

Growth With Stability



Contents

Vision & Mission	1
Chairman's Review	4
Review of the Officer-in-Charge	8
Members of the Commission	12
Senior Management	18
Macroeconomic Review	20
Capital Market Review	23
Managers and Staff Members	27
Operational Review	34
Additional Information	60
Fact Sheet	66

Financial Reports - SEC

Report of the Auditor General	70
Statement of Financial Position	72
Statement of Financial Performance	73
Statement of Changes In Reserves	74
Cash Flow Statement	75
Cash Flow Statement - Cess Fund	76
Cash Flow Statement - Compensation Fund	77
Accounting Policies	78
Notes to the Financial Statements	81

Financial Reports - SGF

Report of the Auditor General	92
Statement of Financial Position	94
Statement of Financial Performance	95
Statement of Changes in Net Assets	96
Cash Flow Statement	97
Accounting Policies	98

Growth With Stability

Stability is the foundation that withstands the winds of change and challenge. Stability is our foundation for future capital market growth. This foundation of stability is our message for 2013 – a challenging but constructive year, that has seen the infusion of stability into the capital market, to calm market volatility and set the course for sustained future growth. During the year, we have built a stable foundation for future prosperity through a modern regulatory framework, strong governance mechanisms and far sighted planning. The foundation has been laid for a fair, transparent and efficient investment environment.

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



Management Information



Chairman's Review



As the curtain fell on the year that was, 2013 in essence was a year filled with hope but also in many aspects fraught with challenges. Whilst 2013 was synonymous with the effects of the financial crisis fully regressing into the past tense the year was also a period of mixed happenings. Despite the gradual but somewhat sublime recovery in the USA, Europe and China filtering through to much of the emerging economies, the Asian economies witnessed some flagging growth.

Sri Lanka, on the other hand continued with its upward macro thrust. The Gross Domestic Product (GDP) expanded by 7.3 % for 2013 in keeping with upper trajectory as emphasised in the Central Bank of Sri Lanka (CBSL) Road Map. As of 2013, a top down analysis pinpoints to all economic indicators presenting an optimistic scenario. According to the International Monetary Fund (IMF) Sri Lanka economic expansion is expected to be in the neighbourhood of 6.5 % to 7% from 2014 to 2019, a favourable ratio when compared to the other developing economies in Asia which are expected to grow in the region of 6.5% to 6.7% for the same period.

Despite the overall positive outlook, key challenges and concerns do remain. Investment as a percentage of the GDP which currently is at 31% has to increase to 33% of GDP by

2016 if Sri Lanka is to sustain its fully fledged middle income status. Other concerns such as the trade deficit averaging around USD 9.4 billion, which in turn pressurises the Total Foreign Assets (USD 8.5 billion as of 2013) and the exchange rate which hovered around the Rs. 129 mark continued to linger on. The Foreign Direct Investment (FDI) component even though witnessing an increase from around USD 230 million in 2004 to over USD 1 billion by 2013, still remains a value that has to substantially improve.

In spite of these challenges, the CBSL has continued to adopt a conducive monetary policy to propel growth. Most notably, key macroeconomic measurements have been given due weightage. Inflation has been maintained at single digits and the key policy rates have been kept in the accommodative zone the Standing Deposit Facility Rate (SDFR) at 6.50 % and Standing Lending Facility Rate (SLFR) at 8.50 %.

In conjunction with the above, Sri Lanka's external view also remains ideally positive. In the index of economic freedom, Sri Lanka's rank of 81 places it in the top position in South Asia. Whilst in the Global Competitiveness index, the value of 65 puts Sri Lanka into the second position in South Asia.

"There were a total of 28 debenture issues with a total value amounting to Rs. 68.2 Bn, the highest ever recorded in a given year. This remarkable growth was possible as a result of the SEC successfully making representations to the Government"

DR. NALAKA GODAHEWA
Chairman

Chairman's Review

The performance of the capital market, has been a mixed bag. Even though the Initial Public Offering (IPO) listing was a singular, there was a substantial rise in the listed debt market. There were a total of 28 debenture issues with a total value amounting to Rs. 68.2 billion, the highest ever recorded in a given year. This remarkable growth was possible as a result of the SEC successfully making representations to the government to eliminate the withholding tax in Budget 2013.

In performance measures the All Share Price Index (ASPI) returned the figures of a positive 4.8 % for 2013, a somewhat favourable quotient when compared to a negative 7.1 % in 2012. Though the market returns were not impressive, it nevertheless was a return to positive territory from the prior years of being in the negative wilderness. Foreign participation was on the up-trend with foreign buying increasing steadily. Most importantly, foreign position transformed from a net sell of Rs. 19.0 billion in 2011 to a net buy of Rs. 38.6 billion in 2012 and Rs. 22.7 billion in 2013. The P/E multiple of 15X remained in tandem with other emerging markets. Cumulatively, the CSE returned figures on average of 32% y-o-y for the period 2008 till 2013, a favourable ratio when compared to the 12% for the overall emerging markets and only 4 % for the frontier market for the same period.

The Net Asset Value of unit trust funds stood at Rs. 54 billion (approx) as at 31st December 2013 as against Rs. 31 billion recorded in 2012, a significant increase of 75%. The concessions given by the National Budget and steps taken by all the stakeholders had a significant impact on the growth of the industry in 2013.

“We believe that the work is only partly done. The SEC fully cognizant of its dual capacity mandate has embarked on a path of clear cut objectives.”

Most significantly, the Securities and Exchange Commission of Sri Lanka (SEC) in its dual capacity as Capital Market ‘Regulator and Developer’ in consultation with industry stakeholders took momentous steps in enhancing the capital market through strategies aimed at setting the tone for the future direction of the market, making more efficient the investment process both through structural reforms and by legislative actions and boosting investor confidence and hence participation via market friendly yet focused on the long term legislation. In addition enhancing the global visibility of the market through the process of investor forums in Mumbai, Dubai, and Hong Kong were also given due consideration.

In significant assessment, 2013 was also synonymous with the Strategic Action Plan, the so-called blueprint to transform the market was further functionalised. The process of demutualization apart from the usual benefits of increasing market competitiveness and market efficiency is expected to transform Colombo Stock Exchange (CSE) from a not for profit organisation to a profit seeking organisation. In conjunction, the risk management system encompassing the Central Counterparty (CCP) and Delivery Vs. Payment (DVP) which not only guarantees payment but also an essential prerequisite for short selling, in addition to setting the tone for the introduction of structured products and derivatives will be all within domain.

Yet we believe that the work is only partly done. The SEC fully cognizant of its dual capacity mandate has embarked on a path of clear cut objectives. They being, gaining a global recognition by securing a placement in the Morgan Stanley emerging market index and thus graduating from the current frontier market index, increasing market size and breadth via new listings and achieving target market capitalisation of 50% of the GDP, among other objectives.

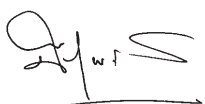
In summing up, most importantly, we would like to thank the President His Excellency Mahinda Rajapaksa, who is also the Minister of Finance, and the Secretary to the Treasury, Dr. P. B. Jayasundara and his officials for their guidance and firm support extended during the year. I am also grateful to the Members of the Commission for having extended to me their fullest support at all times.

Electronic and print media played a pivotal role in enhancing awareness about investing in the capital market and also disseminating SEC's initiatives to develop the market to the masses. We note with appreciation the support the media rendered during the year.

I also take this opportunity to thank the governor of the CBSL for his continued support and also the Chairman, Board and the management of the CSE and stockbroking companies, unit trust management companies and all market participants who played a role in developing the market during this period.

Finally, I thank the Officer in Charge/ Deputy Director General, and directors and the staff of the SEC who have continued to do an excellent job in maintaining the standards of the SEC as well as formulating and executing the objectives intended to take the capital market forward.

In conclusion, the financial year 2013 was a year the market displayed remarkable stability. SEC envisages that we will be able to continue on the initiatives that we started in order to spearhead the development of the capital market and thereby bring about an era of growth and prosperity to the economy.



Dr. Nalaka Godahewa
Chairman

20th May 2014

Review of the Officer-in-Charge



The year 2013 was driven by hope of global recovery rather than the challenges and uncertainties that pervaded 2012. Most economic analysts were of the opinion that the global path of economic recovery was truly well on course despite the economic concerns in the developed as well as the emerging world.

In Sri Lanka's case the GDP continued its new growth pattern of post-war positive economic pointers. In keeping with this thrust, the Government continued on with its complementary macroeconomic policies to propel expansion. Interest rates were brought down to aid and abet growth whilst inflation was kept under control and the statutory reserve ratio of the banks was also amended downwards. In this scenario the GDP expanded by a commendable 7.3 % in the backdrop of weather conditions that somewhat unfavourable in addition to a still sublime developed economies recovery.

The stock market recorded a steady growth during the year 2013 with the benchmark All Share Price Index (ASPI) recording a growth of 4.8% and the Blue chip S&P SL 20 index recording an increase of 5.8%. The ASPI closed the year at 5,912.8 points while the S&P 20 closed at 3,263.9 points. This is as against 7.1% negative growth recorded by the ASPI in 2012. S&P 20 Index was launched in 2012.

The total Market Capitalisation of the Colombo Stock Exchange (CSE) stood at Rs. 2,459.9 billion (USD 18.8

billion) at the end of the year 2013, an increase of 13.4% as against the previous year end of Rs. 2,167.6 billion.

A total turnover of Rs. 200.4 billion was recorded in 2013 with an average daily turnover of Rs. 828.4 million. Foreign investors accounted for 36.1% of the total market turnover while the domestic investors accounted for the balance 63.9%. In 2012 foreign and domestic investors accounted for 24.9% and 75.1% of the total market turnover respectively. The initiatives taken by the SEC together with other market participants to attract foreign investors have no doubt contributed to the growth of the foreign investor contribution in 2013.

Foreign investors were the net buyers in the market with net purchases of Rs. 33.9 billion in 2013. (Rs. 22.7 billion recorded from the Secondary market and Rs. 11.1 billion recorded from the Primary Market). This excludes the net foreign flow for corporate debt.

Rs. 119.4 billion was raised in the Primary market in 2013, a record amount for a given year. 28 Debt Initial Public Offerings (IPOs) raised a record amount of Rs. 68.2 billion. Exemption of 10% withholding tax on interest income earned from investing in listed debentures which was provided in the Budget for the year 2013 had a significant positive impact on the performance of the debt market. As regards to Secondary Market activity a total turnover of Rs. 2.2 billion was recorded in debt trading in the year 2013

"On the legislative side, the SEC completed drafting the proposed amendments to the SEC Act which is currently being reviewed by a special committee appointed by the Ministry of Finance and Planning"

DHAMMIKA PERERA

Officer-in-Charge/ Deputy Director General

Review of the Officer-in-Charge

as against Rs. 75.1 million recorded in 2012. This was a significant increase.

The CSE came 5th in the performance metrics in the greater Asian region. Only Karachi at 56%, Vietnam at 22%, Bursa Malaysia at 12.4% and Taiwan at 11.8% were placed ahead of the CSE in 2013. On the other hand, CSE's performance was tangibly ahead of India's National Stock Exchange at 3.6%, Bombay Stock Exchange at 3.3% and Hong Kong Stock Exchange at 2.9 %.

In market mechanics the market fundamental valuations also stayed within the emerging-frontier domain. The P/E multiple was 15.9 x earnings reflecting no change in the P/E valuation from 2012. The Price to Book Ratio was at 2.0 in 2013 a slight decrease from 2.1 in 2012. Most strikingly the dividend yield increased to 2.9 % in 2013 from 2.4% in 2012. However, the forward PE is 12.5 as reported by Reuters.

The National Budget simplified the process of investing in unit trusts for foreign investors and Sri Lankans living overseas and the tax applicable to the profit and income of unit trust management companies was reduced to 10%. These concessions and steps taken by all the stakeholders had a significant impact on the growth of the unit trust industry in 2013. The Net Asset Value of unit trust funds stood at Rs. 54 billion (approx) as at 31st December 2013 as against Rs. 31 billion recorded in 2012, a significant increase of 75%. Furthermore, in order to standardise and adopt a uniform valuation method for fixed income instruments in trust funds, the SEC issued a directive to managing companies and trustees of unit trusts specifying the daily valuation method.

The year 2013 witnessed many milestones. The SEC in partnership with the CSE set about improving the market infrastructure to support market activity by upgrading the Automated Trading System (ATS) to enable fixed income trading. In addition, Listing Rules were also amended to act as a propellant towards growth in the corporate debt market by encouraging primary dealers in government debt to trade in corporate debt.

From the perspective of Sri Lanka's fast emerging economy status the role played by the capital market as an integral driver of the overall macro economy is constantly evolving. To this effect the SEC believes whilst regulation is fundamental to ensure the capital market mechanism is fair and transparent, it has to facilitate market development. It is against this backdrop that SEC put forward a three year Strategic Action Plan in October 2012, of which the significant strategic initiatives were carried out during the

year under review. The broad objectives that have been put in place are both structural and functional in nature covering many areas such as Regulation, Investor Protection, Market Development, Infrastructure Development and Enhancement of Financial Literacy, Risk Management etc. Implementation of the Plan progressed steadily in the year 2013. The most striking feature of this process was the fact that it was driven in consultation with participation of various industry stakeholders. (Figure 01)

Figure 01: 10 key projects of the 3 year Strategic Plan

- Demutualize the CSE
- Amend the SEC Act
- Implement a Risk Management System (RMS), Delivery vs Payment (DVP) & Central Counter Party (CCP)
- Develop the Corporate Bond Market
- Develop New Products
- Develop the Unit Trust Industry
- Enhance Education and Awareness
- Encourage new Listings (Public and Private Sector)
- Attract new Funds (Local and Foreign)
- Develop Infrastructure – Broker Back Office Systems (BBO)

On the legislative side, the SEC completed drafting the proposed amendments to the SEC Act which is currently being reviewed by a special committee appointed by the Ministry of Finance and Planning before submitting for the Cabinet approval. Through the adoption of an effective legal framework for the capital market, it is envisaged inter alia that the efficiency and attractiveness of the capital market will be enhanced and the product range expanded.

Furthermore, the SEC obtained cabinet approval to demutualize the CSE and the draft demutualization bill will facilitate the conversion of the present CSE which is operating as a member owned, non-profit company limited by guarantee to a for profit entity limited by shares. It is envisaged that demutualization will lead to separation of ownership, management and trading rights of the Stock Exchange.

In improving the system's post trade risk management framework the SEC intermingled dynamically with all relevant stakeholders to formalise model specifications for both real time equity margining and delivery Vs. Payment (DVP). Moreover, SEC embarked on setting up an integrated central counterparty system (CCP) jointly with the CBSL and the CSE to effectively manage risk. The introduction of a CCP

and DVP settlement is expected significantly reduce the counterparty exposure between the buyer and the seller.

Improving liquidity in the secondary market is a priority of the SEC and to achieve this objective the SEC re-instated the mechanism of listing by “introduction” with necessary safeguards addressing the shortcomings to protect the investors and the integrity of the market. The SEC also introduced a mandatory minimum public float requirement for listed companies following a practice that has already been adopted by a large number of international and regional jurisdictions. In addition to increasing liquidity in the market this initiative is also expected to facilitate a better price discovery mechanism.

To strengthen corporate governance within listed entities and to further protect minority interests, during the year the SEC introduced a Code of Best Practice on Related Party Transactions for public listed companies. In addition a Code of Best Practice on Corporate Governance was launched together with ICASL and a directive was issued on the disclosure of dealings by the Directors and CEOs on their relevant interests in shares by mandating timely disclosures to increase transparency in the market.

The SEC was also active in keeping with its market development drive and to showcase investment opportunities in Sri Lanka as a whole vis a vis new funds to the market. In this context investor fora were conducted jointly with the CSE in Mumbai, Hong Kong and in Dubai with promising results.

In the local arena, listing promotion fora were held for commercial ventures in the Northern and Central regions respectively to create awareness on the possibilities of raising capital for expansion via the capital market of Sri Lanka. In addition the Budget 2014 provided incentives for companies that list on the CSE a 50% reduction in income tax for 3 years.

The SEC continued to enhance financial literacy among various stakeholders through education and awareness programmes. These programmes were tailor-made for school children, university students, members of various professional organisations, media and the general public. These efforts were designed to ensure that such stakeholders are equipped with the necessary knowledge to make informed investment decisions.

In 2013, SEC continued to implement the qualification framework aimed at creating qualified market professionals in order to maintain professional standards. Considering

the positive growth shown in the capital market in 2013, increased number of individuals registered for the Certificate in Capital Markets and Continuous Professional Development programmes compared to the previous year with majority expecting to pursue a career in capital markets.

In order to fortify collaboration and foster knowledge sharing among regulators as well as to discuss emerging regulatory issues the SEC in association with the International Organization of Securities Commissions (IOSCO) and the Asia Pacific Economic Cooperation (APEC) Financial Regulators Training Initiative (FRTI) together with the ADB hosted two seminars in Colombo successfully which attracted participants from many jurisdictions. These initiatives are important to the SEC in order to encourage greater international cooperation.

SEC is committed to training and developing its staff on a continuous basis to enable them to keep abreast with current developments and discharge their duties effectively and efficiently. These opportunities which are provided locally and internationally enabled our staff to improve their skills and competencies.

Implementation of the Strategic Action Plan as well as many momentous steps taken by the SEC brought about stability to the market. In addition these initiatives were able to foster a fair robust and efficient market to support and complement Sri Lanka's economic development programme.

In this context, I place on record my appreciation to the Chairman and the Members of the Commission for their unstinted support and guidance in all our endeavours. Further I also wish to thank the Secretary to the Treasury for the direction provided in developing the capital market of Sri Lanka. Furthermore, the cooperation extended by the industry and other stakeholders when implementing the initiatives taken by the SEC as well as the commitment and professionalism demonstrated by the staff of the SEC is commendable. Needless to say that the collective efforts and contribution of all enabled the SEC to maintain a vibrant and efficient capital market and contribute to the countries' growth prospects.



Dhammika Perera

Officer- in- Charge/ Deputy Director General

20th May 2014

Members of the Commission

Left to right: Dr. Nalaka Godahewa (*Chairman*), Mr. Lolitha Abeysinghe, Mr. M. Z. H. Hashim,
Mr. B. D. W. Ananda Silva



Left to right: Dr. Sri Warna Prathiba Mahanamahewa, Mr. P. D. J. Fernando, Dr. B. M. S. Batagoda, Mr. D. N. R. Siriwardena, Mr. Arjuna Herath



Members of the Commission

Dr. Nalaka Godahewa (Chairman)

Dr. Nalaka Godahewa is currently the Chairman of the Securities and Exchange Commission of Sri Lanka. He was previously the Chairman of Sri Lanka Tourism and the Managing Director of Sri Lanka Insurance Corporation.

Academically qualified in three different disciplines, Dr. Godahewa holds a BSc Honours Degree in Electronics and Telecommunications Engineering from the University of Moratuwa, a Masters in Business Administration from the University of Sri Jayawardanapura and a PhD from the University of South Australia. He is a Fellow Member of both CIMA and CIM UK.

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, Sustainable Energy Authority and has served as the Management Consultant to the Minister of State Transport, Consultant to the Chairman National Handicrafts Board and Consultant to the Chairman National Gem and Jewellery Authority of Sri Lanka.

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.

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.

Mr. B. D. W. Ananda Silva

Mr. B. D. W. Ananda Silva has been in the Central Bank for 31 years and has worked in Development Finance Department, Economic Research Department, and Bank Supervision Department. In his 30 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, Director of Securities and Exchange Commission of Sri Lanka, 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. He is also a member of the Cabinet Appointed Procurement Committee of the Ceylon Petroleum Corporation.

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 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 Australasia 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.

Members of the Commission

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.

Dr. B. M. S. Batagoda

Dr. Batagoda is a Graduate from the University of Sri Jayawardanepura and also holds a Ph.D. in Environmental Economics from University of East Anglia, UK and MSc in Resource Economics from Michigan State University, USA. He is an Attorney-at-Law of the Supreme Court of Sri Lanka. He is a Fulbright Scholar and as well as a Commonwealth Scholar.

Dr. Batagoda is Deputy Secretary to the Treasury, Ministry of Finance and Planning Sri Lanka. In addition, he has been holding Board member positions of SAARC Development Fund, Securities and Exchange of Sri Lanka, Lanka Litro Gas, Lanka Sugar Company, Regional Development Bank, Sri Lanka Carbon Fund, National Science and Technology Commission (NASTEC), United State-Sri Lanka Fulbright Commission, Ceylon Electricity Board, Sri Lanka Ports Authority, Urban Development Authority, Sri Lanka Tourism Development Authority, Central Environmental Authority, Sri Lanka Insurance Corporation and Institute of Policy studies.

Dr. Batagoda has held several important positions including Director-General of the Department of Public Enterprises, Director General of the Department of National Planning, Director-Climate Change, Director Global Affairs and Assistant Secretary to his Excellency the President of 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.

Mr. D. N. R. Siriwardena

He has obtained a B.A. (Hons.) Degree in Geography from the University of Peradeniya and law degree (LL.B) from the Open University of Sri Lanka and registered student in the LL.M Degree programme conducted by the University of Colombo. He is an Attorney at Law by profession. He joined the Department of Registrar of Companies in 1988 as a Companies Inspector and was promoted to as an Assistant Registrar of Companies in 2001. Now he has been appointed as the Registrar General of Companies (Cover up duty). He is an ex-officio member of the Institute of Chartered Accounts of Sri Lanka and also ex-officio member of the Insurance Board of Sri Lanka.

