

SET in Place



Corporate Information

Office Address:

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



Telephone

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



Fax

+94 11 2439149



E-Mail

mail@sec.gov.lk



Web

www.sec.gov.lk

Accounting Year

Year ended 31st December 2015

Auditors

The Auditor General

Bankers

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

optima

Design & Concept by: Optima Designs (Pvt) Ltd.
Printed by: Gunaratne Offset Ltd



SET in Place

To align ourselves with global advancements, we are setting in place a regulatory framework, along with the infrastructure and competencies to ensure stakeholder confidence. This year we will explore the infinite possibilities for the SEC to become a more efficient and effective regulator that will embrace a wider scope and in turn, facilitate economic growth.

Contents

Vision & Mission	03
Chairman's Review	04
Director General's Review	08
Members of the Commission	12
Senior Management	18
Economic Review	20
Capital Market Review	23
Managers	26
Staff Members	27
Operational Review	31
Additional Information	58
Fact Sheet	64

FINANCIAL REPORTS - SEC

Auditor General's Report	68
Statement of Financial Position	70
Statement of Financial Performance	71
Statement of Changes In Reserves	72
Cash Flow Statement - SEC	73
Cash Flow Statement - Cess Fund	74
Cash Flow Statement - Compensation Fund	75
Accounting Policies - SEC	76
Notes to the Financial Statements	78

FINANCIAL REPORTS - SGF

Auditor General's Report	90
Statement of Financial Position	92
Statement of Financial Performance	93
Statement of Changes In Net Assets	94
Cash Flow Statement	95
Accounting Policies	96

About Us

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

Vision

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

Mission

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

Chairman's Review



“

I firmly believe that a sound regulatory framework is essential to build investor confidence and a level playing field in the capital market.

”

When I assumed duties as the Chairman of the SEC in January 2015 for the second time, there were many challenges before me and the new Commission. Moreover, the SEC was perceived as a passive regulator. Our immediate priority was to establish ourselves as a credible regulator and restore proper systems, procedures and standards, which had been largely ignored over the last 3 years. These measures were imperative to strengthen and protect the integrity and soundness of the securities market and ensure professional standards to meet the aspirations and expectations of our stakeholders.

It was not an easy year for stock markets worldwide, with most ending the year in the red. The Colombo Stock Exchange (CSE) was no different and it declined by 5.5% in the year under review. When compared with some East and South Asian Exchanges, the CSE fared not so badly. The Stock Exchange of Thailand contracted by 14%, the Taiwan Stock Exchange by 10.4%, the Philippine Stock Exchange by 6.4%, the Jakarta Stock Exchange by 12.1% and the Bombay Stock Exchange by 0.8%. Several factors dogged the markets in 2015; the decline in commodity prices, particularly oil, interest rate hike by the U.S Federal Reserve and continued strength of the dollar, China's economic rebalancing, escalation of ongoing geopolitical tensions and sectarian violence in the Middle East, mass migration to Europe from the Middle East were some of the key factors which affected markets all over the world. In the domestic front volatility in the local interest rates, as well as two elections that were held in 2015, also impacted our market.

Some parties with vested interest attempted to lay blame on the SEC for the performance of the market with the intention of discrediting the regulator. However, it is prudent to mention here that the SEC has not taken any steps whatsoever during the year which could have affected the market negatively. The SEC took steps to refute these accusations and enlighten the public on the mandate of the SEC, which is to protect the interest of investors, and maintain a fair, orderly, and efficient market.

Market malpractices distort price discovery, harm the integrity and undermine public confidence in the market. Therefore securities regulators are expected to detect, investigate and prosecute market manipulation to deter such aberrations and protect the investing public. When I stepped down as Chairman, SEC in August 2012 there were 16 ongoing investigations

with regard to market malpractice. Some investigations had subsequently been closed citing lack of evidence and in other instances the offenders had merely been warned.

Given these considerations, with the concurrence of the Commission we decided to re-examine 11 cases. In addition, the investigation team who were not able to show much progress was disbanded towards the latter part of 2015 and a new team was formed internally to conduct investigations. Securities cases are typically complex and often require a long time to investigate but the SEC is determined to complete the above mentioned investigations along with 4 new investigations taken up during the year, within a fixed time frame in order to bring the perpetrators to task. These measures are expected to improve the operational efficiency and effectiveness in our enforcement efforts and lead to a fair and well functioning market that can attract and protect investors.

Furthermore, during the year under review we also streamlined certain surveillance measures and pursued appropriate proactive action to minimise potential negative impacts on the market. We have also taken steps to enhance our surveillance capabilities and detect potential market misconduct by upgrading the surveillance system. These initiatives will undoubtedly enhance the robustness of oversight of market activities and also support the investigations and enforcement function. We will be relentless in our search for those who break securities laws and will ensure zero tolerance for any market manipulation.

Another mandate of the SEC is to facilitate the development of the securities market. Though capital market development and promotion are not the same, some ignorant people construe them to be the same. In my view, the SEC had overstepped its mandate in the recent past on some occasions by assisting the CSE in their market promotion activities which led to confusion and a misconception regarding the core mission of the SEC. During the year under review we not only focused our attention on working within our mandate but also strived to eliminate any ambiguity and impress upon the general public the role entrusted to us.

I firmly believe that a sound regulatory framework is essential to build investor confidence and a level playing field in the capital market. Therefore the SEC is drafting a new securities

Chairman's Review Contd.

Act to replace the old Act which was enacted 28 years ago in order to bring the laws governing the capital market and all other regulatees in line with laws of other emerging markets. An advisory Committee headed by Mr. K. Kanag-Isvaran P.C. and comprising of experts from various fields including securities law, finance, accountancy, drafting of new laws and representatives from the CSE are in the process of doing this work. There were regular sittings of the committee during the year and we expect to finalise the new securities Act by the third quarter of 2016. Subsequently, it is envisaged that the amendments will be presented for cabinet approval, legislation drafted and the Bill debated and passed in parliament by early 2017. I wish to record here our grateful thanks to the Chairman and members of the advisory committee for undertaking this challenge and working with dedication and commitment.

Auditors play an important role in attesting the reliability of financial information in compliance with accepted accounting standards. The SEC is exploring the possibility of including auditor oversight provisions in the new SEC Act. We earnestly expect the auditing fraternity of Sri Lanka to cooperate with the SEC in this endeavour, especially since parent companies of auditing firms with global presence have agreed to this concept in other jurisdictions. It is expected that auditor oversight will lead to reliability and integrity of the financial reporting process and enhance investor confidence.

We continued to maintain a strong operational relationship with the CSE and to facilitate the conversion of the Exchange from a mutual company owned by its members to a company owned by shareholders. This important exercise which is expected to transform the CSE's business model to a for-profit Exchange, reform its governance structure and increase the ability of the Exchange to unlock value, requires extensive legislative changes. The SEC and CSE are in the process of deliberating on determining the value allocation of the Exchange among its stakeholders.

Securities market infrastructure plays a critical role in fostering financial stability. Therefore with a view to significantly minimising the risk of settlement failure and counterparty risk the SEC together with the CSE is in the process of setting up a Clearing House which is expected to act as a Central Counter Party (CCP). Whilst a consultancy firm specialising in capital

market related assignments globally was entrusted with the task of implementing a CCP, the SEC undertook the task of developing a broad legal framework for the CCP which will be included in the new SEC Act. This initiative is expected to reduce systemic risk, provide protection to investors and help maintain confidence in the market.

Significant progress was also made during the year in developing a Broker Back Office (BBO) and Order Management System (OMS) in order to improve the settlement efficiency and maintain uniformity in the back office systems of stock broking firms. The project which is jointly funded by the SEC and CSE is targeted to go live in March 2016.

SEC also expanded channels of cooperation with the global standard setter, the International Organisation of Securities Commissions (IOSCO) during the year and actively participated in various meetings and committees of IOSCO and gained membership in Committee 4 (Enforcement and the Exchange of Information) which aims at helping prevention and detection of breaches of securities laws and regulations in global financial markets. During the year under review we also participated in a comprehensive and in-depth assessment of the financial sector under the Financial Sector Assessment Programme (FSAP) and expect to undertake an IOSCO country review in 2016 to evaluate the status of implementation of IOSCO's Principles and to recommend a Roadmap to address any gaps in implementation.

We continued to bolster greater financial literacy in order to promote better understanding of the capital market and encourage more proactive and informed participation by retail investors. We created awareness through seminars, workshops, print and electronic media, printed material etc. It is noteworthy that we were able to publish articles in all three languages on a regular basis in newspapers and at least two articles on a weekly basis. We appreciate the support the media rendered during the year. We are of the view that educated investors will be able to manage their investments wisely and will be less likely to fall prey to securities frauds.

In the realm of market supervision, we intensified oversight over our regulated entities in order to drive better internal controls and risk management within these firms. We also

conveyed a strong message to the firms that they are expected to improve professional standards and ethics and maintain reasonable care when managing client funds. We believe that our supervisory efforts will lead to a more robust and resilient capital market.

In conclusion I must thank the Hon. Prime Minister who as the Minister of National Policies and Economic Affairs and the appointing authority of Commission Members, for giving me an excellent team of highly qualified and motivated experts in their respective fields of expertise. This has made our commission meetings quite lively where decision making is subject to an incisive but satisfying process. I also thank our State Minister Hon. Niroshan Perera, MP, and the Secretary, Mr. M.I.M. Rafeek and his staff at the Ministry for all the support extended to us.

I also wish to thank the Director General and members of the Secretariat for the support and cooperation extended during the year.

I believe we have come a long way but many challenges remain to be overcome. With the support of the Commission and the staff I am confident of meeting most of these challenges successfully in the coming year.



Thilak Karunaratne
Chairman

25th May 2016

Director General's Review



“

The SEC has immense faith in the potential of Sri Lanka's capital market, and it is our aim to translate its promise into demonstrable performance. Given the strong nexus between access to finance and the growth of an economy, our strategic focus for strengthening our regulatory framework and facilitating capital market development is on complementing the banking sector - thereby supporting the country's economic growth targets.

”

From Savings to Investment: a Necessary Transformation

At a time when there is an over-reliance on the banking sector, and banks dominate fundraising and investment in the economy, to transform the capital market into the preferred choice for long-term fundraising and investment is a challenging task, but not a wholly unrealistic one. Decisive of our success in this endeavour is our ability to convince the policymaking apparatus of the centrality of capital markets to rapid economic expansion.

Capital markets across the globe play a far greater role in the economy today than ever before, serving as efficient sources of long-term capital growth for economic development and supporting the aspirational economic growth targets of the country. The ratio of market capitalisation to GDP is a benchmark for capital market contributions to the economy. In Sri Lanka, this is 25%, but many regional markets have a market capitalisation which is equal to a significant percentage of GDP: for instance, in India and Thailand, market capitalisation is 73% and 88% of GDP respectively, while in Malaysia at 129%, and the United States at 140%, market capitalisation exceeds GDP altogether. In advanced economies, it is several times the size of GDP: as seen in Singapore (219%), Switzerland (229%), and South Africa (235%). In each of these markets, focused capital market reform had a significant role to play in securing economic expansion, and to secure recognition for our market as an economic catalyst, we at the SEC continue to frequently make representations at the highest levels of policymaking.

We realise that to achieve our aim, the market would have to transform more savings into investment than ever before. Transformations of this sort do not occur overnight, and as such the task of the SEC over the past few years has been to facilitate the requisite development of the capital market in keeping with the Capital Market Master Plan. In 2015 especially, we prioritised several such initiatives which would lay a solid foundation for the capital market.

In order to restore public confidence in the capital market as a source of long-term financing and investment, we focused our efforts on reinforcing our regulatory mandate, on benchmarking the regulatory framework effective thereunder against international standards, and on encouraging better business conduct among our regulatees. At the same time, we continued to effectively monitor market activity and to enhance oversight of regulatees. In instances of non-compliance, we were prompt in our interventions to rectify shortfalls and undertook strict enforcement measures as appropriate.

We are confident that our efforts to ensure that conditions will be in place for the capital market to become the preferred mode of long-term fundraising and investment in Sri Lanka will be successful before long: a conviction buttressed by our future initiatives to facilitate its sustainable expansion.

In 2015, a Quiet Vote of Confidence for Sri Lanka

2015 was a challenging year for capital markets due to several global developments which also impacted the local macroeconomic

situation, leading, among others, to an increase in interest rates and negative growth in the domestic capital market. By end-2015, the All Share Price Index (ASPI) had fallen 5.5%, and the S&P SL 20 had experienced a decline of 11.3%: a better performance yet than our regional counterparts.

We have succeeded, however, in withstanding these global upheavals and containing their domestic impact while increasing foreign investor contribution. This increase, from 27.6% in 2014 to 34.6% in 2015, is an indication that our market continues to be perceived as resilient to global upheavals.

Our Efforts in 2015:

Regulatory Reinforcements

We believe sound regulation to be imperative to building confidence in the market and improving market performance. Crucial to achieving such regulation are initiatives such as the alignment of our regulatory framework with international benchmarks through the comprehensive amendment of the SEC Act and the revision of capital market rules and regulations including listing and intermediary rules.

These efforts continued in 2015, leading up to a preliminary consolidated draft of the SEC Act. The draft amendments to the SEC Act will strengthen our regulatory framework and capabilities through civil and administrative sanctions for violations of securities laws, enhanced regulation of the business conduct of intermediaries, provisions for whistleblower protection, the creation of a demutualised exchange and the establishment of a CCP. Steps were taken to fast-track its passage in 2015, and a committee of eminent experts was appointed to ensure that the legislation would be finalised expeditiously.

By now, preparations are also underway to revisit the rules governing SEC regulatees. This review will not result in piecemeal changes, but in systematic improvements to the whole body of rules and regulations currently in force, with a view to ensuring market-wide transparency and accountability.

Throughout the year, the SEC remained committed to protecting investors from misleading, manipulative or fraudulent practices, to holding wrongdoers accountable, and to offering investors due recourse to justice through prompt and decisive action. Our corporate surveillance operations ensured the accuracy of market disclosures in order to enable investors to make better investment decisions, and a programme was initiated to engage auditors and valuers to support enforcement measures.

Prompt and Decisive Interventions

Further to our recognition that any failure on our part to act promptly and decisively will only serve to encourage unethical behaviour among regulatees, the SEC was proactive in identifying shortcomings in their compliance with regulation.

Director General's Review Contd.

While non-compliances pertaining to the past were identified, and opportunities to comply were given in prior instances, the SEC remained firm in its decision that any future violations will be dealt with appropriately.

As a result, 2015 saw the SEC's non-renewal of a licence to operate as a Credit Rating Agency upon detection of conflicts of interest and violations of regulatory standards on the part of the said Agency, the alerting of several stock broking firms falling short of regulatory requirements to such shortcomings, and undertaking of swift responses to investor complaints on events which had transpired in the past. Particularly with respect to investor complaints, we acted in conjunction with the CSE to introduce a system whereby all complaints could be handled and resolved in a timely manner.

Warnings of prompt and decisive action can only be as credible as the strength of a regulator's supervisory and surveillance capabilities, and as such, it is of paramount importance that we improve the tools at our disposal. The procurement of the latest and best-suited technology for our purposes is currently underway at the SEC, and will serve to strengthen our capabilities to effectively engage in market surveillance and oversight of regulatees.

Internationally Benchmarked Standards

Last year, when we acknowledged the importance of regaining public trust and investor confidence for the continued health and advancement of our capital market, and throughout 2015, when we acted upon this insight, we were mindful that trust and confidence were not purely domestic concerns for the SEC.

It is our hope that, as the domestic regulatory framework is better aligned with international standards, Sri Lanka will garner the interest not only of domestic investors but foreign, and that the market would experience a convergence of institutional portfolio investors. Towards this end, we successfully made representations to IOSCO, the global standard-setter for securities market regulation, to conduct a Country Review of Sri Lanka.

Our success in securing a Country Review comes against the backdrop of high international demand for such regulatory reviews, and is expected to result in the identification of gaps in our compliance with the 38 IOSCO principles of Securities Regulation. A Roadmap for full compliance will be developed thereafter by IOSCO in consultation with the SEC, and a phased-out implementation will result.

The initial work relating to the IOSCO Country Review so begun will continue well into 2016, with the implementation of the Roadmap based thereon beginning in late 2016.

Improved Business Conduct

Rules alone cannot ensure the effectiveness of our regulation, and the support of regulatees by way of self-regulation and good business conduct is essential even as we continue to enhance the effectiveness of our market monitoring through surveillance, to maintain constant and comprehensive oversight over intermediaries, the CSE, and other market participants, and to heighten our vigilance over systemic risk.

With respect to intermediaries, the SEC seeks to encourage strong players who possess the capacity to stay apace with future market developments. Towards this end, a review of prudential requirements applicable to regulatees was begun by the SEC in order to ensure that these capital adequacy requirements reflect the risk undertaken by each.

Corporate Governance Enhancements

Listed companies play a decisive role in the market. Ensuring that the issuers of securities conduct their business in compliance with the law and with the best interests of the investing public in mind is a priority for the SEC, as is the assurance that companies listed on the CSE are well managed, and stand as much to realise their growth potential as to add value to the stock market. To attract and sustain investor demand, an exchange must have within it companies which adhere to stringent principles of corporate governance.

Given the role played by poor governance in causing and exacerbating financial crises in the past, present and future regulators must take particular care that standards of governance are raised market-wide. For us, building governance capacity is an important undertaking, and an SEC review of domestic corporate governance standards as against international best practices is currently underway.

New Developmental Undertakings

Chief among our present capital market development initiatives are the demutualisation of the CSE and implementation of capital market infrastructure by fast-tracking the implementation of the CCP.

The demutualisation of the CSE as made possible by the proposed Demutualisation Bill is necessary in order to segregate ownership and management from the trading rights of CSE members such that the strategic interests of the Exchange may be better pursued. This in turn will better represent the interests of all capital market stakeholders in the CSE: a priority of the SEC, as its regulator. We now have in place a draft Bill for demutualisation, and look now to reviewing the draft for adequacy, and finalising value allocation among stakeholders prior to presenting the Bill to Parliament simultaneously with the SEC Act.

The SEC co-funded the CCP to ensure that it is set up as part of the common market infrastructure, will better cater to the present and future needs of the capital market and will be structured to reflect

these facts. Given that a well-designed CCP with an appropriate risk management mechanism will address asset commitment and settlement risks in the market and contribute to financial stability, the implementation of the CCP mechanism is of particular interest to us. Once in place, this CCP will increase the efficiency of and enhance infrastructure within the market, while fulfilling a prerequisite for the introduction of new products thereto.

Financially Literate Participants

For investors at the forefront of capital market activity, some degree of self-help becomes necessary in order to reap the benefits of their investments. As such, the pursuit of widespread financial literacy among investors is a strategic interest of the SEC.

In 2015 we continued to conduct investor seminars in a number of settings both urban and rural. Our external relations outfit also generated timely, relevant, and easily comprehensible trilingual content on a weekly basis for publication in popular newspapers.

Going forward, these seminars and articles will focus on empowering and equipping present and potential investors with the knowledge of how to build wealth for specific purposes, whether this is undertaken in relation to education, in anticipation of retirement or for purposes altogether different from the above.

As their knowledge is enhanced, investors find themselves better prepared to accurately gauge market conditions, and require less regulatory intervention and outlay. This does not mean, however, that our attitude towards market professionals may now grow lax: these professionals require support in building upon existing competencies such that they may secure the confidence of discerning investors, which support is furnished as they progress further along the SEC qualification framework.

During the past year, our capital market education and training arm continued its conduct of certification, licensing, and continuing professional development courses for capital market professionals at various stages of their careers, and took preparatory measures for the enhancement and update of the SEC capital market qualification criteria and framework in 2016.

Internal Capacity-Building

At the SEC, building capacity is imperative to fulfilling our objectives, and as such, attracting and retaining high-calibre personnel, each with the right technical skills, expertise, and experience, and whose integrity is without question becomes decisive with respect to our ability to fulfil regulatory obligations. As the market, its participants and products continue to evolve, so too must the sophistication and internal capacity of the SEC.

The SEC was restructured and expanded in 2015, and a highly competitive recruitment process was initiated with respect to

Management Trainees. Improving the competencies of existing staff remained foremost among our concerns in 2015, and will continue to be in years to come.

SEC Sri Lanka: Resolute and Unwavering

For 2016 and beyond, we, along with the support of all stakeholders, look forward to creating the depth and breadth necessary to render the capital market Sri Lanka's preferred mode of long-term fundraising and investment. For this, the trifecta of structural fortitude, strong fundamentals, and robust governance will be crucial.

As the SEC, we look to facilitate fund raisers and investors alike, and also to encourage the exploration of new and innovative means of fundraising and investment within a safe and well-regulated space.

With the expansion of the market, the need for industry consultations will grow, as would the need for an enhanced cooperation mechanism between and among financial sector regulators. These are needs that the SEC is poised to address, with a view to coherently regulating the financial sector, ensuring policy and regulatory certainty, and building stronger domestic institutions.

We at the SEC are resolute and unwavering in our advocacy of better, more facilitative regulation, in our insistence on more robust processes and mechanisms, and in our pursuit of parity with international best practices.

The SEC is at present formulating new policies to first lay a solid foundation and enable the market to grow to potential, and concurrently working on the introduction of new market institutions and the enabling of new products. This speaks to our confidence in its near- and long-term prospects, and to our commitment to facilitating its growth in stature over such period through focused policy formulation. I thank the Chairman and the members of the Commission for the support and direction provided throughout the year, and the staff of the SEC, for their relentless efforts and commitment in fulfilling our shared responsibility. However, we are not alone in this respect: our thanks are also owed to the Ministry of National Policies and Economic Affairs, the CSE, our other regulatees and the media, all of whom help the SEC in building a solid foundation upon which the future growth of our market may be supported.

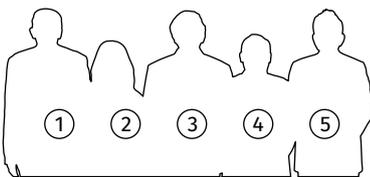
The pages that follow are the culmination of significant collective effort. As the market stands poised to enter new frontiers and realise its full potential, we urge you to rise to the occasion, and join us in standing sentinel over the capital market of Sri Lanka.



