

# THE STORY OF TRANSFORMATION

A Facilitative Regulator



**SEC** | SECURITIES AND EXCHANGE  
COMMISSION OF SRI LANKA

Annual Report 2020



# THE STORY OF TRANSFORMATION

## A Facilitative Regulator

Entrusted with the task of overseeing the country's securities market, the Securities and Exchange Commission of Sri Lanka (SEC) had in the past confined itself to the traditional role of a regulator. However, considering the change in times and the demands of the securities market, the SEC has transformed itself into being a facilitative regulator, striking the right balance between capital market regulation and development. The flexibility and the proactive approach adopted by the SEC has enabled the numerous progressive initiatives the securities market has seen during the year under review. Ensuring the uninterrupted functioning of the securities market through digitalization at a juncture where mobility was restrained due to the COVID-19 pandemic could be considered a phenomenal transformation.

With the foundation having been laid, the SEC is confident that the country's securities market is destined for greater heights.

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## ABOUT US

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

### VISION

To become the benchmark regulator in the region 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



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*The ultimate goal of a capital market is to make sure that both investors and issuers alike have confidence and the necessary environment to trade.*

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Viraj Dayaratne, PC  
Chairman

The impressive performance of the market during the past year, notwithstanding the devastating impact of the Covid 19 pandemic once again demonstrates the resilience of our market in the face of adversity and the untiring efforts of all stakeholders should be commended. The increase in the level of investor participation reflects the confidence and optimism of investors.

The ultimate goal of a capital market is to make sure that both investors and issuers alike have confidence and the necessary environment to trade. The SEC, as the regulator of the capital market will continue to assist in achieving further growth and stability with necessary reforms and guidance.

### **BATTLING THE PANDEMIC**

In order to assist listed companies affected by the pandemic, the SEC granted certain relief measures including extensions of time for corporate reporting and for complying with minimum Public Float requirements. We also granted a moratorium to the clients of all Registered Margin Providers and all licensed Stock Brokers from the payment of interest on credit obtained. As for regulated entities, we provided flexibility on financial reporting and disclosure obligations, deferment on payment of annual licensing/registration fees and issued guidelines to measure credit exposure.

The strict lockdown imposed in March resulted in the inability of the stock exchange to remain open for trading. The main obstacle was the inability of conducting certain core activities digitally. During discussions held by the SEC with the stakeholders to explore as to how operations could begin, the inherent inadequacies prevalent in the systems came to light. This prompted the SEC to spearhead the digitalization of the end-to-end operations of the Colombo Stock Exchange (CSE). A joint Committee comprising of members

of the SEC and CSE was appointed for this purpose and the first phase of digitalization was completed in record time and a special market opening ceremony was held under the patronage of the Hon Prime Minister Mahinda Rajapaksa to mark the occasion in September 2020. The digitalization drive will be rolled out in three phases to cover all stakeholder touchpoints.

The most significant feature of the first phase was the ability to open an account online and start trading straight away. The CSE became the first institution in the country to be able to verify the National Identity Card (NIC) details of a prospective investor online from the Department of Registration of Persons (DRP) as part of the KYC process. This was possible through a tripartite Memorandum of Understanding (MOU) entered into between the SEC, CSE and the DRP.

Other features included the conversion of paper-based statements to electronic form, ability for listed companies to pay dividends electronically and investors being notified via a SMS alert of transactions made. Digitalization has enabled uninterrupted operations of the market notwithstanding the fetters on physical movement that have been imposed from time to time on account of the pandemic.

To prevent sharp price movements that could affect the stability of the market, a three - tiered Circuit Breaker structure was introduced to the S&P SL20 Index. This enables a trading halt for a period of thirty minutes at a time of a significant market decline and market participants are thus afforded the opportunity to assess market conditions and in turn helps create confidence in the market.

#### LEGAL AND REGULATORY REGIME

If the SEC is to perform its task of regulation in an effective and meaningful manner as well as protect the interests

*Digitalization has enabled uninterrupted operations of the market notwithstanding the fetters on physical movement.*



#### DIGITALISATION OF THE COLOMBO STOCK MARKET

CSE Mobile App is one of the fastest growing apps in Sri Lanka



of investors, it is imperative that our legal regime be revamped to keep abreast with changes that are taking place in other jurisdictions. It is also important to adhere to international best practices, particularly those propounded by the International Organization of Securities Commissions (IOSCO).

Modernising our law has been in various stages of discussion for over a decade and although a draft Bill had been prepared by the previous Commission, it had not been possible to have it enacted. Having carefully perused that draft, the SEC was able to finalise a new Bill which was approved by the Cabinet of Ministers and it is now in the latter stages of the legislative process. We are confident that the government will take steps to have it enacted soon. The proposed law has many salutary provisions that will enhance efficiency in regulation as well as enable the development of the market. The long delay, we believe may be to our advantage as we will now be able to leapfrog into modernity having learnt from the challenges faced by countries that had taken incremental steps over the years.

With the view of further enhancing investor protection, the SEC and CSE are in the process of introducing a new mechanism for the resolution of disputes between investors and broker firms. The mechanism that is being finalised will strengthen the independence and impartiality of the process as well as make it quicker.

We are in the process of revising Market Intermediary Rules in order to bring in more clarity, predictability and consistency. Steps will also be taken to introduce a new Take Overs and Mergers Code in order to align our regulatory regime pertaining to this sphere with emerging trends.

## CHAIRMAN'S REVIEW

### A MARKET CONDUCTIVE FOR FAIR TRADING

We are focused on pursuing swift preventive action to avoid manipulative or fraudulent conduct. Since May of last year, the market witnessed a high level of activity with a record number of new investor accounts being opened. We have therefore, stepped up our surveillance activities to detect any market abuse. Our surveillance capabilities will be further strengthened with the acquisition of a sophisticated surveillance system in the near future.

During the year under review, the SEC approved a set of guidelines on best practices for stock broker firms. These guidelines were developed by the SEC and CSE in consultation with the stock broker firms and are expected to raise the standards and improve the quality of the services offered by them. The SEC and the CSE jointly developed a Surveillance Handbook containing guidance on the dos and the don'ts for market intermediaries and investors with regard to activities pertaining to trading.

### TIMELY AND ACCURATE DISCLOSURES

In order to ensure that investors are able to make informed investment decisions, it is important that all material information is disseminated to the market in a timely manner. Disclosures made in Annual Reports as well as corporate communications of listed companies are reviewed on an ongoing basis and we are confident that this exercise will help ensure that any corporate misconduct will be detected. Listed Companies disclosed the impact of the pandemic on their businesses which helped investors in their decision making.

In order to achieve better corporate governance in Listed Companies and ensure accountability, fairness and transparency we are in the process of

a public consultation before finalising the Corporate Governance Framework which has been drafted with the participation of all stakeholders.

### ACCESS TO FINANCE

The SEC took steps to streamline the regulatory framework to ensure a smooth listing experience for companies by introducing a slew of measures such as relaxing the eligibility criteria, corporate governance norms and reporting requirements. The CSE has been given complete autonomy with regard to the process of granting approval for listings.

Investors in Sri Lanka have always had great faith in real estate as a safe investment option and the introduction of the much awaited legal framework for Real Estate Investment Trusts (REITs) is expected to unlock capital tied into real estate.

To encourage online alternative financing platforms, we are considering the introduction of crowd funding and peer to peer lending. The regulatory framework for these platforms will be developed together with the CSE and in doing so we will be mindful of the need to balance the benefits of fostering capital formation against the risks that such operations may pose to lenders and investors.

### BUSINESS CONTINUITY

In order to maintain market stability and ensure that intermediaries remained resilient especially during this volatile period we paid special attention to their capital and other prudential requirements, measures in place to protect assets of clients and compliance with internal controls. This helped market participants to identify and assess their vulnerabilities and operational readiness to ensure continuity of their businesses.

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*We are focused on pursuing swift preventive action to avoid manipulative or fraudulent conduct.*

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### CREATING AWARENESS

Sri Lanka has a diverse investor population and technological advancement has changed the way investors interact with the capital market. The significant increase in the number of individuals and entities who offer investment advice through social media has been a concern since the majority of them are not accredited investment advisors. To protect investors from being misled, it is essential to ensure that they have a proper understanding of key financial concepts as well as be conscious of possible risks. In this regard the SEC launched an aggressive social media campaign and has disseminated vital educational and regulatory resources including four trilingual short animation videos.

It is critical to instill in school children as well as university students the importance of concepts such as savings and investments and also the role and benefits of the capital market. Towards achieving this, we had discussions with the relevant officials who are involved in the preparation of the school curriculum and I am pleased to state that our proposals have been well received and we have been informed that relevant content will be included in the school

curriculum from grade six onwards at the time of the revision of the school curriculum in 2023 as well as when revising the university syllabi.

### LOOKING TO THE FUTURE

Whilst we make every endeavor to create a robust and facilitative regulatory environment, we are conscious that it is equally important to spur innovation and create a thriving capital market. With this in mind, the SEC has played a proactive role during the last year and together with the CSE introduced many initiatives which we are confident will help broaden and deepen our capital market.

The second phase of the digitalization initiative is expected to be completed by June 2021 which will bring in a host of benefits. The tick size of the ATS at the CSE was amended to improve price efficiency, liquidity and to minimise the volatility of shares. The SEC has granted in principle approval and the rules are now being prepared to pave the way for Special Purpose Acquisition Companies (SPACS) with the objective of providing an alternative avenue for companies to get listed on the CSE. We have also granted in principle approval for the introduction of gold backed products and to enable repurchase (REPO) transactions on corporate debt securities through the Over the Counter (OTC) platform of the CSE with the aim of diversifying investment products available for potential investors.

Facilitating the introduction of covered short selling through securities borrowing and lending, Islamic products, structured warrants and green bonds are others in the pipeline. Additionally, an initiative to facilitate local companies to raise capital by way of equity or debt in a foreign currency is being pursued by the CSE with the blessings of the SEC and is presently awaiting the approval of the Central Bank.

To enable investors to seamlessly access the stock market, the SEC has granted approval to the CSE to finalise the legal framework to allow digital platform operators to offer their subscribers the facility of making investments in the stock market through their platforms.

The much looked forward to Delivery versus Payment (DvP) mechanism and the enhanced margining model will be implemented in the second quarter of 2021. The DvP will boost stability of the securities market and help effectively manage post trade risks. The ultimate aim of the SEC and the CSE is to have a Central Counter Party (CCP). Legislation is also expected to be introduced to enable the demutualization of the CSE. The draft Bill has been completed and the only matter outstanding is the share allocation and once that is agreed upon, the draft will be finalised.

### ACKNOWLEDGEMENTS

I must acknowledge, the importance the government has attached to the capital market and its development. This was demonstrated first by creating a separate State Ministry for capital markets and thereafter by the grant of several tax concessions. I wish to thank the Hon. Prime Minister and Finance Minister Mahinda Rajapaksa, Hon. State Minister of Money and Capital Markets and State Enterprise Reforms Ajith Nivard Cabral and Mr. S.R. Attygalle, Secretary to the Treasury for their encouragement and support.

It has been a pleasure to work with the members of the Commission, whose wide and varied expertise and experience has contributed in no small measure to the conduct of affairs of the Commission. I extend my sincere thanks to them.

The Director General Mr. Chinthaka Mendis has worked tirelessly and has managed the affairs of the Secretariat most efficiently. The Directors and other members of the staff gave of their best and performed their duties most effectively notwithstanding the difficult times. I wish to express my deep gratitude to all of them. We have worked very closely with the Chairman, Board of Directors, the CEO and the other members of the staff of the CSE and wish to place on record my appreciation for the support and co-operation extended by them. Last but not least, I wish to thank all stakeholders for their unwavering support which made our task easier.



**Viraj Dayaratne, PC**  
Chairman

20th May 2021

## DIRECTOR GENERAL'S REVIEW



It is with much satisfaction that I review the transformative work undertaken by the SEC over the reporting period.

### RESILIENCE AMIDST A GLOBAL PANDEMIC

The year 2020 has been a landmark year. At first, it seemed as though we were in the midst of the worst of times, but looking back I would say that the past times have also been the best of times. I say this because the past year was the year in which the SEC set in motion long stagnated systems and efforts for the betterment of the country's securities market.

We had barely held office for a month when an island wide lockdown was imposed making it impossible for the country's securities market to open and function let alone operate in a fair and orderly manner. We were extremely concerned about the tremendous problems that would crop up as a result of this unprecedented situation. It was only in retrospect that we realized that the year 2020 has been unique with its fair share of ups and downs.

In the early months of the year 2020, prior to the first island-wide lockdown, Sri Lanka's securities market was severely affected by the pandemic just as other markets around the world. The All Share Price Index (ASPI) witnessed a decline of 25% prior to the island-wide lockdown during the first half of the year 2020. However, the market rebounded with resilience hitherto unseen surpassing its regional peers, thus ending the year 2020 on a remarkable note. Unlike in the first half of the year, in the post-lockdown era the ASPI witnessed a significant growth of 48% and the S&P Index grew by 35%. As a whole, the year 2020 could be considered to have made remarkable progress as indicated by the ASPI which recorded a growth of 10.5% in comparison to the modest growth of 1.2% recorded in the year 2019 and the

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*Just as water takes the shape of the container that it is poured into, we at the SEC were compelled to be willing to overcome obstacles by transforming threats to opportunities and weaknesses to strengths.*

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Chinthaka Mendis  
Director General

negative growth of 5% recorded in the year 2018. Sri Lanka also witnessed an daily average market turnover amounting to Rs.1.8 billion in the year 2020 which far supersedes the daily average market turnover of Rs.710 million and Rs.833 million generated in the years 2018 and 2019 respectively. During the same year, the industry also witnessed an increase in the number of new Central Depository System (CDS) registrations as a result of the digitalization of the securities market by the SEC in collaboration with the CSE. In 2020, the number of daily transactions doubled in comparison to that of the previous years and today, the number of trades ranging from 22,000 – 25,000 trades per day is almost five times more than the number of trades recorded in the year 2019. While statistics such as the above reveal how the country's securities market has performed against the odds, garnering local investor confidence in the market despite the year being mired by the repercussions of the pandemic, the securities market turnaround could be attributed to several reasons ranging from the upward re-rating of the market, new investors, low interest rates, listed companies performing better than expected despite COVID-19 and expectations that corporate profits would boom in the years to come.

One thing is for sure. None of the feats achieved by the country's securities market materialized out of thin air. It could be said with certainty that they would never have materialized if not for the continued effort put in by all the stakeholders of the market. In fact, for capital markets to do well, both investors and issuers should have trust and confidence in the market they trade in. The growth of the market as a whole, reflects the trust and confidence placed in the market and in the country as a whole. However, we have seen how a deficit of trust and confidence has affected our markets in the past. Thus, as I said before, at the SEC, we are

*The importance of adapting to the changes brought about by the pandemic, and safeguarding the industry's stakeholders for the sustenance, the SEC acted as both a protector and a facilitator.*

mindful of the fact that, we should never bring down the credibility of the market we regulate, as we need to protect the market and the interests of the investors.

Without digressing too much, if I may ask, why the US and the so-called developed markets of the world generated so much economic opportunity and wealth? The celebrated economist Douglass North, a recipient of the Nobel Prize examined this very question. In his words, what separates modern humans from the caveman is trust. He found that resources and technological innovations alone are not enough to drive a market economy to success, but legal tools like regulation and courts that will fairly enforce rules and regulations are necessary to bring confidence and predictability to make economic systems work.

Conversely, in those trying times, the SEC was compelled to unshackle itself from the traditional role it had played for many years and the conventional approach it had adopted all along. The necessity to recalibrate the SEC's role to facilitate capital formation, while striking the right balance between market regulation and market development was felt even prior to the pandemic. However, the desperate circumstances in which the SEC was expected to operate in made evident the fact that the SEC could no longer stand idle. Just as water takes the shape of the container that it is poured into, we at the SEC were compelled to be willing to overcome obstacles by transforming threats to opportunities and weaknesses to strengths. My SEC colleagues worked thoughtfully and carefully at remarkable speed to introduce measures to protect the market and to keep it functioning in light of the lockdown and its associated difficult conditions. Those performing key frontline functions of the SEC kept vital services running in rapidly changing circumstances.



## DIRECTOR GENERAL'S REVIEW

*In these unforeseen and unprecedented times, its enactment would not only be a victory hard won by the SEC, but a win for the industry and all its stakeholders as well as the country's economy.*

In this backdrop, I consider it an honor to recount in the following parts of this review, the successes of the SEC, achieved over a span of a year in extraordinary circumstances.

### **THE SEC AS A REGULATOR, PROTECTOR AND A FACILITATOR**

Having recognized and understood the importance of adapting to the changes brought about by the pandemic, and the importance of safeguarding the industry's stakeholders for the / sustenance of the country's securities market, the SEC acted as both a protector and a facilitator instead of confining itself to the traditional role of a regulator alone. It is in this role of protector and facilitator that the SEC enabled the provision of numerous relief measures (some of which are listed below) to stockbrokers/dealers, investors and other regulatees during the pandemic to help them stay afloat.

Relief was provided to public listed companies by granting an extension of time for complying with minimum public float requirements, submission of Annual Reports/ancillary reports and other relief measures for general compliances as required by the Listing Rules. Furthermore, specific guidelines were issued to regulate and monitor the credit exposure undertaken by stockbrokers/dealers to ensure that the market functioned with no hiccups. Margin providers were also monitored to ensure that margins were not extended. In addition to the above, the SEC intervened and granted a moratorium to the clients of all registered margin providers and licensed stockbrokers in relation to interest payable for credit while annual licensing/registration fees payable by market intermediaries for the year 2020 were deferred for a period of one year.

The above relief measures denote how the SEC ensured the smooth running of the securities market in a moment of crisis.

### **LAW AND POLICY FOR EFFECTIVE REGULATION**

Three decades from the enactment of the SEC Act of 1987, we are now at a juncture which calls for a more robust and facilitative law by which the capital market could be regulated. Despite having been in the pipeline for a considerably long period of time, the new SEC Act is soon to see the light of day. In these unforeseen and unprecedented times, its enactment would not only be a victory hard won by the SEC, but a win for the industry and all its stakeholders as well as the country's economy.

With its numerous salutary features, the new SEC Act envisages efficiency, predictability and consistency in regulation specifically ensuring that the sanctions imposed on wrongdoers are commensurate with the wrongdoings

committed by them. The new Act recognizes and enables the use of state of the art infrastructure and contains several features that will enable the development of the market. There will be benefits to the economy at large since the new law provides more options and opportunities for companies to raise funds to finance their businesses. It includes provisions that will afford more investment opportunities to the public, and these measures will ensure that the country achieves sustainable economic growth and development.

The new Law embodies all offences whilst the conduct that would amount to an offence have been spelt out with clarity. The exceptions and defenses available too have been specifically stated, thus taking away any ambiguity that prevails at present. The main market offences have been set out in a separate Part titled 'Market Misconduct'. This in turn is divided into two Chapters containing 'Prohibited Conduct' (false trading and market rigging, stock market manipulation, false or misleading statements, fraudulently inducing persons to deal in securities, use of manipulative and deceptive devices) and 'Insider Dealing' and such offences are to be tried by the High Court. A person convicted of such an offence is liable to a fine of not less than 10 million rupees or to imprisonment for a term not exceeding 10 years or to both such fine and imprisonment.

While the above briefly sets out the manner in which criminal offences have been dealt with by the new Law, it is pertinent to note that it also provides for civil remedies. In fact, a new feature that is to be introduced by the new Law is the right conferred on the SEC to institute civil proceedings in the Commercial High Court to recover damages or to seek the imposition of a penalty. Such proceedings could be instituted against a person who has committed a contravention under the part titled 'Market Misconduct'. The

decision of the Commission to institute such proceedings would depend on 'the nature and manner of the contravention, the impact it has on the market and the extent of the loss caused to any investor'.

Another important feature that has been introduced is the power of the Commission to impose 'Administrative Sanctions'. In terms of the present law, the Commission is not expressly empowered to impose penalties or other administrative sanctions although all contraventions are considered as offences. However, the new Law gives the Commission the discretion of a wide variety of administrative sanctions that can be imposed on any person, depending on the nature and manner of the contravention, non-compliance or breach and its impact.

The power of the Commission to take certain steps in order to protect assets of investors, power to issue 'freezing orders' during the course of conducting investigations or inquiry (valid for a period of seven days and thereafter to be confirmed by court), the power to apply to court seeking certain orders in situations of imminent violations (for a declaration that a securities transaction is void, directing a person to dispose of any securities, imposing a travel ban etc.) are some other powers that have been vested in the Commission.

The new Law has much to offer when it comes to the development of the market, and the following are some of the salient features introduced by the new Law;

- Markets, market institutions (Exchanges, Clearing Houses, and Central Depository) and market intermediaries have been clearly identified whilst the requirements to be satisfied to obtain a license, the services to be provided etc. have been specifically spelt out.

- A range of 'supplementary service providers' have also been identified and provisions pertaining to such service providers have been introduced.
- The recognition of market operators in the law has facilitated trading in unlisted securities on an additional trading platform.
- The Law provides for other collective investment schemes such as gold mutual funds, hedge funds etc. going beyond the presently available Unit Trusts.
- Derivatives, stock borrowing and lending, short selling etc. will enhance the liquidity levels in the market and its depth thereby benefitting long term investors.
- The introduction of market makers will ensure continued and efficient exchange of securities between buyers and sellers. This will provide liquidity and depth to the market and would encourage the setting up of exchange traded funds.
- The recognition of accredited investors will enable the safeguarding of non-sophisticated investors. This will facilitate the issue of high risk instruments to the market which can be made use of by those who can afford to take high risks.
- The introduction of provisions pertaining to whistleblowers to safeguard such whistleblowers and reward their conduct will result in market misconduct being dissuaded.

Another milestone that is on the verge of realization is the establishment of a demutualized stock exchange in keeping with global trends. The demutualization of the Colombo Stock Exchange envisages fairness in the market, while the involvement of a strategic investor is expected to bring about greater efficiency through its technical knowhow and infrastructure. It would be remiss on the part of the new Law if provisions had not been made to regulate such a stock exchange and it is due to this reason that the new SEC Act provides for the regulation of a demutualized stock exchange.

In addition to the above, the specific provisions by which market institutions, market intermediaries and supplementary service providers could be regulated so as to ensure that industry best practices would be followed by them while setting out the manner in which they could be dealt with by the SEC in the event of any breach on their part is yet another noteworthy salutary feature of the new Law. Owing to the new Law, the setting up of a Central Counterparty is expected to enhance the services of clearing and settlement with prudent risk management. Further, a series of new/amended rules and regulations are to be introduced no sooner the presently applicable Law is replaced. Among others, the capital market and all its stakeholders would undoubtedly benefit from a new and timelier Takeovers and Mergers Code.

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*We intend to make the capital market a place in which dreams become reality no matter how big or small for both investors and issuers.*

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## DIRECTOR GENERAL'S REVIEW

The year of 2020, unlike any other year has been a year of milestones for the SEC. The introduction of the Rules for Real Estate Investment Trusts (REITs) which were gazetted and thus, in effect from 31st July 2020, the Rules for market intermediaries such as Investment Managers, Margin Providers and Credit Rating Agencies which are to be introduced to the market in the near future, guidelines issued on best practices for stockbrokers/dealers required to safeguard investors and the three-tiered circuit breaker structure aimed at strengthening the capital market and ensuring that precautionary measures are in place to eradicate distortion in the value discovery process in the securities market are some of the key milestones achieved by the SEC in the year gone by.

A major win was achieved by the SEC with the revision of the Listing Rules to facilitate more relaxed rules to boost the Empower Board. This was followed by the very first listing of a SME in the empower board. In fact, the market welcomed the interest shown by large companies in the private sector for choosing to be listed and raise capital so that the companies could dream even bigger. It is important to note that these new issuers were heavily over-subscribed thereby proving yet again the trust vested upon the market by investors. It is in this backdrop that the SEC shows keen interest in facilitating approval to foreign funds to invest in the country as well.

### EMBRACING CHANGE POWERED BY NOVELTY

The SEC welcomed new business models and segments to be listed in the market by expanding the eligibility criteria applicable for the Main Board and DiriSavi Board listings. New business models such as service-oriented companies with a heavy reliance on human capital have benefitted immensely

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*We have opened the gateway for companies which carry brilliant ideas, be it entrepreneurs, small and medium scale enterprises (SMEs) or service sector companies to list at the CSE and to uncover its untapped potential.*

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by listing in the stock exchange to raise capital and scale up their businesses. In fact, business models which more often than not require minimum fixed assets have become the game changer in the global arena with record levels of growth and promise. A great example is the largest accommodation provider in the world: Airbnb, which own no real estate, yet was valued at USD 47 Billion. Airbnb surpassed USD 100 Billion in 2020 making it one of the largest Initial Public Offerings (IPO) in NASDAQ stock exchange in the United States of America. Similarly, the world's largest taxi company "Uber" which owns no vehicles was valued at over USD 75 Billion. It is ideas and dreams like these that require support to grow and the SEC can be the wind beneath their wings to help them fly high. We have opened the gateway for companies which carry brilliant ideas, be it entrepreneurs, small and medium scale enterprises (SMEs)

or service sector companies to list at the CSE and to uncover its untapped potential. For example, initiatives such as crowdfunding is an opportune venture that has now been made available in the market to raise capital. In addition, the revised listing framework that is on par with standards of other well-established global exchanges breathes new life into a novel breed of companies that are to be listed at the CSE and will certainly act as cornerstones in Sri Lanka's journey of economic development. This is exactly why we invite young entrepreneurs and SMEs to envision greater things for their start-ups and businesses by utilizing platforms, new products and schemes available in the exchange.

### DIGITALIZATION: THE MARKET AT YOUR FINGERTIPS

The securities market is on the verge of having a new face with the integration of digital technology. A joint committee with representatives from the SEC and the CSE under the leadership of Commission Members Mr. Naresh Abeysekere and Mr. Manil Jayasinghe has taken steps to revolutionize the market through digitalization and much gratitude is extended to them for their efforts and guidance in this regard. Amendments to the Stockbroker Rules, the CDS Rules and the Listing Rules have enabled the securities market to transition from a paper-based system to an electronic based system. A key achievement in the journey leading to complete digitalization of the market is the introduction of the CSE mobile app through which opening a CDS Account is now just a click away. The app also features the usability of e-contract notes, e-statements and the electronic bank transfers for the payments of dividends. In fact, the app has contributed to an increase of 63% in CDS Account openings thereby proving that digitalization is a much-needed requirement to improve the efficiency of processes and ensure consistency and quality.

Phase II of the digitalization operation is expected to be completed shortly. Undoubtedly, this will open an array of benefits and opportunities for investors. The shortening of the communication chain and the elimination of redundancies will contribute to the establishment of a very smooth system. Investors will be able to view their CDS Account statements via an e-portal and subscribe for IPOs and rights via the mobile app. Further, launching of the e-wallet which is expected to be completed in the near future will open up a vast array of investment opportunities to market investors as they will be able to channel their investments in a swift manner.

In addition, the internal teams of the SEC have also focused on the digitalization of both regulatory and administrative functions to operate through an almost paper-less environment. Deploying the required implementation architecture to enable this and thereafter transitioning to an automated workflow would certainly be a daunting task yet timely and necessary. A spectrum of user-friendly and standardized systems operating in real time will become available at your fingertips in due course.

#### **NEW PRODUCTS FOR A DYNAMIC MARKET**

Gold is considered to be an important part of a diversified investment portfolio. It is also regarded as a medium of mitigating market losses in times of market distress. Observing the massive demand in Sri Lanka for gold related products and investments, the SEC and the CSE have capitalized on this and are jointly finalizing the framework to introduce the trading of Paper Gold (PG) through the OTC platform. This initiative has heavily excited the market. The framework required to officially introduce PG is reaching finalization and is also anticipated to create a new source of income in terms of tax revenue for the government.

The SEC strives to remain abreast with new market developments occurring around the world. Another new product that has stirred interest in the market is the enabling of new listings under the novel category of Special Purpose Acquisition Companies (SPACs) which is trending in the west, particularly in the US Market. The framework has already been finalized and the CSE will start the implementation process thereby opening a window of opportunities for promising entrepreneurs creating a new era in capital formation.

#### **SECURING STABILITY THROUGH ENFORCEMENT**

Over the past year, the surveillance, supervision, and investigations divisions were strengthened where enforcement was made through a lens of pro-action, prevention and prudence. For instance, the surveillance division flagged around 124 observations on day-to-day trading and took enforcement action ranging from including referrals, informing the compliance officers or a higher authority, issuing warnings to investment advisors, suspension of online trading facilities, calling parties to show cause and instituting criminal suits or proceedings. Such pro-active measures proved to be highly effective in significantly reducing market misconduct. In addition, an important step was taken by launching the 'surveillance handbook' which spelt out the dos and don'ts on the trading floor and in the market as a whole. This collation in fact helped market actors to follow more streamlined processes and to take more informed decisions in order to avoid market misconduct. The investigations division has continued to work hand in hand with the surveillance division forming a joint task force to expedite the cases. However, what is most noteworthy is the adaptation of the Surveillance Division to the increased demand in light of the Average Daily Trading figure of 3000 that existed

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*The SEC strives to remain abreast with new market developments occurring around the world.*

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prior to the year 2020 multiplying by ten folds. It was a systemic compulsion to instantly increase capacities to be able to monitor the voluminous trading that is happening post 2020 with an average of nearly 30000 trades happening per day. To cater to this fully agile and robust marketplace, procuring a new surveillance system has been mandatory and the SEC has even explored options of incorporating Artificial Intelligence (AI) and state of the art analytical tools to its systems to better serve its stakeholders. The procuring of the new advanced surveillance systems will be in place within 2021.

#### **STRONGER FOUNDATIONS WITH ROBUST INFRASTRUCTURE**

The highlight of the new enabling infrastructure is the CSE's Delivery vs Payment (DvP) system with the aim of reducing risks and to facilitate new products/platforms to the market. This will reduce post-trade risks that are inherent in the market. In fact, we are pleased to state that this would also act as a partial fulfilment of the requirements needed to elevate itself to the status of an emerging market. This will lay the foundation for the market to have a full-blown central counter party (CCP) system in the future.

## DIRECTOR GENERAL'S REVIEW

*At the SEC we believe that effective stakeholder engagement allows them to raise their concerns and views in relation to particular policies and regulations.*

The finalization of the policy structure with the CSE to capacitate repurchase agreement (REPO) transactions on corporate debt securities through an Over the Counter (OTC) platform is yet another milestone to support the SEC's vision to take the securities market in the country to the next level. In addition, the CSE has also been on board in amending the listing framework with a view to broaden the regulatory makeup specifically in terms of making initial listing processes more smooth and efficient. Further, another enabling infrastructure is the amendment of the tick size of the Automated Trading System (ATS) to increase the liquidity of the market.

### STAKEHOLDER ENGAGEMENT FOR MARKET DEVELOPMENT

The SEC constantly engages with its stakeholders in finalizing policies and in bringing new regulation to the market. As such the SEC has continued to make representations to the government to cater to the best interests of the

stakeholders at large. Accordingly, the SEC is pursuing the possibility of granting tax incentives as a means of incentivizing new listings for the newly introduced Sri Lanka Real Investment Trusts (SL-REITs). Further, in the advent of attracting new investors to the securities market, multiple efforts have also been made to actively engage all stakeholders specially to tap into the target groups that are not involved in the securities market.

