



Annual Report 2023

# Wings of Progress



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# Wings of Progress

In this dynamic landscape of progress, we proudly assume the role of a catalyst for positive change. With a steadfast commitment to a fair, efficient, and ethical market, we soar with wings of progress, facilitating the flow of capital between businesses and investors.

Our wings of progress symbolise our resolve to propel the entire securities market forward. These 'wings', powered by a culture of forward thinking and adaptability, serve as the driving force for our journey into new avenues of growth.

This proactive stance not only enhances market competitiveness, but also positions us as a key player in shaping the future of the securities market. As we take flight on our wings of progress, we become architects of a future where innovation flourishes and the industry thrives.

# Strategic Direction

## VISION, MISSION AND VALUES

### Strategic Goals

The year 2023 marked the last year of our three-year strategic plan that guided our priorities to accomplish the vision, mission and objectives of the Securities and Exchange Commission of Sri Lanka (SEC). This Annual Report gives an update on our progress within each of the five strategic themes of our strategic plan.



### Vision

To accomplish the position of a benchmark capital market regulator in the region

1

Establish and Maintain a Robust Regulatory Environment

2

Protect Investor Interest

3

Foster Capital Market Development

4

Promote Informed Investment Decision Making and Interest in the Capital Market

5

Enhance Institutional Excellence



### Mission

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



### Values

Innovation, creativity and development

Integrity, objectivity and transparency

Stakeholder and customer focus responsibilities

Efficiency and flexibility

Performance and quality driven





# A Broader Perspective

## EXECUTIVE REVIEWS

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# Chairman's Review



**“Amidst this testing crisis, we remained steadfast in our mission to regulate the capital market, protect investors, uphold public interest, reduce financial crime, and sustain a fair, orderly, and efficient market.”**

The past year was marked by unparalleled challenges stemming from the worst economic crisis since our nation's independence, which rigorously tested the resilience of our financial markets and institutions. Amidst this testing crisis, we remained steadfast in our mission to regulate the capital market, protect investors, uphold public interest, reduce financial crime, and sustain a fair, orderly, and efficient market.

We've been actively working on critical matters and key priorities throughout the economic crisis. We believe hard and difficult times are the best times for reflection, rebuilding and preparing institutions to be future-ready in order to make early gains when the economic uptake happens.

In line with our commitment to foster a robust capital market ecosystem, we introduced a comprehensive Capital Market Reforms Agenda for the period 2023-2025 comprising of 12 key initiatives aimed at promoting growth, innovation, and sustainability in the securities market. We identified institutional capacity building as a key priority for 2023 in order to enhance SEC's overall efficiency and effectiveness and specifically fulfil its regulatory role and responsibilities under the new and expanded SEC Act. Critical areas that required early and expeditious action were in the Human Resources and Technology spaces of our operations.

**“We identified institutional capacity building as a key priority for 2023 in order to enhance SEC’s overall efficiency and effectiveness and specifically fulfil its regulatory role and responsibilities under the new and expanded SEC Act.”**



These included the acquisition, retention, upskilling and realignment of specialist human talent, automation of key business processes, procurement of appropriate technology systems relevant to a specialist standards-setting and regulatory institution, and organisation transformation towards operating process efficiencies, performance orientation and a principled market behavioural culture. The capacity building process took into specific consideration the existing gaps across our three core operating pillars, namely Market Surveillance, Investigations and Enforcement. The Commission has initiated appropriate actions to address the gaps whilst being mindful of the challenges posed by the external environment. Our *organisation transformation* initiative is strategically interlinked to our *digital transformation* initiative to create meaningful outcomes from both the value creation and risk mitigation perspectives.

While some of the reform initiatives have been successfully completed, others are steadily advancing. Central to the reforms agenda is the embrace of digital transformation which is an important element in modernising our market infrastructure and improving accessibility for all stakeholders, the establishment of a Derivatives Exchange, a Carbon Credit Trading Exchange, a Multi-Currency Exchange and the introduction of new products as part of our commitment to facilitating diverse investment opportunities while aligning with global sustainability goals.

In pursuit of good governance, better efficiency and competitiveness, the demutualization of the Colombo Stock Exchange (CSE) remains a top priority on the reforms agenda. Our capital market is among very few markets in the world that operate a mutual stock exchange. Demutualization is critical to building sustainable trust and confidence at the market institution level. In 2023, we took decisive steps to expedite the demutualization legislation which had been stalled due to differences in opinion since 2018. I appreciate the cooperation we have now received from the stock broking industry to reactivate and progress with the demutualization bill through the legislature. The success of this joint effort will bring positive results to the future operations of the CSE and enable its elevation to the next league.

The procurement of a real-time market surveillance system and an automated market supervision system are currently in progress and will strengthen the critically important core regulatory functions of market surveillance and market supervision, fortify the regulatory oversight process and safeguard investor interests.

In collaboration with the CSE, we fostered an environment conducive to innovation and growth, marked by the introduction of several transformative initiatives. We created an enabling regulatory framework for Regulated Short Selling (RSS) through Securities Borrowing and

Lending (SBL), a significant milestone that enhances market liquidity and efficiency while offering investors new avenues for risk management. We championed sustainability through the creation of a regulatory framework for sustainable bonds, including Green and Blue Bonds, which not only diversify investment opportunities but also promote environmental and social responsibility. Our commitment to financial inclusivity is evident in the introduction of Shariah Compliant Debt Securities, catering to the diverse needs of investors while adhering to ethical principles. Recognising the pivotal role of infrastructure development in driving economic growth, we have enabled the issuance of Infrastructure Bonds, providing long-term financing solutions for essential projects.

**“In support of the Government’s policy on reforms in State-Owned Enterprises (SOE) we approved the creation of a separate transitional listing board to enable the listing of SOEs, a critical step towards progressively bolstering market liquidity and promoting transparency in the SOE sector.”**



## Chairman's Review

In support of the Government's policy on reforms in State-Owned Enterprises (SOE) we approved the creation of a separate transitional listing board to enable the listing of SOEs, a critical step towards progressively bolstering market liquidity and promoting transparency in the SOE sector. Listing SOEs on the CSE offers many benefits for the entities in terms of better governance, transparency and investor interest.

Through vigilant surveillance and thorough investigation, the Commission took swift and decisive enforcement actions against individuals, market intermediaries, and listed companies found to be involved in fraudulent activities or market manipulation. These efforts serve as a clear demonstration of our commitment to uphold the rule of law and preserve market discipline and integrity. In 2023, the Commission approved many enforcement actions sending a strong message that unethical, illegal, criminal behaviour, market transactions and offences will not be tolerated within the capital market. Our proactive approach to enforcement underscores our commitment to fostering a fair, transparent and orderly market environment, where investors can have confidence in the integrity of our regulatory framework. One notable area of focus during the year has been the proliferation of unlicensed individuals providing investment advice, particularly through social media channels. In view of the potential risks posed by such unauthorised advice, the SEC took proactive measures to warn and educate such individuals and the general public about the regulatory requirements that govern the offering of investment advice.

Recognising the importance of stakeholders in shaping the direction and efficacy of the capital market, we facilitated regular engagement, dialogue, consultation and collaboration with various stakeholders. Through regular

consultations and discussions with market participants, industry associations, and other regulatory bodies, seminars and outreach programs, we actively sought to understand the evolving needs and challenges of stakeholders while disseminating critical regulatory updates and guidance. Beyond the domestic sphere, the SEC actively participated in international forums, including the Annual Meetings of the International Organisation of Securities Commissions (IOSCO), building effective partnerships and knowledge exchanges to strengthen Sri Lanka's position in the global market and regulatory landscape.

Through extensive stakeholder consultations, including dialogue with market participants, industry experts, and regulatory counterparts, we diligently reviewed and updated the Rules on Corporate Governance in 2023, marking the first comprehensive revision since 2008. The revision of Corporate Governance Rules marks a significant milestone in our ongoing efforts to fortify the governance structures, roles, duties and responsibilities of the Board of Directors and Board Committees of the listed companies. This collaborative endeavour between the SEC, CSE and the industry, reflects our collective resolve to foster a culture of transparency, accountability, and ethical stewardship in Sri Lanka's corporate landscape thereby reinforcing investor trust and confidence, and resilience in our securities market.

In a proactive measure to ensure the sustainability and effectiveness of SEC's market supervision role, we initiated the long-overdue revision of licensing fees for regulated entities. Recognising the dynamic nature of the financial industry and the evolving regulatory requirements, this initiative addressed the long overdue need to align licensing fees with current market realities and operational costs. After more than a decade without any realistic adjustment, this revision has

buttressed the licensing fees structure to a somewhat meaningful level for the time being. In order to uphold investor trust, mitigate risks and promote ethical business practices, we introduced minimum governance standards for Market Intermediaries. Through the implementation of these standards, Market Intermediaries are expected to operate with greater transparency and accountability, and ensure ethical business conduct.

We have embarked on an ambitious endeavour to foster capital market awareness at the school level, recognising the indispensable role of education in cultivating a culture of financial literacy. We made significant strides in fostering financial literacy across the country. Building upon the visionary leadership of President Ranil Wickremesinghe, we initiated Capital Market Clubs in 100 carefully selected schools across all 9 provinces. The inauguration of the first club by the President himself marked a symbolic commitment to empowering our youth with essential financial knowledge and skills. Furthermore, in our continued efforts to broaden financial education initiatives, we launched Varsity Battles, a capital market quiz, targeting students of state universities. This innovative program seeks to engage and challenge students enhancing their understanding of capital markets, investment principles, and financial management. Through these initiatives, we aim to cultivate a generation of informed investors and responsible financial decision-makers, paving the way for a more resilient and prosperous future.

I am pleased to say that the SEC weathered the economic storm in 2023, set a meaningful reforms agenda for both the institutional and market levels with realistic priorities, and made timely decisions towards fulfilling its enhanced role and responsibilities. We had a choice in 2023 – that is, stay where we were or leap into the next league of future-

**“2024 will be a challenging year in terms of the economic recovery and the path to growth. Clearly there is light at the end of the tunnel and the economy is on the right track. Positivity and a positive mindset is a crucial factor to pull ourselves out of the crisis.”**

ready, proactive, efficient and effective capital market regulators who have set the benchmark in the region. We conscientiously made the choice to take the leap in 2023 and shall continue on that journey with renewed vigour and commitment in 2024.

2024 will be a challenging year in terms of the economic recovery and the path to growth. Clearly there is light at the end of the tunnel and the economy is on the right track. Positivity and a positive mindset is a crucial factor to pull ourselves out of the crisis. The present crisis gives us a chance to come out of it with our right side up, and that we must do. Now is the time to do the right things towards long term stability. As we look ahead, we shall remain unwavering in our commitment to protecting investors, safeguarding the public interest, guiding and supporting issuers, market participants and stakeholders, and upholding the principles of good governance, transparency, accountability, and ethical practices.

I wish to extend my sincere thanks to the Commission Members, the Director General, Deputy Director General and all Staff of the Secretariat for their individual commitment, untiring efforts and collective contribution to SEC's mission.

I also wish to thank the Hon. President & Minister of Finance, Economic Stabilisation & National Policies, the State Minister of Finance, and officials of the Ministry of Finance, Economic Stabilisation & National Policies for their guidance and support, and all our stakeholders in the industry for their cooperation and support.



**Faizal Salieh**  
Chairman

17th April 2024

# Capital Market Reforms Agenda 2023-2025



## DEMUTUALIZATION OF THE CSE

Demutualisation will result in the establishment of good governance and management structures required for the operation of an efficient and effective Stock Exchange. This is vital considering the increasingly competitive environment that stock exchanges find themselves in and is essential for the advancement of Sri Lanka's capital market.



## REAL- TIME MARKET SURVEILLANCE SYSTEM

Critically important to support the surveillance function and enhance our regulatory effectiveness.



## DIGITAL TRANSFORMATION

Digitally transform core operations of SEC



## CAPACITY BUILDING AT THE REGULATOR LEVEL AND MARKET INTERMEDIARY LEVEL

Build the necessary internal institutional capacity to enhance the efficiency and effectiveness of SEC's regulatory role and responsibilities and enhance capacity and standards of market intermediaries.



## ENABLING THE LISTING OF STATE-OWNED ENTERPRISES (SOEs)

Facilitate listing of SOEs through an enabling regulatory framework.



## ESTABLISHMENT OF A MULTI-CURRENCY EXCHANGE FOR FOREIGN INVESTORS

Facilitate the establishment of a multi-currency Securities Exchange in the Port City which would enable trading of multi-currency denominated securities







**ESTABLISHMENT OF A DERIVATIVES EXCHANGE**

Facilitate a regulatory framework to establish a multi-asset class Derivatives Exchange.



**REAL ESTATE INVESTMENT TRUSTS (REIT)**

Facilitate a conducive environment to issue REITs.



**INFRASTRUCTURE BONDS**

Establish and enabling regulatory framework for the introduction and listing of Infrastructure Bonds in the market.



**EMPOWER BOARD**

Drive the CSE to identify, educate and facilitate listing of SMEs in the capital Market.



**NEW PRODUCT DEVELOPMENT**

Establish enabling regulatory frameworks for the introduction and listing of Sustainable Bonds, Islamic Capital Market Products, Equity Crowdfunding platforms etc.



**BUILDING CAPITAL MARKET AWARENESS AT SCHOOL LEVEL**

Impart financial literacy among students through education programs and build a future generation of sound investors.



# Director General's Review



**“Sri Lanka can learn from successful reform programs in other countries, that aimed to attain economic growth and stability by reducing the public sector size, enhancing efficiency and productivity, and promoting competition.”**

The year 2023, has been a year of transition for the country. Sri Lanka started gradually recovering from its worst economic crisis during the year. In March 2023, the International Monetary Fund (IMF) approved a USD 2.9 billion bailout in a four-year program to restore the economic stability.

However, Sri Lanka's path to economic recovery was fraught with enormous challenges in 2023. The year highlighted the value of making dedicated, transparent and strategic choices. In fact, to live up to the challenge and overcome this financial and economic predicament, it became critically important to understand what reforms were needed and how they could be carried out.

The needed reforms included strengthening public financial management, enhancing domestic resource mobilisation, improving the performance of SOEs to reduce their fiscal burden, and encouraging private sector activities through harmonising trade and investment activities.

Nevertheless, the inordinate delay in implementing economic reforms was the issue in the year 2023. For instance, delaying SOE restructuring processes became dangerous as it created a heavy fiscal burden with significant macroeconomic implications to the public.

**“In that context the Capital Market is the globally accepted platform for raising long- term capital funds for business entities compared to banks.”**



Sri Lanka can learn from successful reform programs in other countries, that aimed to attain economic growth and stability by reducing the public sector size, enhancing efficiency and productivity, and promoting competition. This shift allows the Government to fully concentrate on facilitating and regulating economic activities rather than directly providing goods and services. It reduces the financial and administrative burden of the Government.

In that context the Capital Market is the globally accepted platform for raising long- term capital funds for business entities compared to banks. Further, the Capital Market provides opportunities for businesses to attract strategic and other types of investors through the listing process. By listing on the stock exchange these SOEs will be able to improve their internal governance, operating efficiencies and attract foreign and local investor capital.

In that context, The SEC and the CSE gave due consideration to the current levels of governance, organisation structure and operational challenges prevailing in the SOE sector and created a separate Listing Board and listing rules with a view to enabling SOEs to progressively transition from what they are now to what they should be. However, the SOEs are yet to make use of this avenue.

By now it is quite clear that the only way for Sri Lanka to recover from the present economic crisis is through a substantial economic growth rate in the range of 5%

to 7% or more for in the next 10 years or so. However, from the numbers we see today, the economy is not expected to grow at a substantial rate in the coming years and the economy will remain in an extremely fragile and precarious position. In such a scenario, the capital market can be the catalyst of change if properly utilised.

For instance, in driving the recovery of Sri Lanka's economy, dollar earning listed companies can play a significant role. In that sense, it is time to pick the winners from our export oriented dollar earning listed companies by looking at their potential, drive and commitment. Therefore, we need to incentivise and nurture such winners and free such winning companies to go out and compete with global giants to make headway in economic development, which would change the whole appearance of our country; it will convert us to a dynamic entrepreneurial state and will help the country to realise its true potential.

Nevertheless, it is no question that all groups must support well-structured, substantive economic reforms that are being introduced and the Government should take advantage of the crisis to do things that it could never attempt before, from addressing regressive subsidies to restructuring SOEs.

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

## MARKET PERFORMANCE

The All Share Price Index (ASPI) witnessed a growth of over 25% in comparison to the year 2022. The rebounding of the ASPI helped erase much of the losses that were recorded in the year 2022. Similarly, the S&P SL 20 index ended the year on a positive note with a growth rate of over 16%. On the contrary, daily average turnover dropped to Rs. 1.69 billion in the year 2023. However, the market remained in the forefront in capital formation as it helped to raise Rs. 56.7 billion in the year under review.

Further, foreign investors remained interested as the total net foreign inflow surpassed Rs. 6 billion mark in 2023. Additionally, a marginal increase in foreign investors' contribution to total market turnover was witnessed in the year, while local individuals continued to play a dominant role in activity levels of the market throughout the year. The market capitalisation to Gross Domestic Product (GDP) ratio remained at a moderate level of around 18%.

It is in that context, we at the SEC continue to engage in robust regulation and market development activities with a view to enhance the capital market footprint in the country. The key to building a deep and liquid market is building investor trust and confidence in the market. It is important to understand that the capital market plays a pivotal role as a source of financing for businesses to meet their capital requirements while creating investment avenues for investors.



## Director General's Review

**“The SEC activities revolve around two folds, regulation and market development. The new Capital Market Reforms Agenda for the period of 2023-2025 encompasses both facets to the fullest and it would cater to the present and future needs of the capital market.”**

### STRENGTHENING CORPORATE GOVERNANCE REGIME

It became necessary to revamp the Corporate Governance Rules of the CSE in the present context. Poor governance structures cause exacerbating operational conditions to an entity. These were quite evident in the financial crisis as companies with poor governance structures failed to withstand while companies with sound corporate governance structures managed to remain resilient.

Thus, it was important to shed light on the contents of rules as it would be vital to the overall development of the market. With that intention in mind, the Corporate Governance Rules were strengthened. I must appreciate the approach shown by the industry in embracing the changes.

At present, apart from the Corporate Governance Rules, other facets of the listing rules are also being looked at for further improvement and reinforcement.

### PROACTIVE AND PREVENTIVE INTERVENTIONS

During the year we manage to strengthen the Surveillance, Supervision, Investigation, and Enforcement Departments of the SEC and enforcement measures were taken in a swift manner to deter market misconduct.

In fact, from the SEC standpoint, we wanted to revise the market and bring more clarity, consistency and predictability to the way the market is run while addressing market misconduct matters swiftly and decisively.

Over the last year the SEC took a significant number of enforcement actions. The enforcement record comprises several prosecution decisions, institution of cases, compounding and other enforcement measures. Enforcement actions taken proved to be highly effective as it significantly reduced the market misconduct during the year.

Further, the SEC established a sound mechanism to monitor the activities of social media. Prompt actions were taken against the market offenders, which included the issuance of letters of warning and caution and taking further action.

During the year, the Supervision Department conducted several on-site and off-site inspections to ensure that the licence holders conduct their business within the regulated framework. The continuous regular monitoring basically ensured that they meet the regulatory standards.

Similar to the revision of Corporate Governance Rules, the SEC issued Minimum Governance Requirements that are applicable to Market Intermediaries. The framework will provide the much needed impetus to raise the standards of Market Intermediaries.

Key Management Personnel of any institution act as the cornerstone in uplifting an institution. Taking into consideration the essential role that they play in a company, the SEC formalised a framework for assessing the fitness and propriety of Key Management Personnel of Market Intermediaries and developed a standardised approach in taking disciplinary action against the personnel, who do not comply with the requirements.

Moreover, the SEC Investigations Manual was replaced with a new Investigation and Enforcement Manual during the year. This manual inculcates new enforcement methods that come within the realm of the new SEC Act. This manual further strengthens and improves the standardised, transparent approach taken by the SEC in conducting investigations. The ultimate objective of these initiatives is to raise the integrity of the market so it would build trust among both local and foreign investors.

### MULTIFACETED STRATEGIC APPROACH

The SEC activities revolve around two folds, regulation and market development. The new Capital Market Reforms Agenda for the period of 2023-2025 encompasses both facets to the fullest and it would cater to the present and future needs of the capital market. The twelve key reforms that are envisaged to be implemented are as follows.

#### ▪ Separate Real-time Surveillance system for the SEC

This is considered as a critically important component to enhance the effectiveness of the capital market regulatory role of the SEC. Further, robust surveillance systems with new features that cater to prevent increasing trading volumes would strengthen the effective and efficient market monitoring and timely interventions of the SEC.

#### ▪ Digital transformation

The SEC is focused on digitalising both regulatory and administrative functions to operate an almost paper-less environment. Some of the key initiatives under the reform include digitalising the e-filing system for regulatory reporting. Market intermediaries would be able to submit their reports online via a standardised system.

- **Demutualization of the CSE**

Demutualization will provide the governance and management structures required for the operation of an efficient and effective stock exchange.

- **Capacity Building at the Regulator Level and Market Intermediary Level**

Capacity building at the regulatory level and the market intermediary level has become critically important with the enactment of the new SEC Act. Some of the initiatives that come under this reform include: building internal capacity to enhance the effectiveness and efficiency of the SEC's regulatory function and responsibilities, increasing the minimum capital requirements of market intermediaries to enhance the overall operating standards of the market and revising licensing fees to defray enhanced regulatory supervision cost to ensure that only market operators with a certain stature and financial soundness will be eligible for the license.

- **Enabling the listing of State-Owned Enterprises**

The Government of Sri Lanka is in the process of implementing deep economic reforms to SOEs to enhance their productivity, competitiveness, and efficiency across the economy. Entry by SOEs into the capital market will benefit SOEs in numerous ways. As such, the SEC has already approved the rules applicable for SOE listings and the CSE launched a separate transitional Board called the "Catalyst Board" to accommodate such SOE's.

**“The SEC is focused on digitalising both regulatory and administrative functions to operate through an almost paper-less environment.”**

- **Establishment a Multi-currency Exchange for foreign investors**

A novel reform that has been included in the reform's agenda is the establishment of a Multi-currency Exchange. It is expected that such an exchange will facilitate trading of multi-currency denominated securities whilst increasing the foreign portfolio investments to the country.