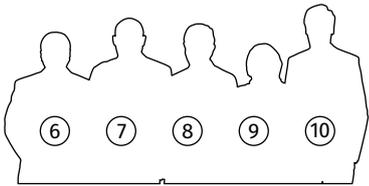
Vajira Wijegunawardane
Director General

25th May 2016

Members of the Commission



1. Mr. S. R. Attygalle
2. Ms. Dilshani Wijayawardana
3. Mr. P. Samarasiri
4. Mr. D. N. R. Siriwardena
5. Mr. Thilak Karunaratne



- 6. Mr. Lasantha Wickremasinghe
- 7. Mr. Suresh Shah
- 8. Mr. Ranel T. Wijesinha
- 9. Ms. Marina Fernando
- 10. Mr. Rajeev Amarasuriya

Members of the Commission Contd.

Mr. Thilak Karunaratne (Chairman)

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

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

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

Mr. D. N. R. Siriwardena

Mr. D. N. R. Siriwardena holds a B.A. (Hons.) Degree in Geography from the University of Peradeniya and a Law Degree (LL.B) from the Open University of Sri Lanka and a registered student in the LL.M Degree program conducted by the University of Colombo. He is an Attorney-At-Law by profession. Mr. Siriwardena joined the Department of Registrar

of Companies in 1988. Currently He has been 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 and also an ex-officio member of the Insurance Board of Sri Lanka.

Mr. Ranel T. Wijesinha

Ranel Wijesinha, was appointed a Commissioner of the Securities and Exchange Commission of Sri Lanka, in February 2015.

Skills and Experience

A practicing, chartered accountant and independent international management consultant, with over 35 years of post qualification experience, he has a distinctive balance of local and overseas exposure, between private professional practice and private industry, in the private sector, and between advisory, statutory and regulatory roles in the public sector.

His experience in the private sector, includes serving the John Keells Holdings Group, PricewaterhouseCoopers, Sri Lanka and Deloitte in The Bahamas. Having trained at KPMG Sri Lanka, he commenced his post qualification career with John Keells, then worked overseas with Deloitte in Nassau, The Bahamas, was tasked with establishing a new branch in Freeport, Bahamas and served as its first Resident Manager. On his return to the country, he initiated and established, the first Business Development Division for the John Keells Holdings Group and functioned as Director Business Development, advising the Main Board on strategic redirection, corporate turnarounds, new project evaluation, privatisation related diagnoses and bidding, acquisitions and divestments. He was subsequently invited to the partnership of Coopers & Lybrand to revive and restructure the consulting and advisory services of the firm and served as a Partner and Head of Consulting and Financial Advisory Services of PricewaterhouseCoopers Sri Lanka, pursuant to the firms global merger.

His contribution to the public sector over the last decade has primarily been on overseas assignments, performing advisory work for foreign Governments in several countries, on behalf of multilateral development partners such as the Asian Development Bank. These assignments included, functioning as

Team Leader, in governance and institutional risk assessments relating to public financial management and procurement, in post soviet nations in the Caucasus's such as Armenia, and Azerbaijan. He has performed infrastructure related financial management assessments, project evaluation, institutional development and capacity building assessments, in the Kyrgyz Republic, Afghanistan and India and has undertaken assignments for the World Bank, UNESCAP, UNIDO, UNDP, IFAD, USAID, and the Friedrich Naumann Foundation.

He has contributed to the public sector in Sri Lanka, between 1989-1994, immediately on his return to the country, and again between 2001-2004. Between 1989-1994, he made a significant contribution to the then Strategy for Industrialisation, through many advisory roles, for the then Minister of Industries. These included serving on advisory committees, on economic policy and strategy, investment promotion, investment incentives and fiscal incentives to promote domestic and foreign, direct and portfolio investment which revamped and incentivised the capital market, introduced unit trusts/mutual funds, venture capital companies as well as was a key driver in the transformation of the then Greater Colombo Economic Commission to the present Board of Investment. Between 2003-2004, at the invitation of the then Commission, he performed a diagnostic assessment of the regulatory effectiveness of divisions of the SEC Sri Lanka, and designed strategic initiatives for both enhancement of regulatory effectiveness and capital market development. He presently dedicates time, towards strategic new initiatives of the SEC, in this regard.

Professional and Post Graduate Qualifications

He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, and a holder of a Masters Degree in Business Administration from the University of Pittsburgh, in Pennsylvania USA. He has also studied, Multinational Corporations and Political Risk Analysis at the University's, Graduate School of Public and International Affairs.

Other Current Appointments

In February 2015, he was appointed as an independent non executive Director, of the Bank of Ceylon, Sri Lanka's largest Bank, where he serves as Chairman of the Board Audit Committee, since March 2015. During the year 2015, he served as a Director of Hotels Colombo (1963) Limited, which is a subsidiary of the Bank of Ceylon. He also served as an

independent non executive director, of John Keells Hotels PLC between July 2005 and June 2016, functioning as the Chairman of the company's Audit Committee.

Previous Appointments

He is a Past President of the Institute of Chartered Accountants of Sri Lanka and a Past President of the 23 Nation Confederation of Asian and Pacific Accountants. He has served as Chairman, Ayojana Fund Management Ltd; Founder Chairman, National Wealth Corporation; and Founder Director, Lanka Ventures Ltd. He has also served in the following capacities: Chairman of the Monitoring and Advisory Committee of the Ministry of Power & Energy; Member of the first Consumer Affairs Council under the first Consumer Affairs Authority Act; and Member of the Accounting and Auditing Standards Monitoring Board. During the period 2000-2001, he served as a Commissioner of the Securities and Exchange Commission of Sri Lanka; Member, Governing Council, National Institute of Business Management; Member, Board of Management, Post Graduate Institute of Management; and Member, Main Committee, Ceylon Chamber of Commerce; Advisor, Federation of Chambers of Commerce and Industry of Sri Lanka and Advisor, the SAARC Chamber of Commerce and Industry.

Mr. S. R. Attygalle

Mr. S.R. Attygalle is an Assistant Governor of the Central Bank of Sri Lanka and currently serves as a Deputy Secretary to the Treasury. He has over 25 years of experience in the area of monetary and fiscal policy.

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

Prior to the appointment as the Deputy Secretary to the Treasury Mr. Attygalle had been serving as the Director General of the Department of Fiscal Policy and Department of Public Enterprises of the Ministry of Finance and Planning and has contributed substantially to the Government's endeavors in the fiscal consolidation process. He has been contributing towards the formulation of the annual budget and leading the technical team for the Free Trade Agreement (FTA) with China.

Members of the Commission Contd.

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

At present Mr. Attygalle is representing the Treasury at the Regional Development Bank, Airport and Aviation Services Limited.

Ms. Marina Fernando

Ms. Fernando holds a law degree and a Masters in Public Law from the University of Colombo. She was admitted to the bar in December 1993. She currently offers legal consultancy services in all areas of Commercial Law.

In January 2004 she was appointed Director Legal and Enforcement of the Securities Exchange Commission of Sri Lanka (SEC).

In June 2007 she was appointed Deputy Director General, SEC and worked in that capacity during the period 2007 – 2009. She acted as Director General, SEC, during the period June 2007 – June 2008.

She led the Securities and Exchange Commission of Sri Lanka in the following regulatory initiatives:

- ➔ The formulation of a law to regulate securitisation (gazetted, March 2009)
- ➔ Introduction of standards of corporate governance for Listed Companies
- ➔ Introduction of regulation for Margin Providers, Investment Managers & Credit Rating Agencies

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

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

Ms. Dilshani Wijayawardana

Ms. Dilshani Wijayawardana is an Attorney-at-Law of the Supreme Court of Sri Lanka and holds a Masters in Law Degree (LLM) from the University of Cambridge, specialising in commercial law. At the Law College entrance examination, she was placed within the first 10 in order of merit in the island and was awarded the government's "Mahapola Scholarship". At the final examination at the Sri Lanka Law College, she was placed within the top 2% in order of merit.

She has been in active legal practice for the past 18 years in the Chambers of K. Kanag-Isvaran, President's Counsel, specialising in the fields of Primary and Court of Appeal litigation in corporate, banking and commercial law matters including intellectual property and insurance, commercial arbitration, drafting and settling of legal opinions in corporate, banking, securities, insurance and other commercial matters, and legal consultancy in matters pertaining to corporate law, banking and arbitration. She also has work experience in Singapore with a leading law firm 'Shook Lin & Bok', Advocates and Solicitors. Ms. Wijayawardana has presented many papers at various forums, on topics ranging from arbitration, intellectual property, company law and various aspects of commercial law.

In year 2014 she co-authored with K. Kanag-Isvaran President's Counsel, the book 'Company Law' which examines the legal provisions of the Companies Act No. 7 of 2007.

Mr. Rajeev Amarasuriya

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

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

In 2013, Mr. Amarasuriya was awarded the prestigious CIMA Star Gold Award by the Chartered Institute of Management Accountants (CIMA) as the most outstanding CIMA Member below the Age of 40 years. He was also the recipient of the gold medal awarded by the Sri Lanka Law College, having topped the

batch at the Attorneys-at-Law Final Examination in 2003 and he has received several other scholarships and awards as well. He also has the distinction of having received the highest number of prizes at his last Royal College Prize Giving.

Mr. Amarasuriya has been a visiting lecturer and examiner in tax law at the faculty of law of the university of colombo, and has also been an examiner at the Sri Lanka Law College. He was the Chair of the National Law Conference 2015 of the Bar Association of Sri Lanka and also was Chairman of the Plenary Session on Fundamental Rights at the National Law Conference 2014. He has also presented several papers at various fora in the area of public law.

Mr. Amarasuriya is presently the President of the Alumni Association of the University of Colombo.

Mr. Suresh Shah

Mr. Suresh Shah is a Director and Chief Executive Officer of Ceylon Beverage Holdings PLC and Lion Brewery (Ceylon) PLC. He is also a Director of Carson Cumberbatch PLC and Bukit Darah PLC.

He is the Immediate Past Chairman of the Ceylon Chamber of Commerce, Vice Chairman of the Employers Federation of Ceylon and a member of Council, University of Moratuwa.

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

Mr. P. Samarasiri

Mr. P Samarasiri is currently a Deputy Governor of the Central Bank of Sri Lanka. Prior to being appointed to the post of Deputy Governor, he has served in many senior positions such as Assistant Governor, Secretary to the Monetary Board, Compliance Officer and Director of Bank Supervision in the Central Bank. He also holds the post of Chairman of the Institute of Bankers of Sri Lanka and Credit Information Bureau of Sri Lanka and a member of the Insurance Board of Sri Lanka.

Mr. Samarasiri holds a BA Degree (Hons.) in Economics from University of Colombo and a MA in Economics from the University of Kansas, USA. Mr. Samarasiri counts 33 years of

experience in the Central Bank in areas of statistics, economic policies, regulation and supervision of banks and non-bank financial institutions, financial system stability, corporate governance, currency management, foreign exchange policies, financial intelligence and regional development.

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

Mr. Lasantha Wickremasinghe

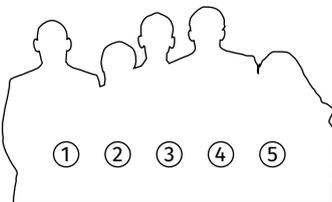
Mr. Lasantha Wickremasinghe is the President of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) for the term 2016/2017. He has been a Council Member since 2006 and was the Vice President of the Institute during 2014/2015, and commands both local and international experience, counting 20 years of experience.

Mr. Wickremasinghe is the Technical Advisor to the Deputy Chair of the Small and Medium Practices (SMP) Committee of the International Federation of Accountants (IFAC). He also serves as a Board Member of the Confederation of Asian and Pacific Accountants (CAPA) and is also a Board Member to the South Asian Federation of Accountants (SAFA). He is also the Chairman of the Improvement in Transparency, Accountability & Governance Committee (ITAG) of SAFA which organises the Best Presented Annual Report (BPA) awards among SAFA countries.

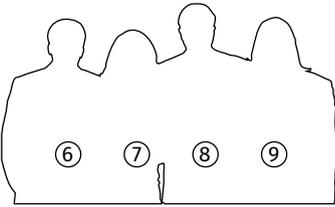
Mr. Wickremasinghe, was the Treasurer of the Organisation of Professional Association during 2009 – 2010, and is a Partner of B. R. De Silva & Co. Chartered Accountants and has been in practice since 1997

He serves as a Member of the Board of Directors of the Sri Lanka Accounting and Auditing Standards Monitoring Board and is also an Ex-Officio Member of the Postgraduate Institute of Management (PIM).

Senior Management



1. Vajira Wijegunawardane (Director General)
2. Ianthie Jayaratne (Director, Finance and Administration)
3. Tushara Jayaratne (Director, External Relations and Surveillance)
4. Chinthaka Mendis (Director, Litigation)
5. Usha Sivagurunathan (Assistant Director, Supervision)



- 6. Suneth Perera (Assistant Director, Capital Market Education and Training)
- 7. Manuri Weerasinghe (Assistant Director, Corporate Affairs)
- 8. Harshana Peiris Suriyapperuma (Director, Corporate Affairs)
- 9. Ayanthi Abeyawickrama (Director, Legal and Enforcement)

Absent: Dhammika Perera (Deputy Director General)
Inthikab Sameem (Director, Research and Policy)

Economic Review

Global Economy

Ambiguity, volatility and a strong pessimistic overtone dominated the global economic and business news in 2015. Whilst at initial glance the mood seemed justified as China's financial gyrations, volatility in oil prices, and the further weakening of some of the largest emerging market economies were colluding, the developments by themselves did not signal an impending global economic recession.

The escalation in the Middle East conflict with the involvement of the North Atlantic Treaty Organisation (NATO) member Turkey and Russia at opposing ends of the Syrian conflict essentially set the stage for a protracted conflict with wider ramifications. Another contiguous development was the significant reduction in the global oil prices from USD 59.2 in 2014 to USD 37.2 in 2015. This development posed a severe strain not only on the oil dependent economies of the Organisation of Petroleum-Exporting Countries (OPEC) but smaller economies like Sri Lanka which were particularly exposed due to reliance on the remittances from the Middle East countries.

The European Union despite showing some expectations on macroeconomics displayed its vulnerability yet again. The unremitting bailouts to Greece to save the country from default bankruptcy, the migrant crisis from Syria severely pressurising its social-economic balance, the impending Brexit referendum, and the threat of terrorism with attacks in Paris and Brussels all continued to weigh on European Union policy makers.

But the biggest headline of the year was probably the great fall of China, epitomised by the Yuan devaluation and accompanied by an economic hard landing. The People's Bank of China (PBOC) allowed for the Yuan devaluation in keeping with China's progression towards a market oriented economy. Towards the latter part of the year China's reserves stood at USD 3.3 trillion, and the PBOC was seen aggressively defending the Yuan to fend off against further depreciation.

The BRICS (Brazil, Russia, India China and South Africa) regarded once as the shining beacon of the future, remained hampered by weak macro matrices. Russia was thrust into recession on account of flagging oil prices, South Africa remained on the brink, Brazil could not stave off contraction and with only India managing some semblance.

According to the World Bank the global economy enlarged by 2.4 % for 2015. The USA remained a better performer in its domain at 2.5 % compared to the high income countries which recorded 1.6%. South Asia yet again cut a leading figure at 7.0 % with India leading the way at 7.3 %. (Figure 01)

Local Economy

Despite global headwinds Sri Lanka had a mixed bag year. There were tangible improvements in World Bank rankings in the domain of global competitiveness and doing business rankings year-on-year. In the latest appraisal Sri Lanka ranked just above the South Asian Association for Regional Cooperation (SAARC) median but fell short of the Association of Southeast Asian Nations (ASEAN) median. (Figure 02)

There was a degree of optimism in the macro pointers too. The Gross Domestic Product (GDP) grew by 4.8 % (Base year: 2010) in 2015 to reach the USD 82 billion mark and GDP Per Capita income reached USD 3,924/- to be within striking distance of upper middle income status of USD 4,125. (Figure 03)

FIGURE 01: REAL GDP GROWTH - 2015

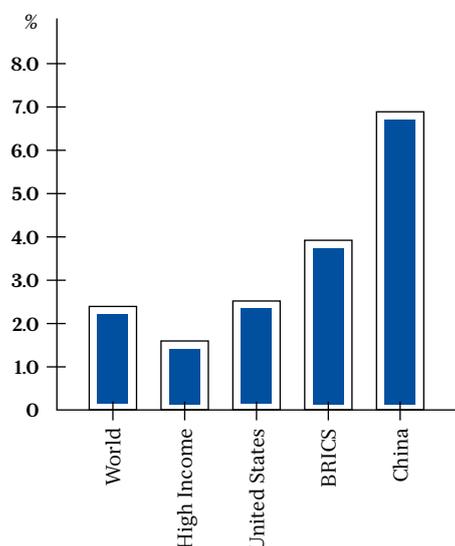
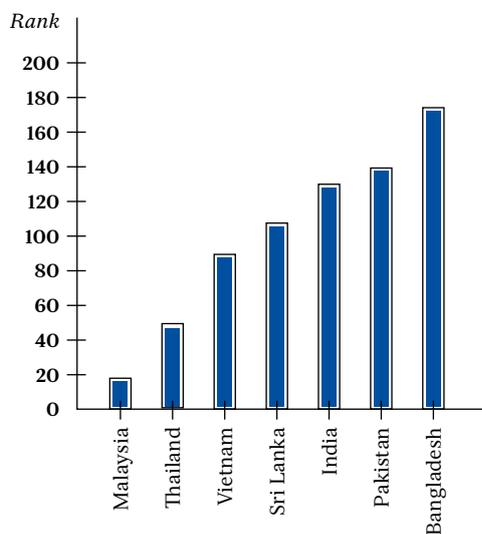


FIGURE 02: EASE OF DOING BUSINESS INDEX- 2016



Monetary policy was tightened to curb inflation, the 12 month Treasury Bill rate increased to 7.3 % by 2015 from 6.0 % in 2014 and credit to the private sector overfed to 25.1% in 2015 from a below par 8.8 % in 2014.

But despite tangible achievements, significant challenges and concerns remained. The trade deficit continued to balloon to USD 8.4 billion in addition to the complexity of the exports having not kept pace with GDP growth. The budget deficit increased from 5.7 % in 2014 to 7.4 % of the GDP in 2015. The current account balance though showing some progress continued to be still in the negative at 2.4 % of the GDP.

The gross official reserves stood at USD 7,300 million or 4.6 months of imports. The Sri Lankan Rupee (LKR) driven by deficit economics and a weak external position depreciated by 9.03% to LKR 144.06. (Figure 04, 05)

Foreign direct investment (FDI) also remained a muted figure. The FDI's decreased from USD 894 million in 2014 to USD 681 million in 2015. The remittances too witnessed a decline from USD 7,018 million in 2014 to USD 6,980 million in 2015. Only tourism earnings acted on the contrary by increasing from USD 2,431 million in 2014 to USD 2,981 million in 2015.

FIGURE 03: GDP SRI LANKA

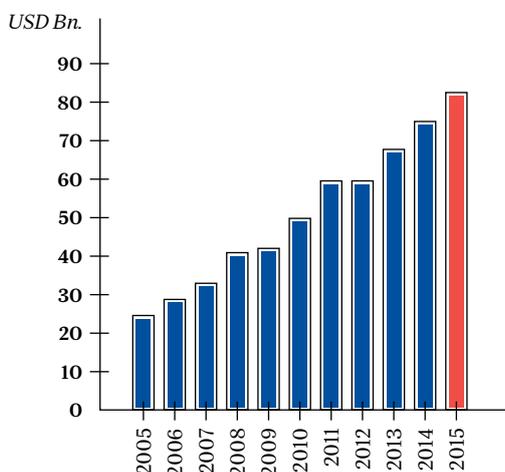
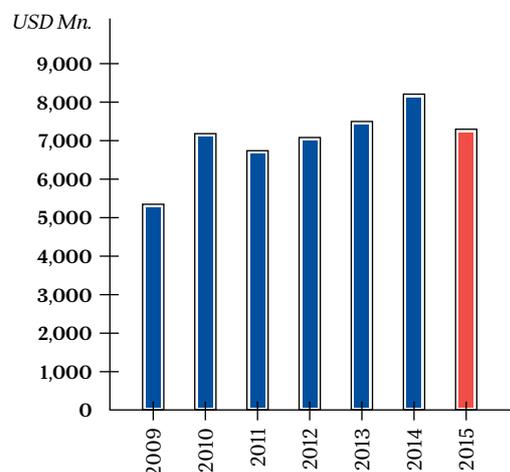
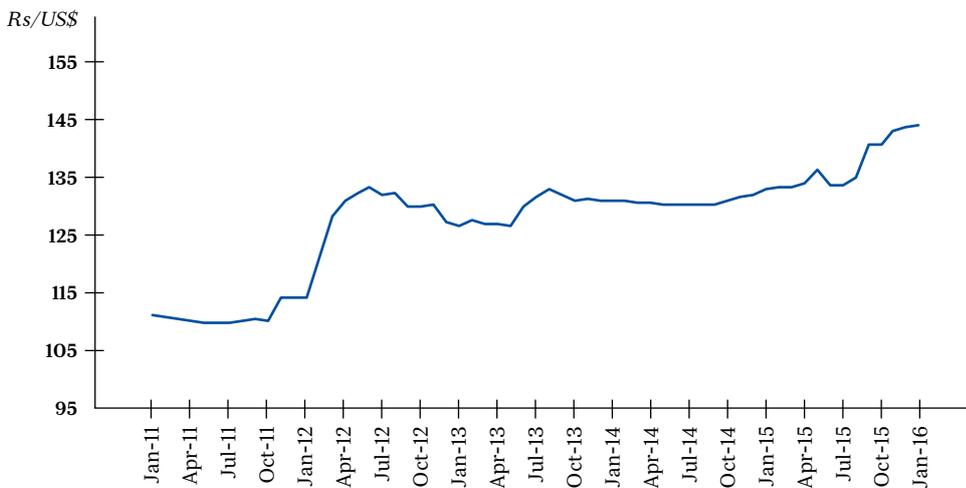


FIGURE 04: GROSS OFFICIAL RESERVES



Economic Review Contd.