At the SEC we believe that effective stakeholder engagement allows them to raise their concerns and views in relation to particular policies and regulations. Continuous dialogue with market participants allows the SEC to gauge the pulse in the market and allows the participants to be abreast in relation to new policy and regulatory initiatives that unfold in the securities market. The SEC continues to engage with the CSE, Stockbrokers, Margin providers, Unit Trust companies, Public Listed Companies etc. in implementing such policies and regulations. The introductions of the 'Stockbroker Best Practice Guideline', the 'Corporate Governance Code' (currently under progress) are a few examples of such measures.

### EXPANDING THE SECURITIES MARKET FOOTPRINT

Educational and awareness sessions among the general public are carried out under the direction of a joint committee appointed by the Chairman of the SEC inclusive of representatives from the CSE. Together with the NIE, the SEC has worked towards introducing the securities market as a subject to the student education curriculum from the year 2023. Furthermore, the SEC has had continuous dialogues with private companies with a potential of listing in the securities market in its efforts to attract new investors and companies.

For the first time in the history of the SEC, the Capital Market Education and Awareness arm launched social media platforms on Facebook, Twitter and YouTube with a view of raising awareness among a diverse range of market participants in three languages i.e. Sinhala, Tamil and English. An estimated amount of over 36% of the population in Sri Lanka uses social media platforms with a majority being the youth. Therefore, we believe that social media is the ideal platform to attract a new breed of investors to the market making investing in the securities market a household practice in Sri Lanka. In addition, one of the latest initiatives jointly spearheaded by the SEC and the CSE is to welcome different service providers to connect investors from all parts of the island to the securities market through authorized mechanisms. For example, Dialog Axiata PLC, one of the leading telecommunication service providers in Sri Lanka recently joined hands with the CSE to explore avenues in roping potential investors to the market and to broad base the market to the general public.

The SEC is also taking proactive steps to engage the Sri Lankan diaspora abroad and other foreign investors through a platform established via Sri Lankan embassies situated in Japan, Singapore etc. We have understood that creating awareness to attract foreign portfolio investments (FPIs) to the country is in fact a priority to expand the current investor base and to welcome diversity.

### COLLABORATION TO BOLSTER IMPACT

Multilateral and bilateral development partners bring in an array of resources, expertise and opportunities to the table. The Capital Market Development Programme (CMDP) initiated by the Asian Development Bank (ADB) is a policy-based loan and technical assistance programme provided to

the government of Sri Lanka. Specific technical assistance has been granted to the SEC in relation to drafting the Collective Investment Schemes (CIS) Code, the demutualization of the CSE, the revamping of the capital market certification process, the enhancing of financial literacy and outreach for unit trusts, the introduction of Islamic Products, Equity Crowdfunding, Structured Warrants and Green Bonds, the revamping of the Takeovers and Mergers Code in line with international best practices. The highlight in relation to the collaboration with the ADB, is the finalization of the Capital Market Strategy for the period 2021-2025 with regulatory and operational goals and key performance indicators. This action plan will determine the trajectory of the capital market in Sri Lanka for the next five (5) years and will serve as a metric system to gauge result-oriented progression. Further, under the auspices of the ADB the Capital Market Advisory Council (CMAC) was reconvened under the leadership of Hon. State Minister of Money, Capital Markets and State Enterprise Reforms, Ajith Nivard Cabraal.

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*Collaboration has offered to us multiple benefits and we are keen on building upon these partnerships to strengthen the securities market in Sri Lanka.*

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The CMAC being a multi-stakeholder high level body inclusive of regulators, the Central Bank of Sri Lanka (CBSL), the SEC, the Insurance Regulatory Commission of Sri Lanka (IRCSL), Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB), Employee Provident fund (EPF), CSE etc. provides strategic direction in policy formulation and facilitates inter-agency coordination to track advancement in the long-term CMDP led by the ADB. Moreover, the ADB has also assisted in conducting surveys and needs assessments such as surveys on the demand for derivative products to identify the existing gaps in the market.

Secondly, the World Bank has collaborated on a project with the aim to enhance financial market stability and depth. Specific focus areas on this include modernizing financial market infrastructure, strengthening the institutional capacity of financial sector regulators and upgrading legal and regulatory frameworks required for the financial system. In this context, the SEC has identified key areas that require support with regard to consultancy for implementing an institutional IT strategy, consultancy for surveillance, the development of an institutional Human Resource (HR) strategy including capacity building training and development of HR staff, capacity building of Investigations and Enforcement divisions and consultancy for implementing risk-based supervision. Collaboration has offered to us multiple benefits and we are keen on building upon these partnerships to strengthen the securities market in Sri Lanka.

#### **THE WORKFORCE: AN INCOMPARABLE ASSET**

At the SEC, we consider all of our staff members as our extended family and our most valuable asset. We are committed to ensure their safety, health and well-being while working to deliver an optimal service to our stakeholders.

As the COVID-19 pandemic struck we took a number of precautionary measures to safeguard the health and safety of our staff members. At the SEC we understand that a motivated and contented staff is key to surmount the challenges faced during the COVID-19 pandemic and to adapt to operationally challenging situations. As it has been stated, your customers will be treated by your employees based on how well they are treated by you because people flourish when they are praised and appreciated. I am pleased to announce that staff promotions were conducted during the year to strengthen the vitality of the operational capability of the SEC after a very long time. In addition, the SEC also recruited new staff in order to enhance its institutional capacity. It is in this setting that I am pleased to state that amidst the pandemic we continued to provide uninterrupted services to our stakeholders. In light of the above I would like to take this opportunity to thank the staff for extending their sincere cooperation in overcoming the challenges that were posed in these trying times.

#### **WORKING WITH A FUTURISTIC ATTITUDE**

COVID-19 will remain a problem for a long time. Yet, we will have to learn to live with COVID-19 for quite a while as we have done in the past with other situations. It is in fact the most dangerous crisis humanity has faced in a very long time. Because of COVID-19, the global economy has virtually come to a halt. Governments have spent trillions of dollars to support businesses, economies and jobs. Yet, tens of millions of jobs have been lost. Families are experiencing hardship and we are facing a totally unprecedented situation.

Our economy has taken a severe hit too. Right now, we are experiencing the worst contraction our country has ever experienced. Our country relies

## DIRECTOR GENERAL'S REVIEW

heavily on tourism, foreign remittances and investments which have all been affected severely by the pandemic. It will take a while for our country's economy to return to normalcy as it was in the pre-COVID 19 era. However, despite these immense challenges, the country will not falter in its onward march.

Firstly, we should get connected to the global flows of trade, investment, capital and people. New norms in international trade and investment channels are likely to open up and there will be new markets, and opportunities for international partnerships. The country is well placed to connect itself to the new channels and flows, and create new businesses and jobs to replace those lost. We just have to work harder and smarter to achieve this goal.

In a troubled world, investors will value the assurance of a market that plays by the rules. The way the SEC has responded to COVID-19, effectively and responsibly, neither avoiding reality, nor acting arbitrarily at the first sign of trouble has strengthened this advantage. All this has enabled us to stand out in Asia and the world. Nobody can predict what exactly the world will look like after COVID-19 but no matter how things turn out to be, new economic developments world over will provide us with numerous opportunities and it is imperative for us to pursue them even more vigorously now.

Next, we are working hard to retain and attract talent and investments to contribute to our recovery. At a time when some countries are closing their doors, we are keeping ours open. By making the most of the present circumstances, our workers and industries will survive the crisis, and bounce back faster and stronger.

Third, we need to have flexible, timely and effective plans to cope with the challenges before us.

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*What the pandemic did with all its encumbrances was that it unleashed our deep-seated desire to transform Sri Lanka's securities market into a technologically advanced, competitive and lucrative securities market in line and in keeping with international standards.*

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For our plans to succeed and for our hopes and dreams to come true, we need one final ingredient: the unity and resilience of our people. Once in a while, nations and people are severely tested, as we are now. Some buckle under pressure and emerge defeated in the face of crises. Others grow more determined as they face fearful odds, discovering reserves of strength within themselves, thus emerging transfigured and renewed. The latter has been our story and has to be in the years to come: in crises, we have never failed to wrest opportunity from danger.

Now, at another point in our history, it is our turn to face the crisis of a generation. The choices that we make now will define who we are as a country, and what values and ideals we pass on to future generations. Over the period, investor confidence has increased immensely and the country is embarking on economic reform. It is poised for continued growth in 2021 and the years to come. I believe we can continue to be exceptional, where everyone can chase their dreams. The SEC, with the support of the whole industry, will do its best to lead us towards this enduring vision of what Sri Lanka can be. We need every one to work with us. Together, let us take the country safely through this crisis, and make our spirit flourish in the world.

If there is one thing to be understood by looking at the work undertaken by the SEC in the past year and the successes achieved, it is the fact that the SEC is on a journey towards change. No change is possible without the will to bring about change. You need to act accordingly and make things happen. What the pandemic did with all its encumbrances was that it unleashed our deep-seated desire to transform Sri Lanka's securities market into a technologically advanced, competitive and lucrative securities market in line and in keeping with international standards. The pandemic prompted us to finally make all that we envisaged for the SEC and the country's securities market a reality. It could be said with assurance that the SEC will strive to offer even better prospects to existing and potential investors both local and foreign by creating a conducive environment for investment. We will strive to create a securities market that would enable both established and upcoming entities to view Sri Lanka's capital market as a platform for growth and development. We intend to make the capital market a place in which

dreams become reality no matter how big or small for both investors and issuers. As the regulator of the market, we are aware of the perils of over regulation and thus we continuously strive to strike the right balance while we remain committed to integrating sustainability into Sri Lanka's capital market. In that regard, I am also pleased to acknowledge the tireless work of the CSE team, particularly the Chairman of the CSE, Mr. Dumith Fernando, Chief Executive Officer Mr. Rajeeva Bandaranaike and Chief Regulatory Officer Mr. Renuke Wijayawardhane for their measured and confident leadership as the CSE has ensured the close partnership of the two institutions, and I look forward to working together continuously.

As I have said before, we no longer believe in solely confining our self to the traditional role of a regulator although regulating lies at the heart of the SEC's functions. None of what the SEC has achieved would have been possible if not for the continued guidance and support extended by the Hon. Prime Minister, Mahinda Rajapaksa, Minister of Finance, Hon. Ajith Nivard Cabraal, State Minister of Money & Capital Market and State Enterprise Reforms, Hon. P. B. Jayasundera, Secretary to the President, Mr. S. R. Attygalle, Secretary to the Treasury and Mr. Priyantha Ratnayake, Secretary of Capital Market and State Enterprise Reforms.

The year 2020 has been far from easy, but the dedication of the staff at the SEC who worked and continues to work tirelessly amidst the many obstacles is a testimony to our solid commitment and dedication towards achieving the vision of the SEC. Let me take this opportunity to sincerely thank our Chairman Mr. Viraj Dayaratne PC for his wise counsel and unfailing support extended at all times. I thank him sincerely on behalf of the

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*Why the US and the so-called developed markets of the world generated so much economic opportunity and wealth? The celebrated economist Douglass North, a recipient of the Nobel Prize examined this very question. In his words, what separates modern humans from the caveman is trust.*

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Secretariat and also on a personal level for the trust and confidence placed in us. I would also like to thank the Members of the Commission for their unwavering support, sound advice, collective expertise and for the sacrifice of their personal and professional commitments in the process.

I take great pleasure in inviting the public and the private sector to engage with Sri Lanka's securities market as it has the capability of transforming

and enriching your organization in numerous ways. There is no better time than now to join hands with the SEC as we head towards re-defining a future that is guided by big dreams and their fulfilment. To all stakeholders of the industry, these times may test your resilience as it has ours, but do not falter in the face of uncertainties which may head in your direction. Do not let them stifle your dreams but make out of them opportunities, for those who dare to dream no matter what the circumstances are those who achieve the extraordinary!



**Chinthaka Mendis**  
Director General

20th May 2021

## MEMBERS OF THE COMMISSION



**Seated Left to Right:**

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

**Standing Left to Right:**

Mr. Sunil Lankathilake, Mr. Priyantha Rathnayake, Mr. Naresh Abeysekera,  
Mr. Sisira Ratnayake, Mr. Suhada Gamalath  
*Absent:* Mr. N.W.G.R.D. Nanayakkara



## MEMBERS OF THE COMMISSION

### MR. VIRAJ DAYARATNE, PC

#### Chairman

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

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

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

Mr. Dayaratne is a visiting Judge of the Court of Appeal of the Republic of Fiji and an Adjudicator of the Panel of Adjudicators of the Asian International

Arbitration Centre (AIAC) in Malaysia. He is also a member of the Faculty Board of the ICLP Arbitration Centre and functions as a visiting Lecturer in Construction Arbitration and Adjudication.

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

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

He has been a member of various project committees and amongst them were the Project Committees that drafted the Project Agreements in respect of the Mahaweli Mini Hydro Power Project on a BOO / BOOT basis and the Kilinochchi District Electrification Project on a BOO basis and was a member of the Sri Lanka government delegation that negotiated the Bilateral Investment Agreement between Sri Lanka and Oman. He has represented the government at many international conferences and has contributed articles on varied subjects of the law to many publications. The Public Service Commission (PSC) released him from the Attorney General's Department to take up duties as Chairman of the SEC.

### MR. MANIL JAYESINGHE

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

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

He presently serves as:-

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

He has served as the Chairman of the Examination Committee of CA Sri Lanka, Alternate Chairman of the Statutory Accounting Standards Committee over the past year, Member of the Board of International Accounting Education Standards Board of International Federation of Accountants, and Member of the Council of the University of Moratuwa.

**MR. SUHADA GAMALATH, PC**

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

**MR. R.M.P. RATHNAYAKE**

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

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

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

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

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

**MR. SISIRA RATNAYAKE**

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

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

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

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

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

**MR. SUNIL LANKATHILAKE**

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

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

During his 32 year career in the CBSL, Mr. Lankathilake has participated in a large number of international training programmes conducted by reputed training providers such as IMF, World Bank, ADB, University of Cambridge etc. in the areas of Macroeconomic Management, Macroeconomic Modelling, Financial Programming, Trade Policies, Competitiveness, Project Management, Foreign Investment, Strategic Planning and Management, Human Resource Management and Communication Policy. Mr. Lankathilake has also served as a member of the Board of Directors of Sri Lanka Export Credit Insurance Corporation, Board of Management of the Title Insurance Fund of Registrar General's Department,

## MEMBERS OF THE COMMISSION

National Labour Advisory Committee, and several other committees representing the CBSL. Mr. Lankathilake has also represented CBSL in several government missions and negotiating teams especially in the areas of banking relationships, investment promotion and economic and technical co-operations. Mr. Lankathilake has authored many articles and published them in reputed international and local journals and CBSL publications particularly in the areas of economic issues, small-scale industries, international trade, gem industry, apparel industry etc.

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

### MR. NARESH ABEYSEKERA

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

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

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

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

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

### MR. N.W.G.R.D. NANAYAKKARA

Mr. Nanayakkara currently holds the position of Deputy Governor of the Central Bank of Sri Lanka. He has over 27 years of experience in the Central Bank especially in the areas of Supervision and Regulation of Banks, Foreign Reserves Management and International Operations, Implementation of Monetary Policy and related domestic operations, Macroprudential Surveillance, Regional Development and Public Debt Management.

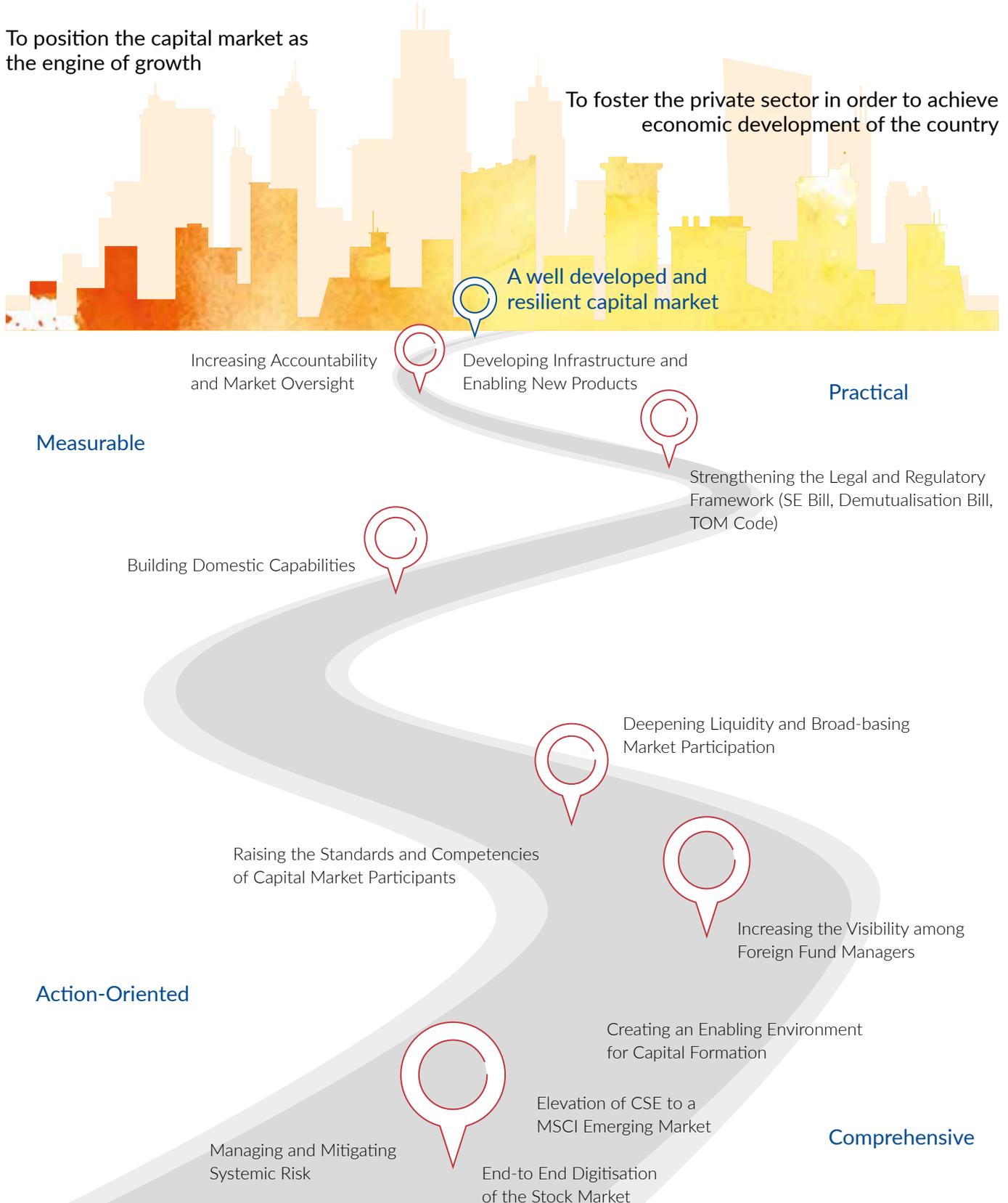
Mr. Nanayakkara holds a Master of Science degree in Finance from the American University, Washington DC and a Bachelor of Science degree in Business Administration from the University of Sri Jayawardenapura. He is a Fellow member of the Institute of Certified Management Accountants of Sri Lanka (FCMA), Associate member of the Institute of Chartered Accountants of Sri Lanka (ACA) and a Certified Financial Services Auditor of the Institute of Internal Auditors of USA (CFSA).

# COMPREHENSIVE, ACTION-ORIENTED, PRACTICAL AND MEASURABLE CAPITAL MARKET STRATEGY 2020 - 2025

WHICH IS CURRENTLY BEING IMPLEMENTED BY THE SEC

To position the capital market as the engine of growth

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



# KEY REGULATORY AND DEVELOPMENT STRATEGIES

## WHICH ARE BEING EXECUTED BY THE SEC

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

- Submission of the new Securities and Exchange Commission Bill to Parliament
- Appraisal and revision of the Listing Rules of the CSE
- Review of all Rules pertaining to market intermediaries
- Review of the Corporate Governance Code in line with principles set out by the OECD
- Review of the Unit Trust Code
- Finalisation of the new Takeovers and Mergers Code
- Formalisation of the legal structure of securitisation

- Upgrade the surveillance system with advanced functionalities for the effective monitoring of trading
- Development of a comprehensive framework of financial surveillance of Listed Entities
- Casting duties on supplementary service providers to ensure accountability
- Enhancing the SEC oversight of all capital market institutions and intermediaries
- Introduction of an effective deterrence mechanism for curbing capital market misconduct
- Prompt investigations of market offences

- Enhancement of fit and proper standards for capital market institutions, market intermediaries and listed companies
- Standardisation of documentation pertaining to market participants
- Review and upgrade prevailing qualification criteria for capital market participants
- Development of a multilayered licensing framework to accommodate all asset classes
- Evaluation of the feasibility of introducing Global Investment Performance Standards (GIPS) for unit trust managing companies and investment managers
- Enhancement of KYC requirements applicable to regulatees of the SEC to address money laundering
- Categorisation and disclosure of financially-challenged companies
- Development of guidelines for share valuation with respect to regulatory requirement

- Facilitation of the implementation of a Delivery vs Payment (DvP) and a Central Counterparty (CCP) mechanism
- Development of a risk-weighted capital adequacy framework for capital market institutions and intermediaries
- Development of a risk-based assessment framework for on-site supervision





## SEC/CSE JOINT COMMITTEE TO DIGITALIZE THE END-TO-END OPERATIONS OF THE STOCK MARKET

Mr. Viraj Dayaratne, PC Chairman, SEC appointed a Joint Committee comprising of the Commission Members of the SEC and its officials and Board Members of the CSE and its officials to take steps to digitalize the end to end operations of the stock market.



### Seated Left to right:

Mr. Rajeeva Bandaranaike – Chief Executive Officer CSE, Mr. Manil Jayasinghe – SEC Commission Member, Mr. Naresh Abeysekera – SEC Commission Member & SEC/CSE Joint Digitalization Committee Chairman, Mr. Chinthaka Mendis – SEC Director General, Mr. Jayantha Fernando – CSE Board Member, Mr. Dilshan Wirasekara – CSE Board Member

### First line standing left to right:

Ms. Kaushalya Wijesiri – SEC, Ms. Sharmila Panditaratne – SEC, Mr. Randika Silva – SEC, Mr. Rasika Walpitagama – SEC, Mr. Prabash Wanigatunge – SEC, Dr. Harshana Peiris Suriyapperuma – SEC, Mr. Chandrakanth Jayasinghe – CSE, Mr. Renuke Wijayawardhane – CSE, Mr. Tushara Jayaratne – SEC

### Second line standing left to right:

Mr. Niroshan Wijesundere – CSE, Mr. Kaushal Siriwardena – CSE, Mr. Sheraj Obeyesekere – CSE, Ms. Koshila Alwis – CSE, Mr. Maalik Ibrahim – CSE, Mr. Indrajith Karunasena – CSE, Mr. Nadeera Asanga Athukorale – CSE

## REACHING EVERY SRI LANKAN THROUGH DIGITALIZATION

*An End-to-End interactive Investor On-boarding process has been designed to enhance the investment experience and to facilitate instant trading eliminating all manual processes for faster investment enablement from anywhere with a Sri Lankan NIC and Bank Account.*

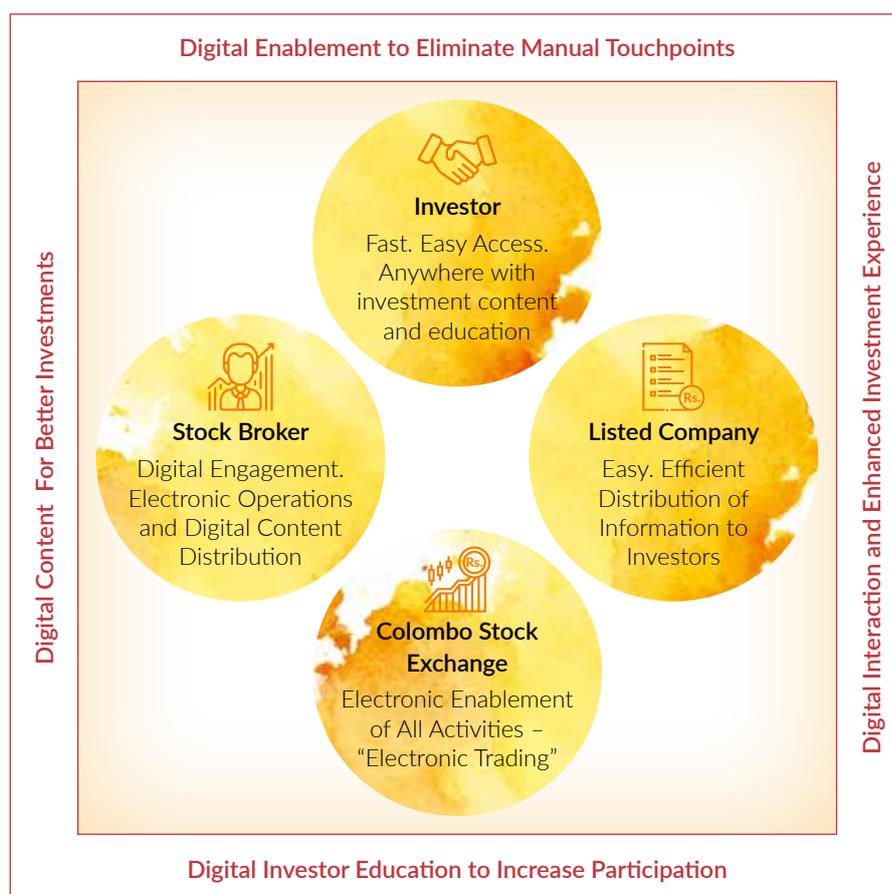
The SEC-CSE joint Committee was an initiative by the SEC to commence the Digital Transformation of the capital market in Sri Lanka to enable every Sri Lankan to instantly access the Colombo Stock Market from anywhere.

The committee set out its broad agenda of Digitalization of the Stock Market with the key enablers outlined in the diagram.

The outcomes of the digitalization efforts of the committee over the last 3 months in Phase 1 is outlined in the table below that will create a strong digital infrastructure to ensure growth, access, education and content distribution that will move the market into a robust and efficient stock market system.

The committee will continue to bring innovative technology infrastructure to cover all segments of capital raising to fuel growth, innovation, and development through effective and efficient raising of patient capital to support the national agenda to support entrepreneurship and be a engine that facilitate new thinking.

The Securities and Exchange Commission of Sri Lanka has done a detailed study on the recommendation



of the Task Force on Digitalization together with the Colombo Stock Exchange to establish futuristic rule changes to facilitate the entire Digitalization process and design the future of the entire Capital Market System to build the “Next Generation Capital Market Technology Infrastructure”

## REACHING EVERY SRI LANKAN THROUGH DIGITALIZATION



	INVESTOR	LISTED COMPANY
<p><b>Online CDS Account Opening in less than 5 minutes</b></p> <p>"An End-to-End interactive Investor On-boarding process has been designed to enhance the investment experience and to facilitate instant trading eliminating all manual processes for faster investment enablement from anywhere with a Sri Lankan NIC and Bank Account"</p>	<p><b>Online Account Opening To facilitate a enhanced investment experience for fast trading with the following features</b></p> <ul style="list-style-type: none"> <li>• <b>Digital On-Boarding:</b> Online CDS Account Creation and End to End Investor Digital on-boarding with eKYC in less than 5 minutes from anywhere.</li> <li>• <b>Bio Metric Authentication:</b> Access via bio-metric identification for enhanced security.</li> <li>• <b>Automated NIC Verification (1st Time in Sri Lanka):</b> Direct automated NIC Verification with Department of Registrar of Persons (DRP).</li> <li>• <b>Interactive Step-by-Step Account Creation via email and SMS.</b></li> </ul>	<p><b>Online Account Opening process will validate critical information like email and mobile numbers to establish a direct communication with the investor</b></p> <ul style="list-style-type: none"> <li>• <b>Annual Reports Distribution:</b> Availability of email addresses to dispatch the Annual Reports, Quarterly Accounts and other materials in the prescribed manner of dispatching. This will reduce compliance costs for listed companies.</li> <li>• <b>Electronic Dividends Payments:</b> Availability of Bank Account details of the shareholders to pay dividends within 02 days after the date of payment. This will reduce compliance costs.</li> </ul>
<p><b>Digital Interactive and Communication Services</b></p> <p>"Communication with shareholders and investors have reached new heights in instant communication in multiple digital forms"</p>	<p><b>Instant Communication with the investor and shareholder in multiple digital forms</b></p> <ul style="list-style-type: none"> <li>• <b>SMS:</b> CDS generated Automated day end SMS Transaction Summary.</li> <li>• <b>InApp Messaging:</b> All announcements, alerts and notification vial in app messaging.</li> <li>• <b>Email:</b> CDS Statements, Broker Statements, Notifications and Alerts.</li> <li>• <b>Annual Reports:</b> Sent via email and InApp Messaging through the New CSE App.</li> <li>• <b>Siri and Alexa (AI Assistants):</b> By end Sep 2020 - launch the interactive AI Assistants "Siri" and Alexa will be integrated to the database to check market movements through verbal interaction.</li> </ul>	<p><b>Fast Digital Annual Report Distribution:</b></p> <ul style="list-style-type: none"> <li>• <b>Shareholder distribution of Annual reports through In App Messaging and Email distribution in Minutes. Rules have been amended to accommodate any electronic form.</b></li> </ul> <p><b>Instant Digital Announcements of Listed Companies</b></p> <ul style="list-style-type: none"> <li>• <b>All Dividends, Directors and any other company announcements can be made via In App messaging and Digital Notifications instantly.</b></li> </ul>
<p><b>Digital Publishing of Article and Video Content</b></p> <p>"Digital Content in Article and Video form can be listed in the new CSE to have all investment information including access to Market Data in the "Palm of the Investors Hand"</p>	<p><b>Information For Better Investment Decisions</b></p> <p>Listed Company, Economic and International Market updated that has a impact for better informed investment decisions now in the "Palm of the Investor Hand" via the new CSE App including the following:</p> <ul style="list-style-type: none"> <li>• <b>Investment Research Reports</b></li> <li>• <b>Listed Company CEO Interviews</b></li> <li>• <b>Economic Updates</b></li> <li>• <b>Central Bank Updates</b></li> <li>• <b>Budget and Policy Updates</b></li> <li>• <b>IPO Company Content</b></li> <li>• <b>Market Data:</b> Instant access to historic market information via the App that will facilitate better decisions</li> </ul>	<p><b>Digital Publishing of Listed Company Content:</b></p> <ul style="list-style-type: none"> <li>• <b>Content in Video Form and Article From can be published in the New CSE App on new company information, CEO interviews, Product Launches, Strategic Updates at no costs directly through the new CSE App to communicate directly with shareholders and investors in the single information repository. This in turn will reduce the compliance and investor relations costs to listed Companies.</b></li> </ul> <p><b>Quarterly Updates of Listed Company's</b></p> <ul style="list-style-type: none"> <li>• <b>Any investor and shareholder updated that needs to be communicated with regards to the listed company can instantly be sent to the CSE and published in the new CSE app with investor alerts.</b></li> </ul>



### STOCK BROKER

Enabling Stock Brokers to Digitally acquire new investors through online account creation, digital content distribution and linking it to their own website and social media pages

- **Virtual Branches:** Virtualization of Broker Branches without the need for physical branches.
- **Digital Content:** Direct distribution of broker research report and investor content at no costs.
- **Social Media Integration:** Ability to engage potential investors through social media and immediate online end-to-end CDS account creation.
- **In App Messaging:** Engage clients direct through CSE's new app.

Stock Broker - Client interactives can be now done digitally in multiple forms of communication for efficiency and ease including market updates and rule changes etc.