- **Establishment of a Carbon Credit Trading Exchange**

Carbon markets can help to accelerate the transformation needed in addressing the climate crisis. Effective, transparent and efficient carbon markets put a price on pollution and create an economic incentive for reducing emissions. Therefore, the SEC believes that establishing a Carbon Credit Trading Exchange would further strengthen Government of Sri Lanka's mandate in achieving net zero status by 2050.

- **Real Estate Investment Trusts**

Under this reform, the SEC is looking at alternative avenues to make REITs an attractive investment avenue for both the issuer and for the investor. Currently, there are several properties in main cities where retail investors do not have the financial capacity to hold such properties. REITs provide a mechanism for retail investors to participate in the real estate market and benefit from the economic value created from such properties.

- **Infrastructure Bonds**

Infrastructure Bonds Listed on the Exchange would attract the private sector participation in infrastructure projects. Such bonds may be issued by Government agencies, municipal councils, local government councils, etc.

- **Facilitating listings at the Empower Board**

This special listing board was solely created to attract and facilitate the entry of SMEs into the capital market. However, it has not been actively marketed yet.

SMEs are a critical component of the country's growth. They make up around 52% of the country's GDP while accounting for around 75% of all the enterprises in Sri Lanka. As such, it is vital that such entities are represented in the CSE. Empower Board listing will foster them to grow to their next level.

- **Product Development**

The SEC strives to remain abreast with new market developments occurring around the world. As such, together with the CSE, the SEC plans to introduce various new products and market infrastructure to the capital market under this reform. The products and market infrastructure include the introduction of Green Bonds/Blue Bonds (commonly known as Sustainable Bonds), Regulated Short Selling, Islamic Capital Market products such as Sukuks, Equity Crowd Funding platforms etc.

- **Building Capital Market Awareness at School level**

The SEC continues to enhance the financial literacy level among the public. In that regard, the SEC together with the National Institute of Education (NIE) is in the process of introducing the securities market as a subject to the student education curriculum from next year. I believe that it would be a game changer in the capital market landscape as it fosters capital market knowledge from a young age within a view to sway away from a traditional savings culture to a contemporary investing culture, which is imperative in country's development.

## Director General's Review

### REACHING NEW HEIGHTS IN EXPANDING FINANCIAL LITERACY

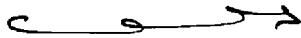
I must say that the President Ranil Wickremesinghe took a very timely decision to promote financial literacy among the school population by establishing 100 Capital Market Clubs across the country to popularise stock market among the younger generation. To give effect to the President's vision, the SEC in collaboration with the Presidential Secretariat, the Ministry of Education and the CSE embarked on a new initiative to promote financial literacy across the education system by establishing Capital Market Clubs in 100 schools in the country. The inaugural Capital Market Club was established in the Nugawela Central College under the patronage of the President Ranil Wickremesinghe on 31st August 2023.

### WORKFORCE OF THE SEC – AN INDISPENSABLE ASSET

We consider our staff members as our most valuable asset. I am pleased to state that we strengthened the operational capability of the SEC and recruited new staff members to enhance its institutional capacity.

I would like to take this opportunity to thank the staff for extending their fullest support and commitment in overcoming the challenges that we faced in these trying times.

My gratitude is extended to Mr. Faizal Salieh, Chairman of the SEC, for his guidance and unfailing support extended at all times. I would also like to thank the Members of the Commission for their steadfast support whilst sacrificing their personal and professional time to attend Commission and other Sub-Committee Meetings and for the encouragement given to the staff in its efforts to achieve the mandate of the SEC.



**Chinthaka Mendis**  
Director General

20th April 2024



# Members of the Commission



**MR. FAIZAL SALIEH**  
Chairman



**MR. MANIL JAYESINGHE**



**MR. SUJEEWA MUDALIGE**



**MR. ANTON GODFREY**



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



**MRS. YVETTE FERNANDO**



**MR. SANJEEWA DISSANAYAKE**



**MRS. A. NILANTHI JAYAKI DE ALWIS**



**MR. HESHANA KURUPPU**

## Members of the Commission

### MR. FAIZAL SALIEH

#### Chairman

Mr. Faizal Salieh assumed office as Chairman on 15 February 2023. He is a veteran retired banker with long and extensive experience in commercial and development banking both in Sri Lanka and overseas. He has held top management positions in global and local banks such as Grindlays Bank, ANZ Bank, NDB and Amana Bank. His diverse experience as Board director includes several companies in the business of banking, finance, insurance, fund management, stockbroking, manufacturing, trading and education.

He has served on State University Boards, and several Government and Non-Governmental Committees in the fields of finance, economic affairs, housing development, construction and tertiary education; and on the Board of Directors of the Ceylon Chamber of Commerce, the Institute of Bankers of Sri Lanka, and Lanka Clear (Pvt) Limited.

Mr. Salieh is a First-Class Honours University Graduate in Economics with specialisation in Banking & Finance, MBA and FCPM. His Corporate Sector experience exceeds 40 years, including over 20 years at Senior Management level, 14 years at MD/CEO level and over 30 years at Board level. He has held Executive, Non-Executive and Senior Independent Director Board positions in various companies.

He played an outstanding strategic and operational leadership role in initiating, developing and furthering the practice of interest-free banking in Sri Lanka based on the profit and loss sharing banking model and establishing Amana Bank as the first interest-free licensed commercial bank in Sri Lanka, in which he was the founding Managing Director and CEO.

He is the Immediate Past Chairman of the Sri Lanka Institute of Directors; is an IFC certified trainer in Board Leadership and Governance and has extensive experience in teaching Business Strategy at State Universities at the Postgraduate level.

### MR. MANIL JAYESINGHE

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

Mr. Jayesinghe, who started his career at the Ernst & Young, gained extensive experience in a range of sectors including manufacturing, retail, hospitality, wholesale business and telecommunication, in his capacity as Partner of Ernst & Young for 30 years; and was the Country Managing Partner of Ernst & Young Sri Lanka & Maldives from 2021-2023, Head of Assurance Practice in Sri Lanka and the Profession Practice Director of Sri Lanka, from 2003 -2023. His forte in valuation of businesses and development of strategic plans for Financial Institutions, made Mr. Jayesinghe a key resource in financial services. He also served as Head of the IFRS/SLAS Desk in Sri Lanka.

In his career spanning over 41 years of advisory and industry experience, he served as President and a council member of the Institute of Chartered Accountants of Sri Lanka, a Member of the Board of Sri Lanka Accounting & Auditing Standards Monitoring Board, a Council member of CMA Sri Lanka, member of the CIMA Sri Lanka Board, council member of the University of Moratuwa, member of the International Accounting Education Board of the IFAC, member of the Audit Advisory Committee of the Central Bank, Advisor to Audit Committees of PLC's and Banks, and Member of the National Chamber of Commerce of Sri Lanka.

Currently he is the Chairman of the Statutory Accounting Standards Committee, a Member of the Statutory Auditing Standards Committee and serves on many other committees of

the Institute of Chartered Accountants of Sri Lanka. He is also a Member of the Financial Reporting Standards Implementation and Interpretation Committee (FRSIICS), the Chairman of the Accounting Standards Committee of the South Asian Federation of Accountants (SAFA), a Member of the Audit Committee of SLIM, a Member of the Securities & Exchange Commission of Sri Lanka, Member of the Board of Investments of Sri Lanka, Governing board member of the Central Bank of Sri Lanka and Independent Non Executive Director of Diesel & Motor Engineering PLC, Ceylon Hospitals PLC, C W Mackie PLC, Lanka Milk Foods (CWE) PLC, Lanka Dairies Ltd and Sahasya Investments Ltd.

### MR. SUJEEWA MUDALIGE

Mr. Mudalige counts over 30 years of experience as a Chartered Accountant. His qualifications are FCA (ICA - SL), FCMA (CIMA – UK), FCCA (ACCA – UK) and FCPA (CPA – Australia).

He recently retired as the Managing Partner of PwC, Sri Lanka and is the Non-Executive Chairman of Mercantile Services Provident Society (MSPS). He is also an Independent Non-Executive Director at NDB Bank PLC, CIC Holdings PLC, CIC Feeds group, NSBM Green University, Link Natural Products Limited, Sherwood Capital and Ideal Finance Ltd. He is also a Committee Member of the Ceylon Chamber of Commerce.

Mr. Mudalige has vast experience as an Audit Committee Chairman in both public and private sector organisations. He is a past President of ICASL and Confederation of Asia & Pacific Accountants (CAPA) and has been a Member of the Council of ICASL and of the Governing Board of CIMA UK - Sri Lanka Division, a Commission Member of the Securities and Exchange Commission of Sri Lanka (2010-2011) and held several such other positions locally and globally during the span of his career.

He was a Non-Executive Independent Director of Hatton National Bank PLC (HNB) from 2012 to 2019. He was also the Deputy Chairman of the Financial System Stability Consultative Committee of the CBSL and a Member of the Advisory Committee to advise the National Economic Council and the Advisory Committee for Revival of Failed Licensed Finance Companies.

### **MR. ANTON GODFREY**

Executive Chairman – agxa Global & AG International, Founder/Executive Chairman of agxa – AG International, distinguished entrepreneur with business acumen, who has been the impetus behind the expanding frontiers of the global business initiative of the company. Upholds highest standards of professionalism and maintains responsibility towards all stakeholders. Is achievement oriented, focused on innovation and committed towards inspiring further extension of the existing business networks. As due to his vision and innovative spirit, agxa Global with an outreach, which represents some of the world's leading brands in the resources Trade, Energy, Chemicals, Pulp and Paper, technology, Corporate Consumer Services and Outsourcing Sectors. Subsidiaries are located in Sri Lanka, India, Singapore and Australia whilst principal networks spanning over Asia, Europe, North America and Africa. The joint ventures including Fonte Resources, Fusionex, with external overseas public listings. In recognition of his accomplishments, Mr. Godfrey received the Outstanding Asia Pacific Entrepreneurship Award at APEA 2013. He is a Chartered Marketer affiliated to CIM UK and Fellow of Chartered Institute of Marketing UK and the Australian Institute of Management. He also holds an MBA from the University of Leicester UK. Anton Godfrey has been actively involved in International Trade Council's including the Chamber of Commerce in Sri Lanka and Australia.

He is the past president of the Vietnam Sri Lanka Business Council, Indonesia Sri Lanka Business Council of the Ceylon Chamber of Commerce and the Rotary Club of Colombo Uptown, also served on the Board of Colombo Stock Exchange between 2015-2019.

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

Mr. R.M.P. Rathnayake is a Special Grade officer of the Sri Lanka Planning Service and currently working as the Deputy Secretary to the Treasury, Ministry of Finance, Economic Stabilisation and National Policies. He has been in the public service for almost 30 years in various important positions. Mr. Rathnayake holds a Master's Degree from Agriculture University of Norway and B.Sc. (Special) Degree from University of Peradeniya

Mr. Rathnayake joined the public service in 1994 and has been working in the General Treasury holding number of positions in the Department of National Planning and Department of External Resources (ERD). He has extensive experience in development planning and budgeting. As the Director General of the ERD he was responsible for working with development partners, international financial institutions and capital market to develop country specific development programs and mobilise foreign financing, leading bilateral negotiations and facilitate timely disbursement of foreign financing for multilateral and bilateral programs and projects.

Apart from his duties as the Deputy Secretary to the Treasury, Mr. Rathnayake serves as a Director of the Asian Infrastructure Investment Bank (AIIB), Bank of Ceylon and the Securities and Exchange Commission of Sri Lanka. He has also held several other important leadership posts as the Chairman of National Savings Bank and the Colombo Lotus Tower Management Company,

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, Member of National Medicine Regulatory Authority.

### **MRS. YVETTE FERNANDO**

Mrs. Yvette Fernando currently serves as the Senior Deputy Governor at the CBSL and is in charge of the financial system stability cluster. She possesses over 30 years of service at the CBSL in the areas of supervision and regulation of banks and non-bank financial institutions, financial system stability, foreign exchange management, currency management, payments and settlements, etc. During this period, Mrs. Fernando has served as the Director of Bank Supervision and the Controller of Exchange and has played a vital role in contributing to the financial system stability by providing leadership to implement a strong regulatory framework for banks in line with international standards and best practices. At present, she is in-charge of the departments of Bank Supervision, Non-bank Supervision, Payments & Settlements, Currency, Foreign Exchange, Finance, Regional Development and Employees' Provident Fund.

Mrs. Fernando currently functions as the Chairperson of the Financial System Stability Committee, Steering Committee on Implementation of the Road Map for Sustainable Finance in Sri Lanka and National Payments Council of the Central Bank of Sri Lanka, Institute of Bankers of Sri Lanka and Credit Information Bureau of Sri Lanka, and as a member of the Monetary Policy Board, Insurance Regulatory Commission of Sri Lanka and Securities & Exchange Commission of Sri Lanka.

## Members of the Commission

Mrs. Fernando holds a Master of Financial Economics degree from the University of Colombo and a Bachelor of Commerce (Special) degree from the University of Sri Jayewardenepura.

### MR. SANJEewa DISSANAYAKE

Mr. Sanjeewa Dissanayake was admitted and enrolled as an Attorney-at-Law of the Supreme Court of Sri Lanka in December 1997. He holds a Master's Degree in Human Rights (LL.M) from the University of Hong Kong. He is a Deputy Solicitor General attached to the Attorney General's Department of Sri Lanka and presently released by the Public Service Commission (PSC) to take up duties as the Registrar General of Companies.

Mr. Sanjeewa Dissanayake has experience both in the Criminal and Civil Divisions of the Attorney General's Department and has worked as a prosecutor of the Fiji Independent Commission against Corruption from February 2010 to July 2011. He is an ex-officio member of the Accounting Standards Committee, the Insurance Regulatory Commission of Sri Lanka, the Securities and Exchange Commission of Sri Lanka and the Sri Lanka Accounting and Auditing Standards Monitoring Board.

### MRS. A. NILANTHI JAYAKI DE ALWIS

Mrs Jayaki De Alwis 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. She holds a Master's degree (LLM) with Criminal Justice, Delicts and Women's & Children's Rights Law from the University of Colombo, Sri Lanka. She entered the Sri Lanka Law College in 1985 and after passing the final examination, completed the apprenticeship under the patronage of President's Counsel Mr. Kosala Wijeyatilke and was admitted and enrolled as an Attorney -at Law of the Supreme Court of Sri Lanka in April 1989.

In 1989 to 1991 She worked as a Legal Officer at Management House Ltd., and handled the Company Secretarial Division.

In 1991 she has started her Criminal practice in the unofficial bar and was an advocate. Being in active practice for seven long years, she was appointed to the Judiciary of Sri Lanka in the year of 1998 as a Magistrate / District Judge and elevated as a Judge of the High Court. She has served in the Judiciary as a Magistrate, District Judge, Judge of the High Court (Criminal) and as a Judge of the Civil Appellate High Court in different jurisdictions.

She held designations as a committee member, Assistant Secretary and Treasurer of the Judicial Service Association (JSA- the association consisting of all the Magistrates and District Judges in Sri Lanka, (HCJA – the association consisting of all the High Court Judges in the country).

Mrs De Alwis has participated in many international Academic Programs in National Judicial Academy Bhopal, India in 2011, Judicial and Training Institute, Malaysia in 2015, Judicial and Training Institute New Delhi, India in 2016, Judicial and Training Institute Chandigarh, Panjab/ Haryana, India in 2017, Judicial Academy of Maharashtra, India in 2019 and she also has represented Sri Lanka in numerous global events including the "Green Bench" held in Bangkok in 2008 as the only Judicial officer in the South Asian Group of legal fraternity.

In present days Mrs De Alwis is involved as a frequent guest speaker to share knowledge in virtual platforms organised by WOMEN'S INDIAN CHAMBER OF COMMERCE AND INDUSTRY -WICCI.

Mrs De Alwis with her esteemed positions has shared and continuously contributed invaluable insights and unwavering commitment to foster a more just and equitable society.

### MR. HESHANA KURUPPU

FCA, MBA (Banking and Finance) PIM, MA (Financial Economics) (Colombo), B. Sc (Accy) Special 1st Class (Sri Jayewardenepura), ACMA President of CA Sri Lanka and Group Finance Director of David Pieris Group of Companies.

Mr. Kuruppu also serves as the President of South Asian Federation Of Accountants (SAFA). He served as the Vice President of SAFA in Year 2023 and the Chairman of the Committee for Improvement in Transparency, Accountability and Governance (ITAG) Committee in year 2020/2021.

He served as a member of the SAFA Professional Accountants in Business (PAIB) Committee and a member of the Committee to Study Fiscal Regimes and other Statutory Requirements of Business in SAARC countries.

Mr Kuruppu is a Board member of the Sri Lanka Accounting and Auditing Standards monitoring Board (SLAASMB).



# Directors and Assistant Directors



**Left to right standing:** Ms. Sharmila Panditaratne - Assistant Director, Legal and Enforcement, Thushari Rambukpotha - Assistant Director, Human Resources and Organisational Transformation, Manuri Weerasinghe – Director, Corporate Affairs, Suneth Perera - Assistant Director, Supervision, Madhugayanie Balapitiya - Assistant Director, Investigations, D.M.G. Priyantha - Assistant Director, Capital Market Development, Tushara Jayaratne – Deputy Director General, Chinthaka Mendis - Director General, Riyaz Bary - Director, Investigations and Enforcement, G. H. Nirosha Kodikara – Director, Finance and Administration, Madura Wanigasekara - Chief Digital Officer, Chiranthi Cooray - Director, Human Resources and Organisational Transformation, Dilum Mahawatte - Director, Supervision

**Absent:** Dhammika Perera - Deputy Director General

## Senior Managers



**left to right standing:** Sheena Goonaratna- Senior Manager, External Relations, Ranmini Jayathilake - Senior Manager, Information Technology, Saumi Kodippily- Senior Manager, Supervision, Sajeevani Bakmedeniya – Senior Manager, Capital Market Education, Manjula Chandraratne – Senior Manager, Surveillance

## Managers



**Left to right standing:** Priyantha Herath – Manager, Investigations, Nomaanie Seneviratne - Manager, Supervision, Buddhinee Herath - Manager, Legal and Enforcement, R. K. Wasantha Sunimal – Manager , Supervision, Mekhala Jayapala - Manager, Supervision, Y. D. Sandamali – Manager, Finance and Administration, Nimal Kumarasinghe - Manager, External Relations, Anula Wijesinghe - Manager, Investigations

**Left to right seated:** Thakshila Francis – Manager, Capital Market Development, P. M. Niroshika Udayanganie - Manager , Legal and Enforcement, Lakshmi Wickramanayake - Manager, Finance and Administration, Ashoka K. Dayarathne - Manager, Human Resources



# Event Gallery



Inauguration Ceremony of the Capital Market Clubs



Engagement with Stockbroker Owners and CEOs



Inauguration Ceremony of the Capital Market Clubs



Ring the Bell for Financial Literacy



Teacher Training Program



Seminar on Revision to Corporate Governance Rules for Listed Companies



Engagement with Auditors



## Event Gallery



Negombo Investor Forum



School Seminar



Anuradhapura Investor Forum



Varsity Battles Finale



Undergraduate program



Renewal of MOU with CFA Society Sri Lanka





# A Bolder Vision

## OPERATIONAL REVIEW

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## Strategic Goal 1

# Establish and Maintain a Robust Regulatory Environment

In today's dynamic financial landscape, a robust regulatory environment is indispensable, particularly in the realm of securities regulation. The integrity and stability of markets depend on effective oversight, ensuring fair practices, investor protection, and systemic resilience.

Securities regulation encompasses a multifaceted framework designed to govern the issuance, trading, and disclosure of securities. It establishes standards for transparency, accountability, and market conduct, aiming to foster trust among investors and promote market efficiency.

Key components of a robust regulatory regime include stringent disclosure requirements, enforcement mechanisms, and continuous monitoring of market activities. These measures serve to deter fraudulent practices, mitigate systemic risks, and uphold the integrity of financial markets.

### LICENSING

The SEC as the regulator for the securities market in ensuring a fair orderly, efficient and transparent securities market, performs the crucial role as issuer of licences to entities to operate within the industry. By granting licences to entities meeting stringent regulatory requirements and continuous oversight thereafter, the SEC helps maintain the credibility and stability of the financial market, foster trust among investors and promote fair and orderly trading practices.

The licensing of market institutions and market intermediaries is a two-stage process, where prospective applicants are required to obtain in-principal approval in the first instance and satisfy all requirements specified in the rules applicable for each category, to be granted the respective licence to operate.

The SEC renews licences granted to market intermediaries annually, upon review of compliance with related rules, fit and propriety requirements of Key Management Persons, including directors and persons dealing with clients, adequate internal controls etc.

New licences granted to entities during the year under review and the total number of licensed entities as at 31st December 2023 are given in the tables below. (Figure: 01)

Figure 01: Licensing of Entities in 2023

| Type of licence            | New licences granted during the Year 2023 | Total Number of licensed entities as at 31st December 2023 |
|----------------------------|---|--|
| Exchanges                  | -   | 01   |
| Clearing Houses            | -   | 01   |
| Central Depositories       | -   | 01   |
| Stock Brokers              | -   | 27   |
| Stock Dealers              | -   | 11   |
| Managing Companies *       | 06  | 16   |
| Investment Managers        | 01  | 22   |
| Margin Providers           | 01  | 20   |
| Underwriters               | -   | 08   |
| Credit Rating Agencies     | -   | 02   |
| Corporate Finance Advisors | 04  | 04   |

\*companies authorised to operate approved Collective Investment Schemes

During the year under review, approval was granted to six Collective Investment Schemes (CIS) to be offered to the public under the respective managing companies.