Mr. Arjuna Herath

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

Senior Management



MR. DHAMMIKA
PERERA

Officer-in-Charge/ Deputy Director General



MS. IANTHIE
JAYARATNE

Director - Finance and Administration



MS. SURANA
FERNANDO

Director - Supervision



MR. VAJIRA
WIJEGUNAWARDANE

Director - Capital Market Development



MR. NAMAL
KAMALGODA

Director - Surveillance



MRS. AYANTHI
ABEYWICKRAMA

Director - Legal and Enforcement



MR. CHINTHAKA
MENDIS

Director - Investigations

MR. HARSHANA
PEIRIS
SURIYAPPERUMA



Director - Corporate Affairs

MR. INTHI
MOHAMED



Director - Capital Market Education, Training and Research

MS. HIMANI
WEERASEKERA



Assistant Director - Supervision

MR. TUSHARA
JAYARATNE



*Assistant Director - External Relations and
Market Development*

MRS. RUWANI
MUNASINHA



Assistant Director - Corporate Affairs

MR. CHRYS
GUNATILAKA



Consultant - Special Projects, Capital Market Development

MR. ROHAN
SENEWIRATNE



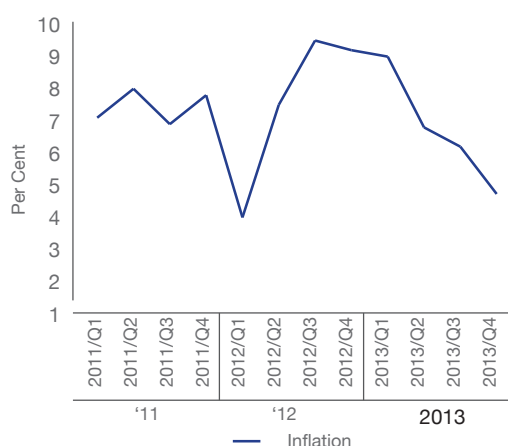
Consultant - Special Projects, Capital Market Development

Macroeconomic Review

THE GLOBAL OUTLOOK

The global economy signed off 2013 defined by consistent macroeconomic fundamentals despite the at times blow-hot and blow-cold events that punctuated the year. Aggregate economic activity and the trade balance pointed to a positive scenario in conjunction with rising consumer confidence across both the developed and the emerging economies. 2013, in a nutshell was a year that was not only clear with dramatic changes but also driven by the retooling and realignment of the regulatory framework that governs the global financial enterprise. According to the Conference Board, the global economy adjusted for inflation, is expected to have grown by 2.9 % in 2013. (Figure 02)

Figure 02: Inflation



On the other hand the year 2013 was also synonymous with economic challenges and geo political tensions. From the Syrian conflict threatening to have major repercussions on the oil producing countries of the Gulf Cooperation Council (GCC) to the European power house economies trying to find their economic feet, to the US Government shut down over the Congressional budget standoff, to the graceful exit of the US government Federal Reserve bond buying programme were some of the news that made headlines. On the other hand, It was also a year of resilience where the USA seemed to have successfully negotiated the fiscal cliff whilst Europe

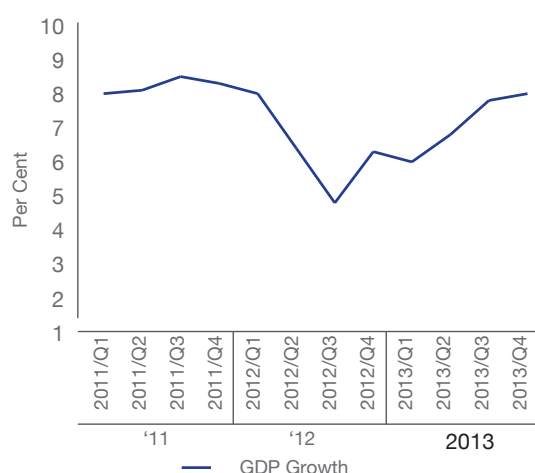
mired in its systematic imbalances in 2012 has somewhat managed to redress the situation by not allowing the Greek Effect to spill over. Emerging markets on the other hand, though experiencing some hiccups in the form of outflow of funds, the so called hot money concept, have managed to hold on their own enterprise.

SRI LANKA'S COMPELLING CASE

Despite a certain level of precariousness still prevalent in the global economy, Sri Lanka's economy continued to enjoy underlying positive currents aided in part by the Government of Sri Lanka taking a path of solid macroeconomic management. To this effect, the case for Sri Lanka's macro economic expansion is compelling as ever.

According to the CBSL the GDP growth which historically averaged less than 5% during the conflict days leapfrogged to embrace a higher trajectory at an average of 7.5 % since 2010. In continuance, the GDP expanded by 7.3 % for 2013. (Figure 03)

Figure 03: GDP Growth



This GDP growth was abetted in large by expansion in the Industry sector (30 % of GDP) which stretched by a commendable 9.9 %. The most dominant sector, the Services sector (59% of the GDP) also showed creditable

growth of 6.4 %. Agriculture sector, once dominant but now accounting for only 11 % of the GDP expanded by 4.7% for 2013.

CONDUCTIVE MACRO ECONOMIC MEASUREMENTS BY THE CBSL

Despite the headwinds emanating from the global economy, the CBSL continued to adopt an accommodative policy framework. One key variable in this regard is the annual average inflation which was contained at 6.9 % for 2013. In furtherance, according to 'CBSL Road Map' inflation is expected to be contained at under 6% for 2014, with the assumption that the worldwide commodity prices do not seek an upward momentum.

Currency exchange management, though fraught with challenges, has many a factor for commendation. The SLR depreciated only by 2.75 % in 2013 compared to 10.43 % in 2012, when the CBSL decided to do a policy shift and limited open market intervention to quantity alone and not intervene on price.

In other measures the Government continued to focus on efficiency measures, fiscal discipline and consolidation, the two important criteria in this regard, were given due prominence. The budget deficit was contained at 5.8 % of GDP for 2013, the lowest since 1978, the year in which Sri Lanka embraced open market economic policies. The Government debt to GDP ratio was 78 % for 2013 and is further expected to come down to 74 % of the GDP by 2014.

Moreover CBSL continued to revise and revisit the key policy rates. The Standing Deposit Facility Rate (SDFR) was reduced to 6.50 % from 7.5 % at the beginning of the year. In addition, the Standing Lending Facility Rate (SLFR) was also given the downward slope and reduced to 8.00 % from 9.5 % in 2013. With these policy measures the CBSL expected a downward revision in the market interest rates. In this context, the Prime Lending Rate (PLR) reduced from

14.40% in 2012 to 10.13% in 2013 and the Deposit Rate (DR) also followed suit from 10.10% in 2012 to 9.37 % in 2013. (Figures 04,05)

Figure 04: CBSL Policy Rates

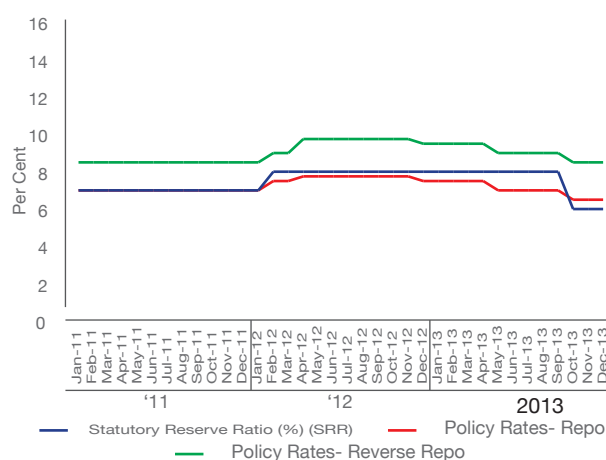
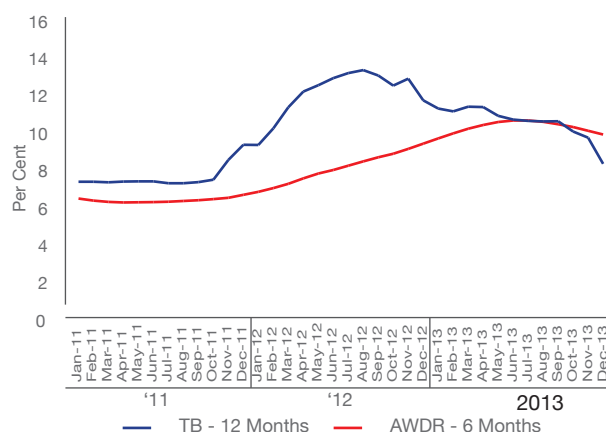


Figure 05: Risk Free Rate & Bank Deposit Rate



But despite such top down inclinations, credit to the private sector remained a lagging percentage. The market on the whole displayed a low appetite for credit in 2013 largely driven by policy measures enacted in 2012 geared towards macroeconomic stabilisation. After displaying a phenomenal growth propensity in 2011, where the credit to the private sector grew by 36.5 %, and in 2012 where the expansion ratio was also a notable 21.5 %, credit expansion in 2013 was not at all noteworthy at 8.6 %.

Macroeconomic Review

Furthermore the country was also not immune from internal challenges nor from global headwinds. Internally the perennial trade deficit and the current account deficit continued to contribute to systemic weaknesses. The trade deficit which hovered around the USD 9.5 billion mark for the past 2 years was brought down to USD 7.6 billion, which converted to 24 % of the total import bill. The oil bill was a prominent USD 4.30 billion despite the oil prices hovering around the USD 97 mark.

But the year 2013 also had a silver lining. The remittance component was USD 6.4 billion which acted as a major plug figure for the trade deficit component. Tourism receipts were USD 1.7 billion, a healthy increase of 68 % from 2012. FDI's a key barometer of macro economic growth propensity, was USD 0.9 billion in 2013.

FINAL THOUGHT

Sri Lanka's economic status continues to make headway not only in South Asia but in the entire Asian region as one of the faster and dynamic emerging economies in the South Asian region. Moreover with its historical internal strengths of a strong Democratic foundation in conjunction with a broad institutional framework, Sri Lanka's investment case is not only undeniable but also quite forceful. All these factors underpin a strong future propensity for capital inflows made up of a combination of FDI's and Foreign Institutional Investor Inflows (FII) all of which cumulatively add up to the capital market to exhibit momentous gain in the years to come.

Sources

CBSL – Annual Reports

IMF – World Outlook

Conference Board

Capital Market Review

THE MARKET

The phenomenal performance of the Colombo bourse witnessed in the immediate post war environment has now abated with the stock market now firmly in a consolidation phase. The year however began on a promising note with the credit ceiling which was imposed in the past to mitigate systemic risk within the system being abolished by the SEC with a view to improving market confidence.

In the year under review, despite the volatile local and international vicissitudes the CSE benchmark ASPI rose 4.78 % compared to a cumulative drop of 15% in the two preceding years. This exceeded the growth figures recorded by regional peers like Mumbai, Singapore and Hong Kong which managed 3.3%, 0.01% and 2.9% growth respectively. The performance in the year 2013 is the first gain recorded after the phenomenal returns recorded in 2009 and 2010 period. The S&P SL20 index managed to gain 5.79% during the year closing at 3,263.87. (Figures 06,07)

Figure 06: ASPI Vs Market Turnover 2013

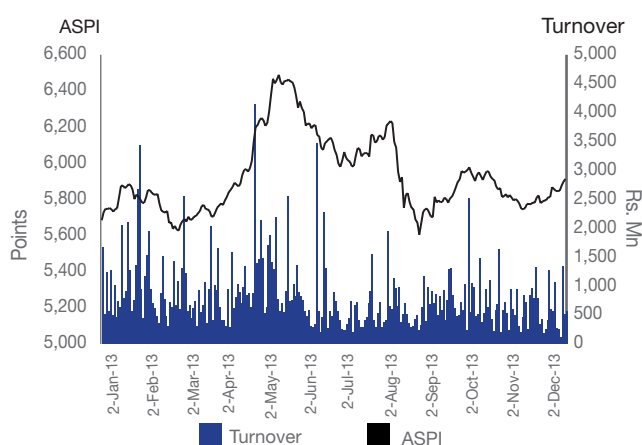
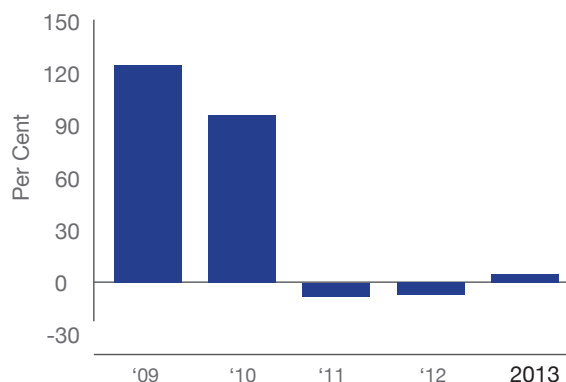


Figure 07: ASPI Annual % growth



Listed companies raised a total of Rs. 68.7 billion through debt and equity IPOs, as foreign investors bought into the markets for the second year in a row. The much needed liquidity to the market was delivered by enhanced international capital flows to emerging markets including Sri Lanka from developed markets seeking higher yields.

In the first quarter of the year 2013, the trading of shares in the CSE was range-bound with no appreciable movement of the benchmark indices. The second quarter saw a modest recovery boosted by sustained foreign investor interest and moderation of economic indicators like Rupee depreciation. From April to May period, the market gained a substantial 12.6% in just two months writing off losses recorded during the previous months. During the third quarter the market weakened further and in the final quarter of the year trading activity was muted with the ASPI closing the year at 5,912 points. During this quarter a noticeable event which occurred was the Rs. 23 billion worth of right issue by John Keells Holdings PLC, the largest right issue in the history of the CSE for the purpose of raising funds for its proposed integrated development project which hindered the liquidity for the secondary market trading to some extent.

PRIMARY MARKET & RESOURCE MOBILISATION

The primary market remained subdued in the year under review with only 2 new listings (equity) compared with 17 new listings in the previous year. The depressed sentiment is a reflection of a combination of factors including the slack in investment demand and overall investor confidence. Appetite of investors remained low mirrored by the negative returns recorded by many initial public offerings of the previous year. (Figure 08)

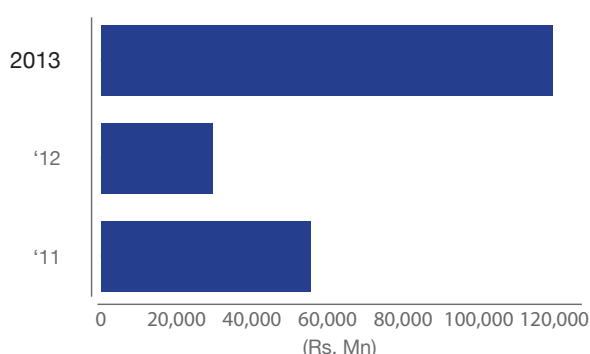
Capital Market Review

Figure 08: Primary Market & Resource Mobilisation

Name	Type	No. of shares offered	Offer Price Rs.	Date listed	Funds Raised Rs. Mn
Anilana Hotels and Properties	Offer for subscription	Tranch 1 - 40,000,000 Tranch 2 - 40,000,000	12.00	17-Jul-13	494.4
Aitken Spence Plantation Managements Limited	Introduction	N/A	N/A	3-May-13	N/A

Companies have raised a total of Rs. 119.4 billion through CSE during 2013 from the capital market, topping last year's Rs. 29.5 billion. This includes IPO's (Equity & Debt), rights issues, conversion of warrants and private placements. Only 2 companies accessed the primary market (equity) and raised Rs. 494.4 million. There were 08 companies which raised Rs. 25.5 billion through rights issues in 2013. In comparison to 19 companies which raised Rs. 10.9 billion through rights issues in 2012. Listed firms raised Rs. 68.3 billion from 28 bond issues up from Rs. 12.5 billion a year earlier. This was the highest amount raised by debt issues in a given year. (Figure 09)

Figure 09: Capital Formation through CSE



SECONDARY MARKET

Performance of Stock Indices

The total turnover for the year 2013 was Rs. 200.4 billion indicated a drop of 6.2% as against the previous year, and the average daily turnover amounted to Rs. 828.4 million. Notwithstanding the marginal pick up in share prices there was a fall in trading volumes. The total traded quantity for the year amounted to 9,054 million shares, charting a drop

of 6.5% from 2012. The total number of trades in the year under review stood at 1,421,303 trades compared with 1,857,384 trades in 2012 which reflects a decline of 23.4%.

PE ratio remained unchanged at 15.9 times. The Sri Lankan market is reasonably priced compared to emerging and developed markets. The Price to Book (PB ratio) value is another important indicator which measures the returns left for the shareholders after providing for liabilities of a company. The PB ratio declined from 2.1 to 2.0 in the year under review.

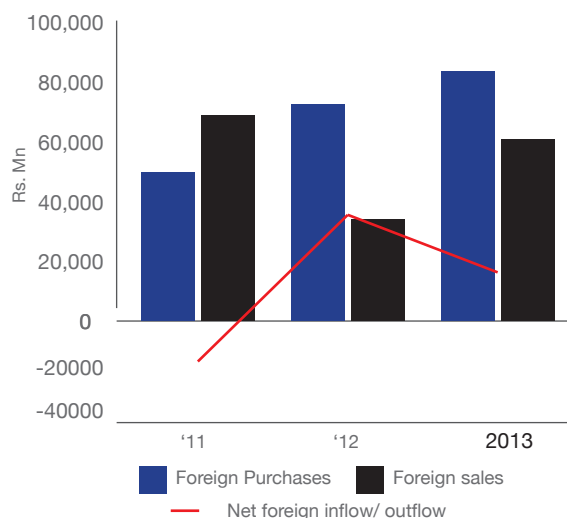
Market Capitalisation

Market capitalisation is a major indicator that depicts the size of the share market. A higher market capitalisation reflects growing stock market activity and an upward trend in the stock market. In the year under review the market capitalisation of the CSE increased to Rs. 2,459.9 billion compared with Rs. 2,167 billion in 2012 which is an increase of 13.4%.

Foreign Purchases and Sales

Foreign purchases for the year amounted to Rs. 83.6 billion, recording a noteworthy rise of 15.1% from the previous year, however due to an increase of 79.2% in foreign sales to Rs. 60 billion, the total net foreign inflow for the year which amounted to record Rs. 22.7 billion, registered a drop of 41.1% or Rs. 15.9 billion as opposed to its preceding year net inflow of Rs. 38.6 billion, the highest ever net foreign inflow to the CSE. Foreign participants provided 36.1% contribution to the total market turnover, while increasing from its previous year's 24.8% contribution. (Figure 10)

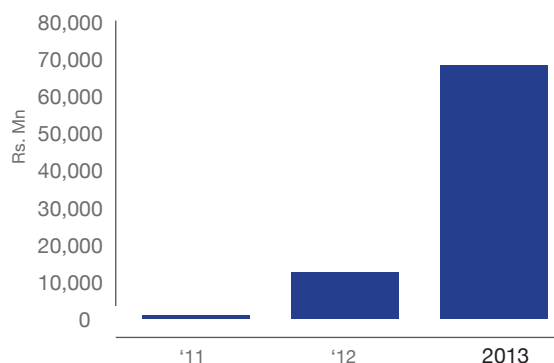
Figure 10: Foreign Participation



DEBT MARKET

A well developed corporate debt market is crucial for a country like Sri Lanka to augment the long term funding requirement for firms and facilitate the much needed infrastructure financing. The corporate debt market can be an alternative source of finance by complementing the available source of fund raising for corporates. Hitherto the Sri Lankan debt market was dominated by the Government securities market. The recent policy changes where attractive tax breaks were given to listed bond holders has triggered a surge in the issuance of listed corporate debt. Amongst the largest purchasers of the tax free bonds were banks. Though there have been signs of the corporate debt market expanding, the share of corporate debt market remain relatively small as against the Government securities market. In the year under review Rs. 68.3 billion of corporate debt was raised by way of 28 debenture issues compared to Rs. 12.5 billion raised during the previous year through 3 debentures issues. (Figure 11)

Figure 11: Debt Market



Sector Performance

According to stock exchange data 57 companies have recorded a total return in excess of 15% in 2013, 26 companies have returned above 30%. The Beverage, Food and Tobacco sector recorded the highest growth figure of 28.0% over the last year while the Power and Energy sector recorded a 19.5% growth. Information technology was the worst performing sector falling by 27.3%. The Trading sector declined by 21.3%.