- Communicate with the Stockbrokers via the in-app.
- Ability to send the statements of accounts via email.
- Ability to send contract notes via email.
- The CDS generated automated SMS on transactions establishes more governance in the investment process as a independent third party confirmation that will help build the client broker relationship.

Brokers to publish their investment content and research material for investors to access and make a informed better investment decision

- Ability to publish research material to create greater investor engagement.
- Ability to use digital platforms targeting the potential and the existing investor communities.



### STOCK EXCHANGE (CSE)

Establish a Direct link with the investor to distribute account statements electronically fast and easy

- **CDS Statements:** Ability to send the CDS monthly statements within few days.
- **Digital Investor Interaction:** Interact with the investor digitally through InApp messaging, SMS or email.
- **Investor Portfolio:** In the next few moths the launch of "e-Connect" will give access to the investor to view their CDS account with other value added features like portfolio transfers electronically.

Manual account statements and communications have been converted to full digital form

- Monthly, quarterly and annual statements can be emailed, thus reducing the cost of printing, stuffing and postage cost.
- Digital storage of securities account opening forms of securities accounts registered.

CSE to launch information services that will enable investor development for greater participation and better more informed investment decision making

- SEC Educational You Tube Channel: Ability to publish educational materials via YouTube and other digital platforms to educate investors and interact with via feedback and comments to build investor driven content.
- Listed Company CEO interviews for greater investor visibility.
- Economic and industry expert content investments based on fundamentals.

## HYPER-LEAP TO THE FUTURE

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*The digitalization of the end to end operations of the stock market was launched on 17th September 2020. The launch event themed “Hyperleap to the future” was held under the patronage of the Prime Minister Mahinda Rajapaksa.*

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## SENIOR MANAGEMENT



**Standing Left to Right:**

**Miss. Madhugayanie Balapitiya** - Assistant Director, Human Resources and Information Technology

**Mr. Suneth Perera** - Assistant Director, Supervision

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

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

**Mr. Chinthaka Mendis** - Director General



**Standing Left to Right:**

- Dr. Harshana Peiris Suriyapperuma** - Director, Corporate Affairs and Acting Director, Supervision  
**Mr. Prabash Wanigatunge** - Director, Surveillance and Acting Director, Capital Market Development  
**Mr. D.M.G. Priyantha** - Assistant Director, Investigations  
**Miss. Manuri Weerasinghe** - Assistant Director, Corporate Affairs  
**Mrs. G.P.N. Dilhani** - Director, Finance  
*Absent:* **Mr. Dhammika Perera** - Deputy Director General

## SENIOR MANAGERS



**MRS. SAJEEWANI BAKMEDENIYA**  
Senior Manager, Capital Market  
Education



**MRS. RANMINI JAYATHILAKE**  
Senior Manager, Information Technology



**MISS. SHARMILA PANDITARATNE**  
Senior Manager, Legal and Enforcement



**MRS. SAUMI KODIPILY**  
Senior Manager, Supervision

## MANAGERS



**MRS. THAKSHILA FRANCIS**  
Manager, Capital Market Development



**MISS. MEKHALA JAYAPALA**  
Manager, Corporate Affairs



**MR. NIMAL KUMARASINGHE**  
Manager, External Relations



**MISS. SHEENA GOONARATNA**  
Manager, External Relations



**MRS. LAKSHMI WICKRAMANAYAKE**  
Manager, Finance and Administration



**MRS. ASHOKA DAYARATHNE**  
Manager, Human Resources



**MRS. ANULA WIJESINGHE**  
Manager, Investigations



**MRS. PRATHIBHANI HERATH**  
Manager, Supervision

*Absent:* Mr. R.K. Wasantha Sunimal - Manager, Investigations, Mrs. P.M. Niroshika Udayanganie - Manager, Legal and Enforcement, Mrs. Manjula Chandraratne - Manager, Supervision

## STAFF MEMBERS

### Capital Market Development Division



**MRS. OLIVI SOLANGAARACHCHI**  
Senior Assistant Manager



**MR. DASUN PERERA**  
Assistant Manager

### Chairman's Office



**MRS. SHAMILKA KARUNANAYAKE**  
Assistant Manager

### Corporate Affairs Division



**MRS. KRISHANTHI MUTHUTHANTHRIGE**  
Senior Executive Secretary



**MISS. MARIAN G. SANDANAM**  
Senior Assistant Manager



**MRS. SAMANTHI GUNAWARDANA**  
Senior Assistant Manager



**MISS. SEMINI DIANIKA**  
Assistant Manager



**MRS. SARANYA ANUTHINAN**  
Assistant Manager



**MISS. K.M. SHANIKA GUNASINGHE**  
Assistant Manager

Director General's Office



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Senior Assistant Manager



**MR. RASIKA WALPITAGAMA**  
Assistant Manager



**MISS. ASHARA SENEVIRATNE**  
Assistant Manager

External Relations Division



**MRS. NISHOKA JAYATHUNGA**  
Executive Secretary



**MR. M.A. IMRAN**  
Senior Assistant Manager

Capital Market Education Division



**MRS. J.K. PRIYADARSHINI**  
Senior Assistant Manager

Finance and Administration Division



**MISS. DULARI MUHANDIRAM**  
Assistant Manager



**MR. GAYAN LOKUGAMAGE**  
Assistant Manager



**MR. A.C. DIAS**  
Officer

## STAFF MEMBERS

### Finance and Administration Division



**MISS. ANNE CHRISHANTHI  
FERNANDO**  
Receptionists cum Telephone Operator



**MR. S.D. DARMASIRI**



**MR. L.W.L. PIYATISSA**



**MR. C.C. NAGENDRAN**



**MR. W. ARIYARATNE**



**MR. PATHUM NIROSHANA**



**MR. BUDDIKA BALAPITIYA**



**MR. SAMITH PREMARATNE**



**MR. RAJITHA WARUNA**

Human Resources Division



**MRS. DHANESHA RAJAPURA**  
Senior Assistant Manager

Information Technology Division



**MRS. RASANGI DISSANAYAKE**  
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**MR. RANDIKA SILVA**  
Assistant Manager

Investigations Division



**MR. JAYANATH GALLANGA**  
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**MR. PRIYANTHA HERATH**  
Senior Assistant Manager



**MRS. BUDDHINEE N. HERATH**  
Senior Assistant Manager



**MR. RAKHITHA DISSANAYAKE**  
Assistant Manager



**MR. W.M.S. DULENDRA WIJewardENA**  
Assistant Manager



**MISS. P.G.N. ASHANI FONSEKA**  
Assistant Manager

## STAFF MEMBERS

### Investigations Division



**MISS. KALAIVAANEE RAJAKUMARAN**  
Assistant Manager



**MRS. PARAMI RANASINGHE**  
Assistant Manager



**MRS. MANEESHA SENERATHARACHCHI**  
Assistant Manager

### Legal and Enforcement Division



**MRS. C. ERANDATHIE WAIDYASEKARA**  
Senior Assistant Manager

### Supervision Division



**MISS. KAUSHALYA GUNAWARDANA**  
Assistant Manager



**MISS. POORNI WEERASEKARA**  
Assistant Manager



**MISS. CHAMILA KARUNARATHNE**  
Assistant Manager



**MR. SACHITRA WARUSEVITANE**  
Assistant Manager

### Surveillance Division



**MR. LALINDA DAYARATHNE**  
Senior Assistant Manager



**MR. DASHANKA WARNAKULASOORIYA**  
Assistant Manager



**MISS. RUCHIKA SENARATNE**  
Assistant Manager



**MISS. W.A.J. GANGA DE COSTA**  
Assistant Manager



**MISS. NILANJANA SIVAJI**  
Assistant Manager

*Absent:* **Mrs. Eranga Manthirathna** - Senior Assistant Manager, Corporate Affairs, **Mr. Thanishka Tillekeratne** - Assistant Manager, Corporate Affairs, **Miss. Christobel Silva** - Senior Executive Secretary, Corporate Affairs, **Mrs. Kaveesha Kumbukage** - Assistant Manager, Director General's Office, **Mrs. Radha G. Prathibha** - Assistant Manager, Director General's Office, **Mrs. Sachin Weerasooriya** - Assistant Manager, External Relations, **Mrs. Julie Allegakoen** - Confidential Secretary, External Relations, **Mrs. Y.D. Sandamali** - Senior Assistant Manager, Finance and Administration, **Mrs. Preenika Nilakshi Perera** - Senior Assistant Manager, Finance and Administration, **Mrs. Danushi Thalpita** - Receptionists cum Telephone Operator, Finance and Administration, **Mr. R.K. Wasantha Sunimal** - Manager, Investigations, **Mr. G.D. Kapila Kumara** - Senior Assistant Manager, Investigations, **Miss. Bishma Eliyadura** - Assistant Manager, Investigations, **Mrs. Lakshmi Atapattu** - Confidential Secretary, Investigations, **Mrs. P.M. Niroshika Udayanganie** - Manager, Legal and Enforcement, **Mrs. Udani Wickramarathna** - Assistant Manager, Legal and Enforcement, **Mrs. Kumari Siriwardane** - Confidential Secretary, Legal and Enforcement, **Mrs. Manjula Chandraratne** - Manager, Supervision, **Mrs. Nomaanie Seneviratne** - Senior Assistant Manager, Supervision, **Mrs. Sudara Weerakkody** - Senior Assistant Manager, Supervision, **Mrs. Sureka Jayasekara** - Assistant Manager, Supervision

## OPERATIONAL REVIEW

*The SEC and the CSE embarked on a progressive national initiative to enable the digitalization of end-to-end operations of the stock market and facilitated the CSE to operate without any interruption during any national emergency.*

### REGULATION

Securities market regulation ensures that markets are fair, orderly and transparent. The SEC deploys various measures to strengthen its regulatory regime in order to maintain a well-functioning securities market where businesses have access to cost effective capital and investors have wealth creating opportunities.

#### Licensing and Registration

To be engaged in regulated capital market activities, entities are required to obtain a licence or a registration from the SEC subject to compliance with legal requirements.

The SEC reviews the affidavits relating to the fitness and propriety of key management personnel and persons dealing with clients of licensed stock brokers/stock dealers and market intermediaries. This instills investor confidence that those engaged in regulated capital market activities will conduct themselves in a way that will protect the interest of their clients and help preserve the integrity of the market.

The licences and the certificates of registration granted to such entities were renewed during the year under review as follows: (Figure 01)

Figure 01: Licensing and Registration

Type of regulated entity	Total number of licensed/registered entities as at 31st December 2020
Stock Exchanges	01
Stock Broking Companies*	29
Stock Dealing companies	11
Unit Trust Managing Companies	16
Unit Trust Funds	75
Investment Managers	24
Margin Providers	24
Underwriters	07
Credit Rating Agencies	02
Clearing Houses	01

\* Three stock broking companies were under voluntary inactivation of business operations

#### Policy Initiatives

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

#### Amendments to the SEC Act No. 36 of 1987

Upon several stakeholders expressing concern on the provisions of the Securities Exchange Bill that was gazetted in 2017, the SEC initiated a process of review and several provisions were identified for amendments. The said amendments were approved by the then cabinet of Ministers in April 2019 and the Bill was forwarded to the Legal Draftsman's Department to incorporate the changes. However, the process had to be re-initiated in 2020 due to the proroguing of Parliament.

Upon the new Commission being appointed in the latter part of January 2020, steps were taken to carefully consider the provisions contained in the draft Bill and further amendments were made to ensure its efficacy.

The said Draft was submitted to the Ministry of Finance to be placed before the Cabinet of Ministers on 14th September 2020.

The said Draft was submitted to the Cabinet of Ministers by the Hon. Prime Minister in his capacity as the Minister of Finance at the meeting of the Cabinet held on 26th October 2020 and approval was obtained. Thereafter, the Cabinet of Ministers gave their consent to direct the Legal Draftsman to prepare a draft Bill for the introduction of a new Act replacing the existing SEC Act, incorporating the amendments proposed by the SEC.



**Mrs. Ayanthi Abeyawickrama**  
Director, Legal and Enforcement



**Miss. Sharmila Panditaratne**  
Senior Manager, Legal and Enforcement

### Demutualization of the CSE

The SEC participated in a series of meetings with the CSE and the stock broker firms to discuss the apportionment of shares of the proposed Demutualized CSE and consensus with

the stock brokers was arrived at to distribute the apportionment of shares with the Capital Market Development Fund at a ratio of 70:30.

The proposed changes are due to be placed before the Cabinet of Ministers.

### Guidelines on Fitness and Propriety

The SEC developed draft rules and regulatory standards with regard to the fitness and propriety of key management personnel and persons dealing with clients in the provision of financial services to the regulated activity of the SEC.

### Digitalization of core functions of the Colombo Stock Exchange

The SEC and the CSE embarked on a progressive national initiative to enable the digitalization of end-to-end operations of the stock market and facilitated the CSE to operate without any interruption during any national emergency. This initiative is in line with the Government's initiative to digitalize all core activities of institutions providing public services.

The CSE and its fully owned subsidiary the CDS with the direction, guidance and concurrence of the SEC, introduced a platform for prospective CDS account holders to open CDS accounts digitally without having to physically complete a paper application form and visit a branch office of a stock broker (Digital CDS account opening facility); and all necessary rule amendments relating to the CDS Rules have been facilitated.

Memorandum of Understanding by and between the Department for Registration of Persons and the SEC, CSE and the CDS.

The SEC, the Commissioner General of the Department for the Registration of persons, and the CSE entered into

an MOU with the intention of enabling the CSE and its fully owned subsidiary, the CDS obtaining information sent through the "information system" by the Department for Registration of Persons, for the purpose of verifying the authenticity of the particulars of those who have been issued with NIC who wish to open CDS accounts via the said digital CDS account opening facility.

The objective of the MOU was to enable the designated officers of the CSE and the CDS to use the permitted computer terminal, available data document images and hardware and software of the Department for Registration of Persons and view data and images of documents related to the NIC submitted by any person in order to verify the authenticity of the particulars of the NIC, of the person who intends to open a CDS Account via the Digital CDS account opening facility.

### Other Initiatives

#### Contract Negotiations

The SEC critiqued several contracts/ agreements to be entered by and between the SEC and external service providers.

Additionally, the SEC reviewed and provided observations on the World Bank Agreement on Expertise to Guide the Implementation of a DVP Framework and Recommend a Policy Framework for the Implementation of a CCP as part of the Financial Sector Modernization Project (FSMP).

### Representations of the SEC towards the proposed Proceeds of Crime Act

The SEC was invited as a panellist to make representations on the proposed "Proceeds of Crime Act" which was coordinated and facilitated by Transparency International Sri Lanka.

## OPERATIONAL REVIEW

**The SEC approved 83 global, regional and country funds to invest in listed securities in Sri Lanka and noted 57 name changes.**

### No objection letters by the SEC to regulatees during the validity of the license/registration

No objection letters are submitted by the SEC to the Ministry of Finance, Economy and Policy Development for the grant of resident visas to essential foreign employees and directors of regulatees during the validity of the license/registration.

The SEC as a part of facilitating foreign participants to provide services for the development of the Sri Lankan Capital Market issues no objection letters to the Ministry of Finance on behalf of foreign personal deemed important to perform the duties for which they are regulated after the issue of licenses and registrations up to the periods of its validity.

### Requests by the Central Bank of Sri Lanka for information on Directors of Licensed Finance Companies

The SEC facilitated the process of due diligence on behalf of the CBSL considering the importance of extending the background screening of individuals who are proposed to be appointed or are already appointed as directors or

officers performing executive functions of Licensed Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011. The CBSL has requested the SEC for any observations/adverse findings as per the regulatory framework of the SEC which may prevent such individuals from being appointed as Directors of such Licensed Finance Company in terms of Section 21(1) of the Finance Business Act No. 42 of 2011.

### Approvals

#### Approvals to Country, Regional and Global Funds

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

During the year 2020, the SEC approved 83 global, regional and country funds to invest in listed securities in Sri Lanka and noted 57 name changes.

#### Review of Listing Rules and Stock Broker Rules of the CSE

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

- the amendments proposed by the CSE to Section 12 of the Listing Rules of the CSE to facilitate the charging of twice the normal annual listing fee, as a deterrent to companies which are non-compliant with the minimum public holding requirements and are on the Second Board.

- the Commission instructed the CSE to assess each application for an extension of time to comply with the minimum public holding in respect of each Listed Company on a case by case basis and grant relief on a justifiable basis by way of a waiver instead.
- the Commission instructed the CSE to identify the challenges encountered by Listed Companies with reference to the further issue of securities in terms of Section 5 of the Listing Rules on a case by case basis.

#### De-listings

- During the period under review, The Finance Company PLC was delisted from the official list of the CSE mandatorily in terms of Rules 4(2) and 4(3) of the SEC Rules.
- Approvals were granted to Morison PLC and Hotel Developers (Lanka) PLC to voluntarily delist its securities from the official list of the CSE in terms of Rule 5 of the SEC Rules.

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

The SEC processes applications for the grant of waivers to Public Listed Companies seeking to issue shares by way of private placements which exceed 20% of the shares in issue immediately subsequent to such issue of shares. During the year under review, one applications in relation to Section 5.4 of the CSE Listing Rules was evaluated.

#### Administration of the Take-overs and Mergers Code

Prior to administering these takeovers the SEC reviewed the content in the Independent Advisor's Report and valuation techniques, including assumptions used in such valuation models to identify whether the valuation techniques used are reasonable and in

accordance with general accepted practices. This is to enhance the clarity and content of the disclosures. The following takeover offers were triggered as at 31st December 2020. (Figure 02)

**Figure 02: Offers Extended Under the Takeovers and Mergers Code**

Offeror	Offeree	Nature of the Offer	Status
Eden Lanka Hotel PLC	Serendib Hotels PLC	Mandatory Offer	Pending
George Steuart and Company Limited	HVA Foods PLC	Voluntary Offer	Pending
Lanka Realty Investments PLC	On'ally Holdings PLC	Mandatory Offer	Pending

#### Extension of Time to Comply with the Minimum Public Holding Requirements

Concurrence of the SEC was given to the CSE to grant extensions of time to comply with the minimum public holding requirements to eleven Listed Companies as they fell short of the requirements due to extraordinary supervening circumstances specially under the COVID-19 Pandemic, as stipulated in Rule 7.13.3(iii) of the Listing Rules.

#### Amendments to the Articles of Association of the CSE

The SEC approved the changes to the Articles of Association of the CSE facilitating the methodology of holding meetings by means of audio or audio and visual communication.

The SEC approved the amendment to the Articles of Association of the CSE to include a new Article 55A that would contain provisions relating to the methodology of holding meetings via teleconferencing in order to broad-base its infrastructure and operations in keeping with the business operations carried out by other Exchanges in the global sphere.

This service is expected to improve the efficiency of corporate services provided by the CSE and enable the smooth functioning of the Exchange during a national/global emergency such as a pandemic situation.

#### Voluntary Inactivation of Business Operations of a Stock Broker Firm

Granted an extension of an additional period of three months to a stock broker firm to reactivate its business operations given the impact made by the COVID -19 pandemic on the market. Accordingly, the said company was granted time till 25th May 2021 to reactivate its business.

#### Amendments to the Stock Broker Rules

During the year under review approval was given to amend several provisions of the Stock Broker Rules to improve efficiency between broker- client relationships and also to facilitate the change of investment advisor where the existing investment advisor changes employment and for better maintenance of records. Rule 3.9 of the Stock Broker Rules was amended to enhance the role of the Compliance Officer. Rule 9 was amended to improve the supply of information to carry out inspections and investigations of the CSE in a more timely and efficient manner.

#### Election of Directors to the Board of the CSE

The SEC approved the re-election of two directors to the Board of the CSE in terms of Part I(g) of the Schedule to the SEC Act and Article 50 of the Articles of Association of the CSE.

#### Unit Trust Code for Sri Lanka Real Estate Investment Trusts (SL- REIT)

The SEC issued the Rules relating to the "Unit Trust Code for Sri Lanka Real Estate Investment Trusts" (SL-REIT) as an alternative investment option for investors to invest primarily in income generating real estate. This new product will enable the general public to access the benefits from a growing real estate sector, that is otherwise restrictive due to the exorbitant prices of property.

A Real Estate Investment Trust or REIT is a sub category of Unit Trusts that acts as a Collective Investment Vehicle. REIT's pool money from investors and such money could be utilised to acquire residential and commercial property, retail or industrial properties, infrastructure or other real estate related assets. Investors of the REIT are able to benefit from income and capital appreciation of such property.

REIT's are a popular alternative investment option in many other countries including the Asian region and has been in existence for many decades. SL-REIT is facilitated only as a listed REIT in the CSE through a licence issued by the SEC.

These Rules relating to the 'Unit Trust Code for SL - REIT were formulated and gazetted in terms of Section 53 of the SEC Act.

## OPERATIONAL REVIEW

### Approvals Under Section 28A of the SEC Act

Where shares in any public company are allotted to any person prior to its listing in a licensed stock exchange, no shares or any security convertible to shares in any such company shall be listed on a licensed stock exchange within a period of one year from the date of the last allotment, unless the written approval of the Commission is obtained for that purpose prior to such listing. During the year, Evoke International Ltd and Chrissworld (Pvt) Ltd were granted approval.

### Approvals under Section 29A of the SEC Act

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

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

Name of the Issuer	Type of Security	Amount Approved	Duration
Pan Asia Banking Corporation PLC	BASEL III compliant-Tier 2, Unlisted, Unsecured, Subordinated Redeemable debentures with a Non-Viability conversion Clause	Rs. 1250 Million	Five years
Bank of Ceylon PLC	BASEL III compliant, unlisted, unsecured, subordinated, perpetual, additional Tier 1 capital bonds	Rs. 5 Billion	Five years
DFCC Bank PLC	Senior, Unlisted, Rated, Unsecured, Redeemable Debentures	Rs. 5 Billion	Five Years
Amana Takaful PLC	Unrated, Unlisted, Unsecured, Convertible Redeemable Debentures	Rs. 300 Million	Five Years
Janashakthi PLC	Senior, Unlisted, Unsecured, Redeemable Debentures	Rs. 2 Billion	Three years
Bank of Ceylon PLC	BASEL III Compliant, Rated, Unlisted, Unsecured, Subordinated, Perpetual, Additional Tier 1 (AT1) Capital Bonds	Rs. 10 Billion	Five years
Janashakthi PLC	Senior, Unlisted, Unsecured, Redeemable, Debentures	Rs. 1 Billion	Type A - Two years Type B - Three years  Company has withdrawn the request for approval from SEC subsequently, due to related company being delisted with effect from 4th December 2020.

### Deferment of Enforcement Rules of CSE

The SEC reviewed one matter received during the year relating to deferment from suspending the trading of securities in CSE. Deferment was pertaining to Multi Finance PLC in relation to sections 7.5 (d) (ii) of CSE Listing Rule.

### 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"

Approvals granted for 590 exceptional transfers and 85 gifting of shares were brought to the notice of the SEC during the year under review. The exceptional transfers were in order to facilitate Margin Trading, Single to Joint/Joint to Joint/Joint to Single, Financial Facilities, Gift (Special), Change of Custodian/ Trustees, Voluntary Offers, Mandatory

Offers, Custody to Bank, Custody to Broker Account, Compliance of Insurance Regulatory Commission of Sri Lanka (IRCSL) Directives 15, Transfer of assets from Individual to Global Custodian and Transfer between two accounts.

### Matters relating waivers and restructuring

#### Evoke International (Pvt) Ltd

CSE has proposed to grant a waiver to Evoke International (Pvt) Ltd in relation to the restriction in Listing Rule to facilitate the divestment of the shares of

the shareholders (through Initial public offer) who has held such shares for a period of less than eighteen (18) months prior to the date of the Initial Listing Application. Subsequent to evaluating the details, the SEC facilitated the same.

### LOLC Group

A restructuring application was made by LOLC Holdings PLC to meet Corporate objectives including to attract foreign investors. Subsequent to evaluating the details, the SEC facilitated the same.

### Ceylon Electricity Board

In relation to the application to list Ceylon Electricity Board (CEB), the CSE sought a waiver from the Listing Rule requirement to include Audited financial statements made up to a date not more than 12 months, interim financials made up to a date not more than 3 months from the date of submission of the listing application and summarized profit and loss account and balance sheet for the five years preceding the date of the application, in the prospectus.

Further, CSE sought input of the SEC in relation to relaxing corporate governance requirements in relation to Remuneration Committee and Audit Committee. Subsequent to evaluating the details the SEC facilitated the same.

### OVERSIGHT AND COMPLIANCE

The SEC supports the operation of fair, orderly, efficient and transparent markets by providing investors with timely, accurate and relevant information. To reduce information asymmetry, the SEC reviews market disclosures that listed companies are mandated to disseminate to the market. The supervision of market intermediaries entail the protection of client assets from insolvency, guard against defaults and sudden disruptions to the market and ensure that regulated entities are fair and diligent in dealing with their clients. Regulation sets licensing standards, prudential standards, business conduct rules and internal controls and risk management standards.



**Dr. Harshana Peiris Suriyapperuma**  
Director, Corporate Affairs



**Miss. Manuri Weerasinghe**  
Assistant Director, Corporate Affairs

### 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 endeavor.

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

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

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

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

During the year, the SEC has conducted 108 financial statement reviews of listed companies with 81 letters of comment sent to improve compliance and enhance disclosures.

Moreover, during the year 07 debt prospectus were reviewed and concluded whilst, 01 equity prospectus was reviewed during 2020.

The SEC reviewed shareholder circulars of 12 companies who applied for further raising of funds from the existing shareholders and feedback provided to enhance disclosures.

Pursuant to Annual Report reviews of Listed Companies, 14 matters concerning unusual trading activities and non-compliance were identified for further inquiry.

Regulatory actions taken in relation to disclosures and corporate affairs of Public Listed Companies is given below. (Figure: 04)

## OPERATIONAL REVIEW

Figure: 04: Regulatory Actions Taken in Relation to Disclosures and Corporate Affairs of Public Listed Companies

Disclosures / Corporate Affairs	Number of Instances/ Listed Entities
Clarifications called* (to validate matters relating to disclosures made by the respective Listed Entities)	103

\*\*During the year the SEC reviewed disclosures via market announcements by listed entities and sought clarifications either from the company or from CSE relating to 103 instances. Such clarifications were relating to dealings by directors whilst the company is on the Second Board (02), dealings by directors – delayed disclosure (35), Dealings by Directors – Trading during Black Out period (LR 8.6) (14), changes in directorate (41), related party transactions (03) and other corporate disclosures requirements (08).

### Matters Referred to Other Regulators

The following matters were referred to the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) to obtain clarifications whether the recognition, measurement and disclosures are in compliance with applicable standards. (Figure: 05)

Figure 05: Matters Referred to other Regulators

Regulator	Number of Matters	Description of the matter
Sri Lanka Accounting and Auditing Standards monitoring Board (SLAASMB)	03	<b>Hatton National Bank PLC:</b> Review the impact on the applicable Audited financial statements in relation to unregistered shares
		<b>Mahaweli Coconut Plantations Limited:</b> To obtain clarifications on whether Auditors of unlisted Companies are required to provide the Key Audit Matter details in the Auditor's Report.
		<b>Insurance Companies:</b> To obtain clarifications on whether an Insurance Company can be considered as a 'Financial Institution' for the purpose of LKAS 07-Statements of Cash Flows and if Insurance Companies are not considered as 'Financial Institution', whether those companies are allowed to net off cash flows relating to investments and report them on a net basis.

*The approach to supervision of stock broker firms is based on a risk assessment framework, which assesses the relative risk profiles of the companies.*

### Oversight of Licensed/Registered Entities Stock Broker Firms

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

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

Off-site supervision entails the review and analysis of financial statements, statutory returns, reports uploaded to

the Electronic Filing System and any other reports submitted by the licensed stock broker firms. Any discrepancies and non-compliances observed during off-site reviews were notified to the company for rectification.

Despite the outbreak of Covid-19 pandemic in the year 2020, we demonstrated our commitment towards achieving effective enforcement through more rigorous scrutiny of financial submissions and other returns and proactive follow up to ensure compliance.

Considering the difficulties encountered by the stock broker industry due to the pandemic, certain relief measures were granted to the licensed/registered entities during the year under review. Such measures included the extension of time for financial submissions and deferment of the SEC's annual licensing/ registration fees for the year 2020 by a period of one year upon request by such entities.

During the year under review, business operations of one stock broker firm was inactivated for a period of two years in terms of Section 12 of the CSE Stockbroker Rules. The business operations of the said stock broker firm was inactivated subsequent to the final approval of the SEC, upon the Board of Directors of the CSE recommending to the SEC that the said firm has duly completed the inactivation process in compliance with Section 12 of the CSE Stockbroker Rules.

During the year under review, total turnover of the stock broker industry increased by 159% compared to year 2019. The profitability of the industry witnessed a 4821% rebound with Net Profit after tax of Rs. 1,751 million in 2020 compared to the Rs. 37 million loss incurred in 2019. This was largely due to the stock market becoming the preferred choice for a large number of investors due to the slashing of Bank interest rates during the year by the CBSL and other progressive steps taken by the Government to develop the capital market. Additionally, the digitalization of the end-to-end operations of the CSE spearheaded by the Joint Committee of the SEC and CSE appointed by the Chairman of the SEC also contributed to this growth in turnover and profitability of the industry. The comparative statistics on the performance of the stock broker industry is given below: (Figure: 06)

**Figure: 06: Highlights of the Stock Broker Industry**

	2020 (Rs. '000)	2019 (Rs. '000)	Change %
Turnover	4,303,668	1,663,045	158.8
Net brokerage	3,929,094	1,440,766	172.7
Other income	851,656	707,329	20.4
Operating profit/loss	2,113,479	40,483	5120.7
Net profit/loss before tax	1,905,233	(79,453)	2497.9
Net profit/ loss after tax	1,751,330	(37,096)	4821.1
Total assets*	19,893,383	9,726,649	104.5
Total liabilities *	12,943,874	4,571,124	183.2
Shareholder Funds*	6,949,509	5,155,525	34.8

\*As at 31 December

Source: Unaudited financial statements submitted by the stock broker firms to SEC

### Market Intermediaries

The SEC is empowered to grant registrations and perform the regulatory oversight for five categories of Market Intermediaries, which includes margin providers, investment managers, credit rating agencies, underwriters and clearing house.

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

In order to identify, monitor, mitigate and manage risks pertinent to the market intermediaries an effective and robust framework was adopted for both on-site and off-site supervision. However, with the onset of the Covid-19 pandemic and the resulting lockdowns imposed in the country, compliance with specific standards applicable to market intermediaries were assessed through rigorous off-site supervision.

*During the year under review, total turnover of the stock broker industry increased by 159% compared to year 2019.*

## OPERATIONAL REVIEW

Considering the impact caused to investors due to the market downturn at early onset of the COVID-19 pandemic, the SEC granted relief measures by way a moratorium to the clients of registered margin providers on the payment of interest of the margin loans extended. Accordingly, registered margin providers were directed to pass on the benefit derived from the decisions announced by the CBSL, to their clients. Further, they were directed to refrain from charging and recovering interest on credit extended until 30th June 2020.

During the year 2020, two new investment manager registrations were granted whilst two margin providers who did not wish to pursue their operations voluntarily surrendered their registrations. ( Figure: 07)

**Figure: 07: Financial Highlights of Market Intermediaries (Rs. Mn)**

Category	Total Revenue	Net Profit Before Tax	Total Assets	Total Liabilities
Margin Provider	137,507	41,628	2,133,811	1,882,494
Investment Manager	1,733	322	10,893	5,095
Underwriter	649	570	2,571	272
Credit Rating Agencies	181	75	325	83
Multipurpose Entities*	212,884	105,436	7,633,634	7,008,833
Clearing House	236	137	853	120

\*entities that function in multiple categories of SEC Registration

### Unit Trust Industry

The SEC having taken into consideration the unprecedented situation following the COVID-19 pandemic strengthened the offsite supervision of the Unit Trust Managing Companies (UTMC). We conducted a risk based approach of the off-site supervision during the year which encompasses the main risk areas under prudential, operational and management policies to assess the adequacy of their financial strength, compliance with internal controls and procedures Rules and Regulatory requirements.