A total of 84 approved CISs were operating as at 31st December 2023. (Figure: 02)

Figure 02: Total number of Licensed Entities in 2023

| Type of licence            | Total number of licensed entities |                          |
|----------------------------|-----------------------------------|--------------------------|
|                            | as at 31st December 2022          | as at 31st December 2023 |
| Exchanges                  | 01                                | 01                       |
| Clearing Houses            | 01                                | 01                       |
| Central Depositories       | 01                                | 01                       |
| Stock Brokers              | 28                                | 27                       |
| Stock Dealers              | 12                                | 11                       |
| Managing Companies         | 17                                | 16                       |
| Investment Managers        | 23                                | 22                       |
| Margin Providers           | 20                                | 20                       |
| Underwriters               | 08                                | 08                       |
| Credit Rating Agencies     | 03                                | 02                       |
| Corporate Finance Advisors | -                                 | 04                       |

During the year five licences were discontinued as the entities did not wish to pursue the respective operations, as listed below.

|                      |                                   |
|----------------------|-----------------------------------|
| Margin Provider      | - JB Credit (Pvt) Ltd.            |
| Investment Manager   | - NSB Fund Management Company Ltd |
| Credit Rating Agency | - ICRA Lanka Ltd                  |
| Stock Broker         | - NSB Fund Management Company Ltd |
| Stock Dealer         | - NSB Fund Management Company Ltd |

The SEC also facilitated the amalgamation of two managing companies; Guardian Acuity Asset Management and CTCLSA Asset Management (Pvt) Ltd with the latter being the surviving entity. (Figure: 03)



Chairman's and Director General's Offices

Figure 03: Total number of Collective Investment Schemes in 2023

|  | Total number of collective investment schemes |                          |
|--|---|--------------------------|
|  | as at 31st December 2022                      | as at 31st December 2023 |
| Approved Collective Investment Schemes | 81  | 84                       |

## POLICY INITIATIVES

### Revision of Fees Applicable to Market Institutions and Market Intermediaries

The proposed revised fee structures in respect of Market Institutions and Market Intermediaries approved by the Commission had been sent to the Hon. Minister of Finance to make necessary Regulations to enable the SEC to apply the revised fees.

### Demutualization of the CSE

The SEC reviewed the proposed amendments forwarded by the CSE to the Demutualization of the CSE Bill which was published in the supplement (issued on 1st February 2018) to Part II of the Gazette dated 26th January 2018.

Having deliberated extensively on the said amendments proposed by the CSE, the Commission resolved that the proposed Demutualization of the CSE Act is strictly for the purpose of facilitating the conversion of the Company Limited by Guarantee to a Company Limited by shares and any matter regarding the post-Demutualization business operations of the CSE should be effected through the Articles of Association of the Demutualized Exchange and that any major amendment cannot be introduced to the Bill at the Committee Stage in the Parliament.

The Commission conveyed its above stance to the CSE and expressed to the CSE as well as the Government, the importance of expediting the Demutualization process given the urgency of the matter on the country's Capital Market Reforms Agenda.

## Strategic Goal 1

# Establish and Maintain a Robust Regulatory Environment



Legal and Enforcement Team

## APPROVALS

### Country, Regional and Global Funds

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

During the year 2023, the SEC approved 48 global, regional and country funds to invest in listed securities in Sri Lanka and noted 30 name changes.

### Review the Trading Participant Rules (formerly known as the Stock Broker Rules) of the CSE

The Trading Participant Rules of the CSE which came into effect on 03rd April 2023 were amended by the CSE in the following instances in accordance with the SEC Act No. 19 of 2021 upon obtaining the approval of the SEC:

- Amendments to better streamline and further enhance the effectiveness of the Rules.
- Rule amendments to introduce rules to facilitate the imposition of fines for key violations of the Trading Participant Rules by the Trading Participants
- Rule amendments pertaining to the publication of material violations of Trading Participants Rules by the Trading Participants to be on the CSE website.

### Amendments to the Trading Rules of the CSE

During the year under review, the SEC granted approval to the amendments proposed by the CSE to its Trading Rules to facilitate the following:

- Trading of Regulated Short Selling through Stock Borrowing and Lending;
- Trading of Shariah Compliant Debt Securities; and
- Repurchase Transactions of Debt Securities (REPO) and Perpetual Debt Securities.

### Amendments to the Clearing House Rules of the CSE

The SEC also granted approval to the amendments proposed by the CSE to the Clearing House Rules of the CDS to facilitate Regulated Short Selling through Stock Borrowing and Lending.

### Review Listing Rules of the CSE

The Listing Rules in its entirety has been amended by the CSE in accordance with the SEC Act No. 19 of 2021 and the proposed Rules are under review by the SEC. In addition to the above, the following proposed amendments to the Listing Rules were approved by Commission:

- Section 12 relating to Listing Fees
- Amendments to the Listing Rules to facilitate the Listing of Shariah Compliant Debt Securities
- Amendments to the Listing Rules to facilitate Regulated Short Selling through Stock Borrowing and Lending
- Amendments to the Listing Rules to facilitate the imposition of Administrative Sanctions and/or Disciplinary Action against Listed Entities and its Directors which are non-compliant with the CSE Listing Rules
- Proposed Amendments to the Listing Rules of the CSE to Facilitate Listing and Trading of Sustainable Bonds
- Proposed Amendments to the Listing Rules of the CSE to Facilitate the Issuing and Listing of Infrastructure Bonds on the CSE
- Amendments to the Listing Rules to develop a regulatory framework to facilitate the listing of shares issued by SOEs on the CSE.

### De-listings

During the period under review the Commission approved the voluntary delisting applications of the following companies made in terms of Rules 5 of the SEC Rules.

- Nestle Lanka PLC
- Indo-Malay PLC
- Good Hope PLC
- Selinsing PLC
- Shalimar (Malay) PLC



Upon a request made by a PLC, the Commission having considered the reasons provided by the applicant company, granted a deferment for a period of six months from the delisting of its securities from the Official List of the CSE.

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

During the period under review, concurrence of the SEC was given to the CSE to grant extensions of time to comply with the minimum public holding requirements to Dankotuwa Porcelain PLC as it fell short of the requirements due to extraordinary supervening circumstances as stipulated in Rule 7.13.3 (iii) of the Listing Rules.

### Administration of the Takeovers and Mergers Code

The following takeover offers were administered during the year 2023 in terms of the Company Takeovers and Mergers (TOM) Code 1995 (as amended). (Figure: 04)

Figure 04: Offers Extended under the Take-Overs and Mergers Code

| Offeror                                  | Offeree                 | Nature of the Offer | Status    |
|--|-------------------------|---------------------|-----------|
| Ceyline Investments (Private) Limited    | Dankotuwa Porcelain PLC | Mandatory Offer     | Completed |
| Blue Ocean Residencies (Private) Limited | Kelsey Developments PLC | Mandatory Offer     | Completed |

The SEC reviewed one Independent Advisors' Report and provided regulatory observations to enhance disclosure content.

### Deferment of Enforcement Rules of the CSE

The SEC reviewed 4 deferment applications in terms of CSE Listing Rules during the year relating to deferment from suspending the trading of securities in CSE. Deferment was pertaining to the following companies:

- Nawaloka Hospitals PLC
- Bimpuh Finance PLC
- Co-operative Insurance Company PLC
- Anilana Hotels and Properties PLC

### Waivers in terms of Rule 5.4 b of the Listing Rules of the CSE

The SEC reviews applications submitted by PLCs requesting waivers under Rule 5.4(b) of the Listing Rules of the CSE. These waivers are sought to facilitate the issuance of new shares by Listed Companies through a private placement, in the event the proposed share issuance exceeds 20% of the shares in issue of the listed companies.

In the year under review, the Commission approved the application from The Kandy Hotels Company (1938) PLC, allowing the Company to proceed with a private placement and issue new shares exceeding the specified threshold.

### Approval of Off - the - Floor Share Transactions

In terms of Section 84 (1) of the SEC Act, "A person holding securities in a company listed on an exchange shall buy, sell, gift or otherwise deal in such securities in compliance with the trading procedure adopted by such licensed exchange" Provided

however, where no express trading procedure has been adopted by such exchange, the approval of the Commission shall be obtained.

Approvals granted for 530 exceptional transfers and 159 gifting of shares were brought to the notice of the SEC during the year under review. The exceptional transfers were to facilitate margin trading, single to joint/ joint to joint/joint to single, financial facilities, gift (special), mandatory offers and de-listing offers.

### Approvals under Section 80 of the SEC Act

A PLC or any public company which has applied to obtain a listing in an exchange shall not make a public offer of securities either directly or through a third party by way of a prospectus or a similar document or otherwise for the purposes of solicitation of funds from the public unless approved by the Commission or a person authorised by the Commission. During the year Agarapatana Plantations Limited was granted approval and applications of JFS Holdings Limited and Treasure Republic Guardians Ltd were evaluated.

## OVERSIGHT AND COMPLIANCE

### Listed Companies

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

The SEC reviews annual reports of listed companies and communicates with the companies on matters relating to non-compliances. The responses of listed companies were extremely positive in this endeavour.

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

## Strategic Goal 1

# Establish and Maintain a Robust Regulatory Environment

The SEC focused on the following area in reviewing the annual reports.

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

This process will contribute to continuously 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 conducted 102 annual report reviews of listed companies. 65 letters of comments were sent to improve compliance and enhanced disclosures, 21 reviews were concluded as closures.

Additionally, the SEC conducted reviews of 03 debt and 02 equity prospectuses and reviews of shareholder circulars of 09 companies who applied for further raising of funds from the existing shareholders.

### Regulatory Action Taken in Relation to Disclosures and Corporate Affairs of Public Listed Companies

During the year, the SEC reviewed disclosures via market announcements by listed entities and sought clarifications from CSE relating to 65 instances. Such clarifications were relating to the following disclosures. (Figure: 05)

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

| Nature of Clarifications   | No of Instances |
|--|-----------------|
| Dealings by Directors whilst PLC on Watch List/Second Board      | 1               |
| Dealings by Directors – Delayed Disclosure                       | 14              |
| Dealings by Directors – Trading during Black Out period (LR 8.6) | 10              |
| Delayed disclosures  |                 |
| ▪ Changes in Directorate   | 30              |
| ▪ Other immediate corporate disclosure requirements              | 10              |



Corporate Affairs Team

### Matters Referred to Other Regulators / CSE / Government Institutions

Several matters were referred to other regulators/CSE/Government Institutes as indicated below in order to obtain clarifications on the recognition, measurement and disclosures as per applicable standards/regulations. (Figure: 06)

Figure 06: Matters Referred to Other Regulators/CSE/Government Institutes

| Regulator  | Number of Companies |
|--|---------------------|
| Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) | 1                   |
| Colombo Stock Exchange   | 2                   |
| Central Bank of Sri Lanka  | 4                   |
| Ministry of Finance, Economic Stabilisation & National Policies        | 2                   |
| The Department of the Registrar of Companies                           | 1                   |

### Supervision of Market Institutions and Market Intermediaries

The regulatory and supervisory framework for Market Institutions and Market Intermediaries is specified in the SEC Act No. 19 of 2021 and Rules applicable to Market Institutions and Market Intermediaries.

Rules have been issued by the SEC in terms of Section 183 of the SEC Act, applicable to the three categories of Market Institutions, namely; the exchange, central depository, clearing house and the eight categories of Market Intermediaries namely; investment managers, margin providers, credit rating agencies, underwriters, stock brokers, stock dealers, managing companies and corporate finance advisors. These Rules and Regulations have been established with the objective of maintaining a secure and transparent marketplace that will strengthen investor confidence.

During the year under review, the SEC granted licences under a new category; corporate finance advisors, introduced under the new SEC Act. Accordingly, four entities, namely; NDB Investment Bank Ltd., Capital Alliance Partners Ltd, Atarah Capital (Pvt) Ltd. And CTCLSA Capital (Pvt) Ltd. were granted licence to operate as a Market Intermediary in the capacity of corporate finance advisors. Additionally, a Code of Conduct for corporate finance advisors was published as guidance to enhance governance requirements under this new category. Key components of the code comprise of inter alia standards of ethical behaviour, conduct of business, competence, conflict of interest, duties to the client, complaints handling and personal account dealings. The code was designed to help corporate finance advisors to adopt best practices when conducting business and incorporate primary principles of fiduciary duty, integrity and professionalism to facilitate an orderly capital market.

### During the year under review, the SEC granted licences under a new category; corporate finance advisors, introduced under the new SEC Act.

The SEC also formalised a framework for assessing the fitness and propriety of Key Management Personnel of Market Intermediaries to standardise the internal process for taking disciplinary action against or to disqualify Key Management Persons, including Directors, persons dealing with clients and other persons who fail to fulfil the established criteria. The tightening of regulatory action in this regard is intended to uplift the professional standards and business conduct of all key personnel employed by these regulated entities.

Further, in line with the provisions of the new Act the SEC formalised a framework to impose administrative sanctions for offenses outside of market misconduct. Accordingly, a standard process for identifying non-conformities with requirements and imposing sanctions considering the frequency and impact of such contravention has been established.

During the year 2023, the SEC introduced minimum governance requirements applicable to Market Intermediaries and issued a Directive in this regard. Key requirements include specifying a minimum number of directors for Market Intermediaries, appointment of a 'Senior Independent Director' giving specific instances, requirements applicable to the Chief Executive Officer of licensed entities etc. This Directive is aimed at promoting responsible, ethical, and transparent business practices, which will, in turn, lead to the creation of a fair and orderly market thus instilling investor confidence.

### Stock Brokers

During the year under review, the SEC oversight activities were carried out towards monitoring the conduct of stock brokers to assess the status of compliance with the provisions of the SEC Act, applicable Rules and Regulations. The supervision of stock brokers is carried out on a risk-based approach, which assesses the relative risk profiles of the entities, considering the entity specific risk rating and relative market share of each entity. The risks which stock brokers are exposed to could be identified as prudential, liquidity, counterparty, financial, credit, operational and legal risks.

The SEC continues to conduct on-site and off-site supervision of stock brokers for effective monitoring of their activities. Off-site supervision entails review and analysis of periodic submissions by the stock brokers which include financial statements, Compliance Officers' Reports and periodic exposure reports on certain important variables. Any non-compliances detected during off-site reviews are notified to the entities and corrective action taken with regard to same.

To enhance the oversight on the CSE's processes to monitor stock brokers through off-site/on-site supervision and to ensure that prompt regulatory measures are taken for non-compliance with the applicable Rules of the CSE, the SEC introduced a supervision framework for the CSE. Under the framework the primary responsibility for monitoring compliance by stock brokers is vested with the CSE.

Additionally, the SEC conducted joint inspections with representatives from the Financial Intelligence Unit (FIU) of the CBSL to determine the status of compliance with the Financial Transactions Reporting Act, No. 6 of 2006 and Rules and Regulations made thereunder. Five such inspections were conducted during the year.

## Strategic Goal 1

# Establish and Maintain a Robust Regulatory Environment

During the year, industry performance indicated that the total turnover of stock brokers dropped by 42% compared to the year 2022 the latter recording as an exceptional year for the industry. The profitability of the industry witnessed a 39% decrease, recording a net profit after tax of Rs. 1,216 million in 2023 compared to a net profit after tax of Rs. 3,001 million reported in 2022. The comparative statistics on the performance of the stock broker industry is given below. (Figure: 07)

Figure 07: Highlights of the Stock Brokers

|                            | 2023<br>(Rs. '000) | 2022<br>(Rs. '000) | Change<br>% |
|----------------------------|--------------------|--------------------|-------------|
| Turnover                   | 4,635,144          | 7,989,609          | (42)        |
| Net brokerage              | 4,166,262          | 7,383,356          | (44)        |
| Other income               | 3,846,382          | 3,567,382          | 8           |
| Operating profit/loss      | 2,787,191          | 3,812,946          | (27)        |
| Net profit/loss before tax | 1,838,886          | 3,001,569          | (39)        |
| Net profit/ loss after tax | 1,216,551          | 2,094,232          | (42)        |
| Total assets*              | 24,280,733         | 24,805,524         | (2)         |
| Total liabilities *        | 11,432,918         | 11,631,100         | (2)         |
| Shareholder Funds*         | 12,847,816         | 13,174,424         | (2)         |

\*As at 31 December

Source: Un-Audited financial statements submitted by the stock brokers to SEC



Supervision Team

**During the year 2023, the SEC introduced minimum governance requirements applicable to Market Intermediaries and issued a Directive in this regard.**

### Managing Companies and Collective Investment Schemes

A risk based approach is adopted in selecting managing companies for on-site inspections. In this risk based methodology several key factors namely, the financial strength, adequacy of internal controls and risk management mechanisms, compliance with applicable regulatory requirements and governance standards were considered.

Through off-site reviews, managing companies are monitored to assess their financial strength, internal controls and assessment of proactive risk management practices in place, to ensure stability of the capital market. Off-site supervision was further strengthened through the analysis of the monthly unaudited financial statements of managing companies to ensure that the financial position of the companies are stable and operate in compliance with the minimum Shareholders' Fund Requirement stipulated by the SEC.



In addition, the monthly return submissions of schemes were scrutinised and monitored on an ongoing basis to ensure that schemes follow the requirement on the minimum number of unit holders, limitations on investments and the required liquidity positions as stipulated by the applicable Rules to safeguard the interest of unit holders.

The Rules for managing companies brought about a requirement for a Compliance Officer to be appointed on a full-time basis, whose responsibility is to ensure that the managing company complies with applicable Laws, Rules and Regulations at all times and submission of a quarterly compliance report to the SEC.

The SEC maintains regular interaction with the managing companies and trustees of the schemes to ascertain the financial stability of schemes and to monitor compliance with the stipulated regulatory requirements. Upon identifying certain breaches on limitations on investments and liquidity requirements of the schemes during the year, the SEC required the respective managing companies to undertake necessary measures to regularise the levels to mitigate possible risks that could arise. Accordingly, the SEC has continued to provide timely guidance to the managing companies in ensuring compliance with the applicable regulatory requirements.

During the year six schemes were approved by the SEC and one such scheme being a close-ended scheme which shall list its units on the CSE. (Figures: 08, 09)

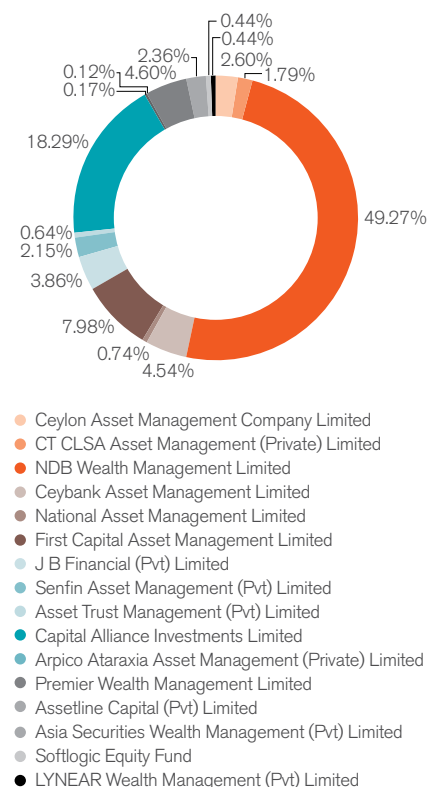
Figure 08: Overall Position of the Schemes

|   | As at 2023 | As at 2022 | Change % |
|---|------------|------------|----------|
| Number of Approved Schemes                            | 84         | 81         | -        |
| Net Asset Value of Unit Trusts (Rs. Bn. approx.)      | 407.74     | 143        | 185.13   |
| Number of Unit Holders                                | 93,450     | 67,912     | 37.60    |
| Number of Units Issued (No. Mn. approx.)              | 13,371     | 6,283      | 112.81   |
| Investment in Equity (Rs. Mn. approx.)                | 18,506     | 11,856     | 56.08    |
| Investment in Government Securities (Rs. Mn. approx.) | 315,239    | 88,879     | 254.68   |
| Investment in Other Instruments* (Rs. Mn. approx.)    | 70,175     | 48,187     | 46.63    |

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

Source: Regulatory submissions by Managing Companies

Figure 09 : Market Share of Managing Companies



**Other Market Intermediaries**

In addition, the SEC performs regulatory oversight of other market intermediaries, which includes margin providers, investment managers, credit rating agencies, underwriters and corporate finance advisors to ensure that all entities follow the provisions of the SEC Act and applicable Rules and Regulations. To identify, monitor, mitigate and manage risks pertinent to market intermediaries, an effective risk – based supervision framework was implemented for both on-site and off-site supervision.



## Strategic Goal 1

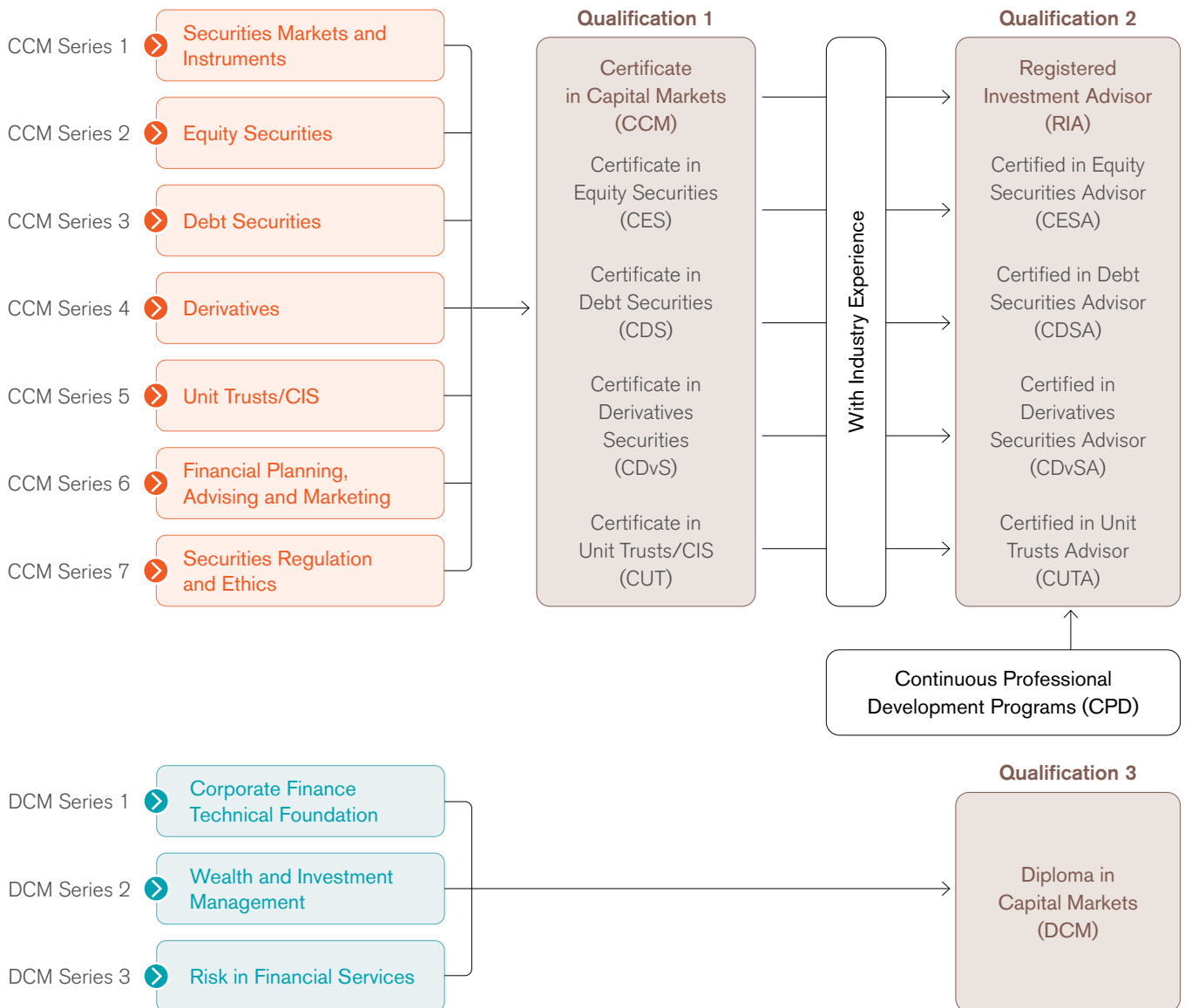
# Establish and Maintain a Robust Regulatory Environment

### ENHANCING PROFESSIONAL STANDARDS AND CONDUCT OF MARKET PROFESSIONALS

Recognising the pivotal role market professionals play in maintaining market integrity and investor confidence, the SEC has instituted a comprehensive framework aimed at elevating industry standards and bolstering ethical practices. Moreover, the SEC’s emphasis on continuous education and training empowers market professionals with the necessary skills and knowledge to navigate complex market dynamics ethically and responsibly.

