



STRIKING THE RIGHT BALANCE

Annual Report 2019



STRIKING THE RIGHT BALANCE

Recognising our pivotal role, we navigated through an evolving financial market guided by a strong desire to ensure regulation and development of the capital market. We created the right eco-system capable of serving the needs of investors and entrepreneurs by striking the right balance between promoting and facilitating the growth of the market and ensuring market integrity, transparency and investor protection.

Mission

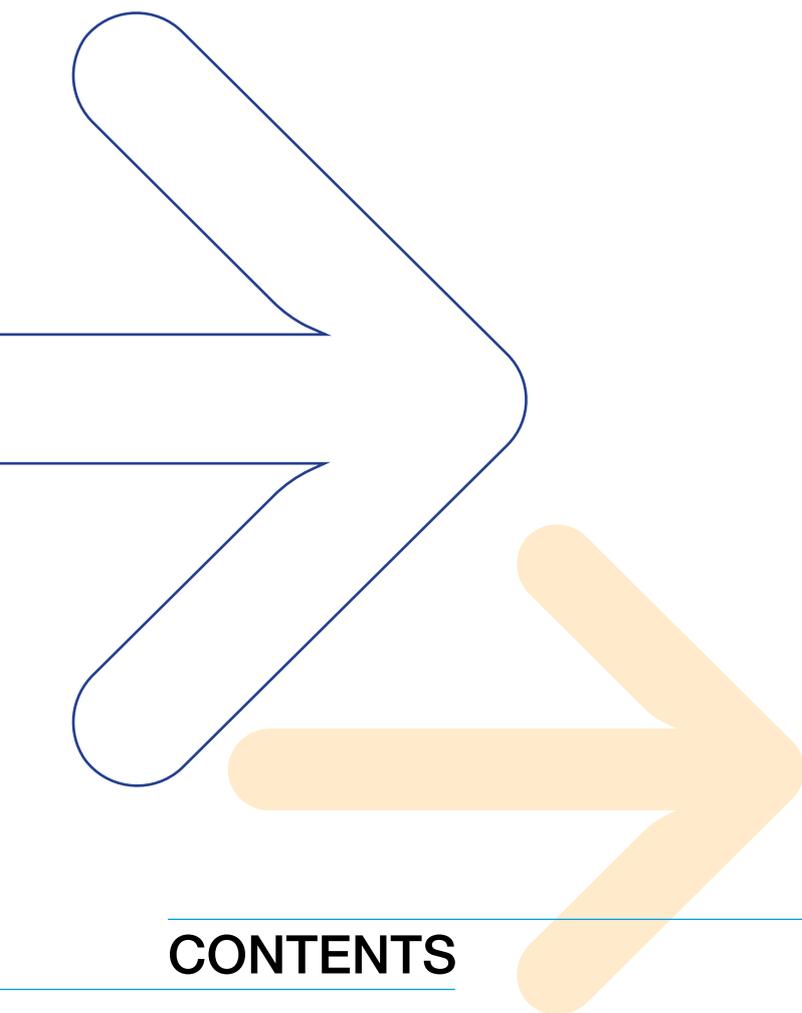
To promote, develop and maintain a capital market that is fair, efficient, orderly and transparent

Vision

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

About us

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



CONTENTS

Chairman's Review | [4-5](#)

Director General's Review | [6-12](#)

Comprehensive, Action-Oriented,
Practical and Measurable Capital
Market Strategy 2020 - 2025 | [13](#)

Key Regulatory and Development
Strategies | [14-15](#)

Members of the Commission | [16-21](#)

Senior Management | [22-23](#)

Managers | [24](#)

Staff Members | [25-27](#)

Operational Review | [28-54](#)

Additional Information | [55-59](#)

Highlights of the Year | [60-63](#)

Financial Reports

Securities and Exchange Commission of Sri Lanka

Auditor General's Report | [66-68](#)

Statement of Financial Position | [69](#)

Statement of Financial Performance | [70](#)

Statement of Changes In Reserves | [71](#)

Cash Flow Statement | [72-73](#)

Accounting Policies and Notes to the
Financial Statements | [74-88](#)

Settlement Guarantee Fund

Auditor General's Report | [89-90](#)

Statement of Financial Position | [91](#)

Statement of Financial Performance | [92](#)

Statement of Changes in Net Assets | [93](#)

Cash Flow Statement | [94](#)

Accounting Policies and Notes to the
Financial Statements | [95-96](#)

Corporate Information [Inner Back Cover](#)

Chairman's Review



“The main thrust of the work undertaken during the past year has been aimed at addressing regulatory gaps and coverage, adopting appropriate risk mitigation measures, strengthening the supervision of intermediaries and enhancing financial literacy”.

It is my pleasure to present my first Annual Report as the Chairman of the SEC. Capital markets represent an important source of financing for businesses to meet their funding requirements and better wealth creating opportunities for investors. Taking into consideration the important role played by the capital market, the SEC is required to ensure that appropriate regulations are in place to meet the demands of both businesses and investors. Therefore, while we remain steadfast in our commitment to delivering on our mandate, we intend to strike a balance between ensuring strong investor protection and providing the flexibility required to maintain a thriving capital market.

In this review, I take the opportunity to both reflect on the main areas which defined our work in 2019 and present our vision for the coming years. The main thrust of the work undertaken during the past year has been aimed

at addressing regulatory gaps and coverage, adopting appropriate risk mitigation measures, strengthening the supervision of intermediaries and enhancing financial literacy. Firstly, let me highlight a few of our key achievements in 2019.

Robust Regulatory Framework

We believe that regulation is necessary to strengthen and ensure the integrity of the capital market and not stand in the way of its development. To that end, promulgation of the new Securities Exchange Act was considered as a priority in order to provide a better and more efficacious regulatory framework in line with international best practices. Considerable work has gone into drafting the new Act and it contains many salutary provisions. The draft law seeks to achieve improved governance standards, provide for the establishment of a clearing house acting as a central counterparty (CCP), make provision for the regulation of a demutualised

exchange, recognise new categories of market intermediaries and introduce a wide range of enforcement mechanisms to deal with market misconduct.

It was not possible to have the draft Act taken up for debate in Parliament although it had been tabled in Parliament and in view of the dissolution of Parliament, the process of introducing the draft Act in the new Parliament will have to commence after the General Elections. In preparation for this, the new Commission is presently engaged in the process of reviewing the provisions contained therein. The SEC is confident that the Government will take steps to have it enacted early enabling balanced, effective and proportionate regulation.

Proactive Risk-Based Supervision

The SEC continued to adopt a risk-focused approach to supervise regulated entities and identify, monitor and contain risk with special focus on financial soundness and business

efficacy. Given the potential money laundering and terrorist financing risks posed to the securities sector in Sri Lanka, we conducted guidance and awareness sessions for our regulated entities aimed at strengthening the industry's understanding of the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regulations. During the year, based on high risk areas identified by the Risk Assessment Questionnaire and the supervision framework for stock broking companies, we conducted on-site supervision focusing on AML/CFT risks.

We are currently exploring the possibility of expanding digitalised reporting and regulatory processes further, in order to ensure regulatory reporting is more accurate, efficient, and consistent.

Improving Investor Education and Insights

It is imperative that investors have a proper understanding of Sri Lanka's capital market before they venture to invest if they are to appreciate the benefits and the risks of making such investments. The SEC continued with its nationwide investor awareness programmes through a multi-pronged engagement strategy in the form of workshops as well as print and electronic media campaigns. We engaged over 10,000 participants through our trilingual outreach programmes. The SEC continued to honour the agreement which was entered into with the Ministry of Education and commenced a provincial television quiz programme for Advanced Level students in the Commerce and Economics streams. To coincide with the World Investor Week organised by the International Organisation of Securities Commissions (IOSCO), the SEC published a number of public awareness messages in the form of educational cartoons, notices, articles etc in all three languages. They focused on the need for sound personal financial planning.

Widening Fundraising for SMEs

For capital markets to be inclusive, it is imperative that Small and Medium Enterprises (SMEs) are able to obtain market-based financing. Hence, the SEC together with the Colombo Stock Exchange (CSE) launched the "Empower Board" to create a platform for SMEs to list. To generate greater awareness of capital raising through this listing platform, the SEC along with the CSE and regional Chambers conducted awareness programmes targeting SMEs and other entrepreneurs. More than 500 participants attended these programmes and engaged with the speakers, panelists and investment banks.

Since SMEs constitute the backbone of the Sri Lankan economy with a contribution of over 50% to the Gross Domestic Product and generating a high level of socio-economic benefits, we are committed to facilitate financing for such enterprises through the capital market.

External Stakeholder Engagement

We are mindful that engagement with our stakeholders is necessary to facilitate the discharge of the SEC's responsibilities. During 2019, we regularly had consultations with industry participants, especially Listed Companies, auditors, stock brokers and unit trust management companies in order to discuss and gather feedback on issues regarding policy and regulatory matters. Since we received valuable inputs through this dialogue, we will ensure that steps are taken to further strengthen our relationship with them. This will not only help formulate major capital market policies and streamline the regulatory regime but also understand and appreciate the respective professional roles and responsibilities.

Moving forward

The new Commission that was appointed in January 2020 commenced a series of meetings with industry

stakeholders and obtained their views on developing the capital market as well as listened to the difficulties faced by them. These deliberations brought out some valuable suggestions and insights to develop infrastructure, strengthen and simplify market regulation, develop new products and enhance awareness for both investors and issuers. We expect to appoint joint committees of the SEC and the CSE to look into and make recommendations to address these challenges expeditiously.

Moreover, to promote agility and operational efficiency in the capital market, the SEC along with the CSE will take steps to offer investors a fully digital onboarding experience, enable seamless post-trade and settlement and adopt e-contract notes and e-statements. The process of reviewing and amending the Stockbroker Rules, Central Depository Systems (CDS) Rules and Listing Rules is already underway to drive innovation and greater capital market development.

I would like to conclude by thanking all Commission members for sharing their expertise, and experience and spending their valuable time in the performance of the work of the SEC. I also wish to express my deep appreciation of the cooperation and unstinted support and the hard work of the Director General and staff of the Secretariat. Finally, I wish to thank Hon. Prime Minister Mahinda Rajapaksa, who in the capacity of the Minister of Finance is our line Minister, Mr. S.R. Attygalle, Secretary to the Treasury, officials of the Ministry of Finance and all our stakeholders for the support extended for the smooth functioning of the Commission.



Viraj Dayaratne, PC
Chairman

20 July 2020

Director General's Review



“Like in many other spheres in the country, our capital market has also missed many opportunities and has not performed according to its true potential. In fact, as a country, we have been dreaming of becoming a developed nation cascading with prosperity and benefits. To fulfill that vision, we need to work with commitment and diligence to reach the required competence.”

It is my pleasure to present a summary of the work of the Commission and to provide an indication of our plans and expectations for the year 2020 and beyond.

Like in many other spheres in the country, our capital market has also missed many opportunities and has not performed according to its true potential. In fact, as a country, we have been dreaming of becoming a developed nation cascading with prosperity and benefits. To fulfill that vision, we need to work with commitment and diligence to reach the required competence.

Given the fiscal and monetary constraints our economy is faced with, the pivotal role of the private sector in repositioning the growth trajectory of the country is obvious. Accordingly, the dire need for a robust capital market that will provide impetus to the growth of

the private sector is felt more than ever before. The SEC as the apex regulator is entrusted with the profound task of regulating all sectors relevant to create a robust and sustainable capital market.

Economic Growth of the Country: How the Capital Market Can Promote Economic Growth, Employment, Income and Living Standards.

As Mariana Mazzucato memorably argued in her book ‘The Entrepreneurial State’, it is the duty of the State to take the lead in innovation and economic transformation. In fact, Mazzucato tells us that the meteoric rise of China, South Korea, Singapore, Taiwan and Malaysia was due to the right involvement of the State in the business world, not as a meddler in the private sector but as a key partner in growth and innovation through a well-designed, consistent and successfully implemented state intervention.

Further, Prof. Ricardo Hausmann of Harvard fame has also remarked that Sri Lanka’s main problem is the inability of the private sector to move from the production of comparatively simple products like apparels into high value added goods and technologically advanced sectors. The success of certain Asian countries was the capacity of their private sector to move from apparels to valued sectors such as electronics and industrial productions, even though they had started with apparel production at the same time as Sri Lanka.

It is disheartening to see investments bypassing us and going elsewhere. I’d say, lessons from the financial and securities law reforms of South Korea, Singapore and Vietnam provide evidence that successful reforms intensify rising inflows of direct investment. Most recently, bolstered by an improving

economy and a wave of new listings, Vietnam has been able to draw funds from big foreign investors. Vietnam equities have racked up the best gains in Asia in the recent past, making the Ho Chi Minh Stock Exchange one of the world's best performing bourses. Its turnover has doubled over the past two years although the exchange is still classified as a "frontier" market.

Analysts say global funds and top investors are drawn to the economic success narratives of these countries, that of integrating themselves into the global trading system, and positioning themselves as a hub for foreign manufacturing. Interestingly, these countries are now benefitting from the escalation of tensions between China and the US, whereas top companies consider dual listings and have shifted a lot of production out of China and US and have set up value adding factories and are now contributing to the enhancement of the economies of these countries.

Thus, I would say unless the numerous myths on the conventional views of the Government's passive role in economic growth and transformation are challenged, we cannot hope to address the structural economic challenges that our country is faced with. Similarly, the SEC can no longer be restricted to its traditional role and conventional approach. It is imperative for the SEC to recalibrate its role with a view to provide impetus to capital formation while striking the right balance between market regulation and market development.

To cut a long story short, my aim is to highlight how the governments of those countries have created an enabling environment for the private sector to flourish, and how they have helped their companies to become global players and why we should support our private sector, to reach that level.

In fact, our markets have been waiting for the State to support its growth and expansion but we have been extremely slow to help. For instance, we just introduced Real Estate Investment Trusts (REITs) to the market, which should have been done at least ten years ago.

The Capital Market Can Support National Endeavours.

The CSE has the market infrastructure to support the fundraising requirements of the Government as well, especially in terms of tapping public markets for funding development projects and the private participation in initiatives of national significance. Very much like private entities, we expect that the Government will also look at versatile and alternative sources of funding in marching forward.

Over the years, our problem was that we could not sustain a growth rate over 6% continuously for a considerable period of time whereas the success stories in Asia, countries that achieved developed status in the recent past underwent over 7-8% growth continuously for a significant period of time. The Secretary to the President, Dr. P.B. Jayasundara in his recent interview to the Daily FT has expressed his confidence by stating a post pandemic subdued economic environment can be a great opportunity for Sri Lanka to prepare and achieve that elusive 7-8% growth, by becoming smarter, agile and more resilient to produce sustainable socio-economic growth.

On the other hand, Dr. Jayasundara has stated that from 2021 onwards the Government will get back to the fiscal consolidation path. Therefore, it is the ideal time for our capital market to step in and make every effort to empower the entrepreneurial community in realising this key goal as the situation has opened up a host of new opportunities.

“As Mariana Mazzucato memorably argued in her book ‘The Entrepreneurial State’, it is the duty of the State to take the lead in innovation and economic transformation. In fact, Mazzucato tells us that meteoric rise of China, South Korea, Singapore, Taiwan and Malaysia was due to the right involvement of the State in the business world, not as a meddler in the private sector but as a key partner in growth and innovation through a well-designed, consistent and successfully implemented state intervention.”

The Regulation Required to Promote Sri Lanka as an International Financial Center

On the regulatory side enacting the new SEC Act is the highest priority in order to strengthen regulatory powers and market activity. Thus, the new Commission is currently engaged in the process of reviewing the provisions of the Bill.

The criticism of the Bill is centered on two impediments; a lack of clarity or ambiguity as to the meaning of the certain provisions, and the impracticality in the range of enforcement sanctions, that there could be problems within the Act, which could pose problems for the SEC to implement the enforcement process. In fact, with the new Act, it should not become more challenging for the SEC to conduct enforcement actions.

Director General's Review

“Similarly, the SEC can no longer be restricted to its traditional role and conventional approach. It is imperative for the SEC to recalibrate its role with a view to provide impetus to capital formation while striking the right balance between market regulation and market development. To cut a long story short, my aim is to highlight how the governments of those countries have created an enabling environment for the private sector to flourish, and how they have helped their companies to become global players and why we should support our private sector, to reach that level.”

Therefore, I believe that the present sensible drafting approach will form a practically workable law, which will enable swift and clear enforcement, that does not unnecessarily impede the market activities without a reasonable policy or a practical justification and will clear the criticism attracted to the Bill.

The growth of a securities market as a whole, reflects the trust and confidence placed in a market and in the country as a whole. However, we have seen how a deficit of trust and confidence has affected our markets as we have witnessed a number of issues in the recent past. I would say this is associated with the absence of

adequate enforcement actions and lack of professionalism, which has severe ramifications to the market and the financial system.

I would also like to stress that, we should never bring down the credibility of the market we regulate, as we need to protect the interests of the investors, at the same time we need to ensure that the SEC strikes a right balance in regulation since over regulation can stifle growth and discourage active stakeholder participation in the market.

On the other hand, in line with our mandate we continue to monitor, mitigate and manage risk with the aim of promoting integrity in the market, as well as making certain that investors are protected through the dissemination of full and accurate information. By guaranteeing disclosure we increase the ability of investors to make informed investment decisions, improve investor confidence, as well as deter management from engaging in improper behaviour. Thus, the SEC will continue to impose stringent rules and undertake rigorous enforcement action against non-compliance.

The Need to Facilitate the Entry of a Strategic Investor

We need to accept the fact that over the last few years the capital market in Sri Lanka was not performing well. Without a doubt our capital market should be positioned to complement the banking sector and support the growth targets of the country. The strengthening of markets has been critical for sustaining rapid economic expansion in many countries and to achieve this end, investor and public confidence as well as the integrity of markets and their participants is essential.

As Charlie Munger says we need to figure out “what works, what doesn’t and why.” In fact, Charlie Munger strikes me as someone who knows his

strengths and weaknesses and who found a business partner in Warren Buffet whose strengths complemented Munger’s. Likewise we need to facilitate the entry of a “strategic investor” to the CSE, as a shareholder who will be committed to the development of the securities market of Sri Lanka as such collaboration could lead us to the next level.

I recognise the value of having a close dialogue with the CSE and our stakeholders. I hope that together, we can foster a culture that goes beyond mere compliance. We are keen to facilitate initiatives with a focus on developing new products and market infrastructure to ensure that the securities market of Sri Lanka competes effectively by boosting fund flows to the country. Our market has essential pre-requisites that investors look for in an investment destination, such as attractive valuations, well governed and strong regulatory framework, modern infrastructure and listed entities that are compliant with International Financial Reporting Standards (IFRS). Therefore, we are confident of the potential and resilience of our capital market.

Now let me present more specific details on some of the initiatives taken by the SEC recently that in effect will transform our securities market.

Repositioning the SEC as a Dynamic Regulator

- **Joint Committee to Digitalise the Core Functions of the CSE**

Our market was not in a position to demonstrate its ability to conduct all its core activities during the pandemic time, which highlighted the need to digitalise core functions of the stock market without any postponement. Accordingly, a joint committee was appointed by the Chairman of the SEC with representatives of the SEC and the CSE to look into the digitalisation

“Over the years, our problem was that we could not sustain a growth rate over 6% continuously for a considerable period of time whereas the success stories in Asia, countries that achieved developed status in the recent past underwent over 7-8% growth continuously for a significant period of time. The Secretary to the President, Dr. P.B. Jayasundara in his recent interview to the Daily FT has expressed his confidence by stating a post pandemic subdued economic environment can be a great opportunity for Sri Lanka to prepare and achieve that elusive 7-8% growth, by becoming smarter, agile and more resilient to produce sustainable socio-economic growth.”

of the CSE. By digitalising, we expect to introduce mechanisms required for the CSE to conduct all core activities of the stock market digitally as well as to enable clearing and settlement electronically. The Commission approved the required amendments to the Stockbroker Rules CDS Rules and Listing Rules recently. The initiative is expected to facilitate end-to-end digitalisation of the capital market and bring the local capital market to the fingertips of the investors.

In this regard, the SEC stressed the importance of the support of the entire broker community as brokers need to fulfil their task for the sake of the country with the objective of having a sophisticated securities market on par with global securities markets and also for the overall betterment of the Sri Lankan capital market. In fact, the SEC-CSE Joint Committee deserves much accolades for the tremendous strides achieved thus far, as the prerogative is to sophisticate the market and keep it operational under all circumstances.

- **Joint Committee to Broad Base the Capital Market**

A joint committee was appointed with representatives of the SEC and the CSE to consider measures that need to be taken to broaden the capital market and to educate and create awareness amongst the general public and to make recommendations in that regard. Furthermore, the committee is expected to encourage companies to use the capital market to raise capital, foster visibility and collaboration regionally and internationally, engage in stakeholder education and awareness with an intention to broaden the investor community and to ultimately facilitate greater public participation

in the securities market across all geographical regions of the country and internationally.

On the other hand, CSE, in consultation with the SEC introduced Listing Rule amendments, to make stock market listing a possibility for a wider spectrum of companies. These amendments would create new avenues for potential issuers to meet the requisite eligibility criteria through revenue and cash flow pathways.

- **Joint Committee for Dual Listings of Foreign Entities at the CSE**

As part of the initiatives taken to increase the size and liquidity in the market and also with the policy direction of the Government of Sri Lanka, the SEC has identified the importance of setting the stage for the country to harness a high economic growth in the short term. Therefore, a joint committee was formed to identify constraints that impede market capitalization, liquidity levels at the CSE and formulate a conducive policy and regulatory capital market framework while paying attention to factors that would enable the securities market of Sri Lanka to gain a competitive advantage amidst the geopolitical tensions occurring between countries such as the USA-China.

This initiative too is expected to broadly facilitate Sri Lanka to elevate itself into the Morgan Stanley Capital International (MSCI) emerging market status.

- **Introducing REITs to the Sri Lankan Capital Market**

The introduction of Listed REITs will mark the introduction of a new product to the market after 23 long years from the debut of listed corporate debt securities in 1997. The REIT structure that distributes

Director General's Review

“I would also like to stress that, we should never bring down the credibility of the market we regulate, as we need to protect the interests of the investors, at the same time we need to ensure that the SEC strikes a right balance in regulation since over regulation can stifle growth and discourage active stakeholder participation in the market. ”

90 percent or more of income to REIT unit holders will provide capital to real estate and infrastructure development and to enable small investors to directly benefit from the growth of the real estate sector. The Rules applicable to a managing company and the trustees of REITs is expected to be published in the Gazette and the CSE was instructed to draft Listing Rules to enable listing of REITs.

- Revamping the SE Bill**
 The draft SE Bill failed to witness the light of day for a considerable period of time although it had been tabled in Parliament. With the dissolution of Parliament, the process of presenting the draft Bill in the new Parliament will have to begin once again. In view of this task, the new Commission is presently engaged in the process of reviewing the provisions in detail. In this regard, we are fortunate to have a Chairman and a Commission having the required legal expertise and intellect, who are concerned to read, review and take steps to transform the SE Bill to a practically workable law.
- Private Public Partnerships (PPP)**
 PPPs combine the skills and resources of both the public and private sectors through sharing of risks and responsibilities, which in turn will enhance the competitive landscape and provide immense benefits to the country in many folds. In order to promote PPPs as a mode of infrastructure financing in the country, we have been formulating a viable model to list infrastructure PPPs at the CSE.
- Integrated CCP and Delivery vs. Payment (DVP)**
 The SEC firmly believes the country would benefit from having a single CCP rather than having two separate CCP's and with that in mind, the SEC has made representations to the Central Bank of Sri Lanka (CBSL) to explore the possibility of setting up an integrated CCP mechanism. The operational specifications for implementing a DvP was recently approved by the Commission and the CSE is in the process of carrying out system modifications to implement the DvP mechanism as early as in the last quarter of 2020.
- Engaging with Stakeholders**
 Further, the Chairman and the new Commission conducted a series of meetings with industry stakeholders to obtain their views on developing the capital market and to address the difficulties faced by them. These consultations gave an insight to develop infrastructure and strengthen and simplify regulations.
- Formation of the Policy Research and Analysis Wing**
 The need to keep abreast with the economic and financial landscape which is subject to constant change, led to the formulation of a Research and Policy Wing within the Secretariat. The entity is expected to play the role of research and data

scientist in developing and proposing economic, market strategies and policies that may benefit the capital market and the country as a whole.