Price indices of 07 Sectors at the CSE recorded positive growth during the year under review whilst 13 Sector indices declined. (Figure 12)

Figure 12: Sector Performance

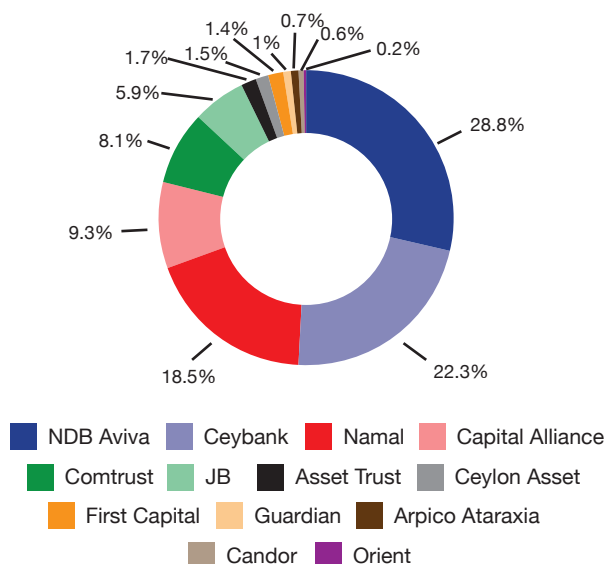
Sector	Y-to-Y % change
Bev Food & Tobacco	28.01
Power & Energy	19.51
Healthcare	16.95
Stores Supplies	(16.83)
Trading	(21.39)
IT	(27.33)

Unit Trust Funds

The Net Asset Value of Unit Trust funds stood at Rs. 54 billion (approx) as at 31st December 2013. The market share of each Unit Trust managing company in terms of the Net Asset Value in the year 2013 is reflected in the following (Figure 13)

Capital Market Review

Figure 13: Market share of Unit Trust Managing Companies



The Overall Position of Unit Trust Funds

The comparative statistics on the performance of the Unit Trust Funds during 2013 and 2012 are given below: (Figure 14)

Figure 14: Overall Position of Unit Trust Funds

	As at 31.12.2013	As at 31.12.2012	% change
Number of approved Unit Trust Funds	62	48	29%
Net Asset Value of Unit Trusts (Rs. Mn. approx.)	54,304	31,062	75%
Number of Unit Holders	29,648	27,952	6%
Number of Units Issued (No. Mn. approx)	4,134	2,251	84%
Investment in Equity (Rs. Mn. approx)	9,453	8,944	6%
Investment in Treasury Bills (Rs. Mn. approx)	17,825	5,449	227%
Investment in Other Instruments**(Rs. Mn. approx)	27,000	16,596	63%

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

Source : Regulatory Submissions by Unit Trust managing companies, CSE

Managers and Staff Members

Managers: Top left to right: Miss. Madhugayanie Balapitiya, Mr. Suneth Perera, Mrs. Ranmini Jayathilake, Miss. Sharmila Panditaratne

Bottom left to right standing: Mrs. Olivi Solanga Arachchi, Miss. Kumari Siriwardene, Miss. Buddhinee N. Herath, Mrs. Erandathie Waidyasekara, Mr. Mahesh Abeysekera | Left to right seated: Mr. Nimal Kumarasinghe, Mrs. H. K. A. Chamari Buddhika



Staff Members

Top left to right standing: Miss. Roshini Peiris, Miss. Suhadini Wickremasinghe, Miss. Lushanthini Sivaneasharajah, Mrs. Nisansala Herath, Miss. Lakshmi Atapattu | **Left to right Seated:** Miss. P. M. Niroshika Udayanganie, Mr. Lalinda Dayarathne

Bottom left to right standing: Mr. Sugath Alwis, Mrs. Joelene Karunaratne, Mrs. J. K. Priyadarshini, Miss. Nuala Thevathasan, Mrs. Nishoka Jayathunga | **Left to right Seated:** Mrs. Manjula Chandraratne, Miss. Christobel Silva



Top left to right standing: Mr. Anura Perera, Mrs. Anula Wijesinghe, Mrs. Samanthi Gunawardana, Mr. R. K. Wasantha Sunimal, Miss. Ann Chrishanthi Fernando, Mrs. Bimba Gamaathige | **Left to right seated:** Mr. Priyantha Herath, Mrs. Julie AllegaKoen

Bottom left to right standing: Miss. Rajmi Manatunga, Miss. Mekhala Jayapala, Mrs. Saumi Kodippily, Mrs. Prathibhani Herath, Ms. Sheena Goonaratna, Mr. Anslam Dias | **Left to right seated:** Mr. Rakhitha Bandara, Mrs. Eranga Manthirathna



Staff Members

Top left to right standing: Miss. Shalini Perera, Mr. Thanishka Tillekeratne, Mrs. Prabhashini Samarakoon, Mrs. Krishanthi Muthuthantrige, Mrs. Dhanesha Rajapura | **Left to right seated:** Mrs. Ashoka K. Dayarathne, Mr. M. Jayasekara

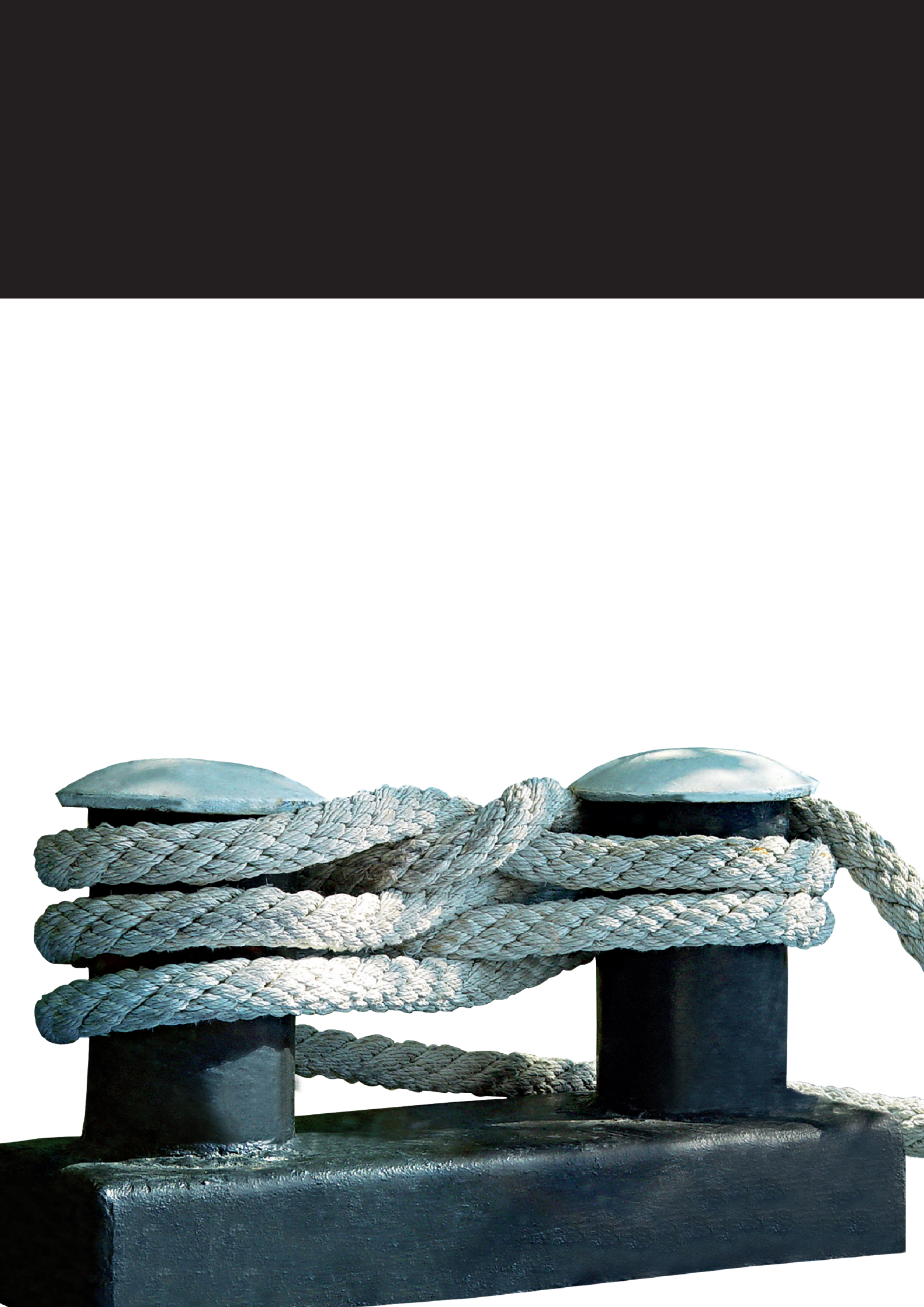
Bottom left to right standing: Mrs. Sithara Tissera, Mr. S. D. Dharmasiri, Miss. Y. D. Sandamali, Mrs. Aeshini Bandara, Mrs. Sithy Maleeha, Mr. D. M. G. Priyantha | **Left to right seated:** Mrs. Lakshmi Wickramanayake, Mr. Sandaruwan Wijeratne



Top left to right standing: Mr. Chandran Nagendran, Mrs. Thakshila Francis, Mrs. Jansenidevi Kuhanesan, Mr. W. Ariyaratna, Mr. M. A. Imran | Left to right seated: Mr. G. D. Kapila Kumara, Mr. D. Pathum Niroshana

Absent: Mrs. Sajeevani Bakmedeniya, Mr. P. W. L. Piyatissa, Ms. P. D. Pathmarani, Mrs. Preenika Nilakshi Perera





OPERATIONAL REVIEW



OPERATIONAL REVIEW

REGULATION

The SEC regulates the capital market in order to promote efficient price discovery, safeguard the interest of investors, ensure that risks are kept at an acceptable level and maintain confidence in the market. The SEC Act spells out the regulatory framework for the capital market and is the cornerstone of Sri Lanka's capital market.

LICENSING AND REGISTRATION

A proper licence or registration is required for market participants who wish to carry out capital market activities and the SEC grants licences and registrations to ensure that market participants are competent and professional in providing services. (Figure 15)

Figure 15: Licensing and Registration of Market Participants

Market Participants	Total No. of Licensed/ Registered Entities	Licences/ Registrations granted during 2013
Stock Exchanges	01	-
Stock Broking Companies (Debt/ Equity)	28	-
Stock Broking Companies (Debt)	02	01
Stock Dealing Companies	08	02
Managing Companies of Unit Trusts	13	-
Unit Trust Funds	62	14
Investment Managers	37	02
Margin Providers	33	-
Underwriters	10	-
Credit Rating Agencies	03	-
Clearing House	01	-

POLICY INITIATIVES

Amendments to the SEC Act

A consolidated draft of the proposed amendments to the SEC Act was finalised and forwarded to the Ministry of Finance and Planning (MOF) on 26th July 2013, together with the policy papers and a comparative table for the approval of the Cabinet of Ministers. The amendments were proposed with technical assistance received from FIRST Initiative (Financial Sector Reform & Strengthening arm of the World Bank). The MOF has convened a high level special committee consisting of 14 members, representing the CBSL, corporate sector, the Bar and the Ministry to review the proposed amendments prior to submitting it to the Cabinet of Ministers. The proposed amendments to the SEC Act have been formulated in terms of International Organisation of Securities Commissions (IOSCO) standards and international best practices currently in existence.

The proposed amendments inter alia provide for;

- the all-time licensing of demutualized stock exchanges, derivative exchanges, clearing houses and central depositories as market institutions subject to certain safeguards.
- the regulation of corporate finance advisors, financial planners, analysts, derivative brokers, dealers and fund managers
- the extension of the jurisdiction of the SEC to companies and market intermediaries making or advising on the offering of debentures to the public in order to provide an impetus to develop the corporate bond market in Sri Lanka.
- the establishment and regulation of a clearing house acting as a Central Counterparty
- the institution of civil and administrative sanctions
- the compensation of investors who have been victimised due to market abuse
- sharing of information with foreign and local regulators and other incidental and ancillary provisions designed to enhance the protection of investors.

Demutualization of the CSE

The proposed demutualization of the CSE will segregate ownership and management from the trading rights of the members of the Exchange. The proposed draft Demutualization Bill will facilitate the conversion of the present mutually owned CSE operating as a company limited by guarantee to a demutualized stock exchange which is a company limited by shares. The Legal Draftsman submitted a copy of the draft Demutualization Bill to the SEC for review and comments. The SEC in submitting its comments consulted the Registrar of Companies, the Hon. Attorney General, and the CSE during the review process.

During the year under review the project committee steering demutualization of the CSE consisting of representatives from the SEC and the CSE requested for proposals for a consultancy to conduct a valuation of the CSE and propose a fair distribution of ownership among the initial stakeholders of the demutualized Stock Exchange.

New Draft Takeovers & Mergers Code

The SEC is in the process of placing final touches to the draft of the new Takeovers & Mergers (TOM) Code. Once it is completed there will be a public consultation, prior to the Code being gazetted.

Rules on Minimum Public Float as a Continuous Listing Requirement

The SEC issued rules on maintaining a minimum public float to public listed companies as a continuous listing requirement which were finalised after three public consultations. The CSE was thereafter directed to incorporate the said rules into the listing rules of the CSE.

The rules inter alia mandate the companies listed on the CSE to maintain a minimum public holding as follows;

- Companies listed on the Main Board to maintain a minimum public holding of 20% in the hands of 750 shareholders or a market capitalisation of Rs. 5 billion of its public holding in the hands of 500 public shareholders whilst maintaining a minimum public holding of 10%.

- Companies listed on the Diri Savi Board to maintain a minimum public holding of 10% in the hands of 200 public shareholders.

Cross Border Listing Rules

The SEC participated at the conferences held by the South Asian Federation of Exchanges (SAFE) to promote regional financial integration. A Rule Book which was developed by SAFE to establish a harmonised regulatory framework in all stock exchanges in the South Asian region was forwarded to the CSE to adopt as a guide towards developing the market microstructure of the capital market. The said Rule Book has been released with the ultimate aim of providing a regulatory framework for regional financial integration and to promote cross border listings.

During the year under review, the SEC endorsed SAFE's application to be granted an "Apex Body" status of the South Asian Association for Regional Cooperation (SAARC) subject to its compliance with the Guidelines and Procedures of SAARC. This endorsement was given by the SEC to the Ministry of Finance and Planning.

Gazetting of Market Intermediary Rules

After completing a review of the current Market Intermediary Rules, they were submitted to the Legal Draftsman for preparation for publication in the Government Gazette. The Legal Draftsman is in the process of preparing the same.

Framework for Listing BOI Companies

To attract more FDIs into Sri Lanka by providing a trading platform for BOI Companies, the SEC together with the BOI, developed a framework through which the ordinary voting shares of BOI companies could list on the CSE.

Guidelines to Relax Public Shareholders from "Lock-in" under "Introduction" Method

Internal guidelines were developed to waive "lock-in" rule imposed on public shareholders who have acquired shares during the 12 months prior to the initial listing application in order to comply with the minimum public holding requirement at the time of listing via Introduction. These guidelines are meant to accommodate listings and facilitate 'Public' Shareholders to engage in secondary market trading

OPERATIONAL REVIEW

Amendments to the Rules of the CSE

During the year under review the SEC granted approvals to the following amendments to the Rules of the CSE.

Central Depository Systems Rules (CDS Rules)

Amendments to CDS Rules to enable trading, clearing and settlement of debt securities through the new ATS Version 7.

Listing Rules

- Amendments to Rule 3 of the Listing Rules of the CSE which deals with the Trust Deed in relation to the issue of debentures.
- Amendments to Rules 2, 3, 5, and 7
Pursuant to the Directives dated 11th October 2013, 23rd August 2013, 14th September 2011 and 22nd November 2010 issued by the SEC, several amendments were introduced to the aforesaid Listing Rules of the CSE to introduce a “lock – in” rule for a specified period subsequent to the listing with respect to shares belonging to promoters which were allotted prior to an IPO. Further, shares held by public shareholders who were allotted shares prior to an IPO were released from the “lock – in” rule.
- Amendments to Rules relating to the trading of debt instruments
Pursuant to the Commission’s initiative to develop the corporate bond market of Sri Lanka, a review took place on the existing Listing Rules with regard to debt. The special committee appointed under this initiative recommended several amendments to the CSE Listing Rules in relation to debt, which, after the approval of the Commission were incorporated into the existing Listing Rules of the CSE.

Stockbroker Rules

Amendments were made to Section 6 of the Stockbroker Rules wherein stockbroker companies were allowed to appoint foreigners (body corporate/individuals) as agents.

Automated Trading System Rules

Amendments were made to Rule 8.1 of the ATS Rules which dealt with the closing price calculation methodology in the Automated Trading System of the CSE.

DIRECTIVES ISSUED BY THE SEC

During the year under review the following Directives were issued.

- A directive was issued to the CSE, licensed stock brokers and stock dealers and the CDS raising the restrictions imposed on the National Savings Bank (NSB) on the requirement for NSB to obtain a certified Board Resolution for all transactions above LKR 20 Million, after the Bank made representations stating that proper measures are in place to mitigate the risk of settlement failure of share transactions carried out by the Bank.
- A directive was issued to the CSE imposing “lock – in” periods on shares held prior to an IPO, by promoters and other non-public shareholders, in respect of offers for subscription and offers for sale.
- The SEC, after having carried out a preliminary inquiry into the conduct of Touchwood Investments PLC, issued two directives in September suspending trading in the shares of Touchwood Investments PLC until the company disseminated certain information to the market.
- In order to protect the interests of the investors, a directive was issued to Touchwood Investments PLC, preventing the company from acquiring, transferring, disposing of, pledging, hiring, mortgaging, leasing, creating a charge over or otherwise alienating any non-current asset depicted in the balance sheet of the company without the prior approval of the SEC, and advised the company to desist from destroying, concealing, altering, amending or removing any information in the records or books of the company which are maintained in the ordinary course of business and to extend to the SEC the company’s fullest cooperation for the investigations conducted by the SEC.
- A directive was issued to the CSE re-instating Introduction as a method of listing equity wherein eligibility criteria for listing, “lock – in” periods for shares held prior to a listing, additional contents for the Introductory Document and other additional

requirements were imposed over and above the requirements already specified in the Listing Rules.

- A directive was issued to the CSE with respect to the eligibility criteria for listing on the Diri Savi Board wherein the companies were required to have a minimum public holding of 10% of the total number of shares at the time of listing to be held by a minimum of 200 public shareholders.
- A directive was issued to the managing companies and trustees of unit trusts requiring them to maintain a minimum of 5 unit holders for each unit trust at all times.
- A directive was issued to the CSE to adopt the Code of Best Practices on Related Party Transactions as applicable to all public listed companies, on identified timelines and terms of adoption as specified in the said Directive.
- A Directive was issued to managing companies and trustees of unit trusts mandating them to adopt uniform valuation methods for fixed income instruments in unit trust funds.
- A Directive was issued to all listed public companies mandating them to adopt rules on the maintenance of a minimum public float as a continuous listing requirement with effect from 01st January 2014. For those companies that were not compliant on the effective date, a time period of three years was granted within which to comply.
- A Directive was issued to all public listed companies mandating them to disclose dealings to the market by its directors and CEOs on their relevant interests in shares and other classes of shares within the time period specified in the said Directive.

APPROVALS

Global, Regional & Country Funds

Upon the recommendation of the CDS, the SEC grants approval to global, regional & 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 period under review the SEC approved 178 global, regional and country funds to invest in securities listed on the CSE and noted 32 name changes made to the existing funds.

Administration of Takeovers & 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.

During the year under review the SEC administered five mandatory offers and two voluntary offers in terms of the Takeovers and Mergers Code, details of which are as follows; (Figure 16)

Figure 16: Offers Extended under the Takeovers and Mergers Code

Offeror	Offeree	Nature of the Offer
Lanka Commodity Brokers Ltd.	Asia Siyaka Commodities PLC	Mandatory Offer
Royal Ceramics Lanka PLC	Lanka Ceramic PLC	Mandatory Offer
Hemas Manufacturing (Pvt) Limited	J. L. Morison Sons & Jones (Ceylon) PLC	Mandatory Offer

OPERATIONAL REVIEW

Figure 16 (Contd.)

Offeror	Offeree	Nature of the Offer
Joint Offer by LOLC Micro Investments Limited and BRAC Lanka Investment (Private) Limited (Joint Offerors)	Nanda Investment and Finance PLC	Mandatory Offer
Adam Investments Limited	Orient Garments PLC	Mandatory Offer
AIA Company Limited, Hongkong	AIA Insurance Lanka PLC, formally known as Aviva NDB Insurance PLC	Voluntary Offer
Hemas Manufacturing (Pvt) Limited	J. L. Morison Sons & Jones (Ceylon) PLC	Voluntary Offer

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.

Two approvals granted during the year are given below

- Anilana Hotels and Properties Limited
- Amana 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. (Figure 17)

Figure 17: Approvals Granted to Issue Unlisted Securities

Name of the Issuer	Nature of the Issue	Type of Security	Amount Approved	Duration
Bank of Ceylon	Private placement	International Bond	USD 500 Million	05 years
DFCC Bank	Private placement	International Bond	USD 250 Million	10 years
NDB Bank PLC	Private placement	International Bond	USD 250 Million	10 years
Central Finance Company PLC	Private placement	Unlisted, Senior, Unsecured, and Redeemable Debentures	Rs. 500 Million, in the event of over subscription further Rs. 750 Million	04 years
NDB Capital Holdings PLC	Private placement	Unlisted, Redeemable Preference Shares	Rs. 300 Million	Maximum up to 8 years (including a maximum of 18 months grace period) unless accelerated

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 455 exceptional transfers and 158 gifting of shares during the year under review. The exceptional transfers were in order to facilitate margin trading, fund management, de-listing and restructuring of entities and portfolios, where beneficial ownership does not change.

OVERSIGHT AND COMPLIANCE

Confidence and stability are fundamental to a well-functioning capital market and the SEC continuously strives to effectively monitor and mitigate risks in the market. We also require the market participants we regulate to observe prudential standards such as exposure and liquidity limits.

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 to the CSE.

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

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

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

- Compliance with CSE Listing Rules, Sri Lanka Accounting Standards (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

We commenced financial statement reviews of 70 public listed companies out of which 65 have been concluded with 38 Letters of Comment being sent.