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

Further, the SEC considering the constraints and administrative challenges faced by the Unit Trust Managing Companies in complying with certain regulatory requirements due to the unprecedented situation granted relief measures by extending the time on the due date for submission of audited financial statements and the annual and interim reports for Unit Trust Funds.

However, notwithstanding the above extensions of time, the entities were required to promptly report to the SEC on any exceptional matters which adversely affects or is likely to adversely affect the ability of such entities to meet their obligations.



**Mr. Suneth Perera**  
Assistant Director, Supervision



**Mrs. Saumi Kodippily**  
Senior Manager, Supervision

The Net Asset value of the Unit Trust Funds stood at Rs. 201 billion (approx) as at 31st December 2020 and the number of Unit Holders has increased by 12.7% compared to the previous year. (Figures: 08,09)

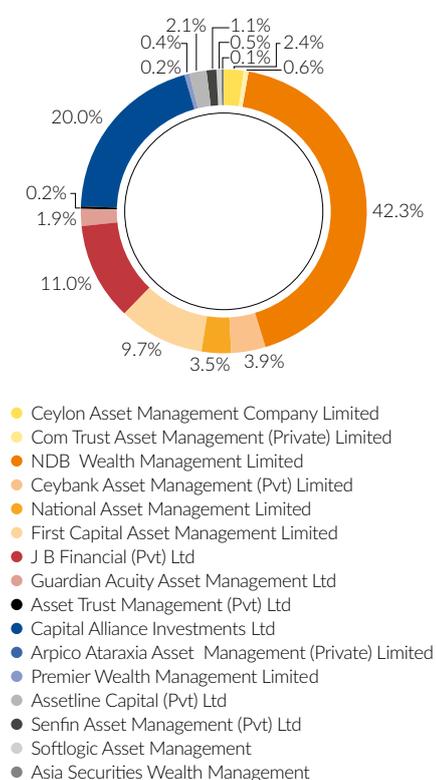
Figure 08: Overall Position of Unit Trust Funds

Category	As at 31.12.2020	As at 31.12.2019	Change %
Number of Approved Unit Trust Funds	75	71	5.6
Net Asset Value of Unit Trusts (Rs. Bn. approx.)	201.00	104.79	91.8
Number of Unit Holders	52,402	46,481	12.7
Number of Units Issued (No. Mn. approx.)	8,014	4,769	68.0
Investment in Equity (Rs. Mn. approx.)	14,019	9,841	42.5
Investment in Government Securities (Rs Mn. approx.)	28,803	9,150	214.8
Investment in Other Instruments* (Rs. Mn. approx.)	158,656	84,542	87.6

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

Source: Regulatory submissions by unit trust managing companies

Figure 09: Market Share of Unit Trust Managing Companies as at 31st December 2020



## SURVEILLANCE, INVESTIGATIONS AND ENFORCEMENT

The SEC seeks to ensure that trading in the CSE is fair and orderly. To achieve this, market surveillance is undertaken to identify activity that may cause disruptions to orderly trading. Possible violations of securities laws are referred for further investigations and corresponding enforcement action.

### Surveillance

Market Integrity plays a prominent role in any capital market. Thus the primary role of the surveillance function is to maintain a market in which securities can be issued and traded in an orderly and fair manner. For this purpose, suitable strategies are implemented to curb the offences through intelligence and detection whilst appreciating a balance between regulation and market dynamics for deterrence of the same.

The SEC deploys an automated surveillance system which utilises real time data in order to discover unusual price and volume movements and thereby prevent possible law violations in trading securities. Upon detection of suspicious trading activities, an

in-depth analysis will be conducted to demarcate between deliberate manipulations and genuine speculations. Where necessary, appropriate action is instigated by preparing Surveillance Referrals/Notes and producing the same to the Surveillance and Investigations Committee (SIC) of the SEC. Corporate disclosures are also on close watch together with the corresponding security transactions which could assist to draw leads to discover market abuses.

The market was open for trading from 1st January 2020 to 19th March 2020 and trading was temporarily closed between the period 20th March 2020 to 11th May 2020 due to the inability of opening the market. Although, the circumstances of COVID-19 had imposed unique challenges in the operation and oversight of trading activities, accelerated momentum in the market could be observed since the re-opening of the market. Digitization of trading activities in particular led to improved market activities due to the increased number of account openings which caused the trading activities to strengthen towards the latter part of 2020.

### Proactive Surveillance

The SEC proactively monitors market movements and trends of investors, brokers and others to recognise instances of market offences and misconduct in order to minimise the possible negative impact on the market. Followed by extensive analysis on unusual trading activities, the SEC promptly sought clarifications via telephone calls from investment advisors, compliance officers and investors pertaining to 37 cases and pursued explanation via 13 letters from investors and Directors of companies during the year 2020. The SEC believes such proactive measures aid to propagate credible deterrence and lead to restoration of confidence of the investor community.

## OPERATIONAL REVIEW

### Surveillance Referrals

Based on SEC's surveillance findings, CSE's Surveillance Referrals and complaints, serious suspected market malpractices were identified and these Surveillance Referrals / Surveillance Notes were referred to the SIC for deliberation and determinations under the following Framework:

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

During the year 2020, five Surveillance Referrals and two Notes were completed and submitted to SIC. These referrals and notes comprised of three possible cases of Insider Dealing and four possible cases of Price Manipulation.



**Mr. Prabash Wanigatunge**  
Director, Surveillance

### The way forward

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

and visualisation tools. Surveillance is actively involved in testing advance analytical tools with the use of improved technology such as Artificial Intelligence in order to cater to the increased momentum in the capital market which has resulted in accelerated market activities. Advanced tools along with new machine learning are expected to make gathering insights on market movements and trends more efficient by providing productive techniques for the process.

During the course of the next year, the SEC is expected to seek the facilitation of a competent consultant under the World Bank funded project- "Financial Sector Modernisation Project", to ensure capacity building and streamlining existing processes to reinforce surveillance undertakings.

### Investigations

The SEC is responsible for conducting investigations into any alleged violation or contravention of the provisions of the SEC Act or any rule or regulation made thereunder by any person. An investigation is generally commenced based on a Surveillance Referral generated from the Surveillance Division of the SEC or consequent to the receipt of a complaint. Once the Referral is generated, it will be submitted to the Surveillance and Investigations Committee (SIC) in order to determine whether the Referral warrants an investigation. Upon conducting an investigation, the Investigation Report is submitted to the SIC which study the Investigation report and make necessary recommendations to the Commission. Representatives of the Attorney General's Department are also invited to attend these meetings to assist the committee in the final assessment of facts/evidence found. The Investigation Report is thereupon submitted to the Commission with recommendations of the SIC. Upon deliberations by the members of the Commission on the Investigation Report together with the recommendations of the SIC, the Commission either approves,

rejects or varies the recommendations of the SIC. The decision of the Commission is there after implemented.

Pursuant to investigations conducted, as determined by the Commission, enforcement action/s is taken against any person who is found to have committed an offence in terms of the provisions of the SEC Act.



**Mrs. Ayanthi Abeyawickrama**  
Acting Director, Investigations



**Mr. D.M.G. Priyantha**  
Assistant Director, Investigations

During the year 2020, the SEC concluded 11 investigations amidst the challenging circumstances that prevailed due to the Covid-19 pandemic in Sri Lanka.

Out of the investigations completed during the year, the Commission decided to take enforcement actions and/ or referrals to other regulatory bodies in respect of seven investigations whereas four investigations were concluded without enforcement action because commission of an offence by the persons subject to investigations were not established by the evidence found.

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**The SEC is responsible for conducting investigations into any alleged violation or contravention of the provisions of the SEC Act or any rule or regulation made thereunder by any person. An investigation is generally commenced based on a Surveillance Referral generated from the Surveillance Division of the SEC or consequent to the receipt of a complaint.**

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During the year under review, the following actions were also taken;

Show Cause notices were issued to five persons prior to deciding the suitable enforcement action in respect of one investigation that was conducted into an alleged Market Manipulation. Action was filed against two persons who failed to appear before the SEC to give evidence relating to one investigation. Relevant findings of one investigation was referred to the Financial Intelligence Unit

(FIU) of the Central Bank of Sri Lanka for necessary action. Relevant findings of two brokers were referred to the Colombo Stock Exchange for necessary disciplinary measures after due inquiry. Upon an investigation conducted to ascertain whether an offence of front running has been committed, an investor was cautioned for his unethical conduct in breach of his fiduciary duties and was reported to his employer.

Failure to make an immediate disclosure of rating revisions in the ratings granted to the Listed Debentures of a Public Listed Company and making a misleading disclosure to the market

Some past and present Directors of MTD Walkers PLC paid Rupees Thirty Six Million Three Hundred Thousand to the SEC in order to compound certain offences committed by them in terms of section 51 A of the SEC Act. The said sum was credited to the Compensation Fund of the SEC and is the highest aggregate sum paid to the said Fund to date as a result of compounding.

The SEC issued Notices of Action on the Directors of MTD Walkers PLC who served on the Board of the said company during the period May 2016 to May 2018 for their failure to make an immediate disclosure of rating downgrades in the ratings granted to the listed debentures of MTD Walkers PLC on four different occasions breaching the Listing Rules of the CSE and violating the SEC Rules issued by the SEC under Section 53 of the SEC Act No. 36 of 1987 (as amended) and gazetted in Gazette Extraordinary 1215/2 dated 18th December 2001.

The SEC issued another Notice of Action on the Board of Directors of MTD Walkers PLC who served on the Board during the period January 2019 for making a misleading disclosure to the market on 17th January 2019 in violation of Section 51 of the SEC Act No. 36 of 1987 (SEC Act).

An application to compound the said offences were made by the Directors of MTD Walkers PLC who served on the Board of Directors of MTD Walkers PLC during the material period through their lawyers to the SEC. The SEC approved the compounding of the offences by 11 Directors subject to their payment of an aggregated sum of Rupees Thirty Million Eight Hundred Thousand (Rs. 30.8 million) for the offences contained in the first Notice of Action; and approved compounding subject to the payment of an aggregate sum of Rupees Five Million Five Hundred Thousand (Rs. 5.5 million) against five Directors in respect of the second Notice of Action.

Upon the SEC receiving a total sum of Rupees Thirty Six Million Three Hundred Thousand as a full and final payment of the sums payable on behalf of the directors of MTD Walkers PLC, the offences contained in the two Notices of Action were compounded and the said sums received were credited to the Compensation Fund of the SEC established under Section 38 of the SEC Act.

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

#### **Refusal to Differ Three Listed Companies from a Mandatory De-Listing**

The SEC refused to permit three listed companies from a mandatory de-listing in terms of the Listing Rules of the CSE for their consecutive failures to release the annual reports and interim financial statements to the market. The Board of Directors were also warned on their failure to demonstrate responsibility in adhering to the legal and contractual obligations of the company to comply with the Listing Rules of the CSE as

## OPERATIONAL REVIEW

mandated under Rules 3(1) and 17 of the SEC Rules issued via Gazette Extraordinary No: 1215/2 dated 18th December 2001 especially the long time periods which the companies did not avail themselves to rectify matters.

### Litigation

#### SEC vs. M. I. Samsudeen and M. B. Nizar

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

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

#### Talib Tawfiq Al Nakib vs. SEC and CSE

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

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

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*Once the Referral is generated, it will be submitted to the Surveillance and Investigations Committee in order to determine whether the Referral warrants an investigation. Upon conducting an investigation, the Investigation Report is submitted to the SIC which study the Investigation report and make necessary recommendations to the Commission.*

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

#### Magpek Exports (Private) Limited vs. SEC

Four of the accused in this case were convicted for not immediately disclosing certain material information in contravention of the SEC Rules by

the Learned Magistrate of Colombo Fort have appealed against the judgment and their sentence to the Provincial High Court. The Court re-affirmed the judgement against three of the accused's but mitigated the sentence in appeal. The appeal against the conviction and sentence is pending against the 6th accused appellant in the High Court of Colombo.

#### SEC vs. Sena Yaddhegige and S. Thinamany

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

#### Sena Yaddhegige vs. SEC

Dr. Yaddhegige filed this writ application against the SEC before the Court of Appeal in 2017 where he had prayed inter alia for a stay of the Magistrates Court proceedings. He took steps to support the writ application when the SEC filed action against him in March 2017 before the Magistrates Court, Fort.

Court of Appeal delivering order on 22nd March 2019 refused to stay the proceedings before the Magistrates Court and sought written submissions to be filed on the issue of notice.

The matter was stayed temporarily since the order of the case, Sena Yaddhegige v SEC, SC/SPL/LA 100/19 is still pending to date.

### Sena Yaddehige vs. SEC

Being aggrieved by this order in CA/Writ/417/2017, Dr. Yaddehige appealed to the Supreme Court by way of special leave to appeal by challenging the decision taken by the Court of appeal in relation to the case CA/Writ/417/2017. The SEC took up the objection that, there is no valid affidavit filed before the Court by Dr. Yaddehige in terms of the Oaths and Affirmation Ordinance particularly section 12 of the said Ordinance. The SEC further submitted that the said affidavit is not in conformity with the Consular Functions Act 1981. Therefore, it was submitted that there is no proper application filed before the Court to consider granting of leave.

Accordingly, the Supreme Court on 03rd May 2019 fixed the matter for order on the preliminary objection raised by the SEC and pending that order, the matters before the Magistrates Court, MC/Fort/12639/2018 and the Court of Appeal (CA/Writ/417/2017) were stayed temporarily. The Order of the Supreme Court on the said preliminary objections is pending to date.

### SEC vs. Lanka Kannangara, Kapila Senerath, Faariq Furkhan, and Raveendra Mallawarachchi

Legal action was instituted in the Magistrates Court, Colombo Fort on 25th July 2019 against four investment advisors for market manipulation, conspiracy to commit market manipulation and aiding and abetting punishable under Rule 12 of the SEC Rules as published in Gazette Extraordinary No. 1215/2 dated 18th of December 2001 read with Section 113 (b) and 102 of the Penal Code under Section 51(1) (a) of the SEC Act No.36 of 1987 as amended. The case is pending before the Court

### SEC vs. W.K.H. Wegapitiya, Thilak De Silva and Thakshila Hulangamuwa

Legal action was instituted in the Magistrates Court, Colombo Fort on 16th July 2020 for market manipulation, conspiracy to commit market manipulation, and aiding and abetting punishable under Rule 12 of the SEC Rules as published in Gazette Extraordinary No. 1215/2 dated 18th of December 2001 read with Section 113 (b) and 102 of the Penal Code under Section 51(1) (a) of the SEC Act No.36 of 1987 as amended. The case is pending before the Court.

### SEC vs. Ms. Danushya Gulamhusein

The SEC filed action against Ms. Danushya Gulamhusein on 11th September 2020 in the Magistrate's Court, Colombo Fort for not appearing before the SEC to record a statement which is a violation of section 46A(4) of the SEC Act. Mrs. Gulamhusein was summoned to record a statement with regard to a pending investigation in respect of an allegation received by the SEC of a suspected violation of the Take Overs and Mergers Code by some others. The matter is pending before Court

### SEC vs. Mr. Sandanam Raju

The SEC filed action against Mr. Sandanam Raju on 11th September 2020 in the Magistrate's Court, Colombo Fort in violation of section 46A(4) of the SEC Act since he has not appeared before the SEC when he was summoned to record a statement with respect to an investigation pertaining to a violation of Take Overs and Mergers Code. Matter is pending before the Court.

### Complaints Redress System

Status of complaints relating to listed entities received and redressed are given below. (Figure: 10)

**Figure 10: Handling of Complaints and Matters Relating to Listed Entities**

Nature of Complaint	Number of Complaints attended	Action Taken / Current Status
Conduct of Board of Directors of Public Listed Companies	2	2 matters concluded appropriately
Conduct of Public Listed Companies	5	5 matters were resolved appropriately
Non-Compliance with SEC Rules / CSE Listing Rules	1	1 matter concluded appropriately
Other/Administrative matters/ Not in the scope of the SEC	7	7 matters concluded appropriately
Referred to other divisions	1	1 matter referred to Legal division
<b>Total</b>	<b>16</b>	

## OPERATIONAL REVIEW

### Appointment of Compensation Committee

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

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

Accordingly, the Commission recommended to the Honourable Minister in charge of the subject of Finance, to appoint three members of the Commission to constitute the Compensation Committee.

The matter is pending before the Ministry of Finance.

### CAPITAL MARKET DEVELOPMENT

Capital markets are one of the most powerful drivers of economic growth and wealth creation. The SEC engages in nurturing the capital market of Sri Lanka mainly through formulating policies and strategies for market development initiatives and facilitating the implementation of market development initiatives. The key market development initiatives facilitated by the SEC in the period under review are enumerated below.

### Digitalization of Stock Market Operations

Digitalization of stock market operations is the groundbreaking market development initiative facilitated jointly by the SEC and CSE in 2020 which has led to an impressive growth in the stock market performance. End-to-end digitization of stock market operations is envisaged to offer investors a fully digital onboarding experience, enable seamless post-trade and settlement process and contribute towards making the CSE one of the most technology savvy stock markets in the region and bring it on par with other developed markets in the world.

The digitalization initiative took off with the appointment of a joint committee by the Chairman of the SEC comprising representatives from the SEC and the CSE to look into the end-to-end digitalization of the stock market operations and is expected to be completed in three phases.

#### Completion of Phase 1: “Hyper-Leap to the Future”

Phase 1 of the digitalization initiative was successfully completed and launched on 17th September 2020, “Hyper-Leap to the Future” under the patronage of Hon. Prime Minister. The key digital products launched were the CSE mobile app, new CSE website, new CDS website, New- redesigned SEC website, SEC YouTube channel and enabling e-contract notes, e-statements and e-dividends.

#### CSE mobile app

The CSE mobile app enables a potential investor to open a CDS account without visiting a stock broking firm and offers users greater access to information on the stock market and scope for personalisation. With the new app, users will have access to customised notifications, analytical tools, educational

content, historical movements of indicators and stocks and a feature for investors to manage their CDS account upon investing. The app is available in Sinhala, English and Tamil languages and presents live data during trading hours, limiting the need for users to access multiple information sources. Subsequent to the launch of the app, the market witnessed lucrative growth mainly due to the new trading activities generated from new CDS accounts opened. As per the CDS record, more than 90% of the new CDS accounts have been opened via the CSE mobile app.

Further, an identity management tool has been built in to the CDS account-opening app with the CDS being able to verify the authenticity of the NIC through an integration with the Department for Registration of Persons having entered in to a MoU.

#### Facilitating the Implementation of a Delivery vs Payment (DvP) and Enhanced Margining System at the CSE

With an objective of effectively managing post trade risks prevalent in the market, the SEC is facilitating the implementation of a DvP mechanism at the CSE. Upon finalising the business and operational specifications of the proposed model jointly with the CSE, the Commission approval was obtained for the finalised model for implementing a DvP and enhanced margining model. Subsequently, the CSE was instructed to implement the proposed model and it is expected to be completed by 2nd quarter 2021.

Considering the highly technical nature of this initiative, an expert was commissioned under the FSMP of the World Bank to provide consultancy services for the DvP implementation process and to formulate policy framework for the establishment of an integrated CCP mechanism and

covered short selling through securities borrowing and lending. The SEC is coordinating with the expert and the CSE with respect to the same.

Implementation of a DvP mechanism will pave way for the partial fulfilment of the requirements prescribed to get elevated to emerging market status by the Morgan Stanley Capital International (MSCI) for the CSE and contribute towards enhancing foreign inflows to the country.

#### **Broad Basing the Listing Framework to Facilitate More Listings on the CSE**

In order to facilitate diverse companies with different scales to get listed, the SEC and the CSE jointly finalised the policy to broaden the regulatory framework governing initial listing of entities and further measures were proposed to make the listing process more efficient. Accordingly, amendments to the Listing Rules were also made.

#### **Enabling Repurchase Agreement (Repo) Transactions on Corporate Debt Securities on the Over-the-counter (OTC) Platform of the CSE**

In order to activate the corporate debt market via the CSE, the Unit Trust Association along with certain Commercial Banks and Primary Dealers requested the CSE to implement a REPO transaction mechanism for corporate debt securities through an OTC trading platform on the CSE. Accordingly, the final policy to enable such REPO transactions were finalised jointly with the CSE and in-principle approval was granted to the CSE for implementation of such mechanism.

#### **Facilitated the Amendments to the Tick Size of the Automated Trading System (ATS) at the CSE**

Improvements to the market microstructure was assessed and with a view to improve price efficiency, liquidity and to minimise the volatility of shares, the amendments to the tick size of the ATS at

the CSE was facilitated. Accordingly, the tick size was amended for shares with a value equal to and less than Rs. 100.00, the tick size to be Rs. 0.10 and for shares with a value more than Rs. 100.00, the tick size to be 0.25 cents.

#### **Made Representations to the Government to Provide Tax Incentives for Sri Lanka Real Estate Investment Trusts (SL-REITs) and for Companies' Listing on the CSE**

The SEC submitted budget proposals and other representations to the Ministry of Finance on tax incentives to support the newly introduced SL-REITs and to spur and entice corporates to list on the CSE. Furthermore, listed corporates and market participants were requested to submit proposals and recommendations they wished to be considered and included in the National Budget. A compilation of such proposals and recommendations received were also submitted to the Ministry of Finance along with the proposals submitted by the SEC.

#### **Coordinating Donor Agency Projects: Capital Market Development Programme (CMDP) by the Asian Development Bank (ADB)**

The CMDP is a policy based loan and technical assistance programme to the Government of Sri Lanka by the ADB. Under the CMDP, the SEC has received technical assistance for a number of initiatives such as drafting the Collective Investment Schemes (CIS) Code, demutualization of the CSE, revamping of the capital market certification process, enhancing financial literacy and outreach for unit trusts etc.

Upon completing the policy actions in relation to the tranche 1 of the CMDP by the implementing agencies, the Government received US\$125mn as per the agreed upon terms and conditions of the CMDP. Currently, the policy actions under tranche 2 are in progress.

#### **Financial Sector Modernisation Project by the World Bank**

Under the FSMP of the World Bank, the SEC is in receipt of funding for several key regulatory and policy development initiatives. As such, funding is secured for identified Goods and Consultancy Procurements.

#### **Technical Expertise**

- a. Accordingly, during the year 2020 the following Consultancy procurements were awarded:
  - TA for Implementation of DVP and policy framework for CCP implementation (Individual Consultant)
  - TA for enhancing education and awareness delivery channels – Development of SEC / Capital Market Education and Training (CMET) / Capital Market Information Centre (CMIC) websites
- b. Procurement of several key Technical expertise is also presently underway:
  - Expertise for developing IT Strategy/implementation monitoring
  - Surveillance Expertise to the SEC
  - Expertise to develop the Supervision Framework of the SEC

#### **Goods Procurements**

- Identified IT Goods will be procured based on the recommendations of the IT Strategy Consultant
- Funding is allocated for the procurement of a Surveillance system based on the recommendations of the Surveillance consultant

#### **Funding Secured to Implement Training for the SEC Staff**

As per representations made to the World Bank funding has been allocated to build capacity of the SEC staff based on a training plan developed by the SEC.

## OPERATIONAL REVIEW

### Market Assessment Survey for Derivative Products

The SEC along with the technical assistance provided by the ADB, conducted a derivatives product survey among identified stakeholders in order to assess the needs of derivatives and the demand for derivative products in the market.

### Other Policy Initiatives

- Develop guidelines for valuation of shares of listed entities in relation to regulatory requirements such as Takeovers and Mergers, Listing and Delisting of listed entities etc.
- Implementation of the Corporate Governance Code to be in line with Organisation of Economic Corporation and Development (OECD) Principles, International Organisation of Securities Commission (IOSCO) Principles and International best practices on Corporate Governance.
- Comprehensive review of operational framework, risk identification, rules consultation and benchmarking to introduce new listing platforms enabling.
  - a) Multi-currency debt listing by local entities
  - b) Debt Listing of Small and Medium Enterprises
- Evaluate the possibility of creating a framework to enhance integrity of information disclosed and preservation of stakeholder confidence together with strengthening the existing requirements to create a comprehensive guideline applicable to Auditors of Listed Companies to enhance accountability.
- To develop a process to provide the requisite approval under Section 75 (1) of New SEC Act on public offers by unlisted corporate entities.
- Develop and implement framework on 'Financial Surveillance' adopting a risk-based disclosure approach; internal capacity building to facilitate the same.

- Evaluation of introduction of Standardized Financial Reporting System to Sri Lankan Capital Market.

### Matters Referred to Members of the Audit Committee

Developing an internal framework for financial surveillance/oversight on disclosures of listed issuers of the Colombo Stock Exchange (CSE).

### World Bank Doing Business Initiative

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



**Mr. Prabash Wanigatunge**  
Acting Director, Capital Market Development



**Mrs. Thakshila Francis**  
Manager, Capital Market Development

### Way Forward

With an intention of taking the Sri Lankan capital market to the next level of development, some of the key initiatives that are being implemented are as follows:

### Initiatives in the Pipeline to Be Implemented as Part of Phase 2 and 3 of the Digitalization Initiative

- Electronic Wallet (E-Wallet) : Platform to enable electronic investments/fund raising etc
- Electronic Initial Public offering (E-IPO)
- Electronic subscription to an IPO
- Electronic Portals (E-Portal): Platform for clients to directly access his/her CDS account and obtain required details
- Web portals at Sri Lankan Embassies in other jurisdictions - Web portals will be established at Sri Lankan Embassies in other jurisdictions with an objective of streamlining the entry process and enable more foreign inflows to the country

### Facilitate the Introduction of Paper Gold (PG) via the OTC Trading Platform at the CSE

Gold is considered as one of the safest investment asset class and proposals have been received from the stakeholders to facilitate trading of PG. The framework for introducing trading of PG through the OTC platform is being finalised currently with the CSE which is expected to provide a new investment asset class for the market and generate a new source of tax revenue for the Government.

### Facilitate the Introduction of an Alternative Listing Avenue through Special Purpose Acquisition Companies (SPACs)

A SPAC is a newly incorporated company with no existing operations or underlying business that is founded by one (or a group of) sponsors, being well-known entrepreneurs, private equity or industry

experts with the objective of making one or more acquisitions. Its funds are raised through an IPO of its shares/units on a stock exchange and such funds are deployed to make its acquisition. Currently, the policy for enabling listing of SPACs is being finalized jointly with the CSE.

#### Facilitate Fund Raising through Online Platforms Such as Crowdfunding

Crowdfunding is solicitation of funds (small amounts) from multiple investors through a web-based platform or social networking site for a specific project, business venture etc.

Currently, the possibility of introducing equity/debt crowdfunding and peer to peer lending through E-Wallet which is expected to be introduced as part of the second phase of digitization initiative are being evaluated jointly with the CSE which will reduce the cost of capital and other intermediary cost involved.

#### Facilitate the Introduction of Covered Short Selling through Securities Borrowing and Lending

Subsequent to the implementation of a DvP system and enhanced margining system at the CSE, it is envisaged to facilitate the introduction of covered short selling through securities borrowing and lending which would enable efficient price discovery, higher market liquidity and better hedging opportunities. Currently, the policy for enabling covered short selling through securities borrowing and lending is being finalised with the technical inputs from the DvP Expert commission under the FSMP of the World Bank.

### CAPITAL MARKET EDUCATION

The revised Capital Market Qualification Framework introduced in 2019 was successfully implemented during 2020 which consists of Certified Investment Advisers for one or more asset classes.

i.e. Equity Securities, Debt Securities, Derivatives and Unit Trusts. The Registered Investment Advisor (RIA) qualification was enhanced to an apex qualification to include all asset classes in the securities industry and the continuous professional development (CPD) requirements for investment advisors in unrevised.

As part of its licensing regime, the SEC administers the RIA and Certified Equity Securities Advisor (CESA) certifications which are mandatory to perform duties as an Investment Advisor in licensed stock broking firms.

Further, under the revised Qualification Framework a structured qualification was introduced and implemented for the unit trust industry similar to the framework presently in place for Investment Advisors of stockbroking companies. A Directive related to this was circulated to the unit trust industry on 14th August 2020 stating the mandatory requirement. i.e. A candidate seeking to obtain the Certified Unit Trust Advisor (CUTA) certification must pass the four mandatory subjects Securities Markets and Instruments (Series 1), Unit Trusts (Series 5), Financial Planning, Advising and Marketing (Series 6) and Securities Regulation and Ethics (Series 7). On completion of this certification with 6 months of relevant industry experience, candidates shall face a VIVA VOCE examination and are required to fulfill the CPD requirement of a minimum of four CPD seminar credits per annum to retain the qualification.

Additionally, another directive was circulated among licensed stock brokers on 10th July 2020 regarding the re-instatement of Investment Advisors whose licences have lapsed due to not complying with annual CPD requirements and the renewal of their RIA status. i.e. Investment Advisors with industry experience of less than five years should

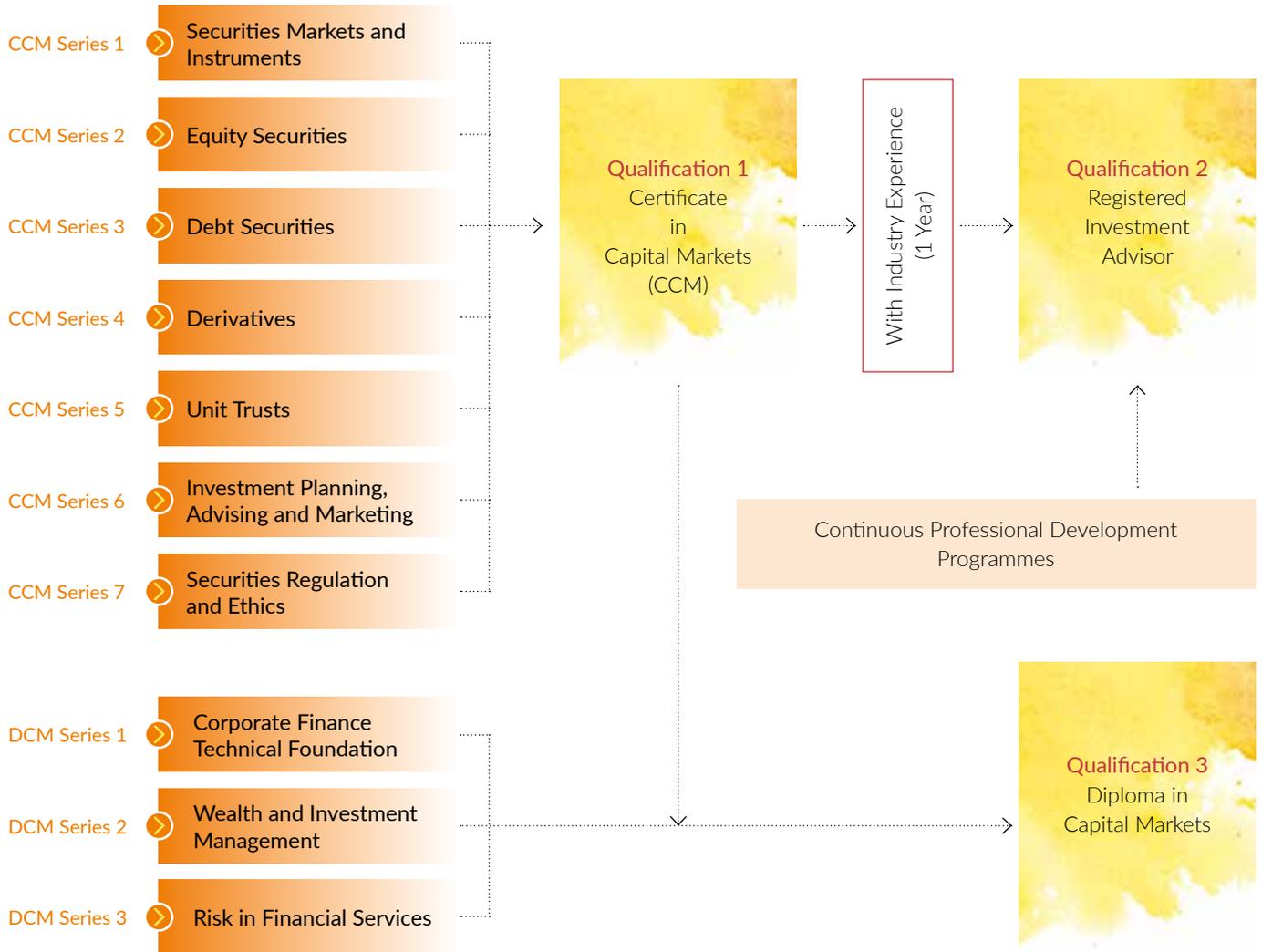
pass the re-licensing examination and the RIA VIVA VOCE examination to be reinstated. Investment Advisors with industry experience between 5-10 years should first face the RIA VIVA VOCE examination to renew the RIA status and then pass the re-licensing examination within a period of 1 year. Investment Advisors with industry experience of more than 10 years could be re-instated by facing only a RIA VIVA VOCE examination.