In Retrospect

During the year 2019, the SEC pursued a range of initiatives, which will be discussed in detail in the pages that follow. I wish to record my sincere appreciation to the former Chairman, Mr. Ranel T. Wijesinha and the Commission and the former Director General, Mr. Vajira Wijegunawardena for their contributions in 2019.

Comprehensive Audit of the CSE

In the area of supervision, the SEC conducted a comprehensive audit of the stock exchange prior to renewing the licence granted to the CSE for a period of five years by placing considerable emphasis on governance, market operations, procedures and processes. Further, the SEC mandated the fitness and propriety guidelines applicable to Market Intermediaries with a view to protect the investing public and allow only “fit and proper” persons to be licensed.

Facilitating Capital Formation

We worked with the CSE to introduce the Empower Board to list SMEs in July 2018 for companies that do not meet the eligibility requirements of the Main Board and the DiriSavi Board. Subsequently, we engaged with entrepreneurs through a series of forums conducted around the country to create awareness on listing.

Setting up of a multi- currency Board (MCB) is another key initiative that was taken, where shares of foreign companies can be listed and traded in Sri Lanka in a foreign currency. During the year we explored the possibility of extending the MCB facilities to local companies intending to list debt as well.

“As Charlie Munger says we need to figure out “what works, what doesn’t and why.” In fact, Charlie Munger strikes me as someone who knows his strengths and weaknesses and who found a business partner in Warren Buffet whose strengths complemented Munger’s. Likewise we need to facilitate the entry of a “strategic investor” to the CSE, as a shareholder who will be committed to the development of the securities market of Sri Lanka as such collaboration could lead us to the next level. ”

Promoting Investments to the Capital Market

In a bid to promote portfolio and direct investments to Sri Lanka, the CSE and the SEC conducted an “Invest Sri Lanka” forum in Singapore which drew an encouraging response. The former Chairman, Mr. Ranel Wijesinha, also launched a series of meetings with heads of foreign Diplomatic Missions based in Sri Lanka to discuss strategies to create more visibility and awareness on investment opportunities in the Capital Market of Sri Lanka.

Handling Complaints and Granting Compensation

Protecting the interest of investors is one of our main regulatory objectives. To achieve this goal, we need to provide retail investors with an effective mechanism to handle their complaints. During the period under review, the

SEC streamlined the complaints handling procedure to ensure that it is independent, fair and efficient.

Dialogue with Public Listed Companies and Auditors

We also reached out to stakeholders on a regular basis and sought extensive feedback from them through roundtable discussions on a broad spectrum of issues. During the year, under the auspices of the former Chairman, Mr. Ranel Wijesinha, we engaged in a dialogue with Public Listed Companies, auditors and other stakeholder to ensure that market participants understand their obligations pertaining to compliance, changes to existing laws and current issues in the capital market.

Memorandum of Understanding (MOU) with the CFA Society

During the year the SEC also executed into a MOU with the CFA Society Sri Lanka to enable the two institutions to work together to promote codes and standards of best practice in the Sri Lankan capital market and work in partnership on initiatives pertaining to investor rights and joint educational initiatives.

Promoting Gender Diversity on Boards of Listed Companies

In view of the proposal submitted to the 2019 National Budget a task force was established to facilitate various initiatives to promote gender diversity in Public Listed Companies.

Empowering Investors and Capital Market Professionals

From a retail investor perspective, the SEC continued to bring more individuals under the financially literate umbrella and conducted many outreach programmes for students, teachers, undergraduates, investors and potential investors throughout the country. In order to upgrade the skills and capabilities of market professionals engaged in the capital market, the SEC through its

training and development arm structured a new framework for individuals who wish to start a career in the capital market.

Moving Forward

Moving forward, I think it is time we gave serious consideration to achieve concrete outcomes on several important fronts by defining realistic timelines.

We are indeed fortunate to enjoy the support and encouragement from the Government. The policy stability and the will of the Government has made our achievements possible. The Government’s support for our operational independence has never faltered. This is an essential basis for an international regulator, giving confidence to everyone who conduct, or intend to engage in the capital market. Thus, my sincere gratitude is extended to the Hon. Prime Minister and the Secretary to the Treasury, Mr. Sajith Attygalle for all the support and the confidence placed in the SEC.

As an eminent President’s Counsel, the Chairman’s wise counsel and unfailing support is most valuable for our work. I thank him sincerely on behalf of the Secretariat and also on a personal level for the trust and confidence placed on us. I would also like to thank the Members of the Commission for their unfailing support, sound advice and collective expertise, at times sacrificing their personal and professional time in the process.

I firmly believe in maintaining a high level of staff engagement, performance and confidence which will be the pillars of achieving the mandate of the SEC. Therefore, I will continue to develop the human capital of the SEC. Finally, let me give a big vote of thanks to my Directors, Senior Management and Staff as I am most fortunate to have their full support to make things happen.

Director General's Review

“The introduction of Listed Real Estate Trusts (REITs) will mark the introduction of a new product to the market after 23 long years from the debut of listed corporate debt securities in 1997. The REIT structure that distributes 90 percent or more of income to REIT unit holders will provide capital to real estate and infrastructure development and to enable small investors to directly benefit from the growth of the real estate sector. The Rules applicable to a managing company and the trustees of REITs is expected to be published in the Gazette and the CSE was instructed to draft Listing Rules to enable listing of REITs. ”

I witness a renewed enthusiasm and rapid movement in the right direction. As Wordsworth said of the enthusiasts who were present at the beginning of the French Revolution, “Bliss was it in the dawn to be alive”.

I look forward to build on our successes as I intend to continually review and recalibrate our approach in unleashing the untapped potential of our capital market.



Chinthaka Mendis
Director General

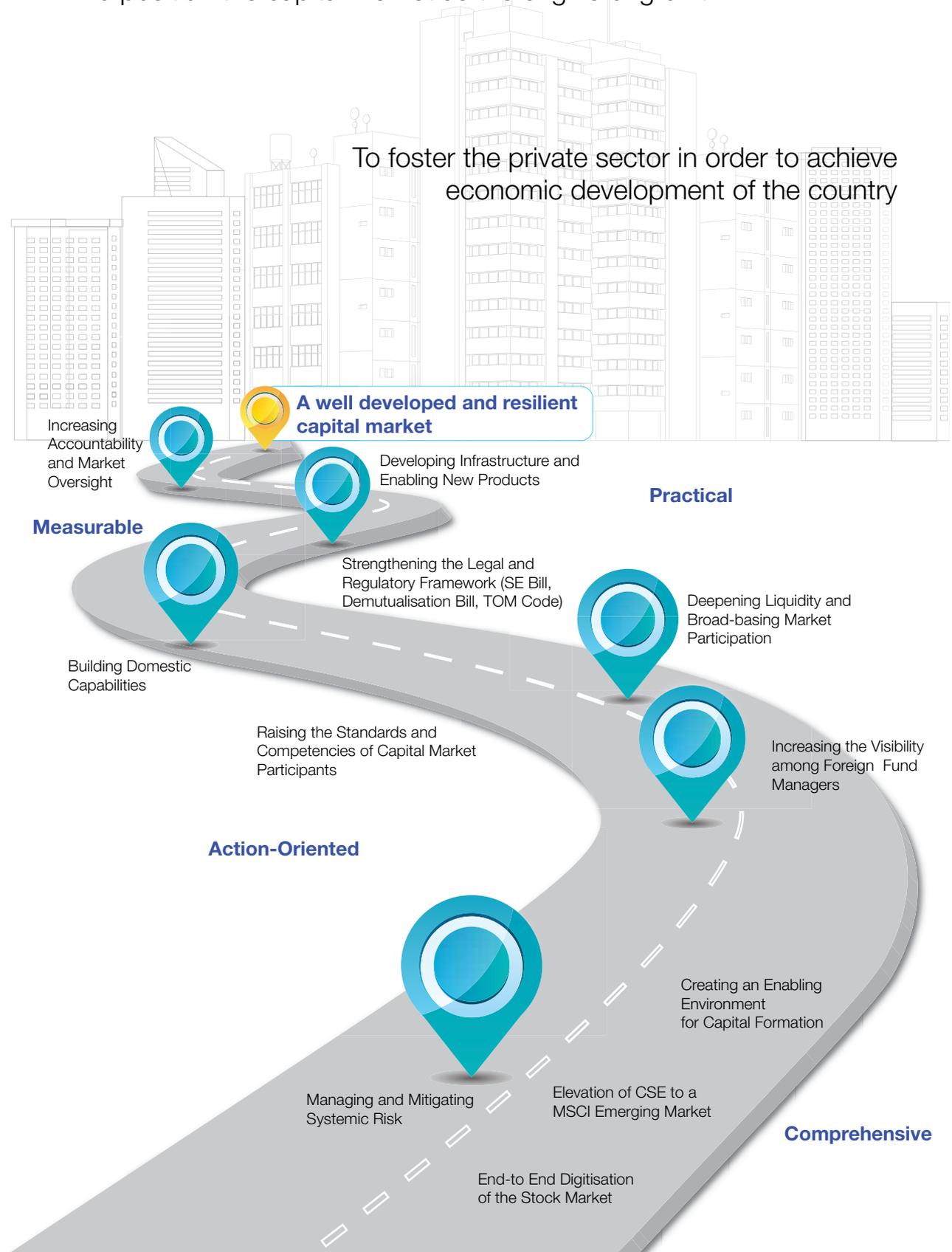
18 July 2020

Comprehensive, action-oriented, practical and measurable capital market strategy 2020 - 2025

which is currently being implemented by the SEC

To position the capital market as the engine of growth

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



Key Regulatory and Development Strategies

which are being executed by the SEC

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





Members of the Commission



Standing Left to Right:

Mr. D. N. R. Siriwardena, Mr. Sunil Lankathilake, Mr. Priyantha Rathnayake
Mr. Naresh Abeysekera, Mr. Sisira Ratnayake, Mr. Suhada Gamalath,
Mr. H. A. Karunaratne

Seated Left to Right:

Mr. Manil Jayasinghe, Mr. Viraj Dayaratne (Chairman)



Members of the Commission

Mr. Viraj Dayaratne, PC

Chairman

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

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

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

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

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

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

He has been a member of various project committees and amongst them were the Project Committees that drafted the Project Agreements in respect of the Mahaweli Mini Hydro Power Project on a BOO / BOOT basis and the Kilinochchi District Electrification Project on a BOO basis and was a member of the Sri Lanka government delegation that negotiated the Bilateral Investment Agreement between Sri Lanka and Oman. He has represented the government at many international conferences and has contributed articles on varied subjects of the law to many publications.

The Public Service Commission (PSC) released him from the Attorney General's Department to take up duties as Chairman of the SEC.

Mr. Manil Jayasinghe

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

He functions as Head of Assurance, in charge of Banking and Financial Services practice of Ernst & Young, Sri Lanka, counting over 38 years of extensive experience.

He presently serves as :-

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

He has served as the Chairman of the Examination Committee of CA Sri Lanka, Alternate Chairman of the Statutory Accounting Standards Committee over the past year, Member of the Board of International Accounting Education Standards Board of International

Federation of Accountants, and Member of the Council of the University of Moratuwa.

Mr. Suhada Gamalath, PC

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

Mr. H.A. Karunaratne

Mr. H.A. Karunaratne is currently functioning as the Deputy Governor of the Central Bank of Sri Lanka and has extensive experience in the financial services sector in Sri Lanka and overseas. He is the Chairman of the Financial System Stability Committee, National Payments Council and EPF Investment Oversight Committee and is a member of a number of committees including the Monetary Policy Committee of the Central Bank. He serves as the Chairman of the Credit Information Bureau of Sri Lanka, Institute of Bankers of Sri Lanka and West Coast Power (Pvt) Ltd. In addition, he also functions as a Commission Member of the Board of Insurance Regulatory Commission of Sri Lanka and Director of Colombo Dockyard PLC among others. During his career of thirty four years some of the key positions held by him have been Assistant Governor and Secretary to the Monetary Board, Secretary to the Monetary Board Advisory Audit Committee, Director, International Operations Department and Director, Financial Intelligence Unit of the Central Bank of Sri Lanka.

Mr. Karunaratne served as a Vice President, Fixed Income Department, Refco Singapore Pte Ltd and Vice President, Prime Risk Monitoring, Man Financial Pte Ltd, Singapore, during which he obtained the licence from the Monetary Authority of Singapore to trade futures options and other derivative products.

Mr. Karunaratne was a Member of the Foreign Reserves Management Committee and Market Operations Committee of the Central Bank of Sri Lanka from May 2009 to October 2015. He holds a BSc Business Administration degree from the University of Sri Jayawardenapura, Sri Lanka and an M A in Economics from the Ohio University, USA. He is also a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.

Mr. Karunaratne is a regular speaker at various local and international forums on diverse subjects.

Mr. R.M.P. Rathnayake

Mr. R.M.P Rathnayake is a Special Grade officer of the Sri Lanka Planning Service and currently works as the Deputy Secretary to the General Treasury. He has been in the public service for almost 25 years in various positions.

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

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

Mr. Rathnayake has served as the Director in-charge of Asian Development Bank (ADB) Division of the External Resources Department (ERD), Alternate

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

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

Mr. Sisira Ratnayake

Mr. Ratnayake has been actively engaged in the legal field for nearly 35 years and possesses wide experience in both Civil and Criminal law in Sri Lanka. He holds a Master's degree (L.L.M.) with a Commendation in Commercial Law from the University of Aberdeen, Scotland, U.K, and is an Attorney-at-Law of the Supreme Court of Sri Lanka.

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

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

Members of the Commission

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

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

Mr. D.N.R. Siriwardena

Mr. D.N.R. Siriwardena holds a B.A. (Hons.) Degree in Geography from the University of Peradeniya and a Law Degree (L.L.B.) from the Open University of Sri Lanka and holds a Masters (L.L.M.) Degree in International Business with Information Technology and Intellectual Property from the Cardiff Metropolitan University, United Kingdom. He is an Attorney-At-Law by profession. Mr. Siriwardena joined the Department of Registrar of Companies in 1988. He is currently working as the Registrar General of Companies. Mr. Siriwardena is an ex-officio member of the Institute

of Chartered Accountants of Sri Lanka, an ex-officio member of the Sri Lanka Accounting and Auditing Standards Monitoring Board, an ex-officio member of the Insurance Board of Sri Lanka and also an ex-officio member FIU Advisory Board of Central Bank of Sri Lanka.

Mr. Sunil Lankathilake

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

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

During his 32 year career in the CBSL, Mr. Lankathilake has participated in large number of international training programmes conducted by reputed training providers such as IMF, World Bank, ADB, University of Cambridge etc. in the areas of Macroeconomic Management, Macroeconomic Modelling, Financial Programming, Trade Policies, Competitiveness, Project Management, Foreign Investment, Strategic Planning and Management, Human Resource Management and Communication Policy. Mr. Lankathilake has also served as a member of the

Board of Directors of Sri Lanka Export Credit Insurance Corporation, Board of Management of the Title Insurance Fund of Registrar General’s Department, National Labour Advisory Committee, and several other committees representing the CBSL. Mr. Lankathilake has also represented CBSL in several government missions and negotiating teams especially in the areas of banking relationships, investment promotion and economic and technical co-operations. Mr. Lankathilake has authored many articles and published them in reputed international and local journals and CBSL publications particularly in the areas of economic issues, small-scale industries, international trade, gem industry, apparel industry etc.

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

Mr. Naresh Abeyesekera

*Entrepreneur, Keynote Speaker, Founder/
CEO of SECQUORO specializing in
Transformational Strategy, Finance, Digital &
Technology.*

Mr. Abeyesekera was the Group CFO of MillenniumIT, (LSEG Technology) a global leader in capital market technology that developed the world's fastest trading platform powering over 40 equity trading venues across the world including London, Hongkong, Singapore, Canada, Italy, Malaysia, Johannesburg and majority of the exchanges in the African Continent. He was also on the Global Leadership Team of the London Stock Exchange Group, one of the top two largest exchange groups in the world by market capitalization under a CEO ranked by Harvard Business Review as a Top 100 in the world. He has also been instrumental in listing one of South Asia's largest manufacturing facilities recognized by Forbes among the 200 best in Asia.

He has also been instrumental in winning regional accolades in financial reporting after producing the "Best Annual Report in South Asia" and ERP implementations.

He also Co-Founded the Institute of Internal Audit Sri Lankan chapter to improve the risk and governance knowledge framework in Sri Lanka and has been trained in lean practices in the Toyota Production Plant in Nagoya-Japan.

He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, Chartered Management Accountant (London), Chartered Global Management Accountant and holds an MBA from the prestigious Postgraduate Institute of Management (PIM).

Senior Management



Standing Left to Right:

Madhugayanie Balapitiya - *Manager, Legal & Enforcement and Acting Head, HR and IT*

Suneth Perera - *Assistant Director, Capital Market Education*

Tushara Jayaratne - *Director, External Relations and Capital Market Education*

Prabash Wanigatunge - *Director, Surveillance and Acting Director, Supervision*

Manuri Weerasinghe - *Assistant Director, Corporate Affairs*

G. P. N. Dilhani - *Acting Director, Finance and Administration*

Seated Left to Right:

Ayanthi Abeyawickrama - *Director, Legal and Enforcement and Acting Director, Investigations*

Chinthaka Mendis - *Director General*

Dr. Harshana Peiris Suriyapperuma - *Director, Corporate Affairs and Acting Director, Capital Market Development*

Absent:

Dhammika Perera - *Deputy Director General*



Managers



Standing Left to Right:

Sheena Goonaratna - *Manager, External Relations*
Sharmila Panditaratne - *Manager, Legal and Enforcement*
Saumi Kodippily - *Manager, Supervision*
Manjula Chandraratne - *Manager, Supervision*
Ranmini Jayathilake - *Manager, Information Systems*

Seated Left to Right:

D. M. G. Priyantha - *Manager, Investigations*
Lakshmi Wickramanayake - *Manager Finance*
Sajeevani Bakmedeniya - *Manager, Capital Market Education*

Staff Members



Top left to right standing:
Olivi Solangaarachchi, Thakshila Francis, R. K. Wasantha Sunimal, Buddhinee Herath

Bottom left to right standing:
Priyantha Herath, Anula Wijesinghe, Chamari Heenatigala



Top left to right standing:
Eranga Manthirathna, G. D. Kapila Kumara, Rakhitha Asela Dissanayaka

Bottom left to right standing:
Nishoka Jayathunga, Krishanthi Muthuthanthrige, Mekhala Jayapala, K. A. A. D. Semini Dianika, Marian Glenda Sandanam



Top left to right standing:
Kumari Siriwardane, Dasun Perera, Poorni Weerasekara, Nimal Kumarasinghe

Bottom left to right standing:
M. Imran Ahamed, Anne Chrishanthi Fernando, Dulari Muhandiram, J. K. Priyadarshini

Staff Members



Top left to right standing:
Thanishka Tillekeratne, Dashanka
Warnakulasooriya, Randika Silva

Bottom left to right standing:
Rasangi Dissanayake,
P. M. Niroshika Udayanganie,
Sudara Weerakkody, Kaushalya
Gunawardana



Top left to right standing:
Dhanesha Rajapura, A. C. Dias,
Roshini Peiris

Bottom left to right standing:
Kavisha Kumbukage, Gayan
Lokugamage, Preenika Nilakshi
Perera



Top left to right standing:
Radha Prathibha, Sachin
Weerasooriya, Rasika
Walpitagama, Kaushalya
Wijesiri, Mariez Wanigasekera



Top left to right standing:
Y. D. Sandamali, Udani K. Wickramarathna, Saranya Anuthinan, Prathibhani Herath, C. Erandathie Waidyasekara



Top left to right standing:
D. Pathum Niroshana, Samith Premaratne, Chandran Nagendran, T. Randika Hettiarachchi, Buddhika Balapitiya

Bottom left to right standing:
M. A. Sandaruwan Wijerathne, W. Ariyaratna, S. D. Dharmasiri, P. D. Pathmarani, H. G. Rajitha Waruna, P. W. L. Piyatissa

Absent:

Christobel Silva, Ashoka K. Dayarathne, Nomaanie Seneviratne, Samantha Gunawardana, Sureka Jayasekara, Julie Allegakoen, Lakshmi Atapattu, Danushi Thalpita and Lalinda Dayarathne

Operational Review

Regulation

Regulation is intended to address asymmetries of information, prevent disruptions, foster investor confidence and ensure a well-functioning market. To achieve these objectives the SEC has established a regulatory framework that encourages good corporate governance, promote disclosures, introduce policies and set prudential and business conduct Rules.

Licensing and Registration

To be engaged in regulated capital market activities, entities are required to obtain a licence or registration from the SEC subject to compliance with legal requirements. The licences and the certificates of registration granted to such entities were renewed during the year under review as follows: (Figure 01)

Figure: 01 Licensing and Registration

| Type of Regulated entity | Total number of licensed/registered entities as at 31st December 2019 |
|---|---|
| Stock Exchange | 01 |
| Stock Broking Companies | 26 |
| Stock Broking Companies – Voluntary inactivation of business operations | 2 |
| Stock Dealing Companies | 11 |
| Investment Managers | 24 |
| Margin Providers | 26 |
| Underwriters | 7 |
| Credit Rating Agencies | 2 |
| Clearing Houses | 1 |

Policy Initiatives

Amendments to the SEC Act No. 36 of 1987

The finalised exposure draft of the Securities Exchange Bill was published in Part II of the gazette dated 17th November 2017 in the supplement issued on 22nd November 2017 and was made available to the public after which many comments and concerns from stakeholders were received to the Gazetted version, including the Ceylon Chamber of Commerce and the CSE.

Amendments were proposed taking into consideration, the concerns expressed by stakeholders both external and internal whilst retaining the necessary regulatory powers for effective capital market regulation. Some of the amendments were also discussed with the officials of the World Bank and their advice too was taken into consideration.

Cabinet approval for the finalised amendments was given at the Cabinet meeting held on 09th April 2019 and the approved amendments have been forwarded to the Legal Draftsman's Department by the Ministry of Finance.

Demutualization of the CSE

The SEC participated in a series of meetings with the CSE and the stockbroker firms to discuss the apportionment of shares of the proposed Demutualised CSE.

Consensus with the stockbrokers was arrived at to distribute the apportionment of shares with the Capital Market Development Fund at a ratio of 70:30. In addition, the Commission also approved to propose necessary amendments to the draft Demutualisation Bill to accommodate a Strategic Investor at the point of sale of 30% of the entitlement of the Broker Members and the Capital Market Development Fund (CMDf).

Cabinet approval for the said amendments was granted at the Cabinet meeting held on 9th April 2019 and the approved amendments to the draft Demutualisation Bill were forwarded by the Ministry of Finance to the Legal Draftsman's Department and Attorney General's Department.

The new Take-overs and Mergers Code

The draft of the new Takeovers and Mergers Code was prepared under the guidance and direction of Justice Saleem Marsoof PC, former Judge of the Supreme Court of Sri Lanka and was subject to a further review by the Secretariat to weigh the pros and cons of having a totally independent Takeover Consultative Panel. Taking into consideration the overall comments internally, the Code is being subject to further amendments.

Approvals

Approvals to Country, Regional and Global Funds

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

During the year 2019, the SEC approved 103 global, regional and country funds to invest in listed securities in Sri Lanka and noted 76 name changes.

Waivers in Terms of Rule 5.4(b) of the Listing Rules of the CSE

The SEC processes applications for the grant of waivers to Public Listed Companies seeking to issue shares by way of private placements which exceed 20% of the shares in issue immediately subsequent to such issue of shares. During the year under review, the following companies were granted waivers in terms of Rule 5.4(b) of the Listing Rules;

- Browns Investments PLC to issue new shares by way of a private placement to the shareholders of Browns Capital PLC to effect a group restructure; and
- Lanka Reality Investments PLC to issue new shares by way of a private placement via a Share Swap to six existing shareholders subject to conditions to effect an internal re-structure.