SUPERVISION OF MARKET PARTICIPANTS

Stockbroking Industry

The SEC attempts to ensure financial stability and operational viability of licensed entities through on-site and off-site supervisory methodology to strengthen market oversight in order to achieve investor protection and build investor confidence in the capital market.

On-site inspections of stockbroking companies were carried out on a risk based approach focusing on different risk categories such as prudential, liquidity, financial, credit, legal and operational risks with an emphasis on compliance with applicable Rules & Regulations. During year 2013, the audit programme on on-site inspections was further enhanced by incorporating measures for verifying internal control procedures of stockbroking companies. The SEC was able to carry out on- site inspections on all the licensed stock broking companies in 2013.

The off-site review was carried out upon receipt of monthly financial statements and compliance reports. Off-site reviews were aimed mostly at detecting companies and activities that could pose a risk of failure and non compliance with applicable Rules and Regulations. Any discrepancies and non compliances observed during off- site reviews were notified to the company for rectification. Further, credit risk was closely monitored by reviewing “Debtors Declarations” submitted by the stockbroking companies on a fortnightly basis.

OPERATIONAL REVIEW

Total turnover of the stockbroking industry decelerated during the year 2013 compared to the year 2012. Hence the net loss has further increased during the year 2013. The comparative statistics on the performance of the stock broking companies are given below. (Figure 18)

Figure 18: Highlights of the Stock Broking Industry

	2013 (Rs.'000)	2012 (Rs.'000)	Change %
Turnover	1,745,186	1,921,489	-9.2%
Net brokerage	1,541,338	1,756,498	-12.2%
Operating loss	(619,374)	(436,094)	42.0%
Other income	810,282	786,300	3.0%
Net loss before tax	(711,484)	(557,819)	27.5%
Net loss after tax	(711,091)	(299,234)	137.6%
Total assets*	10,265,557	10,781,900	-4.8%
Total liabilities *	4,462,858	4,308,204	3.6%
Net capital*	4,742,514	4,926,718	-3.7%

Source: un-audited financial statements submitted to SEC

*As at 31 December 2013/2012

Unit Trust Industry

Against the backdrop of concessions and incentives provided by the recent Budget to uphold and nurture the unit trust industry, the industry geared towards accelerated growth.

During the year 2013 the SEC implemented several initiatives to tighten the regulatory grip on the industry. The SEC issued a new directive prescribing a minimum number of unit holders for each unit trust at all times with the intention of re-establishing the unit trust as a retail product available for unsophisticated investors. Further, subsequent to several requests made by the Unit Trust Association of Sri Lanka, another directive was issued on daily valuation methods of fixed income instruments of unit trust funds to improve uniformity and accuracy of valuation.

The regulatory oversight on the unit trust managing companies was improved as we conducted risk based on-site examinations on all thirteen 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. 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 and liquidity of the unit trust funds were within acceptable limits as set out in the Unit Trust Code, the relevant trust deeds and directives issued by the Commission.

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.

A major thrust of our work for the year 2013, involved heightening market oversight on Market Intermediaries. Through a variety of rulemaking and other initiatives, the SEC continued to refine its regulations in order to promote growth and competitiveness of the market whilst protecting the interests of investors.

During the year 2013, the SEC integrated risk assessment practices into its operations particularly in the areas of supervision on regulated entities. In addition, SEC intensified efforts to identify potential problems which would escalate issues of systemic concern. Hence, the SEC continued to implement risk-focused techniques such as compliance and risk assessment questionnaires to identify and focus on firms and activities that could pose the greatest compliance risk to investors and the integrity of the markets. Managing systemic risk was a key area in the overall strategy to strengthen the resilience of the capital market.

Further, the SEC stepped up off-site supervision on the Market Intermediaries to identify exposures on their liquidity and the overall financial position emphasizing the need for registered entities to maintain a prudent risk management framework.

As another stepping stone to strengthening the Industry, the SEC deliberated initiatives to revisit the Rules applicable to Market Intermediaries during the year 2013. A request was made to the CBSL to amend “The Banking Act direction No 5 and 6 of 2011 on exposures to the stock market issued to licensed commercial banks & licensed specialized banks”. Accordingly CBSL has acceded to the request to permit licensed commercial banks and licensed specialized banks to follow the Rules applicable to margin providers promulgated under the SEC Act in functioning under the capacity of a margin provider. (Figure 19)

Figure 19: Financial Highlights of Market Intermediaries (as at 31st December 2013)*

Category	Total revenue Rs.	Total Net profit before tax Rs.	Total assets Rs.	Total liabilities Rs.
Margin Provider	384,458,673	76,035,571	1,123,456,037	233,560,981
Investment Manager	321,825,371	(261,710,169)	6,774,620,969	4,540,264,146
Underwriter	1,588,877,000	1,463,141,938	15,029,785,000	79,999,000
Credit Rating Agencies	136,390,529	46,673,543	305,233,219	78,644,516
Multipurpose entities**	1,192,374,673	401,614,460	8,110,404,395	2,732,279,236
Total	3,623,926,246	1,725,755,342	31,343,499,620	7,664,747,879

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

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

OPERATIONAL REVIEW

SURVEILLANCE, INVESTIGATIONS AND ENFORCEMENT

SURVEILLANCE

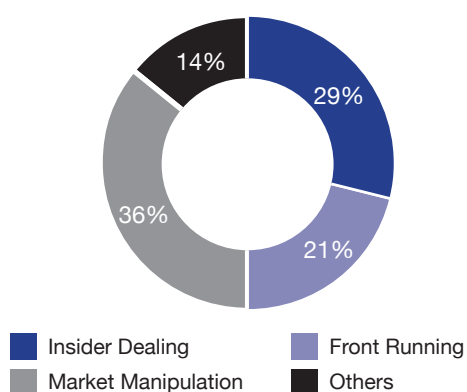
SEC is responsible for effectively monitoring trading activities on the CSE, detecting and preventing any transactions or trades that violate the SEC Act. The scope of its activities includes monitoring daily market activity that may interfere with the integrity of the price discovery mechanism. This is done by real time monitoring of trading activity, which is carried out, using a state of the art surveillance system.

During the year 2013, SEC prepared a total of 14 surveillance referrals on a number of issues. In addition, the SEC also received 17 surveillance referrals from CSE. (Figure 20, 21)

Figure 20: Surveillance Referrals

Suspected case	No.
Insider Dealing	04
Front Running	03
Market Manipulation	05
Others	02
Total	14

Figure 21: Categories of Surveillance Detections



Compared to previous years the number of surveillance referrals decreased. This is mainly due to prioritisation of surveillance concerns, and only the most important and one significant market impact going into referrals. A majority were categorised as “surveillance concerns”. Over 400

“surveillance concerns” were noted and filed during 2013. Due to the nature of the “surveillance concerns”, they did not warrant full referral reports, but required further monitoring and analysis. Once flagged the concerned traders and stocks were continuously monitored to observe if a trend emerged and a fully-fledged referral was warranted. A large number of surveillance concerns were raised due to the additional, data and analysis tools available at the SEC. In addition the decrease in referrals can also be attributed to the lower levels of subdued trading and turnover, with relatively lower levels of retail activity further contributing to the lower levels of referrals

The Committee chaired by the Officer in Charge/ Deputy Director General of the SEC met 7 times, during the year, to discuss surveillance issues. The Committee summoned minor offenders and subsequently warned them to refrain from engaging in such trading practices in the future. Under instructions from the Committee, written explanations were sought from 8 parties who were involved in suspected market abuse. Their responses were reported to the Surveillance Committee. Out of the total referrals, 2 issues had been warranted for investigation with the approval of the Commission.

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 2013, continued to carry out investigations into cases of suspected market malpractice and recommended appropriate enforcement action in relation to the same, thus fostering high standards of professional conduct and corporate behaviour in the market, and deterring future transgressions by market intermediaries, listed companies and investors.

During the year 2013, a total number of 15 investigations were conducted by the SEC into instances of suspected market misconduct, including market/price manipulation, insider dealing, front-running, etc. Some of the said investigations were commenced prior to 2013. In addition, an opinion which was solicited from the Honourable Attorney General in the year 2012 regarding an investigation commenced and concluded in the same year, was pending during the year under review.

The year under review also saw several enforcement action being taken by the SEC in respect of offences/irregularities committed under the SEC Act and the Rules made

thereunder. Of significance in this respect were the warnings issued to four investment advisors following an investigation conducted into suspected market/price manipulation, based on nine surveillance referrals. Such warnings were also publicised on the website of the SEC. Pursuant to another investigation conducted by the SEC into suspected insider dealing, an investor was warned and a listed company was cautioned. Another investment advisor was cautioned based on the findings of a suspected front running investigation.

The details and a brief description of the action taken/status of the said investigations as at end December 2013 are provided in the table below: (Figure 22)

Figure 22: Details of Investigations

Nature of the Investigation	Number of Investigations	Action Taken/ Current Status
Insider Dealing ¹	4	- As at the end of the year 2012 three investigations into suspected Insider Dealing were pending. - During the year 2013 a warning letter was issued to an individual based on the findings of one such Insider Dealing investigation, and a letter of caution was issued to the listed company concerned. - A report pertaining to one such investigation was tabled at the Commission Meeting held in November 2013. - The report on the other investigation was being finalised at end December 2013. - In the year 2013, one suspected Insider Dealing investigation was commenced. The said investigation is in progress.

OPERATIONAL REVIEW

Figure 22 (Contd.)

Nature of the Investigation	Number of Investigations	Action Taken/ Current Status
Market/Price Manipulation ²	6	- In the years 2011 and 2012 one comprehensive investigation was conducted regarding nine surveillance referrals pertaining to suspected market/price manipulative activity by the same cartel of investment advisors. The report pertaining to the said investigation was finalised in the year 2013. Based on the findings of the said investigation 4 investment advisors who comprised of a cartel were warned and such warning was publicised. - Four other investigations into suspected market/price manipulation which were commenced prior to 2013 were concluded in the year 2013 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. - During the year 2013 another investigation into suspected market/ price manipulation was commenced and the said investigation was in progress at end 2013.
Front Running ³	02	- At the end of the year 2012 one investigation into suspected Front Running was pending. During the year 2013 an individual was cautioned based on the findings of the said Front Running investigation. - During the year 2013 another suspected Front Running investigation was commenced and the said investigation was in progress.
Investigation pertaining to suspected irregular activities pertaining to trades executed by a stockbroking firm	01	- The respective investigation was commenced and concluded in the year 2012. However, as recommended by the Secretariat and advised by the Members of the Commission a formal opinion regarding the matter was solicited from the Hon. Attorney General. - The said formal opinion was pending as at December 2013.
Complaints	02	During the year 2013 two investigations were commenced based on investor complaints against a stockbroking firm and the said investigations were in progress in end 2013.
Investigation pertaining to the business affairs of a Listed Company	01	During the year 2013 an investigation pertaining to the business affairs of a Listed Company was commenced and the said investigation was being finalized as at end December 2013.

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

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

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

COMPLAINTS

The SEC handled 20 complaints in relation to public listed companies and resolved 19 during the year under review.

LITIGATION

Settlement of Melstacorp Limited vs SEC and three others Court of Appeal Case No.204/2012 & SEC vs. Melstacorp Limited and 09 others Magistrate's Court Case No. S/74140/2012

On 05th March 2012 SEC issued a directive to Melstacorp Ltd directing the company inter alia to make a mandatory offer to the minority shareholders of Lanka Milk Foods (LMF) in respect of an acquisition of a 5% stake of the shares of LMF by Melstacorp Ltd on 13th September 2011. The SEC issued this directive on the basis that the company had triggered the mandatory offer obligation in terms of Rule 31(1)(b) of the TOM Code after being informed by the company that they were acting in concert with Distilleries Company of Sri Lanka and Milford Exports Ceylon Ltd who together controlled less than 50% of the voting shares of LMF when they acquired the shares of LMF on 13th September 2011.

Although the company admitted at first that they have triggered Rule 31(1)(b) of the TOM Code, they failed to make the mandatory offer to the minority shareholders of LMF. Despite several opportunities given by the SEC to correct the breach of the rule in the TOM Code, the company failed to do so. Thereupon the SEC instituted legal action in the Magistrate Court by case No.S/74140/2012 against the company and its Board of Directors for the violation of Rule 31(1)(b) of the TOM Code.

Melstacorp Limited thereafter filed a Writ Application bearing Case No. C.A.(Writ)204/2012 in the Court of Appeal on the basis that the Company is not liable under Rule 31(1)(b) of the TOM Code because the Company is already in management control of Lanka Milk Foods PLC and sought the revocation of the Directive issued by the SEC dated 05th March 2012 which required Melstacorp Ltd inter alia to make a mandatory offer to the minority shareholders of Lanka Milk Foods (CWE) PLC (LMF). The SEC, LMF, Distilleries Company of Sri Lanka PLC and Milford Exports (Ceylon) Limited were cited as the 01st, 2nd, 3rd and the 04th Respondents respectively.

On 19th July 2013, SEC received an application from Melstacorp Limited seeking a settlement of the aforementioned case pending in the Court of Appeal, and the case filed by the SEC bearing Case No. S/74140/2012, against Melstacorp Limited and its Board of Directors in the Colombo Fort Magistrate's Court. Melstacorp Ltd requested a settlement of this matter on the basis set out by LMF in their statement of objections filed in the Court of Appeal Writ Application 204/2012, which stated that Mills Enterprises Limited was an additional party acting in concert with the 3rd and 4th Respondents namely Distilleries Company of Sri Lanka and Milford Exports (Ceylon) Limited respectively at the time Melstacorp Limited purchased the shares on 13th September 2011, which fact had not been disclosed by Melstacorp initially to the SEC or the Court, previously.

The Commission deliberated on the said application, the supporting documents filed in the Court of Appeal by LMF and the affidavit dated 13th June 2013 filed by Melstacorp Ltd associating with the position taken up by LMF that Mills Enterprises Limited was an additional party acting in concert with the members of the consortium with Melstacorp and was so acting on 13th September 2011 which took the aggregate shareholding of all the parties acting in concert in LMF to over 50% thereby removing the necessity to make a mandatory offer in terms of the Code.

The Commission having noted that Melstacorp Limited had although not associated itself initially with Mills Enterprises Limited as a party acting in concert prior to the issuance of the SEC directive dated 5th March 2012 or the institution of the above mentioned cases, nevertheless decided to accept the explanation furnished by Melstacorp Limited in the said application and decided to afford the benefit to Melstacorp Limited that Mills Enterprises Limited, by construction was acting in concert with the members of the consortium on 13th September 2011, when the share purchase which was the subject matter of the cases pending in the Court of Appeal and the Magistrate's Court.

Accordingly the SEC withdrew the said directive issued on 5th March 2012 requiring Melstacorp Limited to make a mandatory offer under the Takeovers and Mergers Code. Thereupon Melstacorp Ltd withdrew the C.A. Writ Application filed against the SEC and the SEC in terms of

OPERATIONAL REVIEW

the settlement, withdrew the case filed in the Colombo Fort Magistrate's Court against Melstacorp Ltd and its Board of Directors, after the said terms of settlement were entered in Court.

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

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

SEC vs. B. A. Jayasekara and others Case No. S/64721/2006

The SEC filed action against nine persons alleging market manipulation of the shares of Nawaloka Hospitals PLC. The SEC compounded the offence in respect of seven accused whilst chargers were withdrawn against one accused on the advice of the Hon. Attorney General. The trial is pending against the 09th accused.

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

Charges were filed in the Magistrate's Court Fort on 04th November 2010 against Miramar Beach Hotels PLC and its Directors for the non-submission of Annual Reports of the Company for the financial years ended 31st March 2008 and 31st March 2009, in contravention of Rule 3(1) and 17 of the SEC Rules and thereby committing an offence under section 51(1)(a) which is punishable under Section 51(2) of the SEC Act. The company has sought the permission to release the Annual Reports for the above said years, but have not yet done so. The matter is pending before the Colombo Fort Magistrate's Court.

Filing of Motion by the SEC in Touchwood Investments PLC Winding-up Application Case No. CHC/31/2013/CO

A person claiming to be a creditor of Touchwood Investments PLC has made an application in the Commercial High Court of Colombo to wind-up the company alleging that he was owed monies in return for his deposits with the said company as a creditor.

The SEC is also in receipt of several complaints against the former Chairman of the company and his wife who was a Director of the company. The SEC thereupon commenced an investigation into the business affairs of the company and also directed the company against alienating the non-current assets of the company and also filed a motion in Court where the winding-up application is pending to inform Court of the steps taken by the SEC in respect of the company.

The investigation into the company by the SEC is pending.

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

Two investors have filed a Writ Application in the Court of Appeal alleging that their broker and their margin provider without due regard to their interests have depleted their share portfolios which they claim was originally valued at Rs. 20 Million to a nil balance.

The petitioners in addition to the broker and the margin provider have cited the SEC and the CSE as respondents seeking a Writ of Mandamus on the SEC to conduct an investigation against the broker and the margin provider and a Writ of Prohibition prohibiting the SEC from renewing the license and registration of the broker and margin provider respectively.

The SEC has already commenced an investigation into the allegations made by the petitioners with notice to Court and this matter is pending before the Court of Appeal.

Free Trade Zone and General Services Employees Union and others vs. Monetary Board of the Central bank of Sri Lanka and others (SCFR587/12)

The SEC was cited as the 8th Respondent in this fundamental rights application filed before the Supreme

Court against the Members of the Monetary Board. The petitioners had alleged that certain trades done on the CSE by EPF were in violation of Capital Market Law.

The Supreme Court dismissed the application and made an observation that it is prudent for the Monetary Board to disclose to the public the principles behind the investments made in the CSE by utilising the EPF funds.

ENFORCEMENT ACTION

The following enforcement actions were taken on the direction of the Commission.

Cautions

- During the year under review nine investment advisors were cautioned for failing to attend the required number of Continuous Professional Development Programmes for the year 2012.
- A listed company was cautioned and advised to ensure that they strictly abide by the legal duty cast upon the Company under Rule 15 of the SEC Rules. This was issued in respect of the company failing to clarify rumours on a possible takeover of the company in a timely manner.
- An investment advisor was cautioned for failure to obtain the necessary authorisation prior to executing trades on behalf of nominees/ family members.
- Two investment advisors were severely cautioned for having acted in a reckless manner with respect to certain client accounts.
- A Director of a public listed company was strongly advised against trading in his company shares prior to potential price sensitive information being released to the market. In this case the said director had purchased shares just prior to certain information of the company was released to the market. The SEC after having considered the circumstances surrounding the said purchase of the shares by this executive director, discharged the director of liability owing to the lack of impact the information had on the market.

Severe Reprimands

- Four investment advisors were issued with severe reprimands for adopting irregular practices when trading on behalf of their clients.

Warnings

- The Chief Executive Officer (CEO) of an unlisted company was warned in respect of trading in shares of a listed company whilst certain discussions were being held between the unlisted company and the listed company. The CEO was discharged with a warning since the discussions were not deemed price sensitive.

CAPITAL MARKET DEVELOPMENT

The capital market promotes and facilitates economic growth in the country by mobilising resources and diverting them to productive channels. SEC's market development initiatives focused on broadening the range of products and services, attracting more companies to list, enhancing capital market infrastructure, developing the bond market and unit trust industry etc. The SEC is also committed to advising the government on policies that impact the capital market.

ATTRACTING NEW FUNDS (LOCAL & FOREIGN)

Attracting new funds to the market is vitally important in creating a more vibrant and liquid stock market whilst supporting the economic growth of the country. Hence in order to showcase investment opportunities in the country, the following investor forums were conducted jointly with the CSE:

- Mumbai Investor Forum
The investor forum was held on 21st February 2013 at the Four Seasons hotel and was attended by 128 representatives from companies managing offshore funds out of India and Indian based institutional funds.
- Mumbai Investor Forum – follow up visit
Subsequent to the investor forum, a follow up visit was organised where 11 attendees were invited to Sri Lanka. The invitees had forums with officials of SEC, CSE and CBSL to discuss and clarify matters relating to investments in the capital market.
- Investor Forums in Dubai
 - Investor Forum for Sri Lankan Diaspora - The event was held on 1st June 2013 at Le Meridien Hotel, Dubai. Approximately, 78 Sri Lankan professionals employed in the United Arab Emirates attended the event.

OPERATIONAL REVIEW

- Investor Forum for Fund Managers based in Dubai - The event was held on 3rd June 2013 at Ritz Carlton, Dubai. The forum attracted approximately 68 participants including mainly institutional fund managers and high net worth investors.
- Hong Kong Investor Forum
The Investor Forum was held on 9th September 2013 at the Shangri-La Hotel, Hong Kong. The forum attracted approximately 75 participants including institutional fund managers and high net worth investors.

During the year to improve foreign investor participation, an information docket on the process of entry to the Sri Lankan capital market along with other relevant information was finalised jointly with the CSE.

DEVELOPMENT OF THE CORPORATE BOND MARKET

A policy paper to develop a robust corporate bond market was formulated and finalised. Key policy measures included in the paper are as follows:

- Approval for Primary Dealers and other market intermediaries to engage in corporate debt trading
- Eligibility criteria for dealing in corporate debt including SEC qualification framework
- Improvements to trading and reporting infrastructure
- Clearing & settlement system (Central Counterparty Framework)
- Corporate bond database for better information dissemination
- Imposing a minimum subscription ceiling of Rs.10,000 to enable retail participation in corporate bond market
- Introducing a standard brokerage fee
- Imposing a ceiling on par value
- Simplifying listing requirements to streamline the issuing process
- Amendments to listing rules
- Encourage public issuance of bonds
- Attracting foreign investors

- Awareness building
- Enable Repo facility for corporate bonds

Consultative meetings were held with the Credit Rating Agencies, to discuss the development of a common disclosure template for all CRAs to be incorporated in the issue prospectus.