Moreover, having taken into consideration the constraints and administrative challenges faced by the licensed/registered entities in complying with certain regulatory requirements due to the unprecedented situation following the COVID-19 pandemic, the condition to fulfill the mandatory CPD requirement to transfer all Investment Advisors from the previous Qualification Framework to the new Qualification Framework was extended by six months till 30th June 2021. A Directive was issued on 30th April 2020 with respect to this.

After the period of lockdown imposed by the government ended, all four courses i.e. Certificate in Capital Markets (CCM), Diploma in Capital Markets (DCP), Programme in Investing (PI), Advanced Programme in Investing (API) and the VIVA VOCE examinations were conducted online via Zoom platform without hindrance. The CPD's were conducted in the form of Webinars. Further, in the beginning and during the latter part of 2020 classroom lectures, physical paper based examinations and VIVA VOCE examinations were conducted. (Figure 11)

## OPERATIONAL REVIEW

Figure 11: Current Qualification Framework



### Certificate in Capital Markets (CCM), Certificate in Equity Securities (CES), Certificate in Debt Securities (CDS) and Certificate in Unit Trusts (CUT)

We observed continued interest and enrollments for the CCM by non-industry individuals, school leavers, undergraduates, and professionals from other sectors in addition to capital market professionals. (Figures: 12, 13)

Figure 12: Statistical Performance

Total Registered	Completed Securities Markets and Instruments series	Completed Equity Series	Completed Debt Series	Completed Unit Trust series	Financial Planning, Advising and Marketing series	Securities Regulations and Ethics series
54	18	16	Examination not conducted in 2020	Examination not conducted in 2020	11	13

Figure 13: Statistical Performance of VIVA VOCE Examinations

Programme	Participated No. of Students	Pass %
Registered Investment Advisor	16	62.5
Certified Equity Securities Advisor	2	100
Re-instatements	5	60

#### Diploma in Capital Markets (DCM)

This year, the SEC continued to administer the DCM programme, which is offered jointly with the Chartered Institute for Securities and Investments (CISI), UK. Lectures of the 13th batch was completed and a new batch was inaugurated (batch 14) in February 2020 and 17 students had registered for the programme.



**Mr. Tushara Jayaratne**  
Director, Capital Market Education



**Mrs. Sajeewani Bakmedeniya**  
Senior Manager, Capital Market Education

#### Continuous Professional Development Programmes

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

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

Due to COVID-19, all CPD's were conducted online as webinars except for one CPD which was done physically. (Figure: 14)

Figure 14: Summary of CPD Programmes: Year 2020

Title of the CPD Programme	No of participants
Securities Markets and Instruments (physical)	99
Introduction to The Proposed DVP Business and Operational model with salient features	200
Digitalization	212
Real Estate Investment Trusts	151
Introduction to The Proposed DVP Business and Operational model with salient features (Repeat)	55
Securities Markets and Instruments	188
An overview of the Unit Trust Industry in Sri Lanka and its outlook	231

#### Programme in Investing

With the intention of providing basic theoretical and practical aspects of share trading for potential investors. Two English medium programmes were conducted during the year spanning six weeks. The 24th and 25th batches were inaugurated in February and August 2020 respectively. During the year 47 participants were registered for these programmes.

#### Advanced Programme in Investing

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

#### Gold Medal and Cash Award Project

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

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Due to the restrictions caused by the COVID-19 pandemic, most national universities were not able to successfully conduct examinations and hence only University of Sri Jayewardenepura was awarded the gold medal and a cash prize during the year 2020.

### Capital Market Information Center

The SEC as the regulator of the capital market always strives to improve financial literacy in the country as we firmly believe the creation of a knowledge-based, knowledge-led industry is pivotal for the sustainable development of the capital market. As a result, CMIC was launched in all National Universities in Sri Lanka in 2008 and it was continuously updated as we expect to offer an e-learning environment through which capital market information, data and other educational

tools are provided to academics and undergraduates seeking to further their understanding about the capital market for research and academic purposes as well as to upgrade their knowledge in investing. Currently we are in the process of revamping the website.

### CAPITAL MARKET AWARENESS AND EXTERNAL RELATIONS

The primary mission of the SEC is to protect the interest of investors. We are of the view that an educated investor will be able to make informed investment decisions and will be less likely to fall prey to securities fraud. The SEC educate investors on how to invest wisely and protect their investments through multiple channels including seminars, workshops, distribution of educational material, digital and print media.

### Short Animations Videos

The SEC produced four short animation videos in all three languages to disseminate on the SEC/CSE websites and social media networks i.e. Facebook, Youtube, Twitter etc. These audio-visual resources can be accessed anytime, anywhere and is an efficient and effective way to impart knowledge overcoming barriers of distance, language and culture. In addition, these videos are expected to be effective since they are multisensory and is also interactive, enabling the end users of the application to control the content and flow of information.

To educate potential listed companies on the benefits, methods and process of listing on the different Boards of the CSE, the SEC produced an explainer video in English titled “unlock the value of your company”.

### Short Animation Videos Produced by the SEC



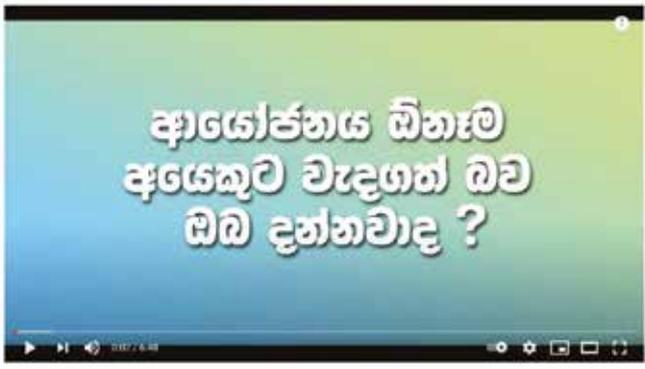
Meet Your Stockbroker - Hear it from Your Registered Investment Advisor



ආයෝජනය ඔබගේ වැදගත් ධන ඕබ දන්නවාද?



Invest at Every Age - Hear it from Supun and Tharindu.



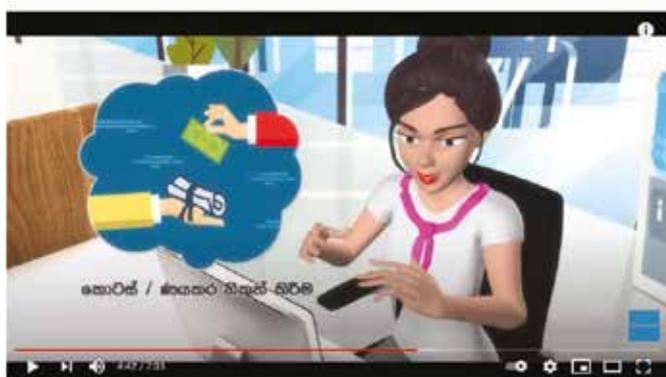
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Unlock the Value of Your Company

**Revamping of the SEC Web portal**

SEC commenced revamping the web portal in all three languages with World Bank funding during the period under review. The comprehensive web sites will comprise of the SEC, Capital Market Education and two dedicated extended Uniform Resource Locators (URLs) for investors and CMIC. The investor Corner will be an extended URL dedicated for existing and potential investors with material to assist them to make informed investment decisions.

To popularise the subject of Capital Market and encourage research, the SEC has established CMIC centers at National Universities in Sri Lanka. CMIC is expected to offer an e-learning environment through which capital market information, data and other

educational tools would be provided to academics and undergraduates seeking to further their understanding of the capital market research as well as to upgrade their knowledge in investing. The extended URL is expected provide resources for university students to gain knowledge on the capital market.

The English website of the SEC was launched to coincide with the digitalization of the end to end activities of the stock market on 17th September 2020. The SEC is in the process of implementing the Sinhala and Tamil versions.



**Mr. Tushara Jayaratne**  
Director, External Relations



**Miss. Sheena Goonaratna**  
Manager, External Relations

## OPERATIONAL REVIEW

### Social media presence for SEC

The SEC successfully launched its social media presence titled “Capital Market Development and Awareness” during the year 2020. We have been able to disseminate important regulatory and investor education information as well as build a strong brand image for the SEC. The SEC Social media platform includes a Face Book Page, Twitter Account and a YouTube Channel. Within 3 months of its launch, the social media platform of the SEC managed to attract a large number of followers.

### Facilitating stakeholder meetings

The Chairman SEC, along with other Commission Members met with representatives of the Ceylon Chamber of Commerce, Law Firms and stock broker Firms. These interactions were held as part of a series of meetings to discuss matters of mutual interest. During these meetings, the participants were able to raise queries and submit suggestions to the SEC with regard to the development of the market.

### Media Outreach

#### Print Media

To coincide with the launch of the end-to-end digitalization of the Colombo Stock market the SEC together with the CSE published Newspaper supplements in Daily Mirror, Daily FT and Sunday Times and The Morning. The publications contained a detailed overview of the benefits that investors, listed companies, stock brokers and the stock exchange can derive as a result of the digitization of the stock market.

The newspaper supplement also featured a cartoon titled “hyper-leap to the future” in all three languages to explain the benefits that investors will be able to derive through the CSE mobile application, which was also launched.



During the year, we publicised regulatory initiatives, enforcement actions, notices on public awareness issues and capital market development undertakings via media releases.

### Inclusion of the capital market subject

At present the capital market subject is included in the school curricula from grade 9 onwards. Investing is an important way to build wealth and save for the future. Inclusion of the capital market subject at a young age will enable them to make better financial decisions as adults as well as give them a better financial outcome later in life.

The SEC had discussions with the Dr. P.B Jayasundara, Secretary to President of Sri Lanka and Secretary to the State Ministry of Education Reforms, Open Universities and Distance Learning Promotion, to include the capital market subject from 2023 to the school curriculum from grade 6 onwards and National University curriculum.

### Awareness through Seminars and Workshops

To spread financial awareness the SEC continued to organise seminars and workshops for teachers, students,

undergraduates, and various segments of society. (Figure: 15)

Figure 15: Awareness Programmes

Type of Programme	Number of Programmes
Teachers Training Programmes with Ministry of Education (All three Languages)	08
School Seminars (A/L Students) (All three Languages)	04
Undergraduate Programmes	01
CSE 4 part workshops	55

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

The SEC facilitated two localised study tour programmes for selected female law students from state universities and the Sri Lanka Law College in order to enhance the governance, qualifications, and diversity of the Sri Lankan legal profession. This programme done in conjunction with the United States Agency for International Development was commenced to

empower the students to witness the functions of the institutions such as the SEC (as the SEC has been chosen as one of the key institutions which is the focus of the study) and obtain an understanding of the different career opportunities in the legal sector.

### Engagement with IOSCO

The SEC is an Ordinary Member of IOSCO and a member of the Growth and Emerging Markets Committee (GEMC) and Asia Pacific Regional Committee (APRC). Much of IOSCO's work takes place in its policy committees, and the SEC participates in some of them namely

the Committee on Enforcement and the Exchange of Information (Committee 4) and the Committee on Retail Investors (Committee 8). SEC is a signatory to the IOSCO MMOU. SEC attends and actively participates in meetings of the two policy committees and contributes to various work streams through responses to surveys and questionnaires.

### Creating Awareness through the SEC Social Media Platform

#### How Does Insider Dealing Work?

- ABC PLC decides to introduce a new utility product to the market at the Board meeting.
- Ravi is a Director of the company. He is aware that the new venture would increase profits and the news is price sensitive. Hence, he purchases the shares of the company at Rs.20 before the information is published.
- The information is made public by the company.
- The investor community purchases the shares with the expectation of future returns. Hence, the price gradually increases as the demand pushes up. Profits increase further as a result of the venture and the price increases to Rs.80.
- Ravi sells his shares at Rs.80 per share with massive profits. His profit margin is higher as he purchased at lower prices.
- Ravi will be convicted if found guilty for making a profit by trading on unpublished price sensitive information.

#### RULES OF LONG TERM INVESTING

- Create a plan and stick to it (PLAN)
- Invest in the things you understand
- Only risk what you are able to lose
- Diversify among different sectors and markets
- Re-invest dividends to own more shares
- DON'T PANIC - Avoid panic selling during sell-offs

#### 5 Simple Financial RATIOS FOR STOCK PICKING

- PRICE TO EARNINGS RATIO**  
The Price to Earnings ratio is one of the most widely used financial ratios used among the investors for a very long time.  
Price to Earnings Ratio (Price Per Share / Earnings Per Share)  
As a thumb rule, a low P/E ratio is preferred while buying a stock.
- PRICE TO BOOK VALUE**  
Price to Book Ratio (P/B) is calculated by dividing the current price of the stock by the book value of the stock per share.  
Price to Book Ratio = Price per Share / Book Value per Share  
A lower P/B ratio could mean that the stock is undervalued, but again the definition of lower varies from sector to sector.
- DEBT TO EQUITY RATIO**  
The debt to equity ratio measures the relationship between the amount of capital that has been borrowed (i.e. debt) and the amount of capital contributed by shareholders (i.e. equity).  
Debt to Equity Ratio = Total liabilities / Total Shareholder Equity  
As a thumb rule, companies with a debt-to-equity ratio less than 1 are better.
- RETURN ON EQUITY (ROE)**  
Return on Equity (ROE) is the measure of net income returned to a percentage of shareholders equity.  
Return on Equity = (Net Income / Average Book Value Equity) x 100  
As a thumb rule, always invest in a company with ROE greater than 20% for at least last 3 years.
- CURRENT RATIO**  
The current ratio is a key financial ratio for evaluating a company's liquidity. It measures the proportion of current assets available to cover current liabilities.  
Current Ratio = (Current Assets / Current Liabilities)  
As a thumb rule, always invest in a company with a current ratio greater than 1.

#### TEN questions to ask before purchasing a stock

- What does the company do?
- Who runs the company?
- Does the company have a sustainable competitive advantage?
- How strong is the company's balance sheet?
- Is the Company Profitable?
- Was the management involved in past fraud or scams?
- Who are the key competitors?
- How much debt the company has?
- How was the past performance of the company?
- How is the stock valued?

#### THREE FINANCIAL SIGNALS THAT A COMPANY MAY BE DECLINING

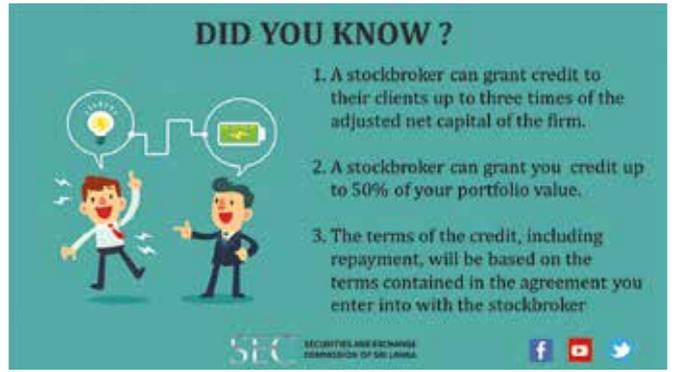
- Flat or declining revenue**  
If a company's revenue is continuously declining for three consecutive years, it may be a warning sign for the investors.
- Negative Profit Margin**  
If a company's profit margin is consistently negative for three consecutive years, it may be a warning sign for the investors.
- Big dividend payouts**  
For high growth, the company's dividend payout should be minimal or no dividend at all.

A few other warning signals are High debt, declining ROE, ROCE for continuous years.

#### When investing in stocks, you don't have to be smarter than the rest. You have to be more DISCIPLINED than the rest!

# OPERATIONAL REVIEW

## Creating Awareness through the SEC Social Media Platform



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SEC

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**සමාජ මාධ්‍ය**

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**තත්කල්ප හා විශ්වාසනීයත්වය**

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SEC - SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

**11 Important Things to Analyze in an Annual Report**

1. Vision and mission statements of the company
2. Corporate Information
3. Chairman's report
4. Products/services overview and financial highlights in last 5 to 10 years
5. Auditors report
6. Income statement and Balance sheet
7. Cash flows statement
8. Contingent liabilities and auditor qualifications, if any
9. Management discussion and analysis (MDA)
10. Report on Corporate governance
11. Information on shares of the company

SEC - SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

**ඒකක භාර (යුනිට් උපයෝජන) ආයෝජනයේ මූලික ලක්ෂණ**

SEC - SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

ඉහළම මට්ටමේ සුදානම් කිරීමේදී මෙම තත්වයන් සලකා බැලිය යුතුය.

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**DID YOU KNOW?**

SEC - SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

**Top EIGHT Factors to Avoid When Investing**

SEC - SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

## OPERATIONAL REVIEW

### HUMAN RESOURCES

With a view to achieving excellence in discharging the mandate, the SEC strives to recruit the right people for the right positions at the right time. The human capital of the SEC is entrusted with developing and regulating the capital market of Sri Lanka. Energetic, high caliber professionals with knowledge, skills and competencies are entrusted with significant roles in achieving the goals and objectives of the SEC.

#### Staffing

The SEC provides a safe, secure and conducive environment to its employees and promotes a work place culture that is favourable to the employees to gain experience under challenging circumstances, enhance satisfaction and to lead a balanced life.

During the year under review, the SEC was successful in hiring a suitably qualified and experienced employee to fill the position of Director Supervision. Three Assistant Managers were also recruited during the year under review. Further, three internal candidates who competed with external candidates were appointed for the positions of Director Finance, Assistant Director Human Resources and Assistant Director Investigations.

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

#### Improved Employee Satisfaction and Morale

The employees who are duly recognised for their long years of service to the institution as well as for their performance, derive job satisfaction and are motivated to perform better.

In the year under review a Human Resources Committee appointed by the Director General perused the employee profiles and explored the possibility of promoting several professionals who have gained expertise relating to various disciplines of the Secretariat of the SEC due to their long years of service.

#### Retirement and Resignations

In March 2020 the former Director General Mr. Vajira Wijegunawardena was transferred to the Ministry of Finance and the Minister of Finance appointed then Director Litigation of the SEC Mr. Chinthaka Mendis as the Director General.

Further, in April 2020 the contract of employment of the former Director Finance and Administration who was employed on contract basis subsequent to her retirement ended. A female office aide who served the Secretariat on a fixed term contract and who was above the age of 60 years was also replaced with a new office aide.

In the year 2020 a Senior Assistant Manager and an Assistant Manager also resigned recording a staff turnover of 6% and staff retention of 94% during the year. (Figures: 16,17,18,19,20,21)

Figure 16 : Service Information

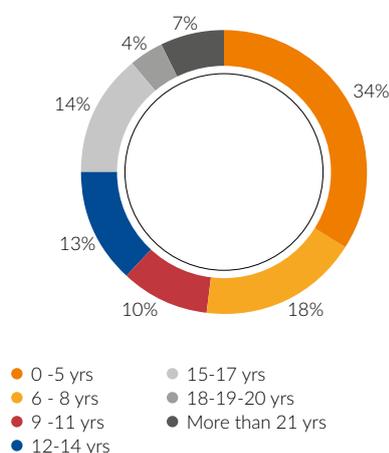


Figure 17: Gender Analysis

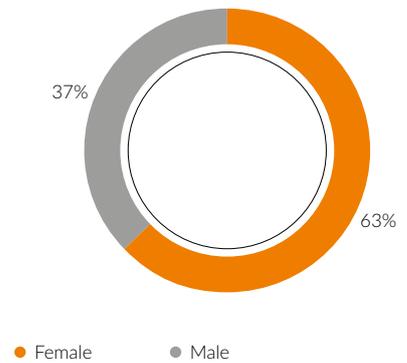


Figure 18: Qualification Framework

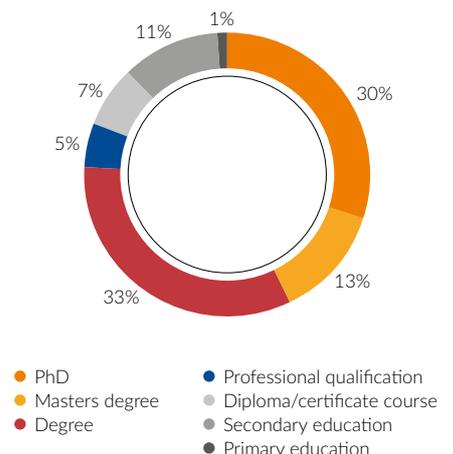


Figure 19: Age Analysis

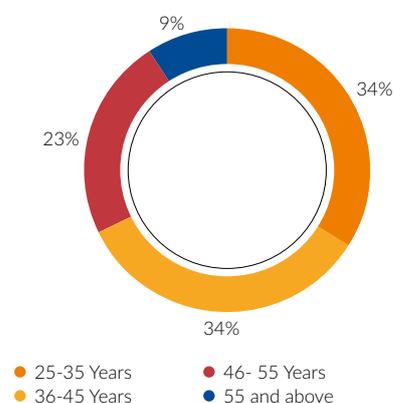


Figure 20: Existing Cadre



Figure 21 : Cadre Composition as at 31st December 2020

Designations	Cadre approved by the Ministry as at date	Enhanced Cadre based on Commission decisions at the 384th Meeting - 14th February 2017 and 404th Meeting held on 22nd January 2018	Total Cadre as at 31.12.2020	Existing Cadre		Vacancies
				Permanent	Contract	
<b>Executive Staff</b>						
Director General	1		1	1		-
Deputy Director General	1	1	2	1		1
Directors	11		11	6		5
Assistant Directors	5	5	10	4		6
Managers	8	10	18	7		11
Senior Assistant Managers				19		
Assistant Managers		20		21		
Senior Executive Secretaries	43		63	2		20
Executive Secretary				1		
Executives/Officers	11		11	6		5
<b>Non-Executive</b>						
Confidential Secretaries	6		6	3		1
Telephone Operators				2		
Non-Executive (to be designated based on need)		3	3	-		3
<b>Support Staff</b>						
Senior Office Assistants				4		
Office Assistants	10		12	1		2
Office Aides / Drivers		2		4	1	
<b>Total</b>	<b>96</b>	<b>41</b>	<b>137</b>	<b>82</b>	<b>1</b>	<b>54</b>

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### Staff Welfare

In August 2021, a social event was organized for the staff in appreciation of the collective effort during the post COVID – 19 months towards the smooth functioning of the Secretariat of the SEC, which enabled the staff to mingle with their colleagues and foster camaraderie

During the year under review the HR Division took efforts to enhance the limits of the existing surgical and the hospitalisation insurance cover. Further, a life insurance cover and an insurance cover in respect of certain critical illnesses were introduced to the staff.

### Training and Development

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

Training also creates a supportive workplace and as a result of the training facilities offered to the staff on a continuous basis they may gain access to training they may not have sought individually.

During the first two months of the year, five staff members attended 2 programmes, held in Spain and Maldives which were organized by IOSCO. All other overseas training programmes which had been planned for the year 2020 by the IOSCO, Asia Pacific Economic Cooperation (APEC) and other international agencies were not held due to the COVID – 19 pandemic which spread around the world.

Even though a sum of Rs. 25 million was budgeted for staff overseas training for the year 2020 only Rs. 2.31 million was spent for such training. However, during the year 2020, the SEC provided

opportunities for the staff to participate virtually in the Economic Summit 2020 and the National Conference of Chartered Accountants which were organized locally. In the year 2020 the SEC incurred an approximate cost of Rs. 0.4 million for local training.

However, in previous years the SEC employees received training relating to capital market regulation and development at various programmes which were held in Australia, Canada, United States of America, United Kingdom, Russia etc. We extend our appreciation to the IOSCO, APEC and other international agencies for organizing the above training programmes, which enabled the staff to attend such programmes and workshops to keep pace with current trends in the capital market arena.

Demonstrating the commitment to staff education, the training arm of the SEC continuously provides opportunities to the staff to follow study courses focused on enhancing their knowledge in a wide range of disciplines relating to the capital market. The Institute of Chartered Financial Analyst provides scholarships to the staff to follow courses at discounted rates. We also provide sponsorships to the employees to follow higher studies including postgraduate degrees and during the year under review the SEC spent Rs. 2.2 million on sponsorships for higher studies and as membership fees.

### Internships

In the year 2020 the SEC continued with the practice of awarding internship opportunities to undergraduates of national universities. Further, we also offered internships to the students of the Institute of Chartered Accountants of Sri Lanka in order to provide the respective students with an exposure to the regulatory functions of the SEC.



**Miss. Madhugayanie Balapitiya**  
Assistant Director, Human Resources and Information Technology



**Mrs. Ranmini Jayathilake**  
Senior Manager, Information Technology



**Mrs. Ashoka Dayarathne**  
Manager, Human Resources

### Information Technology

Year ended was a highly challenging period for the staff engaged in Information Technology functions of the SEC due to country wide lock down from mid-March to May and also due to the impact of the second wave of COVID -19 commencing from October. However, the IT team succeeded in implementing a fully-fledged “working from home” solution during the second wave.

The SEC also successfully launched an informative, state of the art, user friendly website to disseminate Capital Market information to the public at large.

Further, during the year under review initiatives were taken to digitalize the regulatory functions of the SEC.

## STATUTORY FUNDS

### CESS Fund

In terms of Sections 14A and 14B of the SEC Act, No. 36 of 1987 as amended by Act, No. 26 of 1991, Act, No. 18 of 2003 and Act, No. 47 of 2009, the procedure for operation and the objectives of the Cess Fund are as follows.

14A(1) There shall be charged, levied and paid a Cess at such rates as may be specified by the Minister by Order published in the Gazette on every purchase and sale of securities recorded in a licensed stock exchange or notified to it under its rules by both the purchaser and the seller. Different rates may be specified in respect of different classes of securities.

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

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

(2) There shall be paid out the Cess Fund such sums as may be authorized by the Commission for the purpose of-

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

(3) The money lying to the credit of the Cess Fund may be invested by the Commission in such manner as may be determined by the Commission.



**Mrs. G.P.N. Dilhani**  
Director, Finance



**Mrs. Lakshmi Wickramanayake**  
Manager, Finance and Administration

### SEC CESS for Equity Securities

As per the CSE Guidelines, the rate of Cess charged by the SEC on equity securities had been reduced for the second time to 0.072% per transaction from 0.09% per transaction with effect from 1st August 2010. The subsequent reduction took effect from 1st December 2003 when the applicable rate of Cess was reduced from 0.1% to 0.09% per transaction.

Further, the applicable threshold for the above rates was revised to Rs.100 Mn with effect from 27th June 2017. Earlier, with effect from 1st January 2011, the SEC Cess for transactions up to Rs.50 million and over Rs.50 million were levied at 0.072% and 0.045% respectively. Subsequently, with effect from 27th June 2017, as per the revised

threshold the SEC Cess for transactions up to Rs.100 million and over Rs.100 million are levied at 0.072% and 0.045% respectively.

In addition, the transaction fee due to the SEC on Intraday trades, where a client buys and sells the same security (or contrariwise) on the same day through the same broker, will not be charged on one side of the transaction with effect from 15th February 2006.

In the event the total number of shares purchased does not equal the total number of shares sold, the transaction fees as detailed above will not be levied on the lower quantity of shares either purchased or sold. In the event the total quantity purchased is equal to the total quantity sold the transaction fees will not be levied from the sales transaction. And the total purchases and sales of a client on the same security will be considered for the purpose of determining the exemption of SEC transaction fee. Yet, the Government Share Transaction Levy of 0.30% will be charged on both sides of the transactions.

### Behaviour of the CESS Fund

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

Transfers to the Consolidated fund on five occasions amounted to Rs.276 million, Rs.380 million, Rs.94 million, Rs.52 million and Rs.312 Mn in 2010, 2012, 2013, 2019 and 2020, respectively.

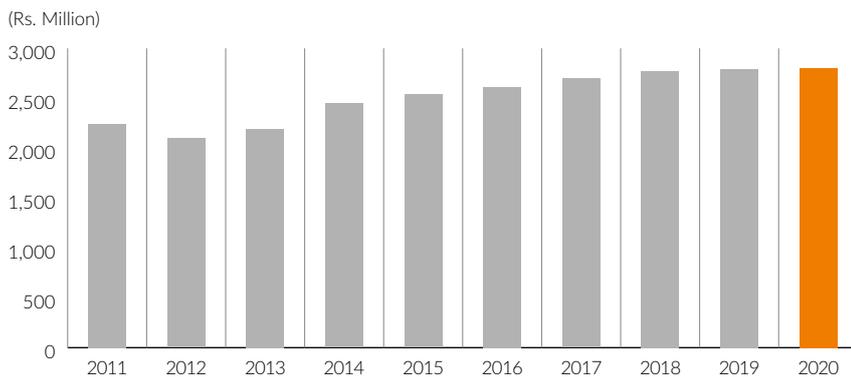
The balance lying to the credit of Cess Fund reached Rs. 2,800.3 million as at the end of 2020, of which Rs. 204.1 million is invested in Treasury Bonds expected to realise within twelve

## OPERATIONAL REVIEW

months, Rs 969.9 million is invested in Treasury Bonds expected to realise after twelve months and Rs.1,425.8 million is invested in Repo.

The movement of the fund during the period 2010 to 2020 is depicted below. (Figure: 22)

**Figure 22: CESS Fund**



### Compensation Fund

The Compensation Fund came into operation along with the establishment of the SEC in 1987. Under Section 38 of the SEC Act No. 36 of 1987 (as amended), it is a statutory responsibility of the SEC to establish and maintain a Compensation Fund. Accordingly, the objective and guidelines for maintaining the Compensation Fund are as follows.

38 (1) 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.

(2) The Compensation Fund shall consist of;

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

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

Section 39(1) of the SEC Act requires the Minister to appoint from amongst the Members of the Commission three members who shall comprise the Compensation Committee.

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 balance lying to the credit of Cess Fund reached Rs. 2,800.3 million as at the end of 2020, of which Rs. 204.1 million is invested in Treasury Bonds.*

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. Yet, there have been no claims made from the Compensation Fund up to now.