FIGURE 05: EXCHANGE RATE MOVEMENT - RUPEES PER US\$



But the precariousness of the economic situation was not confined to macro variables alone. Fitch Ratings downgraded Sri Lanka to a B+ with a negative outlook citing a weak external liquidity position, significant debt maturities and persistently low fiscal revenues. Moreover the government income to GDP at around 13 % was cited as unsustainable given the current debt service requirements. The downgrade in turn weakens the country’s macro matrices and will increase future borrowing costs due to the increased risk profile. (Figure 06)

In current economics the funding gap for the coming year is expected to be USD 2.5 billion. To this effect the government of Sri Lanka has requested some fiscal space from the International Monetary Fund (IMF) to the amount of USD 1.5 billion. The currency swap of USD 1.1 billion with India is expected to act as a stop gap liquidity measure. Moreover the government plans to tap other bilateral and multilateral donors for the differential.

Going forward the government is keen to embark on a path of fiscal discipline, an independent monetary policy rather than the traditional fiscal dominance, and greater efficiency in addressing macro economic anomalies. The government is further of the opinion that IMF assistance goes beyond funding requirements and that the other donors such as World Bank and Japan International Cooperation Agency will follow suit after IMF assistance.

Moreover in keeping with the Asian Development Bank guidelines the government will seek new avenues for GDP growth and target equity funded infrastructure, rather than the traditional debt funded long term capital expenditures to free up the currently congested fiscal space.

According to the World Bank, Sri Lanka currently confined to the lower middle income status can graduate to upper middle income domain if GDP could expand by 5.3 % for 2016. But doing so in the current context, in a difficult global environment, in conjunction with a slower pace of economic development, remains a monumental task.

FIGURE 06: SOVEREIGN CREDIT RATINGS

Fitch Rating - 2016	
Malaysia	A - Stable
Thailand	BBB+ Stable
India	BBB- Stable
Bangladesh	BB- Stable
Vietnam	BB- Stable
Sri Lanka	B+ Negative
Pakistan	B

Data Source: Central Bank of Sri Lanka Annual Report 2015
Global Economic Prospects January 2016

Capital Market Review

Despite the volatility experienced by markets across the world in 2015 due to a confluence of macroeconomic factors, the CSE proved to be resilient with the benchmark ASPI and S&P SL20 declining by only 5.5% and 11% respectively. (Figure 07)

The benchmark ASPI closed at 6,894.5 points during the year under review registering a decrease of 404.5 points. The Blue Chip S&P SL20 index decreased by 463.8 points to close at 3,625.6 points on 31st December 2015.

In 2015, stock markets worldwide declined substantially. The CSE declined by 5.5% in 2015 and the volatility witnessed at the CSE could be attributed to both foreign and local factors. These factors included the marginal increase in domestic interest rates, political uncertainty, depreciation in the domestic exchange rate as well as global factors namely, the decline in commodity prices, particularly oil; rise in interest rates by the US Federal Reserve and China's economic rebalancing. In addition, many world currencies fell against the U.S. dollar, with many declining by double-digits on a percentage basis.

Market capitalisation is the total value of a publicly traded company's outstanding shares at any point. The market capitalisation at CSE declined by 5.3% to Rs. 2,938.0 billion in the year under review from Rs. 3,104.9 billion in the previous year.

The price-earnings ratio (P/E) is reflective of the valuation of shares. The P/E ratio too declined from 19.6 times to 17.9 times during the year similar to the trend that was seen in the previous year. In line with the decreased turnover the trading frequency of stocks at CSE too declined. The trading frequency is symbolic of the liquidity prevalent in the stock market. The number of companies listed on the CSE as at the end of the year stood at 294.

In line with regional trends, the CSE too encountered foreign fund outflows as foreign investors swapped to more conservative investing positions. Foreign investors were net sellers in the CSE and recorded a cumulative net outflow of Rs 5.3 billion at the end of 2015 compared with a cumulative net inflow of Rs 21 billion in the previous year. Nonetheless, sporadic domestic institutional investors cushioned foreign equity outflows to some extent which allowed for orderly market adjustments against a volatile global environment. Local retail investors meanwhile largely remained on the sidelines in the year under review. Local individual investors accounted for 35.2% of the total market turnover while local companies accounted for 30.4%. Foreign investors accounted for 34.4% of the total turnover in 2015. (Figure 08)

FIGURE 07: MARKET PERFORMANCE : 2015



Capital Market Review Contd.

FIGURE 08: INVESTOR CONTRIBUTION

	2015	2014	2013
Foreign Companies	32.8%	26%	34.3%
Foreign Individuals	1.6%	1.6%	1.8%
Total Foreign Investor Contribution (%)	34.4%	27.6%	36.1%
Local Companies	30.4%	34.7%	30.4%
Local Individuals	35.2%	37.7%	33.5%
Total Local Investor Contribution (%)	65.6%	72.4%	63.9%

In the first 2 weeks of the first quarter of the year the market witnessed a splurge of buying resulting in sharp increases in the benchmark indices. However the rising momentum could not be sustained and the market fell gradually towards the end of the first quarter. The main reason for this decline was the political uncertainty which prevailed pending the general election in August 2015. The ASPI reached the lowest level 6,782.4 points for the year on 30th March 2015.

In the second quarter of the year there was limited buying activity which had the effect of increasing the level of indices. However buying activity could not be sustained and the indices closed lower at 6,923.7 points in July 2015 as subsequent concerns over political uncertainty in the domestic front and global events kept local investors at bay. In addition, foreign investors were busy exiting the bourse due to overall global sell-off from emerging market funds. These two variables alone triggered the market to lose points despite positive corporate earnings.

In the third quarter of the year there was a sharp rebound of the share market. The ASPI appreciated 311.2 points while the S&P SL 20 index gained 199.9 points. The increase in the indices could be attributed to the political developments in the country.

In the last quarter of the year the share market failed to live up to expectations resulting in the CSE closing the year at 6,894.5 points.

Resource Mobilisation - Primary market

While heightened market volatility resulted in a cautious investing tone throughout the year. There were only two Initial Public Offerings (IPO) (equity) during the year. The 2 equity listings at the CSE raised Rs. 329.5 million compared to 5 listings in the previous year which raised Rs 2,693.8 million. (Figure 09)

There were 25 debt IPOs during the year under review which raised Rs 83.4 billion as against Rs. 54.2 billion in 2014. This shows a significant increase in the amount raised via debt IPOs in 2015. The amount raised through Rights Issues too showed a significant increase in 2015. 16 Rights Issues collected Rs. 16.2 billion as against Rs. 8.1 billion raised in 2014.

There were 3 de-listings during the year under review.

FIGURE 09: IPOS 2015 (EQUITY)

Name	No. of shares allotted	No. of Shares listed	Consideration (Rs.)	Amount raised (Rs.)	Date listed
Arpico Insurance PLC	6,630,400	66,230,407	12.00	79,564,800.00	16-Jan-15
Singhe Hospitals Limited	100,000,000	398,225,895	2.50	250,000,000.00	21-Apr-15

Secondary market

The total turnover for the year 2015 was Rs. 253.2 billion indicating a drop of 25.7% as against the previous year. In line with this decline the annual turnover and the average daily turnover too declined to Rs. 1,059.6 million as against Rs. 1,414.6 million in the previous year .

The trading volumes too dropped. The total traded quantity for the year amounted to 9,414. million shares, which reflects a drop of 43% from 2014. A total number of 1,506,790 trades were executed in the year under review compared with 1,982,709 trades in 2014 which reflects a decline of 24%.

Performance of Unit Trusts

The unit trust industry expanded in 2015 with the Net Asset Value increasing by 2% to Rs. 130 billion. The launch of 6 new funds and an increase in the total number of unit holders by 17% to 38,140 contributed to the expansion in the industry. One unit trust was terminated due to concerns on the operational viability of the respective fund. The number of units issued declined by 10% to 8,812. (Figure 10)

FIGURE 10: OVERALL POSITION OF UNIT TRUST FUNDS

	As at 31.12.2015	As at 31.12.2014	% Change
Number of approved Unit Trust Funds	79	74	7%
Net Asset Value of Unit Trusts (Rs. Mn. approx.)	129,844	127,356	2%
Number of Unit Holders	38,140	32,619	17%
Number of Units Issued (No. Mn. approx.)	8,812	9,772	-10%
Investment in Equity (Rs. Mn. approx.)	14,376	14,591	-1%
Investment in Treasury Bills(Rs. Mn. approx.)	28,294	60,897	-54%
Investment in Other Instruments**(Rs. Mn. approx.)	87,272	52,202	67%

Source : Regulatory Submissions by Unit Trust managing companies, CSE

Managers



Madhugayanie Balapitiya - *Manager, Legal and Enforcement*



Ranmini Jayathilake - *Manager, Information Systems*



Sharmila Panditaratne - *Manager, Legal and Enforcement*



Sajeevani Bakmedeniya - *Manager, Capital Market Education and Training*



Saumi Kodippily - *Manager, Supervision*



Sheena Goonaratna - *Manager, External Relations*



Manjula Chandraratne - *Manager, Surveillance*



D M G Priyantha - *Manager, Investigations*

Staff Members



Lakshmi Wickramanayake



Prabhashini Samarakoon



Sugath Alwis



Ashoka K Dayarathne



R K Wasantha Sunimal



Mekhala Jayapala



Anula Wijesinghe



Prathibhani Herath



Rakhitha Bandara



Aeshini Bandara



P M Niroshika Udayanganie



Mahesh Abeyssekara



Thakshila Francis



Chamari Eranga Manthirathna



Priyantha Herath

Staff Members Contd.



Suhadini Wickramasinghe



Bimba Gamaathige



Buddhinee Herath



Nimal Kumarasinghe



J K Priyadarshini



C Erandathie Waidyasekara



Dhanesha Rajapura



Preenika Nilakshi Perera



Olivi Solangaarachchi



Marian Glenda Sandanam



Supun Gunasekara



Nuwani Siriwardana



Mariez Wanigasekera



A C Dias



Nisansala U Herath



G D Kapila Kumara



M M Imran



Roshini Peiris



Thanishka Tillekeratne



Lalinda Dayarathne



Tharaka Kulathilaka



Gayan Lokugamage



Krishanthi Muthuthanthrige



Shalini Perera



Julie Allegakoen



Kumari Siriwardena



Nishoka Jayathunga



Nuala Thevathasan



Lakshmi Atapattu



Anne Chrisanthi Fernando

Staff Members Contd.



Danushi Thalpita



S D Dharmasiri



M Jayasekara



P W L Piyatissa



Chandran Nagendran



W Ariyaratna



Anura Perera



D Pathum Niroshana



Sandaruwan Wijeratne



P D Pathmarani

Absent: Christobel Silva, Surekha Jayasekara, Chamari Buddhika, Y D Sandamali, Samanthi Gunawardana

Operational Review

Regulation

The existence of a strong regulatory framework is essential to safeguard the interests of investors, ensure that risks are kept to an acceptable level, promote efficient price discovery and create a credible securities market. The SEC formulates policies to strengthen and protect the integrity and soundness of Sri Lanka's securities market.

Licensing and Registration

To carry on business in the following regulated activities an entity is required to be either licensed / registered by the SEC. (Figure 11)

FIGURE II: LICENSING AND REGISTRATION

Market Intermediaries	Total No. of Licensed/Registered Entities as at 31st December 2015	Licences/ Registrations granted during 2015
Stock Exchanges	01	-
Stockbroking Companies	36	01
Stock Dealing Companies	16	02
Managing companies of Unit Trusts	14	-
Unit Trust Funds	79	06
Investment Managers	34	01
Margin Providers	32	-
Underwriters	09	-
Credit Rating Agencies	02	-
Clearing House	01	-

Policy Initiatives

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

Amendments to the SEC Act

An advisory Committee headed by Mr. K. Kanag-Isvaran P.C. to review the proposed amendments previously made to the SEC Act was constituted by the Commission.

A discussion paper setting out the basis and the rationale for the policy of the proposed amendments to the SEC Act was circulated amongst the Advisory Committee.

The amendments deal with the legal framework necessary to facilitate the capital market of Sri Lanka to move to the next stage of development whilst enhancing the protection granted to investors which include mandatory provisions on auditors to whistleblow to the Commission in the event or probable event, of a violation of the provisions of the SEC Act by public listed companies and regulatees of the SEC. The representatives

of the Advisory Committee together with officials of the SEC engaged in discussions with officials of the Institute of Chartered Accountants of Sri Lanka (ICASL) in respect of the provisions relating to auditors in the proposed amendments.

The services of Mr. D. L. Mendis (formerly of the Legal Draftsman's Department) were commissioned to re-draft the provisions according to the Sri Lankan drafting conventions.

Takeovers and Mergers Code

A draft of the new Takeovers and Mergers Code was finalised under the leadership and guidance of Justice Saleem Marsoof P.C. The draft was submitted for a final public consultation and on the response from the public; the draft is being revised.

Regulation of a Clearing House Acting as a CCP

The legal provisions relating to the regulation of a Clearing House acting as a CCP were discussed between the Advisory Committee on the SEC Act and the consultants appointed by

Operational Review Contd.

the CSE, to determine any additional provisions that could be accommodated in the proposed draft amendments to the SEC Act.

The new provisions were mainly related to the operations of the CCP which were specific to the model intended to be implemented by the CSE.

Making Stock Market Information Available in the Official Languages

The Commission requested the CSE to take steps to have stock market information available in Sinhala and Tamil languages in addition to their English version, to enable a wider group of investors to have access to vital capital market information. The SEC in keeping with the official languages policy of the state has taken steps to ensure that capital market literacy programmes to the public, rules and regulations and all training programmes are held in all three languages.

Draft Rules on Book Building

The SEC reviewed the intended draft Rules on Book Building submitted by the CSE to be utilised by issuer companies at an IPO to determine the share price. This methodology will enable a price discovery mechanism to be adopted based on an auction method where qualified investors will bid on a price range provided by an investment bank. The Rules are yet to be finalised.

Directives Issued by the SEC

Regulatory Interventions to Protect the Interests of Investors

➔ Suspension of trading of a Public Listed Company

The SEC directed the CSE to suspend the trading of shares of Miramar Beach Hotel PLC in terms of the Listing Rules with effect from 26th February 2015 until all outstanding Interim Financial Statements and Annual Reports are released to the market. The company has been on the Default Board of the CSE since 2009.

The directive was issued by the SEC to suspend the trades of the company with one month's notice to the public to protect the interests of investors.

➔ Directive to hold an Extraordinary General Meeting (EGM) to comply with undertakings given in the prospectus - Kalpitiya Beach Resort PLC

The company failed to construct a hotel during the stipulated time period as undertaken in the prospectus at a public offering. In the prospectus, the company has further given an undertaking to hold an EGM of the shareholders to consider an alternative course of action for the utilisation of funds in the event the project is not carried out.

The SEC directed the company to hold an EGM to give a viable alternative to the shareholders in respect of the proposed construction of the resort hotel in Kalpitiya as the hotel was not constructed within the time period given in the prospectus.

➔ Failure to comply with the Listing Rules of the CSE relating to Corporate Governance - Blue Diamonds Jewellery Worldwide PLC

Blue Diamonds Jewellery Worldwide PLC had failed to comply with the Listing Rules of the CSE in relation to corporate governance by their omission:

- to have the required number of Independent Directors on the Board of the company;
- to constitute the Remuneration Committee of the company in terms of the Listing Rules of the CSE; and
- to constitute the Audit Committee of the company as required by the said Rule.

The SEC directed the company to rectify the above said omissions within a stipulated period of time giving notice that the failure to comply with the Directive would compel the SEC to take steps to limit the company's usage of the proceeds raised by the rights issue, announced in October 2014.

➔ Directive issued on the debenture issue of EAP Broadcasting Company Limited

The SEC directed the CSE to defer the opening date of the debenture issue of EAP Broadcasting Company Limited until a rating is obtained from an independent rating agency. This directive was issued consequent to a matter in the nature of a possible conflict of interest arising between the issuer and the rating agency that rated the debenture issue.

➔ Directive relating to a prohibition to canvass new clients - Nations Lanka Equities (Pvt) Ltd

A Directive was issued to Nations Lanka Equities (Pvt) Ltd prohibiting them from canvassing new clients. This was issued as a result of the continuous non compliance by the company with client fund adequacies and certain other capital requirements imposed by the Stock Broker Rules of the CSE.

➔ Market Intermediary Rules

The SEC re-issued by way of a Directive the approved regulatory standards for compliance by registered Market Intermediaries which were previously issued under the title "Rules Applicable to Market Intermediaries".

The Commission made the above decision pending the finalisation of the current regulatory standards for purposes of gazetting until a review is done by IOSCO. Earlier the Commission had submitted the said regulatory standards to the Legal Draftsman for gazetting as Rules applicable to Market Intermediaries. However this process has been stayed pending the IOSCO review.

Other Regulatory Matters

Suspension of an Investor Account

The SEC received a request on behalf of an investor to lift the suspension on the share portfolio of his Central Depository Systems (Pvt) Ltd. (CDS) account which had been suspended on the instructions of the SEC in 2006. The CDS account of the investor had been frozen on an Order made by the Fort Magistrate's Court in 2006 pursuant to an application made by the Criminal Investigation Department (CID) on a pending investigation into a fraud committed in respect of Value Added Tax (VAT). The SEC informed the investor of the SEC's inability to lift the suspension.

Approvals

Amalgamation of Orient Finance PLC with Bartleat Finance PLC

A proposal was received seeking the concurrence of the SEC from Bartleat Finance PLC to amalgamate Orient Finance PLC with Bartleat Finance PLC.

This proposal was in terms of the Consolidation Plan of the Central Bank of Sri Lanka (CBSL) and accordingly, Orient Finance PLC was to be amalgamated with Bartleat Finance PLC by way of a share swap. The said amalgamation was approved subject to the fulfillment of certain conditions to be followed by both Orient Finance PLC and Bartleat Finance PLC.

Country, Regional and Global Funds

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

During the year 2015, the SEC approved 154 global, regional and country funds to invest in listed securities in Sri Lanka and noted 65 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 private placements which exceed 20% of the shares in issue immediately subsequent to such issue of shares.

During the year under review a waiver was granted to Renuka Foods PLC to issue ordinary voting shares of Renuka Foods PLC via a Private Placement to CJ Patel & Company and Eagle View Management Limited in exchange for their shares in Shaw Wallace Ceylon Limited. The company sought the waiver in order to integrate its subsidiary Shaw Wallace Ceylon Limited into the company as part of its consolidation plan. The waiver was granted subject to the following two conditions:

- ➔ that shareholder approval is obtained prior to the private placement; and
- ➔ to voluntarily lock-in the allotted shares falling within the 5.4 (b) waiver for a minimum period of 12 months from the date of allocation. This condition was imposed in order to thwart any unusual volatility that may arise in the share price.

Operational Review Contd.

Approval Granted to Amend the Articles of Association of the CSE

The amendments to Article 47, Article 48 and Article 51 of the Articles of Association of the CSE that removed the reference to the Ministry of Finance was approved during the period under review in terms of Section 25 of the SEC Act.

Previously Articles 47, 48 and 51 of the Articles of Association of the CSE recognised the Minister of Finance to be the appointing authority of "Appointed Directors" to the CSE Board and these provisions needed to be rectified by the CSE to be in conformity with the Minister referred to in the SEC Act. The SEC Act does not define the relevant subject Minister. This change became important since the subject minister of the SEC is no longer the Ministry of Finance and the change to the Articles of Association of the CSE was done on the request of the SEC.

Amendments to the Listing Rules of the CSE

The following amendments to the Listing Rules were approved by the SEC during the year under review:

- ➔ Amendments to Rule 11 - pertaining to the revision of the listing fees of the CSE.
- ➔ Amendments to Rule 3.1.4 of the Listing Rules of the CSE. This pertained to the basis of the Offer Price at an IPO which imposed a requirement on the Board of Directors to state that the consideration for which shares are to be offered to the public is fair and reasonable to the entity and to all existing shareholders as required by the Companies Act.

- ➔ Amendments to Rule 3.4.8 pertained to the Reference Price when listing shares by way of an Introduction. This amendment imposed a requirement for the Reference Price to be made based on a fairness opinion prepared by an independent expert approved by the CSE and for the Reference Price and the basis for determining such Reference Price to be disclosed in the introductory document.
- ➔ Amendments to Rule 3.4.11 of the Listing Rules of the CSE pertained to the imposition of requirements wherein shares or debt securities are listed by way of an Introduction. The amendment imposed a requirement for the introductory document, the Articles of Association of the issuer company and the Trust Deed (for debt securities only) to be hosted on the issuer company's website and the website of the CSE for a minimum specified period of time.

Approvals for De-listing Applications

During the year under review 02 companies were de-listed in terms of the De-listing Rules set out in the SEC Rules. The companies were:

- ➔ NDB Capital Holdings PLC
- ➔ Finlays Colombo PLC

Administration of the Takeovers and Mergers Code

In the year 2015 the following takeovers were administered by the SEC (Figure 12)

FIGURE 12: OFFERS EXTENDED UNDER THE TAKEOVERS AND MERGERS CODE

Offeror	Offeree	Nature of the Offer	Shareholding at the Closure of the Offer
C H C Investment (Pvt) Ltd.	Taprobane Holdings PLC	Mandatory Offer	55.52%
People's Bank and People's Leasing & Finance PLC	People's Merchant Finance PLC	Joint Mandatory Offer	87.21%
W. D. N. H. Perera	Kalamazoo Systems PLC	Mandatory Offer	69.30%

Approvals Under Section 28A of the SEC Act

All public companies seeking listings on the CSE are not allowed to list shares which have been allotted to any person within a period of one year prior to its listing on an Exchange, unless the prior written approval of the Commission is obtained for that purpose. Orient Finance PLC was granted approval during the year.

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 entity. (Figure 13)

FIGURE 13: APPROVALS GRANTED TO ISSUE UNLISTED SECURITIES

Name of the Issuer	Nature of the Issue	Type of Security	Amount Approved	Duration
Ceylon Guardian Investment PLC	Scrip Dividend	Unquoted Deferred Shares	LKR 12 Million	-

Rules on the Maintenance of a Minimum Public Holding as a Continuous Listing Requirement

The SEC monitored compliance of Public Listed Companies with regard to the maintenance of a Minimum Public Holding in terms of the Listing Rules of the CSE.

Twenty two companies made applications to the SEC seeking further time to comply with the Listing Rules of the CSE relating to the maintenance of a Minimum Public Holding. Having considered the aforesaid applications, the SEC has granted approval to the requests for the extension of time.