With the aim of achieving this goal, the SEC has developed and administers professional education and conducts Continuous Professional Development (CPD) programmes as part of the licensing regime for the capital market of Sri Lanka. Additionally, the SEC delivers structured programmes to impart basic theoretical and practical aspects of investing to the general public. (Figure: 10)

Figure 10 : Capital Market Qualification Framework



During the period under review the SEC continued to implement the Capital Market Qualification Framework introduced in 2019 which is aimed at offering a minimum level of proficiency and competency for investment advisors and thus serves as a quality standard for investment advisors of the stock broking industry. The said framework provides separate certifications for certified investment advisors for one or more asset classes, i.e. equity securities, debt securities, derivatives and unit trusts.

Each of these separate certifications lead to the licensing process of the investment advisors and the RIA qualification was enhanced to an apex qualification to include all asset classes in the securities industry.

The following table illustrates the separate certifications for each asset class and the corresponding licences awarded by the SEC. (Figure: 11)

Figure 11 : Level of Certification and Licences Issued

| Series No. | Series Name                               | Level of Certification & Licence    |                                   |  |  |                                |
|------------|---|-------------------------------------|-----------------------------------|--|--|--------------------------------|
|            |   | Equity                              | Debt                              | Derivatives                              | Unit Trusts / Collective Investment Schemes                | Capital Markets                |
| Series 01  | Securities Markets & Instruments          | ●                                   | ●                                 | ●  | ●  | ●                              |
| Series 02  | Equity Securities                         | ●                                   |                                   |  |  | ●                              |
| Series 03  | Debt Securities                           |                                     | ●                                 |  |  | ●                              |
| Series 04  | Derivatives                               |                                     |                                   | ●  |  | ●                              |
| Series 05  | Unit Trusts / CIS Code                    |                                     |                                   |  | ●  | ●                              |
| Series 06  | Financial Planning, Advising & Marketing  | ●                                   | ●                                 | ●  | ●  | ●                              |
| Series 07  | Securities Regulation and Ethics          | ●                                   | ●                                 | ●  | ●  | ●                              |
|            | Certification                             | Certificate in Equity Securities    | Certificate in Debt Securities    | Certificate in Derivatives Securities    | Certificate in Unit Trusts / Collective Investment Schemes | Certificate in Capital Markets |
|            | Relevant Industry Experience              | 6 months                            | 6 months                          | 6 months                                 | 6 months   | 1 year                         |
|            | Viva Voce Examination                     | Required                            | Required                          | Required                                 | Required   | Required                       |
|            | Industry Designation                      | Certified Equity Securities Advisor | Certified Debt Securities Advisor | Certified Derivatives Securities Advisor | Certified Unit Trusts Advisor                              | Registered Investment Advisor  |
|            | Continuous Professional Development (CPD) | 4 CPD Credits Annually              |                                   |  |  |                                |

## Strategic Goal 1

# Establish and Maintain a Robust Regulatory Environment

Having recognised and understood the importance of adapting to the changes brought about by the pandemic and the economic situation in the country, the SEC persisted with its certification program by transitioning to online delivery methods to provide uninterrupted lectures via online platforms.

A growing trend in the number of students enrolling for these certification programs was observed during the period under consideration.

As part of its licensing regime, the SEC administered the RIA and CESA certification which is mandatory to perform duties as an investment advisor in the stock broking industry. Furthermore, the SEC continued to reinstate investment advisors whose licences had lapsed due to non-compliance with the requirements stipulated by the SEC, as communicated to the market through circulars and directives. Given the pivotal role of the licensing procedure in the industry, continuous viva voce examinations for investment advisors were conducted throughout the year without any interruption. These examinations included students pursuing the RIA licence, which covers all four asset classes. i.e. equity securities, debt securities, unit trust and derivatives and the CESA licence CIS catering for a single asset class which is the equity securities.

CPD programs were conducted through webinars to enhance and sustain the knowledge and skills of professionals and market practitioners.

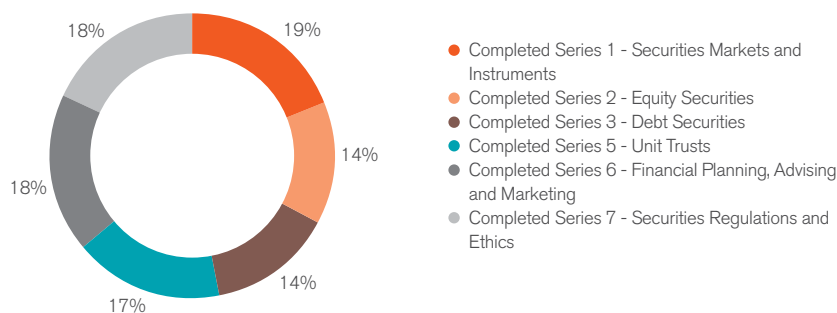
In addition to the above, the SEC also conducted a Programme in Investing which is focused on providing knowledge that will facilitate informed investment decisions for existing and potential investors. It was offered in Tamil medium and all the programs were conducted

online. A diverse student base was observed for the above programs including non-industry individuals, undergraduates, school leavers and professionals from other sectors in addition to capital market professionals.

### Certificate in Capital Markets, Certificate in Equity Securities, Certificate in Debt Securities and Certificate in Unit Trusts/CIS

These programs were conducted in English medium and were inaugurated during the year 2023. Lectures pertaining to Batch 26 which commenced in October 2022 was conducted successfully and concluded in September 2023 which comprised of 87 students. The 27th Batch was commenced in October 2023 with 73 registered participants. (Figures: 12)

Figure 12 : Series Completion Statistics in 2023



### Registered Investment Advisor, Certified Equity Securities Advisor and Re-instatements

During the year 15 VIVA VOCE examinations were held to grant licenses to students seeking the RIA licence, CESA licence, CUTA licence and in order to re-instate investment advisors whose licence has expired due to non-compliance with the annual CPD requirement.

Accordingly, a total of 52 students participated in these VIVA VOCE examinations and the average pass rate was 62%. Out of the successful students, 21 obtained the RIA licence indicating a percentage of 66% while 2 students have obtained the CESA licence which indicates 6% of the successful students and 3 students have obtained the CUTA License which is 9%. Only 6 investment advisors were re-instated during the year indicating a percentage of 19%. (Figure: 13)

Figure 13 : Licence Attainment Statistics in 2023

| Type of Licence                     | Licence Attainment Statistics During 2023 | As a %     |
|-------------------------------------|---|------------|
| Registered Investment Advisor       | 21  | 66         |
| Certified Equity Securities Advisor | 2   | 6          |
| Certified Unit Trusts Advisor       | 3   | 9          |
| Re-instatements                     | 6   | 19         |
| <b>Total</b>                        | <b>32</b>                                 | <b>100</b> |

### Continuous Professional Development Programs

During the year under review, 5 CPD programs 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. These programs attracted more than 1400 participants, including Chief Executive Officers of stock broking companies, investment advisors, analysts, and individuals who wish to retain their licences even if they are employed in other industries within the financial sector. All CPD sessions were conducted online as webinars.

The SEC maintained its mandatory requirement 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. (Figure: 14)

Figure 14 : Summary of CPD Program: Year 2023

| Title of the CPD Program   | No. of participants |
|--|---------------------|
| Regulation and Supervision of Regulated Entities in the Context of the SEC Act                     | 326                 |
| Series 01 - Securities Markets and Instruments   | 261                 |
| Awareness session on "CDS account opening process using the CSE Mobile App and other CDS Services" | 51                  |
| Series 6 - Financial Planning, Advising and Marketing  | 158                 |
| Technical Analysis   | 121                 |

### Program in Investing

Program in investing was initiated with the intention of providing basic theoretical and practical aspects of share trading for potential investors. One batch was inaugurated during the year, lasting six weeks. Batch 30, which was conducted in Tamil medium, began in June 2023 with 24 registered participants, in accordance with industry requirements.

### Gold Medal and Cash Award Project

The SEC continued to maintain a close relationship with the National Universities of Sri Lanka with the aim of promoting the capital market among undergraduates. The Gold Medal and Cash Award project was administered during the year under review, initiated to encourage undergraduates to study subjects related to the capital market in universities. Under this project, a gold medal and cash prize was awarded to the best performing undergraduate in the area of capital markets. Memorandums of Understanding (MOU) have been signed with eleven national universities about the above project.

Accordingly, the following National Universities were awarded gold medals and cash prizes during the year 2023.

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

### Varsity Battles

The SEC and the CSE organised and conducted an Inter- University Quiz Competition for undergraduates of National Universities titled "Varsity Battles 2023".

The main objective of organising this quiz competition was to create awareness about the Sri Lankan Capital Market, thereby increasing financial literacy among undergraduates in Sri Lanka. This initiative paved the way for undergraduates to gain more knowledge about the capital market and inspired students to invest in the stock market and seek employment opportunities in the capital market industry.

This event attracted teams representing 13 National Universities and participants were tested on various knowledge domains, including global markets, general knowledge, Sri Lankan economy and businesses, current affairs, sports, and entertainment.

The team from the Faculty of Commerce and Management from University of Kelaniya (Kelaniya Mavericks) emerged as the winner of the overall competition with a cash prize of Rs. 300,000/-. The Faculty of Engineering from the University of Moratuwa (Mora Sharks) was placed first runner-up and received a cash prize of Rs. 200,000/- while the Faculty of Medicine from the University of Peradeniya (Pera Prodigies) was placed second runner-up with a Rs. 100,000/- cash award.



**Strategic Goal 1**

**Establish and Maintain a Robust Regulatory Environment**

SEC in the News

**Faizal Salieh assumes duties as new SEC Chairman**

THE Securities and Exchange Commission of Sri Lanka (SEC) yesterday announced that Faizal Salieh assumed duties as the Chairman on 20 February 2023.



**Faizal Salieh**  
ing over 40 years of extensive experience in commercial and development banking both in Sri Lanka and overseas. He was Chief of Corp and Merchant Bank ANZGrindlays Bank; C NDB; Executive Director of NDB Housing Bank; MD/CEO of Amana Bank; and Independent Director.

- Says SEC mindful in playing balanced regulatory role with due consideration to both market development and market facilitation
- Stresses need to safeguard investors while helping market grow by doing 'the right thing the right way'
- Urges stock brokers to move away from short-termism towards long-term sustainability collectively to build investor trust and confidence in capital market
- Moots formation of Compliance Officers Forum
- Brokers call for listing of identified SOEs, attract captive funds such as pension and retirement funds to market and listing of Green and Blue bonds, etc.

**New SEC Chairman starts stakeholder meetings**

THE Securities and Exchange Commission of Sri Lanka (SEC) new Chairman Faizal Salieh met with representatives of the stock broking industry last week and deliberated issues that currently impact the capital market and the way forward.



**SEC Chairman Faizal Salieh (right) with DG Chinthaka Mendis**  
General Chinthaka Mendis, Colombo Stock Exchange (CSE) Chairman Dilshan Wirasekara, CEO Rajeeva Bandaranaike and other officials of both the SEC and CSE, participated at the meeting.

- Inaugurates 'Capital Market Club' program in Nugawela Central College in Kandy
- Stresses dual importance of technology, financial literacy for future generations
- Emphasises need for SL to break free from its stagnant position, approach

**President launches visionary program to propel Sri Lanka into developed nation by 2048**

PRESIDENT Ranil Wickremesinghe yesterday highlighted the dual importance of technology and financial literacy for the next generations, as Sri Lanka moves towards becoming a developed nation by 2048.



**President Ranil Wickremesinghe**  
Central College in Kandy yesterday, Wickremesinghe emphasised the need for Sri Lanka to break free from its stagnant position and embrace a forward-thinking approach to secure its global standing.

MONDAY, SEPTEMBER 11, 2023  
**NEWS/ADVERTORIAL**



University of Moratuwa Winning Team – Varsity Battles 2023 (Inter-faculty quiz competition)

**SEC and CSE inter-faculty quiz competition concludes at Moratuwa University**

The Varsity Battles 2023, inter-faculty quiz organized by the Securities and Exchange Commission of Sri Lanka (SEC) and the Colombo Stock Exchange (CSE), was completed at the Moratuwa University on August 29.

The quiz concluded, three winning teams emerged from the Faculty of Engineering itself. The Faculty of Engineering Team 3 emerged as the winning team, whilst Faculty of Engineering Team 1 and Faculty of Engineering Team 2, received certificates being 1st and 2nd runners-up.

The Varsity Battles 2023 intend to create awareness and educate university students, capital markets and to increase financial literacy among university students. The initiative launched in May 2023 with Rajarata University of Sri Lanka and University of Jaffna, followed by the

create awareness on the importance of financial, investor, and capital market education. Thus, this initiative highlights the importance of financial literacy for every undergraduate in Sri Lanka."

A group of organizations have come together as sponsors to make this inter-university competition a reality. The Varsity Battles 2023 is sponsored by the following organizations.

- Platinum sponsors: First Capital Holdings PLC and Bartleet Religare Securities.
- Gold sponsors: AICPA and CIMA Sri Lanka, Capital Trust Holdings Ltd, London Stock Exchange Group Sri Lanka, CT CLSA Securities (Pvt) Ltd, and Senfin Securities Limited
- Silver sponsors: Lanka Securities (Pvt) Ltd, LOLC Holdings PLC, Asha Securities Ltd, Softlogic Securities Ltd.

- required to maintain and disclose policies for Management Internal Controls, Relations Shareholders Investors, Stealing, Corporate Disclosures, Environmental, Social Governance Sustainability and Anti-Corruption and Bribery and Corruption

**SEC announces enhanced Corporate Governance rules**

Exchange with effect from 1 October 2023.

High standards of Corporate Governance with accountability and transparency are critical to building investor confidence in the capital market and is therefore a priority on the SEC's regulatory agenda. The SEC recognising the need to improve the level of

in the market initiated a process of amending the Rules on Corporate Governance through a process of stakeholder and public consultations. Based on the stakeholder and public responses the Rules were revised to enhance the governance structures and responsibilities of the Board of Directors and Board Committees of the compa-

**SEC, CSE host another Investor Forum in Negombo**

The Securities and Exchange Commission of Sri Lanka (SEC) and Colombo Stock Exchange (CSE) successfully conducted another investor forum in Negombo at Jetwing Blue on August 12.



ck Market. A session to create awareness on the CSE Mobile App was conducted by a CSE representative from the Kandy District, Madhawa Aramandeni-

Furthermore, an analysis of sectoral performance and market activities was presented by Soflogics Stockbrokers (Pvt) Ltd Co-Head of Research, R. Wickremaratne.

A panel discussion was held with the participation of Tushara Jayasinghe, Raynal Wickremaratne, CSE Kandy Branch Manager Dhananjaya Abey Siri-

wardena, providing an opportunity for participants to clarify any doubts from the panelists.

The participants were also given the opportunity to meet investment advisors from stock brokerage firms and representatives of unit trust management companies.

The SEC and CSE have conducted a number of forums this year in Badulla, Panadura, Trincomalee, Ampara and Batticaloa to create awareness on investor education and protection while highlighting the importance of financial literacy.

**SEC cracks down on manipulation via social media**

THE Securities and Exchange Commission (SEC) has cracked down on suspected market and price manipulation via the use of social media by several persons.

In a series of actions last week, the SEC issued caution and

warning notices on four persons found to have engaged in alleged manipulation. One case was a publication of certain comments on the securities of Softlogic Life Insurance PLC (ALIC) listed on the Colombo



Stock Exchange, in a WhatsApp social media group named

– "Investing", in and around January 2023 that tantamount to recommendations being made to influence other investors to make investment decisions regarding those securities without a proper basis.

More Page 2



Empowering Investors through Social Media Platforms

**TRADING PRACTICES AND CONDUCT - ACTING ON BEHALF OF CLIENTS**

Stockbrokers and their employees when dealing with Clients shall not share directly or indirectly, the profits or losses in any account of a Client.

**THE BASIC CONCEPT OF SECURITIES BORROWING AND LENDING**

Securities Borrowing and Lending (SBL) is a mechanism where an investor can lend securities to an identified borrower for a pre-determined period at an agreed upon fee.

**Who is an INSIDER?**

A person, whether or not such person is connected to the respective company if that person-

- (a) possesses information that is not generally available which on becoming generally available a reasonable person would expect it to have a material effect on the price or the value of securities; and
- (b) knows or could reasonably be expected to know that the information is not generally available.

**NAVIGATE ONLINE FINANCIAL ADVICE EFFECTIVELY**

- Verify credentials of those who give online investment advice
- Be cautious of schemes that promise to help you "get rich" quickly
- A massive following doesn't equal financial wisdom
- Take time to research thoroughly and verify information

Revisions to Corporate Governance Rules applicable to entities listed on the Colombo Stock Exchange

**Did You Know?**

The revisions require, a minimum number of Board members (5), segregation of the position of Chairman and Chief Executive Officer, appointment of a Senior Independent Director in specific instances, 'Fit and Proper' Assessment Criteria for directors and CEOs, criteria for determining the 'independence' of directors and requirements on Alternate Directors.

**WORLD THRIFT DAY!**

It is never too late to save and invest.

Through saving money, your money is kept safe and by investing early over time, your money grows in value, benefiting from the magic of compounding. If you want to build wealth and stay up with the ever-rising demands, investing is a need.

කොටස් වෙළෙඳපොළේ  
ආයෝජනය පිළිබඳ විධිමත්  
දැනුමක් ලබාගැනීමට.....

**வினா விடை நேரம்!**

நீங்கள் ஒரு தகவலறிந்த முதுட்டாளரா?

வினா விடையை தொடங்குவதற்கு அழுத்தவும்

**What questions to expect from your investment advisor?**

- ★ What are your needs ?
- ★ What are your goals ?
- ★ Talk through their recommendations, explaining why they think these investments are right for you
- ★ Explain how they're paid
- ★ Explain how their complaints process works.

**DROP THE NAME!**

He bought his first stock at the age of 11  
He was rejected by Harvard Business School  
He often frequents McDonalds for a bacon, egg and cheese biscuit if the market is up  
He is known as the "Oracle of Omaha" for his investment prowess  
He was awarded the "Presidential Medal of Freedom" by Barack Obama.

**Don't Make the Same Mistakes Over and Over Again**

- DON'T** create an investment plan without identifying your financial goals.
- DON'T** choose an investment professional without conducting a background check.
- DON'T** pick investment opportunities without doing research first.
- DON'T** ignore how to protect your investments.

## Strategic Goal 1

# Establish and Maintain a Robust Regulatory Environment

**Do you Know?**

A crossing for equity securities shall take place at a price not exceeding a 5% negative variation from the Closing Price of the security.

To be crossed the parcel must be;

(a) More than 5% of the issued quantity of the specific security  
**OR**  
 (b) Greater than Rs. 20,000,000/-

**Research is much more than just listening to popular opinion.**

**INVESTMENT VS GAMBLING**

| Particulars         | Investment   | Gambling                                   |
|---------------------|--|--|
| Purpose             | Grow money over time by buying assets.                 | Win money in the short term by taking risk |
| Strategy            | Medium to long term planning                           | Short Term Planning                        |
| Basis for Decisions | Scientific Analysis of Intrinsic worth of the security | Based on tips and rumors                   |
| Nature              | Planned activity                                       | Unplanned activity                         |
| Risk                | Commercial Risk  | Artificial Risk                            |
| Return Expectation  | The risk-return trade-off determines the return        | Negative returns are expected              |
| Asset purchase      | Yes  | No   |

**GUARANTEED HIGH RETURNS WITH ZERO RISK!**

“Don't be fooled by claims that are too good to be true today or any other day.”

#StayInformed #InvestWisely

**මුදල් තාවකාලිකව සහතික කරන වැරදි තාවකාලිකව**

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- හදිසි දැරුවදුලක් නොගැනීම
- සහතික දැරූ සහතික සුබෝග්‍යයක් මුදල් හැරීම සිදු කිරීම
- සහතික දැරූ සහතික මුදලින් නිවසක පවත් වීම

**Second Board**

All the Listed Companies who fail to comply only with the Minimum Public Holding Requirements of the CSE Listing Rules are on the Second Board.

