.2012</p> <p>Board Director</p> <p>Managing Director and Board Member</p> <p>Board Member</p> |



## NOTES TO THE FINANCIAL STATEMENTS *Contd.*

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

| Name                      | Name of Related Institution                                  | Relationship                   |
|---------------------------|--------------------------------------------------------------|--------------------------------|
| Mr. Thilak Karunaratne    | ■ Multiform Chemicals (Pvt) Ltd                              | Managing Director              |
|                           | ■ Far Eastern & European Travels (Pvt) Ltd                   | Managing Director              |
|                           | ■ Mercury Agencies (Pvt) Ltd                                 | Chairman                       |
|                           | ■ Settlement Guarantee Fund                                  | Trustee 7.12.2011 – 17.08.2012 |
| Mr. Sanjaya kulatunga     | ■ Beira Brush Limited                                        | Director until 31.5.2012       |
|                           | ■ Beira Synthetic Pvt Ltd                                    | Director until 31.5.2012       |
|                           | ■ Beira Enviro Solutions Pvt Ltd                             | Director until 31.5.2012       |
|                           | ■ Amba Research Sri Lanka                                    | Director                       |
|                           | ■ Odel Limited                                               | Director                       |
|                           | ■ Expo Lanka Holdings                                        | Director                       |
|                           | ■ Six Senses Property Holding                                | Director until 27.2.2012       |
|                           | ■ Tasz Holding Pvt Ltd                                       | Director                       |
| Mr. Priyantha Jayawardena | -                                                            | -                              |
| Mr. S. R. Attigala        | ■ Sri Lanka Ports Authority                                  | Director                       |
|                           | ■ Bank of Ceylon                                             | Director                       |
|                           | ■ Insurance Board of Sri Lanka                               | Director                       |
|                           | ■ Superior Sports Complex Management Board                   | Member                         |
|                           | ■ Postgraduate Institute of Science University of Peradeniya | Member                         |
|                           | ■ Board of Investment                                        | Observer                       |

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

## REPORT OF THE AUDITOR GENERAL



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



මගේ අංකය }  
 எனது இல } FB/K/SGF/2012  
 My No }

මගේ අංකය }  
 உமது இல }  
 No. }

දිනය }  
 திகதி } 3 / May 2013

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 2012**

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 2012 comprising the statement of financial position as at 31 December 2012 and the statement of comprehensive income, 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 in respect of Settlement Guarantee Fund created 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. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable

අංක 306/72 පොල්දූව පාර,  
 බත්තරමුල්ල, ශ්‍රී ලංකාව

දුරකථනය }  
 தொலைபேசி } 0112887028-34  
 Telephone. }

இல. 306/72, பொல்துவ வீதி,  
 பத்தரமுல்லை இலங்கை

ෆැක්ස් අංකය }  
 பக்ஸ் இல } 0112887223  
 Fax No. }

No.306/72, Polduwa Road,  
 Battaramulla, Sri Lanka

ඉලෙක්ට්‍රොනික් තැපෑල }  
 #- மெயில் } oaggov@slt.net.lk  
 E-mail. }

REPORT OF THE AUDITOR GENERAL *Contd.*

assurance about whether the financial statements are free from material misstatements.

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

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

**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 2012, and its financial performance and its 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 2012 had resulted in a surplus of Rs.42,095,856 as compared with the corresponding surplus of Rs. 24,823,597 for the preceding year thus indicating an increase in the surplus by Rs. 17,272,259.

**3.2 Position of the Fund**

The Colombo Stock Exchange had transferred a sum of Rs 100 million to the Fund in January 2012 as per the amended Deed of Trust No. 2008 dated 13 July 2011 with a view to strengthen the Fund.

**3.3 Functions of the Fund**

Disputes between the Clearing Members of the Central Depository System had not been reported as per Paragraph 5 (a) of the Deed of Trust No.1376 dated 21/22 May 1998 and as such no any compensation payments had been made during the year under review.