DEVELOPMENT OF THE UNIT TRUST INDUSTRY

- Enabled the investments in Gilt Unit Trusts to be considered as liquid assets by Licensed Commercial Banks and Licensed Specialised Banks through representations made to the CBSL and a media release was published on the same.
- Marketing and Awareness building Campaign for the entire Market

Initially a promotional campaign for the unit trust industry was finalised and subsequently a decision was made to expand the scope of the promotional campaign to include the entire market as a whole in collaboration with the CSE.

The SEC together with the CSE finalised the Request for Proposal (RFP) to conduct the campaign. The CSE called for proposals from eight advertising agencies and a committee was appointed to evaluate the proposals in December 2013.

IMPLEMENTATION OF A CENTRAL COUNTERPARTY

- A decision was made to explore the possibility of jointly setting up an integrated CCP for all financial transactions by CBSL, SEC, CSE and LankaClear. Expressions of Interest (EOI) was finalised and approved by all stake holders to call for consultancy services.
- Subsequently an EOI was published by the CBSL and a decision will be made on an integrated or a stand-alone CCP by all stake holders based on the complexity and timeline for implementation.

ATTRACTING NEW LISTINGS (PUBLIC AND PRIVATE SECTOR)

A listing promotion forum was held in Jaffna for commercial ventures in the Northern region, aimed at creating awareness on the possibility of raising capital for expansion via the capital market of Sri Lanka and another forum is to be held in Kandy to cover the Central region. An issuer relations forum was also held in Colombo to attract new listings.

The SEC with the support of the CSE has established dialogue with 79 business organisations to create awareness among management on the benefits of listing on the CSE. Discussions were also underway with Sri Lanka Association of Software and Service Companies (SLAASCOM) to engage knowledge process outsourcing, business process outsourcing and IT companies on the opportunities for raising capital through the CSE.

The SEC also enabled a scheme of independent equity research coverage to provide visibility and transparency for public listed companies and as of January 2014, independent research coverage has been initiated on ten listed companies included in the S&P SL20 index, which is freely accessible to the general public on the CSE website. The SEC also supported the CSE in creating a publication entitled, "The Guide to Listing on the Stock Exchange" and Sinhala and Tamil translation of this publication is to be completed shortly. The launch of this information kit took place in August 2013.

DEVELOPMENT OF NEW PRODUCTS

- Establishment of a Fully Fledged Multi-Asset Class Commodities and Derivatives Exchange in Sri Lanka

Thus far the SEC has facilitated the project including calling for EOI for the establishment and operation of the Exchange, developing the RFP in-house, and short listing two Exchange Bidders as per evaluations carried out by Finance Ministry appointed Technical Evaluation Committee (TEC).

To proceed further with the project and evaluate the short listed parties, technical assistance from an expert in the subject is important to guide the TEC in making a recommendation to the Cabinet Appointed Consultants Procurement Committee.

In this regard discussions were held with funding agencies who are keen to provide technical assistance for the project and other broad capital market development initiatives. Hence assistance will be sought through the External Resource Department of the Ministry of Finance and Planning (MOF).

- Possible Investment Products to be introduced
 - Capital market instruments in Sri Lanka are currently restricted to listed debt and equity with no alternate investment vehicles and a lack of opportunity for investors to hedge against market movements.
 - SEC focused on 3 possible investment products to be introduced including Dollar Bond Funds, Real Estate Investment Trusts (REITs) and Exchange Traded Funds (ETF's). Of these the most imminent product expected to be launched is the Dollar Bond Fund which is currently awaiting Ministry of Finance approval.
 - The REIT's are an area of investment which has drawn much interest from market participants with 4 proponents of the product currently in discussions with the SEC.
 - Meanwhile the framework for ETF's is currently being studied and case studies of Malaysia and Singapore are being observed.

CAPITAL MARKET EDUCATION AND TRAINING AND RESEARCH

The SEC plays an important role in nurturing a pool of competent and knowledgeable market professionals by delivering licensing examinations, financial literacy programmes for various audiences as well as continuous learning opportunities for professionals in the securities industry.

CERTIFICATE IN CAPITAL MARKETS (CCM)

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 stockbroking companies whilst assisting practitioners to progress to more advanced qualifications through the development

OPERATIONAL REVIEW

of continuous professional development programmes. Considering the positive growth shown by the Colombo bourse in 2013, students continued to seek registration for the CCM programme with majority expecting to pursue a career in capital markets. Over 100 students completed

the CCM programme during the period under review while an equal number of trainee investment advisors obtained the Registered Investment Advisor (RIA) status to engage in investment advisory services with licensed stockbroking companies. (Figure 23, 24)

Figure 23: Statistical Summary of CCM Examinations: 2013

Medium of Instruction	Total Registered Students	Completed Equity Series	Completed Debt Series	Completed Financial Regulations & Ethics	CCM Completed	RIA Completed
Sinhala Medium	37	15	42	26	34	61
English Medium	72	40	59	41	77	50
TOTAL	109	55	101	67	111	111

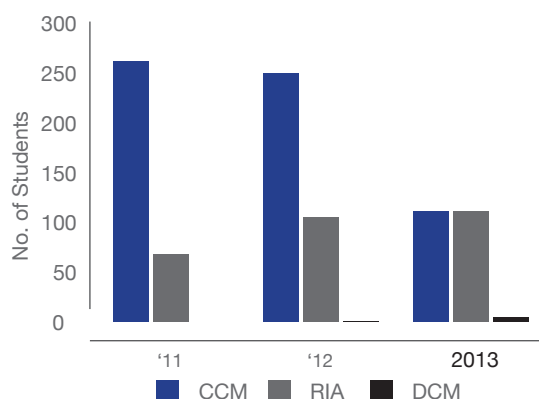
Figure 24: Synopsis of Programmes Conducted for CCM and RIA: 2013

Programme	Series	No of Exams Conducted during the year	Pass %
Certificate in Capital Markets - English Medium	Equity Securities	3	66%
	Debt Securities	3	79%
	Financial Regulations & Ethics	3	56%
Certificate in Capital Markets - Sinhala Medium	Equity Securities	1	56%
	Debt Securities	2	57%
	Financial Regulations & Ethics	2	48%
Registered Investment Advisor - Sinhala Medium	N/A	15	79%
Registered Investment Advisor - English Medium	N/A	13	87%

DIPLOMA IN CAPITAL MARKETS (DCM)

We continued lectures for the DCM programme conducted jointly with the Chartered Institute for Securities and Investments (CISI), UK. During the period under review 5 students completed the Diploma and received their certificates at the award ceremony. (Figure 25)

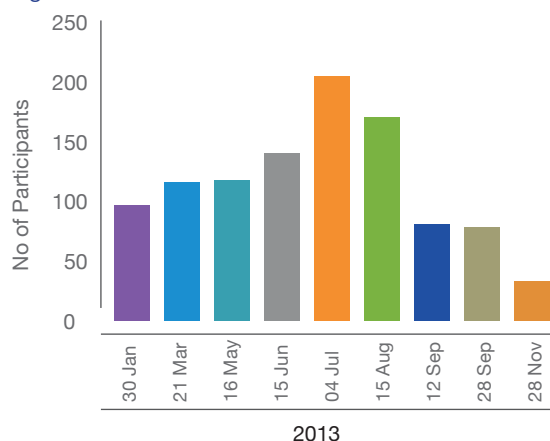
Figure 25: Students who completed the Qualification Framework



CONTINUOUS PROFESSIONAL DEVELOPMENT (CPD) PROGRAMMES

During the year under review, 9 tailor made CPD programmes were conducted for existing investment advisors in the stockbroking industry 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 1000 participants which included CEO's of stockbroking companies, investment advisors and other industry professionals. The SEC has made it mandatory for existing investment advisors to participate in at least 2 CPD programmes for a year to renew their trading licenses. (Figure 26)

Figure 26: Details of the CPD programmes conducted during 2013



Ethical Behaviour of Stock Market Professionals handling Clients

- Shortfalls & Loopholes of financial reporting that an Investment Advisor should be aware of - I
- Shortfalls & Loopholes of financial reporting that an Investment Advisor should be aware of - II
- Stock Market Offences
- Introduction to Derivatives
- How to make Sri Lanka's Investment Industry Even More attractive and Sustainable
- An Overview to the Proposed Changes to the SEC Act - I
- An Overview to the Proposed Changes to the SEC Act - II
- Practical Aspects of Portfolio Management

BROKER AWARENESS PROGRAMME

With the intention of facilitating continuous training and development and enhancing the knowledge on current issues in the area of capital market among industry professionals, the SEC conducted a presentation titled 'How to survive with Bulls and Bears' for officials of stock broking companies on the 7th October 2013.

PROGRAMME FOR DIRECTORS OF LISTED COMPANIES

Considering the importance of addressing the role of directors in relation to the provisions in the Companies Act, the SEC conducted a seminar titled "Company Law Obligations of Directors in a Listed Company" on 04th April 2013.

PROGRAMMES FOR EXISTING AND POTENTIAL INVESTORS

We conducted 3 programmes for potential and existing investors with the intention of providing them with basic theoretical and practical aspects of share trading. This eight-week programme attracted a total of 71 students.

ADVANCED PROGRAMME IN INVESTING

A seven-week programme titled "Advanced Programme in Investing" was conducted for persons who are already investing in the share market or have a fair knowledge on investments in the capital market. The programme was attended by 33 participants.

OPERATIONAL REVIEW

DIPLOMA FOR FINANCIAL JOURNALISTS

The SEC together with the Centre for Banking Studies (CBS) conducted a programme titled “Diploma in Economics, Banking and Finance for Journalists” in Sinhala medium during the period under review. The programme was attended by 55 journalists representing various electronic and print media. During the year a similar programme in English medium was also inaugurated. These programmes were designed to educate and train existing Sri Lankan financial journalists and to attract young prospective journalists to the industry.

GOLD MEDAL AND CASH AWARD PROJECT

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

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

- University of Kelaniya
- Wayamba University of Sri Lanka
- Eastern University of Sri Lanka
- Rajarata University of Sri Lanka
- University of Ruhuna
- University of Sri Jayawardanapura
- University of Jaffna

RESEARCH

The SEC conducted research on the macro- economy, securities industry, overall market performance and comparisons with other Emerging Market / Frontier Markets. The research output ranged from providing snapshot reports and presentations in addition to other special reports.

Presentations were also made to certain state funds with the intention of initiating a continuous dialogue and encouraging them to invest in the capital market in sync with a specific investment strategy. Studies were undertaken on various other Emerging/ Frontier markets and findings were presented in a systematic way to key managers of state funds.

SEC disseminated daily market synopsis, market performance reviews and a comprehensive analysis of the market as well as the macro economy to relevant stakeholders.

CAPITAL MARKET AWARENESS

The SEC educates investors in order to give them a sound understanding of the investment opportunities available in the capital market, to assess the risks associated with their investments and enable them to make well informed investment decisions. We initiate financial literacy programmes for existing investors as well as investors who lack financial sophistication and target different categories of investors. For greater reach and effectiveness we work in partnership with industry associations as well as market participants.

EDUCATION THROUGH ELECTRONIC MEDIA

“Warana” television series

In collaboration with Sirasa TV the SEC telecast a live one hour television series titled “Warana”. The series consisted of 23 episodes and focused on imparting knowledge on investing in the capital market to existing investors and potential investors in an easy to understand manner.

The series comprised of studio discussions on various timely issues as well as a range of topics relating to investing in the capital market and provided balanced information about benefits and risks of investing in equity and unit trusts. The panelists were eminent personnel who were well versed in the securities market. A dedicated hotline was in place to enable viewers to ask questions and each programme featured a quiz, sponsored by the stockbroker firms and unit trust management companies. The winners were entitled to invest in the stock market and unit trusts.

In addition, to this the SEC conducted regular interviews with electronic media in order to educate stakeholders on the capital market. (Figure 27)

The SEC received 31,137 responses from viewers through SMS, phone calls etc. for the weekly quiz of the Warana TV series. A turnover of Rs. 128 million has been generated from new accounts opened from the TV series and existing investors have generated a total turnover of Rs. 780 million as at 31/12/2013.

Figure 27: Television series conducted by the SEC

Programme	Station	Commencement	Completion
Warana TV series	Sirasa TV	27th January 2013	14th July 2013
Capital Market Quiz	ITN	22nd December 2012	16th February 2013

Electronic and print media have played a pivotal role in steadily enhancing awareness about investing in the capital market and also disseminating SEC's initiatives to develop the market to the masses. SEC organised a media briefing to apprise the progress of the ten key projects, regulatory initiatives taken by the SEC in 2013 and to outline the future plans of the SEC.

EDUCATION THROUGH PRINT MEDIA

Improving the level of financial literacy and facilitating greater public participation in the securities market across the geographical regions of the country has been at the forefront of many of SEC's awareness initiatives. Over the years we have published full page/half page articles pertaining to investing in the capital market on a weekly basis in all three languages. Moreover, we have also been able to publish regular press notices in association with newspapers as well as interviews and these have led to enhancing the visibility of the SEC as well as rebuilding the confidence of investors. (Figure 28)

Figure 28: Weekly Article Series Published by the SEC in Newspapers

Newspaper	No of articles published
Daily Mirror	120
Daily Lankadeepa	80

Newspaper	No of articles published
Ada	82
Virakesari	25
Thinakural	12

AWARENESS THROUGH SEMINARS AND FORUMS

APEC FRTI Regional Seminar on "Supervision and Surveillance of Market Intermediaries"

The SEC hosted the Asia Pacific Economic Cooperation (APEC) Financial Regulators Training Initiative (FRTI) regional seminar on "Supervision and Surveillance of Market Intermediaries" in September. The seminar was developed for junior and mid-level securities regulators to learn about the latest developments in market structure and how to evaluate its impact on regulation, infrastructure framework for a risk based supervision model, surveillance methodology used for debt trading, supervision framework for collective investment schemes etc. Many local participants as well as regional participants from Hong Kong, Malaysia, Thailand, India, Nepal, Republic of Korea, Fiji, Nigeria, Mauritius, People's Republic of China and Taipei attended the seminar.

IOSCO Corporate Bond Markets Outreach Programme

In collaboration with IOSCO, SEC hosted a Corporate Bond Markets Outreach programme in October 2013. The joint report published by the IOSCO –EMC and the World Bank on the "Development of the Corporate Bond Markets in Emerging Markets" called for further discussion on bond markets. Thus this programme was a manifestation of the initiative taken by both institutions in enforcing the findings of the report. The seminar covered a wide range of topics including i.e. Developing the regulatory framework and designing a market for institutional investors, bond markets and financial stability, developing the primary market framework, private placements and other hybrid regimes. Many local participant as well as foreign participants from South Asia, Far East Asia, Europe and the Middle East attended the seminar.

Investment Day

"Investment Day 2013" was organised to provide knowledge and guidance on investing in the capital market to experienced investors as well as those who lack financial

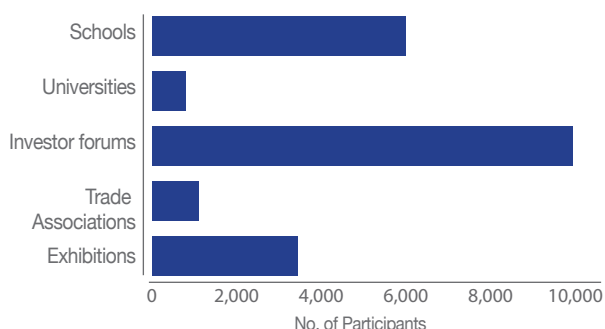
OPERATIONAL REVIEW

literacy. This event brought together the entire capital market including the CSE, stock broking firms, investment managers, margin providers, listed companies and unit trust management companies under one roof and served as a good platform for investors to obtain comprehensive knowledge on investing in the capital market. Prominent professionals from the securities industry addressed the gathering on a wide spectrum of topics throughout the day in all three languages. Furthermore investors got the opportunity to watch video documentaries in all three languages on investing in the capital market and win opportunities to invest in the stock market.

OTHER AWARENESS INITIATIVES

Since a “one size fits all” approach is not very effective to reach various target groups such as teachers, students, undergraduates, existing and potential investors and members of trade associations we developed proactive investor education programmes taking into consideration the needs and levels of financial knowledge. Given below are the awareness initiatives undertaken during the year 2013. (Figure 29)

Figure 29: Awareness Initiatives



Other Initiatives

Ayojanayata Mulapuramu Book Launch

A book titled “Ayojanayata Mulapuramu” was launched to enhance the knowledge of domestic investors on investing and to increase their participation in the capital market. The publication contained practical and useful topics i.e. factors to be considered before investing in the stock market, step by step process of investing in stocks and unit trusts, common mistakes made by investors when investing in the capital market and how to select stocks. “Ayojanayata

Mulapuramu” was based on the article series published in the Lankadeepa Newspaper and was written to overcome the dearth of books written in Sinhala on investing in the capital market.

Re-launching of the SEC logo

The SEC logo was re-launched to better reflect the current regulatory and developmental role since it was designed over two decades ago. The logo was re-launched to reveal some essential features of the organization as well as its role and objectives display SEC's unique identity.

HUMAN RESOURCES

Human capital is an important factor for the success of an organisation. The year amply demonstrated the capabilities, talents, dedication, commitment and professionalism of our staff in discharging the mandate of the SEC along with the ‘10 Key Project’ initiatives prioritised as imperative to develop and regulate the capital market of Sri Lanka.

CADRE COMPOSITION

As in the past, we recruited talented individuals to the SEC to strengthen our regulatory capacity. During the year, nine new recruitments to the permanent cadre were recorded, consisting of three directors, three executives and three officers in comparison to six recruitments consisting of five executives and an office aide made in 2012. In addition, two consultants were recruited on contract basis during the year under review to expedite the work pertaining to the ‘10 Key Projects’. Seven resignations were recorded, consisting of the Director General, one director, one senior executive, three executives and one officer in comparison to one resignation of an executive in 2012. Nine members of the staff were promoted to higher positions in recognition of their good performance, conduct and the service made towards SEC. They consisted of six executives to the position of senior executive, one officer and librarian to the position of executive and confidential secretary to the position of executive secretary in terms of the approved procedure. Opportunity is constantly provided for internal candidates to apply for higher positions subject to requisite qualifications and appropriate experience in terms of the recruitment criteria. Accordingly, the position of Assistant Director was internally recruited after a competitive selection process. (Figure 30)

Figure 30: cadre details as at 31st December 2013

Category	Total Approved Cadre	Present Cadre in Employment		Vacant Positions
		Permanent	Contract	
Director General	1	-		1
Deputy Director General	1	1		-
Directors	11	8	2	1
Assistant Directors	5	3		2
Managers	8	4		4
Senior Executives	43	14		-
Executives		24	1	4
Non Executives	17	16		1
Senior Office Assistants	10	6		-
Office Assistant		1		-
Office Aide		1	2	
Total	96	78	5	13

As at 31 December 2013, 83 staff members served the SEC consisting of 31 males and 52 females. The cadre composition, service, gender and age analysis of the staff as at end of the year are depicted in pictorial form below. (Figure 31,32,33,34)

Figure 31: Cadre Information Based on Employee Category

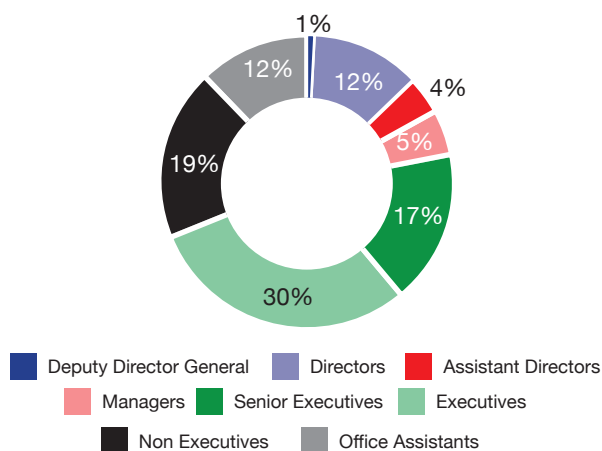


Figure 32: Gender Analysis

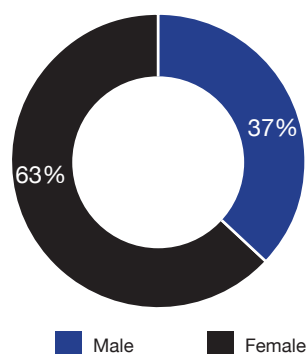
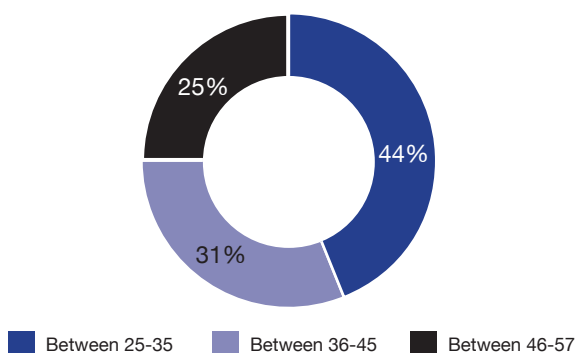
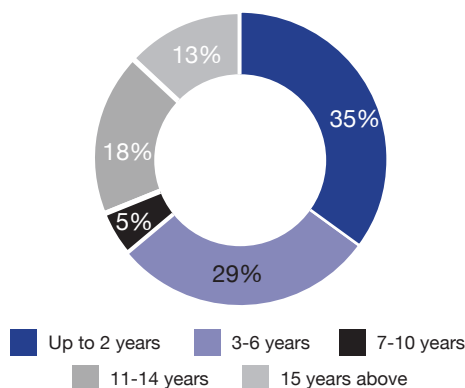


Figure 33: Age Analysis



OPERATIONAL REVIEW

Figure 34: Service Information



TRAINING AND DEVELOPMENT

Demonstrating the commitment to staff education, training and development, SEC entered into a landmark agreement with the Institute of Chartered Financial Analysts (CFA) to extend the Regulators Scholarships programme to the staff. It is encouraging to note the interest shown by our staff by embracing this study programme amidst their busy schedules. We thank the team from the CFA Institute that made this a reality.