Amendments to CSE Rules

The following Rules were reviewed during the year under review and approval was granted in terms of section 24 of the SEC Act;

- Amendment to Rule 10.3 of the ATS Rules which incorporated a new provision in respect of trade cancellations of securities listed on the Multi Currency Board.
- the fee structure to be imposed for securities transactions carried on the Multi Currency Board.
- amendments to Rules 7.13.2 and 7.13.3 of the Listing Rules of the CSE in respect of the procedure to be adopted with regard to non-compliances with the minimum public holding by listed companies by the introduction of a Secondary Board.

De-listings

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

- Vanik Incorporation PLC
- Pelwatte Sugar Industries PLC
- Touchwood Investments PLC
- Orient Garments PLC
- Central Investments & Finance PLC
- PC House PLC
- PC Pharma PLC0
- Browns Capital PLC

Approval was granted to AIA Insurance Lanka PLC to voluntarily de-list its securities from the official list of the CSE in terms of Rule 5 of the SEC Rules.

Administration of the Take-overs and Mergers Code

In the year 2019, the SEC administered 5 takeovers. Prior to administering these takeovers the SEC reviewed the content in the Independent Advisor's Report and valuation techniques, including assumptions used in such valuation models to identify whether the valuation techniques used are reasonable and in accordance with general accepted practices. This is to enhance the clarity and content of the disclosures. During the year, the following takeovers were administered by the SEC. (Figure 02)

Figure: 02 Offers Extended Under the Takeovers and Mergers Code

| Offeror | Offeree | Nature of the Offer | Shareholding at the Closure of the Offer (Approx) |
|--|-------------------------------|---------------------|---|
| George Steuart and Company Limited | Citrus Leisure PLC | Mandatory Offer | 85.03% |
| Lotus Renewable Energy (private) Limited | Hatton Plantation PLC | Mandatory Offer | 75.65% |
| Serenity Lake Leisure (private) Limited | Hunas Falls Hotels PLC | Mandatory Offer | 93.47% |
| Sterling Capital Investments (private) Limited | People's Merchant Finance PLC | Mandatory Offer | 68.19% |
| Singhe Capital Investment Limited | Sinhaputhra Finance PLC | Mandatory Offer | 54.88% |

Approvals under Section 29A of the SEC Act

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

Operational Review

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

| Name of Issuer | Type of Security | Amount Approved | Duration |
|---|---|-----------------|--|
| Softlogic Holdings PLC | Senior, Unsecured, Unlisted, Redeemable, Rated, Debentures | Rs. 2 Billion | Three Years |
| Lucky Lanka Milk Processing Company PLC | Unlisted, Convertible Debentures | Rs. 350 Million | 20 years |
| Bank of Ceylon | Basel III Compliant Tier 2 Unlisted, Unsecured, Subordinated, Redeemable Debentures with Non Viability Write Down features by Way of Private Placement. | Rs. 12 Billion | Type A&B: 5 years Type C&D: 8 years |

Deferment of Enforcement Rules of CSE

According to provisions in the CSE Listing Rules unless the listed entity obtains a deferment from the SEC in terms of Rule 7.5 (d) (I) 9 or resolves the matters giving rise to the adverse or disclaimer of opinion after the securities of the entity are transferred to the Watch List but before the expiry of six months from the date of such transfer, the trading of Securities of the Listed Entity shall be suspended. The status of the applications received is given below. (Figure 04)

Figure 04: Deferment of Enforcement Rules of CSE

| Name of Company | Status of Application |
|---------------------------------|--|
| Anilana Hotels & Properties PLC | Application was not processed due to company opting to use the provisions in the CSE Listing Rules Section 7.5 (d) (I) 9 |
| Agalawatte Plantations PLC | Deferment of the suspension of trading was granted |
| HVA Foods PLC | Deferment of suspension of trading was not granted |
| Standard Capital PLC | Deferment of de-listing reviewed and in progress as at reporting date. |
| Adam Investments PLC | Deferment of de-listing reviewed and in progress as at reporting date. |
| Adam Capital PLC | Deferment of de-listing reviewed and in progress as at reporting date. |

Approvals under Section 28A of the SEC Act

Where shares in any public company are allotted to any person prior to its listing in a licensed stock exchange, no shares or any security convertible to shares in any such company shall be listed on a licensed stock exchange within a period of one year from the date of the last allotment, unless the written approval of the Commission is obtained for that purpose prior to such listing. During the year the application of Grains "n" Green Limited was evaluated.

Amendments to the Articles of Association of the CDS.

The SEC approved amendments to the Articles of Association of the CDS to broaden its operations which would enable the CDS to expand its business in keeping with the business operations carried out by other depositories in the global sphere, without compromising on global standards applicable to the depositories.

The CDS has decided to extend its services beyond depository functions by undertaking to handle corporate actions of listed and unlisted companies, registrar services and other repository functions in keeping with services offered by other depositories internationally. These services are expected to improve the efficiency of corporate action services provided by the CDS, and reduce costs for issuers.

Approval of Off-The-Floor Transfers

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".

Approvals granted for 473 exceptional transfers and 118 gifting of shares were brought to the notice of the SEC during the year under review. The exceptional transfers were in order to facilitate the margin trading, single to joint accounts, joint to single accounts, financial facilities, gift (special), segregation of insurance business, change of custodian/trustees, amalgamation, voluntary offers, mandatory offers, restructure, termination of a trust, termination of margin trading operations and striking off a company.

Extension of Time granted to Comply with the Minimum Public Holding Requirements.

Concurrence of the SEC was given to the CSE to grant extensions of time to comply with the minimum public holding requirements to eleven listed companies as they fell short of the requirements due to extraordinary supervening circumstances as stipulated in Rule 7.13.3(iii) of the Listing Rules.

Oversight and Compliance

Market participants are expected to conduct themselves in a way that protects the interest of their clients and preserve the integrity of the market. Since sound laws and regulatory standards are essential for effective regulation, market participants are required to comply with the regulatory framework in which they operate. Our areas of supervisory focus cover both prudential and business conduct and we employ a variety of tools broadly comprising of on-site reviews and off-site monitoring to ensure that market participants comply.

Moreover, the SEC reviews Annual Reports of PLCs to ensure that they disclose material information that is reliable, timely and readily accessible to investors to make informed investment decisions.

Listed Companies

All Listed Companies are required to submit Annual Reports within five 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 endeavor.

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

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

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

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

During the year, the SEC has conducted 115 financial statement reviews of Listed Companies with 97 letters of comment sent to improve compliance and enhance disclosures.

Moreover, during the year 16 debt prospectuses were reviewed and concluded and two equity prospectus were also reviewed. Four reviews related to BASEL III compliant instruments requiring new policy development. (Figure 05)

Pursuant to Annual Report reviews of Listed Companies, 24 matters concerning unusual trading activities and non – compliance were identified for further inquiry.

Regulatory actions taken in relation to disclosures and corporate affairs of Public Listed Companies is given below. (Figure 05)

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

| Disclosures / Corporate Affairs | Number of Instances/Listed Entities |
|--|---|
| Clarifications called* (to validate matters relating to disclosures by the respective listed entities) | 114 Instances |
| Measures taken to correct via CSE through disclosures (to rectify the disclosure issues) | <ul style="list-style-type: none"> • City Housing & Real Estate Co. PLC • Aitken Spence Plantation Managements PLC • Amana Takaful PLC • Beruwala Resorts PLC |

*During the year the SEC reviewed disclosures via market announcements by listed entities and sought clarifications either from the company or from CSE relating to 114 instances. Such clarifications were relating to dealings by directors whilst the company is on the watch List (07), dealings by directors – delayed disclosure (07), changes in directorate (82), related party transactions (05) and other corporate disclosures requiring immediate market disclosures such as change of registered address

Operational Review

(04), change in company secretary (04), change of auditors (02), rating review (01), amalgamation of companies (01) and trading by connected parties (01).

Matters Referred to Other Regulators

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

Figure 06: Matters Referred to other Regulators

| Regulator | Number of Companies | Matters Referred and Outcome |
|-----------|---------------------|---|
| SLAASMB | 4 | <p>City housing & Real Estate Co PLC: To obtain clarifications if the preparation and presentation of the cash flow statement of the company/group is in compliance with LKAS 7 - statement of cash flows and particularly whether the Auditor has exercised the duty of care expected.</p> |
| | | <p>Tangerine Beach Hotels PLC To obtain clarifications whether the recognition, measurement and disclosures are in compliance with applicable Sri Lankan Accounting and Auditing standards</p> |
| | | <p>Tess Agro PLC To obtain clarifications whether the recognition, measurement and disclosures are in compliance with applicable Sri Lankan Accounting and Auditing standards</p> |
| | | <p>Radiant Gems International PLC: To obtain clarifications whether the recognition, measurement and disclosures are in compliance with applicable Sri Lankan Accounting and Auditing standards and whether particularly the Auditor has exercised the duty of care expected.</p> |

Oversight of Licensed/Registered Entities

Stock Broking Companies

As stipulated in the SEC Act No. 36 of 1987 (as amended), and Rules and Regulations made thereunder, the SEC is entrusted with the task of licensing and supervising stock broking companies. The objective of supervision is to ensure the financial stability and operational viability of the stock broking companies and thereby strengthen investor protection and foster investor confidence in the capital market.

The approach to supervision of stock broking companies is based on a risk assessment framework which assesses the relative risk profiles of the companies taking both the impact and probability of a risk occurrence into consideration in relation to each stock broking company. These risks that stock brokers are exposed to can be categorised as prudential, liquidity, counterparty, financial, credit, operational, position and legal risks.

Off-site supervision entails reviewing and analysing of financial statements, compliance returns, reports uploaded to the Electronic Filing System and any other reports submitted by the licensed stock broking companies.

Throughout the year, we demonstrated strong commitment towards achieving effective enforcement actions including credible deterrence efforts to preserve market trust and confidence.

During the year 2019, business operations of two stock broking companies were inactivated for a period of two years in terms of Section 12 of the CSE Stockbroker Rules. The business operations of the said two stock broking companies were inactivated subsequent to the final approval of the SEC, upon the Board of Directors of the CSE recommending to the SEC that the said two firms have duly completed the inactivation process in compliance with Section 12 of the CSE Stockbroker Rules.

Taking cognizance of the National (AML/CFT) Policy 2015-2010 it was identified to strengthen AML/CFT risk-based supervision as one of the main goals in developing a sound institutional framework among the securities sector participants. This was with the aim of enhancing the effectiveness of risk-based supervision towards AML/CFT in the securities sector. As such the intensity and frequency of AML/CFT supervision of the stock broking companies were determined on the basis of the assessment of AML/CFT risks affecting the said firms. The SEC having developed a supervision framework for stock broking companies continued to conduct on-site inspections on stock broking companies focusing on AML/CFT during the year 2019.

During the year 2019, total turnover of the stock broking industry dropped slightly in comparison to year 2018. However, net losses after tax of the industry reduced to Rs. 37 million compared to Rs. 149 million in the year 2018. The comparative statistics on the performance of the stock broking companies are given below: (Figure 07)

Figure 07: Highlights of the Stockbroking Industry

| | 2019 (Rs. '000) | 2018 (Rs. '000) | Change % |
|----------------------------|--------------------|--------------------|----------|
| Turnover | 1,663,045 | 1,784,134 | (6.79) |
| Net brokerage | 1,440,766 | 1,547,442 | (6.89) |
| Other income | 707,329 | 786,797 | (10.10) |
| Operating profit/loss | 40,483 | 23,691 | 70.88 |
| Net profit/loss before tax | (79,453) | (83,724) | 5.10 |
| Net profit/ loss after tax | (37,096) | (149,879) | 75.25 |
| Total assets* | 9,726,649 | 8,568,117 | 13.52 |
| Total liabilities * | 4,571,124 | 3,349,785 | 36.46 |
| Shareholder Funds* | 5,155,524 | 5,218,332 | (1.20) |

*As at 31 December

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

Market Intermediaries

The SEC is empowered to grant registrations for five categories of Market Intermediaries which includes margin providers, investment managers, credit rating agencies, underwriters and clearing house, to carry out their functions in the category of Market Intermediaries.

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

In order to identify, monitor, mitigate and manage risks pertinent to the aforementioned Market Intermediaries an effective and robust framework was adopted exclusively for both on-site and off-site supervision.

Accordingly, the registered Market Intermediaries were subject to risk - based on-site inspections during the period under consideration. Additionally, pre-licensing inspections were also carried out to evaluate the suitability and compliance with the regulatory standards applicable to function in the capacity of an investment manager and the said applicant was granted the registration to operate in the year 2019.

In view of strengthening the regulatory framework of the Market Intermediaries the applicable regulatory standards were reviewed during the year. Further, the guidelines on fitness and propriety was mandated with effect from 01st September 2019 taking cognizance of the importance of fitness and propriety standards which are necessary to ensure that business activities of the securities market are conducted to high standards of market practice and integrity through enhanced accountability and transparency. (Figure 08)

Operational Review

(Figure 08): Financial Highlights of Market Intermediaries as at 31st December 2019 (in Rs. Mn)

| Category | Total Revenue | Net Profit before Tax | Total Assets | Total Liabilities |
|------------------------|---------------|-----------------------|--------------|-------------------|
| Margin Provider | 156,879.93 | 42,563.61 | 1,974,472.87 | 1,750,242.20 |
| Investment Manager | 1,369.55 | 311.11 | 10,634.74 | 3,809.98 |
| Underwriter | 247.41 | (622.08) | 3,817.44 | 122.77 |
| Credit Rating Agencies | 208.68 | 89.39 | 291.57 | 97.22 |
| Multipurpose Entities* | 269,230.70 | 110,132.02 | 6,327,459.12 | 5,763,616.06 |

*entities that function in multiple categories of SEC Registration

Unit Trust Industry

The SEC adopted a risk based approach towards on-site supervision of the unit trust managing companies (UTMC) during the year which encompasses the main risk areas under prudential, operational and management policies to assess the adequacy of their financial strength, compliance with internal controls and procedures, governance, information systems, Rules and Regulatory requirements.

Off-site supervision of the UTMCs were also strengthened through the analysis of the monthly unaudited financial statements to ensure that the financial condition of the UTMCs were stable and operated in compliance with the minimum net capital requirement as stipulated by the SEC. In addition, the exposure levels and liquidity of the unit trust funds were scrutinised to ensure that such funds were within acceptable limits as set out in the Unit Trust Code, the pertinent trust deeds and directives issued by the SEC.

The Net Asset value of the unit trust funds stood at Rs. 104.79 billion (approx) as at 31st December 2019 and the number of unit holders has increased by 10% compared to the previous year. (Figure 09, 10)

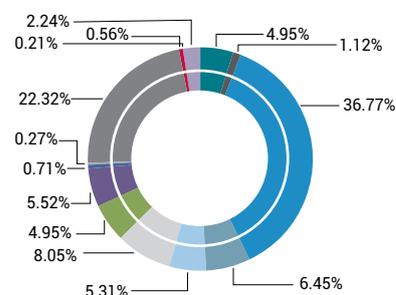
Figure 09: Overall Position of Unit Trust Funds

| | As at 31.12.2019 | As at 31.12.2018 | Change % |
|---|---------------------|---------------------|----------|
| Number of Approved Unit Trust Funds | 71 | 75 | (5.33) |
| Net Asset Value of Unit Trusts (Rs. Bn. approx.) | 104.79 | 64.22 | 63.17 |
| Number of Unit Holders | 46,481 | 42,093 | 10.42 |
| Number of Units Issued (No. Mn. approx.) | 4,769 | 3,368 | 41.60 |
| Investment in Equity (Rs. Mn. approx.) | 9,841 | 9,416 | 4.51 |
| Investment in Government Securities (Rs. Mn. approx.) | 9,150 | 3,379 | 170.79 |
| Investment in Other Instruments* (Rs. Mn. approx.) | 84,542 | 50,601 | 67.08 |

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

Source: Regulatory submissions by unit trust managing companies

Figure 10: Market Share of Unit Trust Managing Companies as at 31st December 2019



- Ceylon Asset Management Company Limited
- Com Trust Asset Management (Private) Limited
- NDB Wealth Management Limited
- Ceybank Asset Management (Pvt) Limited
- National Asset Management Limited
- First Capital Asset Management Limited
- J B Financial (Pvt) Ltd
- Guardian Acuity Asset Management Ltd
- Candor Asset Management (Pvt) Ltd
- Asset Trust Management (Pvt) Ltd
- Capital Alliance Investments Ltd

On-site Inspection of the CSE

An on-site inspection was conducted on the CSE during the year 2019 to determine its effectiveness and adequacy on the adoption of inter alia governance, standards, procedures, processes, complaint handling mechanism and timely enforcement of Rules and Regulations by the CSE. Our inspection also focused on whether the operations of the CSE are carried out in conformity with the provisions of the SEC Act and any Rules and Regulations made there under.

Accordingly, the said on-site inspection was conducted through an internally developed inspection programme paying emphasis on systems, controls and procedures in place at the CSE to achieve the desired objectives of each Strategic Business Unit. The SEC having conducted the said on-site inspection made recommendations to the CSE on the areas for improvement and stipulated timelines for compliance.

Surveillance, Investigations and Enforcement

Market Integrity is a core regulatory objective and is critical to the smooth functioning of the capital market. To maintain market integrity we adopt a

combination of measures including surveillance, investigation and enforcement.

Surveillance

Surveillance is a regulatory measure that is employed to preserve the confidence level of investors and stakeholders in the capital market by preventing market transgressions, including possible offences such as insider trading, market manipulation and front running at primary level.

We monitor the market on a real time basis using an automated surveillance system to detect and prevent securities law violations. Where suspected breaches of the law have been detected appropriate action is initiated by preparing a Surveillance Referral to the Surveillance and Investigations Committee (SIC) of the SEC. Suspicious transactions of connected parties are followed up in the Watch List and scrutinised closely.

Proactive Surveillance

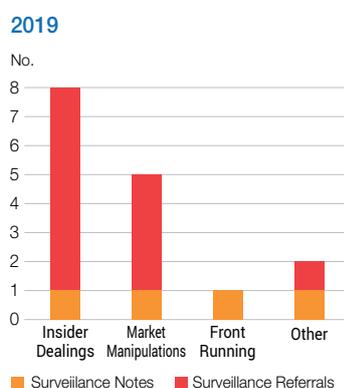
The SEC proactively monitors activities of investors, brokers and others including market movements and trends to identify instances of market offences in order to minimise the potential negative impact on the market. The SEC having analysed the abnormal trading behaviour, sought clarifications from the parties involved without any delay. Likewise, the SEC sought explanations from 16 investment advisors and six investors during the year 2019.

Surveillance Referrals and Notes

Based on SEC's surveillance findings, CSE's Surveillance Referrals and complaints, the SEC identified serious suspected market malpractices and referred these Surveillance Referrals / Surveillance Notes to the SIC for

appropriate action after deliberations. During the year 2019, 11 Surveillance Referrals were completed and submitted to SIC. These referrals comprised of seven possible cases of Insider Dealing, four possible cases of market manipulation and other market malpractices (there were instances where referrals involved more than one offence category). Surveillance Notes are prepared for less significant suspected market offences and forwarded to the SIC. (Figure 11)

Figure 11: Surveillance Referrals / Suspected Offences



Future Needs

The SEC is in the process of procuring a sophisticated new surveillance system with adequate tools to identify undesirable behaviour through a suite of sophisticated alerts. The system is expected to contain a robust and flexible workflow which is supported by market-leading analysis and visualisation tools.

Investigations

The SEC continued its efforts fulfilling the objectives of the Commission to maintain the stock market in an orderly and fair manner and to protect the interest of investors by conducting investigations into suspected cases of Insider Dealing¹, Price/Market

Manipulation², Front Running³ and other market misconduct as stipulated in the SEC Act No. 36 of 1987 (as amended) and the Rules and Regulations made thereunder.

During the year 2019, the SEC successfully concluded three investigations. At the conclusion of one investigation into suspected Price/Market Manipulation, the Commission instituted legal action in the Magistrate's Court, Fort against three persons. As decided by the Commission, a warning was issued to one person at the conclusion of another investigation into suspected Insider Dealing, Front Running and/or Market Manipulation. One investigation that had been re-opened by the Members of the Commission in 2016 was also concluded during the year. In another investigation two persons who failed to appear before the SEC in response to its summons, were referred to the Hon. Attorney General for institution of legal action⁴.

In 2019, the SEC commenced five new investigations including two investigations into possible Insider Dealing and three investigations into Price/Market manipulation.

During the year, the SEC referred certain documents to the Government Examiner of Questioned Documents in the Government Analyst's Department for examination in order to assist the litigation process of an already concluded investigation. The SEC continued with the Commission's affiliation with other law enforcement agencies during this year as well.

A description of the action taken/status of the investigations as at the end of 2019 are given below. (Figure 12)

1 A connected person trading in the shares of a listed company whilst in the possession of unpublished price sensitive information in respect of the securities of the said Company (S. 32, SEC Act).
 2 Creation, causing to create or doing anything calculated to create a false or misleading appearance or impression of active trading or that of the market or the

price of any security listed on a stock market (Rule 12, SEC Rules) and/or creation of a false market by the trading in securities that do not involve a change in beneficial ownership or by any fictitious transactions or by any other means (Rule 13, SEC Rules).

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 (Rule 14, SEC Rules).

4 Every person who fails to appear before the Commission or the person authorized... shall be guilty of an offence under this Act and shall on conviction after summary trial before a Magistrate be liable to a term of imprisonment of either description not exceeding five years or to a fine not exceeding one million rupees or to both such imprisonment and fine (s. 46 A (4), SEC Act)

Operational Review

Figure 12: Status of Investigations

| Nature of the Investigation | Number of Cases | Action Taken/Status |
|--|-----------------|--|
| Insider Dealing in the shares of listed companies | 5 | Out of five investigations, two were referred in the year 2019 and they were in progress by the end of the year. The Report of one investigation was submitted to the Commission and further investigations were being carried out on the direction of the Commission. The other two investigations are ongoing. |
| Price/Market manipulation in the shares of listed companies | 3 | One investigation was at the final stage and other two investigations were in progress at the end the year out of which one investigation was referred for investigation during the year 2019. |
| Price/Market manipulation and/or Insider Dealing in the shares of listed companies | 7 | One Investigation Report was being compiled. Out of the other six investigations, one investigation was at the final stage by the end of the year whilst the other five investigations including two investigations received during the year were in progress at the end of the year. |
| Insider Dealing and/or Price/Market manipulation in the shares of a listed company and misleading/non-disclosure of the use of rights issue funds by the same company. | 2 | Out of the two investigations, one Investigation Report was completed by the end of the year and a Show Cause Notice was sent to the main suspect. The other investigation was also completed during the year under review. |
| Front Running and/or Insider Dealing in the shares of listed companies | 1 | The Report has been finalised and to be deliberated. |
| Investigation pertaining to irregular activities by stock brokering firms | 1 | In the process of compiling the Investigation Report. |
| Investor complaints against stock brokering firms | 1 | The Report has been finalised and to be deliberated. |
| Investigation into the possible violation of Takeovers and Mergers Code by a listed company | 3 | In one investigation two persons have been referred to the Hon. Attorney General for institution of legal action under s. 46A (4) of the SEC Act and the said investigation was in progress at the end of the year. One Investigation Report has been finalised and to be deliberated. The other investigation was in progress at the end of the year. |
| Investigation into the misleading disclosures made in the Financial Reports of a listed company | 1 | The investigation was ongoing by the end of the year. |
| Further investigations into cases concluded in previous years (re-opened in 2015 and 2016) | 9 | Reports of four investigations were completed. Reports of three investigations are being compiled and other two investigations were in progress at the end of the year. |
| Preliminary inquiry against a regulated Investment Management company | 1 | The Report has been finalised and to be deliberated. |

Enforcement Action

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

Issue of Show Cause

Two public listed finance companies and its Board of Directors were issued a 'Show Cause' to explain as to why the SEC should not take action against them for the non-disclosures of certain directions issued by the CBSL to the market in a timely manner.

Issue of Caution

A public listed company and its Board of Directors were issued a 'Show Cause' as to why the SEC should not take action against them for non-compliance with the Corporate Governance Rules in terms of the Listing Rules of the CSE imposed a requirement by way of a Directive prohibiting the said company from entering into any Related Party Transactions including any write-off of outstanding or making of adjustments which will reduce the outstanding balances.