  
H.A.S.Samaraweera

Auditor General

## SETTLEMENT GUARANTEE FUND

## STATEMENT OF FINANCIAL POSITION

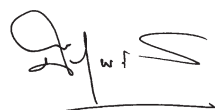
AS AT 31<sup>ST</sup> DECEMBER 2012

|                                         | Note | 2012<br>Rs.        | 2011<br>Rs.        |
|-----------------------------------------|------|--------------------|--------------------|
| <b>ASSETS</b>                           |      |                    |                    |
| <b>CURRENT ASSETS</b>                   |      |                    |                    |
| Investment in Treasury Bills            |      | 459,637,724        | 335,907,084        |
| Receivables                             | 5    | 40,072,769         | 21,677,090         |
| Cash at Bank                            |      | 193,168            | 262,440            |
| <b>TOTAL ASSETS</b>                     |      | <b>499,903,661</b> | <b>357,846,614</b> |
| <b>NET ASSETS AND LIABILITIES</b>       |      |                    |                    |
| <b>NET ASSETS</b>                       |      |                    |                    |
| Grant - Treasury                        |      | 50,000,000         | 50,000,000         |
| Grant- Cess Fund                        |      | 100,000,000        | 100,000,000        |
| Grant- Colombo Stock Exchange           |      | 100,000,000        | -                  |
| Accumulated Fund                        |      | 249,585,635        | 207,133,055        |
|                                         |      | <b>499,585,635</b> | <b>357,133,055</b> |
| <b>CURRENT LIABILITIES</b>              |      |                    |                    |
| Payables                                | 6    | 318,026            | 713,559            |
|                                         |      | <b>318,026</b>     | <b>713,559</b>     |
| <b>TOTAL NET ASSETS AND LIABILITIES</b> |      | <b>499,903,661</b> | <b>357,846,614</b> |

The notes appearing on pages 78 to 81 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



**Dr Nalaka H Godahewa**  
Trustee-Settlement Guarantee Fund



**Surekha Sellaheva(Mrs)**  
Trustee-Settlement Guarantee Fund

Colombo.  
17th May 2013



## SETTLEMENT GUARANTEE FUND

## STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2012

|                                                    | 2012<br>Rs.       | 2011<br>Rs.       |
|----------------------------------------------------|-------------------|-------------------|
| <b>INCOME</b>                                      |                   |                   |
| Interest on Investments in Treasury Bills          | 42,120,856        | 25,099,633        |
|                                                    | 42,120,856        | 25,099,633        |
| <b>EXPENDITURE</b>                                 |                   |                   |
| Audit Fees                                         | (25,000)          | (225,000)         |
| Other Expenses                                     | -                 | (51,036)          |
|                                                    | (25,000)          | (276,036)         |
| <b>EXCESS INCOME OVER EXPENDITURE FOR THE YEAR</b> | <b>42,095,856</b> | <b>24,823,597</b> |

The notes appearing on pages 78 to 81 form an integral part of the financial statements.

## SETTLEMENT GUARANTEE FUND

## STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2012

|                                                       | 2012<br>Rs.        | 2011<br>Rs.        |
|-------------------------------------------------------|--------------------|--------------------|
| <b>ACCUMULATED FUND</b>                               |                    |                    |
| Balance at the beginning of the Year                  | 207,133,055        | 182,309,458        |
| Overprovision of Government Audit Fees in Prior Years | 356,974            |                    |
| Adjustment of Bank Charges                            | (250)              |                    |
| Net Income for the Year                               | 42,095,856         | 24,823,597         |
| <b>Balance at the end of the Year</b>                 | <b>249,585,635</b> | <b>207,133,055</b> |

The notes appearing on pages 78 to 81 form an integral part of the financial statements.