**ලැයිස්තුගත සමාගම්ක පුද්ගලිකව ගනුදෙනු මාස 12කට වැඩි කාලයක් සඳහා අත්හිටුවා ඇති අවස්ථාවක, ලැයිස්තුගත කිරීමේ විනිවිල 11.3 (අ) විනියට අනුව, එම සමාගමේ පුද්ගලිකව නොලබා නොවැඩිවීමට අධිකාරිය මාස 12කට වැඩි කාලයක් ලැයිස්තුගත ලේඛණයෙන් ඉවත් කරනු ලැබේ (De-Listed).**

**DID YOU KNOW?**

**“Delivery versus payment (DVP) is a mechanism adopted by Stock Exchanges to minimize principal risk,**

that is, the risk that the seller of a security would deliver the security but not receive payment or that the buyer of a security would make payment but not receive delivery of the security.





## Strategic Goal 2

# Protect Investor Interest

The SEC serves as a bulwark of protection for investors in the dynamic world of securities markets. Through rigorous enforcement of regulations and oversight, the SEC aims to instil confidence and integrity in the financial markets while safeguarding investors from fraud, manipulation, and other malpractices.

### SURVEILLANCE

Market surveillance plays an important role in detecting and deterring potential capital market vulnerabilities caused by anomalous trading activity, such as market/ price manipulation, insider trading, and other market misconducts. Accordingly, the SEC engages in monitoring the market in order to detect abnormal market movements and manipulations to protect the integrity of the securities market and its participants. After identifying any irregularities, the trading data is analysed using various methodologies and analytical tools, such as the Tableau analytical platform. In addition, the SEC utilises an in-house data experts system to analyse CSE data and the S&P Capital IQ platform which provides web-based services to retrieve multiple types of market information to create reports. We enforce regulatory measures upon detecting market misconduct to uphold market integrity at all times. As a result, the surveillance function helps to develop orderly market operations and enhances investor confidence in the capital market.

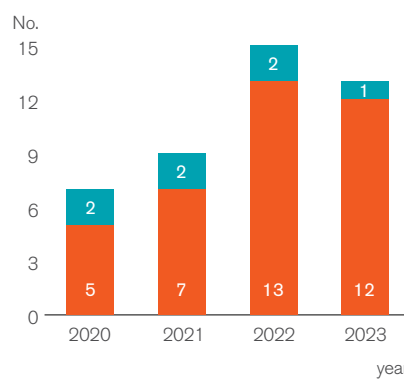


Surveillance Team

### Surveillance Observations, Referrals and Notes

The SEC is adopting a dashboard-based Observation Management System since April 2023, to identify trends for decision makers. Accordingly, we reported 169 cases of unusual trading behaviour through the dashboard during the year under review and undertook proactive measures in relation to suspected offences depending on the seriousness of the case. Surveillance observations and the subsequent action taken are apprised to the Commission on a monthly basis at the Commission Meetings. The SEC sought clarifications from Stock brokers, investment advisors and investors via phone calls, letters, and statement recordings in this regard. (Figure: 15)

Figure 15: Surveillance Referrals and Notes



During the year under review, the SEC has made 79 phone calls to investors, investment advisors and compliance officers for various suspected offences. (Figure: 16)

Figure 16: Clarifications Sought via Telephone Calls

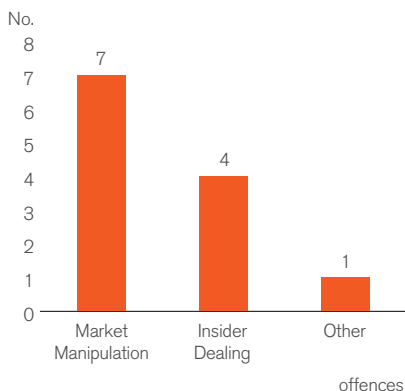
| Contact Person      | No. of phone calls made |
|---------------------|-------------------------|
| Investors           | 58                      |
| Investment Advisors | 17                      |
| Compliance Officers | 4                       |

The SEC generated 12 surveillance referrals and one surveillance note during the year 2023. Out of these, 11 referrals warranted full investigations, the SEC also implemented early and timely enforcement measures in response to certain surveillance findings, ensuring they were addressed promptly and proactively.



The SEC received four surveillance referrals from the CSE; the matters that warranted further investigations were compiled as referrals or reports and were apprised to the Commission and the relevant Divisions of the SEC. Regular meetings were held with the CSE throughout the year as a standard practice to further discuss details of the CSE referrals and to provide updates on the progress of these referrals. (Figure: 17)

**Figure 17: Surveillance Referrals – Possible Offences**



In addition to the surveillance referrals, various trading analyses, specifically tailored for the Investigations Division of the SEC as required by the Commission, have been generated and forwarded on a priority basis. The SEC has further sought assistance from fellow regulators and institutions such as Sri Lanka Computer Emergency Readiness Team (SL CERT) and Registrar of Companies (ROC) to enhance the monitoring function which has been necessitated by the increasing level of social media/ social Network based manipulations and intricacies witnessed in identifying the connections between the suspected parties. These actions were taken to prompt timely responses to potential misconduct, thereby averting market destruction at an earlier stage.

To detect a wide range of potential market misconduct and enhance the effectiveness of surveillance functions in line with modern technology and

artificial intelligence, the SEC is soliciting proposals for a comprehensive automated surveillance system. The SEC expects to implement the new system in 2024

**Monitoring of Social Media**

To recognise instances of possible market misconduct and to take proactive measures regarding information-based manipulations, the SEC monitors information shared on various social media platforms. Accordingly, the SEC has observed numerous posts published by several investors on various social media platforms and other social networking channels, including Facebook, YouTube, WhatsApp, Telegram, and X. These posts may constitute recommendations or target prices, potentially leading to attempts to create a false market regarding the market and/or price of such securities. Additionally, there has been the use of the title or description “stock exchange” in social media promotions.

Consequently, timely and appropriate actions are carried out pertaining to misconduct, considering the context of the social environment and the prevailing market conditions. Accordingly, clarifications were sought promptly via telephone calls from investors pertaining to 27 observations, and four observations were reported to the relevant social media platforms by SEC’s Official Facebook/YouTube Account, for “Posting Inappropriate Content”. Depending on the severity of the observations made, clarifications were sought via statement recordings pertaining to 10 cases. During the year 2023, six identified investors were issued “Warnings” and eight identified investors were issued “Letter of Caution”.

**INVESTIGATIONS**

Conducting investigations into any alleged violation or contravention of the provisions of the securities law in Sri Lanka or any regulation, rule, or directive made, or any instruction given

thereunder by any person is among the principal functions, powers, and duties of the Commission. During the year under review, the SEC continued its efforts to fulfil the mandate, thereby facilitating the creation, maintenance, and regulation of a fair, orderly, efficient, and transparent securities market, and protecting the interests of both local and foreign investors.

At the beginning of 2023, the SEC had 57 ongoing investigations carried forward from the previous year. Furthermore, in 2023, the Commission resolved to initiate 24 investigations into suspected offences under the SEC Act, No. 19 of 2021, SEC Act, No. 36 of 1987 (as amended), and the SEC Rules 2001. Out of the total number of investigations initiated during the year, 12 were related to contraventions falling under the SEC Act, No. 19 of 2021. These contraventions include insider trading and various types of market manipulation such as false trading, market rigging, and securities fraud.

Out of the aforesaid 81 investigations, the SEC concluded 26 investigations during the year under review. Based on the findings of 14 such investigations, the Commission resolved to take the following actions:

- To issue Notices of Show Cause to 25 individuals and 5 entities.
- To issue a Letter of Warning to an individual.
- To issue Letters of Caution to 2 individuals; and
- To refer the relevant findings of 4 investigations to the CBSL for necessary action.

In addition to the above 26 investigations, based on the findings of four other investigations conducted during the year under review, the Commission resolved to issue Notices of Show Cause to seven individuals and four entities. Further, the relevant findings of two such investigations were resolved to

be referred to the CBSL for necessary action. However, as the Commission resolved to conduct further investigations into certain other aspects of the aforementioned investigations, those inquiries remained unresolved by the end of the year.

Moreover, in respect of 12 investigations that were concluded during 2023, it was resolved not to take any enforcement action as the findings of the respective investigations did not establish that the individuals or the entities concerned have committed any offence.

Accordingly, at the end of the year under review, 55 investigations were in progress, out of which, the SEC had finalised investigation reports pertaining to eight investigations which were to be tabled at the first meeting of the Commission for the year 2024.

Moreover, in keeping pace with the developments in the digital era, the SEC took steps to embrace digital transformation during the year under review by initiating migration of information hitherto collected for investigations to a digital platform, and by exploring advanced analytical tools that could be utilised to enhance the overall effectiveness of investigations and optimise the performance of the Investigations Division.

Furthermore, in 2023, the SEC Investigations Manual was used as an internal guideline, was replaced with a new Investigations and Enforcement Manual. This new manual was developed to incorporate changes from the SEC Act, No. 19 of 2021, compared to the previous manual. The technical assistance provided by IOSCO was also instrumental in the development of this new manual.



Investigation Team

## ENFORCEMENT ACTIONS

Based on investigation, surveillance, supervision findings etc., enforcement actions are taken by the SEC on the direction and determination of the Members of the Commission\*.

### Issuance of Show Cause Notices

- Show cause notices were issued to three investment advisors for market manipulation in violation of Rule 12 of the SEC Rules
- Show cause notices were issued to nine investors for market manipulation in certain listed shares in violation of Rule 12 of the SEC Rules

\*The names of the persons against whom enforcement actions have been taken by the SEC are published on SEC's website in terms of the Publication Policy of the SEC.

- With regard to an action of a PLC done in contravention of Rule 30(1) of the Company TOM Code 1995 (as amended) during the time the company extended a mandatory offer to its remaining shareholders in the year 2014, show cause notices were issued to seven directors of the said PLC who served on the Board and one employee of the said company, in terms of Section 51 (3) of the then SEC Act No 36 of 1987 (as amended).
- Three individuals were issued show cause notices for their purchase of shares in the PLC to which they were connected whilst in possession of unpublished price sensitive information in violation of section 137 (2) (a) of the SEC Act No 19 of 2021.
- An individual was issued a show cause notice for publishing a document and conducting a presentation/workshop which contains information which tantamount to recommendations, thus leading to an attempt to create a false market, regarding the market and/or the price of the securities in the CSE.
- An individual and two companies were issued show cause notices to explain why the SEC should not take action against them for contravening Rule 12 of the SEC Rules published in the Gazette Extraordinary No. 1215/2 dated 18th December 2001.
- An investment advisor was issued a show cause notice for front running in the shares of a PLC.
- An investor was issued a show cause notice for conspiracy to abet to commit front running in the shares of a PLC.
- A Key Management Personnel of a market intermediary was issued a show cause notice for providing incorrect and untrue information in the affidavit submitted to the SEC for the purpose of the renewal of a licence of the market intermediary.

## Strategic Goal 2

# Protect Investor Interest

- An investor was issued a show cause notice for conspiracy to commit market manipulation and aiding and abetting his investment advisors to commit market manipulation.
  - An investor was issued a show cause notice for his trading pattern in the shares of a PLC that amounts to market manipulation in violation of section 128 (1) and section 129 (1) of the SEC Act No 19 of 2021.
  - A director, the managing director of a PLC and an investor connected to them were issued show cause notices for market manipulation in contravention of Rule 12 of the SEC Rules and conspiracy thereof.
  - A show cause notice was issued to an investment manager registered by the SEC, its directors and its chief investment officer under the then SEC Act No 36 of 1987 for breach of regulatory standards applicable to market intermediaries issued by the SEC by way of a Directive in 2015, which are requirements imposed under the provisions of section 51 (1) (a) of the then SEC Act No. 36 of 1987.
  - An individual was issued a show cause notice for having committed front running in contravention of Rule 14 of the SEC Rules whilst working as an independent contractor in-charge of investments of an investor.
  - A stock broker company was issued a show cause notice for contravening Rules 13.3 (3) and 13.3 (4) of the Trading Participant Rules of the CSE thereby committing an offence under Section 175 (1) (a) of the SEC Act No. 19 of 2021.
  - An investment advisor was issued a show cause notice for his conduct involving market manipulation and in violation of Rule 12 and front running in violation of Rule 14 of the SEC Rules.
  - Three former employees of the Employee Provident Fund were issued show cause notices for conspiracy to abet another to commit market manipulation in violation of Rule 12 of the SEC Rules in respect of the shares of a public listed company.
  - An investor was issued a show cause notice for his trading using his CDS account and that of another in violation of section 128 and 132 of the SEC Act 19 of 2021.
- Issuance of Notices of Action**
- Notices of Action were issued to a PLC and seven members of its Board of Directors for providing false information to the SEC, during the time the said Company extended a mandatory offer to its remaining shareholders in the year 2014, which tantamount to an offence in terms of Section 51(1) (b) of the then SEC Act No. 36 of 1987 (as amended).
  - Two investment advisors were issued Notices of Action for their trading which amounted to market manipulation in violation of Rule 12 of the SEC Rules.
  - A Notice of Action was issued to one individual who was found to have committed front running in contravention of Rule 14 of the SEC Rules whilst working as an independent contractor in-charge of investments of an investor.
  - A former investment advisor was issued a Notice of Action for committing market manipulation in contravention of Rule 12 of the SEC Rules by using the CDS Accounts of certain investors who had been assigned to him.
  - A director of a PLC was issued a Notice of Action for her contravention of Section 32 (1) of the then SEC Act No 36 of 1987.
  - A PLC and its Board of Directors, which was the offeror company in a Mandatory Offer, was issued Notices of Action for the Breach of Rule 31(3) of the TOM Code in connection with a mandatory offer made by another PLC to its remaining shareholder.
  - Executive Chairman of a PLC (at the time) which was the offeror company in a mandatory Offer, was issued a Notice of Action for conspiracy to breach Rule 31(3) of the TOM code in connection with a mandatory offer made by another PLC to its remaining shareholders.
  - An investor/ Chairman of a PLC which was a shareholder of the offeree company in a mandatory offer, was issued Notices of Action for conspiracy and aiding and abetting the Executive Chairman of the offeror company, to breach Rule 31(3) of the TOM code in connection with a mandatory offer made by another PLC to its remaining shareholders.
  - Three investors were issued Notices of Action for their trading amounting to market manipulation of certain listed shares in violation of Rule 12 of the SEC Rules.
  - The non-executive chairman of a PLC, executive director/ general manager, its chief financial officer and two related persons of the PLC were issued Notices of Action for the market/price manipulation in the shares of the PLC in violation of Rule 12 of the SEC Rules.
  - A director and the managing director of a PLC were issued Notices of Action for market manipulation in contravention of Rule 12 of the SEC Rules and conspiracy thereof.
  - Two investors were issued Notices of Action for committing market manipulation through certain posts they made on a Viber Group in connection with certain listed shares.

- One individual was issued a Notice of Action for her purchase of shares of the PLC to which she is connected whilst in possession of unpublished price sensitive information in violation of section 137 (2) (a) of the SEC Act No 19 of 2021.
- Two Notices of Action were issued to two Directors of the PLC for insider dealing in terms of Section 32(1) of the then SEC Act No. 36 of 1987
- A Notice of Action was issued to a Director of a PLC for insider dealing in term of Section 32 (6) of the then SEC Act No. 36 of 1987 (as amended)
- Two investors were warned against the use of the name, title and the logo 'stock exchange' in contravention of section 77 of the SEC Act No 19 of 2021.
- Upon an investigation conducted into the abnormal trading activities carried out by an investment advisor and his family members, the investment advisor was warned for failing to comply with Section 3.1 of the Stockbroker Rules of the CSE which were applicable at the relevant time concerned.

#### Issuance of Letters of Caution

- Upon an investigation conducted to ascertain whether the trades done by a director of a PLC amounted to insider dealing, the said director was warned.
- A PLC was warned to have a standard in-house mechanism to govern the trades of directors who are privy to the price sensitive information, that is to be released to the Exchange, to ensure compliance with Rule 7.8 of the Listing Rules.
- An investor was warned for using the name, title, description and the logo of the "stock exchange" in a social media Group on "WhatsApp" which appears to imply or tends to create the belief that such group has a connection to a stock exchange licensed by the SEC.
- The chief executive officer of a stock broking company was issued a warning in respect of the violation of Rule 2.5.1. of the then Stockbroker Rules of the CSE.
- Two individuals were warned for their conduct in trading with the use of the CDS account of his father and for making posts on social media that amount to recommendations meant to influence other investors while the father of one individual was warned against allowing his son to use his CDS account without following proper procedure.
- A Letter of Caution was issued to a former director of a PLC for trading in the shares of the said Company, using unpublished price-sensitive information, during the time he served as an Independent non-executive director.
- Nine retail investors were cautioned against making comments on social media on certain securities that are being traded on the CSE in a manner that can influence other investors to make investment decisions with regard to those securities that could contribute towards creating a false market in respect of those securities.
- Four retail investors were cautioned for their pattern of trading in the shares of several listed securities, in a manner which creates a false and misleading appearance on the market.
- The chief executive officer of a stock broking company was cautioned for his conduct which may amount to a possible case of front running pertaining to trades in the shares of four PLCs executed in the securities accounts of two clients of the stock broking company who were his family members.
- An investor was cautioned for his trading pattern in the shares of a PLC that may give a false impression as to the market or the price of the said share.

#### Issuance of a Public Reprimand

An investor was issued a Public Reprimand for his pattern of trading in the shares of a PLC amounting to a share market/price manipulation in violation of Rule 12 of the SEC Rules.

#### Referral to Other Agencies

- Findings of the investigations conducted by the SEC into certain share transactions that occurred during the period 1998-2017 where the Employee Trust Fund had made investments in shares of a PLC was referred to the CBSL for necessary action.
- The CSE was informed of the abnormal trading activities carried out by an investment advisor and his family members, and thereby failing to comply with Section 3.1 of the Stockbroker Rules of the CSE which were applicable at the relevant time.

#### Imposition of Administrative Penalty

Pursuant to having heard the responses to the Show Cause of the SEC, an administrative penalty amounting to Rs. 5,000,000/- was imposed on a PLC in terms of Section 178 (ii) of the SEC Act No.19 of 2021 based on the decision of the Members of the Commission due to its non-disclosure/delayed disclosure by the said company in terms of Rule 7.13 (b) (ii) of the Listing Rules of the CSE.

#### Directive issued in terms of section 16(c) together with Sections 26(5), 178(5a), 81(3), 175(1)(a), and 175(4) of the SEC Act No. 19 of 2021

A directive, along with guidelines, was issued to the CSE, instructing it to undertake disciplinary actions and/or administrative sanctions concerning non-compliance with the Listing Rules of the CSE by the listed entities and their directors.



## Strategic Goal 2

# Protect Investor Interest

### Directives issued in terms of Section 16(c) of the SEC Act No. 19 of 2021 to two Investment Advisors and their Stockbroker Firms

Two investment advisors were informed by way of directives issued to them that they are no longer qualified to be Key Management Personnel or employees dealing with clients of a market intermediary licensed by the SEC in terms of Rule 6 (g) of the Schedule II - Fitness and Propriety of a Key Management Person of a Market Intermediary and a Market Institution of the SEC Rules published in Gazette Extraordinary No 2271/09 dated 15th March 2022 and Gazette Extraordinary No 2271/10 dated 15th March 2022 respectively, to be read with Rule (5) (a) (ii) of minimum standards for trading participants of the Trading Participant Rules of the CSE.

Their respective stock broker firms were also informed of the same by way of directives issued to them.

### Compounding of Offences

- Upon an application made by a director of a PLC who was found to have acted in violation of Section 32 (1) of the then SEC Act No. 36 of 1987, the Commission granted approval to compound the said offence for Rs. 3 million. The offence against the said individual was compounded upon the payment of the aforesaid amount to the Compensation Fund of the SEC.
- A decision taken to compound four offences against a director of a PLC for insider dealing in terms of Section 32(1) and 32 (6) of the then SEC Act No. 36 of 1987 (as amended) upon the application to do so was made by him was subsequently withdrawn by the Commission due to the disagreement of the said individual to compound the matter on the amount decided by the SEC.

As such, the SEC filed action against the said person for insider dealing prohibited by Section 32(1) and 32 (6) of the then SEC Act in the Magistrate's

Court, Fort and the said individual has since challenged the quantum of the compounding amount by way of Writ Applications filed by him before the Court of Appeal (See below the references to CA (W) 301/2023 and CA (W) 797/2023).

- Based on an application to compound the offence of market/price manipulation found to have been committed by the non-executive chairman of a PLC, the matter was compounded upon him paying a sum of Rs. 3.3 million to the Compensation Fund of the Commission.
- Based on an application to compound the offence of market/price manipulation found to have been committed by an executive director/general manager of a PLC, the matter was compounded upon him paying a sum of Rs. 3.3 million to the Compensation Fund of the Commission.
- An investor who was granted one year in 2022 for the payment of the compounding amount in relation to his offence of aiding and abetting another to breach of Rule 12 of the SEC Rules 2001 and for conspiracy thereof settled his compounding amount during the year.
- Upon the application made by the chairman of a PLC to compound the offence of insider dealing in violation of section 32 (6) of the then SEC Act No 36 of 1987, the Commission decided to impose Rs. 100 million as the compounding amount subject to certain conditions. However, the said individual is yet to settle the same and compound the offence.
- Upon the application made by an individual to compound the offence of market manipulation found to have been committed by him in respect of shares of two PLCs, Commission decided to compound the said offences by paying a sum of Rs. 6.6 million. However, he failed to settle the compounding amount and consequently, action was instituted against him before the Magistrates Court, Fort.

- Upon the application being made by an individual to compound the offence of market manipulation found to have been committed by him in respect of shares of a PLC, Commission decided to compound the said offences by paying a sum of Rs. 3.3 million. However, he failed to settle the compounding amount and consequently, action was instituted against him before the Magistrates Court, Fort.

### Pending Cases

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

The SEC instituted action in the Magistrate's Court Colombo Fort in 2017 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 then SEC Act No. 36 of 1987 as amended.

The matter is pending before Court.

#### SEC vs. Lanka Kannangara, Kapila Senerath, Faariq Furkhan, and Raveendra Mallawarachchi, MC/Fort/13736/19

Legal action was instituted in the Magistrates Court, Colombo Fort in 2019 against the above mentioned persons for market manipulation, conspiracy to commit market manipulation and for aiding and abetting which are offences 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 then SEC Act No.36 of 1987 as amended.