Having considered the responses received in respect of the said Notice to Show Cause and the surrounding circumstances of the company, the Commission decided to issue a "Letter of Caution" to the Chairman and the Board of Directors of the said company.

Issue of Notice of Action

A Public Listed Company and its Board of Directors were issued with a Notices of Action for the violation of the Listing Rules of the CSE in respect of the following;

- Non disclosure of rating downgrades; and
- misleading disclosure with regard to a related party transaction

The said company made applications to compound the matter to the Commission and the Commission after

having deliberated upon the requests decided to compound the matters, subject to an aggregate payment of Rs. 36.3 million to the Compensation Fund of the Commission.

The above said sums have not yet been paid as at the date of publication of this report.

Rectification of Financial Losses to Aggrieved Complainants

Under section 46 (1) of the SEC Act no. 36 of 1987, the Commission established a committee of 3 members to hear and determine complaints made by two clients of a stock brokering company and its related margin provider company who were aggrieved by the decision of the CSE.

The Committee having heard and considered the responses of the stock brokering company and its margin provider found;

- that the stock brokering company failed to substantiate with documentary evidence or otherwise that share purchases on behalf of the client during the disputed period was carried out with the consent and authority of the clients in respect of their margin trading accounts and thus was in contravention of Section 5 (II) of the member regulations that were applicable to licensed stockbrokers during the period;
- that the stock brokering company failed to dispose of available securities in a timely manner in order to minimise the losses of the complainants;
- that the stock brokering company and its margin provider acted contrary to the clients explicit instructions to sell securities and proceeded to purchase securities which widened their credit exposure; and

- that the stockbroker failed to demonstrate that they acted in the best interests of their clients.

The Commission resolved that the findings of the Committee demonstrated inter alia malpractice or irregularity of the management of affairs of the stock brokering company and resolved that the stockbroker should rectify or set right the conditions that resulted in financial losses to the complainants by the payment of a total sum of Rupees 3,990, 683.81 to the complainants in lieu of a suspension or cancellation of the licence granted to the stockbroker.

The CSE also directed to fine the errant stock broker.

The Commission also resolved to uphold the findings of the Committee against the margin provider after issuing a 'Show Cause' to the margin provider and directed the margin provider to pay a total sum of Rs. 2,141,008.69 to the complainants in lieu of a suspension or cancellation of registration granted to the margin provider.

Litigation

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

The SEC instituted the above action in the Magistrate's Court Colombo Fort against M. Imtiaz Samsudeen and Bafiq Nizar for conspiracy to commit market/price manipulation and for committing market/price manipulation punishable under Rule 12 of the SEC Rules as published in Gazette Extraordinary No.1215/2 dated 18th of December 2001 read with Sections 113(b) and 102 of the Penal Code and Section 51(1) (a) of the SEC Act No. 36 of 1987 as amended.

The matter is pending in the Magistrate's Court Colombo Fort.

Operational Review

Talib Tawfiq Al Nakib vs. SEC and CSE Case No. WP/HCCA/LA/158/2017

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

The case DSP/20/2016 was filed by Mr. Talib T Al-Nakib in the District Court of Colombo against the CSE and the SEC praying for Judgement and Decree against the CSE and the SEC for a declaration that the CSE and the SEC are obliged to investigate the affairs of Heath and Company (Ceylon) Limited which is an unlisted subsidiary company of Hunter & Company PLC a company Listed on the CSE. The Hon. District judge delivered the Order dismissing the action filed by the Plaintiff Talib T Al-Nakib against the SEC and the CSE.

The Plaintiff has appealed to the High Court against the judgement of the District Court dismissing the case and the matter is pending in the High Court of Colombo.

Magpek Exports (Private) Limited vs. SEC - HCMCA 217/2007 – pending in Court

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

SEC vs Sena Yaddhehige and S. Thinamany, MC/Fort/12639/2019

Legal action was instituted before the Magistrate's Court, Colombo Fort on 07th March 2019 against Dr. Sena Yaddhehige and Mr. Subramaniam Thinamany for Insider Dealing and aiding and abetting thereto in contravention of section 32 of the SEC Act No 36 of 1987 (as amended) read with section 102 of the Penal Code respectively. Summons were issued by the Learned Magistrate against the said persons. However, the matter was stayed pending the order of the Supreme Court in SC/SPL/LA/100/19.

SEC vs Lanka Kannangara, Kapila Senarath, Fariq Furkhan, and Raveendra Mallawarachchi, MC/Fort/13736/2019

Legal action was instituted in the Magistrate's Court, Colombo Fort on 25th July 2019 against four investment advisors for the commission of the offence of market manipulation, conspiracy to commit market manipulation and aiding and abetting for same. Market manipulation is an offence under Rule 12 of the SEC Rules as published in Gazette Extraordinary No. 1215/2 dated 18th of December 2001 (SEC Rules 2001) and section 51(1)(a) of the SEC Act read with sections 113(b) and 102 of the Penal Code, punishable under section 51(2) of the SEC Act respectively. The case is pending before the Court as of the date.

SEC vs W.K.H. Wegapitiya, Thilak de Silva and Thakshila Hulangamuwa, MC/Fort/14778/ 2019

Legal action was instituted in the Magistrate's Court, Colombo Fort on 05th November 2019 for the commission of the offence of market manipulation, conspiracy and aiding and abetting for same. Market manipulation is an offence under Rule 12 of the SEC Rules, 2001 and section 51(1)(a) of the SEC Act read with sections 113(b) and 102 of the Penal Code, punishable under section 51(2) of the SEC Act respectively. The accused were discharged by the Learned Magistrate on 13th February 2020 in terms of section 186 of the Code of Criminal Procedure, upholding the preliminary objections raised by the accused to the effect that the SEC is unable to file its plaint under section 136(1)(b) of the said Code.

W.K.H. Wegapitiya vs SEC (CA/Writ/519/2019) and Thilak de Silva vs SEC (CA/Writ/520/2019)

The Petitioners filed a Writ Application in the Court of Appeal against the SEC, the Commission Members and the Director General of the SEC for the institution of legal proceedings by the SEC in the Magistrate's court in Case No. MC/Fort/14778/2019 wherein the aforesaid Petitioners were named as Defendants. The said cases were withdrawn by the Petitioners subsequent to the decision given by the Hon. Magistrate in the aforesaid case on 13th February 2020.

Sena Yaddhehige vs SEC, CA/Writ/417/2017

Dr. Yaddhehige filed this writ application against the SEC before the Court of Appeal in 2017 where he had prayed inter alia to issue an interim order restraining the SEC from initiating legal action against him. He took steps to support the writ application when the SEC filed action against him on 7th March 2019 before the Magistrate's Court, Fort. Court of Appeal delivering order on 22nd March 2019 refused to stay the proceedings before the Magistrate's Court and sought written submissions to be filed on the issue of notice.

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

Being aggrieved by the above order in CA/Writ/417/2017, Dr. Yaddehige appealed to the Supreme Court by way of special leave to appeal. The SEC took up the objection that, there is no valid affidavit filed before the Court by Dr. Yaddehige in terms of section 12 of the Oaths and Affirmations Ordinance. The SEC further submitted that the said affidavit is not in conformity with the Consular Functions Act of 1981. Therefore, it was submitted that there is no proper application filed before Court to consider granting of leave. Accordingly, the Supreme Court on 03rd May 2019 fixed the matter for order on the preliminary objections raised by the SEC and pending that order, the matters before the Magistrate's Court (MC/Fort/12639/2019) and the Court of Appeal (CA/Writ/417/2017) were stayed temporarily. The Order of the Supreme Court on the said preliminary objections is pending to date.

SEC vs Mr. W.J.A.M. Soysa (MC/Fort/7701/2017)

The SEC filed action against Mr. Vidanalage Juvenal Aruna Melan Soysa in the Magistrate's Court, Fort for not appearing before the SEC when he was summoned to record a statement with respect to certain transactions that has occurred in his CDS Account. He was charged by the Learned Magistrate on 25th January 2019 for the violation of section 46A of the SEC Act. Consequently, Mr. Soysa appeared before the SEC and provided his statement subsequent to which the SEC withdrew the case against him on 10th June 2019.

Complaints Redress System

Status of complaints relating to listed entities received and redressed given below: (Figure 13)

Figure 13: Handling of Complaints and Matters Relating to Listed Entities

| Nature of Complaint | Number of Complaints Attended | Action Taken / Current Status |
|--|-------------------------------|---|
| Conduct of Board of Directors of Public Listed Companies | 08 | 08 matters concluded appropriately |
| Conduct of Public Listed Companies | 14 | 14 matters were resolved appropriately |
| Non-Compliance with applicable Financial Reporting Framework | 02 | 02 matters were resolved appropriately. |
| Non-Compliance with SEC Rules / CSE Listing Rules | 03 | 03 matters concluded appropriately |
| Total | 27 | |

Appointment of a Compensation Committee

It is a statutory responsibility of the SEC under Section 38 sub-section (1) of the SEC Act No. 36 of 1987 (as amended) to establish and maintain a Compensation Fund for the purpose of granting compensation to any investor who suffers pecuniary loss as a result of any licensed stock broker or stock dealer being found incapable of meeting his contractual obligations.

Section 39 sub-section (1) of the SEC Act requires the Minister to appoint from amongst the Members of the Commission three members who shall comprise the Compensation Committee of the Commission to be responsible for assessing and awarding compensation in respect of any application made under section 40 of the SEC Act for compensation.

Accordingly, the Honourable Minister in charge of the subject of Finance in 2019 appointed three Members of the Commission to constitute the Compensation Committee upon request of the Commission.

Capital Market Development

Capital markets are crucial for economic development as they provide listed companies with a platform to raise long-term capital and investors with an avenue to invest their surplus funds. To derive the benefits of a well-functioning capital market adequate regulation is necessary to protect investors, promote deep and liquid markets and manage systemic risk. As such, the SEC was engaged in formulating policies and implementing a number of programmes to develop the market.

Operational Review

Implementation of a DVP mechanism at the CSE

The SEC formulated a policy for a DVP mechanism in consultation with the CSE. Upon receipt of approval of the SEC Commission, the CSE was instructed to implement same. As a result, the proposed DVP implementation including all the system upgrades will be completed by the end 2020. The SEC is fast-tracking the implementation of the same.

Approval of Policy Pertaining to proposed Amendments to the CSE Listing Framework in Relation to Initial Public Offerings (IPO).

The SEC approved the policy pertaining to proposed amendments to the CSE listing framework in relation to IPO of entities. The SEC and CSE are presently in the process of finalising rules for same.

Conducted research pertaining to Green Bonds and Environment, Social & Governance (ESG) Reporting Framework

Conducted extensive research on:

- The issuance of Green Bonds and its implications to the local capital market.
- The ESG reporting framework and the extent to which it can be applied to the local capital market

Developing the Capital Market via Collaborations with Donor Agencies

Financial Sector Modernization Project of the World Bank and Capital Market Development Programme of the Asian Development Bank

As part of the Financial Sector Modernization Project (FSMP) of the World Bank (WB) and the Capital Market Development Programme (CMDP) of the Asian Development Bank, the SEC secured funds in relation to a number of key Capital Market development

initiatives that would strengthen its supervisory and regulatory capacity. The policy initiatives and the Consultancy and Goods procurements pertaining to respective Projects are currently underway.

Invest Sri Lanka – Investor Forum in Singapore

The CSE together with the SEC organised a forum to attract portfolio and direct investors in Singapore on 21st May 2019. Subsequent to the main forum, participants got the opportunity to attend one-to-one group meetings with Sri Lankan Listed Companies.

The event was organised in association with the Sri Lankan High Commission in Singapore and was supported by the Singapore Business Federation in the capacity of promotional partner.

Other Policy Initiatives

- Overall revision of the CSE Listing Rules to address the regulatory gaps together with new initiatives to capture:
 - Board sub committee members not being directors of the listed entity
 - Independent Directors' appointments made by major shareholders
- Develop 'fit and proper criteria' for directors of listed entities
- Develop guidelines for valuation of shares of listed entities in relation to regulatory requirements such as Takeovers and Mergers, Listing and De-listing of listed entities etc.
- Implementation of the Corporate Governance Code to be in line with Organisation for Economic Co-operation and Development (OECD) Principles, IOSCO Principles and International best practices on Corporate Governance.

- Comprehensive review of operational framework, risk identification, rules consultation and benchmarking to introduce new listing platforms enabling.

- Multi-currency debt listing by local entities
- Debt Listing of SMEs

- Evaluate the possibility of creating a framework to enhance integrity of information disclosed and preservation of stakeholder confidence together with strengthening the existing requirements to create a comprehensive guideline applicable to Auditors of Listed Companies to enhance accountability.
- To develop a process to provide the requisite approval under Section 75 (1) of new SEC Act on public offers by unlisted corporate entities
- Develop and implement a framework on 'Financial Surveillance' adopting a risk-based disclosure approach; internal capacity building to facilitate the same.
- Evaluation of introduction of a Standardised Financial Reporting System to the Sri Lankan capital market.
- Evaluating the possibility of facilitating an investor association to represent minority shareholders of Listed Companies.

The World Bank Doing Business Index

Based on representations made to World Bank Doing Business Initiative, evaluators have recognised the SEC's framework to regulate the capital market via the applicable provisions in the Companies Act together with the CSE Listing rules. Sri Lanka has been ranked at the 99th position in terms of World Rank and secured the 28th position in the Protecting Minority Index among 190 jurisdictions.

Capital Market Education and Training

As part of its licensing regime the SEC administers the Registered Investment Advisor (RIA) certification which is mandatory for investment advisors to work in the securities industry. Through this programme, industry professionals are expected to be competent and able to carry out their tasks efficiently and effectively. Investment advisors are also expected to comply with the Continuous Professional Development (CPD) programme in order to consistently update and refresh their technical

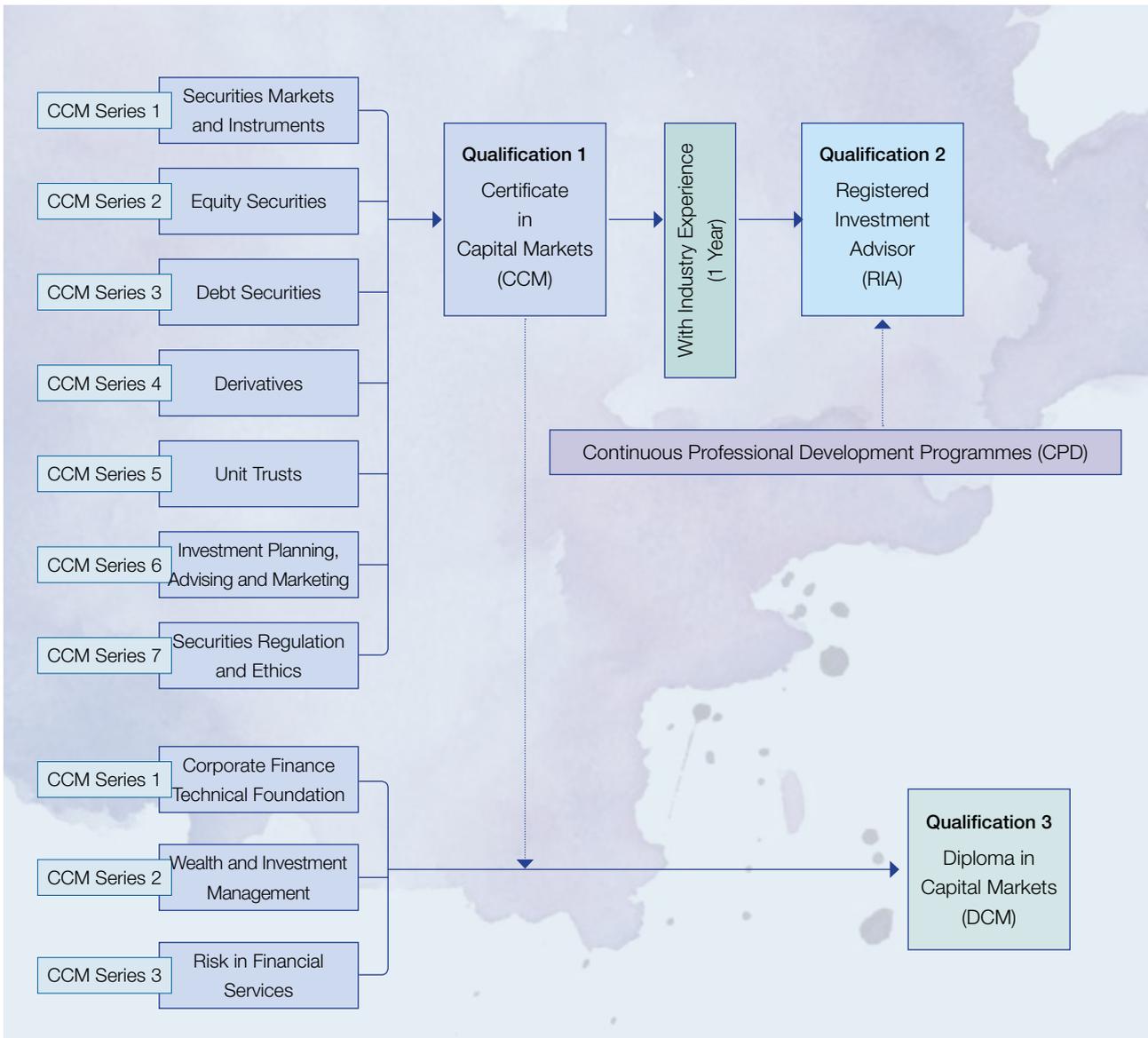
knowledge and competencies. At the same time, we provide structured investor education programmes for the public to create informed investors.

Revised Qualification Framework

Taking into account the developments of the securities industry in the last 10 years the SEC commenced the revision of the qualification framework and completed the task in 2018. After extensive deliberations with industry stakeholders and past students, a comprehensive revision was made to the framework and implementation commenced in 2019.

The revised qualification framework provides for separate certifications for asset classes to accommodate equity securities, debt securities, derivatives, and unit trusts. Under the revised framework, the RIA qualification was enhanced to an apex qualification in the securities industry and the CPD requirements for investment advisors was made stringent. (Figure 14)

Figure 14: Qualification Framework



Operational Review

Certificate in Capital Markets (CCM) and RIA

We observed continued interest and enrollments for the CCM by non-industry individuals, school leavers, undergraduates, and professionals from other sectors in addition to capital market professionals. Following the introduction of the new Framework, 48 students registered for the CCM programme during the year. (Figure 15, 16,17)

Figure 15: Statistical Summary of CCM and RIA Performance - 2019 (Old Qualification Framework)

| Number of Students | | | | | |
|--|-------------------------|-----------------------|---|---------------|---------------|
| Total Registered | Completed Equity Series | Completed Debt Series | Completed Financial Regulations & Ethics Series | CCM Completed | RIA Completed |
| New batches were not commenced during 2019 | | | | | |
| | 14 | 13 | 31 | 29 | 08 |
| (Transition period to new QF) | | | | | |

Figure 16: Statistical Summary of CCM Performance - 2019 (New Qualification Framework)

| Number of Students | | | | | | |
|--------------------|---|-------------------------|-----------------------|-----------------------------|---|--|
| Total Registered | Completed Securities Markets and Instruments Series | Completed Equity Series | Completed Debt Series | Completed Unit Trust Series | Financial Planning, Advising and Marketing Series | Securities Regulations and Ethics Series |
| 48 | 15 | 10 | 12 | 09 | Examination not conducted in 2019 | Examination not conducted in 2019 |

Figure 17 : Synopsis of Examinations Conducted for the CCM and RIA – 2019

| Programme | Series | No of Exams Conducted during the year | Pass % |
|--|--|---------------------------------------|--------|
| Certificate Course in Capital Markets (QF 1) | Equity Securities | 6 | 80 |
| | Debt Securities | 6 | 96 |
| | Securities Regulations, Ethics and Marketing | 7 | 88 |
| Certificate Course in Capital Markets (QF 2) | Securities Markets and Instruments | 1 | 94 |
| | Equity Securities | 1 | 63 |
| | Debt Securities | 1 | 86 |
| | Unit Trusts | 1 | 100 |
| Registered Investment Advisor | N/A | 3 | 89 |

Diploma in Capital Markets (DCM)

This year, the SEC continued to administer the DCM programme, which is offered jointly with the Chartered Institute for Securities and Investments (CISI), UK. A new batch was inaugurated (batch 13) during the year and lectures of the 12th batch was completed.

Continuous Professional Development Programmes

During the year under review, six CPD programmes were conducted for existing investment advisors of stock broking companies to enable them to constantly assess and update themselves with the latest trends in the local and global capital markets. Out of the six programmes, three were mandatory for investment advisors to transfer from the old qualification framework to the revised one. These programmes attracted more than 900 participants, which included Chief Executive Officers of stock broking companies, investment advisors and analysts.

The SEC has made it mandatory for the existing investment advisors to obtain a minimum of 4 CPD credits for a year to renew their RIA Status for the following year. (Figure 18)

Figure 18: Summary of CPD Programmes: Year 2019

| Title of the CPD Programme | No of participants |
|--|--------------------|
| The Importance of Corporate Governance for investors and investment advisors with special reference to Corporate Governance Code of CA Sri Lanka | 189 |
| Securities Markets and Instruments | 192 |
| Practical Aspects of Regulatory Landscape on Margin Trading | 104 |
| Unit Trusts | 144 |
| Future of Capital Market in Sri Lanka and the Role of Credit Rating | 107 |
| Financial Advising and Planning | 205 |

Programme In Investing

With the intention of providing basic theoretical and practical aspects of share trading for potential investors, four English medium programmes were conducted during the year spanning six weeks. During the year 173 participants were registered for these programmes.

Advanced Programme in Investing

With the intention of providing existing investors with advanced theoretical and practical aspects of share trading the aforesaid programme was conducted in English medium. During the year, 49 participants were registered for this programme.

Gold Medal and Cash Award Project

We continued the Gold Medal and Cash Award Project during the year under review, which was initiated with the intention of encouraging undergraduates to study capital market related subjects in universities. Under this project, a gold medal and cash prize is awarded to the best performing undergraduate in the area of capital markets in the national universities in Sri Lanka. MOUs have been signed with eleven national universities with regard to the above project.

The following national universities were awarded with gold medals and cash prizes during the year 2019.

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

Award Ceremony

The 5th Certificate and Diploma Awards Presentation Ceremony was held on 13th February 2019, at the Bandaranaike Memorial International Conference Hall (BMICH), for all successful students who had completed the CCM, RIA, DCM and Certificate Programme in Unit Trusts.

Over 100 students received their awards at this eagerly awaited event where Dr. Indrajit Coomaraswamy, former Governor, CBSL was the chief guest. Commission Members and Senior Management of the SEC, Senior Management of the CSE, stock brokers, unit trust industry officials and many other distinguished guests witnessed the event.

Operational Review

Capital Market Information Center (CMIC)

CMIC is continuously being updated as we expect to offer an e-learning environment through which capital market information, data and other educational tools are provided to academics and undergraduates. Through CMIC these students are expected to further their understanding of the capital market research as well as to upgrade their knowledge in investing.

Capital Market Awareness and External Relations

To improve the financial competencies of the population and assist them to make well informed financial decisions, the SEC designs and delivers investor education initiatives targeting different groups. Our programmes are adapted to reach various audiences and we use different techniques including seminars, workshops, digital means and publications.

Awareness through Seminars and Workshops

Our awareness programmes are focused on encouraging potential and existing investors to make the capital market their preferred avenue for investing. During the year, we conducted financial education seminars/ workshops for schoolchildren, undergraduates, teachers and the general public throughout the country. The summary of programmes is as follows. (Figure 19)

Figure 19: Awareness Programmes

| Type of Programme | Number of Programmes |
|--|----------------------|
| Teacher Training Programmes with Ministry of Education (All three Languages) | 07 |
| School Seminars (A/L Students) (All three Languages) | 13 |
| Undergraduate Programmes | 06 |
| SEC/CSE SME Forums for potential Listed Companies (to promote the Empower Board) | 05 |
| SEC/CSE Large Investor Seminars | 04 |
| CSE 4 part workshops | 01 |

Programmes for Schools and Universities

During the year under review, the SEC continued to facilitate and enhance financial literacy among the school children, school teachers, university undergraduates and lecturers by conducting a number of seminars and workshops island wide.