We firmly believe that education, training and development will lead staff to unleash their potential and empower them, in turn, leading to effective discharge of the SEC mandate. Therefore, SEC provides relevant development opportunities to staff in other jurisdictions. These programmes enable the staff to adopt best practices in other regulatory agencies, whilst case studies highlighted in these programmes give exposure to staff on regulatory complexities, challenges faced by fellow regulators and steps taken to ensure 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 unstinted support extended and the efforts taken to organise pertinent training programmes which are of immense benefit to the staff.

SEC's training arm provides an opportunity to the staff to follow study courses focused at upgrading their capital market knowledge. In addition, the SEC provides sponsorship to the members of the staff to follow higher

studies including postgraduate degrees subject to a two-year bond to serve the SEC upon successful completion.

The staff also attended relevant local training and development programmes including programmes organised by the Centre for Banking Studies (CBS). Local and foreign training expenditure amounted to Rs. 22,142,023 during the year 2013 in comparison to Rs. 18,961,953/- during the year 2012. In addition, the SEC incurred Rs. 512,265/- towards membership fees payable to professional bodies of various disciplines that the staff of the SEC represents as compared to Rs. 392,145 in the year 2012.

EMPLOYEE INVOLVEMENT

The staff relentlessly contributed especially towards the '10 Key projects' by providing their creative ideas to achieve SEC's strategic intent by serving in cross-functional teams along with other stakeholders.

EMPLOYEE REWARDING

We recognise the importance of moving towards a performance based culture where rewards and recognition are based on a structured performance evaluation scheme. To this end, we appointed a human resources consultant to look into a systematic approach to introduce an appropriate reward management policy and to streamline the processes and procedures pertaining to people management.

STAFF WELFARE

The health of the staff is the wealth of the SEC. Therefore it is encouraged to strike an effective work life balance by providing ample opportunity to avail their leave when necessary along with a 'flexi' attendance system to ease the stress due to the difficulties the staff faces to reach the city during working days.

In addition, the outdoor and indoor health benefits, loan schemes, interest subsidy etc., are amongst the many other welfare facilities offered to the staff.

Annual events including the sports day and Christmas party etc., facilitates interaction between the staff and their families to boost employee morale, identify hidden employee talents, create understanding amongst each other and enhance bonding of the SEC family.

INTERNSHIPS

To fulfill a social responsibility, we continuously extend a hand to the undergraduates of national universities to gain exposure to the capital market regulatory framework, in a progressive working environment with appropriate on-the-job training.

INFORMATION TECHNOLOGY

The SEC website was enhanced with online graphs and trading data to make it more user-friendly with particular emphasis on depicting the progress made towards the Capital Market Development Road Map and to disseminate the progress of the 10 Key projects. As the next step of the server virtualisation which became a reality in 2012, SEC took steps to deploy the IT Disaster Recovery Site to protect its applications and data against a natural site disaster, total hardware failure or application failure. The need for the IT disaster recovery site is to ensure the availability of IT services with optimal downtime and lesser interruption in the event of a disaster.

MEMORANDUM OF UNDERSTANDING (MOU) BETWEEN INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA AND THE SEC

An MOU was entered into between the ICASL and the SEC for the purpose of introducing an accreditation programme mainly for Directors of listed companies to acquaint them with the required knowledge and improve skills on corporate governance, financial reporting, and regulatory aspects in order to effectively manage the affairs of the companies for and on behalf of stakeholders. The said MOU will remain in force for a period of 2 years.

STATUTORY FUNDS

CESS FUND (CESS)

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

14A

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

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

14B

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

(2) There shall be paid out the Cess Fund such sums as may be 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 0.072% per transaction from 0.09% per transaction with effect from 1 August 2010. Earlier reduction took place with effect from 1 December 2003 when the applicable rate of Cess was reduced from 0.1% to 0.09% per transaction.

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

With effect from 15th February 2006, the transaction fee due to the broker, CSE, CDS and SEC on intraday trades, where

OPERATIONAL REVIEW

a client buys and sells or sells and buys the same security on the same day through the same broker will not be charged on one side of the transaction. Share Transaction Levy of 0.300% will be charged on both sides of the Transaction

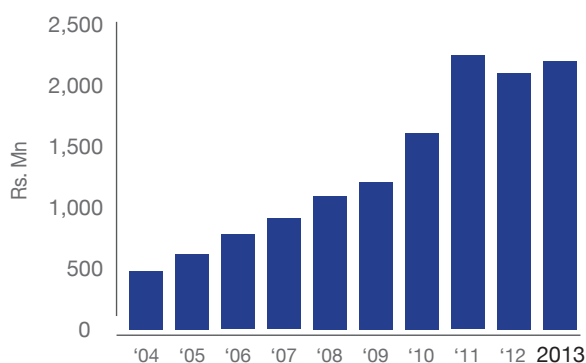
- In the event the total number of shares purchased does not equal the total number of shares sold, the transaction fees as detailed above will not be levied on the lower quantity of shares either purchased or sold.
- In the event the total quantity purchased is equal to the total quantity sold the transaction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

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

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

The balance lying to the credit of Cess Fund as at 31 December 2013 amounted to Rs. 2,193,243,136/- The Cess Fund balances during the period 2004-2013 is depicted below: (Figure 35)

Figure 35: Growth of the CESS Fund



COMPENSATION FUND

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

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

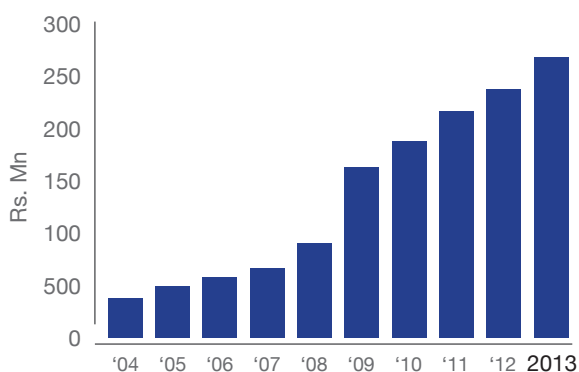
The Minister shall appoint from among the Members of the Commission three members who shall comprise the Compensation Committee.

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

The Act also provides for the procedure to apply for compensation. According to the Act, the Committee may, after examination of the documents and other evidence produced in support of the claim by an applicant, or in any case where an inquiry was held on the conclusion of such inquiry, allow or disallow such claim for compensation. To strengthen the Compensation Fund a sum of Rs. 50 million was transferred from the Cess Fund. 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 31.12.2013 amounted to Rs. 267,950,575/-. The growth of the Fund during the period 2004 to 2013 is depicted below. (Figure 36)

Figure 36: Growth of the Compensation Fund



SETTLEMENT GUARANTEE FUND (SGF)

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

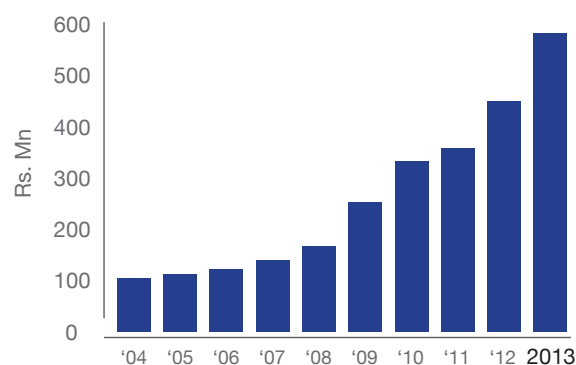
- Ownership of shares traded is transferred no sooner a trade is executed. From 10 December 2007 the CSE adopted a single tier settlement cycle. The buyer is required to pay on T+3 i.e. on the 4th Market day including the day of trading and the seller to receive the settlement on T+3 i.e. on the 4th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

- With a view to strengthening the Fund a sum of Rs. 100 million was transferred equally from the Cess Fund during the years 2009 and 2010. The CSE also transferred Rs. 100 million in January 2012 after changing the Deed of Trust of the SGF to accommodate such receipts to the Fund.

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

Up-to-date there have been no claims made from the SGF. The balance lying to the credit of the SGF as at 31.12.2013 amounted to Rs. 582,380,106/-. The growth of the Fund during the period 2004 to 2013 is depicted in the following graph. (Figure 37)

Figure 37: Growth of the Settlement Guarantee Fund



ADDITIONAL INFORMATION

UNIT TRUSTS

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

1. CEYLON ASSET MANAGEMENT COMPANY LIMITED

Ceylon Index Fund
Ceylon Income Fund
Ceylon Tourism Fund
Ceylon Financial Sector Fund
Ceylon IPO Fund
Ceylon MTI Shariah Fund
Ceylon Global Compact Sustainability Fund
Ceylon Gilt-edged Fund
Ceylon Treasury Bill Fund

2. COM TRUST ASSET MANAGEMENT (PRIVATE) LIMITED

Comtrust Equity Fund
Crescent i Fund
Comtrust Money Market Fund
Comtrust ADL Mudarabah Fund
Comtrust Gilt-edged Fund

3. NDB WEALTH MANAGEMENT LIMITED

Eagle Growth and Income Fund
Eagle Gilt Edged Fund
Eagle Fixed Income Fund
Eagle Growth Fund
Eagle Money Fund
Eagle Money Plus Fund
Short term LKR Treasury Fund

4. CEYBANK ASSET MANAGEMENT LIMITED

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

5. NATIONAL ASSET MANAGEMENT LIMITED

NAMAL Income Fund
NAMAL Money Market Fund
National Equity Fund
NAMAL Growth Fund
NAMAL Acuity Value Fund (closed end)

NAMAL IPO Fund
NAMAL High Yield Fund
NAMAL Shariah Fund

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. CANDOR ASSET MANAGEMENT (PVT) LTD

Candor Capital Growth Fund
Amana Candor Shariah Fund

10. ASSET TRUST MANAGEMENT (PVT) LTD

Astrue Gilt edged Fund
Astrue Money Market Fund

11. CAPITAL ALLIANCE INVESTMENTS LTD

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

12. ARPICO ATARAXIA ASSET MANAGEMENT (PRIVATE) LIMITED

Cash Management Trust Fund
Arpico Ataraxia Repo Fund
Arpico Ataraxia Sri Lanka Bond Fund (Gilt edged Fund)
Arpico Ataraxia S&P –SL20 Index Fund

13. ORIENT WEALTH LIMITED

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

STOCKBROKERS AND STOCK DEALERS

Stockbrokers licensed as at 31st December 2013

Company
Acuity Stockbrokers (Private) Limited
Asha Phillip Securities Limited
Asia Securities (Private) Limited
Assetline Securities (Private) Limited
Bartleet Religare Securities (Private) Limited
Candor Equities Limited
Capital Alliance Limited - (Debt securities)
Capital Alliance Securities (Private) Limited
Capital Trust Securities (Private) Limited
Claridge Stockbrokers (Private) Limited
CT Smith Stockbrokers (Private) Limited
First Capital Equities (Private) Limited
First Capital Markets Limited- (Debt securities)
First Guardian Equities (Private) Limited
IIFL Securities Ceylon (Private) Limited
JB Securities (Private) Limited
John Keells Stock Brokers (Private) Limited
Lanka Securities (Private) Limited
LOLC Securities Limited
Nation Lanka Equities (Private) Limited
NDB Securities (Private) Limited
New World Securities (Pvt) Ltd
Richard Pieris Securities (Private) Limited
SC Securities (Private) Limited
Serendib Stockbrokers (Private) Limited
SMB Securities (Private) Limited
Softlogic Stockbrokers (Pvt) Ltd
Somerville Stock Brokers (Private) Limited
Taprobane Securities (Private) Limited
TKS Securities (Private) Limited

ADDITIONAL INFORMATION

Stock Dealers licensed as at 31st December 2013

Company
Bartleet Religare Securities (Private) Limited - Deal in debt securities
Capital Alliance Limited - Deal in debt securities
Capital Alliance Securities (Private) Limited
First Capital Markets Limited - Deal in debt securities
JB Securities (Private) Limited
Serendib Stockbrokers (Private) Limited
SMB Securities (Private) Limited - Deal in debt securities
Softlogic Stockbrokers (Pvt) Ltd

REGISTERED MARKET INTERMEDIARIES

Registered as at 31st December 2013

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

Company	Margin Provider	Investment Manager	Underwriter
Acuity Partners (Private) Limited	X	X	X
ADL Asset Management Limited		X	
ADL Equities Ltd	X		
Amana Capital Ltd		X	
Arpico Ataraxia Asset Management (Pvt) Ltd		X	
Asha Financial Services Limited	X		
Asset Trust Management (Pvt) Ltd		X	
Assetline Capital (Private) Limited	X	X	
Bank of Ceylon		X	X
Bartleet Asset Management (Pvt) Ltd		X	
Bartleet Finance PLC	X		
Bartleet TransCapital Limited		X	X
Candor Asset Management (Private) Limited		X	
Candor Capital (Private) Limited	X		
Capital Alliance Finance PLC	X		
Capital Alliance Investments Limited		X	
Capital Trust Credit (Private) Limited	X		
Capital Trust Wealth Management (Pvt) Ltd		X	
Ceybank Asset Management Ltd		X	
Ceylon Guardian Investment Trust PLC			X
Ceylon Investment PLC			X
Ceylon Japan Securities (Pvt) Ltd		X	
Citizen Development Business Finance PLC	X		
Commercial Bank of Ceylon PLC	X		X
Comtrust Asset Management (Pvt) Ltd		X	
DFCC Vardhana Bank PLC	X		
First Capital Asset Management Limited		X	
First Capital Markets Limited	X		
George Steuart Finance PLC	X		

ADDITIONAL INFORMATION

Company	Margin Provider	Investment Manager	Underwriter
Guardian Acuity Asset Management Limited		X	
Guardian Fund Management Limited		X	
Hatton National Bank PLC	X		X
Horizon Asset Ltd		X	
IIFL Capital Ceylon Ltd		X	
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		
Lanka ORIX Finance PLC	X		
Lexinton Financial Services (Private) Limited	X		
Lynear Wealth Management (Pvt) Ltd		X	
Merchant Bank of Sri Lanka PLC	X	X	X
Nation Lanka Capital Ltd	X		
Nation Lanka Equities (Pvt) Ltd		X	
National Asset Management Ltd		X	
National Development Bank PLC	X		
National Wealth Corporation Limited		X	
NDB Capital Holdings PLC			X
NDB Wealth Management Ltd		X	
NWS Financial Services (Pvt) Limited	X		
NWS Management Services (Pvt) Ltd		X	
Orient Wealth Limited		X	
Orion Fund Management (Private) Limited		X	
Pan Asia Banking Corporation PLC	X		
People's Bank		X	
People's Leasing and Finance PLC	X		
People's Merchant Finance PLC	X		
Richard Peiris Financial Services (Pvt) Ltd	X		
Sampath Bank PLC	X		X
Sanasa Asset Management (Pvt) Ltd		X	
Serendib Stockbrokers (Pvt) Ltd		X	

Company	Margin Provider	Investment Manager	Underwriter
Seylan Bank PLC	X		
Singer Finance (Lanka) PLC	X		
Softlogic Capital PLC		X	
Softlogic Finance PLC	X		
TKS Finance Ltd	X		
Union Bank of Colombo PLC	X		
Waldock Mackenzie Limited	X	X	

Registered Market Intermediaries under the Category of a Clearing House:

Central Depository Systems (Private) Limited

Registered Market Intermediaries under the Category of Credit Rating Agencies

Fitch Ratings Lanka Limited

RAM Ratings (Lanka) Limited

ICRA Lanka Limited

FACT SHEET

Equity Market

YEAR	2008	2009	2010	2011	2012	2013
Annual Turnover (Rs. Mn) Equity	110,453.90	142,462.65	570,326.82	546,255.80	213,827.2	200,467.8
Domestic (Rs. Mn)	50,796.90	99,010.83	464,733.62	486,959.40	160,543.3	128,227.6
Foreign (Rs. Mn)	59,656.90	43,451.82	105,593.20	59,296.40	53,283.9	72,240.2
Market Days (No)	238	240	238	239	242	242
Daily Average Turnover (Rs. Mn) Equity	464.1	593.6	2,396.33	2,285.60	883.6	828.4
Shares traded (No Mn) Equity	3,154.90	4,762.70	18,489.19	24,543.70	9,691.2	9,054.2
Domestic (No Mn)	1,934.90	3,784.20	16,684.45	23,151.60	8,289.6	7,861.6
Foreign (No Mn)	1,220.00	978.42	1,804.74	1,392.10	1,401.7	1,192.6
Trades (No) Equity	776,244	1,266,299	3,355,126	4,579,352	1,857,384	1,421,303
Domestic (No)	730,415	1,190,822	3,225,041	4,463,404	1,796,868	1,355,380
Foreign (No)	45,829	75,477	130,085	115,948	60,516	65,923
New Listing (No)	3	3	10	32	17	2
Delisting (No)	2	6	1	0	2	1
Companies Listed	235	231	241	272	287	289
Companies Traded	232	231	238	265	280	278
Market Capitalization (Rs. Bn)	488.8	1,092.10	2,210.45	2,213.90	2,167.6	2,459.9
Market PER year end (Times)	5.4	16.6	25.16	15.8	15.9	15.9
Turnover to Market Capitalization (%)	16.9	18	34.5	24.7	9.8	8.7
Dividend Yield Year End (%)	5.6	3	1.16	1.8	2.4	2.9
Price to Book Value Year End (Times)	0.8	1.7	2.98	2	2.1	2
Market Cap. As a % of GDP	11.1	22.6	39.4	33.8	28.6	32.4

Price Indices

All Share Price Index (ASPI)	1,503.00	3,385.55	6,635.87	6,074.40	5,643.0	5,912.80
y-o-y Change %	(40.9)	125.25	96.01	(8.5)	(7.1)	4.8
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					3,085.3	3,263.90
y-o-y Change %						5.8

Total Return Indices

Total Return Index on ASPI (ASTRI)	1,783.60	3,944.90	7,899.11	7,362.83	7037.3	7,584.40
y-o-y Change %	(38.1)	121.18	100.24	(6.79)	(4.4)	7.8
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	-
Total Return Index on S&P Sri Lanka 20 (S&P Sri Lanka 20TRI)					3,780.4	4,132.4
y-o-y Change %						9.3

YEAR	2008	2009	2010	2011	2012	2013
Non-National Activity						
Annual Turnover (Rs. Mn)	59,656.90	43,451.82	105,593.20	59,296.40	53,283.9	72,240.20
Purchases (Rs. Mn.)	66,632.20	43,057.32	92,425.53	49,776.80	72,614.2	83,607.00
Sales (Rs. Mn.)	52,681.70	43,846.32	118,760.87	68,816.00	33,953.6	60,873.30
Net Foreign Flow (Rs. Mn.)	13,950.50	(789)	(26,335.34)	(19,039.20)	38,660.7	22,733.70
Shares Traded (No. Mn.)	1,220.00	978.41	1,804.74	1,392.11	1,401.7	1,192.60
Purchases (No. Mn.)	1,286.20	908.97	1,541.49	1,186.80	1,520.6	1,282.50
Sales (No. Mn.)	1,153.90	1,047.87	2,067.99	1,597.42	1,282.7	1,102.6
Trades (No.)	45,829	75,477	130,085	115,948	60,516	65,923.0
Purchases (No.)	50,052	69,431	115,071	112,246	71,944	77,511.0
Sales (No.)	41,606	81,523	145,100	119,651	49,088	54,335.0
Debt Market						
<i>Corporate Debt</i>						
Turnover (Rs. 000)	102,639.30	136,765	72,288	2,690,664.40	75,717.1	2,229,221.3
No of Trades	27	42	92	62	39	173
No of Debentures Traded (000)	953.5	1,020	693	25,861	740.4	19,998.8
Market Cap (Mn)	N/A	N/A	N/A	37,859	46,311.0	N/A
Government Debt						
Turnover (Rs. 000)	195,157.40	98,977	45,673	28,356.80	6,128.0	
No of Trades	69	42	18	7	2	
No of Debentures Traded (000)	208,182.60	102,778	46,794	28,912	6,743.6	
Unit Trusts						
Net Asset Value (NAV)(Rs. Mn)	6,780	9,952	22,228	24,059	31,062	54,304
Unit Holders (No.)	22,685	23,117	24,649	26,636	27,952	29,648
Units Issued (No. 000)	638,112	564,500	1,159	1,506	2,251	4,134
Investment in Equity (Rs. Mn.)	2,589	6,036	11,349	9,555	8,944	9,453
Investment in Treasury Bills (Rs.Mn)	2,903	3,363	9,289	10,326	5,449	17,825
Investment in other Instruments **(Rs. Mn)	1,293	1,106	1,223	4,186	16,596	27,000