The case is pending before Court.

**Chinthaka Mendis vs. W.K.H. Wegapitiya, Thilak De Silva and Thakshila Hulangamuwa, MC/ Fort/16967/20**

Legal action was instituted in 2020 against the above mentioned persons in the Magistrates Court, Colombo Fort for market manipulation, conspiracy to commit market manipulation, and for aiding and abetting which are offences punishable under Rule 12 of the SEC Rules as published in Gazette Extraordinary No. 1215/2 dated 18th December 2001 read with Section 113 (b) and 102 of the Penal Code under Section 51(1) (a) of the then SEC Act No.36 of 1987 as amended.

The case is pending before the Court.

**SEC vs. Dr. Sena Yaddehige and S. Thinamany, MC/Fort/12639/19**

Legal action was instituted before the Magistrates Court, Colombo Fort in 2019 against Dr. Sena Yaddehige and Mr. Subramaniam Thinamany for insider dealing and aiding and abetting thereto in contravention of section 32 of the then SEC Act No 36 of 1987 as amended read with Section 102 of the Penal Code respectively.

The case is pending before the Court.

**Chinthaka Mendis vs. Nihal Radella MC/Fort/23337/22**

Legal action was instituted before the Magistrates Court, Colombo Fort in 2022 against Mr. Nihal Radella for giving false or misleading information when giving a statement to the SEC during statement recordings taken in the course of an investigation, in contravention of section 46A (1) of the then SEC Act No 36 of 1987 as amended.

The case is pending before Court.

**W.K.H. Wegapitiya and Thilak De Silva vs. Chinthaka Mendis HCRA 28/22**

A revision application was filed by two of the accused in case No MC/ Fort/16967/20 filed by the SEC against the order of the learned Magistrate to proceed with the trial.

After the receipt of judgment in favour of the SEC, the Petitioners have preferred an appeal to the Court of Appeal which is pending to date.

**SEC vs Riyaz Mohammad Sangani MC/Fort 28266/2023**

Legal action was instituted by the SEC before the Magistrate's Court, Fort against Mr. Riyaz Mohamed Sangani in December 2023 for insider dealing in contravention of Section 32 (1) and 32 (6) of the then SEC Act No. 36 of 1987 (as amended) on four instances of dealing in the shares of Vidullanla PLC.

The matter is pending before the Court.

**Chinthaka Mendis vs. W.E.M. Weerasinghe, E.A. Gunawardane and S.M. De R. Gunasekara – MC/Fort 28328/23**

Legal action was instituted before the Magistrates Court, Fort in 2023 against Mr. W.E.M. Weerasinghe, Mr. E.A. Gunawardane and Mr. S.M. De R. Gunasekara for committing the offence of market manipulation in violation of Rule 12 of the SEC Rules published in the Gazette Extraordinary No. 1215/2 dated 18th December 2001 which is punishable under section 51(2) read with section 51(1)(a) of the then SEC Act No. 36 of 1987. Summons are yet to be issued to the parties.

**Chinthaka Mendis vs. K.A.L.D. Lanka Kannangara – MC/Fort/28706/23**

Legal action was instituted in the Magistrate's Court, Fort in 2023 against the accused for market manipulation which is an offence in contravention of Rule 12 of the SEC Rules, published in the Gazette Extraordinary No. 1215/2 dated 18th December 2001, which is punishable under section 51 (1) (a) of the then SEC Act No.36 of 1987 as amended. The summons were issued and the case is pending before court.

**Chinthaka Mendis vs. K.A.L.D. Lanka Kannangara MC/Fort 28707/23**

Legal action was instituted in the Magistrates Court, Colombo Fort in 2023 against the accused for market manipulation which is an offence in contravention of the violation of Rule 12 of the SEC Rules Gazetted in Gazette Extraordinary No. 1215/2 dated December 18th December 2001. The summons was issued to Mr. K.A.L.D. Lanka Kannangara.

The case is pending before Court.

**Chinthaka Mendis vs. Govindasamy Ramanan and Mr.Kanagarathnam Naveenkanth MC/Fort/28553/23**

Legal action was instituted in the Magistrates' Court, Colombo Fort in 2023 against Mr. Govindasamy Ramanan and Mr. Kanagarathnam Naveenkanth for the offences of market manipulation, conspiracy to commit market manipulation, and aiding and abetting in contravention of Rule 12 of the SEC Rules, published in the Gazette Extraordinary No. 1215/2 dated 18th December 2001, which is punishable under Section 51 (1) (a) of the then SEC Act No.36 of 1987 as amended read together with Section 113 (B) and 102 of the Penal Code. Summons were issued and the matter is pending before Court.

**Other Litigation**

**Asia Securities (Pvt) Ltd v Asia Capital Stockbrokers (Pvt) Ltd and Others (HC (Civil) 12/2023/IP)**

This case filed by the Plaintiff against the 1st Defendant, named SEC as a party but no relief was prayed for against the SEC. The matter was concluded after settlement was reached between the Plaintiff and the 1st defendant.

**Talib Tawfiq Al Nakib vs. Colombo Stock Exchange and SEC (WP/HCCA/LA/COL/158/17 (LA), DC Case No: DSP/20/2016)**

The above action was initiated against the SEC and CSE in the District Court of Colombo upon the plaintiff's need to investigate the share issue done in

## Strategic Goal 2

# Protect Investor Interest

violation of the imperative provisions of the Companies Act No. 17 of 1982 by Heath and Company (Ceylon) Limited in view of its impact to Hunter and Company Limited in which the plaintiff (now deceased) was a 14% shareholder. By order dated 26th October 2017, the District Court dismissed the case on the basis that it has no jurisdiction to hear the matter and the Plaintiff has filed a leave to appeal application from that Order to the Civil Appellate High Court of the Western Province. The case is pending before the said Court.

### Capital Trust Holdings and Tushan Harsha Mendis Wickramasinghe vs. SEC and AG (CA (W) 465/2022)

This is a writ application filed by the Petitioners against the SEC seeking inter alia the issue of writs of certiorari quashing the decision of the SEC that Mr. Wickramasinghe has violated Rule 12 of the SEC and to institute criminal proceedings against him.

During the year Court of Appeal delivered judgment quashing the decision taken by the SEC to institute criminal proceedings against the 2nd Petitioner and its Notice of Action.

At the end of the year the SEC took steps to appeal against the said judgement to the Supreme Court.

### Riyaz Mohammad Sangani vs SEC and Others (CA (W) 301/2023)

The Petitioner filed an application challenging the quantum of the amount imposed by the Commission to compound the four offences of insider dealing committed by the Petitioner and sought Writs of Mandamus from the Court of Appeal inter alia directing and/or compelling the SEC:

- to compound the four actions of the Petitioner at a sum proportionate and reasonable to any gain made by the Petitioner; and

- not to publish any information by the SEC regarding the Petitioner, in respect of the decision made by the SEC to compound the matter against him.

The case is pending before the Court of Appeal.

### Riyaz Mohammad Sangani vs SEC and Others (CA (W) 797/2023)

The Petitioner filed the above application before the Court of Appeal, in connection with his Court of Appeal Writ Application No 301/2023, seeking inter alia Writs of Certiorari to quash the decision taken by the SEC to withdraw its previous decision to compound the four offences of insider dealing committed by the Petitioner and to quash the SEC's decision to proceed with filing action against the Petitioner. The Petitioner has further sought a Writ of Mandamus to compel the SEC to compound the four actions of the Petitioner at a sum proportionate and reasonable to any gain made by the Petitioner.

The matter is pending before the Court.

### Idris Shabbir vs SEC and Others (CA (W) 444/2023)

The Petitioner filed the above Writ Application seeking inter alia Writs of Certiorari to quash the Notice of Action issued to him in the capacity of a director of a PLC in respect of the conduct of the company in violation of Rule 30(1) of the Company TOM Code 1995 (as amended) and sought to quash the Show Cause Notice issued to him in terms of Section 51 (3) of the then SEC Act No. 36 of 1997 (as amended).

Considering the decision taken by the SEC not to proceed against the PLC in respect of the aforesaid contraventions due to new developments in the matter, the petitioner withdrew the Writ Application filed by him.

### Urban Development Authority (UDA) vs On'ally Holdings PLC and Five Others (HC (Civil)/11/2021/CO)

The UDA, a shareholder holding shares not less than 5% of the voting rights of On'ally Holdings PLC, filed an application against On'ally Holdings PLC under Section 225 of the Companies Act read with Sections 226, 520 and 521 of the said Act alleging that the affairs of On'ally Holdings PLC are being conducted in a manner prejudicial to the interests of the Company by way of a material change in control of the Company which has taken place through the ownership of the shares by Lanka Reality Investments PLC, which took over On'ally Holdings PLC by way of a mandatory offer. The UDA has cited On'ally Holdings PLC, Lanka Reality Investments PLC, Renuka Capital PLC, PW Corporate Secretarial (Private) Limited, CSE as the first to fifth Respondents respectively and the SEC has been cited as the sixth Respondent.

The matter is pending as of 31st December 2023.

### Sena Yaddehige v SEC (CA/ Writ/417/2017)

### Sena Yaddehige v SEC (SC/SPL/LA 100/19) (Both connected to SEC vs Sena Yaddehige and S. Thinamany, MC/Fort/12639/19)

In response to the action filed by the SEC before the Magistrates Court, Colombo Fort against Dr. Sena Yaddehige and Mr. Subramaniam Thinamany for insider dealing and aiding and abetting thereto, the first accused filed a writ application against the SEC before the Court of Appeal seeking inter alia to stay the proceedings before the Magistrates Court. The Court of Appeal delivering order refused to stay the proceedings before the Magistrates Court and sought written submissions to be filed on the issue of notice.

Thereafter, the accused appealed to the Supreme Court by way of Special Leave to Appeal challenging the order made by the Court of Appeal in relation to the writ application. The Supreme Court allowed the Application of the petitioner and fixed the matter for inquiry which is pending.

### Shaw Wallace Investments PLC and Shamindra Rajiyah vs the SEC, Chinthaka Mendis and Four Others – CA Writ 460/2023.

The petitioners have filed an application for the grant of inter alia a Writ of Certiorari against the Notices of Action Issued by the 1st respondent to the petitioners and a Writ of Prohibition restraining the 1st respondent and/or 2nd respondent and/or 3rd respondent from instituting criminal or other legal proceedings against the petitioners. The matter is pending before Court.

### CASE NO: SC (SPL) LA Application No.177/2020

The petitioner Company Panchalingam Associates (Pvt) Ltd filed an application for writs of certiorari against certain directions issued by the CBSL with regard to shares that were held by the Company in HNB PLC seeking to set aside the said directions of the CBSL. The Monetary Board, the Governor of the CBSL, two Directors of the Department of Bank Supervision and four others including the SEC were cited as Respondents. Upon the Court of Appeal refusing to grant a writ, the Petitioner Company has since filed a special leave to appeal application to the Supreme Court. No relief has been sought from the SEC. This matter is pending before the Supreme Court.

### M.A.C.E. Manthirratne vs SEC and 14 Others CA (Writ) 148/2021

The Petitioner sought Writs of Certiorari and Mandamus before the Court of Appeal seeking to quash a decision made by the SEC to grant a promotion to an employee and seeking a direction on the SEC to promote the Petitioner instead; or in the alternative to promote the Petitioner to the post of Manager by placing the Petitioner above the employee who has been already appointed to the post of Manager. The case was withdrawn by the Petitioner on account her leaving the employment of the SEC during the year.

## Based on investigation, surveillance, supervision findings etc., enforcement actions are taken by the SEC on the direction and determination of the Members of the Commission.

### Eng. G. Kapila Renuka Perera vs the Hon. Attorney General and 32 other SCFR 182/2021

The Petitioner has filed a fundamental rights application in the Supreme Court against Selendiva Investments Limited and 32 others including the SEC (cited as the 7th respondent) seeking inter alia a declaration of an imminent violation of one or more of the fundamental rights of the petitioner (including all other citizens of Sri Lanka) guaranteed under the Constitution. The petitioner has also sought a declaration that the Cabinet Decision dated 06th March 2020 which established Selendiva Investments Limited (which is a new state owned property Development Company having the primary objective of transforming the state owned hospitality portfolios to optimum performance level through appropriate restructuring) as being null and void. The Treasury owns 100% of the company. An interim order has been sought on the SEC to restrain the SEC from permitting the listing of Selendiva Investments Limited on the CSE. The matter is pending before the Supreme Court.

In October 2023, the Counsel for the Petitioner informed Court that the Cabinet of Ministers had decided that Selendiva Investments Limited would be wound up and had received further instructions to commence the winding up process. Therefore, Counsel for the Petitioner informed Court that this matter would be withdrawn. Accordingly, as the Respondents to this matter had no objections for the withdrawal, the Court allowed the withdrawal of the Petition.

## COMPLAINTS REDRESS SYSTEM

The status of complaints relating to listed entities that have been received and redressed is provided below. (Figure: 18)

Figure 18: 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 PLCs                        | 3                             | 03 matters concluded appropriately   |
| Conduct of PLCs  | 11                            | 09 matters were concluded appropriately / 02 matters are currently pending |
| Non-Compliance with SEC Rules / CSE Listing Rules            | 6                             | 05 Matters were concluded appropriately / 01 matter is currently pending   |
| Other Administrative matters                                 | 5                             | 05 matters concluded appropriately   |
| Non-Compliance with applicable Financial Reporting Framework | 4                             | 04 matters concluded appropriately   |
| <b>Total</b>   | <b>29</b>                     |  |



## Strategic Goal 2

# Protect Investor Interest

### FUNDS OF THE COMMISSION

#### CESS Fund

The Cess Fund of the SEC was established under the Section 14B (1) 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 which was repealed and replaced by Section No 156 (1) of the SEC Act No. 19 of 2021.

In terms of Sections 155 (1) & (2) and 156 (1), (2) & (3) of the SEC Act, No. 19 of 2021, the procedure for operation and the objectives of the Cess Fund are as follows.

155 (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.

156 (1) There shall be established a fund called the Cess Fund to which shall be credited the proceeds of the Cess imposed under Section 155.

(2) The monies lying to the credit of the Cess Fund shall only be utilised for the purpose of -

- (a) developing the securities market;
- (b) enhancing monies lying to the credit of the Compensation Fund or the Fund of the Commission established under this Part;
- (c) meeting all expenditure incurred by the Commission in the management, administration, and operation of the Commission in the exercise, performance and discharge of its duties and functions.

(d) granting loans for housing, educational, health and transport purposes to the staff of the Commission as the Commission deems appropriate;

(e) to make contributions to pension and provident funds and other schemes established for the benefit of the Director General and its officers and servants and their dependents and nominees; and

(f) to defray the costs of study, in Sri Lanka or abroad of the officers and servants of the Commission who are of proven merit as determined by the Commission.

(3) Any excess money lying to the credit of the Cess Fund may be invested by the Commission in such manner as may be determined by the Commission for the purpose of developing the Cess Fund.

#### 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 earlier 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.

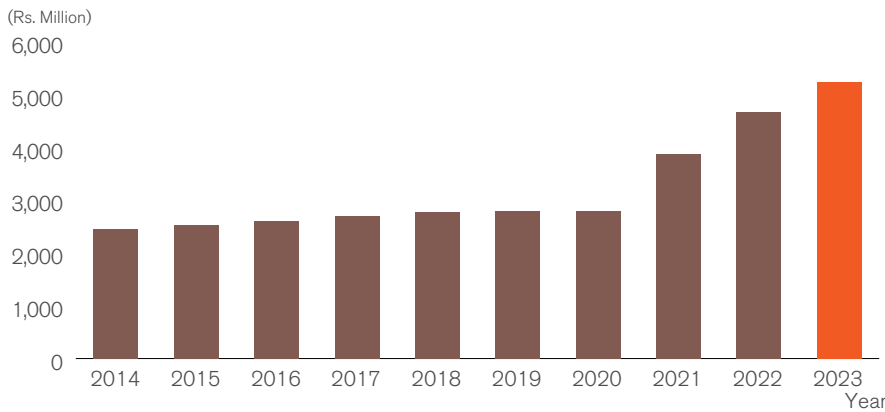
In the event the total number of shares purchased does not equal the total number of shares sold, the transaction fees as detailed above will not be levied on the lower quantity of shares either purchased or sold. In the event the total quantity purchased is equal to the total quantity sold the transaction 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. 5,237.8 million as at the end of 2023, of which Rs. 2,962.3 million is invested in Treasury Bonds expected to realise within twelve months, Rs. 48.0 million is invested in Treasury Bonds expected to realise after twelve months, Rs. 2,181.9 million is invested in Treasury Bills and Rs.51.9 million is invested in Repo. Given below is a representation of the fund's activity from 2014 to 2023. (Figure : 19)

**Figure 19: CESS Fund**

Finance and Administration Team

### Compensation Fund

The Compensation Fund came into operation along with the establishment of the SEC in 1987. Under Section 158 of the SEC Act No. 19 of 2021, it is a statutory responsibility of the SEC to establish and maintain a Compensation Fund. In terms of Sections 158 and 159 of the SEC Act, the objective and guidelines for maintaining the Compensation Fund are as follows.

158 (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 stockbroker 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.
- (b) Such sums of money as may be credited to the fund under the provisions of this Act; and
- (c) Such sums of money as may be credited from the Cess Fund as approved by the Commission.

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

Section 159 of the SEC Act requires the Commission 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 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

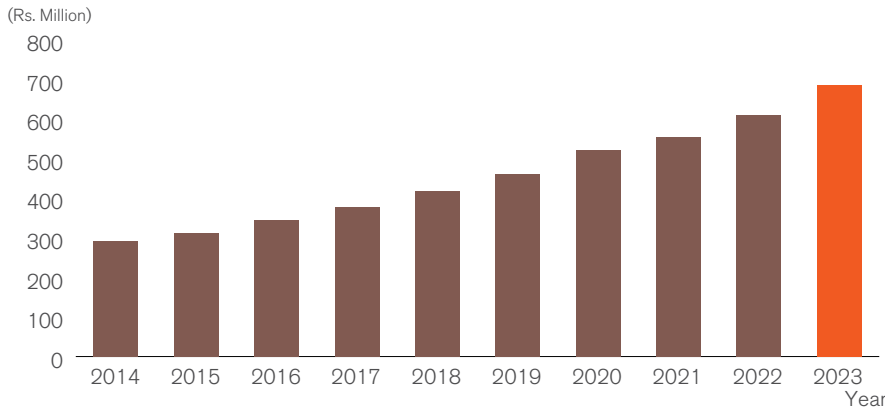
To strengthen the Compensation Fund a sum of Rs. 50 million was transferred from the Cess Fund during the year 2009.

The balance lying to the credit of the Compensation Fund reached Rs.687.5 million as at the end of 2023, of which Rs. 369.4 million is invested in Treasury Bonds expected to realise within twelve months, Rs. 316.3 million is invested in Treasury Bills and Rs. 1.2 million is invested in Repo. Given below is a representation of the fund's activity from 2014 to 2023. (Figure: 20)

## Strategic Goal 2

# Protect Investor Interest

Figure 20: Compensation Fund



“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 CDS of the CSE.”

### 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 CDS of the 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.

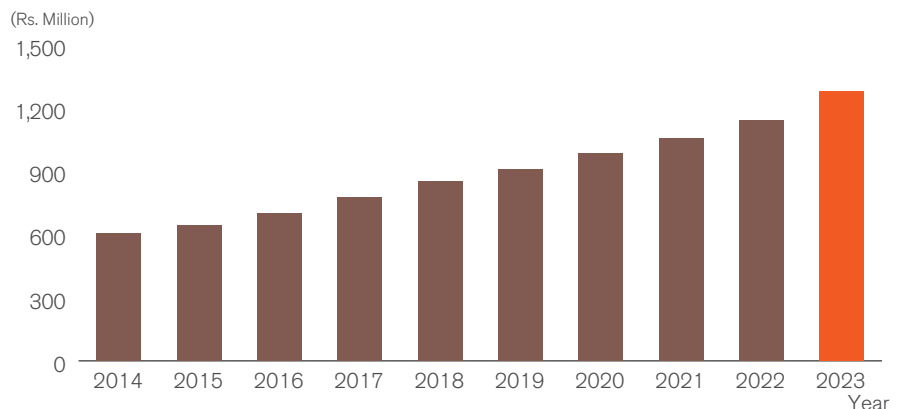
However, since the SGF is found to be inadequate to properly address the issue of settlement risk, steps are being taken to establish a Central Counterparty Mechanism to effectively address the settlement risk. From the inception of the Fund no claims have been recorded from the SGF.

### 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.1,279.2 million as at the end of 2023, of which Rs.90.6 million is invested in Treasury Bonds expected to realise within twelve months, Rs.1,146.6 million is invested in Treasury Bills and Rs. 3.2 million is invested in Repo. Given below is a representation of the fund's activity from 2014 to 2023. (Figure: 21)

Figure 21: Settlement Guarantee Fund





### Strategic Goal 3

# Capital Market Development

The SEC plays a pivotal role in developing and expanding the securities market by introducing new products, services, and market infrastructure. This includes initiatives to enhance market liquidity, introduce innovative financial instruments, and attract new investors.

An effective and efficient capital market mechanism provides a fair playing field with opportunities for both investors and issuers where resources are channeled towards the growth of the economy.

Throughout the period under review, upon conducting due feasibility studies and assessments, the SEC engaged in implementing a number of new regulatory and developmental initiatives to the capital market landscape.

#### INTRODUCTION OF NEW PRODUCTS TO THE MARKET

In the effort to facilitate the introduction of a diverse array of new capital market products into the market, a SEC-CSE joint Committee was established to spearhead this transformative endeavour and is led under the guidance of Mr. Manil Jayasinghe, a distinguished Member of the Commission.

This collaborative committee serves as a driving force, seamlessly integrating the collective expertise of both the SEC and the CSE, embodying a strategic approach to ushering in a new era of market innovation. The Committee has successfully initiated a multitude of products, marking significant progress in its endeavours. Under the guidance of the Committee, initiatives that have been completed include enabling Regulated Short Selling through Securities Borrowing and Lending, introducing sustainable bonds (Green and Blue), Shariah Compliant Debt Securities, Infrastructure Bonds, Foreign Currency Denominated Equity Securities issued by entities incorporated in Sri Lanka, and listing equity/debt securities by SOEs.