The SEC's mandate to provide financial education starts from the school level by providing sound financial knowledge among school teachers and students. Moreover, since the subject of capital market is at present included in the Business and Accounting Studies for the G.C.E (Ordinary level) and Business Studies for G.C.E (Advanced level) curricula, the SEC ensures that its capital market awareness initiatives cover the contents in the school syllabuses. These awareness programmes are conducted in association with provincial Education Directors.

In association with the Management, Accountancy, Commerce and Economics faculties of all the national universities the SEC conducted regular programmes to educate undergraduates and lecturers.

Undergraduate programmes were conducted in 06 universities.

Core (Coherent, Open, Responsive and Effective) Justice Programme

The SEC facilitated a localised study tour for selected female law students from state universities and the Sri Lanka Law College in order to enhance the governance, qualifications, and diversity of the Sri Lankan legal profession. This programme done in conjunction with The United States Agency for International Development (USAID) was commenced to empower the students to witness the functions of the institutions such as the SEC (as the SEC has been chosen as one of the key institutions which is the focus of the study) and obtain an understanding of the different career opportunities in the legal sector.

Regional Investor Forums

The SEC and the CSE continued the series of investor forums titled "kotas welenda pola: nagarayen nagarayate" (කොටස් වෙළෙඳපොළ නගරයෙන් නගරයට) throughout the country.

These workshops were conducted with a view of improving financial literacy and imparting knowledge on the types of investment products available in the securities market, increasing wealth creation and reducing the propensity for investors to be lured into scams.

These regional forums saw an active participation from professionals, entrepreneurs, academics etc. The locations covered during the year are as follows: (Figure:20)

Figure 20: Regional Investor Forums

| Date | Location |
|---------------------|---------------|
| 23rd March 2019 | Matara |
| 22nd June 2019 | Jaffna |
| 07th September 2019 | Tissamaharama |
| 21st September 2019 | Polonnaruwa |

The participants were also given the opportunity to interact with stockbrokers and unit trust management companies who provided investors with valuable investment advice. The forums also featured presentations and panel discussions by some of the industry's reputed personnel on different aspects about investing in stocks.

SME Forums

Following the launch of the "Empower Board" by the SEC and the CSE in July 2018, the SME forums were conducted island wide with the motive of empowering the SMEs by giving them the opportunity to learn more about the Empower Board to expand their businesses by sourcing more capital.

The forums also comprised of panel discussions with the participation of industry experts from CSE, SEC and Listed Companies to resolve concerns that the audience may have on raising capital on this new listing platform. The SME forums conducted during the year 2019 are as follows; (Figure 21)

Figure 21: SME Forums

| Date | Location |
|---------------------|-------------|
| 28th June 2019 | Kandy |
| 24th August 2019 | Jaffna |
| 06th September 2019 | Matara |
| 20th September 2019 | Polonnaruwa |
| 21st September 2019 | Batticaloa |

Stakeholder Forums

Forum for Public Listed Companies

The SEC engaged the Public Listed Companies (PLCs) in a dialogue in July 2019 at Grand Ballroom, Hilton, Colombo. The forum drew over 247 participants from more than 144 PLCs. The forum was intended to help senior personnel of listed entities to ascertain the regulatory eco system in which they conduct business and to evaluate whether any additional regulatory intervention is required to facilitate further enhancements to the operating framework. Specifically the need for segregation of Chairman and CEO duality was deliberated to seek the input of participants as many had already voluntarily implemented the segregation and possible challenges of non-segregated few was also discussed.

Auditors Round Table Discussion

A forum was organised to emphasise SEC's concerns relating to expectations of feeders and providers such as Auditors and other stakeholders to the regulatory functions of the SEC. Accordingly external auditors, investment advisors, banks, valuers, appraisers, actuaries took part in the knowledge sharing session to enhance the awareness of regulatory expectations among participants. The SEC presented many case studies to the participants to show actual scenarios elaborating significant gaps, which warranted regulatory intervention.

Focus Group Discussions on Corporate Governance

In order to enhance the Corporate Governance (CG) framework applicable for capital market, the existing framework of CG was reviewed with the creation of a focus group represented by Council Members of the Institute of the Chartered Accountants of Sri Lanka, CSE, Sri Lanka Institute of Directors, Independent Directors of Listed Entities etc. The members for the Focus Group were selected from a broader spectrum of approximately 50 participants who attended the session arranged by the SEC.

CFA Forum

The SEC signed a MOU in October 2019 with the Chartered Financial Analysts Society, Sri Lanka (CFASL) enabling the two institutions to work together to promote investor protection, ensure that professional standards and integrity are maintained in the capital market.

Subsequently, the SEC together with the CFA conducted their first collaborative forum in November 2019 at the Grand Ballroom, Hilton Residencies under the title of "Why adopting CFA Institute's Global Investment Performance Standards and Asset Manager Code could benefit both the fund managers and the investors?" Mr. Eddie Chan CFA, Director, Professional Conduct Enforcement, Asia Pacific Region, CFA Institute was the resource person.

Participation in Exhibitions

SEC uses various modalities to equip investors to make sound investment decisions. Accordingly, the SEC took part in several exhibitions during the year 2019; (Figure 22)

Operational Review

Figure 22: Participation in Exhibitions

| Date | Event | Locations |
|--------------------------|----------------------|------------------------------|
| 11th March 2019 | Momentum 2019 | BMICH (Colombo) |
| 15th August 2019 | Enterprise Sri Lanka | Anuradhapura |
| 12th September 2019 | Enterprise Sri Lanka | Jaffna |
| 03rd - 04th October 2019 | World Investor week | World Trade Center (Colombo) |

To coincide with "World Investor Week 2019" in association with the CSE, the SEC set up a stall at the World Trade Centre to raise awareness about the importance of investor education and protection. The stall was manned by 09 stock broking firms and 03 unit trust management companies. The two-day stall received an overwhelming response from the walk-in public with a significant number of Central Depository System (CDS) Accounts being opened. In addition, the stall was also visited by students, different industry professionals and the general public to acquire information about investing in the securities market.

Awareness through Electronic Media

All Island A/L Television Quiz Programme

As part of SEC's initiative to enhance financial literacy among Advanced Level Commerce and Economics students throughout the country, the SEC launched a Television Quiz Programme for the year 2019-2020.

The programme, which will be conducted in 03 stages namely the preliminary selection examination, semifinals and the finals will be held among students of all 09 provinces in Sri Lanka.

Preliminary level exams were successfully conducted in 21-exam centers island wide with the participation of over 600 students and assistance from the Provincial Educational Directors and the CSE.

The programme will continue to its second phase with the pre-recordings of the TV show and is scheduled to be telecasted in mid-2020.

Awareness through Print Media

Cartoon series on Investing

To enable the public to make informed financial decisions, the SEC used visual formats to improve financial literacy. Accordingly, the SEC continued to conduct the trilingual cartoon series titled "investing in your Future" in weekly and daily newspapers.

In addition, the SEC published a special set of public notices in all three languages with tips on investing wisely. These notices were published to coincide with the World Investor Week 2019 covering the key areas of savings and investments, opening a securities account, how to select shares etc .

Press Articles Series

The SEC continued to publish its articles series on investing in the Capital Market with Daily Mirror, Daily Ada and Tamil Mirror.

Operational Review

Engagement with IOSCO

The SEC is an Ordinary Member of IOSCO and a member of the Growth and Emerging Markets Committee (GEMC) and Asia Pacific Regional Committee (APRC). The policy work of IOSCO is conducted by its eight policy committees and the SEC has representation in two of these policy committees namely the Committee on Enforcement and the Exchange of Information (Committee 4) and the Committee on Retail Investors (Committee 8). SEC is a signatory to the IOSCO MMoU. SEC attends and actively participates in meetings of the two policy committees and contributes to various work streams through responses to surveys and questionnaires.

Our Strength

With a view to achieving excellence in discharging our mandate, the SEC strives to recruit the right people, develop and retain them. The human capital at SEC is equipped with specialised knowledge and skills to perform its core functions in order to achieve the goals and objectives of the SEC.

Staffing

The SEC provides a safe, secure and conducive environment to its employees and promotes a work place culture that is favourable to them to gain experience, enhance satisfaction and to maintain work –life balance.

During the year under review, the SEC was successful in hiring a suitably qualified and experienced employee to fill the position of Director Surveillance. Two Assistant Managers and a driver were also recruited during the year under review.

The SEC comprises of a multidisciplinary team and we strive to achieve gender equality through our strategies and policies. Moreover, the staff is appreciated, respected, nurtured and valued for their dedication and professionalism.

Improved Employee Satisfaction and Morale

The employees of the SEC are duly recognised for their long years of service to the institution as well as for their performance, and such appreciation has resulted in improving job satisfaction and

motivating the employees to perform better.

In the year under review nine employees gained promotions based on their performance and the years of service.

On 1st January 2017, 10 Management Trainees joined the SEC for a two year training programme and during the year under review 7 of them were absorbed to the permanent cadre following a performance evaluation.

Retirement and Resignations

Miss. Ianthie Jayaratne, Director Finance and Administration retired in March 2019 upon reaching 60 years of age. She was offered an opportunity to serve on a Fixed Term employment for a period of one year after her retirement.

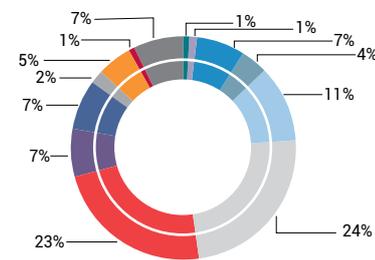
Further, during the year under review one Director, two Senior Assistant Managers, three Assistant Managers, an Officer and an Executive Secretary resigned recording a staff turnover of 11% and staff retention of 89% during the year.(Figure 23, 24)

Figure 23: Cadre Composition as at 31st December 2019

| Designations | Cadre approved by the Ministry as at date | Enhanced Cadre based on Commission decisions at the 384th Meeting – 14th February 2017 and 404th Meeting held on 22nd January 2018 | Total Cadre as at 31.12.2019 | Existing Cadre | | Vacancies |
|-------------------------|---|--|------------------------------|----------------|----------|-----------|
| | | | | Permanent | Contract | |
| Executive Staff | | | | | | |
| Director General | 1 | | 1 | 1 | | - |
| Deputy Director General | 1 | 1 | 2 | 1 | | 1 |
| Director | 11 | | 11 | 5 | 1 | 5 |
| Assistant Director | 5 | 5 | 10 | 3 | | 7 |
| Manager | 8 | 10 | 18 | 9 | | 9 |

| Designations | Cadre approved by the Ministry as at date | Enhanced Cadre based on Commission decisions at the 384th Meeting – 14th February 2017 and 404th Meeting held on 22nd January 2018 | Total Cadre as at 31.12.2019 | Existing Cadre | | Vacancies |
|--|---|--|------------------------------|----------------|----------|-----------|
| | | | | Permanent | Contract | |
| Senior Assistant Manager | 43 | 20 | 63 | 20 | | 21 |
| Assistant Manager | | | | 19 | | |
| Senior Executive Secretary | | | | 2 | | |
| Executive Secretary | | | | 1 | | |
| Officer | 11 | | 11 | 6 | | 5 |
| Non-Executive Staff | | | | | | |
| Confidential Secretaries | 6 | | 6 | 3 | | 1 |
| Telephone Operator | | | | 2 | | |
| Non-Executive (to be designated based on need) | | 3 | 3 | - | | 3 |
| Support Staff | | | | | | |
| Senior Office Assistant | 10 | 2 | 12 | 4 | | 1 |
| Office Assistant | | | | 1 | | |
| Office Aide / Driver | | | | 4 | 2 | |
| Total | 96 | 41 | 137 | 81 | 3 | 53 |

Figure 24: Existing Cadre

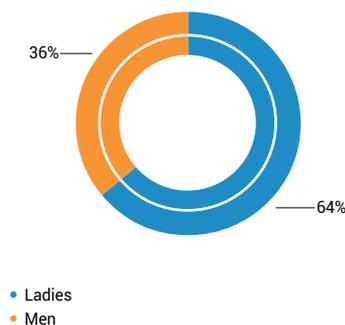


- Director General
- Deputy Director General
- Director
- Assistant Director
- Manager
- Senior Assistant Manager
- Assistant Manager
- Officer
- Senior Executive Secretary, Executive Secretary and Confidential Secretary
- Receptionist cum Telephone Operator
- Senior Office Assistant
- Office Assistant
- Office Aide/Driver

Gender Analysis

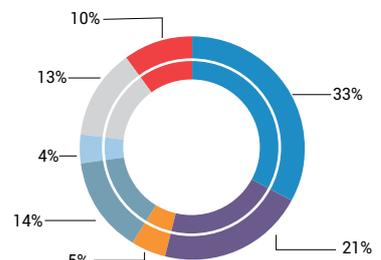
The staff members in the permanent cadre as at the end of the year under review was 84 consisting of 30 males and 54 females. (Figure 25, 26, 27, 28)

Figure 25: Gender Analysis



- Ladies
- Men

Figure 26: Service Information



- 0-5 yrs
- 6-8 yrs
- 9-11 yrs
- 12-14 yrs
- 15-17 yrs
- 18-19-20 yrs
- More than 21 yrs

Operational Review

Figure 27: Age Analysis

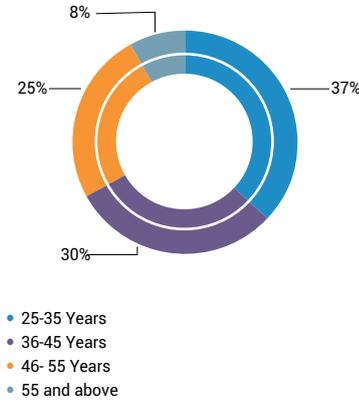
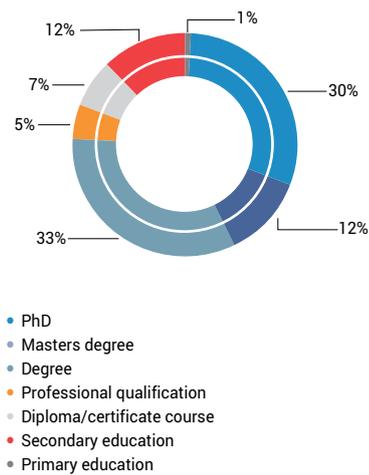


Figure 28: Qualification Framework



Staff Welfare

At the end of the year a staff get-together was organised under the theme ‘Dazzling Night’ that enabled the staff, their spouses and children to enjoy and socialise with fellow staff members and their families bringing the team together in camaraderie.

Training and Development

Since the staff is the wealth of any organisation the SEC focuses on training and developing the staff on a continuous basis to keep abreast with the new trends in regulation and development of capital markets in the international arena. Our training and development framework is structured, progressive,

fosters employee engagement and strengthens its talent pipeline.

An approximate sum of Rupees 8.6 million was invested to provide overseas training for the staff. The SEC incurred an approximate sum of Rupees 1.5 million for local training and another Rupees 0.5 million was spent for sponsorships for higher studies and membership fees during the year under review.

During the year under review, members of the staff received training relating to capital market regulation and development at various programmes, which were held in Australia, Canada, United States of America, United Kingdom, Russia etc. We extend our appreciation to IOSCO, Asia Pacific Economic Cooperation (APEC) and other international agencies for enabling knowledge sharing and co-operation among fellow regulators.

Further, the staff was also provided with the opportunities to attend seminars and programmes such as the Sri Lanka Economic Summit 2019, CIMA Business Leaders’ Summit, Annual AAT Summit, National Conference of Chartered Accountants, Conference on Cyber Security, Role of Company Secretaries etc. that were organised locally.

Demonstrating the commitment to staff education, SEC’s training arm continuously provides opportunities to the staff to follow study courses focused on enhancing their knowledge in the capital market arena. The CFASL provides scholarships to the staff to follow courses at discounted rates. We also provide sponsorships to employees to follow higher studies including postgraduate degrees.

During the year under review, Ms. Pauline Corea, a qualified therapist conducted a workshop on ‘Emotional Healing’ for the senior level staff.

Under the ‘Chairman’s Office Initiatives an Economic Intelligence Unit comprising of the economists of the SEC was formed in September 2019 in order to create a suitable platform for the economists at the SEC to feel intellectually challenged whilst contributing towards the routine work in relation to regulation and the development of the capital market.

The SEC conducted a series of First Aid/ Safety training programmes for the staff to enhance their awareness in taking safety measures in emergencies, which they may come across in their daily lives. The above sessions were conducted by Mr. Lasath Fernando, Head of Security and Safety of Overseas Realty (Ceylon) PLC and Mr. Nishantha Rajapakse of STAD Security Services.

Internships

We continued to award internship opportunities to undergraduates of national universities in order to provide exposure to the functions of the regulator of the capital market.

‘Triple P’ Initiative

The ‘Triple P’ initiative of “Punctuality, Productivity and Proactivity” was introduced by the former Chairman, Mr. Ranel T. Wijesinha in the year 2018 and Mrs. Samantha Gunawardana, an Assistant Manager attached to the Corporate Affairs Division was commended by the former Chairman in the presence of the SEC staff as an example to others.

Information Technology

During the year under review Sri Lanka CERT|CC (Computer Emergency Readiness Team | Co-ordination Center) carried out a system vulnerability assessment on SEC IT infrastructure, systems and web applications.

In addition, the SEC Disaster Recovery site was upgraded in line with defence in-depth architecture. Hardware

components were deployed with high availability to avoid single point of failure. A system was designed to replicate critical business related data to the Disaster Recovery site in order to continue the operations whilst maintaining the security features and data integrity in an instance of unavailability of the primary site.

Statutory Funds

CESS Fund

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

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-

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

(3) The money lying to the credit of the Cess Fund may be invested by the

Commission in such manner as may be determined by the Commission.

For your information the rate of Cess charged by the SEC after a series of deliberations had been reduced for the second time to 0.072% per transaction from 0.09% per transaction with effect from 1st August 2010. Earlier reduction took place with effect from 1st 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 levied at 0.072% and 0.045% respectively was introduced with effect from 1st January 2011. The threshold was revised and accordingly

the SEC Cess for transactions up to Rs.100 million and over Rs.100 million is levied at 0.072% and 0.045% respectively with effect from 27th June 2017.

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

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

The total purchases and sales of a client on the same security will be considered

for the purpose of determining the exemption of Brokerage, CSE, CDS and SEC transaction fees.

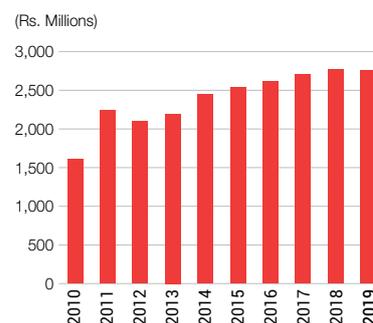
To strengthen the Compensation Fund a sum of Rs. 50 million was transferred during the year 2009 from the Cess Fund. A further Rs.100 million was transferred from the Cess Fund to the Settlement Guarantee Fund of Rs.50 million each during the years 2009 and 2010.

Transfers to the Consolidated fund on four occasions amounted to Rs.276 million, Rs.380 million, Rs.94 million and Rs.52 million on 30.09.2010, 24.09.2012, 31.12.2013 and 16.09.2019 respectively.

The balance lying to the credit of Cess Fund as at 31st December 2019 amounted to Rs. 2,759,652,222/- of which Rs.306,607,487/- is invested in the State Institutions Temporary Surplus Trust Fund, Rs. 32,895,534/- is invested in Treasury Bonds and Rs.350,000,000 is invested in Repo.

The growth of the fund during the period 2010-2019 is depicted below: (Figure 29)

Figure 29: 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 of Sri Lanka Act, No 36 of 1987 as amended states as follows:

Operational Review

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.

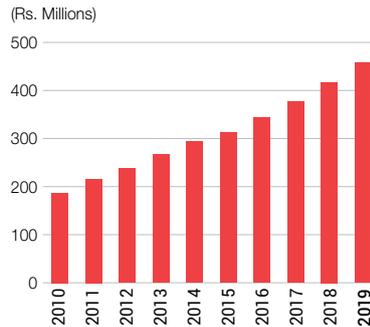
The Act also provides for the procedure to apply for compensation. According to the Act, the Committee may, after examination of the documents and other evidence produced in support of the claim by an applicant, or in any case where an inquiry was held on the conclusion of such inquiry, allow or disallow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

To strengthen the Compensation Fund a sum of Rs. 50 million was transferred from the Cess Fund during the year 2009.

The balance lying to the credit of the Compensation Fund as at 31.12.2019 amounted to Rs.457,530,217/-. The growth of the Fund during the period 2010 to 2019 is depicted below.

(Figure 30)

Figure 30: Compensation Fund



The Settlement Guarantee Fund (SGF)

The SGF was launched on 22 May 1998. The Fund was established for the purpose of guaranteeing the settlement of trades between participants of the 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, the Deputy Secretary to the Treasury, the Director General of SEC and the Director General of CSE.
- The Government of Sri Lanka has contributed a sum of Rs 50 million

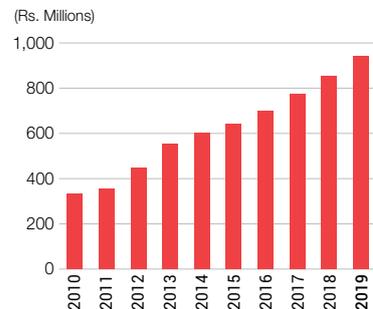
to setup the said Fund. This money has been invested in Government securities and fixed deposits. SGF can also receive donations, gifts and endowments as replenishments. The broker/custodian banks are presently not required to contribute to the Fund.

- With a view to strengthen the Fund a sum of Rs. 100 million was transferred from the Cess Fund in two equal amounts of Rs. 50 million each during the years 2009 and 2010. The CSE also transferred Rs.100 million in January 2012 after changing the Deed of Trust of the SGF to accommodate such receipts to the fund.

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 to effectively address the settlement risk. From the inception of the Fund no claims have been recorded from the SGF.