# SETTLEMENT GUARANTEE FUND

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2012

|                                                                      | Note | 2012<br>Rs.    | 2011<br>Rs.    |
|----------------------------------------------------------------------|------|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                          |      |                |                |
| Net Income for the Year                                              |      | 42,095,856     | 24,823,597     |
| <b>Adjustment for</b>                                                |      |                |                |
| Overprovision of Audit Fee in Prior Years                            |      | 356,724        | -              |
| <b>Change of Working Capital</b>                                     |      |                |                |
| (Increase)/Decrease of Other Receivables                             | 5    | (18,395,679)   | 4,244,827      |
| Increase/(Decrease) of Other Payables                                | 6    | (395,533)      | 225,000        |
| Net Cash Inflow/ (Outflow) from Operating Activities                 |      | 23,661,368     | 29,293,424     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                          |      |                |                |
| Receipts from Colombo Stock Exchange                                 |      | 100,000,000    | -              |
| Net Cash Inflow/ (Outflow) from Financing Activities                 |      | 100,000,000    | -              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                          |      |                |                |
| Investment in Treasury Bills                                         |      | (123,730,640)  | (29,342,910)   |
| Net Cash Inflow/ (Outflow) from Investing Activities                 |      | (123,730,640)  | (29,342,910)   |
| Net Increase/(Decrease) in Cash and Cash Equivalents                 |      | (69,272)       | (49,486)       |
| Cash & Cash Equivalents at the beginning of the period               |      | 262,440        | 311,926        |
| <b>Cash &amp; Cash Equivalents at the end of the period (Note A)</b> |      | <b>193,168</b> | <b>262,440</b> |
| <b>Note (A)</b>                                                      |      |                |                |
| <b>Cash &amp; Cash Equivalents at the end of the period</b>          |      |                |                |
| Cash at Bank                                                         |      | 193,168        | 262,440        |
|                                                                      |      | <b>193,168</b> | <b>262,440</b> |

The notes appearing on pages 78 to 81 form an integral part of the financial statements.

# SETTLEMENT GUARANTEE FUND

## ACCOUNTING POLICIES

### 1. GENERAL ACCOUNTING POLICIES

#### 1.1 STATEMENT OF COMPLIANCE

The Settlement Guarantee Fund (SGF) of the Securities and Exchange Commission of Sri Lanka is a nonprofit making Trust 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 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 made in Government Securities and stated at cost.

#### 2.2 RECEIVABLES

Receivables are stated at the estimated realizable value.

### 3. LIABILITIES & PROVISIONS

#### 3.1 RETIREMENT BENEFIT

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

#### 3.2 ACCOUNTS PAYABLE

Payables are stated at cost.

### 4. STATEMENT OF FINANCIAL PERFORMANCE

#### 4.1 REVENUE RECOGNITION

Interest on investments is recognized on an accrual basis.

#### 4.2 EXPENDITURE RECOGNITION

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

#### 4.3 CASH FLOW STATEMENT

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

### 5. RECEIVABLES

|                                   | 2012<br>Rs. | 2011<br>Rs. |
|-----------------------------------|-------------|-------------|
| Treasury Bill Interest Receivable | 40,072,769  | 21,677,090  |
|                                   | 40,072,769  | 21,677,090  |

### 6. PAYABLES

|                    | 2012<br>Rs. | 2011<br>Rs. |
|--------------------|-------------|-------------|
| Audit Fees Payable | 318,026     | 713,559     |
|                    | 318,026     | 713,559     |

**7. CAPITAL COMMITMENTS**

There were no capital commitments as at 31st December 2012.

**8. CONTINGENT LIABILITIES**

There were no contingent liabilities as at 31st December 2012.

**9. EVENTS AFTER BALANCE SHEET DATE**

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

**10. RELATED PARTY DISCLOSURE**

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

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

- Dr. Nalaka Godahewa, Chairman SEC, appointed as a Trustee on 28 August 2012
- Dr. B. M. S. Batagoda, Deputy Secretary to the Treasury, appointed as a Trustee on 8 October 2012
- Prof. Hareendra Dissabandara, Director General SEC, appointed as a Trustee on 1 September 2012

The following Trustees ceased to hold office as mentioned below.