Currently, the Committee is actively overseeing the implementation of various key initiatives including the listing and trading of foreign currency denominated debt securities issued by entities incorporated in Sri Lanka, trading of high-yield corporate debt securities on the Over the Counter platform and implementation of XBRL-based Reporting Platform for listed companies at the CSE.

#### IMPLEMENTATION OF A CENTRAL COUNTERPARTY (CCP) MECHANISM AT THE CSE

Following the successful implementation of a DvP mechanism by the CSE in August 2021, the SEC moved forward to the next phase, which was to implement a fully-fledged CCP mechanism to effectively manage the post-trade risk in the market.

Under the collaborative guidance of the joint Committee, and with the technical assistance from the designated consultant engaged through the Financial Sector Modernisation Project (FSMP) of the World Bank, the policy framework for the implementation of a CCP system was finalised and approved by the Commission. The CSE embarked on a journey to enhance its system infrastructure to facilitate the CCP. Presently, the CSE is working towards the completion of necessary system modifications and refining and finalising the requisite rules for the clearing house. The projected timeline envisions going live with the CCP system by the second quarter of 2024.



Capital Market Development Team



## Strategic Goal 3

# Capital Market Development

### INTRODUCTION OF REGULATED SHORT SELLING THROUGH SECURITIES BORROWING AND LENDING

The introduction of Regulated Short Selling through Securities Borrowing and Lending, was launched on November 6, 2023, and is seen as a strategic enabler for economic growth in Sri Lanka. Moreover, this initiative is designed to enhance liquidity, promote market efficiency and elevate the market microstructure of the CSE, aligning with international standards and best practices.

Enabled by the new SEC Act No. 19 of 2021, the SEC, in collaboration with the CSE and with technical assistance from the World Bank, developed the policy framework for enabling Regulated Short Selling through a Securities Borrowing and Lending mechanism.

Concurrently with the launch, the SEC published newspaper articles on the initiative to build awareness and the CSE is conducting workshops and awareness-building sessions to familiarise stakeholders on Regulated Short Selling and Securities Borrowing and Lending, to foster a comprehensive understanding of the initiative.

### INTRODUCTION OF SHARIAH COMPLIANT DEBT SECURITIES

As a component under the Capital Market Development Program (CMDP) of the Asian Development Bank (ADB), the SEC received technical assistance to develop a regulatory framework for Islamic Capital Market products with an identified demand in the capital market. Upon conducting a market assessment, the ADB consultants identified Sukuk which is the Islamic equivalent to conventional debt securities as a product for which there was a large appetite from both investors and issuers. Accordingly, it was recommended to introduce Sukuk products to the capital market by making amendments to the existing Listing Rules of the CSE applicable to debt securities.

**“With the growth in popularity of Sustainable financing initiatives that integrate Environmental, Social and Governance (ESG) criteria into business activities or investment decisions, the demand for sustainable capital market products have also taken a parallel climb.”**

Sukuk is the most popular product in the Islamic capital market. A Sukuk is linked to an underlying asset (normally tangible) and from the perspective of the investors, holding a Sukuk represents a partial ownership in the relevant asset. As per Islamic Finance Principles, the structure of a Sukuk product including the underlying assets, the relationship between the parties and the flow of funds must be compliant with Rules and Principles of Shariah and hence be certified as Shariah compliant for investment by scholars qualified in Islamic jurisprudence.

After a stakeholder consultation process, the ADB consultants together with the SEC and in collaboration with the CSE developed the regulatory framework for introducing Sukuk products which was approved by the Members of the Commission facilitating the launch of the product.

Additionally, giving due recognition to the professional service provided by Shariah Scholars in certifying the Sukuk products as Shariah compliant for investment, the SEC recognised Shariah Scholars as “Supplementary service providers” under the SEC Act No 19 of 2021. Accordingly, Guidelines for Shariah Scholars was published by the SEC.

The published Guidelines include constituents such as duties of a Shariah Scholar, qualifications and experience, requirements to submit reports and maintain records, requirements for Governance and conflict of interest and fit and proper criteria.

### INTRODUCTION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RELATED INITIATIVES

With the growth in popularity of Sustainable financing initiatives that integrate Environmental, Social and Governance (ESG) criteria into business activities or investment decisions, the demand for sustainable capital market products have also taken a parallel climb.

### SUPPLY SIDE INITIATIVES

Considering the context, many capital markets have established the necessary policy and regulatory frameworks to introduce green initiatives. Consequently, the SEC, with technical assistance from the ADB, has implemented the regulatory framework for the listing and trading of Green Bonds on the CSE. Following this, the regulatory framework for Green Bonds underwent amendments to facilitate the introduction of Blue Bonds. With a forward-looking plan to include other eligible types of bonds within this category, Green and Blue Bonds are presently encompassed under the umbrella term “Sustainable Bonds”.

Moreover, to establish a benchmark for companies demonstrating exemplary ESG practices, a decision was made to introduce an ESG index at the CSE. Subsequently, after following due process for selection, the CSE entered into agreements with a reputable third-party ESG rating company, and work commenced on formulating the index methodology. Currently, the CSE has released the internally developed ESG Index methodology for public feedback before the formal launch of the Index.

**“With the aim of exploring the possibility of automating the submission of financial statements by listed companies through a widely recognised XML-based computer software language, XBRL, the SEC established a joint committee with the CSE and the Institute of Chartered Accountants of Sri Lanka.”**

### **DEMAND SIDE INITIATIVES**

As per awareness building activities guided through the SEC/CSE new product committee, the CSE is engaged in ongoing promotional activities with potential issuers. The SEC has also published newspaper articles on Green Bonds as part of its investor awareness building activities.

### **IMPLEMENTATION OF EXTENSIBLE BUSINESS REPORTING LANGUAGE (XBRL) BASED REPORTING FOR LISTED COMPANIES**

With the aim of exploring the possibility of automating the submission of financial statements by listed companies through a widely recognised XML-based computer software language, XBRL, the SEC established a joint committee with the CSE and the Institute of Chartered Accountants of Sri Lanka. This would not only make the preparation, sharing and analysis of financial reports, statements and audit schedules coherent and standardised but also enhance the accuracy and the quality of the analysis conducted.

To achieve this objective, several meetings were conducted with regulators from other jurisdictions where XBRL reporting was implemented, aiming to understand how these jurisdictions have deployed the reporting platforms. The CSE conducted a survey among the 20-30 largest companies on the exchange and gathered their feedback on the initiative. After receiving the in-principle approval from the Commission, the joint committee has formulated a detailed roadmap for the initiative, including milestone targets for sourcing the necessary platform operator and successfully implementing the platform for listed companies.

### **INTRODUCTION OF INFRASTRUCTURE BONDS**

With an objective of widening the capital raising avenues available for infrastructure projects, a study was done on the infrastructure related new products which could be introduced to the capital market. Accordingly, under the guidance of the joint SEC-CSE new products committee, it was decided to facilitate the introduction of infrastructure bonds to the market and the regulatory framework for the same was finalised by the CSE and approved by the Commission.

Some of the benefits of enabling infrastructure bonds are that it would reduce the financial burden for the government on infrastructure investments and provides a new investment asset class for investors and alternative mode for financing infrastructure projects.

### **FACILITATE THE INTRODUCTION OF A DERIVATIVES EXCHANGE IN SRI LANKA**

The SEC began the process of developing a policy and regulatory framework for the introduction of a carbon credit exchange. This initiative is seen as a potential first step towards the development of an exchange-traded derivatives market in the country. By enabling carbon credits as a derivative,

the aim is to create more sustainable business opportunities for businesses and organisations while deepening the breath of the Sri Lankan capital market. Additionally, it is expected to open up avenues for prospective local and foreign investors to enter the market, thereby bringing much needed foreign inflows to the country. Further, it will enable a price discovery mechanism for carbon credit units and enable the companies to offer their carbon credit units for trading. Moreover, this initiative is envisaged to support the country's efforts to maximise access to carbon financing, thereby supporting investment efforts and conservation across various industries.

Towards this extent, a cross-jurisdictional analysis was conducted to cover key policy considerations in the context of introducing a carbon credit exchange in Sri Lanka. This analysis was conducted to provide a strategic direction towards facilitating this initiative and to ensure that the regulatory framework is in line with international best practices. The analysis considered various aspects, including the regulatory and policy environment, market dynamics, and potential risks and challenges associated with the introduction of a carbon credit exchange. Upon conducting further review and analysis on facilitating carbon credit trading, it was observed by the Secretariat that the new SEC Act and its Rules and Regulations provided for the licensing of a Derivatives Exchange whatever the nature of the underlying asset class and also for the licensing of the associated Depository and Clearing House. Thereupon, it was decided by the Secretariat to establish a multi-asset class derivatives exchange where carbon credits also can also be an underlying asset class. Accordingly, a concept paper and a roadmap for establishment of a derivatives exchange was developed and approved by the Commission. As per the approved roadmap, the SEC has published an Expressions of Interest (EOI) calling for responses from eligible entities for the Establishment and Operation of a

## Strategic Goal 3

# Capital Market Development

Multi-Asset class Derivatives Exchange. This initiative is spearheaded by a Commission appointed Sub-Committee.

Overall, this development initiative will not only contribute towards stimulating growth of the capital market but also the economic recovery and sustainable development of the nation.

### DEVELOPMENT OF LIST OF APPROVED AUDITORS TO CONDUCT STATUTORY AUDITS OF PLCs

The SEC has developed a list of approved auditors who are eligible to conduct statutory audits of PLCs to cater to the expectations under the SEC Act No 19 of 2021, when performing roles, duties, and responsibilities as auditors of PLCs. Considering the inputs obtained from SLAASMB and similar approaches followed by the other regulators, the assessment criteria have been developed to evaluate the auditors. A few meetings were held with auditors to discuss about the initiative and the way forward while explaining the purpose of enhancing the level of quality of statutory audits of public listed companies. The initiative would be effective for the financial years beginning on or after 01st January 2024, excluding the companies listed on the Empower Board.

### REGULATORY FRAMEWORK TO LIST SOEs

A regulatory framework was developed to facilitate the listing of shares issued by SOEs on the CSE. The same would create an avenue for SOEs to fulfil the substantial capital requirements via the capital market with a more flexible framework while enabling them to grow without solely relying on government budgets and paving the way for more sustainable economic development. The rules relating to the same were also reviewed and approved by the

Commission during the period under review. To facilitate the same a separate Board was created at the CSE named "Catalyst Board".

### LISTING OF FOREIGN CURRENCY DENOMINATED DEBT SECURITIES

Existing Listing Rules were amended to facilitate the listing of Foreign Currency Denominated Debt Securities on the CSE via the Multi Currency Board. The amended Rules were reviewed and approved by the Commission during the period under review.

### REVISION OF CORPORATE GOVERNANCE RULES FOR THE LISTED ENTITIES

New Listing Rules on Corporate Governance were introduced to improve the level of Corporate Governance among listed companies in the market and are intended to give clear direction on good Board and management practices that will help build investor and stakeholder confidence. These amendments were based on the stakeholder and public responses and are in line with global best practices. The salient features include, inter alia, 'Fit and Proper' assessment criteria for directors and CEOs, a policy on whistleblowing, and a policy on environmental, social, and governance sustainability.

### INTRODUCTION OF RULES TO LIST PERPETUAL DEBT SECURITIES

New Listing Rules were introduced to facilitate the listing of Perpetual Debt Securities issued by Commercial Banks or Specialised Banks licensed by the CBSL, which do not have a maturity date. The amended rules were reviewed and approved by the Commission during the period under review. The issue of Perpetual Debt Securities is limited to 'Qualified Investors'.

### OTHER INITIATIVES

- Upon obtaining the approval of the Commission for the revised transaction fees for repurchase agreements of corporate debt transactions, representations were made to the Ministry of Finance to issue necessary regulations on the same. Accordingly, the regulations were issued by the Ministry of Finance.
- The Commission approval was obtained to reduce the transaction fees applicable for corporate debt transaction to 1 bps of the transaction value as proposed by the CSE and representations were made to the Ministry of Finance to issue necessary regulations on the same.



## Strategic Goal 4

# Promote Informed Investment Decision Making and Interest in the Capital Market

Fostering investor confidence and enhancing awareness within the capital market is crucial for empowering investors to make well-informed financial and investment decisions. The SEC remains committed to prioritising investor empowerment through strategic initiatives.

During the year, the SEC carefully designed, developed, and implemented a spectrum of investor awareness programs tailored to cater to various segments of society. These initiatives not only aimed to educate investors about market complexities but also serve as a proactive measure to equip them with the knowledge necessary to safeguard their financial interests.

### OUTREACH EVENTS – SEMINARS AND WORKSHOPS

Financial markets are becoming increasingly complex, with new investment opportunities and products. As investors are the lifeline of the capital market, protecting their best interest is a priority of the SEC. Maintaining a market where individuals have the information needed to make informed financial decisions is important for building investor confidence in the capital market.

During the year outreach programs were strategically designed by the SEC to enhance investor education, aiming to reach a broader audience across all ages and all walks of life. Regardless of economic uncertainty and challenges, we ensured seamless learning experiences by both digital and in person sessions for teachers, investors, students, undergraduates, and the public.

### TEACHER TRAINING WORKSHOPS

Teachers lay the groundwork for students' academic development by imparting knowledge across various subjects. Educating teachers about the capital market is vital, as they can impart knowledge about financial markets, investment principles, and risk management to students.

As a result, students gain valuable knowledge and insights into the capital market, enabling them to make informed decisions and navigate the ever-evolving capital market confidently. Thus, investing in teacher training not only enhances the teacher's own financial literacy but also contributes to fostering a financially savvy generation. The SEC together with National Institute of Education and the Ministry of Education conducted 08 programs for teachers in all three languages across the country.

### SCHOOL SEMINARS

Conducting school seminars for students plays an important role in fostering financial literacy and awareness of the capital market. By introducing concepts such as savings, investments and understanding risks, lay the foundation for responsible financial decision making from a young age. During the year, we conducted the following awareness programs for school children.



External Relations and Capital Market Education Team



## Strategic Goal 4

# Promote Informed Investment Decision Making and Interest in the Capital Market

- Ananda Sastralaya National School, Mathugama
- Puttalam Education Zone, Puttalam
- Chilaw Education Zone, Chilaw
- Gampola Education Zone, Gampola
- Balangoda Education Zone, Balangoda
- Kegalle Education Zone
- Kadawatha Central College
- Horawala Maha Vidyalaya
- Dodangoda Maha Vidyalaya, Dodangoda
- Panadura Balika Maha Vidyalaya, Panadura
- Prince of Wales College, Moratuwa

### 100 SCHOOL CLUBS INITIATIVE

The SEC, CSE, the Ministry of Education and the Presidential Secretariat embarked on an initiative to promote financial literacy across the education system by establishing Capital Market Clubs in schools. To implement and execute this initiative smoothly a Memorandum of Understanding was signed between the Ministry of Education, SEC, and CSE.

The inauguration ceremony to establish 100 Capital Market Clubs was launched on 31 August 2023 at Nugawela Central College under the patronage of Hon. President, Ranil Wickremesinghe. The initial 100 schools were selected based on the Z score in the commerce stream. The charter certificates for the 100 Capital Market Clubs were presented provincially to these schools.

### PROGRAMS FOR UNDERGRADUATES

We engaged the National Universities in Sri Lanka with our plan to conduct awareness programs tailored for undergraduates to enhance their financial literacy and inspire active participation in the securities market.

This proactive approach is not only geared towards deepening understanding of financial principles but also towards nurturing a talent pool for the capital market industry. Throughout the year, we have organised the following awareness programs at universities.

- University of Sri Jayawardenepura
- University of Colombo
- University of Jaffna
- University of Sabaragamuwa
- Wayamba University

### VARSITY BATTLES – INTER UNIVERSITY QUIZ COMPETITION

The SEC joined hands with the CSE to organise Varsity Battles - Inter -University Quiz Competition 2023 which aimed to enhance financial literacy among undergraduates.

This competition tested the knowledge of students of both local and international capital markets, encouraging investment in the stock market and fostering career opportunities in the capital market industry at the same time.

The competition involved 13 state universities, comprising two stages: the inter-faculty competition within the universities and a national-level competition where the top three teams from each university competed.

Through this collaborative initiative, the SEC and CSE endeavoured to promote positive advancements in financial literacy and investment culture among Sri Lankan undergraduates.

### IOSCO'S WORLD INVESTOR WEEK CAMPAIGN

Aligned with World Investor Week, we planned an array of activities designed to disseminate key messages through social media platforms, providing valuable learning opportunities tailored

**“The SEC, CSE, the Ministry of Education and the Presidential Secretariat embarked on an initiative to promote financial literacy across the education system by establishing Capital Market Clubs in schools.”**

to investors' evolving interest. Our social media campaign featured several themes such as investor resilience, sustainable finance, and investor protection.

To expand our social media presence in the digital landscape, SEC launched its Instagram account to coincide with the World Investor Week. Additionally, a bell ringing ceremony was held together with the CSE to promote the significance of the World Investor Week.

Additionally, the Varsity Battle Inter-university quiz competition was organised at the University of Kelaniya to coincide with World Investor Week, this event aimed to raise awareness and empower individuals with financial knowledge while promoting responsible investment practices. This initiative not only fostered a spirit of healthy competition among students but also contributed to the broader goal of enhancing financial literacy and investor education within the university community.

### SEC/CSE INVESTOR FORUMS

In an effort to provide awareness and foster a better understanding of the capital market, the SEC and the CSE organised a series of investor forums with the theme “Nanawath Ayojanayakata Savimath Athwalak.”

This initiative aimed to encourage more proactive and informed participation from retail investors. Throughout the year, several in-person regional investor forums were held in many locations, including Panadura, Trincomalee, Ampara, Batticaloa, Negombo, Anuradhapura, and Badulla.

### **“වර්තමාන කොටස් වෙළඳපොළ තුළ ඔබ කෙසේ හැසිරිය යුතු ද?” PROGRAM FOR INVESTORS**

Hosting “වර්තමාන කොටස් වෙළඳපොළ තුළ ඔබ කෙසේ හැසිරිය යුතු ද?” investor forum, featured an industry expert that discussed how to navigate the current stock market based on the impacts of the Sri Lankan economy.

This forum provided an invaluable opportunity for participants to gain insights directly from a seasoned professional in the industry, fostered a deeper understanding of investment dynamics and market complexities. By conducting discussions in Sinhala, we ensured accessibility to a broader audience.

### **SEC AND CFA SOCIETY SRI LANKA WORKSHOP FOR RESEARCH ANALYSTS**

In partnership with the CFA Society Sri Lanka, we conducted a program titled “Enhancing Research Integrity: Navigating Objectivity Standards for Research Analyst in Stockbroker Firms”. The program highlighted the value of upholding objectivity standards, strengthened research integrity in the stockbroker industry, and improved research practice quality across all industries.

### **MEDIA GATHERING**

The SEC organised a media gathering, uniting industry trailblazers and media personalities under one roof to share updates on the SEC’s strategic roadmap. This event facilitated an open dialogue and exchange of insights, providing a comprehensive overview of the SEC’s

future direction. By bringing together key stakeholders and media representatives, the gathering fostered transparency and collaboration, reinforcing the SEC’s commitment to advancing investor interests and ensuring market stability.

### **ENHANCING FINANCIAL LITERACY VIA SOCIAL MEDIA**

Today, our world is home to the largest generation of young people in history and the age of rapid digital evolution, propelled by extensive advances in digital infrastructure, widespread internet connectivity and increased usage of smartphones. This year, we have prioritised investor education efforts through social media platforms such as Twitter and Facebook.

Our efforts aim to boost financial literacy through targeted social media campaigns, leveraging on key events such as Women’s Day and World Investor Week. Through curated events and social content, we focus on disseminating content regularly to raise awareness about investment scams, educate the public on the provisions in the new SEC Act and how to invest in the stock market, and investor protection initiatives taken forward by SEC.

The SEC YouTube channel shares educational videos, reinforcing our commitment to provide valuable resources for investors.



## Strategic Goal 5

# Enhance Institutional Excellence

### HUMAN RESOURCE (HR) PERSPECTIVE

The primary responsibility of the HR function is to manage, assist, and handle all employee-related matters, including functions such as policy administration, the recruitment process, benefits administration, ensuring compliance with employment and labour laws, new employee orientation, training and development, personnel records retention, wage and salary administration, and employee assistance programs that aid in the development and growth of the organisation. The HR team works closely with all other departments to support and respond to their needs.