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

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

Financial Reports - SEC

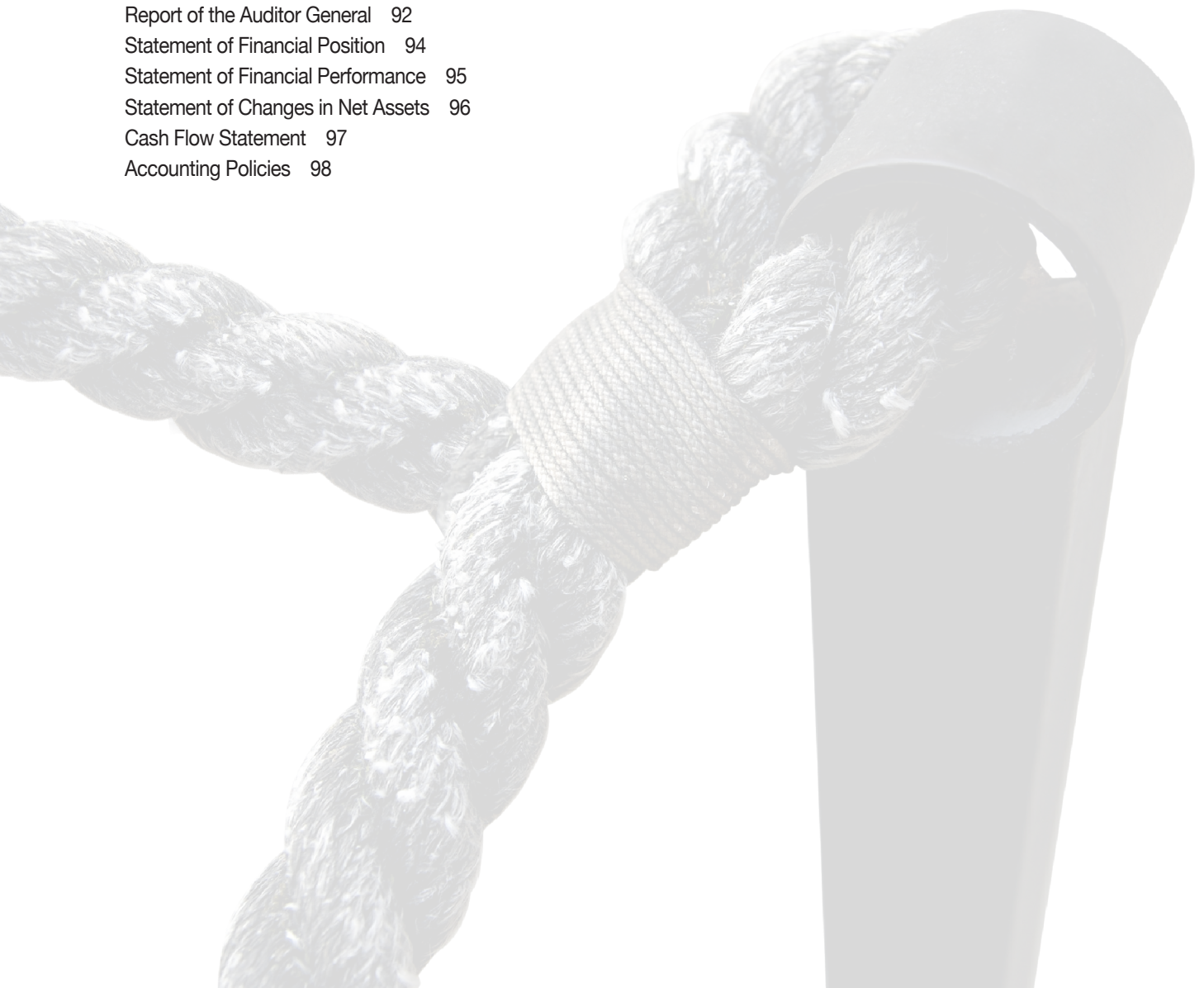
Report of the Auditor General	70
Statement of Financial Position	72
Statement of Financial Performance	73
Statement of Changes In Reserves	74
Cash Flow Statement	75
Cash Flow Statement - Cess Fund	76
Cash Flow Statement - Compensation Fund	77
Accounting Policies	78
Notes to the Financial Statements	81



Financial Reports

Financial Reports - SGF

Report of the Auditor General	92
Statement of Financial Position	94
Statement of Financial Performance	95
Statement of Changes in Net Assets	96
Cash Flow Statement	97
Accounting Policies	98



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/2013

ඔබේ අංකය
உமது இல.
Your No.



දිනය
திகதி
Date

27 May 2014

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 2013

The audit of financial statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2013 comprising the Statement of Financial Position as at 31 December 2013 and the Statement of Financial Performance, Statement of Changes in Reserves and Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(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 of Sri Lanka 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 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 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.

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



විගණකාධිපති මහජනාධිපතිතුමාට
කාර්යාලය
Auditor General's Department

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Securities and Exchange Commission of Sri Lanka as at 31 December 2013, 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 31ST DECEMBER 2013

	Note	2013 Rs.	2012 Rs.
ASSETS			
NON CURRENT ASSETS			
Property ,Plant & Equipment	1	47,739,360	56,412,469
Cess Fund	2	48,664,796	37,905,567
CURRENT ASSETS			
Inventories	4	934,534	628,884
Receivables	5	2,663,416	1,784,380
Cess Fund	2	2,144,578,340	2,059,189,357
Compensation Fund	3	267,950,575	237,461,686
Deposits, Advance and Prepayments	6	8,000,888	4,915,002
Cash & Cash Equivalents	7	24,811,873	28,105,784
TOTAL ASSETS		2,545,343,782	2,426,403,129
FUNDS AND LIABILITIES			
FUNDS EMPLOYED AND RESERVES			
Accumulated Fund	8	6,352,068	9,508,528
Cess Fund	9	2,193,243,136	2,097,094,924
Compensation Fund	10	267,950,575	237,461,686
NON CURRENT LIABILITIES			
Lease Creditors	11	-	619,317
Grant - Transfers from Cess Fund for Capital Expenditure	12	42,207,192	50,050,720
Retirement Benefit Obligation	13	21,606,766	20,012,197
CURRENT LIABILITIES			
Creditors & Accruals	14	8,807,432	6,458,770
Receipts in Advance		4,418,064	4,238,142
Lease Creditors	11	758,549	958,848
TOTAL FUNDS AND LIABILITIES		2,545,343,782	2,426,403,129

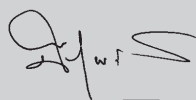
The Accounting Policies and Notes appearing on pages 78 to 91 form an integral part of the financial statements.

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



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

Colombo.
12th May 2014

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31ST DECEMBER 2013

	Note	2013 Rs.	2012 Rs.
INCOME			
Broker License Fees		4,163,816	4,999,634
Administration Levy		3,225,066	1,487,168
Educational Programmes-CMET		7,009,985	14,312,304
Sale of Publications		144,350	18,750
Sundry Income		16,506	1,894,972
Profit/ (Loss) on Disposal of Fixed Assets		(11,032)	321,865
Recognition of Grants	12	15,276,487	13,981,944
		29,825,178	37,016,637
EXPENDITURE			
Personnel Costs	15	(159,203,688)	(140,311,036)
Administration & Establishment Expenses	16	(110,011,824)	(78,622,641)
Capital Market Development Expenses	17	(66,228,055)	(24,478,437)
Finance Charges	18	(85,112)	(102,328)
Total Expenditure		(335,528,679)	(243,514,442)
Excess Expenditure over Income for the year		(305,703,501)	(206,497,805)
Transfers from Cess Fund to meet Operational Expenses		318,547,041	218,522,637
Surplus/ (Deficit) for the year		12,843,540	12,024,832

The Accounting Policies and Notes appearing on pages 78 to 91 form an integral part of the financial statements.

STATEMENT OF CHANGES IN RESERVES

FOR THE YEAR ENDED 31ST DECEMBER 2013

	Note	Reserves Rs.	Accumulated Fund Rs.	Total Rs.
Balance as at 1st January 2012		-	12,556,660	12,556,660
Prior Year Adjustment-Change in the recognition of CMET income		-	(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 period		-	12,024,832	12,024,832
Balance as at 31st December 2012			9,508,528	9,508,528
Balance as at 1st January 2013		-	9,508,528	9,508,528
Fund Transfer to Cess Fund to Invest in Treasury Bills		-	(16,000,000)	(16,000,000)
		-	(6,491,472)	(6,491,472)
Excess Expenditure over Income for the year		-	(305,703,501)	(305,703,501)
Fund Transfer from Cess Fund		-	318,547,041	318,547,041
Surplus/ (Deficit) for the year		-	12,843,540	12,843,540
Balance as at 31st December 2013		-	6,352,068	6,352,068

The Accounting Policies and Notes appearing on pages 78 to 91 form an integral part of the financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2013

	Note	2013 Rs.	2012 Rs.
Cash Flows from Operating Activities			
Net Increase/(Decrease) after transfers from Cess Fund		12,843,540	12,024,832
Adjustment for			
Depreciation	1	16,026,487	15,333,194
(Profit)/ Loss on disposal of Property, Plant & Equipment		11,032	(321,865)
Recognition of Grant	12	(15,276,487)	(13,981,944)
Provision for Gratuity	13	2,997,885	5,584,640
Prior Year Adjustment	8	-	(5,072,967)
Net Increase/(Decrease) before working capital changes		16,602,457	13,565,890
Change of Working Capital			
(Increase)/ Decrease of Stocks		(305,650)	(98,428)
(Increase)/ Decrease of Receivable		(879,036)	(929,350)
(Increase)/ Decrease of Deposits Advances & Prepayments		(3,085,886)	(2,402,103)
Increase/ (Decrease) of Receipt in Advance		179,922	1,099,753
Increase/ (Decrease) of Creditors & Accruals		2,348,662	551,320
		(1,741,988)	(1,778,808)
Cash generated from Operating Activities		14,860,469	11,787,082
Gratuity paid during the year		(1,403,316)	-
Net Cash Inflow/ (Outflow) from Operating Activities		13,457,153	11,787,082
Cash Flows into Investing Activities			
Purchase of Property Plant and Equipment	1	(7,432,959)	(11,106,862)
Fund Transfer to Cess Fund to Invest in Treasury Bills		(16,000,000)	(10,000,000)
Proceeds from Sale of Property Plant & Equipment		68,552	1,005,384
Net Cash Inflow/ (Outflow) from Investing Activities		(23,364,407)	(20,101,478)
Cash Flows from Financing Activities			
Capital transfer from Cess Fund	12	7,432,959	11,106,862
Increase /(Decrease) in Finance Lease		(819,616)	(2,377,952)
Net Cash Inflow/ (Outflow) from Financing Activities		6,613,343	8,728,910
Net Increase/ (Decrease) in Cash and Cash Equivalents		(3,293,911)	414,513
Cash and Cash Equivalents at beginning of period (Note A)		28,105,784	27,691,271
Cash and Cash Equivalents at end of period (Note B)		24,811,873	28,105,784
Note (A)			
Cash and Cash Equivalents at beginning of period			
Cash at Bank		28,065,784	27,651,271
Cash in Hand		40,000	40,000
		28,105,784	27,691,271
Note (B)			
Cash and Cash Equivalents at End of period			
Cash at Bank	7	24,771,873	28,065,784
Cash in Hand	7	40,000	40,000
		24,811,873	28,105,784

The Accounting Policies and Notes appearing on pages 78 to 91 form an integral part of the financial statements.

CESS FUND

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2013

Note	2013 Rs.	2012 Rs.
Cash Flows from Operating Activities		
Net Increase/ (Decrease) of Cess Fund	96,148,212	(142,784,474)
Net Increase/ (Decrease) of before Working Capital Changes	96,148,212	(142,784,474)
Change of Working Capital		
(Increase)/ Decrease of Staff Loans	484,191	(2,957,373)
(Increase)/ Decrease of Cess Receivable	(1,168,813)	-
(Increase)/ Decrease of Receivable SEC	(216,659)	-
(Increase)/ Decrease of Interest Receivable on Fixed Deposits	(84,209,335)	807,815
(Increase)/ Decrease of Interest Receivable on Treasury Bills	86,464,170	(6,817,772)
(Increase)/ Decrease of Capital Gain Receivable from State Institutions Surplus Trust Fund	107,627	2,803,527
(Increase)/ Decrease of Rent Deposit	(11,408,568)	(1,614,420)
(Increase)/ Decrease of Payables	11,771	-
	(9,935,616)	(7,778,223)
Net Cash Inflow/(Outflow) from Operating Activities	86,212,596	(150,562,697)
Cash Flows into Investing Activities		
Investment in State Institutions Temporary Surplus Fund	(25,096,023)	295,229,862
Investment in Treasury Bills	956,679,446	(140,967,272)
Investment in Fixed Deposits	(1,021,000,241)	-
Net Cash Inflow/ (Outflow) from Investing Activities	(89,416,818)	154,262,590
Net Increase/ (Decrease) in Cash and Cash Equivalents	(3,204,222)	3,699,893
Cash and Cash Equivalents at beginning of period (Note C)	8,703,239	5,003,346
Cash and Cash Equivalents at end of period (Note D)	5,499,017	8,703,239
Note (C)		
Cash and Cash Equivalents at beginning of period		
Cash at Bank	2,193,239	5,003,346
REPO Investments	6,510,000	-
	8,703,239	5,003,346
Note (D)		
Cash and Cash Equivalents at end of period		
Cash at Bank	1,759,017	2,193,239
Overnight-REPO	3,740,000	6,510,000
	5,499,017	8,703,239

The Accounting Policies and Notes appearing on pages 78 to 91 form an integral part of the financial statements.

COMPENSATION FUND

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2013

Note	2013 Rs.	2012 Rs.
Cash Flows from Operating Activities		
Net Increase/ (Decrease) of Compensation Fund	30,488,889	21,149,059
Net Increase/ (Decrease) before Working Capital changes	30,488,889	21,149,059
Change of Working Capital		
(Increase)/ Decrease of Withholding Tax Receivable	-	72,445
(Increase)/ Decrease of Other Payables	15,863	-
(Increase)/ Decrease of Interest Receivable on Treasury Bills	15,294,372	(6,311,998)
(Increase)/ Decrease of Interest Receivable on Fixed Deposits	(14,177,989)	-
	1,132,246	(6,239,553)
Net Cash Inflow/ (Outflow)from Operating Activities	31,621,135	14,909,506
Cash Flows into Investing Activities		
Investment in Treasury Bills	111,573,749	(14,910,633)
Investment in Fixed Deposits	(143,182,471)	-
Net Cash Inflow/ (Outflow)from Investing Activities	(31,608,722)	(14,910,633)
Cash Flows from Financing Activities		
Net Increase/ (Decrease) in Cash and Cash Equivalents	12,413	(1,127)
Cash and Cash Equivalents at beginning of period (Note E)	87,587	88,715
Cash and Cash Equivalents at end of period (Note F)	100,000	87,588
Note (E)		
Cash and Cash Equivalents at beginning of period		
Cash at Bank	62,218	63,346
Call Deposits	25,369	25,369
	87,587	88,715
Note (F)		
Cash and Cash Equivalents at end of period		
Cash at Bank	100,000	62,218
Call Deposits	-	25,369
	100,000	87,587

The Accounting Policies and Notes appearing on pages 78 to 91 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

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.

2.2 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 this scheme introduced in the year 2002 will not be applicable to the new recruits from year 2012. Currently only one vehicle is under the said scheme. To maintain consistency the rate of depreciation decided from the inception of the scheme as 25% is continued for the said vehicle.

2.3 INVESTMENTS

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

2.4 INVENTORIES

Inventories are valued at lower of cost or net 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.

2.5 RECEIVABLES

Receivables are stated at the estimated realizable value.

3. LIABILITIES & PROVISIONS

3.1.1 RETIREMENT BENEFITS

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

3.1.2 DEFINED CONTRIBUTION PLANS

All employees of the SEC are members of the Employees' Provident Fund and Employees' Trust Fund to which SEC contributes 12% and 3% respectively of such employees' 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 for educational programmes. Revenue from the above mentioned services / fees is recognized in the period in which the related services are performed.

ACCOUNTING POLICIES

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 Vehicles	Furniture Fixtures Fittings	Office Equipment (EDP & Others)	Training Equipment	Assets on Finance Lease Motor Vehicles	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
COST						
Balance as at 1st January 2013	31,725,186	25,314,167	78,001,740	3,723,800	6,800,000	145,564,894
Additions during the Year	103,000	110,880	7,219,079	-	-	7,432,959
Disposals during the year	(75,000)	(109,312)	(1,342,867)	-	(3,800,000)	(5,327,179)
Balance as at 31st December 2013	31,753,186	25,315,735	83,877,952	3,723,800	3,000,000	147,670,674
ACCUMULATED DEPRECIATION						
Balance as at 1st January 2013	18,258,690	16,233,343	46,630,523	2,604,868	5,425,000	89,152,424
Depreciation Charge for the Year	1,659,270	2,990,806	10,318,848	307,563	750,000	16,026,487
Accumulated Depreciation on						
Disposal of Assets	(17,500)	(92,173)	(1,337,924)	-	(3,800,000)	(5,247,597)
Balance as at 31st December 2013	19,900,460	19,131,975	55,611,447	2,912,432	2,375,000	99,931,314
WRITTEN DOWN VALUE AS						
AT 31ST DECEMBER 2013	11,852,726	6,183,760	28,266,505	811,368	625,000	47,739,360
WRITTEN DOWN VALUE AS						
AT 31ST DECEMBER 2012	13,466,496	9,080,824	31,371,217	1,118,932	1,375,000	56,412,469
USEFUL LIFE TIME (NO OF YEARS)						
	10	8	5	5	4	

NOTES TO THE FINANCIAL STATEMENTS

	Note	2013 Rs.	2012 Rs.
2. CESS FUND			
NON CURRENT ASSETS			
Staff Loans		20,035,748	20,685,087
Rent Deposits		28,629,048	17,220,480
		48,664,796	37,905,567
CURRENT ASSETS			
Invested in State Institutions Temporary Surplus Fund		206,587,319	181,491,296
Investment in Treasury Bills		785,320,005	1,741,999,451
Investment in Fixed Deposits		1,021,000,241	-
		2,012,907,565	1,923,490,747
Staff Loans Receivable within 12 months		5,262,101	5,096,953
Interest Receivable on Fixed Deposits		84,209,335	-
Interest Receivable on Treasury Bills		33,756,494	120,220,664
Cess Receivable		2,738,940	1,570,127
Receivable - SEC		216,659	-
Capital Gain Receivable-State Institutions Temporary Surplus Fund		-	107,627
Balance at Bank		5,499,017	8,703,239
		131,682,546	135,698,610
		2,144,590,111	2,059,189,357
TOTAL ASSETS		2,193,254,907	2,097,094,924
LIABILITIES			
Payable to SEC		11,771	-
NET ASSETS		2,193,243,136	2,097,094,924
3. COMPENSATION FUND			
CURRENT ASSETS			
Investment in Treasury Bills		107,975,488	219,549,237
Investment in Fixed Deposits		143,182,471	-
		251,157,959	219,549,237
Interest Receivable on Treasury Bills		2,530,490	17,824,862
Interest Receivable on Fixed Deposits		14,177,989	-
Investment in Call Deposits		-	25,369
Balance at Bank		100,000	62,218
		16,808,479	17,912,449
TOTAL ASSETS		267,966,438	237,461,686
LIABILITIES			
Payable to SEC		15,863	-
NET ASSETS		267,950,575	237,461,686

	Note	2013 Rs.	2012 Rs.
4. INVENTORIES			
Stock of Stationery, Stamp & EDP Consumables		934,534	621,990
Stock of Publications		-	6,894
		934,534	628,884
5. RECEIVABLES			
Sundry Debtors Including Debit Notes		115,338	34,380
Phone Advance		680,890	-
Festival Advance		1,790,000	1,750,000
VAT Receivable		61,781	-
Insurance Claim Receivable		15,407	-
		2,663,416	1,784,380
6. DEPOSITS, ADVANCES & PRE-PAYMENTS			
Safe Vault Deposit - Bank of Ceylon		40,726	36,525
Fuel Deposit		60,000	60,000
Deposit for Vehicle Maintenance		500	500
Deposits with Telecom Ltd		42,125	42,125
Deposits with Dialog		9,000	4,500
Frosty-Hot & Cold Dispenser		28,000	28,000
Employer Federation of Ceylon		-	19,993
Sponsorship for Higher Studies-University of Colombo		10,000	-
Advances to Suppliers		7,810,537	4,723,359
		8,000,888	4,915,002
7. CASH			
Cash at Bank		24,771,873	28,065,784
Cash in Hand		40,000	40,000
		24,811,873	28,105,784
8. ACCUMULATED FUND			
Balance at the beginning of the period		9,508,528	12,556,660
Prior Year Adjustment		-	(5,072,967)
Fund Transfer to Cess Fund to invest in Treasury Bills		(16,000,000)	(10,000,000)
Surplus/ (Deficit) for the Year		12,843,540	12,024,832
Balance at the end of the Year		6,352,068	9,508,528