Application by AIA Insurance Lanka PLC

AIA Insurance PLC sought an extension or an exemption from complying with the Rules relating to the maintenance of a Minimum Public Holding on the basis that the company intends to be statutorily exempted from being listed on the CSE with the passing of the amendment to Section 15A of the Regulation of Insurance Industry Act No. 43 of 2000 by Parliament.

The SEC granted approval to the company exempting the company from compliance with the rules relating to the maintenance of a Minimum Public Float until 31st December 2016 or until the impending legislation is passed in Parliament whichever is earlier, subject to the right of the Commission to review the decision to exempt in the event the proposed legislation is not passed in Parliament by 31st December 2016.

Approval of Off-the-Floor Share Transactions

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

Approval was granted for 588 exceptional transfers and 108 gifting of shares during the year under review. The exceptional transfers were in order to facilitate margin trading, fund management, de-listing, liquidation and restructuring of entities and portfolios.

Oversight and Compliance

Regulated entities are required to comply with securities laws, rules and regulations to protect the interest of their clients and help preserve the integrity of the securities market. Regulation of these entities includes setting entry criteria, prudential and capital requirements as well as ongoing supervision. Moreover, listed entities need to disclose and disseminate all material information to enable investors to make informed investment decisions and therefore we examine both financial and operational perspectives of these companies to ensure compliance.

Listed Companies

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

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

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

Operational Review Contd.

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

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

The SEC commenced financial statement reviews of 124 Public Listed Companies out of which 108 have been concluded with 64 Letters of Comment being sent.

This process will contribute to improve the level of awareness of companies regarding the obligations placed upon them in the preparation and presentation of Annual Reports and accounts.

Supervision of Licensed/Registered Entities

The regulatory role of the SEC is to foster stability in the capital market. Therefore, we supervise and monitor the financial stability and operational viability of licensed/registered entities to strengthen investor protection and develop investor confidence in the capital market.

Stock Broking Companies

During the year 2015, on-site supervisory examinations of stock broking companies were carried out through a risk based approach focusing on different risk categories in areas of prudential, liquidity, financial, credit, legal and operational risk. Further, we directed the stock broking companies towards achieving the highest professional standards emphasising on compliance with provisions of the SEC Act and Rules & Regulations promulgated there under.

In 2015, off-site examinations were also carried out using a risk based supervisory methodology which aimed at detecting companies and activities that could pose a risk of failure and non compliance with regulatory requirements. In addition, credit risk exposure was closely monitored by reviewing

“Debtors Declarations” submitted by the stock broking companies on a fortnightly basis. Any discrepancies and non compliances observed during off -site examinations were notified immediately to the company for rectification.

During the year under review, a few stock broking companies were identified in breach of regulatory requirements and they were required to take immediate steps to ensure compliance within a reasonable period of time.

We continued to facilitate and reinforce a high degree of compliance among the stock broking companies with Anti Money Laundering regulations/standards imposed by the Financial Intelligence Unit of the CBSL on securities sector participants. Total turnover of the stock broking industry decelerated during the year 2015 compared to the year 2014. The comparative statistics on the performance of the stock broking companies are given below: (Figure 14)

FIGURE 14: HIGHLIGHTS OF THE STOCK BROKING INDUSTRY

	2015 (Rs.'000)	2014 (Rs.'000)	Change %
Turnover	2,395,888	3,087,228	-22.39
Net brokerage	2,175,440	2,833,873	-23.23
Operating profit/loss	205,297	794,562	-74.16
Other income	678,041	510,000	32.95
Net profit/loss before tax	(6,174)	727,606	-100.85
Net profit/ loss after tax	(103,803)	604,053	-117.18
Total assets*	9,822,482	11,333,864	-13.33
Total liabilities *	3,634,502	4,924,007	-26.19
Net capital*	4,959,272	4,966,033	-0.14

*As at 31 December 2015 & 2014

Source: un-audited financial statements submitted to SEC

Market Intermediaries

The SEC grants registrations to five categories of Market Intermediaries, namely margin providers, investment managers, credit rating agencies, underwriters and clearing houses, to carry on their functions in the category of Market Intermediaries.

In 2015, the SEC strengthened its supervisory and monitoring procedures on the Market Intermediaries. Hence the number of risk based on-site and off-site inspections carried out by SEC increased to monitor, mitigate and manage the risks involved. We also carried out compliance reviews of the Market Intermediaries on assessment of compliance with applicable Rules & Regulations, weaknesses in internal controls, client asset protection and conflict of interest management. During the year, entities with high degrees of risk concentration were identified through application of a precise monitoring methodology and adhering to a carefully planned supervisory mechanism which enabled the mitigation of escalated risk positions of such entities.

During the year, the governance systems and internal controls of Market Intermediaries have been strengthened through proactive, analytical and risk focused supervision.

In 2015, we also focused our supervisory efforts towards detecting and preventing opportunities for misconduct, assessing the resilience of Market Intermediaries as well as the conduct of such Market Intermediaries. This included conducting regular on- site and off- site inspections on specific areas of concern.

Throughout the year, we demonstrated strong commitment towards achieving effective enforcement outcomes including credible deterrence efforts to preserve market trust and confidence. In 2015, enforcement action was instigated against a Credit Rating Agency registered under the purview of the SEC for breach of compliance with regulatory requirements, provisions of the SEC Act and applicable Rules and Regulations promulgated there under resulting in non renewal of its registration to function in the capacity of a Credit Rating Agency. (Figure 15)

FIGURE 15: FINANCIAL HIGHLIGHTS OF OTHER MARKET INTERMEDIARIES (AS AT 31ST DECEMBER 2015)

	Total Revenue Rs.	Total Net Profit Before Tax Rs.	Total Assets Rs.	Total Liabilities Rs.
Margin Provider	302,151,437	102,425,794	3,465,752,711	1,006,962,764
Investment Manager*	366,498,491	329,570,696	8,272,645,179	4,019,032,943
Underwriter **	1,122,233,713	1,591,654,590	16,883,547,000	151,644,000
Credit Rating Agencies	115,712,500	36,741,680	150,187,196	23,965,386
Multipurpose entities***	159,054,942	579,886,567	2,893,685,570	376,640,948

Source: un-audited financial statements submitted to the SEC

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

*12 unit Trust Management Companies who have obtained Investment Manager Licence are excluded from the computation in order to avoid double counting

**During the years 2015, the Underwriters have not carried out a single underwriting assignment

***Multiple Entities are the regulated entities that had been granted registration to carry out more than one regulated activity

Unit Trust Industry

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

Operational Review Contd.

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

Unit Trust Funds

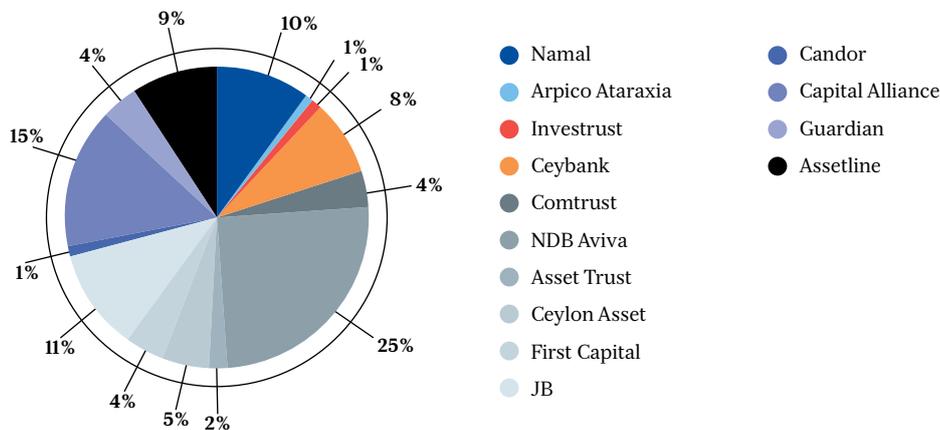
The Net Asset Value of unit trust funds stood at Rs. 130 billion (approx) as at 31st December 2015 reflecting a growth of 2% compared to the previous year. The number of unit holders increased by 17% whilst the number of units issued has reduced by 10% compared to the previous year. Six new unit trust funds were licensed during the year. (Figure 16)

FIGURE 16: OVERALL POSITION OF UNIT TRUST FUNDS

	As at 31.12.2015	As at 31.12.2014	% Change
Number of Approved Unit Trust Funds	79	74	7%
Net Asset Value of Unit Trusts (Rs. Mn. approx.)	129,844	127,356	2%
Number of Unit Holders	38,140	32,619	17%
Number of Units Issued (No. Mn. approx.)	8,812	9,772	-10%
Investment in Equity (Rs. Mn. approx.)	14,376	14,591	-1%
Investment in Treasury Bills (Rs. Mn. approx.)	28,294	60,897	-54%
Investment in Other Instruments** (Rs. Mn. approx.)	87,272	52,202	67%

The market share of each unit trust managing company in terms of the Net Asset Value in the year 2015 is reflected in the following figure; (Figure 17)

FIGURE 17: MARKET SHARE OF UNIT TRUST MANAGING COMPANIES AS AT 31ST DECEMBER 2015

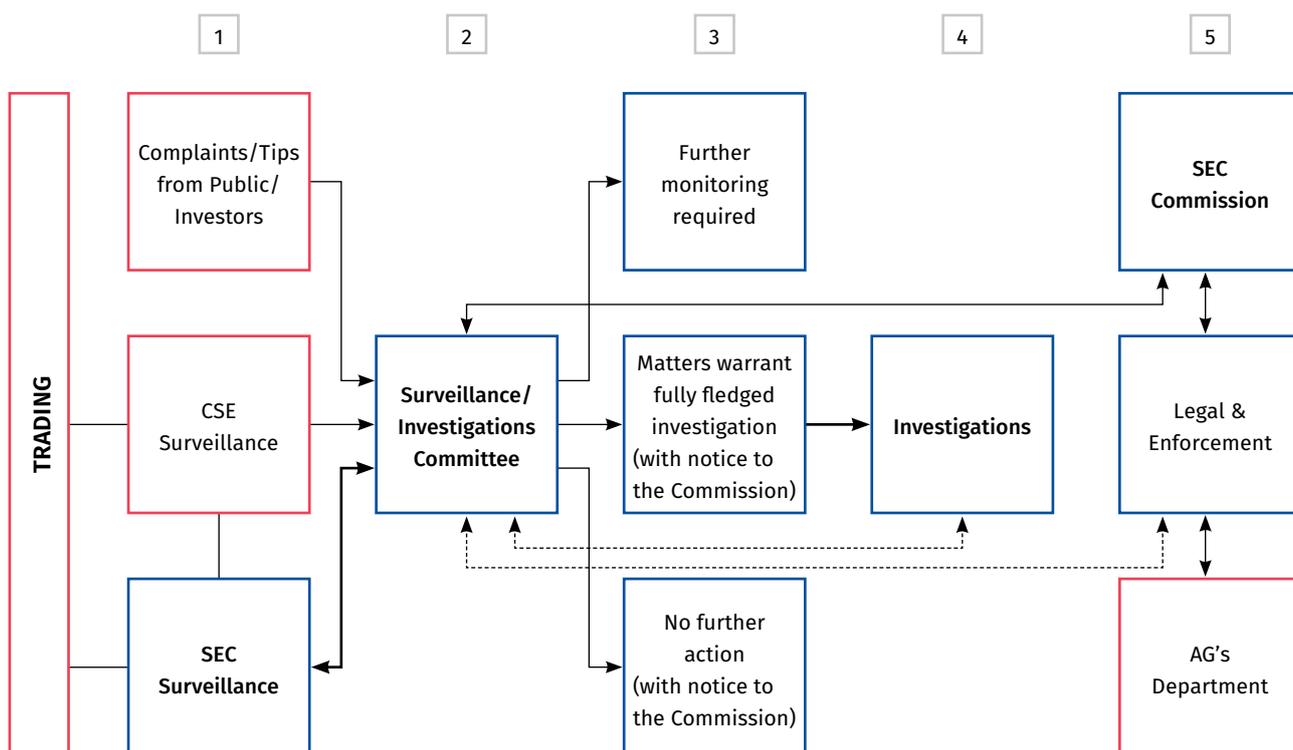


Surveillance, Investigations and Enforcement Surveillance

The SEC is responsible for effectively monitoring the trading activities of the CSE to detect and prevent market malpractices. We rely on various surveillance tools including real-time trading data, historical data, alerts and referrals from the CSE and information from other stakeholders to identify unusual market activities.

During the year we streamlined and enhanced certain surveillance measures and processes and attempted to detect market abuses/adverse situations and pursue appropriate proactive action to minimise potential negative impact on the market. (Figure 18)

FIGURE 18: SURVEILLANCE/INVESTIGATIONS/ENFORCEMENT PROCESS/FLOWCHART



1. Real time market Surveillance & detection
2. Surveillance referrals raised and forwarded to the Committee
3. Referrals discussed at the Surveillance & Investigations Committee which gives directions thereon
4. Matters that warrant fully fledged investigations

5. Commission is informed of the findings with recommendation by Surveillance & Investigations Committee
Matters referred to the Legal & Enforcement Division for enforcement action
Enforcement/AG's Department opinion

SEC Third parties

Operational Review Contd.

In line with this enhanced surveillance policy, the SEC, having analysed certain abnormal market behaviour and unusual trading patterns of certain brokers/traders/investors, immediately contacted the relevant brokers/traders for clarifications and informed them that their trading patterns were under observation. Sometimes we warned the brokers/traders and when their explanations did not seem plausible, we created a watch list to continuously monitor the above mentioned brokers and investors.

In the event we envisaged that these transactions warrant further action, we conducted a comprehensive analysis and submitted a report to the Surveillance and Investigations Committee. Thereafter the Committee decided on the next course of action. During the year we sought clarifications from 87 persons (61 brokers/traders/compliance officers and 26 investors).

We further explored the possibility of obtaining a new surveillance system or upgrading the existing one with better features in order to enhance the surveillance function.

The SEC assisted the Financial Crimes Investigation Division and the Criminal Investigation Department with comprehensive reports for their investigations. Moreover, we monitored websites and investor blogs to ensure the proper functioning of the stock market.

During the year 2015, we prepared a total of 8 surveillance referrals on a number of issues. There were 3 cases identified as Insider Dealing, 4 Front Running and 1 Market Manipulation.

Investigations

SEC conducts investigations to examine suspected violations of securities laws based on the evidence available from various sources including surveillance findings, referrals from the stock exchange, complaints from the general public etc.

During the year 2015, the SEC conducted investigations into instances of suspected market misconduct including market/price manipulation, insider dealing, front-running, etc. Some of the said investigations were commenced prior to 2015.

In addition, an opinion which was solicited from the Honourable Attorney General in the year 2012 regarding an

investigation commenced and concluded in the same year was pending during the year under review. Further, three other matters which were referred to the Honourable Attorney General in the year 2014 for the institution of legal action were pending during the year under review.

Moreover, as directed by the Members of the Commission further investigations were conducted into three investigations which were concluded in previous years.

The details and a brief description of the action taken/status of the said investigations as at end December 2015 are provided in the following table: (Figure 19)

FIGURE 19: DETAILS OF INVESTIGATIONS

Nature of the Investigation	Number of Investigations	Action Taken/Current Status
Insider Dealing ¹	1	<ul style="list-style-type: none"> ➤ As of end December 2015, a report pertaining to an Insider Dealing investigation was being compiled.
Market/Price Manipulation ²	2	<ul style="list-style-type: none"> ➤ In the year 2014, based on the findings of an investigation into market/price manipulation, it was decided to institute legal action against two persons. The said matter was referred to the Attorney General's Department for institution of legal action and as at end 2015 the matter was pending at the respective Department. ➤ As at end December 2015, an inquiry into trades executed by certain investment advisors in the shares of two listed companies were in progress.
Market/Price manipulation and/or Insider Dealing	3	<ul style="list-style-type: none"> ➤ In the year 2014, based on the findings of an investigation into market/price manipulation and/or insider dealing, it was decided to institute legal action against three persons. The said matter was referred to the Attorney General's Department for institution of legal action and as at end 2015 the matter was pending at the respective Department. ➤ As at end 2015, the report pertaining to one such investigation was being compiled. ➤ As at end 2015, another investigation was in progress.
Front Running ³	02	<ul style="list-style-type: none"> ➤ During the year under review, the report of an investigation which was commenced pertaining to a referral based on suspected Front Running was deliberated by the Surveillance and the Investigations Committee. The Committee decided to take enforcement action based on the findings of the said investigation. ➤ At the end 2015, the report pertaining to one such investigation was being compiled.
Investigation pertaining to suspected irregular activities pertaining to trades executed by a stock broking firm	01	<ul style="list-style-type: none"> ➤ The respective investigation was commenced and concluded in the year 2012. However, as recommended by the Secretariat and advised by the Members of the Commission a formal opinion regarding the matter was solicited from the Hon. Attorney General. ➤ The said formal opinion was pending as at December 2015.
Complaints	02	<ul style="list-style-type: none"> ➤ During the year 2014, two investigations were conducted based on investor complaints against a stock broking firm. One such investigation recommending enforcement action was considered by the Members of the Commission in the year 2015 and the report on the other investigation was also compiled during the year under review.

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

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

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

Operational Review Contd.

Nature of the Investigation	Number of Investigations	Action Taken/Current Status
Investigation pertaining to the business affairs of a Listed Company	01	<ul style="list-style-type: none"> ➤ During the year 2014 the investigations report and the details pertaining to an investigation regarding the business affairs of a Listed Company were forwarded to the Honourable Attorney General for the identification of the persons against whom legal action was to be instituted. ➤ As at end 2015, the advice of the Honourable Attorney General regarding the same was pending.
Investigation into suspected violation of the Takeovers and Mergers Code by a Listed Company	01	<ul style="list-style-type: none"> ➤ A report on the matter was circulated amongst the Members of the Investigations Committee during the year under review.
Further investigations into matters concluded in previous years	03	<ul style="list-style-type: none"> ➤ As directed by the Members of the Commission, further investigations were conducted into certain new trading aspects of investigations that were concluded in previous years. ➤ As at end 2015, said investigations were in progress.
Investigation pertaining to misappropriation of rights issue funds by a listed company	01	<ul style="list-style-type: none"> ➤ As at end 2015, the investigation was in progress
Non Compliance with the listing rules of the Colombo Stock Exchange	01	<ul style="list-style-type: none"> ➤ As at end 2015, the investigation was in progress
Preliminary Inquiry against a former investment management company	01	<ul style="list-style-type: none"> ➤ During 2015, the report in respect of the said preliminary inquiry has been submitted to the Investigations Committee.

Complaints

The SEC handled 87 matters in relation to Public Listed Companies and resolved 82 during the year under review.

Litigation

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

Four of the accused in this case who were convicted for not immediately disclosing certain material information in contravention of the SEC Rules by the Learned Magistrate of Colombo Fort, appealed against the judgment and their sentence to the Provincial High Court. In respect of three of the accused the matter was concluded when the High Court Judge affirmed the conviction of the Learned Magistrate but set aside the sentence of imprisonment by imposing a fine of Rs. 3 million each. The appeal against the conviction and sentence is pending against the 6th accused appellant in the High Court of Colombo.

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

Charges were filed in the Magistrate's Court Fort on 04th November 2010 against the above mentioned company and its Directors for the non-submission of Annual Reports of the company for the financial years ended 31st March 2008 and 31st March 2009, in contravention of Rule 3(1) and 17 of the SEC Rules.

The company during the year 2015 released the Annual Reports for the financial years ended from 31st March 2008 and 31st March 2009 to the Market. The company thereafter requested the SEC to settle this matter by withdrawing the two cases filed in the Magistrate's Court on the basis that the relevant Annual Reports have now been released to the market.

The Commission after deliberation turned down the request and the matter is pending before the Colombo Fort Magistrate's Court.

Minu Manoo Melvani vs. SEC and Others CA (W) 128/2015

Notice was issued on the SEC and three other Respondents in a writ application filed by one Mrs. M. M. Melvani before the Court of Appeal who is seeking inter alia:

- ➔ a mandate in the nature of a writ of mandamus compelling and/or directing the SEC and the CSE to:
 - a. expeditiously complete the statutory inquiry/ investigation conducted under and in terms of Sections 13 (i) and 46A of the SEC Act into the conduct of the stock broker cited as the 3rd Respondent in order to ascertain whether any offence has been committed in terms of the SEC Act in a transparent, credible and impartial manner; or
 - b. commence a full and impartial investigation in terms of Sections 13 (i) and 46A of the SEC Act into the aforesaid unlawful and/or irregular conduct complained against the stock broker to ascertain whether any offence has been committed in terms of the SEC Act by incorporating all the evidence adduced in the statutory inquiry referred to above and pursue the same to an expeditious conclusion;
- ➔ prosecute the stock broker and/or those who were involved in committing offences complained of in terms of Section 51 of the SEC Act;
- ➔ suspend and/or cancel and/or revoke the licence granted to the stock broker in question if the stock broker is found guilty of committing any offence in terms of the SEC Act at the conclusion of the statutory inquiry/investigation;
- ➔ grant compensation in terms of Section 13 (d) of the SEC Act to the Complainant to settle the pecuniary losses suffered by her amounting to Rs 60, 423,327.68; and
- ➔ give specific directions to the CSE to take disciplinary action against the stock broker and impose sanctions appropriate in terms of the Broker Rules of the CSE.

In this matter the SEC has already completed the investigation and a recommendation for enforcement has already been made. The Commission directed the matter to be referred to the Disciplinary Committee of the CSE prior to implementing any enforcement action. The matter is pending before the Court of Appeal.

Enforcement Actions

Enforcement actions are taken by the SEC on the direction and determination of the Commission. The SEC has referred three matters to the Honourable Attorney General for necessary action to institute court proceedings.

Matters Referred for the Opinion of the Honourable Attorney General

Opinions sought in relation to an investigation conducted into a purchase of The Finance PLC shares by the National Savings Bank in 2012 and a preliminary inquiry conducted by the SEC into an allegation of a violation of the Takeovers and Mergers Code are pending.

Action Against Companies Transferred to the Default Board

The SEC has taken steps to initiate action against two companies that continue to be on the Default Board for non-submission of the Annual Reports and Audited Financial Statements. The decision was made by the Commission to prosecute companies who have not responded to SEC's several requests to comply.