The balance lying to the credit of the SGF as at 31.12.2019 amounted to Rs.942,902,878/-. The growth of the Fund during the period 2010 and 2019 is depicted in the following graph. (Figure 31)

Figure 31: Settlement Guarantee Fund



Additional Information

Licensed Stock Exchange

Colombo Stock Exchange

Licensed Stock Brokers

1. Acuity Stockbrokers (Private) Limited
2. Asha Phillip Securities Limited
3. Asia Securities (Private) Limited
4. Assetline Securities (Private) Limited
5. Bartleet Religare Securities (Private) Limited
6. Candor Equities Limited
7. Capital Alliance Limited (Debt Securities)
8. Capital Alliance Securities (Private) Limited
9. Capital Trust Securities (Private) Limited
10. CT CLSA Securities (Private) Limited
11. Enterprise Ceylon Capital (Pvt) Ltd
12. First Capital Equities (Private) Limited
13. First Guardian Equities (Private) Limited
14. JB Securities (Private) Limited
15. John Keells Stock Brokers (Private) Limited
16. Lanka Securities (Private) Limited
17. LOLC Securities Limited
18. Navara Securities (Pvt) Ltd*
19. NDB Securities (Private) Limited
20. NSB Fund Management Co. Ltd (Debt Securities)
21. Richard Pieris Securities (Private) Limited
22. SC Securities (Private) Limited
23. SMB Securities (Private) Limited
24. Softlogic Stockbrokers(Pvt) Ltd
25. Somerville Stock Brokers (Private) Limited

26. Taprobane Securities (Private) Limited

27. TKS Securities (Private) Limited*

28. Wealth Trust Securities Ltd (Debt Securities)

*Voluntary inactivation of business operations

Licensed Stock Dealers

1. Asia Securities (Private) Limited
2. Bartleet Religare Securities (Private) Ltd (Debt)
3. Capital Alliance Limited (Debt)
4. Enterprise Ceylon Capital (Private) Ltd
5. JB Securities (Private) Limited
6. NDB Securities (Private) Limited
7. NSB Fund Management Company Limited (Debt)
8. Seylan Bank PLC (Debt)
9. SMB Securities (Private) Limited- (Debt)
10. Softlogic Stockbrokers (Pvt) Ltd
11. Wealth Trust Securities Limited (Debt)

Licensed Managing Companies of Unit Trusts

1. Ceylon Asset Management Company Limited
 - Ceylon Dollar Bond Fund
 - Ceylon Financial Sector Fund
 - Ceylon Gilt – Edged Fund
 - Ceylon Income Fund
 - Ceylon Index Fund
 - Ceylon IPO Fund
 - Ceylon Money Market Fund
 - Ceylon Tourism Fund
 - Ceylon Treasury Income Fund

2. Comtrust Asset Management (Private) Limited

- Comtrust ADL Mudarabah Fund
- Comtrust Equity Fund
- Comtrust Gilt Edged Fund
- Comtrust Money Market Fund

3. NDB Wealth Management Limited

- NDB Wealth Gilt Edged Fund
- NDB Wealth Growth & Income Fund
- NDB Wealth Growth Fund
- NDB Wealth Income Fund
- NDB Wealth Income Plus Fund
- NDB Wealth Islamic Money Plus Fund
- NDB Wealth Money Fund
- NDB Wealth Money Plus Fund

4. Ceybank Asset Management (Pvt) Limited

- Ceybank Century Growth Fund
- Ceybank Gilt Edged Fund (A Series)
- Ceybank Gilt Edged Fund (B Series)
- Ceybank High Yield Fund
- Ceybank Savings Plus Money Market Fund
- Ceybank Surakum Gilt Edged Fund
- Ceybank Unit Trust Fund

5. National Asset Management Limited

- NAMAL Growth Fund
- NAMAL High Yield Fund
- NAMAL Income Fund
- NAMAL Money Market Fund
- National Equity Fund
- NAMAL Gilt Fund
- NAMAL Bank Fund

Additional Information

- | | | |
|--|---|---|
| <p>6. First Capital Asset Management Limited</p> <ul style="list-style-type: none"> • First Capital Equity Fund • First Capital Fixed income Fund • First Capital Gilt Edged Fund • First Capital Money Market Fund • First Capital Wealth Fund | <p>9. Candor Asset Management (Pvt) Ltd</p> <ul style="list-style-type: none"> • Candor Growth Fund • Candor Money Market Fund • Candor Opportunities Fund • Amana Candor Shariah Balanced Fund • Amana Candor Shariah Income Fund | <ul style="list-style-type: none"> • CAL Income Fund • CAL Investment Grade Fund • CAL Medium Risk Debt Fund • CAL Quantitative Equity Fund |
| <p>7. J B Financial (Pvt) Ltd</p> <ul style="list-style-type: none"> • JB Vantage Money Market Fund • JB Vantage Short Term Gilt Fund • JB Vantage Value Equity Fund | <p>10. Asset Trust Management (Pvt) Ltd</p> <ul style="list-style-type: none"> • Astrue Alpha Fund | <p>12. Arpico Ataraxia Asset Management (Private) Limited</p> <ul style="list-style-type: none"> • Arpico Ataraxia CMT (Cash Management Trust) • Arpico Ataraxia S&P SL 20 Index Fund • Arpico Ataraxia Repo Investment Fund • Arpico Ataraxia Sri Lanka Bond Fund |
| <p>8. Guardian Acuity Asset Management Ltd</p> <ul style="list-style-type: none"> • Guardian Acuity Equity Fund • Guardian Acuity Money Market Fund • Guardian Acuity Money Market Gilt Fund | <p>11. Capital Alliance Investments Ltd</p> <ul style="list-style-type: none"> • CAL Balanced Fund • CAL Corporate Debt & Gilt Trading Fund • CAL Corporate Treasury Fund • CAL Gilt Fund • CAL Gilt Money Market Fund • CAL Gilt Trading Fund • CAL High Yield Fund | <p>13. Premier Wealth Management Ltd</p> <ul style="list-style-type: none"> • Premier Growth Fund • Premier Money Market Fund <p>14. Assetline Capital (Pvt) Ltd</p> <ul style="list-style-type: none"> • Assetline Income Fund • Assetline Income Plus Growth Fund |

| Category | Investment Manager | Margin Provider | Underwriter |
|---|--------------------|-----------------|-------------|
| Acuity Partners (Private) Limited | | √ | |
| ADL Equities Ltd | | √ | |
| Amana Asset Limited** | √ | | |
| Asha Financial Services Limited | | √ | |
| Asia Securities Wealth Management (Private) Limited | √ | | |
| Asset Trust Management (Private) Limited | √ | | |
| Assetline Capital (Private) Limited | √ | | |
| Assetline Leasing Company Limited | | √ | |
| Bank of Ceylon | √ | | √ |
| Bansei Securities Capital (Private) Ltd | | √ | |
| Bartleet Asset Management (Private) Ltd | √ | | |
| Candor Asset Management (Private) Limited | √ | | |
| Capital Alliance Investments Limited | √ | | |
| Capital Trust Credit (Private) Limited | | √ | |
| Ceybank Asset Management Ltd | √ | | |
| Citizen Development Business Finance PLC | | √ | |
| Commercial Bank of Ceylon PLC | | √ | √ |
| Comtrust Asset Management Limited | √ | | |

| Category | Investment Manager | Margin Provider | Underwriter |
|---|--------------------|-----------------|-------------|
| DFCC Bank PLC | | √ | √ |
| Dialog Finance PLC (formerly Colombo Trust Finance PLC) | | √ | |
| First Capital Asset Management Limited | √ | | |
| First Capital Markets Limited | | √ | |
| Guardian Acuity Asset Management Limited | √ | | |
| Guardian Fund Management Limited | √ | | |
| Hatton National Bank PLC | | √ | √ |
| Innovest Investments (Private) Limited | √ | | |
| J B Credit (Pvt) Ltd | | √ | |
| JB Financial (Private) Limited | √ | | |
| L B Finance PLC | | √ | |
| LOLC Finance PLC | | √ | |
| Lynear Wealth Management (Private) Ltd | √ | | |
| Merchant Bank of Sri Lanka & Finance PLC | √ | √ | √ |
| Nation Lanka Capital Ltd | | √ | |
| National Asset Management Ltd | √ | | |
| National Development Bank PLC | | √ | |
| National Wealth Corporation Limited | √ | | |
| NDB Capital Holdings Limited | | | √ |
| NDB Wealth Management Limited | √ | | |
| Orion Fund Management (Private) Limited | √ | | |
| Pan Asia Banking Corporation PLC | | √ | |
| People's Leasing and Finance PLC | | √ | |
| People's Merchant Finance PLC | | √ | |
| Premier Wealth Management Limited | √ | | |
| Richard Peiris Financial Services (Private) Ltd | | √ | |
| Sampath Bank PLC | | √ | √ |
| Seylan Bank PLC | | √ | |
| Softlogic Capital PLC | √ | | |
| Union Bank of Colombo PLC | | √ | |
| Waldock Mackenzie Limited | √ | √ | |

Registered Market Intermediary under the Category of a Clearing House:

- Central Depository Systems (Private) Limited

Registered Market Intermediaries under the Category of Credit Rating Agency:

- Fitch Rating Lanka LTD
- ICRA Lanka Limited

** Registration renewed to enable the settlement of investors of Amana Asset Limited. The company is not permitted to accept new clients or investments.

Additional Information

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|-----------|-----------|-----------|----------|----------|-----------|
| Annual Turnover (Rs Mn) Equity | 340,917 | 253,251 | 176,935 | 220,591 | 200,069 | 171,408 |
| Domestic (Rs. Mn) | 246,796 | 166,151 | 102,544 | 117,135 | 111,378 | 109,003 |
| Foreign (Rs. Mn) | 94,120 | 87,099 | 74,391 | 103,456 | 88,691 | 62,405 |
| Market Days (No) | 241 | 239 | 240 | 241 | 240 | 241 |
| Daily Average Turnover (Rs. Mn) Equity | 1,414 | 1,059.6 | 737.2 | 915.3 | 834 | 711 |
| Shares traded (No Mn) Equity | 16,722 | 9,414 | 7,196 | 8,468 | 6,001 | 9,855 |
| Domestic (No Mn) | 14,726 | 7,693 | 5,776 | 6,529 | 4,821 | 7,091 |
| Foreign (No Mn) | 1,995 | 1,721 | 1,420 | 1,939 | 1,180 | 2,764 |
| Trades (No) Equity | 1,982,709 | 1,506,790 | 1,056,849 | 981,977 | 885,657 | 1,197,205 |
| Domestic (No) | 1,899,569 | 1,431,750 | 1,002,476 | 928,276 | 838,784 | 1,150,486 |
| Foreign (No) | 83,140 | 75,040 | 54,373 | 53,701 | 46,873 | 46,719 |
| New Listing (No) | 7 | 5 | 4 | 3 | 3 | 2 |
| De-listing (No) | 3 | 3 | 2 | 2 | 2 | 10 |
| Companies Listed | 294 | 294 | 295 | 296 | 297 | 289 |
| Companies Traded | 284 | 278 | 240 | 279 | 279 | 279 |
| Market Capitalization (Rs. Bn) | 3,104.9 | 2938.0 | 2,745.41 | 2,899.29 | 2,839.45 | 2,851.31 |
| Market PER year end (Times) | 19.7 | 18.0 | 12.37 | 10.60 | 9.65 | 10.83 |
| Turnover to Market Capitalization (%) | 11.0 | 8.4 | 6.2 | 7.6 | 7.0 | 6.01 |
| Dividend Yield Year End (%) | 2.1 | 2.18 | 2.75 | 3.19 | 3.09 | 3.17 |
| Price to Book Value Year End (Times) | 2.2 | 1.99 | 1.42 | 1.31 | 1.18 | 1.14 |
| Market Cap. As a % of GDP | 31 | 30 | 24.5 | 24.5 | 21.4 | 22 |
| Price Indices | | | | | | |
| All Share Price Index (ASPI) | 7,299.0 | 6894.5 | 6,228.26 | 6,369.26 | 6,052.37 | 6,129.21 |
| y-o-y Change % | 23.4 | (5.5) | (9.7) | 2.3 | (5.0) | 1.27 |
| S&P Sri Lanka 20 | 4,089.1 | 3625.7 | 3,496.44 | 3,671.72 | 3,135.18 | 2,936.96 |
| y-o-y Change % | 25.3 | (11.3) | (3.6) | 5.0 | (14.6) | (6.32) |
| Total Return Indices | | | | | | |
| Total Return Index on ASPI (ASTRI) | 9,579.2 | 9079.9 | 8,232.66 | 8,457.09 | 8,066.97 | 8,203.82 |
| y-o-y Change % | 26.3 | (5.2) | (9.3) | 2.7 | (4.6) | 1.70 |
| Total Return Index on S&P Sri Lanka 20 (S&P Sri Lanka 20TRI) | 5,331.1 | 4861.5 | 4,843.17 | 5,259.85 | 4,686.71 | 4,603.57 |
| y-o-y Change % | 29.0 | (8.8) | (0.4) | 8.6 | (10.9) | (1.77) |

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------------|-------------|-------------|-------------|------------|-----------|
| Non-National Activity | | | | | | |
| Annual Turnover (Rs. Mn) | 94,120 | 87,099 | 74,391 | 103,456 | 88,691 | 62,405 |
| Purchases (Rs. Mn.) | 104,689 | 84,414 | 74,583 | 112,285 | 77,067 | 56,537 |
| Sales (Rs. Mn.) | 83,550 | 89,784 | 74,199 | 94,627 | 100,315 | 68,272 |
| Net Foreign Flow | 21,139 | (5,369.9) | 383.5 | 17,657.4 | (23,247.5) | (11,735) |
| Shares Traded (No. Mn.) | 1,995 | 1,721.50 | 1,420 | 1,939 | 1,180 | 2,764 |
| Purchases (No. Mn.) | 2,381 | 1,730.72 | 1,572 | 2,062 | 1,060 | 3,896 |
| Sales (No. Mn.) | 1,610 | 1,712.27 | 1,267 | 1,817 | 1,299 | 1,631 |
| Trades | 83,140 | 75,040 | 54,373 | 53,701 | 46,873 | 46,719 |
| Purchases (No.) | 94,752 | 65,932 | 51,656 | 56,643 | 37,855 | 25,759 |
| Sales (No.) | 71,529 | 84,149 | 57,091 | 50,760 | 55,892 | 67,680 |
| Debt Market | | | | | | |
| Corporate Debt | | | | | | |
| Turnover (Rs. 000) | 7,139,730.4 | 4,714,012.7 | 2,932,154.0 | 3,592,905.5 | 4,540,599 | 5,677,080 |
| No of Trades | 401 | 220 | 291 | 529 | 293 | 234 |
| No of Debentured Traded (000) | 56,909 | 42,201 | 28,335 | 35,696 | 44,024 | 55,643 |
| Government Debt | | | | | | |
| Turnover (Rs. 000) | | | - | | - | |
| No of Trades | | | - | | - | |
| No of Debentured Traded (000) | | | - | | - | |
| Unit Trusts | | | | | | |
| Net Asset Value (NAV) (Rs. Mn) | 127,356 | 129,844 | 103,890 | 128,804 | 64.22 | 104.79 |
| Unit Holders (No.) | 32,619 | 38,140 | 41,154 | 41,037 | 42,093 | 46,481 |
| Units Issued (No. 000) | 9,772 | 8,812 | 7,142 | 7,639 | 3,368 | 4,769 |
| Investment in Equity (Rs. Mn.) | 14,591 | 14,376 | 13,786 | 12,466 | 9,416 | 9,841 |
| Investment in Treasury Bills (Rs.Mn) | 60,897 | 28,294 | 49,299 | 24,386 | 3,379 | 9,150 |
| Investment in other Instruments **(Rs. Mn) | 52,202 | 87,272 | 40,553 | 91,732 | 50,601 | 84,542 |

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

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

Highlights of the Year



Ring the Bell for Financial literacy during World Investor Week



Certificate and Diploma Awards Ceremony



Workshop for Law Students



SME Forum in Kandy



Corporate Governance Roundtable Discussion



FITIS Tec SME Forum



SME Forum in Jaffna



Investor Forum in Pollonnaruwa



Regional Investor Forum in Matara



SME Forum in Matara



A Continuous Professional Development Seminar



Investor Forum in Jaffna



Enterprise Sri Lanka Exhibition in Jaffna

Highlights of the Year



Meeting with the High Commissioner of Australia for Sri Lanka, His Excellency David Holly



Education Programme for Teachers



Regional Investor Forum in Embilipitiya



SME Forum in Pollonnaruwa



Investor Forum in Tissamaharama



Invest Sri Lanka – Investor Forum in Singapore



A Dialogue with Public Listed Companies



Signing of the MOU with CFA Sri Lanka



A Seminar for A/L Students



Roundtable Discussion with Auditors and Other Market Stakeholders



A seminar Conducted for the Undergraduates of the Sabaragamuwa University



A/L TV Quiz "The Investor 2020" Preliminary Level Examinations



SEC and CMI Stall at WTC during the World Investor Week

Financial Reports

Securities and Exchange Commission of Sri Lanka
Auditor General's Report | 66-68

Statement of Financial Position | 69

Statement of Financial Performance | 70

Statement of Changes In Reserves | 71

Cash Flow Statement | 72-73

Accounting Policies | 74-76

Notes to the Financial Statements | 77-88

Settlement Guarantee Fund

Auditor General's Report | 89-90

Statement of Financial Position | 91

Statement of Financial Performance | 92

Statement of Changes in Net Assets | 93

Cash Flow Statement | 94

Accounting Policies and Notes to the
Financial Statements | 95-96

Auditor General's Report

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல. } BAF/H/SEC/1/19/3
My No. }

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி } 21 August 2020
Date }

Chairman

Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2019 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Securities and Exchange Commission of Sri Lanka ("Commission") for the year ended 31 December 2019 comprising the Statement of Financial Position as at 31 December 2019 and the Statement of Financial Performance, Statement of Changes in Reserves and Cash Flow Statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act, No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Commission as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

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

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

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

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





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

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

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

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Auditor General's Report



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

2. Report on Other Legal and Regulatory Requirements

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

- I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Commission as per the requirement of Section 12 (a) of the National Audit Act, No. 19 of 2018.
- The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained which were limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Commission has any direct or indirect interest in any contract entered into by the Commission which are out of the normal course of business as per the requirement of Section 12 (d) of the National Audit Act, No. 19 of 2018.
- to state that the Commission has not complied with any applicable written law, general and special directions issued by the governing body of the Commission as per the requirement of Section 12 (f) of the National Audit Act, No. 19 of 2018.
- to state that the Commission has not performed according to its powers, functions and duties as per the requirement of Section 12 (g) of the National Audit Act, No. 19 of 2018.
- to state that the resources of the Commission had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of Section 12 (h) of the National Audit Act, No. 19 of 2018.

W. P. C. Wickramaratne
Auditor General

Statement of Financial Position

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

| As At 31st December | Note | 2019 Rs. | 2018 Rs. |
|---|------|----------------------|----------------------|
| ASSETS | | | |
| NON CURRENT ASSETS | | | |
| Property, Plant & Equipment | 1 | 87,921,497 | 62,478,273 |
| Cess Fund | 2 | 1,972,252,215 | 2,265,755,869 |
| Compensation Fund | 3 | 381,455,159 | 410,500,829 |
| CURRENT ASSETS | | | |
| Inventories | 4 | 1,480,653 | 1,324,161 |
| Receivables | 5 | 7,906,073 | 21,609,738 |
| Cess Fund | 2 | 817,511,467 | 505,188,942 |
| Compensation Fund | 3 | 80,508,785 | 6,941,727 |
| Deposits, Advances and Prepayments | 6 | 15,521,775 | 15,346,689 |
| Cash & Cash Equivalents | 7 | 168,713,076 | 29,287,171 |
| TOTAL ASSETS | | 3,533,270,700 | 3,318,433,400 |
| FUNDS AND LIABILITIES | | | |
| FUNDS EMPLOYED AND RESERVES | | | |
| Accumulated Fund | 8 | - | - |
| Cess Fund | 9 | 2,789,763,682 | 2,770,944,811 |
| Compensation Fund | 10 | 461,963,945 | 417,442,556 |
| | | 3,251,727,627 | 3,188,387,367 |
| NON CURRENT LIABILITIES | | | |
| Grant - Transfer from Cess Fund for Capital Expenditure | 11 | 81,571,796 | 56,128,573 |
| Retirement Benefit Obligation | 13 | 43,464,269 | 44,347,652 |
| CURRENT LIABILITIES | | | |
| Income Tax Payable | | 33,316,205 | - |
| Creditors and Accruals | 14 | 119,841,708 | 26,625,821 |
| Receipts in Advance | | 3,349,095 | 2,943,988 |
| TOTAL FUNDS AND LIABILITIES | | 3,533,270,700 | 3,318,433,400 |

The Accounting Policies and Notes appearing on pages 74 to 88 form an integral part of the financial statements.

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

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



Chinthaka Mendis
Director General
Securities and Exchange Commission of Sri Lanka



Viraj Dayaratne PC
Chairman
Securities and Exchange Commission of Sri Lanka



G. P. N. Dilhani
Acting Director Finance & Administration
Securities and Exchange Commission of Sri Lanka

Colombo
27th July 2020

Statement of Financial Performance

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

| For the year ended 31st December | Note | 2019 Rs. | 2018 Rs. |
|--|------|----------------------|----------------------|
| INCOME | | | |
| License Fees | | 3,171,963 | 3,019,240 |
| Administration Levy | | 1,531,065 | 2,556,086 |
| Educational Programmes | | 4,033,843 | 4,198,430 |
| Interest Income | | 3,728,019 | 268,284 |
| Other Income | | 2,015,176 | 236,753 |
| Profit/(Loss) on Disposal of Property, Plant and Equipment | | - | 32,425 |
| Government Grant- FSMP | 12 | 81,124,254 | - |
| Recognition of Grants | 11 | 16,513,523 | 17,585,330 |
| | | 112,117,843 | 27,896,548 |
| EXPENDITURE | | | |
| Personnel Costs | 15 | (233,214,148) | (231,236,983) |
| Administration & Establishment Expenses | 16 | (167,180,480) | (153,976,071) |
| Capital Market Development Expenses | 17 | (53,736,624) | (85,159,152) |
| Finance Charges | 18 | (64,525) | (30,556) |
| Total Expenditure | | (454,195,777) | (470,402,762) |
| Income Tax Expense | 19 | (33,316,205) | - |
| Excess of Revenue Expenditure over Income | | (375,394,139) | (442,506,214) |
| Transfer from Cess Fund towards net Operational Expenditure | | 375,394,139 | 442,506,214 |

The Accounting Policies and Notes appearing on pages 74 to 88 form an integral part of the financial statements.

Statement of Changes in Reserves

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

| For the year ended 31st December | Cess Fund Rs. | Compensation Fund Rs. | Accumulated Fund Rs. | Total Rs. |
|---|------------------|-----------------------------|----------------------------|---------------|
| Balance as at 1st January 2018 | 2,702,455,721 | 377,637,604 | - | 3,080,093,325 |
| Excess expenditure over income for the year | - | - | (442,506,214) | (442,506,214) |
| Add: Cess received during the year | 250,704,350 | - | - | 250,704,350 |
| Interest earned during the year | 265,303,666 | 39,829,392 | - | 305,133,058 |
| | 3,218,463,737 | 417,466,996 | (442,506,214) | 3,193,424,519 |
| Transfer from Cess Fund towards net operational expenditure | (447,460,218) | - | 442,506,214 | (4,954,004) |
| Bank charges | (58,708) | (24,440) | - | (83,148) |
| | (447,518,926) | (24,440) | 442,506,214 | (5,037,152) |
| Balance as at 31st December 2018 | 2,770,944,811 | 417,442,556 | - | 3,188,387,367 |
| Balance as at 1st January 2019 | 2,770,944,811 | 417,442,556 | - | 3,188,387,367 |
| Excess expenditure over income for the year | - | - | (375,394,139) | (375,394,139) |
| Add: Cess received during the year | 223,020,518 | - | - | 223,020,518 |
| Interest earned during the year | 265,815,787 | 44,537,379 | - | 310,353,166 |
| | 3,259,781,116 | 461,979,935 | (375,394,139) | 3,346,366,912 |
| Transfer from Cess Fund towards net operational and capital expenditure | (417,350,885) | - | 375,394,139 | (41,956,746) |
| Fund Transfer to Consolidated Fund | (52,616,373) | - | - | (52,616,373) |
| Bank charges | (50,176) | (15,990) | - | (66,166) |
| | (470,017,434) | (15,990) | 375,394,139 | (94,639,285) |
| Balance as at 31st December 2019 | 2,789,763,682 | 461,963,945 | - | 3,251,727,627 |

The Accounting Policies and Notes appearing on pages 74 to 88 form an integral part of the financial statements.