NOTES TO THE FINANCIAL STATEMENTS

	Note	2013 Rs.	2012 Rs.
9. CESS FUND			
Balance at the beginning of the Year		2,097,094,924	2,239,879,398
Add:			
Cess Received during the Year		233,725,415	246,562,437
Interest on Investment & Others		266,747,989	210,657,028
Capital Gain from the State Institutions			
Temporary Surplus Fund		-	107,627
Funds transferred from SEC		16,000,000	10,000,000
		2,613,568,328	2,707,206,490
Less:			
Funds transferred to SEC for Operational & Capital Expenditure		325,980,000	229,629,499
Fund Transfer to Consolidated Fund		94,250,000	380,000,000
Withholding Tax Written Off		-	400,341
Bank Charges		95,192	81,726
		420,325,192	610,111,566
Balance at the end of the Year		2,193,243,136	2,097,094,924
10. COMPENSATION FUND			
Balance at the beginning of the Year		237,461,686	216,312,627
Compounding Fees Received During the Year		-	-
Add : Interest on Investment - Treasury Bills		16,314,351	21,222,754
Interest on Investment - Fixed Deposits		14,177,988	-
		267,954,025	237,535,381
Less: Withholding Tax Written Off		-	72,445
Bank Charges		3,450	1,250
Balance at the end of the Year		267,950,575	237,461,686
11. LEASE CREDITOR			
Gross Lease Liabilities		799,040	1,757,888
Interest in Suspense		(40,491)	(179,723)
		758,549	1,578,165
Payable within one Year-Current Portion of Lease Creditor		758,549	958,848
Payable after one Year- Non Current Portion of the Lease Creditor		-	619,317
Balance at the end of the Year		758,549	1,578,165

	Note	2013 Rs.	2012 Rs.
12. GRANT- TRANSFERS FROM CESS FUND TOWARDS CAPITAL EXPENDITURE			
Balance at the beginning of the Year		50,050,720	52,925,802
Transfers from Cess Fund towards Capital Expenditure		7,432,959	11,106,862
Recognition of Grants		(15,276,487)	(13,981,944)
Balance at the end of the Year		42,207,192	50,050,720
NOTE			
RECOGNITION OF GRANT			
The Grant is recognized at the following rates			
Motor Vehicles		10.00%	10.00%
Office Equipment - Electronic Data Processing & Others		20.00%	20.00%
Training Equipment		20.00%	20.00%
Furniture, Fixtures & Fittings		12.50%	12.50%
13. RETIREMENT BENEFIT OBLIGATION			
Balance at the beginning of the Year		20,012,197	14,427,557
Charge for the Year		2,997,885	5,584,640
Gratuity Paid during the Year		(1,403,316)	-
Balance at the end of the Year		21,606,766	20,012,197

NOTES TO THE FINANCIAL STATEMENTS

	Note	2013 Rs.	2012 Rs.
14. CREDITORS AND ACCRUALS			
Telephone, Internet Expenses		413,580	321,223
Electricity		347,589	330,617
Staff Medical Reimbursement		388,044	500,538
Fuel Reimbursement		70,633	72,357
Staff Welfare		-	80,983
Leave Encashment		1,767,627	1,747,453
Overtime		156,779	205,574
External Audit Fees		825,000	600,000
Internal Audit Fees		205,600	102,800
Public Awareness		2,302,447	1,750,000
Courier Charges		7,528	8,678
Capital Market Development		480,000	-
VAT Payable		105,395	262,035
Stamp Duty Payable		-	8,325
Fuel Expenses		-	21,536
Newspapers & Periodicals		-	18,170
Executive Subsistence		5,000	-
Nation Building Tax		44,090	66,048
Gifts and Entertainment		-	125,125
Interns' Allowance		-	15,766
Staff Training - Local		1,190,500	3,000
Seminar expenses-CMET		110,250	218,542
Trade Tax		10,000	-
AIG Insurance		156,349	-
Shredder Maintenance		686	-
Payable to Cess Fund		216,659	-
Payable		3,676	-
		8,807,432	6,458,770

	Note	2013 Rs.	2012 Rs.
15. PERSONNEL COSTS			
Staff Salaries		82,065,746	70,847,618
Chairman's Allowance		900,000	851,405
Overtime		1,495,885	1,107,382
E P F & E T F		12,679,165	10,819,987
Staff Gratuity	13	2,997,885	5,584,640
Bonus		10,638,789	9,893,659
Leave Encashment		2,032,563	1,747,453
Staff Medical Expenses & Insurance		4,849,756	4,774,004
Personnel Accident Insurance Cover		640,286	588,460
Staff Housing Loan Interest Subsidy		1,178,822	1,221,314
Staff Welfare		4,083,877	2,740,156
Executive Subsistence		98,500	21,000
Reimbursement of Fuel - Directors		3,393,178	2,954,542
Directors' Vehicle Allowance		7,070,613	5,667,096
Lease Finance Charges		10,652	136,482
Overseas Training and Travelling		20,098,681	17,017,101
Staff Training - Local		2,043,342	1,944,852
Subscription of Membership		512,265	392,145
Sponsorship for Studies *		354,664	586,777
Advertising-Recruitment		1,715,581	1,023,345
Interns' Allowance		343,438	391,618
		159,203,688	140,311,036

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

NOTES TO THE FINANCIAL STATEMENTS

	Note	2013 Rs.	2012 Rs.
16. ADMINISTRATION & ESTABLISHMENT EXPENSES			
Rent & Car Park Rental		53,972,215	35,469,340
Electricity Charges		4,126,215	3,927,226
Office Upkeep		176,275	249,327
Office Equipment Maintenance & Insurance		8,125,058	3,197,316
Telephone, Internet, E- mail & Web		3,870,234	4,009,795
Motor Vehicle Fuel, Maintenance, License & Insurance		2,146,928	2,196,072
Professional Fees		500,426	49,900
Member Fees		985,895	829,856
Meeting Expenses		693,217	870,597
Entertainment		207,327	181,378
Library Books		25,490	96,903
News Papers & Periodicals		233,111	175,496
Printing & Stationery		2,204,796	1,910,306
Travelling Local		385,226	211,973
Insurance- All Risk , Public Liability, Cash in Transit & Fire		408,051	380,679
Postage and Stamp Duty		1,886,924	84,777
Courier Charges		141,475	141,177
Legal Expenses		1,357,000	995,990
Audit Fees - Internal		205,600	206,210
Audit Fees - External		480,000	200,000
General Expenses		138,689	604,420
Withholding Tax Written Off		-	5,399
Trade Tax		10,000	10,000
VAT Expenses		11,400,571	6,749,801
Nation Building Tax		304,614	535,509
Depreciation	1	16,026,487	15,333,194
		110,011,824	78,622,641
17. MARKET DEVELOPMENT			
Capital Market and Product Development		15,938,352	1,632,809
Public Awareness Programmes		38,755,180	10,922,512
Seminar Expenses-CMET		4,121,525	5,691,009
International Membership Fees - IOSCO		2,595,600	2,269,792
Publicity and Advertising		1,824,170	913,366
Market Surveillance Cost		2,885,430	3,048,949
Investigation Expenses		107,798	-
		66,228,055	24,478,437
18. FINANCE CHARGES			
Bank Charges		85,112	102,328
		85,112	102,328

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

Disaster Recovery Solution costing Rs. 2,912,733.92 from Softlogic Information Technologies (Pvt) Ltd, Nowark 1230 Fire system costing Rs. 1,405,152/- from Firetech (Pvt) Ltd and to enhance the SEC Web portal a sum of Rs. 250,000/- to Cyber Concepts (Pvt) Ltd were the capital commitments as 31.12.2013.

21. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31.12.2013.

22. EVENTS AFTER THE BALANCE SHEET DATE

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

23. RELATED PARTY DISCLOSURES

The Chairman and Members of the Commission held office during the year 2013 as stated below;

- Dr. Nalaka Godahewa, Chairman an Appointed Member.
- Mr. Lolitha Abeysinghe an Appointed Member. His three year term ended on 16th May 2013 and reappointed on 18th June 2013.
- Mr. Mohamed Zuraish Hifaz Hashim an Appointed Member. He was reappointed on 18th June 2013 prior to expiration of his three year term which was due to expire on 1st August 2013.
- Dr. Prathiba Mahanamahewa an Appointed Member.
- Mr. Priyantha Fernando an Appointed Member.
- Dr. B. M. S. Batagoda an Ex-officio Member.

The following Members of the Commission were appointed during the year;

- Mr. D. N. R. Siriwardena, Acting Registrar of Companies Ex-officio Member appointed for a period of one year commencing 1st April 2013.
- Mr. Arjuna Herath assumed duties as an Ex-officio Member by virtue of him holding office as President Institute of Chartered Accountants of Sri Lanka on 20th December 2013.

Mr. Sujeewa Rajapakse's term as an Ex-officio Member of the Commission ceased on 20th December 2013 upon completing his two year term of office as President of Institute of Chartered Accountants of Sri Lanka.

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

Name	Name of Related Institution	Relationship
Dr. Nalaka Godahewa	Sri Lanka Catering Ltd Sri Lanka Handicrafts Board The Lanka Hospitals Corporation PLC Colombo Land & Development PLC Liberty Holdings (Pvt) Ltd	Director Director Director until 15th November 2013 Director until 19th July 2013 Director until 19th July 2013
Mr. Lolitha Abeysinghe	No Directorships on Listed Company Boards	-
Mr. Mohamed Zuraish Hifaz Hashim	Development Interplan Ceylon Ltd Kerry Malship Logistics Lanka (Pvt) Ltd	Director Director
Mr. B. D. W. A. Silva	Institute of Bankers of Sri Lanka Credit Information Bureau of Sri Lanka Board of Management of Api Wenuwen Api Insurance Board of Sri Lanka Ministry of Petroleum Industries – Special Standing Cabinet Appointed Procurement Committee West Coast Power (Pvt) Ltd	Chairman Chairman Board Member Board Member Member from 10th August 2012 Board Member
Dr. Prathiba Mahanamahewa	-	-
Mr. P. D. J. Fernando	Union Bank Commercial Leasing and Finance Ltd Taprobane Holdings Ceylon Leather Products Hambana Petrochemicals Ltd Commercial Insurance Brokers Ltd Golden Key Credit Card Co Ltd Thomas Cook Travels – Sri Lanka	Director Director Director Director Director Director Chairman Director

Name	Name of Related Institution	Relationship
Dr. B. M. S. Batagoda	Ceylon Electricity Board	Board Member
	Sri Lanka Insurance Corporation Ltd	Board Director
	Urban Development Authority	Board of Management until 9th January 2013
	Sri Lanka Tourism Development Authority	Board Director until 9th January 2013
	Sri Lanka Tourism Promotion Bureau	Board Director until 9th January 2013
	Regional Development Bank	Board Director
	Litro Gas Ltd	Board Director
	Institute of Policy Studies in Sri Lanka	Board Director
	Sevena Fund	Board Director
	Sri Lanka Carbon Fund (Pvt) Ltd	Managing Director and Board Member
	Lanka Sugar Company	Board Member
	Tea Research Board	Board Director from 7th May 2013
Mr. D. N. R. Siriwardena	Insurance Board of Sri Lanka	Board Member from 1st April 2013
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Board Member from 1st April 2013
	The Institute of Chartered Accountants of Sri Lanka	Member from 1st April 2013
Mr. Arjuna Herath	Sri Lanka Accounting and Auditing Standards Monitoring Board	Director
	Postgraduate Institute of Management	Director from January 2014
	National Institute of Business Management	Director from January 2014
	Ernst & Young	Partner

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

Name	Name of Related Institution	Relationship
Mr. Sujeewa Rajapakse	National Development Bank PLC	Director
	Asian Alliance Insurance PLC	Director
	Haycarb PLC	Director from 30th January 2013
	Dipped Products PLC	Director from 30th July 2013
	Lanka Holdings (Pvt) Ltd	Director
	Cornucopia Sri Lanka (Pvt) Ltd	Director

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

REPORT OF THE AUDITOR GENERAL



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

FB/K/SGF/2013

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

27 May 2014



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 2013

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 2013 comprising the Statement of Financial Position as at 31 December 2013 and the Statement of Financial Performance, Statement of Changes in Net assets and Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Paragraph 11 (d) of the Deed of Trust No. 1376 dated 21/22 May 1998 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 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.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka

+94-11-2887028-34

+94-11-2887223

oaggov@slt.net.lk

www.auditorgeneral.gov.lk



පිටිපිටිපිටි පිටිපිටිපිටි
පිටිපිටිපිටි පිටිපිටි පිටිපිටි
Auditor General's Department

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka as at 31 December 2013, 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 2013 had resulted in a surplus of Rs.56,244,470 as compared with the corresponding surplus of Rs. 42,095,856 for the preceding year thus indicating an increase in the surplus by Rs. 14,148,614.

3.2 Functions of the Fund

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

H.A.S.Samaraweera

Auditor General

SETTLEMENT GUARANTEE FUND

STATEMENT OF FINANCIAL POSITION

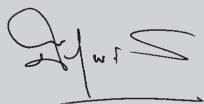
AS AT 31ST DECEMBER 2013

	Note	2013 Rs.	2012 Rs.
ASSETS			
CURRENT ASSETS			
Investment in Treasury Bills		435,743,484	459,637,724
Investment in Fixed Deposits		98,881,487	-
Receivables	5	21,330,438	40,072,769
Cash at Bank		26,424,697	193,168
TOTAL ASSETS		582,380,106	499,903,661
RESERVES AND LIABILITIES			
RESERVES			
Grant - Treasury		50,000,000	50,000,000
Grant - Cess Fund		100,000,000	100,000,000
Grant - Colombo Stock Exchange		100,000,000	100,000,000
Accumulated Fund		305,830,105	249,585,635
		555,830,105	499,585,635
CURRENT LIABILITIES			
Payables	6	26,550,001	318,026
		26,550,001	318,026
TOTAL NET ASSETS AND LIABILITIES		582,380,106	499,903,661

The notes appearing on pages 98 to 101 form an integral part of the financial statements.

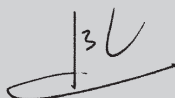
The Trustees of the Settlement Guarantee Fund are responsible for the preparation of these financial statements.

FOR AND ON BEHALF OF SETTLEMENT GUARANTEE FUND



Dr. Nalaka H. Godahewa

Trustee-Settlement Guarantee Fund



Rajeeva Bandaranaike

Trustee-Settlement Guarantee Fund

Colombo.

12th May 2014

SETTLEMENT GUARANTEE FUND

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31ST DECEMBER 2013

	Note	2013 Rs.	2012 Rs.
INCOME			
Interest on Investments - Treasury Bills		53,475,225	42,120,856
Interest on Investments - Fixed Deposits		2,772,745	-
		56,247,970	42,120,856
Less:			
EXPENDITURE			
Audit Fees		-	25,000
Bank Charges		3,500	-
Total Expenditure		3,500	25,000
EXCESS INCOME OVER EXPENDITURE FOR THE YEAR		56,244,470	42,095,856

The notes appearing on pages 98 to 101 form an integral part of the financial statements.

SETTLEMENT GUARANTEE FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31ST DECEMBER 2013

	Note	2013 Rs.	2012 Rs.
ACCUMULATED FUND			
Balance at the beginning of the Year		249,585,635	207,133,055
Excess Provision of Government Audit Fees		-	356,974
Adjustment of Bank Charges		-	(250)
Net Income for the Year		56,244,470	42,095,856
BALANCE AT THE END OF THE YEAR		305,830,105	249,585,635

The notes appearing on pages 98 to 101 form an integral part of the financial statements.

SETTLEMENT GUARANTEE FUND

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2013

	Note	2013 Rs.	2012 Rs.
Cash Flow from Operating Activities			
Net Surplus for the year		56,244,470	42,095,856
Adjustment for			
Overprovision of Audit Fee		-	356,724
Change of Working Capital			
(Increase)/ Decrease of Other Receivables	5	18,742,331	(18,395,679)
Increase/ (Decrease) of Other Payables	6	26,231,975	(395,533)
		44,974,306	(18,434,488)
Net Cash Inflow/ (Outflow) from Operating Activities		101,218,776	23,661,368
Cash Flow from Financing Activities			
Receipts from Colombo Stock Exchange		-	100,000,000
Net Cash Inflow/ (Outflow) from Financing Activities		-	100,000,000
Cash Flow from Investing Activities			
Investment in Treasury Bills and Fixed Deposits		(74,987,247)	(123,730,640)
Net Cash Inflow/ (Outflow) from Investing Activities		(74,987,247)	(123,730,640)
Net Increase/ (Decrease) in Cash and Cash Equivalents		26,231,529	(69,272)
Cash & Cash Equivalents at the beginning of the period		193,168	262,440
Cash & Cash Equivalents at the end of the period (Note A)		26,424,697	193,168
NOTE (A)			
Cash & Cash Equivalents at the end of the Period			
Cash at Bank		26,424,697	193,168
		26,424,697	193,168

The notes appearing on pages 98 to 101 form an integral part of the financial statements.

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 the future. Accordingly, the Board of Trustees of the SGF continues to adopt the going concern basis in preparing the financial statements.

1.4 BASIS OF PREPARATION

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

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

1.5 EVENTS AFTER THE BALANCE SHEET DATE

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

1.6 CHANGES IN ACCOUNTING POLICIES

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

1.7 COMPARATIVE FIGURES

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

2. ASSETS AND BASES OF THEIR VALUATION

2.1 INVESTMENTS

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

2.2 RECEIVABLES

Receivables are stated at the estimated 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

	2013 Rs.	2012 Rs.
Interest Receivable		
- Treasury Bills	18,557,693	40,072,769
- Fixed Deposits	2,772,745	-
	21,330,438	40,072,769

6. PAYABLES

	2013 Rs.	2012 Rs.
Audit Fees	257,882	318,026
Payable to BOC	26,292,119	-
	26,550,001	318,026

7. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2013.

8. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2013.

9. EVENTS AFTER BALANCE SHEET DATE

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

10. RELATED PARTY DISCLOSURE

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

The following Trustees held office during the year 2013;

- Dr. Nalaka Godahewa, Chairman of the SEC
- Mr. Krishan Balendra, Chairman CSE
- Dr. B. M. S. Batagoda, Deputy Secretary to the Treasury.

Mr. Rajeeva Bandaranaike by virtue of holding office as the Chief Executive Officer of the CSE was appointed as a Trustee on 14th November 2013.

The following Trustees ceased to hold office during the year under review;

- Prof. Hareendra Dissabandara Director General, ceased to be a Trustee upon his resignation as Director General SEC with effect from 28th May 2013
- Mrs. Surekha Sellahewa Chief Executive Officer ceased to be a Trustee upon her resignation as the Chief Executive Officer of the CSE with effect from 31st October 2013

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

Name of the Trustee	Name of Institution	Relationship
Dr. Nalaka Godahewa	Sri Lanka Catering Ltd	Director
	Sri Lanka Handicrafts Board	Director
	The Lanka Hospitals Corporation PLC	Director until 15th November 2013
	Colombo Land & Development Ltd	Director until 19th July 2013
	Liberty Holdings (Pvt) Ltd	Chairman
	Securities and Exchange Commission of Sri Lanka	Chairman
Mr. Krishan Balendra	John Keells Stock Brokers (Pvt) Ltd	Director
	JayKay Marketing Services (Pvt) Ltd	Director
	Nations Trust Bank PLC	Director
	Nexus Networks (Pvt) Ltd	Director
	South Asia Gateway Terminals (Pvt) Ltd	Director
	John Keells Capital (Pvt) Ltd	Director
	John Keells BPO Holding Private Ltd	Director
	John Keells BPO Solutions India Private Ltd	Director
	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 7th March 2008
	Colombo Stock Exchange	Chairman from 14th June 2011
	John Keells BPO Solutions Private Ltd	Director
	John Keells BPO Solutions Canada Inc	"TBA"

Name of the Trustee	Name of Institution	Relationship
Dr. B. M. S. Batagoda	Ceylon Electricity Board	Board Member
	Sri Lanka Insurance Corporation Ltd	Board Director
	Urban Development Authority	Board of Management until 9th January 2013
	Sri Lanka Tourism Development Authority	Board Director until 9th January 2013
	Sri Lanka Tourism Promotion Bureau	Board Director until 9th January 2013
	Regional Development Bank	Board Director
	Litro Gas Ltd	Board Director
	Institute of Policy Studies in Sri Lanka	Board Director
	Postgraduate Institute of Management	Board Member
	Sevana Fund	Board Director
	Sri Lanka Carbon Fund (Pvt) Ltd	Managing Director and Board Member
	Lanka Sugar Company	Board Member
	Tea Research Board	Board Director from 7th May 2013
	Ministry of Finance and Planning	Deputy Secretary to the Treasury
Mr. Rajeeva Bandaranaike	Colombo Stock Exchange	Chief Executive Officer from 14th November 2013

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
Ms. Surekha Sellaheva	Colombo Stock Exchange	Chief Executive Officer until 31st October 2013
Prof. Hareendra Dissabandara	Construction Guarantee Fund	Board Member until 27th May 2013
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Board Member until 27th May 2013

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

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Notes

[illegible]

OFFICE ADDRESS

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

TELEPHONE

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

FAX

+94 11 2439149

E-MAIL

mail@sec.gov.lk

WEB

www.sec.gov.lk

LEGAL FORM

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

The SEC falls under the purview of the Ministry of Finance and Planning.

ACCOUNTING YEAR

Year ended 31st December 2013

AUDITORS

The Auditor General

BANKERS

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



Designed & produced by REDWORKS
Photography by Studio Times & Sumedha
Digital plates & Printed by Printel (Pvt) Ltd

www.sec.gov.lk