A Company Carrying on Business in Violation of the Intellectual Property Rights of the CSE

On a complaint made by the CSE, the SEC ordered a website that was carrying on business in violation of the Intellectual Property Rights of the CSE to cease operations.

Operational Review Contd.

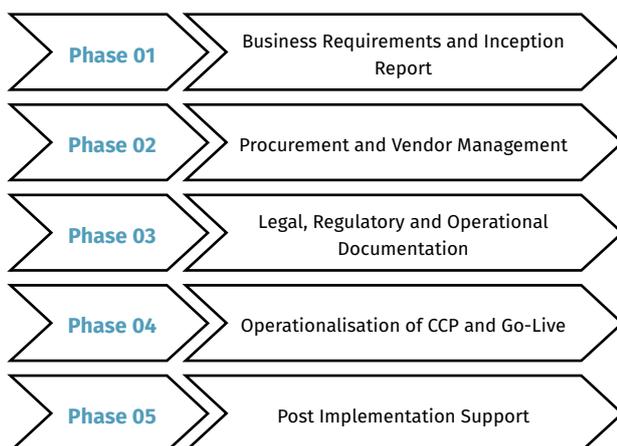
Capital Market Development

The development of deep and broad markets is a necessity for economic growth in a country. The SEC facilitated the following initiatives during the year under review.

Implementation of a CCP Mechanism

- ➔ A well designed CCP with an appropriate risk management mechanism will address the asset commitment and settlement risk presently prevalent in the market and contribute to the goal of financial stability.
- ➔ Hence, implementation of a CCP mechanism for all financial market transactions was identified as a priority project. The SEC is facilitating the initiative by co-funding the consultancy services of the project in light of fast tracking improvements to the capital market infrastructure.
- ➔ Initially, a decision was made for the SEC, CBSL and CSE to jointly set up an integrated CCP for all financial market transactions. However, the CBSL opted out of the project during the latter part of phase 1 and presently the SEC and CSE are driving the initiative forward in relation to the corporate securities.
- ➔ As per the decision made to call for consultancy and project management services to take the initiative forward, a firm specialising in capital market related assignments globally, has been commissioned to deliver consultancy cum project management services for the project subsequent to a comprehensive evaluation process.
- ➔ There are five phases in the delivery of the project as depicted in the following figure. (Figure 20)
- ➔ An integrated project management and reporting structure has been established to ensure efficiency and effectiveness in the progress of the project through its various phases.
- ➔ A workshop was held by the consultants for the project working committees and market participants from 9th -13th March 2015. During the workshop sessions, the overall approach to the CCP framework was discussed emphasising on key areas as legal and regulatory issues, risk management, business and operational matters, software and hardware procurement, information technology, financial and tax implications.
- ➔ The consultants produced deliverables pertaining to aforesaid areas and all project working committees reviewed the same comprehensively and suggested necessary amendments. All deliverables were approved by the stakeholders subsequently.
- ➔ The consultants submitted an Inception Report with the completion of Phase 1 of the project in line with Principles for Financial Market Infrastructure (PFMI) by IOSCO, Bank for International Settlement (BIS) and guidelines by European Association of CCP Clearing Houses (EACH). The modules of the Inception Report covered the following areas;
 - The business and operational framework;
 - The risk management framework;
 - The legal, regulatory, tax gaps and approach to relevant legal reforms;
 - The ownership and governance structure;
 - The information technology requirements;
 - The financial model and considerations.

FIGURE 20: FIVE PHASES OF THE PROJECT



- ➔ Subsequently, the Commission decided to facilitate the CCP project team comprising representatives from both SEC and CSE, to visit Singapore or Malaysia to benchmark the recommended model by the consultants prior to the acceptance of the Inception Report.
- ➔ The familiarisation visit was conducted from 25th -29th August 2015 to the Monetary Authority of Singapore (MAS) and Central Depository Pvt Ltd (CDP), clearing wing of the Singapore Stock Exchange (SGX). In addition, the team also visited CLSA (clearing member and broker - institutional), Set Clear, HSBC (custodian) and CIMB (broker-retail) to study respective clearing operations in depth.
- ➔ The project team finalised an observation report including a comparison of salient features between the CCP

business and operational model in Singapore and the proposed model by the consultants and presented to the Commission. The Commission accepted the Inception Report.

- ➔ The high level Advisory Committee appointed to spearhead the SEC Act amendments is reviewing the draft legal provisions pertaining to the CCP.
- ➔ An updated Inception Report is awaited from the consultants incorporating the required modifications to the proposed CCP framework with the exit of CBSL.

Implementation of a BBO & OMS

- ➔ The SEC is facilitating the implementation of BBO and OMS systems for stock broking firms aiming to improve the efficiency of trading, settlement and maintain uniformity in the BBO Systems of stock broking firms which is a pre-requisite in implementing the CCP mechanism as well.
- ➔ A Request For Proposal (RFP) pertaining to BBO and OMS system was developed jointly by SEC, CSE and stock broking firms.
- ➔ The CSE acting as the implementation agency invited interested vendors who complied with the specifications stipulated in the RFP in providing a BBO and OMS.
- ➔ Subsequent to a comprehensive evaluation process by the appointed technical and financial evaluation committee, four vendors were selected namely, Nomura Research Institute, Ironone Technologies Ltd, Direct FN Technologies Ltd and Polaris Financial Technology Ltd for the project.
- ➔ In order to review the project progress and fastrack the initiative, the BBO and OMS project monitoring committee was appointed representing officials from both SEC and CSE.
- ➔ The project monitoring committee is having periodic meetings with the representatives of system vendors and stock broking firms to review the progress and address any concerns pertaining to the implementation of BBO and OMS Systems.
- ➔ The target date for going live is 31st March 2016.
- ➔ The project is jointly funded by SEC and CSE where the SEC contribution would be Rs.5million per each stock broking firm.
- ➔ The terms and conditions pertaining to the disbursement of funds were finalised jointly by SEC and CSE. Further, the said terms and conditions were agreed upon and signed off by respective stock broking firms.

- ➔ The funds would be disbursed subject to a written confirmation of achievements of each project milestone as applicable and compliance audit of the systems which would be conducted by officials representing SEC, CSE and an external Information Technology consultant retained by the SEC.

Introduction of New Products such as Exchange Traded Funds (ETF's) and Real Estate Investment Trusts (REIT's) to the Capital Market

- ➔ A study was conducted on ETFs covering areas on the global ETF industry, principles pertaining to ETFs by IOSCO and compared key attributes pertaining to ETFs in Singapore, Hong Kong, India and Malaysia.
- ➔ A study was conducted on REITs including a comparison of key attributes on the regulatory framework, capital requirement, product structure, listing requirements, investment strategy, permissible investments, key restrictions on investments, tax treatment and distribution treatment in Singapore, Malaysia, Hong Kong and India. Additionally, the study covered the following areas;
 - Conducive environment for introducing REITs as a new investment asset class to the Sri Lankan market ;
 - Benefits/risks associated with REITs;
 - Salient product features to be present in REITs along with incentives such as possible tax concessions for it to be successfully launched in Sri Lanka.

Infrastructure Financing via Public-Private Partnerships and Other Alternative Modes such as Infrastructure Funds/Trusts which can be Channeled via the Capital Market

- ➔ Developed a policy paper on facilitating infrastructure financing via Public-Private Partnerships (PPPs) covering following areas;
 - An analysis on the global PPP market including a comparative assessment on PPP related initiatives in selected jurisdictions;
 - Common forms of PPP models, major policy reforms to promote PPPs and other salient aspects pertaining to PPP operations available in India;
 - Conducive environment for the introduction of PPPs in Sri Lanka, the existing institutional and legal framework for PPPs in the country and their shortcomings;
 - Proposed an integrated framework which promotes PPP operations and addresses the issues and bottlenecks prevailing in the present context.

Operational Review Contd.

- ⇒ Developed a policy paper on private infrastructure investment vehicles covering the following areas;
 - An analysis on the salient features pertaining to new products;
 - Infrastructure Investment Trusts (INViTs) and Infrastructure Debt Funds (IDFs) available in India;
 - Infrastructure Funds (IFFs) and Infrastructure Trusts (IFTs) available in Thailand;
 - The global drive towards pension fund investments in the Asian infrastructure projects;
 - The viability of promoting infrastructure related new investment products in the Sri Lankan capital market.
- ⇒ As some listed entities and their dominant investors have made use of Section 246 of the Companies Act, No. 07 of 2007 to acquire shares of the minority shareholders. The SEC reviewed the circumstances and subsequent to obtaining the opinion of the Attorney General, informed such entities that the Section 246 of the Companies Act, No. 07 of 2007 cannot be used to forcefully acquire minority shares in the given circumstances

Capital Market Education and Training

The capital market education and training arm of the SEC continued to deliver licensing examinations, financial literacy programmes for various audiences as well as provide continuous learning opportunities for professionals in the securities industry.

Certificate in Capital Markets (CCM) and Registered Investment Advisor (RIA)

During the year we continued to implement the qualification framework which is aimed at offering a minimum level of proficiency for trainee investment advisors of stock broking companies. The qualification framework has three main qualifications namely; CCM, RIA and the Diploma in Capital Markets (DCM).

We identified a noticeable increase in non-industry individuals such as school leavers, undergraduates, and professionals from other sectors joining the CCM programme. A total of 95 participants were registered for the programmes during the year. (Figure 22, 23)

Other Initiatives

- ⇒ Drafted rules and framework to introduce REITS in Sri Lanka.
- ⇒ Facilitated the regulatory initiative by the Insurance Board of Sri Lanka to segregate life and non-life business of insurance companies.
- ⇒ Reviewed the outcome of the public consultation to establish an Investors' Association.
- ⇒ Reviewed the companies on the Default Board to streamline the process and proposed action to address companies remaining on the Default Board for an extensive time period.
- ⇒ Evaluated 144 companies who have collected funds from the public through the capital market via equity and debt during the period 2010 to 2015 and reviewed their utilisation in comparison to market disclosures made. Based on the review, policies were proposed to address regulatory gaps while eight listed entities were directed to make market disclosures to bridge the disclosure gap. (Figure 21)

FIGURE 21: REVIEW OF RAISING OF FUNDS DURING THE PERIOD JANUARY TO DECEMBER 2015

Details	IPO	Further issues of securities		Total
	Equity	Equity	Debt	
Number of requests reviewed	03	07	16	26

FIGURE 22: STUDENTS WHO COMPLETED CCM AND RIA IN 2015

Medium of Instruction	Total Registered Students	Completed Equity Series	Completed Debt Series	Completed Financial Regulations & Ethics	CCM Completed	RIA Completed
Sinhala Medium	34	9	9	7	4	7
English Medium	195	35	40	36	33	13
TOTAL	229	44	49	43	37	20

FIGURE 23: EXAMINATIONS CONDUCTED FOR THE CCM AND RIA IN 2015

Programme	Series	No of Exams Conducted during the year	Pass %
Certificate Course in Capital Markets (Sinhala Medium)	Equity Securities	1	56%
	Debt Securities	1	90%
	Securities Regulations, Ethics and Marketing	1	100%
Certificate Course in Capital Markets (English Medium)	Equity Securities	4	57%
	Debt Securities	4	82%
	Securities Regulations, Ethics and Marketing	4	65%
Registered Investment Advisor (Sinhala Medium)	N/A	3	74%
Registered Investment Advisor (English Medium)	N/A	4	94%

Diploma in Capital Markets

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

Programme in Investing

Two programmes were conducted in Sinhala and Tamil mediums for potential investors with the intention of providing them with basic theoretical and practical aspects of share trading. A total of 54 participants were registered for these programmes.

Advanced Programme in Investing

A programme was conducted in Sinhala medium during the year 2015 for existing investors with the intention of providing them with advanced theoretical and practical aspects of share trading. Twenty two participants were registered for this programme.

Certificate Programme in Unit Trusts (CPUT)

This programme was designed to introduce a minimum qualification for sales and marketing officials of the unit trust management companies. One programme was held during the period under review.

The following CPUT examinations were also conducted in the year 2015. A statistical summary of the CPUT examinations is stated overleaf. (Figure 24)

Operational Review Contd.

FIGURE 24: STUDENTS WHO COMPLETED CPUT EXAMINATIONS IN 2015

Medium of Examination	Total Registered Students	Completed Introduction to Investments and Unit Trusts Series	Completed Marketing, Distribution, Sales, Investor Services and Ethics Series	CPUT Completed
Sinhala Medium	26	17	18	17
English Medium	9	8	9	8
TOTAL	35	25	27	25

Annual Awards Ceremony

In July 2015, the 4th Annual Certificate and Diploma Awards presentation ceremony was conducted, for all successful students who had successfully completed the CCM, RIA, DCM and CPUT in 2014/2015.

Approximately 140 students received their awards at this event where Dr. Harsha de Silva, the then Deputy Minister of Policy Planning and Economic Affairs 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.

Continuous Professional Development (CPD) Programmes

During the year under review, seven tailor made CPD programmes were conducted for the 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. These programmes attracted more than 1000 participants which included chief operating officers of stock broking companies, investment advisors and analysts. (Figure 25)

The SEC has made it mandatory for the existing investment advisors to participate in at least 2 CPD programmes for a year to renew their RIA Status.

FIGURE 25: SUMMARY OF CPD PROGRAMMES IN 2015

Title of the CPD Programme	No of Participants
The Past, Present and Future of the Sri Lankan Stock Market	286
Salient Features of the Stock Broker Rules	165
The Role of Financial Statement Analysis in Investment Decision Making	107
Behavioural Finance-Understanding How the Mind Can Help or Hinder Investment Success	239
Sustainability and Socially Responsible Investment	109
Creative Selling	95
Identifying Trends Using Technical Analysis	77

Gold Medal and Cash Award Project

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

Students from the following national universities were awarded with gold medals and cash prizes during the year 2015.

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

CAPITAL MARKET AWARENESS AND EXTERNAL RELATIONS

Capital Market Awareness

The SEC continued to pursue various education and awareness initiatives targeted at protecting the interest of investors, creating a pool of knowledgeable investors and achieving financial inclusion. A number of seminars and workshops were conducted aimed at various groups such as students, undergraduates, teachers and investors to enhance their knowledge and understanding of the capital market. (Figure 26)

The map of Sri Lanka depicts the province wise participation in our education and awareness programmes. (Figure 27)

Awareness Programmes for National Universities

During the period under review, we were instrumental in successfully engaging the university populace in order to implement many projects to help upgrade and improve their technical and fundamental knowledge regarding the capital markets framework of Sri Lanka. As part of its efforts to improve financial literacy, we engaged senior academics of most of the national universities in a bid to introduce/improve syllabus content within their undergraduate programmes.

FIGURE 26: AWARENESS PROGRAMMES CONDUCTED DURING 2015

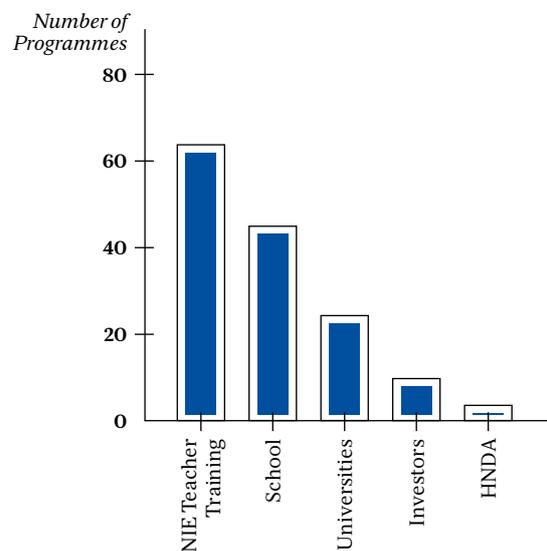
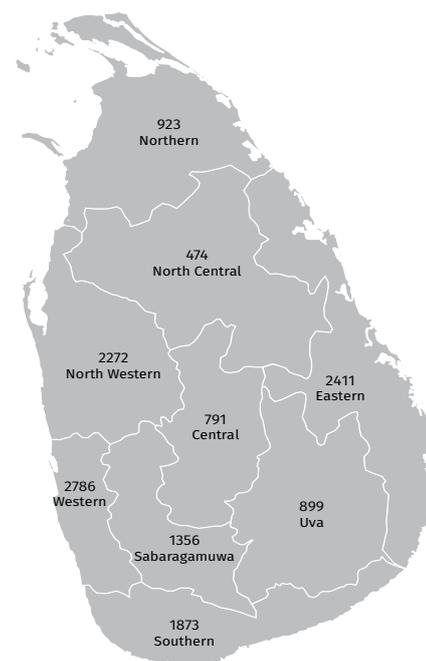


FIGURE 27: PROVINCE WISE PROGRAMMES



Operational Review Contd.

Further, we held discussions with the following universities to offer fixed training schedules and field visits to students. These universities are stated below:

- ⇒ University of Colombo
- ⇒ University of Jaffna
- ⇒ Sabaragamuwa University of Sri Lanka
- ⇒ Eastern University of Sri Lanka
- ⇒ South Eastern University of Sri Lanka
- ⇒ Vauniya Campus University of Jaffna

Higher National Diploma Students (HNDA)

During the period under review we reached an agreement with the Sri Lanka Institute of Advanced Technological Education (SLIATE) to conduct training programmes for the students of the following courses ;

- ⇒ Higher National Diploma in Accountancy
- ⇒ Higher National Diploma in Business Administration
- ⇒ Higher National Diploma in Business Finance
- ⇒ Higher National Diploma in Management

The agreement was reached upon a special request made by the Director General of the SEC and his counterpart at SLIATE.

External Relations

A well informed society is an essential component of a robust capital market. In this respect we actively engage with stakeholders including the general investing public through multiple communication channels to disseminate investor education, important decisions and developments that impact the securities market.

Media Relations

It is important that investors are fully aware of their investment options and able to take responsibility for their own financial decisions. Therefore, the SEC continued its weekly newspaper article series with "Daily Mirror" and "Ada" on investing in the capital market to create knowledgeable and prudent investors. More than 80 articles were published in the "Daily Mirror" and Ada in 2015. Apart from those two series the SEC also published regular articles in other newspapers in all 3 languages. More than 120 articles were published in 2015.

During the year we publicised regulatory initiatives, enforcement actions, notices on public awareness issues and capital market development undertakings via media releases. Moreover, it is anticipated that the strong media presence will enhance the visibility of the SEC and rebuild the confidence of investors.

Senior management of the SEC undertook various speaking engagements at industry forums, held press briefings as well as television and newspaper interviews to provide more clarity on the latest regulatory actions to the public.

We continued to update the web portal with up-to-date information that is easily accessible including latest regulatory updates, publications, events and consultation documents.

International Relations

Asia Pacific Economic Cooperation (APEC) Financial Regulators Training Initiative (FRTI) Regional Seminar

For the 5th consecutive year the SEC hosted the APEC , FRTI regional seminar on "Investor and Market Intermediary Education". This capacity building initiative was designed for individuals who are responsible for or have an interest in developing financial literacy and education programmes for investors, market intermediaries/financial advisors and company directors. A total of 73 participants from 13 countries including Bangladesh, Cambodia, China, Ghana, India, Indonesia, Kenya, Korea, Maldives, Nepal, Philippines, Taipei and Thailand attended the seminar and this recorded the highest number of foreign participants that have attended an APEC Seminar in Sri Lanka so far.

IOSCO

The SEC participated and contributed in the activities of the IOSCO the global standard setter for securities regulation. We are a member of the Asia Pacific Regional Committee, Growth and Emerging Markets Committee and MMOU screening group. During the year SEC gained membership in Committee 4 (Enforcement and the Exchange of Information) which aims to help prevent and detect the breaches of securities laws and regulations in global financial markets. The SEC continued to respond to IOSCO's surveys.

Operational Review Contd.

FSAP Survey

SEC contributed to the FSAP, which was completed during the year. The FSAP is a comprehensive and in-depth assessment of a country's financial sector which analyses the resilience of the financial sector, the quality of the regulatory and supervisory framework, and the capacity to manage and resolve financial crises. FSAP assessments are the joint responsibility of the International Monetary Fund and World Bank in developing and emerging market countries.

OUR STRENGTH

Human capital is the greatest strength and a strategic asset of the SEC. Hence a substantial investment is made towards the staff representing different disciplines, to facilitate the effective discharge of the mandate entrusted to the SEC.

Cadre Composition

The Secretariat is relentlessly engaged in sourcing appropriately qualified and experienced professionals along with requisite skills, integrity and ability to maintain confidentiality to join the SEC team.

Applications were invited through the print media and after a rigorous interview process an internal candidate was appointed as the Director General. He was holding the position of Director, Capital Market Development for a consecutive period of eight years at the SEC. Further two assistant directors, one executive and one telephone operator cum receptionist were recruited to the permanent cadre. Wherever possible internal staff are also elevated to the next level. Accordingly three executives attached to Supervision, Legal and Enforcement and Corporate Affairs divisions were promoted as senior executives at the beginning of the year taking into consideration their past performance, service and good conduct. Seven resignations were also recorded from the permanent cadre, consisting of one assistant director, four executives and two non-executives. (Figure 28)

FIGURE 28: CADRE COMPOSITION AS AT 31ST DECEMBER 2015

Categories	Total Approved Cadre	Present Cadre in Employment		Vacancies to be Filled
		Permanent	Contract	
Director General	1	1		-
Deputy Director General	1	1		-
Directors	11	6	1	4
Assistant Directors	5	2		3
Managers	8	4		4
Senior Assistant Manager	40	16		-
Assistant Manager		17		7
Senior Executive Secretary	3	2		
Executive Secretary		1		
Non – Executives	17	15		2
Senior Office Assistants	10	6	1	1
Office Assistants		1		
Office Aide		1		
Total	96	73	2	21

To give due recognition to professionals discharging important functions at the SEC and also comparing with other regulatory jurisdictions the senior executives and executives were re-designated as senior assistant managers and assistant managers respectively during the latter part of the year.