### Behaviour of the Compensation Fund

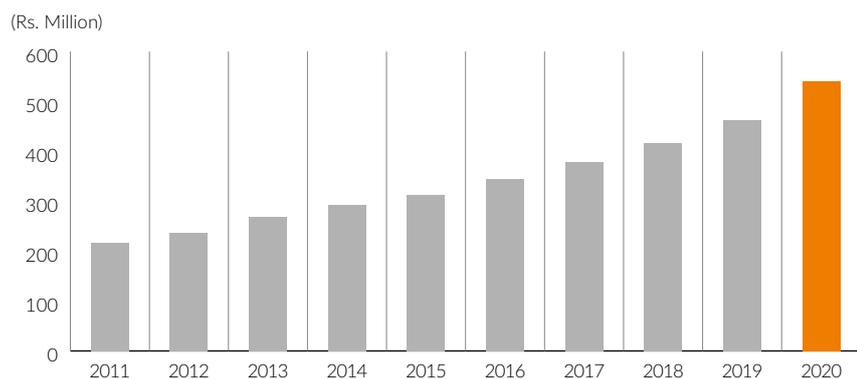
To strengthen the Compensation Fund a sum of Rs. 50 million was transferred from the Cess Fund during the year 2009.

During the year under review, a sum of 36.3 million was received to the Compensation Fund by way of compounded fine.

The balance lying to the credit of the Compensation Fund reached Rs.540.6 million as at the end of 2020, of which Rs. 39.6 million is invested in Treasury Bonds expected to realise within twelve months, Rs 242.8 million is invested in Treasury Bonds expected to realise after twelve months and Rs. 248.7 million is invested in Repo.

The movement of the Fund during the period 2010 to 2020 is depicted below. (Figure: 23)

**Figure 23: Compensation Fund**



### THE SETTLEMENT GUARANTEE FUND (SGF)

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

- Ownership of shares traded is transferred no sooner a trade is executed. From 10 December 2007 the CSE adopted a single tier settlement cycle. The buyer is required to pay on T+3 i.e., on the 4th Market Day including the day of trading and the seller to receive the settlement on T+3 i.e., on the 4th Market Day. The relatively long interval between transfer of ownership and receipt of proceeds leaves the settlement risk uncovered which in turn necessitated the establishment of the SGF.
- The Trustees of the Fund hold office of ex-officio and comprise the Chairman of SEC, the Chairman of CSE, the Deputy Secretary to the Treasury, the Director General of SEC, and the Director General of CSE.

- The Government of Sri Lanka has contributed a sum of Rs 50 million to setup the said Fund. This money has been invested in Government securities and fixed deposits. SGF can also receive donations, gifts and endowments as replenishments. The broker/custodian banks are presently not required to contribute to the Fund.
- However, since the SGF is found to be inadequate to properly address the issue of settlement risk, steps

are being taken to establish a Central Counterparty Mechanism to effectively address the settlement risk. From the inception of the Fund no claims have been recorded from the SGF.

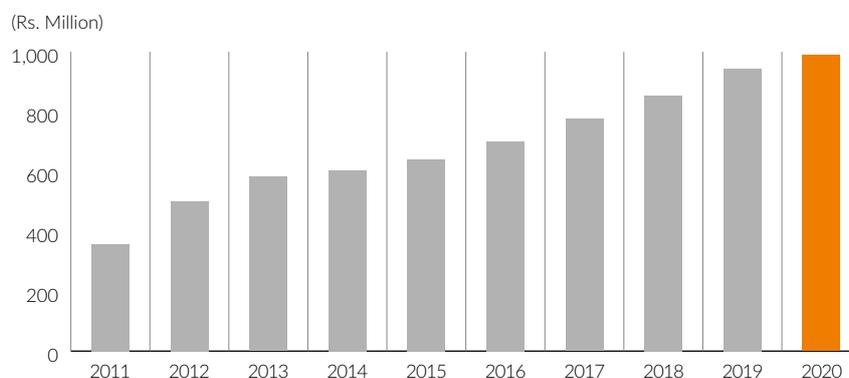
### Behaviour of the SGF

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

The balance lying to the credit of the SGF reached Rs.987.7 million as at the end of 2020, of which Rs. 155.1 million is invested in Treasury Bonds expected to realise within twelve months, Rs 473.6 million is invested in Treasury Bonds expected to realise after twelve months, Rs.300 million is invested in Fixed Deposits of state banks and Rs. 30.4 million is invested in Repo.

The movement of the Fund during the period 2010 and 2020 is depicted in the following graph. (Figure: 24)

**Figure 24: Settlement Guarantee Fund**



## ADDITIONAL INFORMATION

### LICENSED STOCK EXCHANGE

Colombo Stock Exchange

### LICENSED STOCK BROKERS

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

### LICENSED STOCK DEALERS

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

### LICENSED MANAGING COMPANIES OF UNIT TRUSTS

1. Ceylon Asset Management Company Limited
  - Ceylon Dollar Bond Fund
  - Ceylon Financial Sector Fund
  - Ceylon Income Fund
  - Ceylon Index Fund
  - Ceylon IPO Fund
  - Ceylon Money Market Fund
  - Ceylon Tourism Fund
  - Ceylon Treasury Income Fund
2. Comtrust Asset Management (Private) Limited
  - Comtrust ADL Mudarabah Fund
  - Comtrust Equity Fund
  - Comtrust Gilt Edged Fund
  - Comtrust Money Market Fund
3. NDB Wealth Management Limited
  - NDB Wealth Gilt Edged Fund
  - NDB Wealth Growth & Income Fund
  - NDB Wealth Growth Fund

- NDB Wealth Income Fund
  - NDB Wealth Income Plus Fund
  - NDB Wealth Islamic Money Plus Fund
  - NDB Wealth Money Fund
  - NDB Wealth Money Plus Fund
4. Ceybank Asset Management (Pvt) Limited
    - Ceybank Century Growth Fund
    - Ceybank Gilt Edged Fund (A Series)
    - Ceybank Gilt Edged Fund (B Series)
    - Ceybank High Yield Fund
    - Ceybank Savings Plus Money Market Fund
    - Ceybank Surakum Gilt Edged Fund
    - Ceybank Unit Trust Fund
  5. National Asset Management Limited
    - NAMAL Growth Fund
    - NAMAL High Yield Fund
    - NAMAL Income Fund
    - NAMAL Money Market Fund
    - National Equity Fund
    - NAMAL Gilt Fund
    - NAMAL Bank Fund
  6. First Capital Asset Management Limited
    - First Capital Equity Fund
    - First Capital Fixed income Fund
    - First Capital Gilt Edged Fund
    - First Capital Money Market Fund
    - First Capital Wealth Fund
  7. J B Financial (Pvt) Ltd
    - JB Vantage Money Market Fund
    - JB Vantage Short Term Gilt Fund
    - JB Vantage Value Equity Fund

8. Guardian Acuity Asset Management Ltd
- Guardian Acuity Equity Fund
  - Guardian Acuity Money Market Fund
  - Guardian Acuity Income Fund
9. Senfin Asset Management (Pvt) Ltd
- Senfin Growth Fund
  - Senfin Money Market Fund
  - Senfin Shariah Income Fund
  - Senfin Shariah Balanced Fund
  - Senfin Dynamic Income Fund
10. Asset Trust Management (Pvt) Ltd
- Astrue Alpha Fund
  - Astrue Active Income Fund
11. Capital Alliance Investments Ltd
- CAL Balanced Fund
  - CAL Corporate Debt & Gilt Trading Fund
- CAL Corporate Treasury Fund
  - CAL Gilt Fund
  - CAL Gilt Money Market Fund
  - CAL Gilt Trading Fund
  - CAL High Yield Fund
  - CAL Income Fund
  - CAL Investment Grade Fund
  - CAL Medium Risk Debt Fund
  - CAL Quantitative Equity Fund
12. Arpico Ataraxia Asset Management (Private) Limited
- Arpico Ataraxia Cash Management Trust Fund (CMT)
  - Arpico Ataraxia Equity Income Fund
  - Arpico Ataraxia Repo Investment Fund
  - Arpico Ataraxia Sri Lanka Bond Fund
13. Premier Wealth Management Ltd
- Premier Growth Fund
  - Premier Money Market Fund
14. Assetline Capital (Pvt) Ltd
- Assetline Income Fund
  - Assetline Income Plus Growth Fund
15. Softlogic Asset Management (Pvt) Ltd
- Softlogic Equity Fund
  - Softlogic Money Market Fund
16. Asia Securities Wealth Management (Pvt) Ltd
- Asia Securities Money Market Fund

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

## ADDITIONAL INFORMATION

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

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

### REGISTERED MARKET INTERMEDIARY UNDER THE CATEGORY OF A CLEARING HOUSE:

Central Depository Systems (Private) Limited

### REGISTERED MARKET INTERMEDIARIES UNDER THE CATEGORY OF CREDIT RATING AGENCY:

1. Fitch Rating
2. ICRA Lanka Limited

Year	2015	2016	2017	2018	2019	2020
Annual Turnover (Rs Mn) Equity	253,251.0	176,935	220,591	200,069	171,408	396,882
Domestic (Rs Mn)	166,151.5	102,544	117,135	111,378	109,003	318,354
Foreign (Rs Mn)	87,099.5	74,391	103,456	88,691	62,405	78,527
Market Days (No)	239	240	241	240	241	209
Daily Average Turnover (Rs Mn) Equity	1,059.6	737.2	915.3	834	711	3,217
Shares traded (No Mn) Equity	9,414	7,196	8,468	6,001	9,855	21,349
Domestic (No Mn)	7,693	5,776	6,529	4,821	7,091	19,808
Foreign (No Mn)	1,721	1,420	1,939	1,180	2,764	1,541
Trades (No) Equity	1,506,790	1,056,849	981,977	885,657	1,197,205	3,070,021
Domestic (No)	1,431,750	1,002,476	928,276	838,784	1,150,486	2,968,092
Foreign (No)	75,040	54,373	53,701	46,873	46,719	101,929
New Listing (No)	5	4	3	3	2	1
Delisting (No)	3	2	2	2	10	7
Companies Listed (No)	294	295	296	297	289	283
Companies Traded (No)	278	240	279	279	279	266
Market Capitalization (Rs Bn)	2938.0	2,745.41	2,899.29	2,839.45	2,851.31	2,960.65
Market PER year end (Times)	18.0	12.37	10.60	9.65	10.83	11.3
Turnover to Market Capitalization (%)	8.6	6.2	7.6	7.0	6.01	13.4
Dividend Yield Year End (%)	2.18	2.75	3.19	3.09	3.17	2.7
Price to Book Value Year End (Times)	1.99	1.42	1.31	1.18	1.14	1.1
Market Cap. As a % of GDP	30	25	25	21	22	20
<b>Price Indices</b>						
All Share Price Index (ASPI)	6894.5	6,228.26	6,369.26	6,052.37	6,129.21	6,774.22
y-o-y Change %	(5.5)	(9.7)	2.3	(5.0)	1.27	10.52
S&P Sri Lanka 20	3625.7	3,496.44	3,671.72	3,135.18	2,936.96	2,638.10
y-o-y Change %	(11.3)	(3.6)	5.0	(14.6)	(6.32)	(10.18)
<b>Total Return Indices</b>						
Total Return Index on ASPI (ASTRI)	9079.9	8,232.66	8,457.09	8,066.97	8,203.82	9,078.65
y-o-y Change %	(5.2)	(9.3)	2.7	(4.6)	1.70	10.7
Total Return Index on MPI (MTRI)	-	-	-	-	-	-
y-o-y Change %	-	-	-	-	-	-
Total Return Index on S&P Sri Lanka 20 (S&P Sri Lanka 20TRI)	4861.5	4,843.17	5,259.85	4,686.71	4,603.57	4,332.84
y-o-y Change %	(8.8)	(0.4)	8.6	(10.9)	(1.77)	(5.9)

## ADDITIONAL INFORMATION

Year	2015	2016	2017	2018	2019	2020
<b>Non-National Activity</b>						
Annual Turnover (Rs Mn)	87,099.50	74,391	103,456	88,691	62,405	<b>78,527</b>
Purchases (Rs. Mn.)	84,414.56	74,583	112,285	77,067	56,537	<b>52,889</b>
Sales (Rs. Mn.)	89,784.44	74,199	94,627	100,315	68,272	<b>104,165</b>
Net Foreign Flow	(5,369.9)	383.5	17,657.4	(23,247.5)	(11,735)	<b>(51,276)</b>
Shares Traded (No. Mn.)	1,721.50	1,420	1,939	1,180	2,764	<b>1,541</b>
Purchases (No. Mn.)	1,730.72	1,572	2,062	1,060	3,896	<b>928</b>
Sales (No. Mn.)	1,712.27	1,267	1,817	1,299	1,631	<b>2,154</b>
Trades	75,040	54,373	53,701	46,873	46,719	<b>101,929</b>
Purchases (No.)	65,932	51,656	56,643	37,855	25,759	<b>42,134</b>
Sales (No.)	84,149	57,091	50,760	55,892	67,680	<b>161,725</b>
<b>Debt Market</b>						
<b>Corporate Debt</b>						
Turnover (Rs 000)	4,714,012.7	2,932,154.0	3,592,905.5	4,540,599	5,677,080	<b>5,856,002</b>
No of Trades	220	291	529	293	234	<b>243</b>
No of Debentures Traded (000)	42,201	28,335	35,696	44,024	55,643	<b>54,230</b>
<b>Unit Trusts</b>						
Net Asset Value (NAV)(Rs. Mn)	129,844	103,890	128,804	64.22	104.79	<b>200.94</b>
Unit Holders (No.)	38,140	41,154	41,037	42,093	46,481	<b>51,707</b>
Units Issued (No. 000)	8,812	7,142	7,639	3,368	4,769	<b>8,210</b>
Investment in Equity (Rs. Mn.)	14,376	13,786	12,466	9,416	9,841	<b>14,019</b>
Investment in Treasury Bills (Rs. Mn)	28,294	49,299	24,386	3,379	9,150	<b>28,613</b>
Investment in other Instruments **(Rs. Mn)	87,272	40,553	91,732	50,601	84,542	<b>158,725</b>

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

# A STORY OF GROWTH



## FINANCIAL REPORTS

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SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

**AUDITOR GENERAL'S REPORT**

**ජාතික විගණන කාර්යාලය**  
**தேசிய கணக்காய்வு அலுவலகம்**  
**NATIONAL AUDIT OFFICE**



මගේ අංකය  
எனது இல.  
My No.

BAF/H/SEC/COM/1/20/5

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

21 June 2021

Chairman  
Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2020 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

**1. Financial Statements****1.1 Opinion**

The audit of the financial statements of the Securities and Exchange Commission of Sri Lanka ("Commission") for the year ended 31 December 2020 comprising the Statement of Financial Position as at 31 December 2020 and the Statement of Financial Performance, Statement of Changes in Reserves and Cash Flow Statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act, No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Commission as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.2 Basis for Opinion**

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

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

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

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

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



## SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### AUDITOR GENERAL'S REPORT



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

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

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

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

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

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

## 2. Report on Other Legal and Regulatory Requirements

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

**2.1.1** I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Commission as per the requirement of Section 12 (a) of the National Audit Act, No. 19 of 2018.

**2.1.2** The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

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

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

**2.2.1** to state that any member of the governing body of the Commission has any direct or indirect interest in any contract entered into by the Commission which are out of the normal course of business as per the requirement of Section 12 (d) of the National Audit Act, No. 19 of 2018.

**2.2.2** to state that the Commission has not complied with any applicable written law, general and special directions issued by the governing body of the Commission as per the requirement of Section 12 (f) of the National Audit Act, No. 19 of 2018.

**2.2.3** to state that the Commission has not performed according to its powers, functions and duties as per the requirement of Section 12 (g) of the National Audit Act, No. 19 of 2018.

**2.2.4** to state that the resources of the Commission had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of Section 12 (h) of the National Audit Act, No. 19 of 2018.



**W. P. C. Wickramaratne**  
Auditor General

## SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

## STATEMENT OF FINANCIAL POSITION

As at 31st December 2020	Note	2020 Rs.	2019 Rs.
<b>Assets</b>			
<b>Non Current Assets</b>			
Property, Plant & Equipment	7	75,447,839	87,921,497
<b>Current Assets</b>			
Inventories	8	2,033,967	1,480,653
Receivables	9	47,203,119	7,906,073
Investments in Fixed Deposits	10	639,895	66,843
Deposits, Advances and Prepayments	11	64,695,096	15,454,932
Cash & Cash Equivalents	12	103,007,105	168,713,075
<b>Total Assets</b>		<b>293,027,021</b>	<b>281,543,073</b>
<b>Funds and Liabilities</b>			
<b>Funds Employed and Reserves</b>			
Accumulated Fund	13	-	-
<b>Non Current Liabilities</b>			
Grant - Transfer from Cess Fund for Capital Expenditure	14	69,195,940	81,571,796
Retirement Benefit Obligation	15	50,378,208	43,464,269
<b>Current Liabilities</b>			
Tax Payable		23,339,815	33,316,205
Creditors and Accruals	16	145,547,211	119,841,708
Payable to Vendors - FSMP	17	558,060	-
Receipts in Advance		4,007,787	3,349,095
<b>Total Funds and Liabilities</b>		<b>293,027,021</b>	<b>281,543,073</b>

The notes appearing on pages 89 to 102 form an integral part of the financial statements.

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

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



**Chinthaka Mendis**  
Director General  
Securities and Exchange Commission of Sri Lanka



**Viraj Dayaratne PC**  
Chairman  
Securities and Exchange Commission of Sri Lanka



**G P N Dilhani**  
Director Finance  
Securities and Exchange Commission of Sri Lanka

## STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31st December 2020	Note	2020 Rs.	2019 Rs.
<b>Income</b>			
License Fees		3,610,706	3,171,963
Administration Levy		1,172,909	1,531,065
Educational Programmes		3,480,239	4,033,843
Interest Income		5,360,805	3,728,019
Other Income		78,755	2,015,176
Interest on Staff Loans		738,471	-
Profit/(Loss) on Disposal of Property, Plant and Equipment		(44,525)	-
Government Grant - FSMP	17	11,720,560	81,124,254
Recognition of Grants	14	23,631,788	16,513,523
<b>Total Income</b>		<b>49,749,708</b>	<b>112,117,843</b>
<b>Expenditure</b>			
Personnel Costs	18	(236,519,212)	(233,214,148)
Administration & Establishment Expenses	19	(166,024,494)	(167,180,480)
Capital Market Development Expenses	20	(32,367,005)	(53,736,624)
Finance Charges	21	(40,887)	(64,525)
<b>Total Expenditure</b>		<b>(434,951,598)</b>	<b>(454,195,777)</b>
Income Tax Expense		-	(33,316,205)
<b>Excess of Income over Expenditure</b>		<b>(385,201,890)</b>	<b>(375,394,139)</b>
<b>Transfer from Cess Fund towards Excess of Expenditure over Income</b>		<b>385,201,890</b>	<b>375,394,139</b>

The notes appearing on pages 89 to 102 form an integral part of the financial statements.

## SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

## STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31st December 2020	Accumulated Fund Rs.	Total Rs.
<b>Balance as at 1st January 2019</b>	-	-
Excess of Income over Expenditure for the year	(375,394,139)	(375,394,139)
Transfer from Cess Fund towards Excess of Expenditure over Income	375,394,139	375,394,139
<b>Balance as at 31st December 2019</b>	-	-
<b>Balance as at 1st January 2020</b>	-	-
Excess expenditure over income for the year	(385,201,890)	(385,201,890)
Transfer from Cess Fund towards Excess of Expenditure over Income	385,201,890	385,201,890
<b>Balance as at 31st December 2020</b>	-	-

The notes appearing on pages 89 to 102 form an integral part of the financial statements.

## CASH FLOW STATEMENT

For the year ended 31st December 2020	Note	2020 Rs.	2019 Rs.
<b>Cash Flows from Operating Activities</b>			
Net Increase/(Decrease) after transfers from Cess Fund		-	-
<b>Adjustment for</b>			
Depreciation	7	23,631,788	16,513,523
(Profit)/Loss on disposal of Property, Plant & Equipment		44,525	-
Recognition of Grant	14	(23,631,788)	(16,513,523)
Provision for Gratuity	15	11,027,205	5,558,515
Net Increase/(Decrease) before Working Capital Changes		11,071,730	5,558,515
<b>Change of Working Capital</b>			
(Increase)/Decrease of Stocks		(553,314)	(156,492)
(Increase)/ Decrease of Receivable		(39,297,046)	13,703,665
(Increase)/Decrease of Deposits Advances & Prepayments		(49,240,164)	(175,087)
Increase/(Decrease) of Receipt in Advance		658,691	405,111
Increase/(Decrease) of Tax Payable		(9,976,390)	-
Increase/(Decrease) of Creditors & Accruals		25,705,503	81,860,967
Increase/(Decrease) Payables		558,060	33,316,205
Net Increase/(Decrease) after Working Capital Changes		(72,144,660)	128,954,369
Cash generated from Operating Activities		(61,072,930)	134,512,884
Gratuity paid during the year		(4,113,265)	(6,441,900)
Net Cash Inflow/(Outflow) from Operating Activities		(65,186,195)	128,070,984
<b>Cash Flows into Investing Activities</b>			
Purchase of Property Plant and Equipment	7	(11,255,932)	(30,601,826)
Investments in Fixed Deposits		(573,052)	-
Proceeds from Sale of Property, Plant & Equipment		53,277	-
Net Cash Inflow/(Outflow) from Investing Activities		(11,775,707)	(30,601,826)

## SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

## CASH FLOW STATEMENT

For the year ended 31st December 2020	Note	2020 Rs.	2019 Rs.
<b>Cash Flows from Financing Activities</b>			
Capital transfer from Cess Fund	14	11,255,932	41,956,746
Net Cash Inflow/(Outflow) from Financing Activities		11,255,932	41,956,746
Net Increase/ (Decrease) in Cash and Cash Equivalents		(65,705,970)	139,425,904
Cash and Cash Equivalents at the beginning of the period (Note A)		168,713,075	29,287,171
<b>Cash and Cash Equivalents at the end of the period (Note B)</b>		<b>103,007,105</b>	<b>168,713,075</b>
<b>Note (A)</b>			
<b>Cash and Cash Equivalents at the beginning of the period</b>			
Investments in Repo		167,595,925	40,000,000
Cash at Bank		1,077,150	(10,752,829)
Cash in Hand		40,000	40,000
Total		168,713,075	29,287,171
<b>Note (B)</b>			
<b>Cash and Cash Equivalents at the end of the period</b>			
Investments in Repo	12	64,610,002	167,595,925
Cash at Bank	12	38,357,103	1,077,150
Cash in Hand	12	40,000	40,000
Total		103,007,105	168,713,075

The notes appearing on pages 89 to 102 form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

### 1.1 REPORTING ENTITY

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

### 1.2 NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

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

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

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

### 1.3 STATEMENT OF COMPLIANCE

The Securities and Exchange Commission of Sri Lanka prepared its financial statements in accordance with the Sri Lanka Public Sector Accounting Standards (SLPSAS) issued by the Institute of Chartered Accountants of Sri Lanka. The financial statements comprise the statement of financial position, statement of financial performance, Statement of

Changes in Reserves and Cash Flow Statement together with the Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information.

### 1.4 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

### 1.5 GOING CONCERN

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

### 1.6 BASIS OF PREPARATION

Based on a recommendation made by the SEC Audit Committee in terms of the provisions of the SEC Act, the Commission decided to prepare separate sets of financial statements for the Cess Fund and the Compensation Fund of the SEC with effect from 01st January 2020. Hence, this set of Financial Statements contains only the Statement of Financial Position, the Statement of Financial Performance, the Statement of Changes in Reserves and the Cash Flow Statement together with the Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information of the Securities and Exchange Commission of Sri Lanka.

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

The financial statements are prepared on accrual basis and on the historical cost basis except in the case on the Defined Benefit Obligation where the Net liability is recognized as the present value of the defined benefit obligation. Appropriate adjustments are made in respect of interest cost, current service cost, gratuity paid/ payable for those who left during the period and actuarial (gain)/loss in arriving at the Defined Benefit Obligation as at the end of the period. Where appropriate accounting policies are disclosed in succeeding notes.

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

### 1.7 USE OF ESTIMATES AND JUDGEMENTS

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

Information about judgements made in applying accounting policies that have the most significant effect on the amount recognized in the financial statements is described in the Note on Defined benefit obligation. The cost of defined benefit obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates, etc. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty. Assumptions used in the

## SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### NOTES TO THE FINANCIAL STATEMENTS

actuarial valuation are disclosed in Note 10 to the Financial Statements.

#### 1.8 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the SEC's functional currency. There was no change in the entity's presentation and functional currency during the year under review. Foreign exchange transactions are converted to Sri Lankan Rupees at the rate of exchange prevailing at the time of the transaction.

#### 1.9 MATERIALITY AND AGGREGATION

Each material class of similar item is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

#### 1.10 OFFSETTING

Assets & liabilities and revenue & expenses are not offset unless required or permitted by a SLPSAS or the offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and condition that occurred and to assess the SEC's future cash flows.

#### 1.11 COMPARATIVE INFORMATION

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

#### 1.12 EVENTS AFTER THE REPORTING DATE

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

#### 1.13 CHANGES IN ACCOUNTING POLICIES

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

## 2 ASSETS AND BASES OF THEIR VALUATION

### 2.1 PROPERTY, PLANT AND EQUIPMENT

#### OWNED PROPERTY, PLANT AND EQUIPMENT AND INTAGIBLE ASSETS

Property, Plant & Equipment (PPE) & Intangible Assets together with any incidental expenses thereon are stated at cost and depreciated/amortized at their respective useful lives. These assets received as grants, were accounted at cost and depreciation/amortization thereof is charged against the respective reserve account. The depreciation/amortization is provided on the straight-line basis. The Motor Vehicles, Office Equipment, EDP Equipment including Software and Training Equipment were depreciated/amortized taking into consideration the economic useful lives of the assets applying the following rates.

Motor Vehicles	10.00%
Furniture, Fixtures and Fittings	12.50%
Training Equipment	20.00%
Electronic Data Processing (EDP) Equipment - including Software*	
EDP - Hardware	20.00%
EDP Equipment - Software	20.00 - 33.33%
EDP Equipment - Mobile phones	33.33%
EDP Equipment - Other	20.00 - 25.00%

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

Subsequent expenditure on PPE & Intangible Assets are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

\* Computer software not integral to computer hardware are shown as intangible assets and recognized at

cost. Following initial recognition these intangible assets are carried at cost less any accumulated amortization.

### 2.2 INVESTMENTS

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

### 2.3 INVENTORIES

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

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

### 2.4 RECEIVABLES

Receivables are stated at the estimated realizable value.

## 3. LIABILITIES & PROVISIONS

### 3.1 EMPLOYEE BENEFITS

#### 3.1.1 DEFINED CONTRIBUTION PLANS - EPF/ETF

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

### 3.1.2 DEFINED BENEFIT OBLIGATION - GRATUITY

Gratuity is a post-employment benefit, the SEC is liable to pay to its employees as a post-employment benefit in terms of Gratuity Act No. 12 of 1983. The liability to an employee arises only on completion of five years of continued service. However, in terms of the SLPSAS 19 - 'Employee Benefits' which came in to effect from 01st January 2018, the liability recognized in the statement of financial position is the present value of the defined benefit obligation as at the reporting date. The liability is not externally funded. Unrecognized Actuarial gains or losses and unrecognized past and current service costs are recognized immediately in the Statement of Financial Performance.

The net liability for defined benefit obligation was determined by a qualified actuary as at 31st December 2020 using the Projected Unit Credit method as recommended in the SLPSAS19.

### 3.2 LIABILITIES

Liabilities classified as current liabilities in the Statement of Financial Position are those, which fall due for payment on demand or within one year from the reporting date. The non-current liabilities are those balances that fall due for payment after one year from the reporting date.

All known liabilities have been accounted at cost in preparing the financial statements.

### 3.3 GRANT

Capital expenditure transferred from the Cess Fund is treated as a grant and recognized in the Statement of Financial Performance as revenue on systematic basis over the useful life of the related asset.

## 4. STATEMENT OF FINANCIAL PERFORMANCE

### 4.1 REVENUE RECOGNITION

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

### 4.2 INTEREST INCOME AND EXPENSES

Interest Income on investments and interest expenses are recognized in the Statement of Financial Position on an accrual basis.

### 4.3 OTHER REVENUE

Other income is recognized on an accrual basis.

### 4.4 PROFIT OR LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Profit or loss arising from the disposal of Property, Plant and Equipment are accounted in the Statement of Financial Performance as the excess of the proceeds on disposal after deducting the carrying amount of the assets and related selling cost.

## 5. EXPENDITURE RECOGNITION

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

## 6. CASH FLOW STATEMENT

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

## SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### NOTES TO THE FINANCIAL STATEMENTS

#### 7 PROPERTY, PLANT & EQUIPMENT

Description	Motor Vehicles	Furniture, Fixtures & Fittings	Office Equipments & EDP Equipments	Training Equipments	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>					
Balance as at 01.01.2020	45,165,786	43,005,962	158,057,689	4,351,098	250,580,535
Transfers during the year	-	2,332,896	(2,332,896)	-	-
Additions during the year	-	2,960,411	8,295,521	-	11,255,932
Disposals during the year	-	(324,374)	(5,654,500)	(24,750)	(6,003,624)
<b>Balance as at 31.12.2020</b>	<b>45,165,786</b>	<b>47,974,894</b>	<b>158,365,815</b>	<b>4,326,348</b>	<b>255,832,843</b>
<b>Accumulated Depreciation</b>					
Balance as at 01.01.2020	24,360,575	30,299,647	104,063,444	3,935,371	162,659,038
Transfers during the year	-	2,264,589	(2,264,589)	-	-
Depreciation charge for the year	4,531,139	2,972,299	15,978,237	150,113	23,631,788
Accumulated depreciation on disposals	-	(318,695)	(5,562,377)	(24,750)	(5,905,821)
<b>Balance as at 31.12.2020</b>	<b>28,891,714</b>	<b>35,217,840</b>	<b>112,214,715</b>	<b>4,060,735</b>	<b>180,385,004</b>
<b>W.D.V. as at 31.12.2020</b>	<b>16,274,072</b>	<b>12,757,054</b>	<b>46,151,099</b>	<b>265,614</b>	<b>75,447,839</b>
<b>W.D.V. as at 31.12.2019</b>	<b>20,805,211</b>	<b>12,706,315</b>	<b>53,994,245</b>	<b>415,727</b>	<b>87,921,497</b>
<b>Cost of the Fully Depreciated Assets as at 31.12.2020 (included in the above mentioned cost)</b>	<b>9,870,000</b>	<b>22,483,071</b>	<b>78,388,627</b>	<b>3,575,783</b>	<b>114,317,480</b>
<b>Useful Life Time (No. of Years) - 2020</b>	<b>10</b>	<b>8</b>	<b>3-5</b>	<b>5</b>	
<b>Useful Life Time (No. of Years) - 2019</b>	<b>10</b>	<b>8</b>	<b>5</b>	<b>5</b>	

	Note	2020 Rs.	2019 Rs.
<b>8 INVENTORIES</b>			
Stock of Stationery, Stamp & EDP Consumables		2,033,967	1,480,653
Total		2,033,967	1,480,653
<b>9 RECEIVABLES</b>			
Sundry Debtors		329,601	391,268
Festival Advances		2,100,000	2,200,000
Interest Receivable on Repo Investments		7,719	71,114
Staff Loans*		20,437,628	-
Phone Advance		208,367	2,500
Insurance Claim Receivable		16,375	16,375
Receivable from Compensation Fund		18,890,614	-
EPF receivable		-	12,000
Receivable from an Interdicted Employee		5,212,815	5,212,816
Total		47,203,119	7,906,073

\* Balances reported in the Cess Fund have been transferred to the SEC during the year.