Cash Flow Statement

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

| For the year ended 31st December | Note | 2019 Rs. | 2018 Rs. |
|---|------|---------------|--------------|
| Cash Flows from Operating Activities | | | |
| Net Increase/(Decrease) of the SEC | | - | - |
| Net Increase/ (Decrease) of the Cess Fund | | 18,818,871 | 68,489,090 |
| Net Increase/(Decrease) of the Compensation Fund | | 44,521,389 | 39,804,952 |
| | | 63,340,260 | 108,294,042 |
| Adjustment for; | | | |
| Depreciation | 1 | 16,513,523 | 17,585,330 |
| (Profit)/Loss on Disposal of Property, Plant & Equipment | | - | (32,425) |
| Recognition of Grant | 11 | (16,513,523) | (17,585,330) |
| Provision for Gratuity | 13 | 5,558,515 | 13,045,173 |
| Net Increase/(Decrease) before Working Capital Changes | | 5,558,515 | 13,012,748 |
| Change of Working Capital - SEC | | | |
| (Increase)/ Decrease of Stocks | | (156,492) | 144,555 |
| (Increase)/ Decrease of Receivable | | 13,703,665 | (18,842,437) |
| (Increase)/ Decrease of Deposits Advances & Prepayments | | (175,087) | (7,820,889) |
| Increase/ (Decrease) of Receipt in Advance | | 405,111 | (471,920) |
| Increase/ (Decrease) of Creditors & Accruals | | 81,860,967 | 7,958,856 |
| Increase/ (Decrease) of Payables | | 33,316,205 | - |
| | | 128,954,369 | (19,031,835) |
| Change of Working Capital - Cess Fund | | | |
| (Increase)/ Decrease of Staff Loans | | 713,208 | 3,304,852 |
| (Increase)/ Decrease of Cess Receivable | | (1,822,794) | (174,610) |
| (Increase)/ Decrease of Receivable - Sampath Bank | | 4,611 | 26,427 |
| (Increase)/ Decrease of Receivable from the SEC | | (84,150,977) | 7,247,079 |
| (Increase)/ Decrease of Interest Receivable on Treasury Bonds | | (31,291,094) | (961,180) |
| (Increase)/ Decrease of Interest Receivable on Treasury Bills | | 1,904,008 | (1,904,008) |
| (Increase)/ Decrease of Interest Receivable on Repo | | (318,424) | 1,249,998 |
| (Increase)/ Decrease of Lease Rent Deposit | | (2,475,444) | (4,843,260) |
| Increase/ (Decrease) of Payables | | (23,756,398) | 23,756,398 |
| | | (141,193,304) | 27,701,696 |
| Change of Working Capital - Compensation Fund | | | |
| (Increase)/ Decrease of Interest Receivable on Treasury Bonds | | (5,026,281) | (2,095,765) |
| (Increase)/ Decrease of Interest Receivable on Repo | | (71,939) | 165,295 |
| | | (5,098,220) | (1,930,470) |
| Cash Generated from Operating Activities | | | |
| | | 51,561,620 | 128,046,181 |
| Gratuity paid during the year | | (6,441,900) | (1,119,434) |
| Net Cash Inflow/(Outflow) from Operating Activities | | 45,119,720 | 126,926,747 |
| Cash Flows from Investing Activities | | | |
| Cash Flows from Investing Activities - SEC | | | |
| Purchase of Property, Plant and Equipment | 1 | (30,601,826) | (4,954,004) |
| Proceeds from Sale of Property, Plant & Equipment | | - | 33,493 |
| | | (30,601,826) | (4,920,511) |

For the year ended 31st December

| | Note | 2019 Rs. | 2018 Rs. |
|---|------|--------------------|----------------------|
| Cash Flows from Investing Activities - Cess Fund | | | |
| Investment in State Institutions Temporary Surplus Fund | | (18,055,738) | (16,915,870) |
| Investment in Treasury Bonds | | 295,456,866 | (67,495,152) |
| Investment in Treasury Bills | | 134,892,100 | (134,892,100) |
| | | 412,293,228 | (219,303,122) |
| Cash Flows from Investing Activities - Compensation Fund | | | |
| Investment in Treasury Bonds | | 29,045,670 | (64,423,057) |
| Net Cash Inflow/(Outflow) from Investing Activities | | 29,045,670 | (64,423,057) |
| Net Cash Inflow/(Outflow) from Investing Activities | | 410,737,072 | (288,646,690) |
| Cash Flows from Financing Activities | | | |
| Cash Flows from Financing Activities - SEC | | | |
| Capital transfer from Cess Fund | 11 | 41,956,746 | 4,954,004 |
| Net Cash Inflow/(Outflow) from Financing Activities | | 41,956,746 | 4,954,004 |
| Net Increase/ (Decrease) in Cash and Cash Equivalents | | 497,813,538 | (156,765,939) |
| Cash and Cash Equivalents at beginning of period (Note A) | | 95,490,986 | 252,256,925 |
| Cash and Cash Equivalents at end of period (Note B) | | 593,304,524 | 95,490,986 |
| Note (A) | | | |
| Cash and Cash Equivalents at the beginning of period | | | |
| Investments in Repo - SEC | | 40,000,000 | - |
| Investments in Repo - Cess Fund | | 57,420,000 | 187,245,617 |
| Investments in Repo - Compensation Fund | | 1,458,573 | - |
| Cash at Bank - SEC | | (10,752,829) | 36,352,199 |
| Cash at Bank - Cess Fund | | 7,217,192 | 503,911 |
| Cash at Bank - Compensation Fund | | 108,050 | 28,115,198 |
| Cash in Hand - SEC | | 40,000 | 40,000 |
| | | 95,490,986 | 252,256,925 |
| Note (B) | | | |
| Cash and Cash Equivalents at the end of period | | | |
| Investments in Repo - SEC | | 167,595,926 | 40,000,000 |
| Investments in Repo - Cess Fund | | 350,000,000 | 57,420,000 |
| Investments in Repo - Compensation Fund | | 69,852,733 | 1,458,573 |
| Cash at Bank - SEC | | 1,077,150 | (10,752,829) |
| Cash at Bank - Cess Fund | | 4,555,987 | 7,217,192 |
| Cash at Bank - Compensation Fund | | 182,728 | 108,050 |
| Cash in Hand - SEC | | 40,000 | 40,000 |
| | | 593,304,524 | 95,490,986 |

The Accounting Policies and Notes appearing on pages 74 to 88 form an integral part of the financial statements.

Accounting Policies and Notes to the Financial Statements

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

1 GENERAL

1.1 REPORTING ENTITY

Securities and Exchange Commission of Sri Lanka (SEC) is a non-profit making statutory board established under the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 as amended by Act No. 26 of 1991, Act No. 18 of 2003 and Act No. 47 of 2009 (SEC Act). The SEC is domiciled in the Democratic Socialist Republic of Sri Lanka and situated at Level 28 and 29, East Tower -World Trade Center, Echelon Square, Colombo 01.

1.2 NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

According to Section 12 of the SEC Act, the objects of the SEC shall be,

(a) the creation and maintenance of a market in which securities can be issued and traded in an orderly and fair manner;

(b) the protection of the interest of investors;

(c) the operation of a Compensation Fund to protect investors from financial loss arising as a result of any licensed stock broker or licensed stock dealer being found incapable of meeting his contractual obligations; and

(d) the regulation of the securities market and to ensure that professional standards are maintained in such market.

There were no changes in the nature of the objects of the SEC during the financial period under review.

1.3 STATEMENT OF COMPLIANCE

The Securities and Exchange

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

1.4 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

1.5 GOING CONCERN

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

1.6 BASIS OF PREPARATION

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

The financial statements are prepared on accrual basis and on the historical cost basis except in the case on the Defined benefit obligation where the Net liability is recognised as the present value of the defined benefit obligation, plus unrecognised actuarial gains, less unrecognised past service cost, and unrecognised actuarial losses. Where appropriate accounting policies are disclosed in succeeding notes.

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

1.7 USE OF ESTIMATES AND JUDGMENTS

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

Information about judgements made in applying accounting policies that have the most significant effect on the amount recognized in the financial statements is described in the Note on Defined benefit obligation. The cost of defined

| | | |
|--|---|--|
| | <p>1.11 COMPARATIVE INFORMATION Comparative figures have been adjusted to conform to the changes in presentation in the current financial year.</p> | <p>Motor Vehicles 10.00%</p> |
| <p>benefit obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future compensation increases, mortality rates, etc. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty. Assumptions used in the actuarial valuation are disclosed in Note 13 to the Financial Statements.</p> | <p>1.12 EVENTS AFTER THE REPORTING DATE All material events after the Reporting date are considered and appropriate adjustments or disclosures are made in the financial statements, where necessary.</p> | <p>Furniture, Fixtures and Fittings 12.50%</p> |
| <p>1.8 FUNCTIONAL AND PRESENTATION CURRENCY The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the SEC's functional currency. There was no change in the entity's presentation and functional currency during the year under review. Foreign exchange transactions are converted to Sri Lankan Rupees at the rate of exchange prevailing at the time of the transaction.</p> | <p>1.13 CHANGES IN ACCOUNTING POLICIES The accounting policies adopted are consistent with those of the previous year.</p> | <p>Office Equipment & EDP Equipment (including Software*) 20.00%</p> |
| <p>1.9 MATERIALITY AND AGGREGATION Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.</p> | <p>2 ASSETS AND BASES OF THEIR VALUATION</p> <p>2.1 PROPERTY, PLANT AND EQUIPMENT OWNED PROPERTY, PLANT AND EQUIPMENT AND INTAGIBLE ASSETS Property, Plant & Equipment (PPE) and Intangible Assets together with any incidental expenses thereon are stated at cost and depreciated/amortised at their respective useful lives. These assets received as grants, were accounted at cost and depreciation/ amortisation thereof is charged against the respective reserve account. The depreciation/ amortisation is provided on the straight-line basis. The Motor Vehicles, Office Equipment, EDP Equipment including Software and Training Equipment were depreciated/amortised taking into consideration the economic useful lives of the assets applying the following rates.</p> | <p>Training Equipment 20.00%</p> |
| <p>1.10 OFFSETTING Assets & liabilities and revenue & expenses are not offset unless required or permitted by a SLPSAS or the offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and condition that occurred and to assess the SEC's future cash flows.</p> | <p>2.2 INVESTMENTS Investments are made in fixed deposits and short term investments at Licensed Government banks, in Government Treasury bills and Government Treasury Bonds which are stated at cost and interest accrued up to the end of the reporting period.</p> <p>2.3 INVENTORIES Inventories are valued at lower of cost and net realizable value. The cost of inventories is valued on First-in First-out (FIFO) basis.</p> | <p>Depreciation/amortisation 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.</p> <p>Subsequent expenditure on PPE & Intangible Assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.</p> <p>* Computer software not integral to computer hardware are shown as intangible assets and recognized at cost. Following initial recognition these intangible assets are carried at cost less any accumulated amortization.</p> |

Accounting Policies and Notes to the Financial Statements

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

- As a policy Library Books are written off since the Capital Market related laws and rules are subject to rapid changes due to the fast changing market conditions in the world.
- 2.4 RECEIVABLES**
Receivables are stated at the estimated realizable value.
- 3. LIABILITIES & PROVISIONS**
- 3.1.1 DEFINED CONTRIBUTION PLANS - EPF/ETF**
All employees of the SEC are members of the Employees' Provident Fund and Employees' Trust Fund to which the SEC contributes 12% and 3% respectively of such employees' gross emoluments barring the vehicle and fuel allowance.
- 3.1.2 DEFINED BENEFIT OBLIGATION - GRATUITY**
Gratuity is a post-employment benefit, the SEC is liable to pay to its employees as a post-employment benefit in terms of Gratuity Act No. 12 of 1983. The liability to an employee arises only on completion of five years of continued service. However, in terms of the SLPSAS 19 - 'Employee Benefits' which came in to effect from 01st January 2018, the liability recognized in the statement of financial position is the present value of the defined benefit obligation as at the reporting date. The liability is not externally funded. Unrecognised Actuarial gains or losses and unrecognised past and current service costs are recognized immediately in the Statement of Financial Performance.
- The net liability for defined benefit obligation was determined by a qualified actuary as at 31st December 2019 using the Projected Unit Credit method as recommended in the SLPSAS 19.
- 3.2 LIABILITIES**
Liabilities classified as current liabilities in the Statement of Financial Position are those, which fall due for payment on demand or within one year from the reporting date. The non-current liabilities are those balances that fall due for payment after one year from the reporting date.
- All known liabilities have been accounted at cost in preparing the financial statements.
- 3.3 GRANT**
Capital expenditure transferred from the Cess Fund is treated as a grant and recognized in the Statement of Financial Performance as revenue on systematic basis over the useful life of the related asset.
- 4. STATEMENT OF FINANCIAL PERFORMANCE**
- 4.1 REVENUE RECOGNITION**
SEC revenue consists of license fees, administration levy, sale of publications, income from educational programmes, etc. Revenue from the above mentioned services/fees is recognized in the period in which the related services are performed.
- 4.2 INTEREST INCOME AND EXPENSES**
Interest Income on investments and interest expenses are recognized in the Statement of Financial Position on an accrual basis.
- 4.3 OTHER REVENUE**
Other income is recognized on an accrual basis.
- 4.4 PROFIT OR LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT**
Profit or loss arising from the disposal of Property, Plant and Equipment are accounted in the Statement of Financial Performance as the excess of the proceeds on disposal after deducting the carrying amount of the assets and related selling expenditure.
- 5. EXPENDITURE RECOGNITION**
All expenditure incurred in maintaining the SEC has been recognized on accrual basis and charged to revenue in ascertaining the financial performance.
- 6. CASH FLOW STATEMENT**
For the purpose of the Cash Flow Statement, Cash and Cash Equivalents consist of cash in hand, cash at bank and REPO investments with a maturity of less than three months at banks.

| As At 31st December | Motor Vehicles Rs. | Furniture, Fixtures & Fittings Rs. | Office Equipment (Electronic Data Processing Equipment & Others) Rs. | Training Equipment Rs. | Total Rs. |
|---|--------------------------|---|--|------------------------------|--------------|
| 1. Property, Plant & Equipment | | | | | |
| COST | | | | | |
| Balance as at 1st January 2019 | 45,165,786 | 42,956,643 | 116,150,261 | 4,351,098 | 208,623,789 |
| Additions during the Year | - | 49,319 | 41,907,428 | - | 41,956,746 |
| Disposals during the year | - | - | - | - | - |
| Balance as at 31st December 2019 | 45,165,786 | 43,005,962 | 158,057,690 | 4,351,098 | 250,580,535 |
| ACCUMULATED DEPRECIATION | | | | | |
| Balance as at 1st January 2019 | 19,830,593 | 28,064,540 | 94,588,251 | 3,662,130 | 146,145,515 |
| Depreciation Charge for the Year | 4,529,982 | 2,235,107 | 9,475,193 | 273,241 | 16,513,523 |
| Accumulated Depreciation on Disposal of Assets | - | - | - | - | - |
| Balance as at 31st December 2019 | 24,360,575 | 30,299,647 | 104,063,444 | 3,935,371 | 162,659,038 |
| WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2019 | 20,805,211 | 12,706,315 | 53,994,245 | 415,727 | 87,921,497 |
| WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2018 | 25,335,193 | 14,892,103 | 21,562,010 | 688,968 | 62,478,274 |
| Cost of the Fully Depreciated As- sets as at 31.12.2018 (Included in the above mentioned cost) | - | 19,201,459 | 78,714,962 | 3,600,533 | 101,516,953 |
| Useful Life Time (No of Years) | 10 | 8 | 5 | 5 | |
| Depreciation Rate | 10% | 12.5% | 20% | 20% | |

Accounting Policies and Notes to the Financial Statements

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

| As At 31st December | | | 2019 | 2018 |
|---------------------|---|--|---------------|---------------|
| | Note | | Rs. | Rs. |
| 2 | CESS FUND | | | |
| | NON CURRENT ASSETS | | | |
| | Staff Loans Receivable | | 16,257,393 | 16,779,625 |
| | Rent Deposit | | 42,985,944 | 40,510,500 |
| | Investment in Treasury Bonds | | 1,913,008,878 | 2,208,465,744 |
| | | | 1,972,252,215 | 2,265,755,869 |
| | CURRENT ASSETS | | | |
| | Invested in State Institutions Temporary Surplus Fund | | 306,607,487 | 288,551,749 |
| | Investment in Treasury Bills | | - | 134,892,100 |
| | | | 306,607,487 | 423,443,849 |
| | Staff Loans Receivable within 12 months | | 5,089,937 | 5,280,913 |
| | Interest Receivable on Treasury Bonds | | 63,504,429 | 32,213,335 |
| | Interest Receivable on Treasury Bills | | - | 1,904,008 |
| | Interest Receivable on Repo | | 371,575 | 53,151 |
| | Cess Receivable | | 3,231,075 | 1,408,281 |
| | Receivable - Sampath Bank | | - | 4,611 |
| | Receivable from the SEC | | 84,150,979 | - |
| | Investment in Repo | | 350,000,000 | 57,420,000 |
| | Balance at Bank | | 4,555,987 | 7,217,192 |
| | | | 510,903,980 | 105,501,491 |
| | TOTAL CURRENT ASSETS | | 817,511,467 | 528,945,340 |
| | | | 2,789,763,682 | 2,794,701,209 |
| | LESS: CURRENT LIABILITIES | | | |
| | Lease Rent Deposit Payable | | - | 4,843,261 |
| | Cess Fund towards Operational Expenditure | | - | 18,913,137 |
| | | | - | 23,756,398 |
| | TOTAL NET CURRENT ASSETS | | 817,511,467 | 505,188,942 |
| | TOTAL NET ASSETS | | 2,789,763,682 | 2,770,944,811 |
| 3 | COMPENSATION FUND | | | |
| | NON CURRENT ASSETS | | | |
| | Investment in Treasury Bonds | | 381,455,159 | 410,500,829 |
| | | | 381,455,159 | 410,500,829 |
| | CURRENT ASSETS | | | |
| | Interest Receivable on Treasury Bonds | | 10,399,835 | 5,373,554 |
| | Interest Receivable on Repo | | 73,489 | 1,550 |
| | Investment in Repo | | 69,852,733 | 1,458,573 |
| | Balance at Bank | | 182,728 | 108,050 |
| | | | 80,508,785 | 6,941,727 |
| | TOTAL ASSETS | | 461,963,944 | 417,442,556 |
| | LIABILITIES | | - | - |
| | TOTAL NET ASSETS | | 461,963,944 | 417,442,556 |

| As At 31st December | | 2019 | 2018 |
|---------------------|--|---------------|---------------|
| | Note | Rs. | Rs. |
| 4 | INVENTORIES | | |
| | Stock of Stationery, Stamp & EDP Consumables | 1,480,653 | 1,324,161 |
| | | 1,480,653 | 1,324,161 |
| 5 | RECEIVABLES | | |
| | Sundry Debtors | 391,268 | 491,601 |
| | Festival Advances | 2,200,000 | 2,130,000 |
| | Interest Receivable | 71,114 | - |
| | Phone Advance | 2,500 | 75,000 |
| | Insurance Claim Receivable | 16,375 | - |
| | Receivable from Cess Fund | - | 18,913,137 |
| | EPF receivable | 12,000 | - |
| | Receivable from an Interdicted Employee | 5,212,816 | - |
| | | 7,906,073 | 21,609,738 |
| 6 | DEPOSITS, ADVANCES & PRE-PAYMENTS | | |
| | Safe Vault Deposit - Bank of Ceylon | 66,843 | 61,525 |
| | Fuel Deposit | 78,000 | 78,000 |
| | Deposits with Telecom Ltd | 23,125 | 23,125 |
| | Deposits with Dialog | 8,500 | 8,500 |
| | Frosty-Hot & Cold Dispenser | 12,899 | 12,899 |
| | Sponsorship for Higher Studies-University of Colombo | 10,000 | 10,000 |
| | The Employers' Federation of Ceylon | 62,500 | 62,500 |
| | Advances to Suppliers | 15,259,908 | 15,090,140 |
| | | 15,521,775 | 15,346,689 |
| 7 | CASH | | |
| | Investment in Repo | 167,595,926 | 40,000,000 |
| | Cash at Bank | 1,077,150 | (10,752,829) |
| | Cash in Hand | 40,000 | 40,000 |
| | | 168,713,076 | 29,287,171 |
| 8 | ACCUMULATED FUND | | |
| | Balance at the beginning of the period | - | - |
| | Excess Expenditure over income for the year | (375,394,139) | (442,506,214) |
| | Transfer to / (from) Cess Fund | 375,394,139 | 442,506,214 |
| | Balance at the end of the Year | - | - |

Accounting Policies and Notes to the Financial Statements

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

| As At 31st December | | 2019 | 2018 |
|---------------------|---|----------------------|----------------------|
| | Note | Rs. | Rs. |
| 9 | CESS FUND | | |
| | Balance at the beginning of the Year | 2,770,944,811 | 2,702,455,721 |
| | Add: | | |
| | Cess Received during the Year | 223,020,518 | 250,704,350 |
| | Interest on Treasury Bills | 31,259,630 | 18,819,878 |
| | Interest on Fixed Deposits | - | - |
| | Interest on Treasury Bonds | 223,049,955 | 239,302,298 |
| | Interest on Repo Investments | 10,656,818 | 6,284,246 |
| | Interest on Staff Loans | 849,384 | 897,244 |
| | | 3,259,781,116 | 3,218,463,737 |
| | Less: | | |
| | Funds transfer towards Operational & Capital Expenditure to SEC | 417,350,885 | 447,460,218 |
| | Fund Transfer to Consolidated Fund | 52,616,373 | - |
| | Adjustment of the transferred amount from CESS | - | - |
| | Withholding Tax on Interest Income on Fixed Deposits | - | - |
| | Bank Charges | 50,176 | 58,708 |
| | | 470,017,434 | 447,518,926 |
| | Balance at the end of the Year | 2,789,763,682 | 2,770,944,811 |

Cess Fund

Cess Fund consists of the Cess levy which is credited to the Cess Fund and interest earned thereon based on the balance lying to the credit of the Cess Fund.

| As At 31st December | | 2019 | 2018 |
|---------------------|---|--------------------|--------------------|
| | | Rs. | Rs. |
| 10 | COMPENSATION FUND | | |
| | Balance at the beginning of the Year | 417,442,556 | 377,637,604 |
| | Add: Interest on Investment - Fixed Deposits | - | - |
| | Interest on Investment - Treasury Bonds | 42,191,522 | 37,900,412 |
| | Interest on Investment - Repo | 2,345,856 | 1,928,980 |
| | | 461,979,935 | 417,466,996 |
| | Less: Withholding Tax on Interest on Fixed Deposits | - | - |
| | Bank Charges | 15,990 | 24,440 |
| | | 15,990 | 24,440 |
| | Balance at the end of the Year | 461,963,945 | 417,442,556 |

| | 2019 | 2018 |
|---|--------------|--------------|
| | Rs. | Rs. |
| 11 GRANT- TRANSFERS FROM CESS FUND TOWARDS CAPITAL EXPENDITURE | | |
| Balance at the beginning of the Year | 56,128,573 | 68,759,899 |
| Transfer from Cess Fund towards Capital Expenditure | 41,956,746 | 4,954,004 |
| Recognition of Grants | (16,513,523) | (17,585,330) |
| Balance at the end of the Year | 81,571,796 | 56,128,573 |
| NOTE | | |
| RECOGNITION OF GRANT | | |
| The Grant is recognized at the following rates ; | | |
| Motor Vehicles | 10.00% | 10.00% |
| Furniture, Fixtures & Fittings | 12.50% | 12.50% |
| Office Equipment - Electronic Data Processing & Others | 20.00% | 20.00% |
| Training Equipment | 20.00% | 20.00% |

12 FINANCIAL SECTOR MODERNISATION PROJECT (FSMP) OF THE WORLD BANK

The FSMP of the World Bank will achieve the Project Development Objective through modernizing the financial market infrastructure, upgrading the legal and regulatory framework for the financial system, and strengthening the institutional capacity of the financial sector regulators namely the Central Bank of Sri Lanka, Securities and Exchange Commission of Sri Lanka and the Insurance Regulatory Commission of Sri Lanka. In addition, the Ministry of Finance, Economy and Policy Development also assist in the overall project coordination by operating a Project Management Unit. As part of the FSMP, the SEC secured Technical Assistance and Investment Funding support for a number of key initiatives. Accordingly, the SEC stands to gain approximately USD 21 million under this project for 11 designated projects.

As at 31st December 2019, the SEC received Rs. 81,124,254 as part of the Result Based Financing component of the FSMP. In addition, a sum of USD 367,000 (equivalent to Rs. 66,659,678) disbursed to the Ministry of Finance, Economy & Policy Development by the World Bank as part of the Investment Project Financing component of the FSMP is yet to be withdrawn by the SEC as at 31st December 2019.

| | 2019 | 2018 |
|---|-------------|-------------|
| | Rs. | Rs. |
| 13 RETIREMENT BENEFIT OBLIGATION | | |
| Balance at the beginning of the Year | 44,347,652 | 32,421,913 |
| Interest cost | 4,878,242 | 9,254,698 |
| Current service cost | 3,863,868 | 3,790,475 |
| Net actuarial (gain)/loss | (3,183,594) | - |
| Gratuity paid during the Year | (6,441,899) | (1,119,434) |
| Balance at the end of the Year | 43,464,269 | 44,347,652 |

Accounting Policies and Notes to the Financial Statements

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

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

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

| | 2019 | 2018 |
|------------------------------|----------|----------|
| Discount Rate | 10% p.a. | 11% p.a. |
| Future Salary Increment Rate | 8% p.a. | 8% p.a. |

13.1 Sensitivity of assumptions used

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

| | Discount Rate | Future Salary Increment Rate |
|-------------|----------------|------------------------------|
| 1% Increase | Rs. 40,464,635 | Rs. 46,727,089 |
| 1% Decrease | Rs. 46,852,610 | Rs. 40,541,654 |

An actuarial valuation of the retirement gratuity obligation was carried out as at 31st December, 2019 by a professional Actuary, M/S Actuarial and Management Consultants (Pvt) Ltd. The valuation method used by the Actuary to value the liability is the "Projected Unit Credit Method (PUC)", a method recommended by the Sri Lanka Public Sector Accounting Standard - SLPSAS 19 on "Employee Benefit".