As at 31st December 2015, seventy five staff members served the SEC consisting of twenty nine males and forty six females. The gender, age and the period of service of the staff as at end of the year are depicted in pictorial form below. (Figures 29, 30, 31, 32)

FIGURE 30: GENDER ANALYSIS

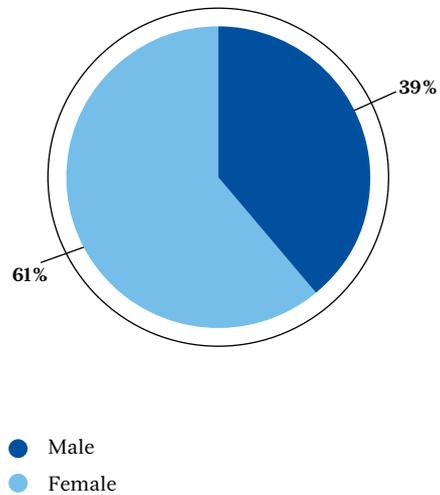


FIGURE 29: IN EMPLOYMENT

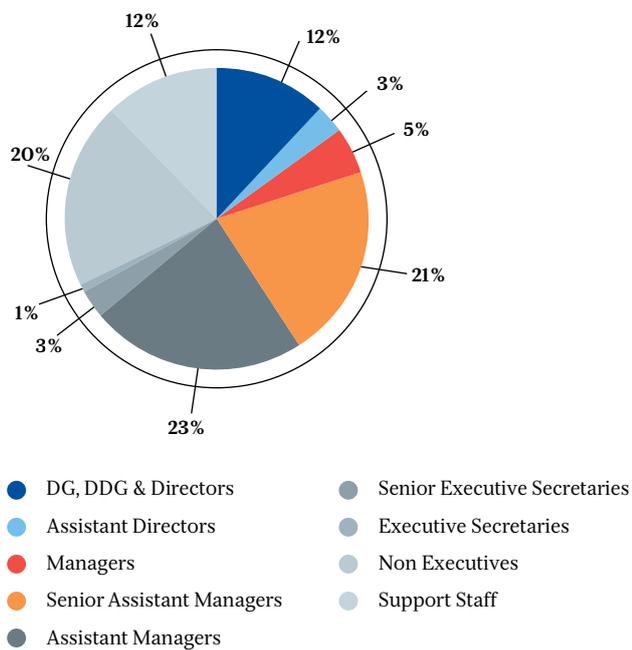
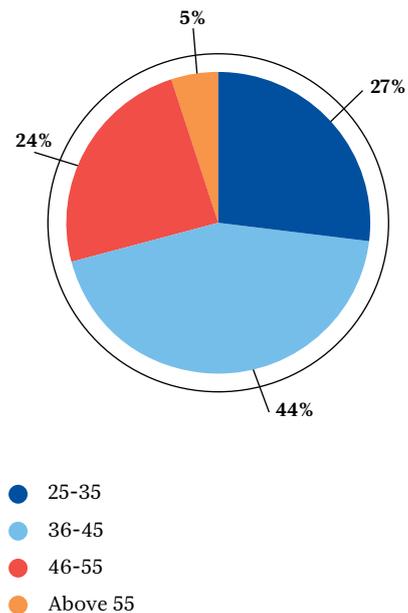
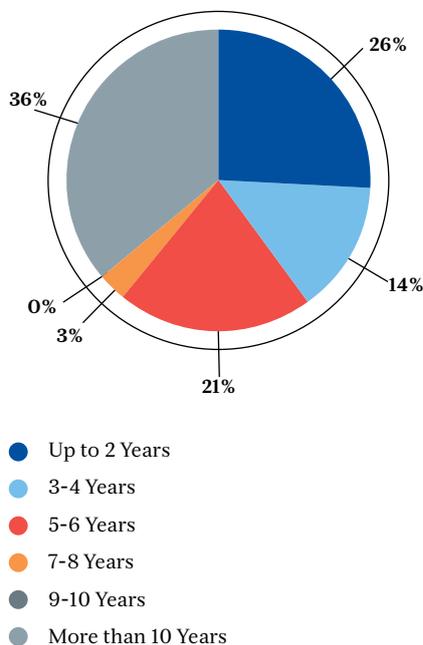


FIGURE 31: EMPLOYEE AGE ANALYSIS



Operational Review Contd.

FIGURE 32: NUMBER OF YEARS OF SERVICE



Remuneration

A much awaited salary revision including the recommended government allowances were granted to all permanent staff during the year under review.

Training and Development

We firmly believe that education, training and development will lead the staff to unleash their potential and empower them, in turn, leading to effective discharge of the SEC mandate. Therefore, SEC provides relevant development opportunities to staff locally and in other jurisdictions. Foreign programmes enable the staff to be acquainted with the best practices in other regulatory agencies and case studies discussed at these forums give exposure to staff on regulatory complexities, challenges faced by fellow regulators and steps taken to ensure orderly and a well regulated capital market.

A sum of Rs. 19.8 million was invested in the staff for their education, training and development. Rs. 16.4 million was

invested towards overseas training and Rs. 2.1 million for local training and Rs. 1.3 million for sponsorship for higher studies and professional membership fees during the year under review.

Forty one staff members were sent on twenty two foreign training programmes to countries in the region and to Japan, United States of America, United Kingdom, Spain, Italy, Switzerland and South Korea etc.

We extend our appreciation to IOSCO, other regulatory agencies and APEC etc for extending very relevant training and awareness opportunities to the staff to keep abreast with current capital market trends and developments.

A Senior Assistant Manager was given the opportunity to follow an on-the-job training programme for four months. The programme was funded by the Financial Services Agency in Japan under the Visiting Fellowship Programme and conducted by the Asia Financial Partnership Centre in Japan. We place on record our sincere appreciation to the Financial Services Agency in Japan for this very valuable opportunity.

In addition the staff also received related local training such as the National HR Conference 2015, National Conference of Chartered Accountants organised by Institute of Chartered Accountants of Sri Lanka, Sri Lanka Economic Summit 2015 organised by the Ceylon Chamber of Commerce, National Information Technology Conference 2015 organised by the Computer Society of Sri Lanka, Corporate Law Conference 2015, Corporate Fraud Detection and Forensic Accounting, Business Leaders Summit 2015 organised by the Chartered Institute of Management Accountants (CIMA) Sri Lanka Division and Capital Market Conference 2015.

Demonstrating commitment towards staff education, SEC's training arm continuously provides opportunities to the staff to follow study courses focused on upgrading their capital market knowledge. The Institute of Chartered Financial Analyst (CFA) also provides scholarships to the staff to pursue CFA study courses based on a discounted fee. In addition the SEC provides sponsorships to the members of the staff to follow higher studies including postgraduate degrees subject to a two year bond to serve the SEC upon successful completion.

Staff Welfare

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

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

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

Internships

We continued to award Internship opportunities to undergraduates of National Universities with a view to provide exposure to the functions of the Regulator of the capital market.

Information Technology

Information systems in government and financial Institutions are highly vulnerable and targets for modern sophisticated cyber attacks. Therefore, steps were taken to upgrade the SEC Local Area Network to improve the switching capacity, ensure high availability, control data traffic and security etc. "Defense in Depth" concept was adopted in the Local Area Network to upgrade to protect the integrity of the information of the SEC.

STATUTORY FUNDS

Cess Fund

In accordance with Section 14A and 14B of the SEC Act, No 36 of 1987 as amended by Act, No. 26 of 1991, Act, No. 18 of 2003 and Act, No. 47 of 2009 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 of 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 1 August 2010. Earlier reduction took place with effect from 1 December 2003 when the applicable rate of Cess was reduced from 0.1% to 0.09% per transaction.

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

With effect from 15th February 2006, the transaction fee due to the broker, CSE, Central Depository System (CDS) and SEC on intraday trades, where a client buys and sells or sells and buys the same security on the same day through the same broker will not be charged on one side of the transaction. 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,

Operational Review Contd.

- ➔ in the event the total quantity purchased is equal to the total quantity sold the transaction fees will not be levied from the sales transaction.

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

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

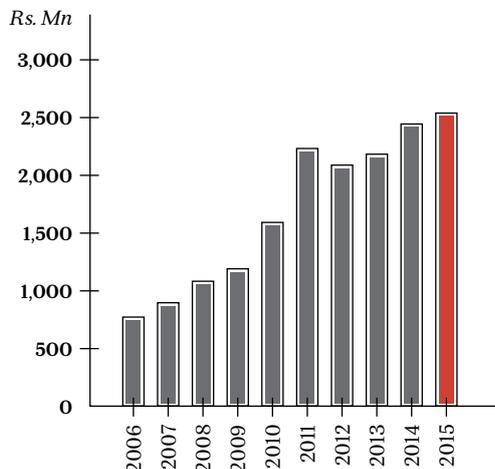
The balance lying to the credit of the Cess Fund as at 31 December 2015 amounted to Rs.2,554,179,392/-

The Cess Fund balances during the period 2006-2015 is depicted below: (Figure 33)

Compensation Fund

The Compensation Fund came into operation along with the

FIGURE 33: CESS FUND



establishment of the SEC in 1987. Section 38 of the Securities and Exchange Commission Act No 36 of 1987 as amended states as follows:

There shall be established a fund called the Compensation Fund, for the purpose of granting compensation to any investor who suffers pecuniary loss as a result of any licensed stock broker or licensed stock dealer being found incapable of meeting his contractual obligations.

The Compensation Fund shall consist of;

- ➔ such sums of money as may be voted upon by Parliament for the purpose of the Fund.
- ➔ such sums of moneys may be credited to the Fund under Section 51A; (Section 51A is on compounding offences).
- ➔ such sums of money as may be credited from Cess Fund under Section 14B of the SEC Act.

Moneys belonging to the Compensation Fund may be invested by the Commission in such manner as may be determined by the Commission.

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

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

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

The balance lying to the credit of the Compensation Fund as at 31 December 2015 amounted to Rs.313,362,992/-. The growth of the Fund during the period 2006 to 2015 is depicted below. (Figure 34)

The Settlement Guarantee Fund (SGF)

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

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

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

Up-to-date there have been no claims made from the SGF. The balance lying to the credit of the SGF as at 31 December 2015 amounted to Rs.640,228,252/-. The growth of the Fund during the period 2006 to 2015 is depicted in the following graph. (Figure 35)

FIGURE 34: COMPENSATION FUND

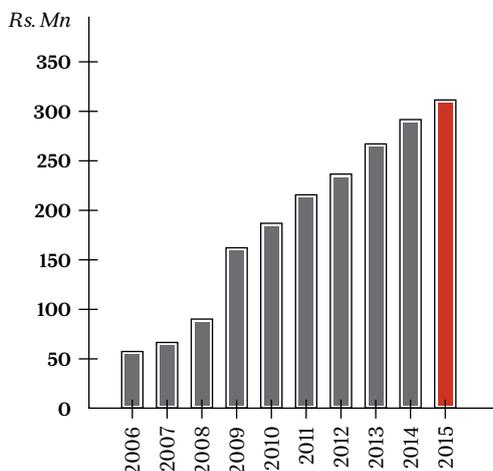
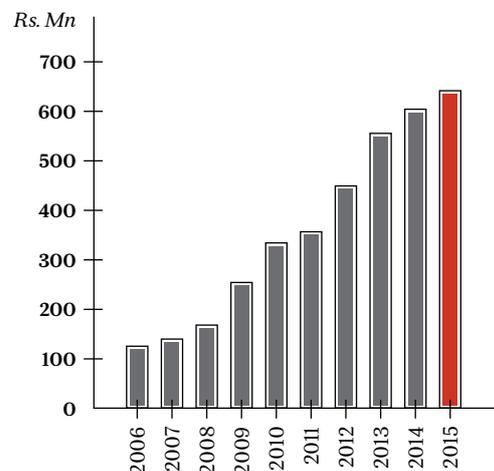


FIGURE 35: SETTLEMENT GUARANTEE FUND



Additional Information

Unit Trusts

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

1. **Ceylon Asset Management Company Limited**
 - ⇒ Ceylon Index Fund
 - ⇒ Ceylon Income Fund
 - ⇒ Ceylon Tourism Fund
 - ⇒ Ceylon Financial Sector Fund
 - ⇒ Ceylon IPO Fund
 - ⇒ Ceylon MTI Shariah Fund
 - ⇒ Ceylon Global Compact sustainability Fund
 - ⇒ Ceylon Gilt-edged Fund
 - ⇒ Ceylon Treasury Bill Fund
 - ⇒ Ceylon Dollar Bond Fund
 - ⇒ Ceylon Money Market Fund
2. **Com Trust Asset Management (Private) Limited**
 - ⇒ Comtrust Equity Fund
 - ⇒ Comtrust Gilt-edged Fund
 - ⇒ Crescent i Fund
 - ⇒ Comtrust money market Fund
 - ⇒ Comtrust ADL Mudarabah Fund
3. **NDB Wealth Management Limited**
 - ⇒ NDB Wealth Growth and Income Fund
 - ⇒ NDB Wealth Gilt Edged Fund
 - ⇒ NDB Wealth Income Fund
 - ⇒ NDB Wealth Growth Fund
 - ⇒ NDB Wealth Money Fund
 - ⇒ NDB Wealth Money Plus Fund
 - ⇒ Short term LKR Treasury Fund
 - ⇒ NDB Wealth Islamic Money Plus Fund
4. **Ceybank Asset Management (Pvt) Limited**
 - ⇒ Ceybank Unit Trust
 - ⇒ Ceybank Century Growth Fund
 - ⇒ Ceybank Gilt Edged Fund (A series)
 - ⇒ Ceybank Savings Plus Money Market Fund
 - ⇒ Ceybank Surakum
 - ⇒ Ceybank Gilt Edged Fund (B series)
5. **National Asset Management Limited**
 - ⇒ NAMAL Income Fund
 - ⇒ NAMAL Money Market Fund
 - ⇒ National Equity Fund
 - ⇒ NAMAL Growth Fund
 - ⇒ NAMAL Acuity Value Fund (closed end)
 - ⇒ NAMAL IPO Fund
 - ⇒ NAMAL High Yield Fund
 - ⇒ NAMAL Gilt Fund
6. **First Capital Asset Management Limited**
 - ⇒ First Capital Wealth Fund
 - ⇒ First Capital Fixed Income Fund
 - ⇒ First Capital Money Market Fund
 - ⇒ First Capital Gilt Edged Fund
 - ⇒ First Capital Equity Fund
7. **J B Financial (Pvt) Ltd**
 - ⇒ J B Vantage Money Market Fund
 - ⇒ J B Vantage value Equity Fund
 - ⇒ J B Vantage Short Term Gilt Fund
8. **Guardian Acuity Asset Management Ltd**
 - ⇒ Guardian Acuity Fixed Income Fund
 - ⇒ Guardian Acuity Equity Fund
 - ⇒ Guardian Acuity Money Market Gilt Fund
9. **Candor Asset Management (Pvt) Ltd**
 - ⇒ Candor Capital Growth Fund
 - ⇒ Amana Candor Shariah Balanced Fund
 - ⇒ Candor Money Market Fund
 - ⇒ Amana Candor Shariah Income Fund
 - ⇒ Candor Opportunities Fund
10. **Asset Trust Management (Pvt) Ltd**
 - ⇒ Astrue Gilt edged Fund
 - ⇒ Astru Money Market Fund
 - ⇒ Astrue Alpha Fund

11. Capital Alliance Investments Ltd

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

12. Arpico Ataraxia Asset Management (Private) Limited

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

13. Investrust Wealth Management Limited

- Investrust Income Fund
- Investrust Gilt-edged Fund
- Investrust Growth Fund
- Investrust Money Market Fund

14. Assetline Capital (Pvt) Ltd

- Assetline Income Plus Growth Fund
- Assetline Gilt-edged Fund
- Assetline Income Fund

Additional Information Contd.

Stock Brokers licensed as at 31st December 2015

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

Stock Dealers licensed as at 31st December 2015

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

Additional Information Contd.

REGISTERED MARKET INTERMEDIARIES

Registered as at 31st December 2015

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

Company	Margin Provider	Investment Manager	Underwriter
Acuity Partners (Private) Limited	x		
ADL Asset Management Limited		x	
ADL Equities Ltd	x		
Amana Wealth Management Limited		x	
Arpico Ataraxia Asset Management (Pvt) Ltd		x	
Asha Financial Services Limited	x		
Asset Trust Management (Pvt) Ltd		x	
Assetline Capital (Pvt) Ltd		x	
Assetline Leasing Company Limited	x		
Bank of Ceylon		x	x
Bansei Securities Finance	x		
Bartleet Asset Management (Pvt) Ltd		x	
Bartleet TransCapital Limited		x	x
Candor Asset Management (Private) Limited		x	
Candor Capital (Private) Limited	x		
Capital Alliance Investments Limited		x	
Capital Trust Credit (Private) Limited	x		
Capital Trust Wealth Management (Pvt) Ltd		x	
Ceybank Asset Management Ltd		x	
Ceylon Capital Market Advisors Limited		x	
Ceylon Guardian Investment Trust PLC			x
Ceylon Investment PLC			x
Citizen Development Business Finance PLC	x		
Colombo Trust Finance PLC	x		
Commercial Bank of Ceylon PLC	x		x
Comtrust Asset Management (Pvt) Ltd		x	
DFCC Bank PLC	x		
First Capital Asset Management Limited		x	
First Capital Markets Limited	x		
George Steuart Finance PLC	x		
GIH Capital Limited		x	
Guardian Acuity Asset Management Limited		x	
Guardian Fund Management Limited		x	
Hatton National Bank PLC	x		x
Horizon Asset Ltd		x	
Innovest Investments (Pvt) Ltd		x	
J.B. Financial (Private) Limited		x	

Company	Margin Provider	Investment Manager	Underwriter
JB Credit Ltd	x		
Kenanga Investment Corporation Ltd		x	
LB Finance PLC	x		
Lexinton Financial Services (Private) Limited	x		
LOLC Finance PLC	x		
Lyneer Wealth Management (Pvt) Ltd		x	
Merchant Bank of Sri Lanka & Finance PLC	x	x	x
Nation Lanka Capital Ltd	x		
National Asset Management Ltd		x	
National Development Bank PLC	x		
National Wealth Corporation Limited		x	
Navara Capital Partners Limited		x	
NDB Capital Holdings Limited			x
NDB Wealth Management Ltd		x	
NWS Management Services (Pvt) Ltd		x	
Orient Finance PLC	x		
Orion Fund Management (Private) Limited		x	
Pan Asia Banking Corporation PLC	x		
People's Bank		x	
People's Leasing and Finance PLC	x		
People's Merchant Finance PLC	x		
Richard Peiris Financial Services (Pvt) Ltd	x		
Sampath Bank PLC	x		x
Seylan Bank PLC	x		
Softlogic Capital PLC		x	
Softlogic Finance PLC	x		
TKS Finance Ltd	x		
Trillion Investments Ltd		x	
Waldock Mackenzie Limited		x	

Registered Market Intermediaries Under the Category of a Clearing House:

- Central Depository Systems (Private) Limited

Registered Market Intermediaries Under the Category of Credit Rating Agencies

- Fitch Ratings Lanka Limited
- ICRA Lanka Limited

Fact Sheet

Year	2010	2011	2012	2013	2014	2015
Annual Turnover (Rs Mn) Equity	570,326.82	546,255.80	213,827.2	200,467.8	340,917.1	253,251.0
Domestic (Rs Mn)	464,733.62	486,959.40	160,543.3	128,227.6	246,796.8	166,151.5
Foreign (Rs Mn)	105,593.20	59,296.40	53,283.9	72,240.2	94,120.3	87,099.5
Market Days (No)	238	239	242	242	241	239
Daily Average Turnover (Rs Mn) Equity	2,396.33	2,285.60	883.6	828.4	1,414.6	1,059.6
Shares traded (No Mn) Equity	18,489.19	24,543.70	9,691.2	9,054.2	16,722	9,414
Domestic (No Mn)	16,684.45	23,151.60	8,289.6	7,861.6	14,726	7,693
Foreign (No Mn)	1,804.74	1,392.10	1,401.7	1,192.6	1,995	1,721
Trades (No) Equity	3,355,126	4,579,352	1,857,384	1,421,303	1,982,709	1,506,790
Domestic (No)	3,225,041	4,463,404	1,796,868	1,355,380	1,899,569	1,431,750
Foreign (No)	130,085	115,948	60,516	65,923	83,140	75,040
New Listing (No)	10	32	17	2	7	5
Delisting (No)	1	0	2	1	3	3
Companies Listed	241	272	287	289	294	294
Companies Traded	238	265	280	278	284	278
Market Capitalisation (Rs Bn)	2,210.45	2,213.90	2,167.6	2,459.9	3,104.9	2938.0
Market PER Year End (Times)	25.16	15.8	15.9	15.9	19.7	18.0
Turnover to Market Capitalisation (%)	34.5	24.7	9.8	8.7	12.3	8.4
Dividend Yield Year End (%)	1.16	1.8	2.4	2.9	2.1	2.18
Price to Book Value Year End (Times)	2.98	2	2.1	2	2.2	1.99
Market Cap. as a % of GDP	39.4	33.8	28.6	32.4	31.0	30
Price Indices						
All Share Price Index (ASPI)	6,635.87	6,074.40	5,643.0	5,912.80	7,299.0	6894.5
y-o-y Change %	96.01	(8.5)	(7.1)	4.8	23.4	(5.5)
Milanka Price Index (MPI)	7,061.46	5,229.20	5,119.1	-	-	-
y-o-y Change %	83.44	(25.9)	(2.1)	-	-	-
S&P Sri Lanka 20	-	-	3085.3	3,263.90	4,089.1	3625.7
y-o-y Change %	-	-	-	5.8	25.3	(11.3)
Total Return Indices						
Total Return Index on ASPI (ASTRI)	7,899.11	7,362.83	7037.3	7,584.40	9,579.2	9079.9
y-o-y Change %	100.24	(6.79)	(4.4)	7.8	26.3	(5.2)
Total Return Index on MPI (MTRI)	8,481.73	6,393.00	6399.4	-	-	-
y-o-y Change %	88.22	(24.63)	0.1	-	-	-
Total Return Index on S&P						
Sri Lanka 20 (S&P Sri Lanka 20TRI)	-	-	3,780.4	4,132.4	5,331.1	4861.5
y-o-y Change %	-	-	-	9.3	29.0	(8.8)

