

STATUTORY FUNDS

CESS FUND

In accordance with Sections 14A and 14B of the SEC Act No 36 of 1987 (as amended):

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.

SETTLEMENT GUARANTEE FUND

The Fund was launched on 22 May 1998 and established for the purpose of guaranteeing the settlement of trades between participants of the Central Depository System of the Colombo Stock Exchange.

COMPENSATION FUND

The Compensation Fund came into operation along with the establishment of the SEC in 1987. Section 38 of the SEC Act No 36 of 1987 (as amended) states that a Compensation Fund should be established 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.

MEMBERS OF THE COMMISSION AND ITS COMPOSITION

The Securities and Exchange Commission (SEC) consists of ten non-executive members and operates through a Secretariat headed by a Director General. The non-executive members constitute the policy making arm of the SEC.

Six members are appointed to the Commission by the Minister of Finance taking into consideration the wide experience and vast knowledge they possess in legal, financial, business and administrative matters. The seventh appointed member is the Deputy Governor of the Central Bank of Sri Lanka. The remaining three are members by virtue of the offices they hold and are the Deputy Secretary to the Treasury, the Registrar of Companies and the President of the Institute of Chartered Accountants of Sri Lanka.

The Minister nominates from amongst the members of the Commission, one member to be the Chairman of the Commission.

The appointed members hold office for a term of three years and are eligible for reappointment.

REGULATED SEGMENTS

The SEC grants licences to the following entities:

- ▶ Stock Exchanges
- ▶ Stock Brokers
- ▶ Stock Dealers
- ▶ Managing Companies of Unit Trusts

The SEC grants Certificates of Registration to the following Market Intermediaries:

- ▶ Underwriters
- ▶ Margin Providers
- ▶ Credit Rating Agencies
- ▶ Investment Managers
- ▶ Clearing Houses



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PROTECTING INVESTORS THROUGH MARKET REGULATION



SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

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

VISION OF THE COMMISSION

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

MISSION OF THE COMMISSION

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

THE OBJECTIVES

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

POWERS, DUTIES AND FUNCTIONS

Over time, its powers, duties and functions have expanded and at present it is entrusted with the following:

- ▶ To grant a licence to a body corporate to operate as a stock exchange and ensure the proper conduct of its business;

- ▶ To grant a licence to any person to operate as a stock broker or a stock dealer as, the case may be, and ensure the proper conduct of their business;
- ▶ To grant a licence to a managing company to operate a unit trust and to ensure the proper conduct of the business of such unit trust;
- ▶ To grant a certificate of registration to any person to carry on business as a market intermediary and to ensure the proper conduct of such business;
- ▶ To give general or specific directions to a licensed stock exchange or a licensed stock broker or a licensed stock dealer or a licensed managing company or a trustee of a unit trust or a registered market intermediary, from time to time;
- ▶ To issue general or specific directives to Listed Public Companies from time to time.
- ▶ To grant compensation to any investor who suffers pecuniary loss arising as a result of any licensed stock broker or licensed stock dealer being found incapable of meeting his contractual obligations;
- ▶ To advise the government on the development of the securities market;
- ▶ To regulate the listing and issue of securities in a licensed stock exchange;
- ▶ To direct a licensed stock exchange to reject any application made to it for listing;
- ▶ To inquire and conduct investigations into any activity of a licensed stock exchange, a licensed stock broker or licensed stock dealer, a licensed managing company or a trustee of a unit trust, a registered market intermediary or any listed public company;
- ▶ To implement the policies and programmes of the Government with respect to the market in securities;

- ▶ To regulate take-overs or mergers where such take-over or merger is between one or more listed companies or where at least one of the parties involved in such take-over or merger is a listed public company;
- ▶ To conduct investigations into any alleged violation or contravention of the provisions of this Act or any rule or regulation made there under by any person; and
- ▶ Carry out inspections of the activities of licensed stock exchanges, licensed stock brokers, licensed stock dealers, licensed managing companies or trustees of unit trusts or registered market intermediaries, in order to determine whether they are operating in conformity with the provisions of this Act or any regulations or rules made thereunder and to charge the costs incurred in carrying out such inspections from the licensed stock exchange, licensed stock broker, licensed stock dealer, licensed managing company or trustee of a unit trust or registered market intermediary as the case may be, whose activities are being inspected;
- ▶ Require licensed stock exchanges, licensed stock brokers, licensed stock dealers, licensed managing companies of unit trusts and registered market intermediaries to file with the Commission, annual balance sheet and income statements, certified by a qualified auditor in the form and manner specified by the Commission;
- ▶ Require the licensed managing company of a unit trust to file with the Commission, in respect of every year, at least two reports of the activities of that unit trust for that year. Every such report shall contain such particulars as may from time to time be determined by the Commission. The first report shall be filed not later than the thirtieth of September of that year and the second report shall be filed not later than the thirty-first of March of the subsequent year.