- Mr. Thilak Karunaratne assumed duties as a Trustee on 7 December 2011 and ceased to be a Trustee upon his resignation as Chairman SEC on 17 August 2012.
- Mr. S. R. Attigala, Deputy Secretary to the Treasury, assumed duties as a Trustee on 23 March 2012 and resigned on 7 October 2012.

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 | ■ Urban Development Authority             | Director                  |
|                     | ■ Sri Lanka Catering Ltd                  | Director                  |
|                     | ■ Sri Lanka Handicrafts Board             | Director                  |
|                     | ■ The Lanka Hospitals Corporation PLC     | Director                  |
|                     | ■ Colombo Land & Development Ltd          | Chairman                  |
|                     | ■ Liberty Holdings (Pvt) Ltd              | Director                  |
|                     | ■ Sri Lanka Tourism Development Authority | Chairman- until 28.9.2012 |



## SETTLEMENT GUARANTEE FUND

ACCOUNTING POLICIES *Contd.*

| 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                           |
|                              | ■ Central Hospitals (Pvt) Ltd                 | Director                           |
|                              | ■ John Keells BPO Holding Private Ltd         | Director                           |
|                              | ■ John Keells BPO Solutions India Private Ltd | Director                           |
|                              | ■ John Keells BPO Investments Private Limited | Director                           |
|                              | ■ John Keells BPO Alpha (Private) Limited     | Director                           |
|                              | ■ British Overseas (Private) Limited          | Director                           |
|                              | ■ Waldock Mackenzie Limited                   | Director                           |
|                              | ■ Allied Properties Limited                   | Director                           |
|                              | ■ Colombo Stock Exchange                      | Director from 7.3.2008             |
|                              | ■ Colombo Stock Exchange                      | Chairman from 14.6.2011            |
| Ms. Surekha Sellaheewa       | ■ Colombo Stock Exchange                      | Chief Executive Officer            |
| Dr. B. M. S. Batagoda        | ■ Ceylon Electricity Board                    | Board Member                       |
|                              | ■ Sri Lanka Insurance Corporation Ltd         | Board Director                     |
|                              | ■ Urban Development Authority                 | Board of Management                |
|                              | ■ Sri Lanka Tourism Development Authority     | Board Director                     |
|                              | ■ Sri Lanka Tourism Promotion Bureau          | Board Director                     |
|                              | ■ Regional Development Bank                   | Board Director                     |
|                              | ■ Litro Gas Ltd                               | Board Director                     |
|                              | ■ Institute of Policy Studies in Sri Lanka    | Board Director                     |
|                              | ■ Postgraduate Institute of Management        | Board Director until 6.6.2012      |
|                              | ■ Sevena Fund                                 | Board Director                     |
|                              | ■ Sri Lanka Carbon Fund (Pvt) Ltd             | Managing Director and Board Member |
|                              | ■ Lanka Sugar Company                         | Managing Director and Board Member |
| Prof. Hareendra Dissabandara | ■ Construction Guarantee Fund                 | Board Member from 1.9.2012         |

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. Thilak Karunaratne | ■ Multiform Chemicals (Pvt) Ltd                              | Managing Director |
|                        | ■ Far Eastern & European Travels (Pvt) Ltd                   | Managing Director |
|                        | ■ Mercury Agencies (Pvt) Ltd                                 | Chairman          |
| Mr. S. R. Attygalle    | ■ Sri Lanka Ports Authority                                  | Director          |
|                        | ■ Bank of Ceylon                                             | Director          |
|                        | ■ Insurance Board of Sri Lanka                               | Director          |
|                        | ■ Superior Sports Complex Management Board                   | Director          |
|                        | ■ Postgraduate Institute of Science University of Peradeniya | Member            |
|                        | ■ Board of Investment                                        | Observer          |

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

## NOTES





# 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](http://www.sec.gov.lk)

## Legal Form

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

## Accounting Year

Year ended 31<sup>st</sup> December 2012

## Auditors

The Auditor General

## Bankers

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