Year	2010	2011	2012	2013	2014	2015
Non-National Activity						
Annual Turnover (Rs Mn)	105,593.20	59,296.40	53,283.9	72,240.20	94,120.3	87,099.50
Purchases (Rs. Mn.)	92,425.53	49,776.80	72,614.2	83,607.00	104,689.8	84,414.56
Sales (Rs. Mn.)	118,760.87	68,816.00	33,953.6	60,873.30	83,550.8	89,784.44
Net Foreign Flow	(26,335.34)	(19,039.20)	38,660.7	22,733.70	21,139.0	(5,369.9)
Shares Traded (No. Mn.)	1,804.74	1,392.11	1,401.7	1,192.60	1,995	1,721.50
Purchases (No. Mn.)	1,541.49	1,186.80	1,520.6	1,282.50	2,381	1,730.72
Sales (No. Mn.)	2,067.99	1,597.42	1,282.7	1,102.6	1,610	1,712.27
Trades	130,085	115,948	60,516	65,923.0	83,140	75,040
Purchases (No.)	115,071	112,246	71,944	77,511.0	94,752	65,932
Sales (No.)	145,100	119,651	49,088	54,335.0	71,529	84,149
Debt Market						
Corporate Debt						
Turnover (Rs 000)	72,288	2,690,664.40	75,717.1	2,229,221.3	7,139,730.4	4,714,012.7
No of Trades	92	62	39	173	401	220
No of Debentures Traded (000)	693	25,861	740.4	19,998.8	56,909	42,201
Market Cap (Mn)	N/A	-	46,311.0	N/A	N/A	N/A
Government Debt						
Turnover (Rs 000)	45,673	28,356.80	6,128.0	-	-	-
No of Trades	18	7	2	-	-	-
No of Debentures Traded (000)	46,794	28,912	6,743.6	-	-	-
Unit Trusts						
Net Asset Value (NAV) (Rs. Mn)	22,228	24,059	31,062	54,304	127,356	129,844
Unit Holders (No.)	24,649	26,636	27,952	29,648	32,619	38,140
Units Issued (No. 000)	1,159	1,506	2,251	4,134	9,772	8,812
Investment in Equity (Rs. Mn.)	11,349	9,555	8,944	9,453	14,591	14,376
Investment in Treasury Bills (Rs. Mn)	9,289	10,326	5,449	17,825	60,897	28,294
Investment in other Instruments ** (Rs. Mn)	1,223	4,186	16,596	27,000	52,202	87,272

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

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



Financial Reports

Contents

FINANCIAL REPORTS - SEC

Auditor General's Report	68
Statement of Financial Position	70
Statement of Financial Performance	71
Statement of Changes In Reserves	72
Cash Flow Statement - SEC	73
Cash Flow Statement - Cess Fund	74
Cash Flow Statement - Compensation Fund	75
Accounting Policies - SEC	76
Notes to the Financial Statements	78

FINANCIAL REPORTS - SGF

Auditor General's Report	90
Statement of Financial Position	92
Statement of Financial Performance	93
Statement of Changes In Net Assets	94
Cash Flow Statement	95
Accounting Policies	96

Auditor General's Report



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அறிப்பதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல. }
My No. }

BAF/H/SEC/1/15/3

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி }
Date }

26th May 2016

The Chairman
Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2015

The audit of financial statements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in reserves and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 37(2) of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் திணைக்களம்
Auditor General's Department

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

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

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

Financial Statements

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Securities and Exchange Commission of Sri Lanka as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

Report to Parliament

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

A handwritten signature in black ink, appearing to read 'H. M. Gamini Wijesingha', is placed over a light grey rectangular background.

H. M. Gamini Wijesingha

Auditor General

Statement of Financial Position

As at 31st December 2015 - SEC

	Note	2015 Rs.	2014 Rs.
ASSETS			
NON CURRENT ASSETS			
Property, Plant & Equipment	1	54,187,874	53,079,602
Cess Fund	2	432,259,118	49,057,155
CURRENT ASSETS			
Inventories	4	1,077,896	984,316
Receivables	5	3,946,567	5,432,548
Cess Fund	2	2,105,302,782	2,398,681,457
Compensation Fund	3	312,056,920	293,242,099
Deposits, Advance and Prepayments	6	8,414,873	6,210,649
Cash & Cash Equivalents	7	55,140,698	19,805,415
TOTAL ASSETS		2,972,386,728	2,826,493,242
FUNDS AND LIABILITIES			
FUNDS EMPLOYED AND RESERVES			
Accumulated Fund	8	15,098,513	(16,838,197)
Cess Fund	9	2,537,561,900	2,447,738,612
Compensation Fund	10	312,056,920	293,242,099
NON CURRENT LIABILITIES			
Grant - Transfers from Cess Fund for Capital Expenditure	11	49,850,270	48,675,770
Retirement Benefit Obligation	12	27,937,943	23,146,179
CURRENT LIABILITIES			
Creditors and Accruals	13	25,884,693	26,129,963
Receipts in Advance		3,996,489	4,398,816
TOTAL FUNDS AND LIABILITIES		2,972,386,728	2,826,493,242

The Accounting Policies and Notes appearing on pages 76 to 89 form an integral part of the financial statements.

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

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



Vajira Wijegunawardane
Director General
Securities and Exchange Commission of Sri Lanka



Thilak Karunaratne
Chairman
Securities and Exchange Commission of Sri Lanka

Colombo.
30th May 2016

Statement of Financial Performance

For the Year Ended 31st December 2015 - SEC

	Note	2015 Rs.	2014 Rs.
INCOME			
Broker License Fees		4,229,573	5,366,368
Administration Levy		2,318,683	2,460,174
Educational Programmes		5,809,217	4,614,910
Seminar Fee-Other		-	846,430
Sale of Publications		25,443	57,700
Sundry Income		5,982	11,579
Profit/(Loss) on Disposal of Fixed Assets		(53,180)	906,683
Recognition of Grants	11	15,782,250	15,804,195
Total Income		28,117,968	30,068,039
EXPENDITURE			
Personnel Costs	14	(178,614,001)	(166,060,617)
Administration & Establishment Expenses	15	(115,651,572)	(108,071,048)
Capital Market Development Expenses	16	(55,265,440)	(102,721,061)
Finance Charges	17	(53,662)	(83,805)
Total Expenditure		(349,584,675)	(376,936,531)
Excess Expenditure over Income for the year		(321,466,707)	(346,868,492)
Transfers from Cess Fund to meet Operational Expenses		353,403,417	333,678,227
Surplus/(Deficit) for the year		31,936,710	(13,190,265)

The Accounting Policies and Notes appearing on pages 76 to 89 form an integral part of the financial statements.

Statement of Changes In Reserves

For the Year Ended 31st December 2015 - SEC

	Note	Reserves Rs.	Accumulated Fund Rs.	Total Rs.
Balance as at 1st January 2014		-	6,352,068	6,352,068
Fund Transfer to Cess Fund to Invest in Treasury Bills		-	(10,000,000)	(10,000,000)
		-	(3,647,932)	(3,647,932)
Excess Expenditure over Income for the year		-	(346,868,492)	(346,868,492)
Fund Transfer from Cess Fund		-	333,678,227	333,678,227
Surplus/(Deficit) for the period		-	(13,190,265)	(13,190,265)
Balance as at 31st December 2014			(16,838,197)	(16,838,197)
Balance as at 1st January 2015		-	(16,838,197)	(16,838,197)
		-	(16,838,197)	(16,838,197)
Excess Expenditure over Income for the year		-	(321,466,707)	(321,466,707)
Fund Transfer from Cess Fund		-	353,403,417	353,403,417
Surplus/(Deficit) for the year		-	31,936,710	31,936,710
Balance as at 31st December 2015		-	15,098,513	15,098,513

The Accounting Policies and Notes appearing on pages 76 to 89 form an integral part of the financial statements.

Cash Flow Statement

For the Year Ended 31st December 2015 - SEC

	Note	2015 Rs.	2014 Rs.
Cash Flows from Operating Activities			
Net Increase/(Decrease) after transfers from Cess Fund		31,936,710	(13,190,265)
Adjustment for			
Depreciation	1	15,782,250	16,116,695
(Profit)/Loss on disposal of Property, Plant & Equipment		53,180	(906,683)
Recognition of Grant	11	(15,782,250)	(15,804,195)
Provision for Gratuity	12	5,017,769	3,585,799
Net Increase/(Decrease) before working capital changes		37,007,659	(10,198,649)
Change of Working Capital			
(Increase)/Decrease of Stocks		(93,580)	(49,782)
(Increase)/ Decrease of Receivable		1,485,981	(2,769,132)
(Increase)/Decrease of Deposits Advances & Prepayments		(2,204,224)	1,790,239
Increase/(Decrease) of Receipt in Advance		(402,327)	(19,248)
Increase/(Decrease) of Creditors & Accruals		(245,270)	17,322,531
		(1,459,420)	16,274,608
Cash generated from Operating Activities		35,548,239	6,075,959
Gratuity paid during the year		(226,005)	(2,046,386)
Net Cash Inflow/(Outflow) from Operating Activities		35,322,234	4,029,573
Cash Flows into Investing Activities			
Purchase of Property Plant and Equipment	1	(16,956,750)	(22,272,773)
Fund Transfer to Cess Fund to Invest in Treasury Bills		-	(10,000,000)
Proceeds from Sale of Property Plant & Equipment		13,049	1,722,518
Net Cash Inflow/(Outflow) from Investing Activities		(16,943,701)	(30,550,255)
Cash Flows from Financing Activities			
Capital transfer from Cess Fund	11	16,956,750	22,272,773
Increase / (Decrease) in Finance Lease			(758,549)
Net Cash Inflow/(Outflow) from Financing Activities		16,956,750	21,514,224
Net Increase/ (Decrease) in Cash and Cash Equivalents		35,335,283	(5,006,458)
Cash and Cash Equivalents at beginning of period (Note A)		19,805,415	24,811,873
Cash and Cash Equivalents at end of period (Note B)		55,140,698	19,805,415
Note (A)			
Cash and Cash Equivalents at beginning of period			
Cash at Bank		19,765,415	24,771,873
Cash in Hand		40,000	40,000
		19,805,415	24,811,873
Note (B)			
Cash and Cash Equivalents at End of period			
Cash at Bank	7	55,100,698	19,765,415
Cash in Hand	7	40,000	40,000
		55,140,698	19,805,415

The Accounting Policies and Notes appearing on pages 76 to 89 form an integral part of the financial statements.

Cash Flow Statement

For the Year Ended 31st December 2015 - Cess Fund

	2015 Rs.	2014 Rs.
Cash Flows from Operating Activities		
Net Increase/ (Decrease) of Cess Fund	89,823,288	254,495,476
Net Increase/ (Decrease) of before Working Capital Changes	89,823,288	254,495,476
Change of Working Capital		
(Increase)/Decrease of Staff Loans	(5,877,826)	565,718
(Increase)/Decrease of Cess Receivable	1,105,580	470,755
(Increase)/Decrease of Receivable-SEC	(208,334)	216,659
(Increase)/Decrease of Interest Receivable on Treasury Bonds	(417,734)	-
(Increase)/Decrease of Interest Receivable on Fixed Deposits	12,119,511	45,399,605
(Increase)/Decrease of Interest Receivable on Treasury Bills	40,356,671	(20,239,782)
(Increase)/Decrease of Interest Receivable on REPO	(6,043,983)	-
(Increase)/Decrease of Rent Deposit	(2,905,956)	(1,183,908)
(Increase)/Decrease of Payables	-	(11,771)
	38,127,929	25,217,276
Net Cash Inflow/(Outflow) from Operating Activities	127,951,217	279,712,752
Cash Flows into Investing Activities		
Investment in State Institutions Temporary Surplus Fund	(13,644,056)	(13,578,193)
Investment in Treasury Bonds	(374,999,395)	-
Investment in Treasury Bills	612,528,065	(171,679,656)
Investment in Fixed Deposits	568,940,871	(92,770,631)
Net Cash Inflow/(Outflow) from Investing Activities	792,825,485	(278,028,480)
Net Increase/(Decrease) in Cash and Cash Equivalents	920,776,702	1,684,272
Cash and Cash Equivalents at beginning of period (Note C)	7,183,289	5,499,017
Cash and Cash Equivalents at end of period (Note D)	927,959,991	7,183,289
Note (C)		
Cash and Cash Equivalents at beginning of period		
REPO Investments	2,300,000	3,740,000
Cash at Bank	4,883,289	1,759,017
	7,183,289	5,499,017
Note (D)		
Cash and Cash Equivalents at end of period		
Investments in Repo	924,691,077	-
Cash at Bank	1,908,914	4,883,289
Overnight-REPO	1,360,000	2,300,000
	927,959,991	7,183,289

The Accounting Policies and Notes appearing on pages 76 to 89 form an integral part of the financial statements.

Cash Flow Statement

For the Year Ended 31st December 2015 - Compensation Fund

	2015 Rs.	2014 Rs.
Cash Flows from Operating Activities		
Net Increase/(Decrease) of Compensation Fund	18,814,821	25,291,524
Net Increase/(Decrease) before Working Capital changes	18,814,821	25,291,524
Change of Working Capital		
(Increase)/Decrease of Other Payables	-	(15,863)
(Increase)/Decrease of Interest Receivable on Treasury Bills	2,475,294	(51,370)
(Increase)/Decrease of Interest Receivable on Fixed Deposits	665,173	7,115,333
(Increase)/Decrease of Interest Receivable on Repo	(99,351)	-
	3,041,116	7,048,100
Net Cash Inflow/(Outflow) from Operating Activities	21,855,937	32,339,624
Cash Flows into Investing Activities		
Investment in Treasury Bonds	(32,504,729)	-
Investment in Treasury Bills	149,355,274	(44,608,391)
Investment in Fixed Deposits	7,375,568	12,253,245
Net Cash Inflow/(Outflow) from Investing Activities	124,226,113	(32,355,146)
Cash Flows from Financing Activities		
Net Increase/(Decrease) in Cash and Cash Equivalents	146,082,050	(15,522)
Cash and Cash Equivalents at beginning of period (Note E)	84,478	100,000
Cash and Cash Equivalents at end of period (Note F)	146,166,528	84,478
Note (E)		
Cash and Cash Equivalents at beginning of period		
Cash at Bank	84,478	100,000
Call Deposits	-	-
	84,478	100,000
Note (F)		
Cash and Cash Equivalents at end of period		
Investments in Repo	145,946,317	-
Cash at Bank	220,211	84,478
	146,166,528	84,478

The Accounting Policies and Notes appearing on pages 76 to 89 form an integral part of the financial statements.

Accounting Policies

- SEC

1. General Accounting Policies

1.1. Statement of Compliance

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

1.2. Responsibility for Financial Statements

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

1.3. Going Concern

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

1.4. Basis of Preparation

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

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

1.5. Foreign Currency Transactions

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

1.6. Events After the Balance Sheet Date

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

1.7. Changes in Accounting Policies

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

1.8. Comparative Figures

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

2. Assets and Bases of Their Valuation

2.1. Property, Plant And Equipment

Owned Property, Plant and Equipment

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

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

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

2.2. Investments

Investments are made in Fixed Deposits and short term investments at Licensed Government banks, in Government Treasury bills and Government Bonds which are stated at cost and interest accrued up to the end of the reporting period.

2.3. Inventories

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

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

2.4. Receivables

Receivables are stated at the estimated realisable value.

3. Liabilities & Provisions

3.1.1. Retirement Benefits

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

3.1.2. Defined Contribution Plans

All employees of the SEC are members of the Employees' Provident Fund and Employees' Trust Fund to which SEC contributes 12% and 3% respectively of such employees' gross emoluments barring the vehicle allowance.

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 recognised in the Statement of Financial Performance as revenue on systematic basis over the useful life of the related asset.

4. Statement of Financial Performance

4.1. Revenue Recognition

SEC revenue consists of Broker license fees, administration levy, sale of publications, seminar income for educational programmes. Revenue from the above mentioned services/fees is recognised in the period in which the related services are performed.

4.2. Interest on Investments

Interest on investments is recognised on an accrual basis.

4.3. Other Revenue

Other income is recognised on an accrual basis.

5. Expenditure Recognition

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

6. Cash Flow Statement

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

Notes to the Financial Statements

1. Property, Plant & Equipment

	Motor Vehicles Rs.	Furniture, Fixtures & Fittings Rs.	Office Equipment (EDP & Others) Rs.	Training Equipment Rs.	Total Rs.
COST					
Balance as at 1st January 2015	34,601,686	29,255,195	87,866,344	3,623,493	155,346,718
Additions during the Year	7,990,000	1,315,196	7,651,555	-	16,956,750
Disposals during the year	-	(415,632)	(2,008,778)	(1,200)	(2,425,610)
Balance as at 31st December 2015	42,591,686	30,154,759	93,509,121	3,622,293	169,877,858
ACCUMULATED DEPRECIATION					
Balance as at 1st January 2015	18,245,683	19,184,479	61,749,292	3,087,662	102,267,116
Depreciation Charge for the Year	2,322,455	2,130,917	11,100,122	228,757	15,782,250
Accumulated Depreciation on Disposal of Assets	-	(412,474)	(1,945,707)	(1,200)	(2,359,381)
Balance as at 31st December 2015	20,568,138	20,902,923	70,903,708	3,315,219	115,689,984
WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2015					
	22,023,548	9,251,836	22,605,413	307,074	54,187,874
WRITTEN DOWN VALUE AS AT 31ST DECEMBER 2014					
	16,356,003	10,070,716	26,117,052	535,831	53,079,602
USEFUL LIFE TIME (NO OF YEARS)	10	8	5	5	

2. Cess Fund

	2015	2014
	Rs.	Rs.
NON CURRENT ASSETS		
Staff Loans Receivable	24,540,811	19,244,199
Rent Deposit	32,718,912	29,812,956
Investment in Treasury Bonds	374,999,395	-
	432,259,118	49,057,155
CURRENT ASSETS		
Invested in State Institutions Temporary Surplus Fund	233,809,568	220,165,512
Investment in Treasury Bills	344,471,596	956,999,661
Investment in Fixed Deposits	544,830,001	1,113,770,872
	1,123,111,165	2,290,936,045
Staff Loans Receivable within 12 months	6,069,146	5,487,932
Interest Receivable on Fixed Deposits	26,690,219	38,809,730
Interest Receivable on Treasury Bills	13,639,605	53,996,276
Interest Receivable on Treasury Bonds	417,734	-
Interest Receivable on Repo	6,043,983	-
Cess Receivable	1,162,605	2,268,185
Receivable-SEC	208,334	-
Investment in Repo	924,691,077	-
Balance at Bank including Overnight REPO	3,268,914	7,183,289
	982,191,617	107,745,412
	2,105,302,782	2,398,681,457
TOTAL ASSETS	2,537,561,900	2,447,738,612
LIABILITIES	-	-
NET ASSETS	2,537,561,900	2,447,738,612

Notes to the Financial Statements Contd.

	2015	2014
	Rs.	Rs.
3. Compensation Fund		
CURRENT ASSETS		
Investment in Treasury Bills	3,228,605	152,583,879
Investment in Fixed Deposits	123,553,658	130,929,226
Investment in Treasury Bonds	32,504,729	-
	159,286,992	283,513,105
Interest Receivable on Treasury Bills	106,566	2,581,860
Interest Receivable on Fixed Deposits	6,397,483	7,062,656
Interest Receivable on Repo	99,351	-
Investment in Repo	145,946,317	-
Balance at Bank	220,211	84,478
	152,769,928	9,728,994
TOTAL ASSETS	312,056,920	293,242,099
LIABILITIES	-	-
NET ASSETS	312,056,920	293,242,099
4. Inventories		
Stock of Stationery, Stamp & EDP Consumables	1,077,896	984,316
	1,077,896	984,316
5. Receivables		
Sundry Debtors	249,567	1,250,949
Institute of Chartered Accountants of Sri Lanka	1,709,000	1,709,000
Phone Advance	-	331,192
Festival Advances	1,988,000	2,126,000
Insurance Claim Receivable	-	15,407
	3,946,567	5,432,548

	Note	2015 Rs.	2014 Rs.
6. Deposits, Advances & Pre-Payments			
Safe Vault Deposit - Bank of Ceylon		48,100	45,058
Fuel Deposit		60,000	60,000
Deposit for Vehicle Maintenance		500	500
Deposits with Telecom Ltd		42,625	42,125
Deposits with Dialog		9,000	9,000
Frosty-Hot & Cold Dispenser		28,000	28,000
Sponsorship for Higher Studies-University of Colombo		10,000	10,000
Advances to Suppliers		8,216,648	6,015,966
		8,414,873	6,210,649
7. Cash			
Cash at Bank		55,100,698	19,765,415
Cash in Hand		40,000	40,000
		55,140,698	19,805,415
8. Accumulated Fund			
Balance at the beginning of the period		(16,838,197)	6,352,068
Fund Transfer to Cess Fund to invest in Treasury Bills		-	(10,000,000)
Surplus/(Deficit) for the Year		31,936,710	(13,190,265)
Balance at the end of the Year		15,098,513	(16,838,197)

Notes to the Financial Statements Contd.

	2015 Rs.	2014 Rs.
9. Cess Fund		
Balance at the beginning of the Year	2,447,738,612	2,193,243,136
Add:		
Cess Received during the Year	312,320,570	408,658,830
Interest on Treasury Bills	62,752,554	103,593,131
Interest on Fixed Deposits	67,364,938	93,763,272
Interest on Treasury Bonds	8,500,526	
Interest on Repo Investments	14,616,103	
Interest on Staff Loans	1,180,893	1,395,893
Funds transferred from SEC	-	10,000,000
	2,914,474,196	2,810,654,262
Less:		
Funds transferred to SEC for Operational & Capital Expenditure	370,360,167	355,951,000
Withholding Tax on Interest Income on Fixed Deposits	6,469,039	6,842,805
Bank Charges	83,090	121,845
	376,912,296	362,915,650
Balance at the end of the Year	2,537,561,900	2,447,738,612
10. Compensation Fund		
Balance at the beginning of the Year	293,242,099	267,950,575
Compounding Fees Received During the Year	-	1,100,000
Add : Interest on Investment - Treasury Bills	6,846,886	11,222,720
Interest on Investment - Fixed Deposits	9,313,028	13,517,101
Interest on Investment - Treasury Bonds	1,536,523	-
Interest on Investment - Repo	1,958,375	-
	312,896,911	293,790,396
Less: Withholding Tax on Interest on Fixed Deposits	830,942	543,937
Bank Charges	9,049	4,360
	839,991	548,297
Balance at the end of the Year	312,056,920	293,242,099

	2015 Rs.	2014 Rs.
11. Grant- Transfers from Cess Fund Towards Capital Expenditure		
Balance at the beginning of the Year	48,675,770	42,207,192
Transfers from Cess Fund towards Capital Expenditure	16,956,750	22,272,773
Recognition of Grants	(15,782,250)	(15,804,195)
Balance at the end of the Year	49,850,270	48,675,770

NOTE

RECOGNITION OF GRANT

The Grant is recognised at the following rates

Motor Vehicles	10.00%	10.00%
Office Equipment - Electronic Data Processing & Others	20.00%	20.00%
Training Equipment	20.00%	20.00%
Furniture, Fixtures & Fittings	12.50%	12.50%

12. Retirement Benefit Obligation

Balance at the beginning of the Year	23,146,179	21,606,766
Charge for the Year	5,017,769	3,585,799
Gratuity Paid during the Year	(226,005)	(2,046,386)
Balance at the end of the Year	27,937,943	23,146,179

Notes to the Financial Statements Contd.