#### 10 INVESTMENTS IN FIXED DEPOSITS

Amount reported under investments in fixed deposits represents the value of fixed deposits under lien to the Bank of Ceylon by the SEC for operational matters.

	Note	2020 Rs.	2019 Rs.
<b>11 DEPOSITS, ADVANCES &amp; PRE-PAYMENTS</b>			
Fuel Deposit		78,000	78,000
Mobitel - Corporate Data Packages		15,000	-
Mobitel - Post paid Wingles		12,000	-
Deposits with Telecom Ltd		23,125	23,125
Deposits with Dialog		8,500	8,500
Frosty - Hot & Cold Water Dispensers		12,899	12,899
Sponsorship for Higher Studies - University of Colombo		10,000	10,000
The Employers' Federation of Ceylon		62,500	62,500
ORCL - Management Corporation Condominium Plan 1824*		44,522,736	-
Advances to Suppliers		19,950,336	15,259,908
Total		64,695,096	15,454,932

\* Balance reported in the Cess Fund has been transferred to the SEC during the year.

## SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### NOTES TO THE FINANCIAL STATEMENTS

	Note	2020 Rs.	2019 Rs.
<b>12 CASH &amp; CASH EQUIVALENTS</b>			
Investment in Repo		64,610,002	167,595,925
Cash at Bank		38,357,103	1,077,150
Cash in Hand		40,000	40,000
<b>Total</b>		<b>103,007,105</b>	<b>168,713,075</b>
<b>13 ACCUMULATED FUND</b>			
Balance at the beginning of the year		-	-
Excess expenditure over income for the year		(385,201,890)	(375,394,139)
Transfer from Cess Fund towards Excess of Expenditure over Income		385,201,890	375,394,139
<b>Balance at the end of the year</b>		<b>-</b>	<b>-</b>
<b>14 GRANT - TRANSFERS FROM CESS FUND FOR CAPITAL EXPENDITURE</b>			
Balance at the beginning of the Year		81,571,796	56,128,573
Transfer from Cess Fund for Capital Expenditure		11,255,932	41,956,746
Recognition of Grants		(23,631,788)	(16,513,523)
<b>Balance at the end of the Year</b>		<b>69,195,940</b>	<b>81,571,796</b>
<b>NOTE:</b>			
<b>RECOGNITION OF GRANT</b>			
The Grant is recognized at the following rates			
Motor Vehicles		10.00%	10.00%
Furniture, Fixtures & Fittings		12.50%	12.50%
Office Equipment - Electronic Data Processing & Others		20.00% to 33.33%	20.00%
Training Equipment		20.00%	20.00%
<b>15 RETIREMENT BENEFIT OBLIGATION</b>			
Balance at the beginning of the Year		43,464,268	44,347,652
Interest cost		4,346,427	4,878,242
Current service cost		4,365,013	3,863,868
Net actuarial (gain)/loss		2,315,765	(3,183,594)
Gratuity Paid during the Year		(4,113,265)	(6,441,899)
<b>Balance at the end of the Year</b>		<b>50,378,208</b>	<b>43,464,269</b>

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

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

	Note	2020 Rs.	2019 Rs.
Discount Rate		8% p.a.	10% p.a.
Future Salary Increment Rate		7% p.a.	8% p.a.

### 15.1 SENSITIVITY OF ASSUMPTIONS USED

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

	Discount Rate Rs.	Future Salary Increment Rate Rs.
1% Increase	46,817,094	54,215,411
1% Decrease	54,418,744	46,951,006

An actuarial valuation of the retirement gratuity obligation was carried out as at December 31, 2020 by a professional Actuary, M/S Actuarial and Management Consultants (Pvt) Ltd. The valuation method used by the Actuary to value the liability is the "Projected Unit Credit Method (PUC)", a method recommended by the Sri Lanka Public Sector Accounting Standard - SLPSAS 19 on "Employee Benefit".

	Note	2020 Rs.	2019 Rs.
<b>16 CREDITORS AND ACCRUALS</b>			
Telephone & Internet Expenses		818,428	630,661
Electricity		325,327	324,872
Staff Medical Reimbursement		1,037,439	664,249
Leave Encashment		2,912,175	2,533,700
Special Payment		-	8,068,275
Overtime		118,583	120,604
External Audit Fees		1,060,000	1,450,000
Internal Audit Fees		1,500,000	650,000
Professional Charges		165,000	1,519,430
Public Awareness		51,773	5,900,127
Courier Charges		9,860	12,290
Stamp Duty Payable		59,000	65,700
Postage and Stamps		-	575
Nation Building Tax		-	1,219
Travelling - Local		20,100	-
Executive Subsistence		12,500	42,500
Staff Welfare		102,914	153,130
Repair and Maintenance- OE, EDP & Other		-	160,460
Capital Market Development		915,833	1,583,333
Market Surveillance Cost		1,670,625	-
Other Payable		50,794	27,794
Rent Deposit Payable		1,536,792	-
General Expenses - FSMP		216,945	-

## SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### NOTES TO THE FINANCIAL STATEMENTS

#### 16. CREDITORS AND ACCRUALS (CONTD.)

	Note	2020 Rs.	2019 Rs.
Payable to Cess Fund for assets/receivebles transferred from Cess Fund		64,224,567	-
Payable to Cess Fund for excess of operational expenditure & others		66,107,394	84,150,977
Property, Plant & Equipment		-	11,354,920
EPF Payable		2,217,897	-
Trade tax		-	5,000
Subscriptions Newspapers & Periodicals		23,680	-
Christmas Party Expenses		-	12,600
Recruitment Expenses		323,163	-
Interest Subsidy		-	31,627
Motor Vehicle Fuel		66,422	-
Legal Expenses		-	377,665
Total		145,547,211	119,841,708

#### 17. FINANCIAL SECTOR MODERNISATION PROJECT (FSMP) OF THE WORLD BANK

	Note	2020 Rs.	2019 Rs.
Payable to Vendors - FSMP		558,060	-
Total		558,060	-

The FSMP of the World Bank will achieve the Project Development Objective through modernizing the financial market infrastructure, upgrading the legal and regulatory framework for the financial system, and strengthening the institutional capacity of the financial sector regulators namely the Central Bank of Sri Lanka, Securities and Exchange Commission of Sri Lanka and the Insurance Regulatory Commission of Sri Lanka. In addition, the Ministry of Finance, Economy and Policy Development also assists in the overall project coordination by operating a Project Management Unit. As part of the FSMP, the SEC secured Technical Assistance and Investment Funding support for a number of key initiatives. Accordingly, the SEC stands to gain approximately USD 10 million ; 2 million under the Results based Financing Component and 8 million under the Investment based Financing component for 13 designated Goods and Consultancy procurements.

As at 31st December 2020, the SEC received Rs. 92,844,814/- in total as part of the Result Based Financing component of the FSPM. In addition, a sum of USD 367,000 (equivalent to Rs. 66,659,678/-) disbursed to the Ministry of Finance, Economy & Policy Development by the World Bank as part of the Investment Project Financing component of the FSMP of which USD 3000 (equivalent to Rs. 558,060.00) has been withdrawn by the SEC as at 31st December 2020.

	Note	2020 Rs.	2019 Rs.
<b>18 PERSONNEL COSTS</b>			
Staff Salaries		132,419,676	128,380,689
Chairman's Allowance		1,030,000	1,110,000
Reimbursements to the Attorney General's Department		5,814,518	-
Overtime		1,669,163	2,500,861
EPF & ETF		20,241,694	19,625,808
Staff Gratuity	16	11,027,205	5,558,516
Special Payment		16,606,045	16,812,135
Leave Encashment		2,767,429	3,076,896
Staff Medical Expenses & Insurance		7,914,882	6,962,971
Personnel Accident Insurance Cover		667,100	753,949
Staff Housing Loan Interest Subsidy		2,341,631	1,650,315
Staff Welfare		4,052,758	5,896,137
Executive Subsistence		137,500	497,500
Staff Vehicle Allowance		23,298,500	22,344,097
Overseas Training and Travelling		2,309,872	13,547,075
Staff Training - Local		397,250	1,530,890
Subscription of Membership		1,410,345	1,610,956
Sponsorship for Studies *		795,545	526,342
Advertising-Recruitment		1,343,099	786,936
Interns Allowance		275,000	42,075
Total		236,519,212	233,214,148

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

## SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### NOTES TO THE FINANCIAL STATEMENTS

	Note	2020 Rs.	2019 Rs.
<b>19</b>	<b>ADMINISTRATION &amp; ESTABLISHMENT EXPENSES</b>		
Rent & Car Park Rental		96,216,435	88,188,786
Electricity Charges		3,688,801	4,572,278
Office Upkeep		501,455	306,062
Office Equipment Maintenance & Insurance		11,365,646	9,481,932
Telephone, Internet, E- mail & Web		697,283	883,451
E-Communication ,Data processing		7,894,251	7,045,516
Motor Vehicle Fuel, Maintenance, License & Insurance		3,002,346	4,112,084
Professional Fees		2,015,000	3,654,797
Meeting Fees		1,532,000	830,000
Meeting Expenses		964,110	709,885
Entertainment		-	12,097
Library Books		9,600	36,500
News Papers & Periodicals		360,964	666,920
Printing & Stationery		3,582,116	3,711,000
Travelling Local		3,176,561	1,452,830
Insurance- All Risk , Public Liability, Cash in Transit & Fire		1,653,300	254,844
Postage and Stamp Duty		688,711	727,653
Courier Charges		97,225	179,589
Legal Expenses		1,643,885	561,165
Audit Fees - Internal		1,539,580	1,330,830
Audit Fees - External		1,290,000	2,008,900
General Expenses		445,040	1,618,519
Trade Tax		5,000	5,000
VAT Expenses		23,397	18,147,438
Nation Building Tax		-	168,881
Depreciation	7	23,631,788	16,513,523
Total		166,024,494	167,180,480

	Note	2020 Rs.	2019 Rs.
<b>20</b>	<b>CAPITAL MARKET DEVELOPMENT EXPENSES</b>		
Capital Market and Product Development		16,920,166	24,669,537
Public Awareness Programmes		1,354,648	13,407,274
Educational Programmes		1,609,193	3,480,812
International Membership Fees - IOSCO		3,684,862	3,730,324
Publicity and Advertising		-	482,114
Market Surveillance Cost		8,795,002	7,878,105
Investigation and Inspection Expenses		3,134	88,458
Total		32,367,005	53,736,624

	Note	2020 Rs.	2019 Rs.
<b>21 FINANCE CHARGES</b>			
Bank Charges		40,887	64,525
Total		40,887	64,525

	ACTUAL 2020 Rs.	BUDGET 2020 Rs.	VARIANCE Rs.
<b>22 COMPARISON OF ACTUAL INCOME AND EXPENDITURE AGAINST THE BUDGET</b>			
<b>Income</b>			
License Fees	3,610,706	3,400,000	210,706
Administration Levy	1,172,909	2,500,000	(1,327,091)
Educational Programmes	3,480,239	4,138,000	(657,761)
Interest Income	5,360,805	-	5,360,805
Other income	78,755	4,441,664	(4,362,909)
Interest on Staff Loans	738,471	-	738,471
Government Grant - FSMP	11,720,560	-	11,720,560
Profit/(Loss) on Disposal of Property, Plant and Equipment	(44,525)	-	(44,525)
<b>Total Income generated by the SEC</b>	<b>26,117,920</b>	<b>14,479,664</b>	<b>11,638,256</b>
<b>Less: Expenditure</b>			
Personnel costs	(236,519,212)	(246,088,213)	(9,569,001)
Administration & establishment cost	(142,392,706)	(179,791,779)	(37,399,073)
Capital market development	(32,367,005)	(97,151,860)	(64,784,855)
Financial charges	(40,887)	(70,978)	(30,091)
<b>Total Revenue Expenditure</b>	<b>(411,319,810)</b>	<b>(523,102,830)</b>	<b>(111,783,020)</b>
Less: Income Tax Expense	-	-	-
<b>Excess of Revenue Expenditure over Income</b>	<b>(385,201,890)</b>	<b>(508,623,166)</b>	<b>(123,421,276)</b>

### 23. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2020.

### 24. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2020.

### 25. EVENTS AFTER THE REPORTING DATE

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

## SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### NOTES TO THE FINANCIAL STATEMENTS

#### 26. RELATED PARTY DISCLOSURES

Mr. Viraj Dayaratne, PC was appointed as the Chairman of the SEC with effect from 8th January 2020 and assumed duties with effect from 22nd January 2020.

The following Members of the Commission held office during the year 2020 as stated below.

- Mr. Manil Jayasinghe was appointed as an Ex-officio member by virtue of him holding office as the President of the Institute of Chartered Accountants of Sri Lanka with effect from 07th January 2020.
- Mr. D. N. R. Siriwardene, Ex-officio member by virtue of him holding office as Registrar General of Companies.
- Mr. R. M. P. Rathnayake was appointed as an Ex-officio member by virtue of him holding office as Deputy Secretary to the General Treasury with effect from 16th January 2020.
- Mr. Suhada Gamalath, PC was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Sisira Rathnayake was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Sunil Lankathilake was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Naresh Abeysekera was appointed as a Member of the Commission with effect from 16th January 2020.

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

- Mr. H. A. Karunaratne who was appointed with effect from 23th November 2018 as an Ex-officio member by virtue of him holding office as Deputy Governor to the Central Bank of Sri Lanka ceased to be a member with effect from 08th September 2020.
- Mr. K. M. Mahinda Siriwardana who was appointed with effect from 15th September 2020 as an Ex-officio member by virtue of him holding office as Deputy Governor to the Central Bank of Sri Lanka ceased to be a member with effect from 31st December 2020.

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

Name	Name of Related Institution	Relationship
Mr. Viraj Dayaratne, PC	Settlement Guarantee Fund	Trustee appointed with effect from 08th January 2020 and assumed duties with effect from 22nd January 2020
Mr. Manil Jayasinghe	Institute of Chartered Accountants of Sri Lanka	President appointed with effect from 07th January 2020
	Ernst & Young	Partner
Mr. D. N. R. Siriwardene	The Department of the Registrar of Companies	Registrar General of Companies
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member
	Institute of Chartered Accountants of Sri Lanka	Ex-Officio Member
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Member
Mr. R. M. P. Rathnayake	General Treasury	Deputy Secretary
	Bank of Ceylon (BOC)	Ex-Officio Member with effect from 28th April 2020
	Academy of Financial Studies (Guarantee) Limited	Ex-Officio Member with effect from 24th August 2020

Name	Name of Related Institution	Relationship
Mr. Sunil Lankathilake	Local Loan Developmet Fund (LLDF)	Commissioner & Chairman with effect from 14th September 2020
	Settlement Guarantee Fund	Trustee with effect from 16th January 2020
	Ministry of Finance	Board Member (Member of Board of Inquiry of Foreign Exchange Act No. 12 of 2017) for three years from 03rd January 2021
Mr. Sisira Ratnayake	Nil	Nil
Mr. Naresh Abeysekera	Nil	Nil

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

Name	Name of Related Institution	Relationship
Mr. H. A. Karunaratne	Central Bank of Sri Lanka	Deputy Governer until 05th September 2020
	Institute of Bankers of Sri Lanka	Chairman until 05th September 2020
	Credit Information Bureau of Sri Lanka	Chairman until 05th September 2020
	West Coast Power (Pvt) Ltd Sri Lanka	Chairman until 05th September 2020
	Insurance Regulatory Commission of Sri Lanka	Director until 05th September 2020
	Colombo Dockyard PLC	Director until 05th September 2020
Mr. K. M. Mahinda Siriwardana	Central Bank of Sri Lanka	Deputy Governer
	Institute of Bankers of Sri Lanka	Chairman for the period from 05th September 2020 to 31st December 2020
	Credit Information Bureau of Sri Lanka	Chairman for the period from 05th September 2020 to 31st December 2020
	Ministry of Defence - "Api Wenuwen Api Fund" Board of Management Board	Member with effect from 02nd March 2020
	Insurance Regulatory Commission of Sri Lanka	Member for the period from 05th September 2020 to 31st December 2020

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

The SEC maintains the following five Current Accounts at Bank of Ceylon (BOC) and the bank balances are tabulated below;

Name of the Current Account	Account Number	Balance as at 31.12.2020	Balance as at 31.12.2019
Securities and Exchange Commission of Sri Lanka	0000001694	32,730,612	(15,714,817)
	0009919753	4,777,980	1,869,016
	83810081	856,470	14,922,951

## SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### NOTES TO THE FINANCIAL STATEMENTS

#### 26. RELATED PARTY DISCLOSURES (CONTD.)

The following investments were channeled through BOC during the year 2020.

Investment Type	Investments made in BOC during the year (Rs.)	Balance as at 31st December 2020 at BOC (Rs.)
Investment in Repo	396,000,000	50,000,000
<b>Total</b>	<b>396,000,000</b>	<b>50,000,000</b>

In addition, the following table depicts the other transactions taken place during the year under review with the entities with which the Members of the Commission act as Members of the Governing Bodies.

Payee	Description of the Payment	Date of Payment	Amount paid
Institute of Chartered Accountants of Sri Lanka	Membership Renewal of the SEC as a Training Organization for the period from 2015 to 2020	10/8/2020	77,500.00
Institute of Chartered Accountants of Sri Lanka	Payment made for the National Conference of CA Sri Lanka for the year 2020 to participate 11 employees of the SEC	11/19/2020	166,000.00
Institute of Chartered Accountants of Sri Lanka	Membership Renewal Fee for the year 2021 for the CA Membership Holders work in the SEC	12/31/2020	156,000.00
Academy of Financial Studies	Registration Fee for Board of Survey Seminar conducted by the Academy of Financial Studies	9/16/2020	13,000.00
Academy of Financial Studies	Registration Fee for Procurement Guideline Seminar conducted by the Academy of Financial Studies	9/22/2020	18,000.00
Academy of Financial Studies	Registration Fee for e-procurement Training Seminar conducted by the Academy of Financial Studies	11/19/2020	4,000.00

CESS FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

**AUDITOR GENERAL'S REPORT**

**ජාතික විගණන කාර්යාලය**  
**தேசிய கணக்காய்வு அலுவலகம்**  
**NATIONAL AUDIT OFFICE**



මගේ අංකය  
எனது இல.  
My No.

BAF/H/SEC/COM/1/20/5

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

21 June 2021

Chairman  
Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Cess Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2020 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

**1. Financial Statements****1.1 Opinion**

The audit of the financial statements of the Cess Fund of the Securities and Exchange Commission of Sri Lanka ("Fund") for the year ended 31 December 2020 comprising the Statement of Financial Position as at 31 December 2020 and the Statement of Financial Performance, Statement of Changes in Cess Fund and Cash Flow Statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act, No. 38 of 1971. The report of the Auditor General in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka will be tabled in Parliament in due course.

In my opinion, the financial statements of the Fund give a true and fair view of the financial position of the CESS Fund as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.2 Basis for Opinion**

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

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

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

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

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



## CESS FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### AUDITOR GENERAL'S REPORT



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

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

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

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

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

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

## 2. Report on Other Legal and Regulatory Requirements

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

**2.1.1** I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Fund as per the requirement of Section 12 (a) of the National Audit Act, No. 19 of 2018.

**2.1.2** The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

**2.1.3** The recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018 are included in the submitted financial statements.

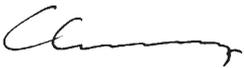
**2.2 Based on the procedures performed and evidence obtained which were limited to matters that are material, nothing has come to my attention;**

**2.2.1** to state that any member of the governing body of the Fund has any direct or indirect interest in any contract entered into by the Fund which are out of the normal course of business as per the requirement of Section 12 (d) of the National Audit Act, No. 19 of 2018.

**2.2.2** to state that the Fund has not complied with any applicable written law, general and special directions issued by the governing body of the Fund as per the requirement of Section 12 (f) of the National Audit Act, No. 19 of 2018.

**2.2.3** to state that the Fund has not performed according to its powers, functions and duties as per the requirement of Section 12 (g) of the National Audit Act, No. 19 of 2018.

**2.2.4** to state that the resources of the Fund had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of Section 12 (h) of the National Audit Act, No. 19 of 2018.



**W. P. C. Wickramaratne**  
Auditor General

## CESS FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

# STATEMENT OF FINANCIAL POSITION

As at 31st December 2020	2020 Rs.	2019 Rs.
<b>Assets</b>		
<b>Non Current Assets</b>		
Investment in Treasury Bonds	969,902,655	1,174,059,197
Staff Loan Receivable	-	16,257,393
Rent Deposit	-	42,985,944
<b>Current Assets</b>		
Staff Loans Receivable within 12 months	-	5,089,937
State Institutions Temporary Surplus Trust Fund	-	306,607,487
Investment in Treasury Bonds	204,156,542	738,949,681
Interest Receivable on Treasury Bonds	46,794,137	63,504,429
Interest Receivable on Repo	183,599	371,575
Cess Receivable	11,266,847	3,231,075
Receivable from SEC	130,331,961	84,150,977
Investments in Repo	1,425,824,301	350,000,000
Cash at Bank	11,855,751	4,555,986
<b>Total Assets</b>	<b>2,800,315,793</b>	<b>2,789,763,682</b>
<b>Funds And Liabilities</b>		
<b>Funds Employed And Reserves</b>		
Accumulated Fund	2,800,315,793	2,789,763,682
<b>Total Funds And Liabilities</b>	<b>2,800,315,793</b>	<b>2,789,763,682</b>

The notes appearing on pages 110 to 113 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 CESS FUND OF SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA



**Chinthaka Mendis**  
Director General  
Securities and Exchange Commission of Sri Lanka



**Viraj Dayaratne PC**  
Chairman  
Securities and Exchange Commission of Sri Lanka



**G P N Dilhani**  
Director Finance  
Securities and Exchange Commission of Sri Lanka

Colombo  
11th May 2021

## STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31st December 2020	Note	2020 Rs.	2019 Rs.
<b>Income</b>			
Cess Received during the year		528,483,025	223,020,518
Interest on Treasury Bonds		167,565,413	223,049,955
Interest on Treasury Bills		5,724,385	31,259,631
Interest on Repo Investments		46,017,563	10,656,817
Interest on Staff Loans		-	849,384
<b>Total Income</b>		<b>747,790,386</b>	<b>488,836,305</b>
<b>Expenditure</b>			
Funds transferred to the SEC for Operational Expenses		(396,457,822)	(417,350,886)
Bank Charges		(13,796)	(50,175)
<b>Total Expenditure</b>		<b>(396,471,618)</b>	<b>(417,401,061)</b>
Income Tax Expense	7	(28,434,785)	-
<b>Excess of Income over Expenditure</b>		<b>322,883,983</b>	<b>71,435,244</b>

The notes appearing on pages 110 to 113 form an integral part of the financial statements.

**CESS FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA**  
**STATEMENT OF CHANGES IN CESS FUND**

<b>For the year ended 31st December 2020</b>	<b>2020</b>	<b>2019</b>
	<b>Rs</b>	<b>Rs.</b>
<b>Accumulated Fund</b>		
Balance at the beginning of the year	2,789,763,682	2,770,944,811
Excess of Income over Expenditure for the year	322,883,983	71,435,244
Funds transferred to the Consolidated Fund	(312,331,872)	(52,616,373)
<b>Balance as at the end of the year</b>	<b>2,800,315,793</b>	<b>2,789,763,682</b>

The notes appearing on pages 110 to 113 form an integral part of the financial statements.

## CASH FLOW STATEMENT

For the year ended 31st December 2020	2020 Rs.	2019 Rs.
<b>Cash Flows from Operating Activities</b>		
Excess of Income over Expenditure	322,883,983	71,435,244
Net Increase/ (Decrease) before Working Capital Changes	322,883,983	71,435,244
<b>Change of Working Capital</b>		
(Increase)/ Decrease of Staff Loans	21,347,330	713,208
(Increase)/ Decrease of Cess Receivable	(8,035,772)	(1,822,794)
(Increase)/ Decrease of Receivable - Sampath Bank	-	4,611
(Increase)/ Decrease of Receivable - SEC	(46,180,984)	(84,150,977)
(Increase)/ Decrease of Interest Receivable on Treasury Bonds	16,710,292	(31,291,094)
(Increase)/ Decrease of Interest Receivable on Treasury Bills	-	1,904,008
(Increase)/ Decrease of Interest Receivable on Repo	187,976	(318,424)
(Increase)/ Decrease of Lease Rent Deposit	42,985,944	(2,475,444)
Increase/ (Decrease) of Payables	-	(23,756,398)
	27,014,786	(141,193,304)
Net Cash Inflow/ (Outflow) from Operating Activities	349,898,769	(69,758,060)
<b>Cash Flows into Investing Activities</b>		
Investment in State Institutions Temporary Surplus Fund	306,607,487	(18,055,738)
Funds transferred to the Consolidated Fund	(312,331,872)	(52,616,373)
Investment in Treasury Bonds	738,949,681	295,456,865
Investment in Treasury Bills	-	134,892,100
Net Cash Inflow/ (Outflow) from Investing Activities	733,225,296	359,676,854
Net Increase/ (Decrease) in Cash and Cash Equivalents	1,083,124,065	289,918,794
Cash and Cash Equivalents at the beginning of the period (Note C)	354,555,986	64,637,192
<b>Cash and Cash Equivalents at the end of the period (Note D)</b>	<b>1,437,680,052</b>	<b>354,555,986</b>
<b>Note (C)</b>		
<b>Cash and Cash Equivalents at the beginning of the period</b>		
Investments in Repo	350,000,000	57,420,000
Cash at Bank	4,555,986	7,217,192
Total	354,555,986	64,637,192
<b>Note (D)</b>		
<b>Cash and Cash Equivalents at the end of the period</b>		
Investments in Repo	1,425,824,301	350,000,000
Cash at Bank	11,855,751	4,555,986
Total	1,437,680,052	354,555,986

The notes appearing on page 110 to 113 form an integral part of the financial statements.

## CESS FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

# NOTES TO THE FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

#### 1.1 REPORTING ENTITY

Cess Fund of the Securities and Exchange Commission of Sri Lanka (Cess Fund) was established under the Section 14B (1) of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 as amended by Act No. 26 of 1991, Act No. 18 of 2003 and Act No. 47 of 2009 (SEC Act) which reads as 'There shall be established a fund called the Cess Fund to which shall be credited the proceeds of the cess imposed under section 14A.'

The Cess Fund is domiciled in the Democratic Socialist Republic of Sri Lanka and situated at Level 28 and 29, East Tower-World Trade Center, Echelon Square, Colombo 01.

#### 1.2 NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

According to Section 14B (2) of the SEC Act, there shall be paid out of the Cess Fund such sums as may be authorized by the Commission for the purpose of:

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

Further, in terms of the Section 14B (3) of the SEC Act, 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.

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

#### 1.3 STATEMENT OF COMPLIANCE

Cess Fund of the Securities and Exchange Commission of Sri Lanka prepared its

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

#### 1.4 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

#### 1.5 GOING CONCERN

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

#### 1.6 BASIS OF PREPARATION

Based on a recommendation made by the SEC Audit Committee in terms of the provisions of the SEC Act, with effect from 01st January 2020 the Commission of the Securities and Exchange Commission of Sri Lanka decided to prepare a separate set of financial statements for the Cess Fund of the SEC. Hence, this set of Financial Statements contains the Statement of Financial Position, the Statement of

Financial Performance, the Statement of Changes in Reserves and the Cash Flow Statement together with the Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information of the Cess Fund of the SEC.

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

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

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

#### 1.7 USE OF ESTIMATES AND JUDGEMENTS

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

#### 1.8 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Cess Fund's functional currency. There was no change in the entity's presentation and functional currency during the year under review. Foreign exchange transactions, if any are converted to Sri Lankan Rupees at the rate of exchange prevailing at the time of the transaction.

### 1.9 MATERIALITY AND AGGREGATION

Each material class of similar item is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

### 1.10 OFFSETTING

Assets & liabilities and revenue & expenses are not offset unless required or permitted by a SLPSAS or the offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and condition that occurred and to assess the Cess Fund's future cash flows.

### 1.11 COMPARATIVE INFORMATION

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

### 1.12 EVENTS AFTER THE REPORTING DATE

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

### 1.13 CHANGES IN ACCOUNTING POLICIES

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

## 2 ASSETS AND BASES OF THEIR VALUATION

### 2.1 INVESTMENTS

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

### 2.2 RECEIVABLES

Receivables are stated at the estimated realizable value.

## 3 LIABILITIES & PROVISIONS

### 3.1 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.

## 4 STATEMENT OF FINANCIAL PERFORMANCE

### 4.1 INTEREST INCOME

Interest Income on investments are recognized in the Statement of Financial Performance on an accrual basis.

### 4.2 OTHER INCOME

Other income, if any is recognized on an accrual basis.

## 5. EXPENDITURE RECOGNITION

All expenditure of the Cess Fund is recognized on accrual basis and charged to revenue in ascertaining the financial performance.

## 6. CASH FLOW STATEMENT

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

## 7. INCOME TAX EXPENSE

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

	2020 Rs.	2019 Rs.
Income tax under provision for the Y/A 2019/2020	14,315,868	-
Income tax expense for the Y/A 2020/2021	14,118,917	-
Total	28,434,785	-

## 8. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2020.

## 9. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2020.

## 10. RELATED PARTY DISCLOSURES

The Cess Fund is managed by the Members of the Commission of the Securities and Exchange Commission of Sri Lanka. Mr. Viraj Dayaratne, PC was appointed as the Chairman of the SEC with effect from 8th January 2020 and assumed duties with effect from 22nd January 2020.

## CESS FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### NOTES TO THE FINANCIAL STATEMENTS

#### 10. RELATED PARTY DISCLOSURES (CONTD.)

The following Members of the Commission held office during the year 2020 as stated below.

- Mr. Manil Jayasinghe was appointed as an Ex-officio member by virtue of him holding office as the President of the Institute of Chartered Accountants of Sri Lanka with effect from 07th January 2020.
- Mr. D. N. R. Siriwardene, Ex-officio member by virtue of him holding office as Registrar General of Companies.
- Mr. R. M. P. Rathnayake was appointed as an Ex-officio member by virtue of him holding office as Deputy Secretary to the General Treasury with effect from 16th January 2020.
- Mr. Suhada Gamalath, PC was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Sisira Rathnayake was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Sunil Lankathilake was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Naresh Abeysekera was appointed as a Member of the Commission with effect from 16th January 2020.

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

- Mr. H. A. Karunaratne who was appointed with effect from 23th November 2018 as an Ex-officio member by virtue of him holding office as Deputy Governor to the Central Bank of Sri Lanka ceased to be a member with effect from 08th September 2020.
- Mr. K. M. Mahinda Siriwardana who was appointed with effect from 15th September 2020 as an Ex-officio member by virtue of him holding office as Deputy Governor to the Central Bank of Sri Lanka ceased to be a member with effect from 31st December 2020.