14 CREDITORS AND ACCRUALS

| | 2019 Rs. | 2018 Rs. |
|---|-------------|-------------|
| Telephone and Internet Expenses | 630,661 | 643,644 |
| Electricity | 324,872 | 340,706 |
| Staff Medical Reimbursement | 664,249 | 758,541 |
| Leave Encashment | 2,533,700 | 2,434,225 |
| Special payment | 8,068,275 | - |
| Overtime | 120,604 | 190,444 |
| External Audit Fees | 1,450,000 | 1,800,000 |
| Internal Audit Fees | 650,000 | 857,432 |
| Professional Charges | 1,519,430 | 300,000 |
| Public Awareness | 5,900,127 | 5,259,290 |
| Courier Charges | 12,290 | 11,786 |
| VAT Payable | - | 15,212 |
| Stamp Duty Payable | 65,700 | 46,050 |
| Postage and Stamps | 575 | 475 |
| Nation Building Tax | 1,219 | 10,740 |
| Seminar expenses-CMET | - | 108,451 |
| Travelling -Local | - | 67,545 |
| Executive Subsistence | 42,500 | 65,000 |
| Staff Welfare | 153,130 | 146,480 |
| Repair and Maintenance - OE,EDP & Other | 160,460 | 750 |
| Capital Market Development | 1,583,333 | 11,288,975 |
| Motor Vehicle Repair & Maintenance | - | 4,500 |

| | | 2019 | 2018 |
|--|----|--------------------|--------------------|
| | | Rs. | Rs. |
| Other Payable | | 27,794 | 42,794 |
| Payable - Cess Fund | | 84,150,977 | - |
| Property, Plant & Equipment | | 11,354,920 | - |
| EPF Payable | | - | 2,232,781 |
| Trade tax | | 5,000 | - |
| Christmas Party Expenses | | 12,600 | - |
| Interest Subsidy | | 31,627 | - |
| Legal Expenses | | 377,665 | - |
| | | 119,841,708 | 26,625,821 |
| 15 PERSONNEL COSTS | | | |
| Staff Salaries | | 128,380,689 | 130,974,645 |
| Chairman's Allowance | | 1,110,000 | 826,025 |
| Overtime | | 2,500,861 | 1,994,931 |
| E P F & E T F | | 19,625,808 | 19,964,301 |
| Staff Gratuity | 13 | 5,558,516 | 13,045,173 |
| Special Payment | | 16,812,135 | 15,882,863 |
| Leave Encashment | | 3,076,896 | 2,598,294 |
| Staff Medical Expenses & Insurance | | 6,962,971 | 7,148,920 |
| Personnel Accident Insurance Cover | | 753,949 | 577,315 |
| Staff Housing Loan Interest Subsidy | | 1,650,315 | 1,249,221 |
| Staff Welfare | | 5,896,137 | 4,936,970 |
| Executive Subsistence | | 497,500 | 618,000 |
| Reimbursement of Fuel untill FEB .2018 | | - | 416,120 |
| Staff Vehicle Allowance | | 22,344,097 | 19,735,833 |
| Overseas Training and Travelling | | 13,547,075 | 8,417,392 |
| Staff Training - Local | | 1,530,890 | 1,071,199 |
| Subscription of Membership | | 1,610,956 | 1,295,203 |
| Sponsorship for Studies * | | 526,342 | 221,515 |
| Advertising-Recruitment | | 786,936 | 263,063 |
| Interns Allowance | | 42,075 | - |
| | | 233,214,148 | 231,236,983 |

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

Accounting Policies and Notes to the Financial Statements

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

| | Note | 2019 Rs. | 2018 Rs. |
|---|------|--------------------|--------------------|
| 16 | | | |
| ADMINISTRATION & ESTABLISHMENT EXPENSES | | | |
| Rent & Car Park Rental | | 88,188,786 | 81,979,640 |
| Electricity Charges | | 4,572,278 | 4,301,517 |
| Office Upkeep | | 306,062 | 251,916 |
| Office Equipment Maintenance & Insurance | | 9,481,932 | 7,393,980 |
| Telephone, Internet, E- mail & Web | | 883,451 | 1,044,958 |
| E-Communication ,Data processing | | 7,045,516 | 7,211,777 |
| Motor Vehicle Fuel, Maintenance, License & Insurance | | 4,112,084 | 2,469,207 |
| Professional Fees | | 3,654,797 | 3,636,994 |
| Member Fees | | 830,000 | 851,250 |
| Meeting Expenses | | 709,885 | 591,564 |
| Entertainment | | 12,097 | 20,595 |
| Library Books | | 36,500 | 64,746 |
| News Papers & Periodicals | | 666,920 | 308,176 |
| Printing & Stationery | | 3,711,000 | 2,858,515 |
| Travelling - Local | | 1,452,830 | 888,689 |
| Insurance - All Risk , Public Liability, Cash in Transit & Fire | | 254,844 | 268,590 |
| Postage and Stamp Duty | | 727,653 | 53,199 |
| Courier Charges | | 179,589 | 141,156 |
| Legal Expenses | | 561,165 | 889,035 |
| Audit Fees -Internal | | 1,330,830 | 1,177,202 |
| Audit Fees -External | | 2,008,900 | 510,225 |
| General Expenses | | 1,618,519 | 12,110 |
| Trade Tax | | 5,000 | 5,000 |
| VAT Expenses | | 18,147,438 | 19,283,102 |
| Nation Building Tax | | 168,881 | 177,598 |
| Depreciation | 1 | 16,513,523 | 17,585,330 |
| | | 167,180,480 | 153,976,071 |
| 17 | | | |
| CAPITAL MARKET DEVELOPMENT EXPENSES | | | |
| Capital Market and Product Development | | 24,669,537 | 48,933,373 |
| Public Awareness Programmes | | 13,407,274 | 20,632,925 |
| Educational Programmes | | 3,480,812 | 3,636,294 |
| International Membership Fees - IOSCO | | 3,730,324 | 3,529,660 |
| Publicity and Advertising | | 482,114 | 233,800 |
| Market Surveillance Cost | | 7,878,105 | 8,167,459 |
| Investigation and Inspection Expenses | | 88,458 | 25,641 |
| | | 53,736,624 | 85,159,152 |

| | Note | 2019 Rs. | 2018 Rs. |
|-----------|---|-------------|-------------|
| 18 | FINANCE CHARGES | | |
| | Bank Charges | 64,525 | 30,556 |
| | | 64,525 | 30,556 |
| 19 | INCOME TAX | | |
| | The liability for the income tax is computed in terms of the Inland Revenue Act No. 24 of 2017, as amended. | | |
| | Income Tax Expense for the Y/A 2018/2019 | 12,751,933 | - |
| | Income Tax Expense for the Y/A 2019/2020 | 20,564,272 | - |
| | | 33,316,205 | - |

20 SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

COMPARISON OF ACTUAL INCOME AND EXPENDITURE AGAINST THE BUDGET FOR THE YEAR ENDED 31ST DECEMBER 2019

| | Actual 2019 Rs. | Budget 2019 Rs. | Variance Favourable / (Adverse) 2019 Rs. |
|--|-----------------------|-----------------------|--|
| Income | | | |
| License Fees | 3,171,963 | 3,145,000 | 26,963 |
| Administration Levy | 1,531,065 | 2,700,000 | (1,168,935) |
| Educational Programmes | 4,033,843 | 6,362,000 | (2,328,157) |
| Interest Income | 3,728,019 | - | 3,728,019 |
| Other income | 2,015,176 | 350,000 | 1,665,176 |
| Government Grant - FSMP | 81,124,254 | - | 81,124,254 |
| Total Income generated by SEC | 95,604,320 | 12,557,000 | 83,047,320 |
| Less: Expenditure | | | |
| Personnel costs | 233,214,148 | 227,900,000 | (5,314,148) |
| Administration & establishment cost | 150,666,957 | 174,635,605 | 23,968,648 |
| Capital market development | 53,736,624 | 105,224,395 | 51,487,771 |
| Financial charges | 64,525 | 35,000 | (29,525) |
| Total Revenue Expenditure | 437,682,254 | 507,795,000 | 70,112,746 |
| Less: Income Tax Expense | 33,316,205 | - | (33,316,205) |
| Excess of Revenue Expenditure over Income | (375,394,139) | (495,238,000) | 46,250,779 |

The Accounting Policies and Notes appearing on pages 74 to 88 form an integral part of the financial statements.

Accounting Policies and Notes to the Financial Statements

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

21. CAPITAL COMMITMENTS

There were no capital commitments as at 31.12.2019.

22. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31.12.2019.

23. EVENTS AFTER THE REPORTING DATE

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

24. RELATED PARTY DISCLOSURES

Mr. Ranel T. Wijesinha who was appointed as the chairman of the SEC with effect from 24th May 2018 ceased to be the Chairman with effect from 2nd December 2019. He had also served as a Member of the Commission twice from Date January 2000 to 19th December 2001 and for a full tenure of three years from 2nd February 2015 to 1st February 2018.

The following Members of the Commission held office throughout the year 2019 as stated below.

- Mr. D. N. R. Siriwardene, Ex-officio Member by virtue of him holding office as Registrar of Companies.
- Mr. H. A. Karunaratne, Ex-officio Member by virtue of him holding office as Deputy Governor to the Central Bank of Sri Lanka.
- Mr. Jagath Perera was appointed as an Ex-officio Member by virtue of him holding office as the President of the Institute of Chartered Accountants of Sri Lanka with effect from 4th January 2018.

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

- Mr. Rajeev Amarasuriya who was appointed w. e. f. 24th May 2018 ceased to be a Member of the Commission w.e.f. 01st December 2019. He had also served as a Member of the Commission for a full tenure of three years w. e. f. 2nd February 2015.
- Mr. Arjuna Herath who was appointed w. e. f. 24th May 2018 ceased to be a Member of the Commission w.e.f. 03rd December 2019. He had also served as a Member of the Commission for a period of two years as an Ex-officio Member by virtue of holding office as the President of the Institute of Chartered Accountants of Sri Lanka w. e. f. 20th December 2013 to 18th December 2015.
- Mr. Manjula De Silva who was appointed w. e. f. 24th May 2018 ceased to be a Member of the Commission w.e.f. 02nd December 2019.
- Mr. Jayantha Fernando who was appointed w. e. f. 24th May 2018 ceased to be a Member of the Commission w.e.f. 01st December 2019.
- Mr. Deshal De Mel who was appointed w. e. f. 28th June 2018 ceased to be a Member of the Commission w.e.f. 16th November 2019.

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

- Mr. A. K. Seneviratne who was appointed w.e.f. 28th February 2019 as an Ex-officio Member by virtue of him holding office as Deputy Secretary to the Treasury ceased to be a member w.e.f. 02nd December 2019.

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

| Name | Name of Related Institution | Relationship |
|--------------------------|--|----------------------------------|
| Mr. D. N. R. Siriwardene | • Sri Lanka Accounting and Auditing Standards Monitoring Board | Ex-officio Member |
| | • Insurance Regulatory Commission of Sri Lanka | Ex-officio Member |
| Mr. H. A. Karunaratne | • Credit Information Bureau of Sri Lanka | Chairman |
| | • Institute of Bankers of Sri Lanka | Chairman (since 01st March 2019) |
| | • West Coast Power (Pvt) Ltd. | Chairman(since 01st March 2019) |
| | • Insurance Regulatory Commission of Sri Lanka | Director |
| | • Colombo Dockyard PLC | Director |
| Mr. Jagath Perera | • KPMG | Partner |
| | • Institute of Chartered Accountants of Sri Lanka | President |
| | • Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) | Member of the Board |
| | | |

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

| Name | Name of Related Institution | Relationship |
|------------------------|--|---|
| Mr. Ranel T. Wijesinha | - | - |
| Mr. Rajeev Amarasuriya | • Panthera Leo Consulting Group (Pvt) Ltd | Director |
| | • Alumni Association, University of Colombo | President |
| Mr. Arjuna Herath | • S W R D Bandaranaike National Memorial Foundation | Member of Board of Management |
| | • Ernst and Young | Partner |
| Mr. Manjula De Silva | • National Insurance Trust Fund Board | Chairman (until 25th November 2019) |
| | • BPPL Holdings PLC | Director |
| | • Tea Smallholder Factories PLC | Director |
| Mr. Jayantha Fernando | • Sri Lanka CERT CC (Computer Emergency Readiness Team Co-ordination Center) | Board Director and Chairman |
| Mr. A. K. Seneviratne | - | - |
| Mr. Deshal De Mel | • Sampath Bank PLC | Independent Non-Executive Director (w.e.f. 26th September 2019) |

Accounting Policies and Notes to the Financial Statements

SECURITIES & EXCHANGE COMMISSION OF SRI LANKA

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

The following investments were channelled through Sampath Bank PLC during the period Mr. Deshal De Mel, the Commission Member was also serving on the Board of Directors of Sampath Bank PLC in 2019.

Cess Fund

| | Rs. |
|--------------------------------------|----------------|
| Investments in Daily Overnight REPOs | 422,451,000.00 |

A sum of Rs. 1,522,674.81 was paid to the National Insurance Trust Fund Board towards insurance policies consisting of motor vehicles, personal accidents, fire, electronic equipment, money in transit and public liability.

A sum of Rs. 58,673.00 was paid to the S W R D Bandaranaike National Memorial Foundation for hall hire charges for award ceremony of the Capital Market Development and Training Division of the Securities and Exchange Commission of Sri Lanka held therein.

A 50% advance payment of Rs. 75,000.00 was paid to Sri Lanka CERT|CC to review Information Security Policy of the Securities and Exchange Commission of Sri Lanka and another 50% advance payment of Rs. 480,930.00 was paid for professional fees for Managed Information Security Services Agreement.

A sum of Rs. 147,123.74 was paid to the Insurance Regulatory Commission of Sri Lanka as Auditorium hire charges.

Auditor General's Report

SETTLEMENT GUARANTEE FUND



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No. } BAF/H/SGF/1/19/4

මගේ අංකය
உமது இல.
Your No. }

දිනය
திகதி
Date } 24 August 2020

Chairman

Securities and Exchange Commission of Sri Lanka

Summary Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2019 in terms of Section 11 (1) of the National Audit Act No.19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka ("Fund") for the year ended 31 December 2019 comprising the Statement of Financial Position as at 31 December 2019 and the Statement of Financial Performance, Statement of Changes in Net Assets and Cash Flow Statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Paragraph 11(d) of the Deed of Trust No. 1376 dated 21/22 May 1998 relating to establishment of the Fund as a proposal in the budget presented for the year 1998. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

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

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

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

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

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

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

இல. 306/72, பொல்துவ வீதி, மந்தரமலை, இலங்கை.

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



+94 11 2 88 70 28 - 34



+94 11 2 88 72 23



ag@auditorgeneral.gov.lk



www.naosl.gov.lk

Auditor General's Report

SETTLEMENT GUARANTEE FUND



ජාතික විගණන කාර්යාලය
 தேசிய கணக்காய்வு அலுவலகம்
 NATIONAL AUDIT OFFICE

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

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

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

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

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

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

2. Report on Other Legal and Regulatory Requirements

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

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

W. P. C. Wickramaratne
 Auditor General

Statement of Financial Position

| As At 31st December | Note | 2019 Rs. | 2018 Rs. |
|---|------|--------------------|--------------------|
| ASSETS | | | |
| NON CURRENT ASSETS | | | |
| Investments in Treasury Bonds | | 846,311,105 | 806,068,020 |
| CURRENT ASSETS | | | |
| Receivables | 5 | 21,994,316 | 17,446,315 |
| Investments in Repurchase Agreements | | 75,100,000 | 29,000,000 |
| Cash at Bank | | 430,853 | 479,487 |
| TOTAL ASSETS | | 943,836,274 | 852,993,822 |
| 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 | | 657,864,114 | 602,683,822 |
| | | 907,864,114 | 852,683,822 |
| CURRENT LIABILITIES | | | |
| Income Tax Payable | | 35,822,160 | - |
| Payables | 6 | 150,000 | 310,000 |
| | | 35,972,160 | 310,000 |
| TOTAL NET ASSETS AND LIABILITIES | | 943,836,274 | 852,993,822 |

The Accounting Policies and Notes appearing on pages 95 to 96 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



Chinthaka Mendis
Trustee - Settlement Guarantee Fund

Colombo
27th July 2020



Viraj Dayaratne PC
Trustee - Settlement Guarantee Fund

Statement of Financial Performance

SETTLEMENT GUARANTEE FUND

| For the year ended 31st December | Note | 2019 Rs. | 2018 Rs. |
|--|------|-------------------|-------------------|
| INCOME | | | |
| Interest on Investments -Repurchase Agreements | | 4,728,020 | 11,482,000 |
| Interest on Investments - Treasury Bonds | | 86,456,672 | 65,580,842 |
| | | 91,184,692 | 77,062,842 |
| Less: | | | |
| EXPENDITURE | | | |
| Audit Fees | | (166,370) | (15,000) |
| Bank Charges | | (15,870) | (17,325) |
| Total Expenditure | | (182,240) | (32,325) |
| Income Tax Expense | 7 | (35,822,160) | - |
| EXCESS INCOME OVER EXPENDITURE FOR THE YEAR | | 55,180,292 | 77,030,517 |

The notes appearing on page 95 to 96 form an integral part of the financial statements.

Statement of Changes in Net Assets

SETTLEMENT GUARANTEE FUND

| For the year ended 31st December | 2019 Rs. | 2018 Rs. |
|---------------------------------------|--------------------|-------------|
| Accumulated Fund | | |
| Balance at the beginning of the Year | 602,683,822 | 525,653,305 |
| Net Income for the Year | 55,180,292 | 77,030,517 |
| Balance at the end of the Year | 657,864,114 | 602,683,822 |

The notes appearing on pages 95 to 96 form an integral part of the financial statements.

Cash Flow Statement

SETTLEMENT GUARANTEE FUND

| For the year ended 31st December | Note | 2019 Rs. | 2018 Rs. |
|--|------|---------------------|----------------------|
| Cash Flow from Operating Activities | | | |
| Net Surplus for the year | | 55,180,292 | 77,030,517 |
| Adjustment for | | | |
| Change of Working Capital | | | |
| (Increase)/Decrease of Other Receivables | 5 | (4,548,001) | (5,492,908) |
| Increase/(Decrease) of Other Payables | 6 | 35,662,160 | 15,000 |
| | | 31,114,159 | (5,477,908) |
| Net Cash Inflow/(Outflow) from Operating Activities | | 86,294,451 | 71,552,609 |
| Cash Flow from Investing Activities | | | |
| Investments in Treasury Bonds | | (40,243,085) | (259,380,300) |
| Net Cash Inflow/(Outflow) from Investing Activities | | (40,243,085) | (259,380,300) |
| Net Increase/(Decrease) in Cash and Cash Equivalents | | 46,051,366 | (187,827,691) |
| Cash & Cash Equivalents at the beginning of the period | | 29,479,487 | 217,307,178 |
| Cash & Cash Equivalents at the end of the period (Note A) | | 75,530,853 | 29,479,487 |
| Note (A) | | | |
| Cash & Cash Equivalents at the end of the period | | | |
| Invest in Repurchase Agreements | | 75,100,000 | 29,000,000 |
| Cash at Bank | | 430,853 | 479,487 |
| | | 75,530,853 | 29,479,487 |

The notes appearing on pages 95 to 96 form an integral part of the financial statements.

Accounting Policies and Notes to the Financial Statements

SETTLEMENT GUARANTEE FUND

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 non-profit making Trust. Its financial statements are prepared in accordance with the Sri Lanka Public Sector Accounting Standards.

1.2 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

1.3 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 Government Treasury Bonds, Fixed Deposits and REPO investments at Licensed Government banks 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 SGF has been recognized on accrual basis and charged to revenue in ascertaining the financial performance.

4.3 CASH FLOW STATEMENT

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

5. RECEIVABLES

| | 2019 Rs. | 2018 Rs. |
|---------------------|-------------|-------------|
| Interest Receivable | | |
| - Treasury Bonds | 21,915,306 | 17,238,230 |
| - Repurchase | | |
| Agreements | 79,010 | 208,086 |
| | 21,994,316 | 17,446,316 |

6. PAYABLES

| | 2019 Rs. | 2018 Rs. |
|------------|-------------|-------------|
| Audit Fees | 150,000 | 310,000 |
| | 150,000 | 310,000 |

7. INCOME TAX EXPENSE

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

| | 2019 Rs. | 2018 Rs. |
|--|-------------|-------------|
| Income Tax Expense for the Y/A 2018/2019 | 14,205,587 | - |
| Income Tax Expense for the Y/A 2019/2020 | 21,616,573 | - |
| | 35,822,160 | - |

Accounting Policies and Notes to the Financial Statements

SETTLEMENT GUARANTEE FUND

8. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2019.

9. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2019.

10. EVENTS AFTER THE REPORTING DATE

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

11. RELATED PARTY DISCLOSURE

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

The following Trustees of the SGF held office throughout the year 2019;

- Mr. Ray Abeywardena, Chairman CSE
- Mr. Rajeev Bandaranaike, Chief Executive Officer CSE
- Mr. Vajira Wijegunawardane, former Director General SEC (ceased to be a Trustee w.e.f. 28th February 2020)

Mr. Ranel T Wijesinha was appointed as a Trustee of the SGF w. e. f. 24th May 2018 by virtue of him holding office as the Chairman of the SEC and ceased to be a Trustee w.e.f. 2nd December 2019.

Mr. A. K. Seneviratne was appointed as a Trustee of the SGF w. e. f. 28th February 2019 by virtue of him representing the Commission of the SEC as Deputy Secretary to the Treasury and ceased to be a Trustee w.e.f. 02nd December 2019.

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

| Name | Name of Related Institution | Relationship |
|----------------------------|--|--|
| Mr. Ranel T. Wijesinha | • Securities and Exchange Commission of Sri Lanka | Chairman (until 02nd December 2019) |
| Mr. Ray Abeywardena | • Colombo Stock Exchange | Chairman |
| | • Central Depository Systems (Pvt) Ltd | Chairman |
| | • Lanka Ventures PLC | Director |
| | • LVL Energy Fund Limited | Director |
| | • Softlogic Life Insurance PLC | Director |
| | • Acuity Partners (Pvt) Ltd | Managing Director |
| | • Acuity Securities (Pvt) Ltd | Chairman |
| Mr. Rajeev Bandaranaike | • Acuity Stockbrokers (Pvt) Ltd | Chairman |
| | • Guardian Acuity Asset Management Ltd | Director |
| | • Colombo Stock Exchange | Chief Executive Officer |
| Mr. A. K. Seneviratne | • Lanka Financial Services Bureau Limited (LFSBL) | Director |
| | • Securities and Exchange Commission of Sri Lanka | Commission Member (until 02nd December 2019) |
| Mr. Vajira Wijegunawardane | • Sri Lanka Accounting and Auditing Standards Monitoring Board | Ex-officio Member |
| | • Construction Guarantee Fund | Trustee |
| | • Securities and Exchange Commission of Sri Lanka | Director General (until 28th February 2020) |

Corporate Information

Office Address

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

Telephone

+94 11 2143843

Fax

+94 11 2439149

E-mail

mail@sec.gov.lk

Web

www.sec.gov.lk

Accounting Year

Year ended 31st December 2019

Auditors

The Auditor General

Bankers

Bank of Ceylon
Sampath Bank
Commercial Bank

www.sec.gov.lk