	2015	2014
	Rs.	Rs.
13. Creditors and Accruals		
Telephone, Internet Expenses	354,124	228,611
Electricity	397,683	308,598
Staff Medical Reimbursement	751,841	464,439
Directors' Fuel Reimbursement	47,562	35,655
Leave Encashment	1,995,268	1,782,539
Overtime	234,423	203,286
Foreign Travel	42,100	-
External Audit Fees	1,375,000	1,100,000
Internal Audit Fees	170,340	139,740
Professional Charges	222,584	227,500
Public Awareness	15,805,049	8,921,016
Courier Charges	12,836	-
Legal Expenses	333,871	-
Capital Market Development	13,500	12,062,140
VAT Payable	217,896	498,165
Stamp Duty Payable	675	8,675
Printing & Stationery	-	2,925
Nation Building Tax	51,509	77,425
Interest Subsidy	6,720	-
Staff Training - Local	1,500,000	1,650
Seminar expenses-CMET	3,500	19,000
Trade Tax	-	5,000
Travelling -Local	35,638	11,247
Newspapers and Periodicals	20,110	-
Staff Welfare	137,542	-
Repair and Maintenance- OE,EDP & Other	45,193	-
Motor Vehicle -Repair & Maintenance	450	-
Other Payable	240,685	32,352
EPF Payable	1,642,357	-
Stamp Duty Payable	55,000	-
Remuneration Payable	171,237	-
	25,884,693	26,129,963

	Note	2015 Rs.	2014 Rs.
14. Personnel Costs			
Staff Salaries		97,408,694	86,978,135
Chairman's Allowance		900,000	900,000
Overtime		1,623,776	1,466,350
E P F & E T F		14,999,847	13,595,107
Staff Gratuity	12	5,017,769	3,585,799
Special Payment		11,542,665	11,437,446
Leave Encashment		2,107,304	2,074,787
Staff Medical Expenses & Insurance		5,348,296	5,004,133
Personnel Accident Insurance Cover		843,657	827,020
Staff Housing Loan Interest Subsidy		976,307	1,338,802
Staff Welfare		4,364,174	4,510,059
Executive Subsistence		110,000	108,000
Reimbursement of Fuel - Directors		2,336,680	3,648,441
Directors Vehicle Allowance		8,370,068	9,443,677
Lease Finance Charges		-	(23,740)
Overseas Training and Travelling		16,932,168	16,442,470
Staff Training - Local		2,037,005	2,130,583
Subscription of Membership		601,934	699,632
Sponsorship for Studies *		645,818	1,017,139
Advertising-Recruitment		1,848,180	365,475
Interns Allowance		599,659	511,302
		178,614,001	166,060,617

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

Notes to the Financial Statements Contd.

	Note	2015 Rs.	2014 Rs.
15. Administration & Establishment Expenses			
Rent & Car Park Rental		66,530,203	54,157,731
Electricity Charges		4,346,592	4,137,528
Office Upkeep		184,902	212,329
Office Equipment Maintenance & Insurance		3,565,767	3,455,132
Telephone, Internet, E- mail & Web		4,215,377	3,894,487
Motor Vehicle Fuel, Maintenance, License & Insurance		2,081,094	2,858,197
Professional Fees		1,294,332	880,212
Member Fees		1,166,400	1,135,500
Meeting Expenses		690,952	753,527
Entertainment		27,394	288,747
Library Books		34,781	39,114
News Papers & Periodicals		281,287	252,077
Printing & Stationery		2,436,343	2,288,732
Travelling Local		452,165	525,347
Insurance- All Risk , Public Liability, Cash in Transit & Fire		511,985	668,348
Postage and Stamp Duty		624,609	85,830
Courier Charges		116,403	147,537
Legal Expenses		799,431	2,373,060
Audit Fees -Internal		344,148	277,580
Audit Fees -External		275,000	275,000
General Expenses		-	477,470
Trade Tax		5,000	5,000
VAT Expenses		9,645,525	12,497,233
Nation Building Tax		239,632	268,635
Depreciation	1	15,782,250	16,116,695
		115,651,572	108,071,048
16. Market Development			
Capital Market and Product Development		25,729,447	36,102,668
Public Awareness Programmes		16,632,983	48,708,493
Seminar Expenses		3,620,888	4,507,356
International Membership Fees - IOSCO		2,283,738	2,756,675
Publicity and Advertising		37,440	4,381,394
Market Surveillance Cost		6,942,004	6,254,155
Investigation and Inspection Expenses		18,940	10,320
		55,265,440	102,721,061
17. Finance Charges			
Bank Charges		53,662	83,805
		53,662	83,805

18. Taxation

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

19. Capital Commitments

A sum of Rs.8,023,748.99 is committed to Millennium Information Technologies Ltd. to upgrade the SEC local Area Network along with Defense in Depth Architecture.

A sum of Rs.3,946,970.00 is committed to IronOne Technologies (Pvt) Ltd to procure and implement the 'BoardPAC' iPad enabled Board Automated Meeting Platform enabling paperless Board meeting solution. An advance payment of Rs. 3,050,000/- is reflected in the financial statements made towards this project.

20. Contingent Liabilities

There were no contingent liabilities as at 31.12.2015.

21. Events After the Balance Sheet Date

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

22. Related Party Disclosures

Mr Thilak Karunaratne was appointed as the Chairman of the SEC for the second time with effect from 26th January 2015.

The following Members of the Commission was appointed during the first quarter of the year 2015 as stated below.

- Mr Ranel T Wijesinha a former Member of the Commission was reappointed w. e. f. 2.02.2015.
- Mr Sajith R Attygalle former Ex-officio Member of the Commission was reappointed by virtue of him holding office of Deputy Secretary to the Treasury w. e. f. 2.02.2015.
- Ms Marina Fernando former Deputy Director General of the SEC was appointed w. e. f. 2.02.2015.
- Ms Dilshani Gayathri Wijayawardana appointed w. e. f. 2.02.2015.
- Mr Rajeev Amarasuriya appointed w. e. f. 2.02.2015.
- Mr Suresh Shah appointed w. e. f. 6.02.2015.
- Mr P Samarasiri was appointed by virtue of him holding office as a Deputy Governor of the Central Bank w. e. f. 23.02.2015.

The following Members of the Commission held office during the year 2015 as stated below;

- Mr D N R Siriwardena, Ex-officio Member by virtue of holding office as Acting Registrar of Companies.
- Mr Arjuna Herath, Ex-officio Member until his term of office ceased as President of Institute of Chartered Accountants of Sri Lanka on 18th December 2015.

Dr Nalaka Godahewa resigned from the post of Chairman in January 2015 along with the following Members of the Commission namely Mr Lolitha Abeysinghe, Mr Mohamed Zuraish Hifaz Hashim, Mr B D W A Silva, Dr. Prathiba Mahanamahewa, Mr P D J Fernando, Dr B M S Batagoda on 22.01.2015, 26.01.2015, 20.01.2015, 21.01.2015, 27.01.2015 and 20.1.2015 respectively.

Notes to the Financial Statements Contd.

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

Name	Name of Related Institution	Relationship
Mr Thilak Karunaratne	<ul style="list-style-type: none"> ➤ Multiform Chemicals (Pvt) Ltd ➤ Far Eastern & European Travels (Pvt) Ltd ➤ Mercury Agencies (Pvt) Ltd ➤ Multiform Apparels (Pvt) Ltd 	Chairman Chairman Chairman Chairman
Mr D N R Siriwardana	<ul style="list-style-type: none"> ➤ Sri Lanka Accounting and Auditing Standards Monitoring Board ➤ Insurance Board of Sri Lanka 	Board Member Board Member
Mr Ranel T Wijesinha	<ul style="list-style-type: none"> ➤ John Keells Hotels PLC ➤ Bank of Ceylon 	Independent Non Executive Director and Chairman Audit Committee Independent Non Executive Chairman Audit Committee from 27.02.2015
Mr S R Attygalle	<ul style="list-style-type: none"> ➤ Regional Development Bank ➤ Airport and Aviation Services Ltd ➤ Insurance Board of Sri Lanka 	Ex-officio Member from 24.2.2015 Director from 24.2.2015 Director from 1.1.2015 to 20.01.2015
Ms Marina Fernando	-	-
Ms Dilshani Gayathri Wijayawardana	-	-
Mr Rajeev Amarasuriya	<ul style="list-style-type: none"> ➤ Pant-hera Leo Consulting Group (Pvt) Ltd 	Director
Mr Suresh Shah	<ul style="list-style-type: none"> ➤ Bukit Darah PLC ➤ Carson Cumberbatch PLC ➤ Carsons Management Services (Pvt) Ltd ➤ Ceylon Beverage Holdings PLC ➤ Lion Brewery Ceylon PLC ➤ Luxury Brands (Pvt) Ltd ➤ Pubs 'N Places (Private) Ltd ➤ Retail Spaces (Private) Ltd ➤ The Ceylon Chamber of Commerce ➤ The Employers' Federation of Ceylon ➤ University of Moratuwa 	Director from 20.2.2015 Director Director Director Director/CEO Director Director Director Past Chairman & Member of Council Vice Chairman & Member of Council Member of Council
Mr P Samarasiri	<ul style="list-style-type: none"> ➤ Institute of Bankers of Sri Lanka ➤ Insurance Board of Sri Lanka ➤ "Ape Wenuwen Api" Management Board under Ministry of Defense 	Vice Chairman up to 31.12.2015 and Chairman since 1.1.2016 Member from 9.3.2015 Member from 27.5.2015

Name	Name of Related Institution	Relationship
Dr. Nalaka Godahewa	-	-
Mr Lolitha Abeysinghe	No Directorships on Listed Company Boards	-
Mr Mohamed Zuraish Hifaz Hashim	<ul style="list-style-type: none"> ➤ Development Interplan Ceylon Ltd ➤ Kerry Malship Logistics Lanka Ltd 	<ul style="list-style-type: none"> Director Director
Mr B D W A Silva	<ul style="list-style-type: none"> ➤ Credit Information Bureau of Sri Lanka ➤ Institute of Bankers of Sri Lanka ➤ West Coast Power (Pvt) Ltd ➤ Special Standing Cabinet Appointed Committee on Procurement of Petroleum Products ➤ Special Standing Cabinet Appointed Committee on Procurement of Coal Products 	<ul style="list-style-type: none"> Chairman Chairman Board Member Board Member Board Member
Dr Prathiba Mahanamahewa	-	-
Mr P D J Fernando	<ul style="list-style-type: none"> ➤ Union Bank ➤ Hambana Petrochemicals Ltd ➤ Commercial Leasing and Finance Ltd ➤ Taprobane Holdings Ltd ➤ Ceylon Leather Products Ltd ➤ Imperial Institute of Higher Education ➤ Commercial Insurance Brokers Ltd ➤ Thomas Cook Travels Sri Lanka Ltd ➤ Brac Lanka Ltd ➤ Golden Key Credit Card Co Ltd ➤ CIESOT Pvt Ltd 	<ul style="list-style-type: none"> Independent Director Chairman Chairman
Dr B M S Batagoda	<ul style="list-style-type: none"> ➤ Sri Lanka Carbon Fund (Pvt) Ltd 	<ul style="list-style-type: none"> Managing Director and Board Member
Mr Arjuna Herath	<ul style="list-style-type: none"> ➤ Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) ➤ Sri Lanka Institute of Advanced Technological Education ➤ Postgraduate Institute of Management (PIM) ➤ S W R D Bandaranaike National Memorial Foundation ➤ Ernst & Young 	<ul style="list-style-type: none"> Board Director Member of the Governing Council Member of the Board of Management Member of the Board of Management Partner

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

Auditor General's Report



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அறிப்பி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல. }
My No. }

BAF/H/SGF/1/15/4

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி }
Date }

31 May 2016

The Chairman,
Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2015

The audit of financial statements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Paragraph 11 (d) of the Deed of Trust No.1376 dated 21/22 May 1998 relating to establishment of Settlement Guarantee Fund in terms of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

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

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



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வகம்
Auditor General's Department

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

3. Financial and Operating Review

3.1 Financial Results

According to the financial statement presented, the activities of the Fund for the year ended 31 December 2015 had resulted in a surplus of Rs.36,068,602 as compared with the corresponding surplus of Rs. 48,059,546 for the preceding year thus indicating a deterioration of Rs.11,990,944 in the financial results. The decrease of interest income by Rs. 12,344,471 as compared with the previous year was the main reason for this deterioration.

3.2 Fund

3.2.1 Objectives

The objectives of the fund are,

- (a) to collect and provide (in the absolute discretion of the Trustees) funds for the purpose of Guaranteeing the Settlement of Trades between the Clearing Members of the Central Depository System insofar as it shall continue to function as an entity providing the function of a Central Share Depository and Clearing and Settlement facility , and
- (b) to undertake all such ventures and adopt all other measures and undertake all other activities towards the achievement of the aforesaid objects and purpose (a) above without limitation.

3.2.2 Functions

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

H.M.Gamini Wijesinghe
Auditor General

Statement of Financial Position

As at 31st December 2015 - SGF

	Note	2015 Rs	2014 Rs
ASSETS			
CURRENT ASSETS			
Investment in Treasury Bills		13,092,220	468,319,230
Investment in Fixed Deposits		-	124,680,473
Receivables	5	3,825,679	10,999,631
Investments in Repurchase Agreements		622,922,954	-
Cash at Bank		387,399	158,198
TOTAL ASSETS		640,228,252	604,157,532
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		389,958,252	353,889,651
		639,958,252	603,889,651
CURRENT LIABILITIES			
Payables	6	270,000	267,881
		270,000	267,881
TOTAL NET ASSETS AND LIABILITIES		640,228,252	604,157,532

The notes appearing on pages 96 to 99 form an integral part of the financial statements.

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

FOR AND ON BEHALF OF SETTLEMENT GUARANTEE FUND


Vajira Wijegunawardane
Trustee-Settlement Guarantee Fund



Thilak Karunaratne
Trustee-Settlement Guarantee Fund

Colombo.
23rd May 2016

Statement of Financial Performance

For the Year Ended 31st December 2015 - SGF

	2015	2014
	Rs	Rs
INCOME		
Interest on Investments - Treasury Bills	23,134,014	38,377,130
Interest on Investments - Fixed Deposits	5,762,403	10,656,015
Interest on Investments -Repurchase Agreements	7,792,257	-
	36,688,674	49,033,145
Less:		
EXPENDITURE		
Audit Fees	2,119	10,000
Bank Charges	1,151	1,450
Withholding Tax on Interest on Fixed Deposits	616,802	962,149
Total Expenditure	620,072	973,599
EXCESS INCOME OVER EXPENDITURE FOR THE YEAR	36,068,602	48,059,546

The notes appearing on pages 96 to 99 form an integral part of the financial statements.

Statement of Changes In Net Assets

For the Year Ended 31st December 2015 - SGF

	2015	2014
	<i>Rs</i>	<i>Rs</i>
Accumulated Fund		
Balance at the beginning of the Year	353,889,650	305,830,105
Net Income for the Year	36,068,602	48,059,546
Balance at the end of the Year	389,958,252	353,889,651

The notes appearing on pages 96 to 99 form an integral part of the financial statements.

Cash Flow Statement

For the Year Ended 31st December 2015 - SGF

	Note	2015 Rs	2014 Rs
Cash Flow from Operating Activities			
Net Surplus for the year		36,068,602	48,059,546
Adjustment for Change of Working Capital			
(Increase)/Decrease of Other Receivables	5	7,173,952	10,330,807
Increase/(Decrease) of Other Payables	6	2,119	(26,282,120)
		7,176,071	(15,951,313)
Net Cash Inflow/(Outflow) from Operating Activities		43,244,672	32,108,233
Cash Flow from Investing Activities			
Investment in Treasury Bills and Fixed Deposits		455,227,010	(32,575,746)
Investment in Fixed Deposits		124,680,473	(25,798,986)
Net Cash Inflow/(Outflow) from Investing Activities		579,907,483	(58,374,732)
Net Increase/(Decrease) in Cash and Cash Equivalents		623,152,155	(26,266,499)
Cash & Cash Equivalents at the beginning of the period		158,198	26,424,697
Cash & Cash Equivalents at the end of the period (Note A)		623,310,353	158,198
Note (A)			
Cash & Cash Equivalents at the end of the period			
Invest in Repurchase Agreements		622,922,954	-
Cash at Bank		387,399	158,198
		623,310,353	158,198

The notes appearing on pages 96 to 99 form an integral part of the financial statements.

Accounting Policies

- SGF

1. General Accounting Policies

1.1. Statement of Compliance

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

1.2. Responsibility for Financial Statements

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

1.3. Going Concern

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

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

5. Receivables

	2015	2014
	Rs.	Rs.
Interest Receivable		
- Treasury Bills	738,023	9,052,006
- Repurchase Agreement (REPO)	3,087,656	-
- Fixed Deposits	-	1,947,625
	3,825,679	10,999,631

6. Payables

	2015 Rs	2014 Rs
Audit Fees	270,000	267,881
	270,000	267,881

7. Capital Commitments

There were no capital commitments as at 31st December 2015.

8. Contingent Liabilities

There were no contingent liabilities as at 31st December 2015.

9. Events After Balance Sheet Date

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

10. Related Party Disclosure

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

The following Trustees of the SGF held office during the year 2015;

- Mr Vajira Kulathilake, Chairman CSE
- Mr Rajeev Bandaranaike, Chief Executive Officer CSE

Trustees appointed to the SGF during the year;

- Mr Thilak Karunaratne by virtue of holding office as the Chairman of the SEC assumed duties as a Trustee of the SGF with effect from 26th January 2015.
- Mr Vajira Wijegunawardane by virtue of assuming duties as the Director General of the SEC also took office as a Trustee of the SGF on 9th April 2015.

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

- Dr Nalaka Godahewa, ceased to be a Trustee upon his resignation as Chairman SEC in January 2015
- Mr B M S Batagoda ceased to be a Trustee upon him ceasing to hold office as Deputy Secretary to the Treasury in January 2015.

Accounting Policies Contd.

- SGF

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

Name of the Trustee	Name of Institution	Relationship
Mr Thilak Karunaratne	<ul style="list-style-type: none"> ➤ Multiform Chemicals (Pvt) Ltd ➤ Far Eastern & European Travels (Pvt) Ltd ➤ Mercury Agencies (Pvt) Ltd ➤ Multiform Apparels (Pvt) Ltd ➤ Securities and Exchange Commission of Sri Lanka 	Chairman Chairman Chairman Chairman Chairman w. e. f. 26.2.2015
Mr Vajira Kulathilaka	<ul style="list-style-type: none"> ➤ NDB Investment Bank Ltd ➤ NDB Securities (Pvt) Ltd ➤ NDB Wealth Management Ltd ➤ NDB Capital Ltd - Bangladesh ➤ NDB Capital Holding PLC ➤ NDB Zephyr Partners Lanka (Pvt) Ltd ➤ NDB Zephyr Partners Lanka (Pvt) Ltd - Mauritius ➤ Emerald Sri Lanka Fund1 Ltd - Mauritius ➤ Colombo Stock Exchange ➤ Resus Energy PLC ➤ Giddawa Hydro Power (Pvt) Ltd ➤ Okanda Power Grid (Pvt) Ltd ➤ Upper Agra Oya Hydro Power (Pvt) Ltd ➤ Moragaha Oya (Pvt) Ltd ➤ Upper Hulu Ganga (Pvt) Ltd ➤ Ella Dendro Electric (Pvt) Ltd ➤ Gomale Oya Hydro Power (Pvt) Ltd ➤ Rawana Kanda Hydro Power (Pvt) Ltd 	Director Director Director Director Director/Chief Executive Officer Director Director Director Chairman Director Director Director Director Director Director Director Director Director
Mr Rajeev Bandaranaike	<ul style="list-style-type: none"> ➤ Lanka Financial Services Bureau Limited (LFSBL) ➤ Colombo Stock Exchange 	Director (21.09.2015 to 31.12.2015) Chief Executive Officer
Mr S R Attygalle	<ul style="list-style-type: none"> ➤ Regional Development Bank ➤ Airport and Aviation Services Ltd ➤ Securities and Exchange Commission of Sri Lanka ➤ Insurance Board of Sri Lanka ➤ Ministry of Finance 	Ex-officio Member w.e.f. 24.2.2015 Director w.e.f. 24.2.2015 Commission Member w.e.f. 2.2.2015 Director w.e.f. 11.1.2015 to 20.1.2015 Deputy Secretary to the Treasury
Mr Vajira Wijegunawardane	<ul style="list-style-type: none"> ➤ Sri Lanka Auditing and Accounting Standards Monitoring Board ➤ Construction Guarantee Fund ➤ Environmental Foundation Guarantee Ltd ➤ Securities and Exchange Commission of Sri Lanka 	Ex-officio Member w.e.f. 9.4.2015 Ex-officio Member w.e.f. 9.4.2015 Director Director General w.e.f. 9.4.2015

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

Name of the Trustee	Name of Institution	Relationship
Dr Nalaka Godahewa	-	-
Dr B M S Batagoda	Sri Lanka Carbon Fund (Pvt) Ltd	Managing Director & Board Member

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