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

Name	Name of Related Institution	Relationship
Mr. Viraj Dayaratne, PC	Settlement Guarantee Fund	Trustee appointed with effect from 08th January 2020 and assumed duties with effect from 22nd January 2020
Mr. Manil Jayasinghe	Institute of Chartered Accountants of Sri Lanka	President appointed with effect from 07th January 2020
	Ernst & Young	Partner
Mr. D. N. R. Siriwardene	The Department of the Registrar of Companies	Registrar General of Companies
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member
	Institute of Chartered Accountants of Sri Lanka	Ex-Officio Member
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Member
Mr. R. M. P. Rathnayake	General Treasury	Deputy Secretary
	Bank of Ceylon (BOC)	Ex-Officio Member with effect from 28th April 2020
	Academy of Financial Studies (Guarantee) Limited	Ex-Officio Member with effect from 24th August 2020
	Local Loan Development Fund (LLDF)	Commissioner & Chairman with effect from 14th September 2020
	Settlement Guarantee Fund	Trustee with effect from 16th January 2020
Mr. Sunil Lankathilake	Ministry of Finance	Board Member (Member of Board of Inquiry of Foreign Exchange Act No. 12 of 2017) for three years from 03rd January 2021
Mr. Sisira Rathnayake	Nil	Nil
Mr. Naresh Abeysekera	Nil	Nil

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

Name	Name of Related Institution	Relationship
Mr. H. A. Karunaratne	Central Bank of Sri Lanka	Deputy Governor until 05th September 2020
	Institute of Bankers of Sri Lanka	Chairman until 05th September 2020
	Credit Information Bureau of Sri Lanka	Chairman until 05th September 2020
	West Coast Power (Pvt) Ltd Sri Lanka	Chairman until 05th September 2020
	Insurance Regulatory Commission of Sri Lanka	Director until 05th September 2020
	Colombo Dockyard PLC	Director until 05th September 2020
Mr. K. M. Mahinda Siriwardana	Central Bank of Sri Lanka	Deputy Governor
	Institute of Bankers of Sri Lanka	Chairman for the period from 05th September 2020 to 31st December 2020
	Credit Information Bureau of Sri Lanka	Chairman for the period from 05th September 2020 to 31st December 2020
	Ministry of Defence - "Api Wenuwen Api Fund" Board of Management Board	Member with effect from 02nd March 2020
	Insurance Regulatory Commission of Sri Lanka	Member for the period from 05th September 2020 to 31st December 2020

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

The Cess Fund of the SEC maintains the following Current Account at Bank of Ceylon (BOC) and the bank balance is tabulated below;

Name of the Current Account	Account Number	Balance as at 31.12.2020	Balance as at 31.12.2019
Cess Fund of Securities and Exchange Commission of Sri Lanka	0009834430	1,862,994	1,576,566

The following investments were channeled through BOC during the year 2020.

Investment Type	Investments made in BOC during the year (Rs.)	Balance as at 31st December 2020 at BOC (Rs.)
Treasury Bonds	Nil	776,677,247
Investment in Repo	585,000,000	Nil
Total	585,000,000	776,677,247

BOC is the Fund Manager for the State Institutions Temporary Surplus Trust Fund (SITSTF) in which the Cess Fund of the SEC had investments valuing to Rs. 312,331,872/- until 01st April 2020, the date on which the same was absorbed to the Consolidated Fund of the Government Treasury.

COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA  
**AUDITOR GENERAL'S REPORT**



**ජාතික විගණන කාර්යාලය**  
**தேசிய கணக்காய்வு அலுவலகம்**  
**NATIONAL AUDIT OFFICE**



මගේ අංකය  
எனது இல.  
My No.

} BAF/H/SEC/COM/1/20/5

ඔබේ අංකය  
உமது இல.  
Your No.

}

දිනය  
திகதி  
Date

} 21 June 2021

Chairman  
 Securities and Exchange Commission of Sri Lanka

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Compensation Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2020 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

## 1. Financial Statements

### 1.1 Opinion

The audit of the financial statements of the Compensation Fund of the Securities and Exchange Commission of Sri Lanka ("Fund") for the year ended 31 December 2020 comprising the Statement of Financial Position as at 31 December 2020 and the Statement of Financial Performance, Statement of Changes in Compensation Fund and Cash Flow Statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act, No. 38 of 1971. The report of the Auditor General in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka will be tabled in Parliament in due course.

In my opinion, the financial statements of the Fund give a true and fair view of the financial position of the Compensation Fund as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### 1.2 Basis for Opinion

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

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

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

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

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



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

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

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

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

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

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

## 2. Report on Other Legal and Regulatory Requirements

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

**2.1.1** I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Fund as per the requirement of Section 12 (a) of the National Audit Act, No. 19 of 2018.

**2.1.2** The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

## COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### AUDITOR GENERAL'S REPORT



2.1.3 The recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018 are included in the submitted financial statements.

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

2.2.1 to state that any member of the governing body of the Fund has any direct or indirect interest in any contract entered into by the Fund which are out of the normal course of business as per the requirement of Section 12 (d) of the National Audit Act, No. 19 of 2018.

2.2.2 to state that the Fund has not complied with any applicable written law, general and special directions issued by the governing body of the Fund as per the requirement of Section 12 (f) of the National Audit Act, No. 19 of 2018.

2.2.3 to state that the Fund has not performed according to its powers, functions and duties as per the requirement of Section 12 (g) of the National Audit Act, No. 19 of 2018.

2.2.4 to state that the resources of the Fund had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of Section 12 (h) of the National Audit Act, No. 19 of 2018.

W. P. C. Wickramaratne  
Auditor General

## STATEMENT OF FINANCIAL POSITION

As at 31st December 2020	2020 Rs.	2019 Rs.
<b>Assets</b>		
<b>Non Current Assets</b>		
Investments in Treasury Bonds	242,875,161	282,481,909
<b>Current Assets</b>		
Investments in Treasury Bonds	39,606,748	98,973,250
Interest Receivable on Treasury Bonds	9,308,709	10,399,835
Interest Receivable on Repo	32,027	73,489
Investment in Repo	248,721,328	69,852,733
Balance at Bank	99,580	182,728
<b>Total Assets</b>	<b>540,643,553</b>	<b>461,963,944</b>
<b>Funds and Liabilities</b>		
<b>Funds Employed and Reserves</b>		
Accumulated Fund	521,752,939	461,963,944
<b>Current Liabilities</b>		
Payable to SEC	18,890,614	-
<b>Total Funds and Liabilities</b>	<b>540,643,553</b>	<b>461,963,944</b>

The notes appearing on pages 121 to 124 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 COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA



**Chinthaka Mendis**  
Director General  
Securities and Exchange Commission of Sri Lanka



**Viraj Dayaratne PC**  
Chairman  
Securities and Exchange Commission of Sri Lanka



**G P N Dilhani**  
Director Finance  
Securities and Exchange Commission of Sri Lanka

Colombo  
11th May 2021

## COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

# STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31st December 2020	Note	2020 Rs.	2019 Rs.
<b>Income</b>			
Interest on Treasury Bonds		33,778,140	42,191,522
Interest on Repo Investments		8,602,751	2,345,856
Compounded Fines Received during the year		36,300,000	-
<b>Total Income</b>		<b>78,680,891</b>	<b>44,537,378</b>
<b>Expenditure</b>			
Bank Charges		(1,282)	(15,990)
<b>Total Expenditure</b>		<b>(1,282)</b>	<b>(15,990)</b>
<b>Income Tax Expense</b>	7	<b>(18,890,614)</b>	-
<b>Excess of Income over Expenditure</b>		<b>59,788,995</b>	<b>44,521,388</b>

The notes appearing on pages 121 to 124 form an integral part of the financial statements.

## STATEMENT OF CHANGES IN COMPENSATION FUND

For the year ended 31st December 2020	2020 Rs.	2019 Rs.
<b>Accumulated Fund</b>		
Balance at the beginning of the Year	461,963,944	417,442,556
Excess of Income over Expenditure	59,788,995	44,521,388
<b>Balance at the end of the Year</b>	<b>521,752,939</b>	461,963,944

The notes appearing on pages 121 to 124 form an integral part of the financial statements.

## COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

# CASH FLOW STATEMENT

For the year ended 31st December 2020	2020 Rs.	2019 Rs.
<b>Cash Flows from Operating Activities</b>		
Excess of Income over Expenditure	59,788,995	44,521,389
Net Increase/ (Decrease) before Working Capital Changes	59,788,995	44,521,389
<b>Change of Working Capital</b>		
(Increase)/ Decrease of Interest Receivable on Treasury Bonds	1,091,126	(5,026,281)
(Increase)/ Decrease of Interest Receivable on Repo	41,462	(71,939)
Increase/ (Decrease) of Payable to SEC	18,890,614	-
	20,023,201	(5,098,220)
Net Cash Inflow/ (Outflow) from Operating Activities	79,812,197	39,423,169
<b>Cash Flows into Investing Activities</b>		
Investment in Treasury Bonds	98,973,250	29,045,670
Net Cash Inflow/ (Outflow) from Investing Activities	98,973,250	29,045,670
Net Increase/ (Decrease) in Cash and Cash Equivalents	178,785,447	68,468,839
Cash and Cash Equivalents at the beginning of the period (Note E)	70,035,461	1,566,623
<b>Cash and Cash Equivalents at the end of the period (Note F)</b>	<b>248,820,908</b>	<b>70,035,461</b>
<b>Note (E)</b>		
<b>Cash and Cash Equivalents at the beginning of the period</b>		
Investments in Repo	69,852,733	1,458,573
Cash at Bank	182,728	108,050
Total	70,035,461	1,566,623
<b>Note (F)</b>		
<b>Cash and Cash Equivalents at the end of the period</b>		
Investments in Repo	248,721,328	69,852,733
Cash at Bank	99,580	182,728
Total	248,820,908	70,035,461

The notes appearing on pages 121 to 124 form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

### 1.1 REPORTING ENTITY

Compensation Fund of the Securities and Exchange Commission of Sri Lanka (Compensation Fund) was established under the Section 38 (1) of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 as amended by Act No. 26 of 1991, Act No. 18 of 2003 and Act No. 47 of 2009 (SEC Act) which reads as '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 stockbroker or licensed stock dealer being found incapable of meeting his contractual obligations'.

The Compensation Fund is domiciled in the Democratic Socialist Republic of Sri Lanka and situated at Level 28 and 29, East Tower-World Trade Center, Echelon Square, Colombo 01.

### 1.2 NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

According to the Section 38 (1) of the SEC Act, the purpose of establishing the Compensation Fund is to grant compensation to any investor who suffers pecuniary loss as a result of any licensed stockbroker or licensed stock dealer being found incapable of meeting his contractual obligations.

Further, the Section 38 (2) of the SEC Act stated that the Compensation Fund shall consist of;

- (a) such sums of money as may be voted upon by Parliament for the purpose of the Fund;
- (b) such sums of money as may be credited to the Fund under Section 51A;
- (c) such sums of money as may be credited from the Cess Fund under Section 14B.

In addition, in terms of the Section 38 (3) 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.

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

### 1.3 STATEMENT OF COMPLIANCE

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

### 1.4 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

### 1.5 GOING CONCERN

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

the accounting policies have been applied consistently throughout the period.

### 1.6 BASIS OF PREPARATION

Based on a recommendation made by the SEC Audit Committee in terms of the provisions of the SEC Act, with effect from 01st January 2020 the Commission of the Securities and Exchange Commission of Sri Lanka decided to prepare a separate set of financial statements for the Compensation Fund of the SEC. Hence, this set of Financial Statements contains the Statement of Financial Position, the Statement of Financial Performance, the Statement of Changes in Reserves and the Cash Flow Statement together with the Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information of the Compensation Fund of the SEC.

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

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

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

### 1.7 USE OF ESTIMATES AND JUDGEMENTS

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

## COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### NOTES TO THE FINANCIAL STATEMENTS

assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

#### 1.8 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Compensation Fund's functional currency. There was no change in the entity's presentation and functional currency during the year under review. Foreign exchange transactions, if any are converted to Sri Lankan Rupees at the rate of exchange prevailing at the time of the transaction.

#### 1.9 MATERIALITY AND AGGREGATION

Each material class of similar item is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

#### 1.10 OFFSETTING

Assets & liabilities and revenue & expenses are not offset unless required or permitted by a SLPSAS or the offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and condition that occurred and to assess the Compensation Fund's future cash flows.

#### 1.11 COMPARATIVE INFORMATION

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

#### 1.12 EVENTS AFTER THE REPORTING DATE

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

#### 1.13 CHANGES IN ACCOUNTING POLICIES

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

## 2 ASSETS AND BASES OF THEIR VALUATION

### 2.1 INVESTMENTS

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

### 2.2 RECEIVABLES

Receivables are stated at the estimated realizable value.

## 3 LIABILITIES & PROVISIONS

### 3.1 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.

## 4 STATEMENT OF FINANCIAL PERFORMANCE

### 4.1 INTEREST INCOME

Interest Income on investments are recognized in the Statement of Financial Performance on an accrual basis.

### 4.2 FINE RECEIVED

Fine received to the Compensation Fund in terms of the provisions of the SEC Act is recognized on cash basis.

### 4.3 OTHER INCOME

Other income, if any is recognized on an accrual basis.

## 5 EXPENDITURE RECOGNITION

All expenditure of the Compensation Fund is recognized on accrual basis and charged to revenue in ascertaining the financial performance.

## 6 CASH FLOW STATEMENT

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

## 7 INCOME TAX EXPENSE

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

	2020 Rs.	2019 Rs.
Income tax expense for the Y/A 2020/2021	18,890,614	-
Total	18,890,614	-

## 8 CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2020.

## 9 CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2020.

## 10 RELATED PARTY DISCLOSURES

The Compensation Fund is managed by the Members of the Commission of the Securities and Exchange Commission of Sri Lanka. Mr. Viraj Dayaratne, PC was appointed as the Chairman of the SEC with effect from 8th January 2020 and assumed duties with effect from 22nd January 2020.

The following Members of the Commission held office during the year 2020 as stated below.

- Mr. Manil Jayasinghe was appointed as an Ex-officio member by virtue of him holding office as the President of the Institute of Chartered Accountants of Sri Lanka with effect from 07th January 2020.
- Mr. D. N. R. Siriwardene, Ex-officio member by virtue of him holding office as Registrar General of Companies.
- Mr. R. M. P. Rathnayake was appointed as an Ex-officio member by virtue of him holding office as Deputy Secretary to the General Treasury with effect from 16th January 2020.
- Mr. Suhada Gamalath, PC was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Sisira Rathnayake was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Sunil Lankathilake was appointed as a Member of the Commission with effect from 16th January 2020.
- Mr. Naresh Abeysekera was appointed as a Member of the Commission with effect from 16th January 2020.

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

- Mr. H. A. Karunaratne who was appointed with effect from 23th November 2018 as an Ex-officio member by virtue of him holding office as Deputy Governor to the Central Bank of Sri Lanka ceased to be a member with effect from 08th September 2020.
- Mr. K. M. Mahinda Siriwardana who was appointed with effect from 15th September 2020 as an Ex-officio member by virtue of him holding office as Deputy Governor to the Central Bank of Sri Lanka ceased to be a member with effect from 31st December 2020.

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

Name	Name of Related Institution	Relationship
Mr. Viraj Dayaratne, PC	Settlement Guarantee Fund	Trustee appointed with effect from 08th January 2020 and assumed duties with effect from 22nd January 2020
Mr. Manil Jayasinghe	Institute of Chartered Accountants of Sri Lanka	President appointed with effect from 07th January 2020
	Ernst & Young	Partner
Mr. D. N. R. Siriwardene	The Department of the Registrar of Companies	Registrar General of Companies
	Insurance Regulatory Commission of Sri Lanka	Ex-Officio Member
	Institute of Chartered Accountants of Sri Lanka	Ex-Officio Member
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Member

## COMPENSATION FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### NOTES TO THE FINANCIAL STATEMENTS

Name	Name of Related Institution	Relationship
Mr. R. M. P. Rathnayake	General Treasury	Deputy Secretary
	Bank of Ceylon (BOC)	Ex-Officio Member with effect from 28th April 2020
	Academy of Financial Studies (Guarantee) Limited	Ex-Officio Member with effect from 24th August 2020
	Local Loan Developmet Fund (LLDF)	Commissioner & Chairmanwith effect from 14th September 2020
	Settlement Guarantee Fund	Trustee with effect from 16th January 2020
Mr. Sunil Lankathilake	Ministry of Finance	Board Member (Member of Board of Inquiry of Foreign Exchange Act No. 12 of 2017) for three years from 03rd January 2021
Mr. Sisira Ratnayake	Nil	Nil
Mr. Naresh Abeysekera	Nil	Nil

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

Name	Name of Related Institution	Relationship
Mr. H. A. Karunaratne	Central Bank of Sri Lanka	Deputy Governor until 05th September 2020
	Institute of Bankers of Sri Lanka	Chairman until 05th September 2020
	Credit Information Bureau of Sri Lanka	Chairman until 05th September 2020
	West Coast Power (Pvt) Ltd Sri Lanka	Chairman until 05th September 2020
	Insurance Regulatory Commission of Sri Lanka	Director until 05th September 2020
	Colombo Dockyard PLC	Director until 05th September 2020
Mr. K. M. Mahinda Siriwardana	Central Bank of Sri Lanka	Deputy Governor
	Institute of Bankers of Sri Lanka	Chairman for the period from 05th September 2020 to 31st December 2020
	Credit Information Bureau of Sri Lanka	Chairman for the period from 05th September 2020 to 31st December 2020
	Ministry of Defence - "Api Wenuwen Api Fund" Board of Management Board	Member with effect from 02nd March 2020
	Insurance Regulatory Commission of Sri Lanka	Member for the period from 05th September 2020 to 31st December 2020

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

The Compensation Fund of the SEC maintains the following Current Account at Bank of Ceylon (BOC) and the bank balances is tabulated below;

Name of the Current Account	Account Number	Balance as at 31.12.2020	Balance as at 31.12.2019
Compensation Fund of Securities and Exchange Commission of Sri Lanka	75433985	99,580	182,728

The following investments were channeled through BOC during the year 2020.

Investment Type	Investments made in BOC during the year (Rs.)	Balance as at 31st December 2020 at BOC (Rs.)
Treasury Bonds	Nil	158,799,420
Investment in Repo	171,000,000	Nil
<b>Total</b>	<b>171,000,000</b>	<b>158,799,420</b>

# SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

## AUDITOR GENERAL'S REPORT



### ජාතික විගණන කාර්යාලය

### தேசிய கணக்காய்வு அலுவலகம்

### NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல.  
My No.

BAF/H/SEC/COM/1/20/5

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

21 June 2021

Chairman  
Securities and Exchange Commission of Sri Lanka

Summary Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2020 in terms of Section 11 (1) of the National Audit Act No.19 of 2018.

#### 1. Financial Statements

##### 1.1 Opinion

The audit of the financial statements of the Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka ("Fund") for the year ended 31 December 2020 comprising the Statement of Financial Position as at 31 December 2020 and the Statement of Financial Performance, Statement of Changes in Net Assets and Cash Flow Statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Paragraph 11(d) of the Deed of Trust No. 1376 dated 21/22 May 1998 relating to establishment of the Fund as a proposal in the budget presented for the year 1998. The report of the Auditor General in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka will be tabled in Parliament in due course.

In my opinion, the financial statements of the Fund give a true and fair view of the financial position as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

##### 1.2 Basis for Opinion

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

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

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

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

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



## SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### AUDITOR GENERAL'S REPORT

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

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

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

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

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

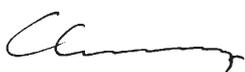
I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

#### 2. Report on Other Legal and Regulatory Requirements

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

**2.1.1** The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

**2.1.2** The recommendations made by me during the previous year as per the requirement mentioned in Section 6(1) (d) (iv) of the National Audit Act No. 19 of 2018 are included in the submitted financial statements.



**W. P.C Wickramaratne**  
Auditor General

## STATEMENT OF FINANCIAL POSITION

As at 31st December 2020	Note	2020 Rs.	2019 Rs.
<b>Assets</b>			
<b>Non Current Assets</b>			
Investments in Treasury Bonds		473,635,565	628,786,625
Investments in Fixed Deposits		300,000,000	-
<b>Current Assets</b>			
Investments in Treasury Bonds		155,151,060	217,524,480
Interest Receivables	5	28,265,386	21,994,314
Investments in Repo		30,486,575	75,100,000
Cash at Bank		238,938	430,853
<b>Total Assets</b>		<b>987,777,524</b>	<b>943,836,272</b>
<b>Reserves and Liabilities</b>			
<b>Reserves</b>			
Grant - Treasury		50,000,000	50,000,000
Grant - Cess Fund		100,000,000	100,000,000
Grant - Colombo Stock Exchange		100,000,000	100,000,000
Accumulated Fund		732,213,570	657,864,112
<b>Current Liabilities</b>			
Income Tax Payable		5,453,954	35,822,160
Other Payables	6	110,000	150,000
<b>Total Reserves and Liabilities</b>		<b>987,777,524</b>	<b>943,836,272</b>

The notes appearing on pages 131 to 134 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 THE SETTLEMENT GUARANTEE FUND



**Chinthaka Mendis**  
Trustee - Settlement Guarantee Fund



**Viraj Dayaratne PC**  
Trustee - Settlement Guarantee Fund

Colombo  
11th May 2021

## SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

# STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31st December 2020	Note	2020 Rs.	2019 Rs.
<b>Income</b>			
Interest on Investments - Repurchase Agreements		6,316,460	4,728,020
Interest on Investments - Treasury Bonds		75,022,727	86,456,671
Interest on Investments - Fixed Deposits		9,780,823	-
<b>Total Income</b>		<b>91,120,010</b>	<b>91,184,691</b>
<b>Expenditure</b>			
Audit Fees		(176,000)	(166,370)
Bank Charges		(750)	(15,870)
<b>Total Expenditure</b>		<b>(176,750)</b>	<b>(182,240)</b>
Income Tax Expense	7	(16,593,802)	(35,822,160)
<b>Excess Of Income Over Expenditure</b>		<b>74,349,458</b>	<b>55,180,291</b>

The notes appearing on pages 131 to 134 form an integral part of the financial statements.

## STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31st December 2020	2020 Rs.	2019 Rs.
<b>Accumulated Fund</b>		
Balance at the beginning of the year	657,864,112	602,683,822
Excess of Income over Expenditure for the year	74,349,458	55,180,291
<b>Balance at the end of the year</b>	<b>732,213,570</b>	<b>657,864,112</b>

The notes appearing on pages 131 to 134 form an integral part of the financial statements.

## SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

# CASH FLOW STATEMENT

For the year ended 31st December 2020	2020 Rs.	2019 Rs.
<b>Cash Flow from Operating Activities</b>		
Excess of Income over Expenditure	74,349,458	55,180,292
Net Increase/ (Decrease) before Working Capital Changes	74,349,458	55,180,292
<b>Change of Working Capital</b>		
(Increase)/ Decrease of Other Receivables	(6,271,072)	(4,548,001)
Increase/ (Decrease) of Payables	(30,408,206)	35,662,160
	(36,679,278)	31,114,159
Net Cash Inflow/ (Outflow) from Operating Activities	37,670,180	86,294,451
<b>Cash Flow from Investing Activities</b>		
Investments in Treasury Bonds	217,524,480	(40,243,085)
Investments in Fixed Deposits	(300,000,000)	-
Net Cash Inflow/ (Outflow) from Investing Activities	(82,475,520)	(40,243,085)
Net Increase/ (Decrease) in Cash and Cash Equivalents	(44,805,340)	46,051,366
Cash & Cash Equivalents at the beginning of the period (Note A)	75,530,853	29,479,487
<b>Cash &amp; Cash Equivalents at the end of the period (Note B)</b>	<b>30,725,513</b>	<b>75,530,853</b>
<b>Note (A)</b>		
<b>Cash &amp; Cash Equivalents at the beginning of the period</b>		
Investments in Repo	75,100,000	29,000,000
Cash at Bank	430,853	479,487
Total	75,530,853	29,479,487
<b>Note (B)</b>		
<b>Cash &amp; Cash Equivalents at the end of the period</b>		
Investments in Repo	30,486,575	75,100,000
Cash at Bank	238,938	430,853
Total	30,725,513	75,530,853

The notes appearing on page 131 to 134 form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

### 1.1 STATEMENT OF COMPLIANCE

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

### 1.2 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

### 1.3 GOING CONCERN

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

### 1.4 BASIS OF PREPARATION

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

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

### 1.5 EVENTS AFTER THE REPORTING DATE

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

### 1.6 CHANGES IN ACCOUNTING POLICIES

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

### 1.7 COMPARATIVE FIGURES

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

## 2. ASSETS AND BASES OF THEIR VALUATION

### 2.1 INVESTMENTS

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

### 2.2 RECEIVABLES

Receivables are stated at the estimated realizable value.

## 3. LIABILITIES & PROVISIONS

### 3.1 RETIREMENT BENEFIT

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

### 3.2 ACCOUNTS PAYABLE

Payables are stated at cost.

## 4. STATEMENT OF FINANCIAL PERFORMANCE

### 4.1 REVENUE RECOGNITION

Interest on investments is recognized on an accrual basis.

### 4.2 EXPENDITURE RECOGNITION

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

### 4.3 CASH FLOW STATEMENT

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

## 5. RECEIVABLES

	2020 Rs.	2019 Rs.
Interest Receivable		
- Treasury Bonds	18,480,637	21,915,304
- Fixed Deposits	9,780,823	-
- Repurchase Agreements	3,926	79,010
Total	28,265,386	21,994,314

## SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### NOTES TO THE FINANCIAL STATEMENTS

#### 6. PAYABLES

	2020 Rs.	2019 Rs.
Audit Fees	110,000	150,000
Total	110,000	150,000

#### 7. INCOME TAX EXPENSE

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

	2020 Rs.	2019 Rs.
Income Tax Expense for the Y/A 2018/2019	-	14,205,587
Income Tax Expense for the Y/A 2019/2020	224,015	21,616,573
Income Tax Expense for the Y/A 2020/2021	16,369,787	-
Total	16,593,802	35,822,160

#### 8. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2020.

#### 9. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2020.

#### 10. EVENTS AFTER REPORTING DATE

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

#### 11. RELATED PARTY DISCLOSURE

The Trustees of the Fund consist of the Chairman and the Director General of the Securities and Exchange Commission of Sri Lanka (SEC), the Chairman and the Chief Executive Officer of the Colombo Stock Exchange (CSE) and the Deputy Secretary to the Treasury. The following Trustees of the SGF held office during the year 2020;

- Mr. Viraj Dayarathne PC, Chairman SEC (appointed w.e.f. 08th January 2020 and assumed duties with effect from 22nd January 2020)
- Mr. Dumith Fernando, Chairman CSE (appointed w.e.f. 01st July 2020)
- Mr. Rajeeva Bandaranaike, Chief Executive Officer CSE
- Mr. R.M.P. Rathnayake, Commissioner SEC and the Deputy Secretary to the Treasury (appointed w.e.f. 16th January 2020)
- Mr. Chinthaka Mendis, Director General of SEC (appointed w.e.f. 02nd March 2020)
- Mr. Ray Abeywardena, former Chairman CSE (ceased to be a Trustee w. e. f. 30th June 2020)
- Mr. Vajira Wijegunawardane, former Director General SEC (ceased to be a Trustee w. e. f. 28th February 2020)

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

Name	Name of Related Institution	Relationship	Shareholding, if any
Mr. Viraj Dayarathne PC	Securities and Exchange Commission of Sri Lanka	Chairman appointed w.e.f. 08th January 2020 and assumed duties w.e.f. 22nd January 2020	Nil
Mr. Dumith Fernando	Colombo Stock Exchange	Chairman with effect from 01st July 2020	Nil
	Panthera Ventures (Pvt) Ltd	Director	100%
	PV Galle Properties (Pvt) Ltd	Director	100%
	PV Hilltop Holdings (Pvt) Ltd	Director	100%
	Omak Technologies (Pvt) Ltd	Chairman	<10%
	Techkitez (Pvt) Ltd	Chairman/ Director	10.34%
	One Season Properties (Pvt) Ltd	Director	48.6%
	Dew Paradise (Pvt) Ltd	Director	48.6%
	Aniwa (Pvt) Ltd	Director	<11.8%
	Generator Solutions (Pvt) Ltd	Director	48.6%
	JewelexAgriKumaragama (Pvt) Ltd	Director	15%
	Asia Securities (Pvt) Ltd	Director	76.7%
	Asia Securities Holdings (Pvt) Ltd	Director	27.64%
	Asia Securities Wealth Management (Pvt) Ltd	Director	27.64%
	A-Sec Capital (Pvt) Ltd	Director	100%
	Asia Securities Advisors (Pvt) Ltd	Director	27.64%
	Singer (Sri Lanka) PLC	Director	Nil
	Union Assurance	Director	Nil
Mr. Rajeeva Bandaranaike	Colombo Stock Exchange	Chief Executive Officer	Nil
	Lanka Financial Services Bureau Limited (LFSBL)	Director	Nil
Mr. R. M. P. Rathnayake	General Treasury	Deputy Secretary	Nil
	Securities and Exchange Commission of Sri Lanka	Ex-Officio Member with effect from 16th January 2020	Nil
	Bank of Ceylon (BOC)	Ex-Officio Member with effect from 28th April 2020	Nil
	Academy of Financial Studies (Guarantee) Limited	Ex-Officio Member with effect from 24th August 2020	Nil
	Local Loan Development Fund (LLDF)	Commissioner & Chairman with effect from 14th September 2020	Nil
Mr. Chinthaka Mendis	Securities and Exchange Commission of Sri Lanka	Director General with effect from 02nd March 2020	Nil
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Ex-officio Member with effect from 02nd March 2020	Nil
	Construction Guarantee Fund	Trustee with effect from 02nd March 2020	Nil

## SETTLEMENT GUARANTEE FUND OF THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

### NOTES TO THE FINANCIAL STATEMENTS

Name	Name of Related Institution	Relationship	Shareholding, if any
Mr. Ray Abeywardena	Colombo Stock Exchange	Chairman until 30th June 2020 and Director thereafter	Nil
	Acuity Partners (Pvt) Ltd	Managing Director	Nil
	Acuity Securities (Pvt) Ltd	Chairman	Nil
	Acuity Stockbrokers (Pvt) Ltd	Chairman	Nil
	Central Depository System (Pvt) Ltd	Director	Nil
	Softlogic Life Insurance PLC	Director	Nil
	Lanka Ventures PLC	Director	Nil
	LVL Energy Fund Limited	Director	Nil
	Guardian Acuity Asset Management Ltd	Director	Nil
Mr. Vajira Wijegunawardane	Securities and Exchange Commission of Sri Lanka	Director General until 28th February 2020	Nil
	Sri Lanka Accounting and Auditing Standards Monitoring Board	Ex-officio Member until 28th February 2020	Nil
	Construction Guarantee Fund	Trustee until 28th February 2020	Nil

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

The SGF maintains the following Current Account at Bank of Ceylon (BOC) and the bank balance is tabulated below;

Name of the Current Account	Account Number	Balance as at 31.12.2020	Balance as at 31.12.2019
Settlement Guarantee Fund of Securities and Exchange Commission of Sri Lanka	1833	238,938	430,853

The following investments were channeled through BOC during the year 2020.

Investment Type	Investments made in BOC during the year (Rs.)	Balance as at 31st December 2020 at BOC (Rs.)
Treasury Bonds	Nil	375,874,050
Investment in Repo	915,706,442	Nil
<b>Total</b>	<b>915,706,442</b>	<b>375,874,050</b>





# ADDITIONAL INFORMATION

## Office Address

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East Tower  
World Trade Center  
Echelon Square  
Colombo 1  
Sri Lanka

## Telephone

+94 11 2143843

## Fax

+94 11 2439149

## E-mail

mail@sec.gov.lk

## Web

www.sec.gov.lk

## Accounting Year

Year ended 31st December 2020

## Auditors

The Auditor General

## Bankers

Bank of Ceylon  
Sampath Bank  
Commercial Bank  
Hatton National Bank PLC



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COMMISSION OF SRI LANKA