### STAFFING

The year was successful in terms of hiring employees for the organisation. The SEC was able to recruit much awaited senior positions, namely Director Legal and Enforcement, Director-Investigations and Enforcement (secondment from the Attorney General's Department) and a Chief Digital Officer for the IT Division. Further, 12 Assistant Managers, a Confidential Secretary and a Junior Officer to support the IT unit assumed duties. The SEC made arrangements to welcome and integrate the new employees by carrying out an induction program highlighting the objectives, policies, and values of the SEC. Also, the program was extended to educate the newcomers on the role of the stock broker and the role of the CSE by visiting the respective institutions. (Figures: 22, 23, 24, 25, 26)

Figure 22: Service Information

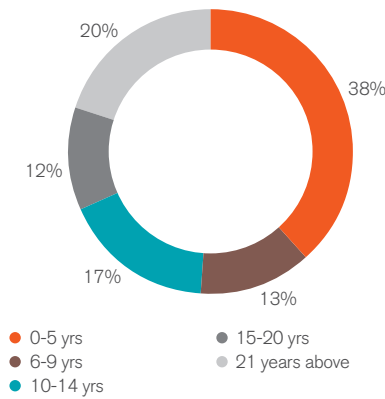


Figure 23: Qualification Framework

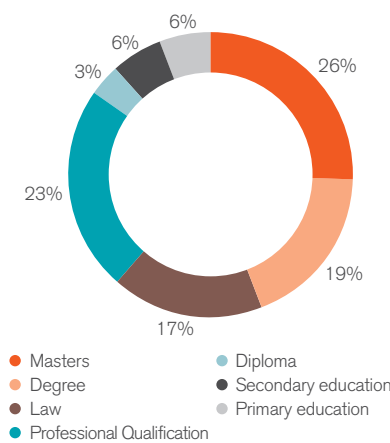


Figure 24: Gender Analysis

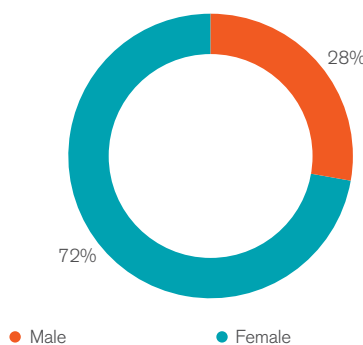


Figure 25: Age Analysis

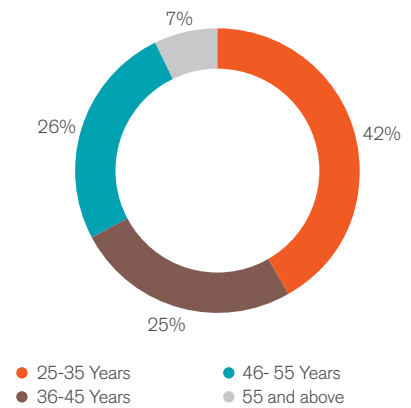
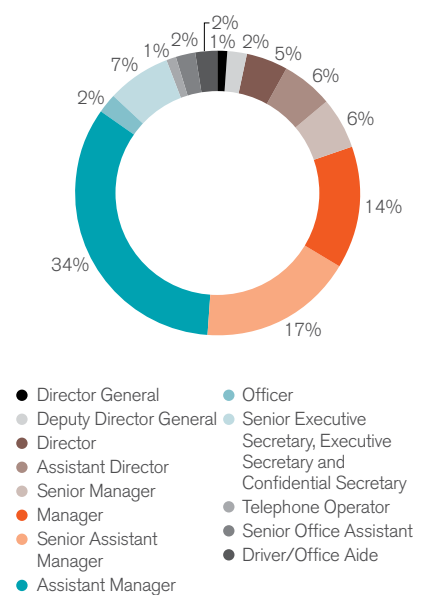


Figure 26: Existing Cadre



Young professionals bring updated knowledge and skills from their education, contributing to innovation and fresh perspectives. Therefore, this year the SEC took an initiative in recruiting management trainees with the aim of identifying and developing talented individuals from all around the country, ensuring a pipeline of future leaders. The process spanned two months due to the extensive pool of curricula vitae, requiring impartiality throughout the selection process.

The shortlisted candidates were called for a competitive examination held at Nalanda College. The principal and staff of Nalanda College provided commendable support, ensuring the process maintained the highest levels of confidentiality and credibility. In December, candidates who achieved marks above 60% were interviewed to assess whether their skills, job experience, and personality aligned with the job requirements of the SEC.



Human Resources and Organisational Transformation Team

## INTERNSHIPS

During the year we have awarded 9 internship opportunities to undergraduates of national universities with a view to provide knowledge and training on the job of the regulator of the capital market.

## RESIGNATIONS

Retaining talented young professionals became a serious challenge during the year. Most young professionals sought better opportunities to support their families by leaving the country due to economic uncertainties. Accordingly, ten staff members migrated. Also, eight staff members moved to other organisations within the country for higher remuneration and perks. Also, during the year, three senior office assistants who had served the SEC for more than 25 years retired from service. Accordingly, the attrition rate of the year depicted at 21% with the resignations of two Directors, three Senior Assistant Managers, twelve Assistant Managers, one Telephone Operator and three Senior Office Assistants.

## TRAINING AND DEVELOPMENT

A high-quality, comprehensive training and development program provides employees with a greater understanding of the organisation's processes, procedures, and goals. It also enables them with the knowledge and skills they need to be effective in their roles.

**“Training and development therefore is a constantly improving exercise of the SEC, which considers market trends, the evolving competencies and the individuals we have within our team.”**

Training and development therefore is a constantly improving exercise of the SEC, which considers market trends, the evolving competencies and the individuals we have within our team, matching and blending the right attitudes, qualitative mindset and high productivity to gain excellent performance. In today's dynamic and competitive job market, employees express a keen desire for continuous training to remain current in their roles and advance their careers.

In the year 2023, a sum of Rs. 40 million was budgeted towards foreign training and Rs.15 million was invested towards 15 overseas training and Conference participations without any tuition costs. While the SEC management had committed to offering overseas training exposure, particularly in IOSCO prescribed programs, exchange restrictions posed challenges. We anticipate a relaxation of these controls in 2024, which would facilitate the Commission's efforts to enhance staff skills and drive the reform agenda.

We extend our appreciation to the IOSCO as it always provides its members the opportunity to discuss the most pressing regulatory concerns arising out of securities and futures markets in the world through the IOSCO Annual Conference, Committee Meetings, other regulatory workshops etc. During the considering year, other regulatory agencies, Asia Pacific Economic



## Strategic Goal 5

# Enhance Institutional Excellence

Cooperation (APEC), the International Monetary Fund (IMF), Securities Commission Malaysia etc for extending very relevant training and awareness opportunities to the staff to keep abreast with current capital market trends and developments.

The Director General of the SEC was granted a full scholarship to follow the Global Certificate program for Regulators of Securities Market, which was hosted by the IOSCO and PIFS – Harvard Law School Cambridge, USA. This Global Certificate was offered to IOSCO members as an executive education program that is tailored to, and exclusively for, regulators of securities market. This program was part of IOSCO's ongoing capacity building efforts, and this was the first occasion that SEC received this scholarship to follow the program.

Following 2016, the SEC staff was afforded a significant opportunity to participate in the ASF Tokyo Round Table. Each participant was tasked with delineating their respective market and regulatory frameworks, presenting challenges faced, and discussing potential solutions. Moreover, all attendees were granted the chance to visit prominent institutions in Japan such as the Tokyo Stock Exchange, Financial Services Agency, and Securities Surveillance Commission.

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). The SEC officials represented the above meetings in USA and Malaysia respectively.

In 2023, the staff received numerous local training opportunities, in contrast to the costly overseas training totalling Rs. 2.4 million. Aligning with the workplace trend of upskilling and enhancing staff competencies, training was offered in various areas. This included investments

in Information Technology such as an Intermediate Course in MS Excel and a Certificate Course in Advanced Excel organised by the Centre for Banking Studies, along with participation in the Cyber Security Summit 2023 organised by Daily FT and CICRA Holdings.

In addition, operations of the treasury back-office program organised by the Centre for Banking Studies was useful to the staff. The staff engaged in programs organised by the Sri Lanka Institute of Directors focused on the Personal Data Protection Act of Sri Lanka (PDPA), as well as sessions on good governance, including the rights and obligations of an independent director, and the new CSE listing requirements. Additionally, those responsible for Corporate Governance Rules had the opportunity to attend a seminar hosted by Corporate Management Consultants, covering revisions to Corporate Governance Rules.

The SEC invested in local training programs organised by professional institutions of Sri Lanka to consistently update the technical skills and other skills of staff. Accordingly suitable staff participated for the programs such as the Sri Lanka Economic Summit 2023 and Arbitration Conference 2023 organised by the International Chamber of Commerce Sri Lanka, National Law Conference 2023 organised by the BAR Association of Sri Lanka, 44th National Conference of Chartered Accountants and the webinar series on Financial Reporting Standards organised by the Institute of Chartered Accountants of Sri Lanka etc.

In addition, few inhouse capacity-building programmes were organised for the staff. These programmes were aimed at developing and reinforcing technical and soft skills amongst the staff and enabling them to discharge their duties in a more efficient manner.

Demonstrating the commitment to staff education, the SEC training arm continuously provides opportunities to the staff to follow study courses focused at upgrading their capital market knowledge. CFA Society Sri Lanka provides scholarships to the staff to follow the courses on discounted rates further. In addition, the SEC provides sponsorships to the members of the staff to follow higher studies including postgraduate degrees subject to a two-year bond to serve the secretariat upon successful completion. Moreover, the cost incurred for sponsorship for higher studies and membership fees amounted to approximately Rs.3.5 million.



Management Trainees

## STAFF WELFARE

The SEC offers its staff a range of benefits such as outdoor medical schemes, flexible attendance, a distress loan scheme, festival advances, reimbursement of membership fees to one professional body, executive subsistence, health and life insurance covers, uniforms to support staff etc.

A memorable and successful sports day was organised in the evening followed by a get-together on 03rd November 2023 at the Water's Edge Hotel premises in Battaramulla. Every staff member participated in the event, displaying considerable enthusiasm. Sports activities play a crucial role in fostering discipline, focus, dedication, hard work, commitment, teamwork, and more in life. The evening get-together was equally enjoyable, with staff members embracing it with added enthusiasm, prioritising enjoyment over concerns about winning or losing.

The staff annual Christmas get-together is an eagerly awaited annual event, organised for the staff and their families to socialise. In the year under review, the annual staff get-together was split into two separate events. The evening gathering was dedicated solely to the children, featuring the renowned veteran musician Visharada Deepika Pryadarshini Peris along with a highly popular classical music orchestra, creating a memorable experience for the kids. Meanwhile, the adults' event was exclusively organised for the staff this time.

In the year 2021, with a view to raising creativity among children of SEC staff members, "Raise a Reader" initiative was introduced. The program is expected to help children to express themselves through their artistic talents. Engaging in creative activities empowers young children to explore their thoughts and emotions freely, fostering the development of new and original ideas. Recognising the significance of this, the

SEC endeavours to support its employees by providing opportunities for their children to experiment with innovative thinking and creative expressions as part of its welfare initiatives.

In alignment with the above objectives, three activities were introduced for the year 2023 under the theme "ART AND CRAFT—To know is nothing at all; TO IMAGINE IS EVERYTHING." These activities were divided into three distinct categories: Drawing, DIY (Do it by yourself), and Creative Writing. Drawing and DIY were aimed at children under 10 years old, while Creative Writing was open to children above 7 years old. Children were encouraged to express what they see and feel in the simplest and most effective manner through their creative writing. During these sessions, children were given the freedom to develop their own original stories. The SEC intends to compile the best creative writings into a booklet for publication. All participants received gifts as a means of encouraging the creativity of young minds.

## INFORMATION TECHNOLOGY

In 2023 the SEC made significant strides in its digital journey. The SEC's digital initiatives strive to improve efficiency, security, and stakeholder experiences, positioning the organisation for a more productive and forward-thinking future.

### 5-Year IT Strategy and Digital Transformation Roadmap:

- In 2022, the SEC launched a comprehensive 5-year IT strategy and a Digital Transformation Roadmap spanning from 2022 to 2027.
- The goal was to infuse digital technologies into SEC's business processes and strategies, enhancing engagement with both internal and external stakeholders.

### Strategic Digital Priorities:

The SEC focused on several strategic priorities to drive its digital transformation:

- Automation of Business Functions: Streamlining and automating various operational processes.
- Enhanced Services for External Partners: Improving interactions with external stakeholders.
- Better Services for Internal Customers: Enhancing services within the organisation.
- Adequate Computing Resources: Ensuring robust computing infrastructure.
- Information Security Enhancement: Strengthening data protection and security measures.

### Digital Achievements:

#### Office 365 Upgrade:

As part of the digital transformation, the SEC upgraded its Information Technology platforms to leverage the latest cloud services.

Specifically, the SEC migrated to Microsoft Azure for internal services and workflows.

#### Cloud Migration of E-mail Service:

The SEC successfully migrated its e-mail service to the Office 365 platform, utilising online Exchange services.

#### Document Management and Archiving Solution (DMAS):

All users within the SEC were onboarded to the DMAS solution, which is built on Microsoft SharePoint services.

#### Microsoft Teams:

The SEC adopted Microsoft Teams as an organisation-wide virtual meeting platform for collaborative work.

## Strategic Goal 5

# Enhance Institutional Excellence

### Transformation and Process Improvements:

#### Shift from Paper-Based to Electronic Processes:

The SEC transitioned away from traditional paper-based operations, embracing electronic document-oriented business processes.

#### Reduced Manual Work:

By implementing automatic interfaces between various IT applications, the SEC minimised manual effort.

#### Reliable Computing Resources:

The SEC ensured high-performance computing resources to support its operations.

#### Information Security Focus:

The SEC prioritised high availability and robust security for all its information and data.



Information Technology Team

# Additional Information

## MARKET INTERMEDIARIES

LICENSED AS AT 31ST DECEMBER 2023 UNDER THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, NO. 19 OF 2021

Market Intermediaries under the categories of Margin Provider, Investment Manager, Underwriter, Credit Rating Agency, Stock Broker, Stock Dealer and Managing Companies of Collective Investment Schemes (CIS) licensed by the SEC, are set out below;

### Licensed Market Intermediaries under the category of Margin Provider;

1. Acuity Partners (Private) Limited
2. Assetline Finance Limited
3. Bansei Securities Capital (Pvt) Limited
4. Capital TRUST Credit (Private) Limited
5. Citizens Development Business Finance PLC
6. Commercial Bank of Ceylon PLC
7. DFCC Bank PLC
8. Dialog Finance PLC
9. Hatton National Bank PLC
10. LOLC Finance PLC
11. Merchant Bank of Sri Lanka & Finance PLC
12. Nation Lanka Capital Limited
13. National Development Bank PLC
14. Pan Asia Banking Corporation PLC
15. People's Leasing and Finance PLC
16. PMF Finance PLC
17. RPC Margin Services (Pvt) Limited
18. Sampath Bank PLC
19. Seylan Bank PLC
20. Senkadagala Finance PLC

### Licensed Market Intermediaries under the Category of Investment Manager;

1. Asia Securities Wealth Management (Private) Limited
2. Asset Trust Management (Private) Limited
3. Assetline Capital (Private) Limited

4. Bank of Ceylon
5. Capital Alliance Investments Limited
6. Capital TRUST Wealth Management Limited
7. Ceybank Asset Management Limited
8. CT CLSA Asset Management (Private) Limited
9. First Capital Asset Management Limited
10. George Steuart Asset Management (Private) Limited
11. Guardian Fund Management Limited
12. Innovest Investments (Private) Limited
13. JB Financial (Private) Limited
14. LYNEAR Wealth Management (Pvt) Limited
15. Merchant Bank of Sri Lanka & Finance PLC
16. National Asset Management Limited
17. NDB Wealth Management Limited
18. Orion Fund Management (Private) Limited
19. Premier Wealth Management Limited
20. Senfin Asset Management (Private) Limited
21. Softlogic Asset Management (Pvt) Limited
22. Waldock Mackenzie Limited

### Licensed Market Intermediaries under the Category of Underwriter;

1. Bank of Ceylon
2. Commercial Bank of Ceylon PLC
3. DFCC Bank PLC
4. Hatton National Bank PLC
5. Merchant Bank of Sri Lanka & Finance PLC
6. National Development Bank PLC
7. Sampath Bank PLC
8. Seylan Bank PLC

### Licensed Market Intermediaries under the Category of Credit Rating Agency;

1. Fitch Ratings Lanka Limited
2. Lanka Rating Agency Limited

### Licensed Market Intermediaries under the Category of Stock Brokers;

1. Acuity Stockbrokers (Private) Limited
2. Almas Equities (Private) Limited
3. Ambeon Securities (Private) Limited
4. Asha Securities Limited
5. ACAP Stock Brokers (Pvt) Limited
6. Asia Securities (Private) Limited
7. Bartleet Religare Securities (Pvt) Limited
8. Capital Alliance PLC (Debt Securities)
9. Capital Alliance Securities (Private) Limited
10. Capital TRUST Securities (Private) Limited
11. CT CLSA Securities (Pvt) Limited
12. Enterprise Ceylon Capital (Pvt) Limited
13. First Capital Equities (Private) Limited
14. First Guardian Equities (Pvt) Limited
15. JB Securities (Private) Limited
16. John Keells Stock Brokers (Private) Limited
17. Lanka Securities (Private) Limited
18. LOLC Securities Limited
19. Nation Lanka Equities (Pvt) Limited
20. NDB Securities (Private) Limited
21. Nestor Stock Brokers (Private) Limited
22. Richard Pieris Securities (Private) Limited
23. SC Securities (Private) Limited
24. Senfin Securities Limited
25. Softlogic Stockbrokers (Pvt) Limited
26. Somerville Stock Brokers (Private) Limited
27. Wealth Trust Securities Limited (Debt Securities)



## Additional Information

### Licensed Market Intermediaries under the Category of Stock Dealers;

1. Asia Securities (Private) Limited
2. Bartleet Religare Securities (Pvt) Limited (Debt)
3. Capital Alliance PLC (Debt)
4. Enterprise Ceylon Capital (Pvt) Limited
5. JB Securities (Private) Limited
6. Nation Lanka Equities (Private) Limited
7. Nestor Stock Brokers (Private) Limited (Debt)
8. Seylan Bank PLC (Debt)
9. SC Securities (Private) Limited
10. Softlogic Stockbrokers (Pvt) Limited
11. Wealth Trust Securities Limited (Debt)

### Licensed Market Intermediaries under the Category of Corporate Finance Advisors;

1. Atarah Capital (Pvt) Limited
2. Capital Alliance Partners Limited
3. NDB Investment Bank Limited
4. CT CLSA Capital (Pvt) Ltd

### Licensed Market Intermediaries under the Category of Managing Companies and their CIS;

1. **Arpico Ataraxia Asset Management (Private) Limited**
  - I. Arpico Ataraxia Cash Management Trust Fund (CMT)
  - II. Arpico Ataraxia Equity Income Fund
  - III. Arpico Ataraxia Repo Investment Fund
  - IV. Arpico Ataraxia Sri Lanka Bond Fund
  - V. Arpico Ataraxia USD Fixed Income Fund
2. **Asia Securities Wealth Management (Pvt) Limited**
  - I. Asia Securities Money Market Fund
  - II. Asia Securities Income fund
  - III. Asia Securities Gilt Fund

- IV. Asia Securities Dynamic Gilt Fund
- V. Asia Securities Equity Opportunities Fund

### 3. Asset Trust Management (Pvt) Limited

- I. Astrue Active Income Fund
- II. Astrue Alpha Fund

### 4. Assetline Capital (Pvt) Limited

- I. Assetline Income Fund
- II. Assetline Income Plus Growth Fund

### 5. Capital Alliance Investments Limited

- I. CAL Balanced Fund
- II. CAL Corporate Treasury Fund
- III. CAL Fixed Income Opportunities Fund
- IV. CAL Gilt Fund
- V. CAL Gilt Money Market Fund
- VI. CAL Gilt Trading Fund
- VII. CAL High Yield Fund
- VIII. CAL Income Fund
- IX. CAL Investment Grade Fund
- X. CAL Medium Risk Debt Fund
- XI. CAL Quantitative Equity Fund
- XII. CAL Sri Lanka Dollar Fund
- XIII. CAL Five Year Optimum Fund

### 6. Ceybank Asset Management Limited

- I. Ceybank Century Growth Fund
- II. Ceybank Gilt Edged Fund (A Series)
- III. Ceybank High Yield Fund
- IV. Ceybank Savings Plus Money Market Fund
- V. Ceybank Surakum Gilt Edged Fund
- VI. Ceybank Unit Trust Fund

### 7. Ceylon Asset Management Company Limited

- I. Ceylon Dollar Bond Fund
- II. Ceylon Financial Sector Fund
- III. Ceylon Income Fund
- IV. Ceylon Index Fund

- V. Ceylon IPO Fund
- VI. Ceylon Money Market Fund
- VII. Ceylon Tourism Fund
- VIII. Ceylon Treasury Income Fund

### 8. CT CLSA Asset Management (Private) Limited

- I. CT CLSA Equity Fund
- II. CT CLSA Gilt Edged Fund
- III. CT CLSA High Yield Fund
- IV. CT CLSA Growth Equity Fund
- V. CT CLSA Money Market Fund
- VI. CT CLSA Income Fund

### 9. First Capital Asset Management Limited

- I. First Capital Equity Fund
- II. First Capital Fixed income Fund
- III. First Capital Gilt Edged Fund
- IV. First Capital Money Market Fund
- V. First Capital Wealth Fund

### 10. J B Financial (Pvt) Limited

- I. JB Vantage Money Market Fund
- II. JB Vantage Short Term Gilt Fund
- III. JB Vantage Value Equity Fund

### 11. National Asset Management Limited

- I. NAMAL Growth Fund
- II. NAMAL High Yield Fund
- III. NAMAL Income Fund
- IV. National Equity Fund

### 12. NDB Wealth Management Limited

- I. NDB Wealth Gilt Edged Fund
- II. NDB Wealth Growth & Income Fund
- III. NDB Wealth Growth Fund
- IV. NDB Wealth Income Fund
- V. NDB Wealth Income Plus Fund
- VI. NDB Wealth Islamic Money Plus Fund
- VII. NDB Wealth Money Fund
- VIII. NDB Wealth Money Plus Fund
- IX. NDB Wealth Dynamic Treasury Fund

**13. Premier Wealth Management Limited**

- I. Premier Growth Fund
- II. Premier Money Market Fund

**14. Senfin Asset Management (Pvt) Limited**

- I. Senfin Dynamic Income Fund
- II. Senfin Dividend Fund
- III. Senfin Growth Fund
- IV. Senfin Money Market Fund
- V. Senfin Shariah Balanced Fund
- VI. Senfin Shariah Income Fund
- VII. Senfin Insurance Sector Fund
- VIII. Senfin Financial Services Fund
- IX. Senfin Consumer Staples Fund

**15. Softlogic Asset Management (Pvt) Limited**

- I. Softlogic Equity Fund
- II. Softlogic Money Market Fund

**16. LYNEAR Wealth Management (Pvt) Limited**

- I. LYNEAR Wealth Money Market Fund
- II. LYNEAR Wealth Dynamic Opportunities Fund
- III. LYNEAR Wealth Income Fund

**MARKET INSTITUTIONS****LICENSED AS AT 31ST DECEMBER 2023 UNDER THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, NO. 19 OF 2021**

Market Institutions under the categories of Exchange, Central Depository and Clearing House licensed by the SEC are set out below;

**Licensed Exchange;**

1. Colombo Stock Exchange

**Licensed Clearing House;**

1. Central Depository Systems (Private) Limited

**Licensed Central Depository;**

1. Central Depository Systems (Private) Limited

**SUPPLEMENTARY SERVICE PROVIDERS**

UNDER THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, NO. 19 OF 2021

**Trustee of a CIS Scheme**

Shall be a bank licensed by the Central Bank of Sri Lanka

**Fact Sheet**

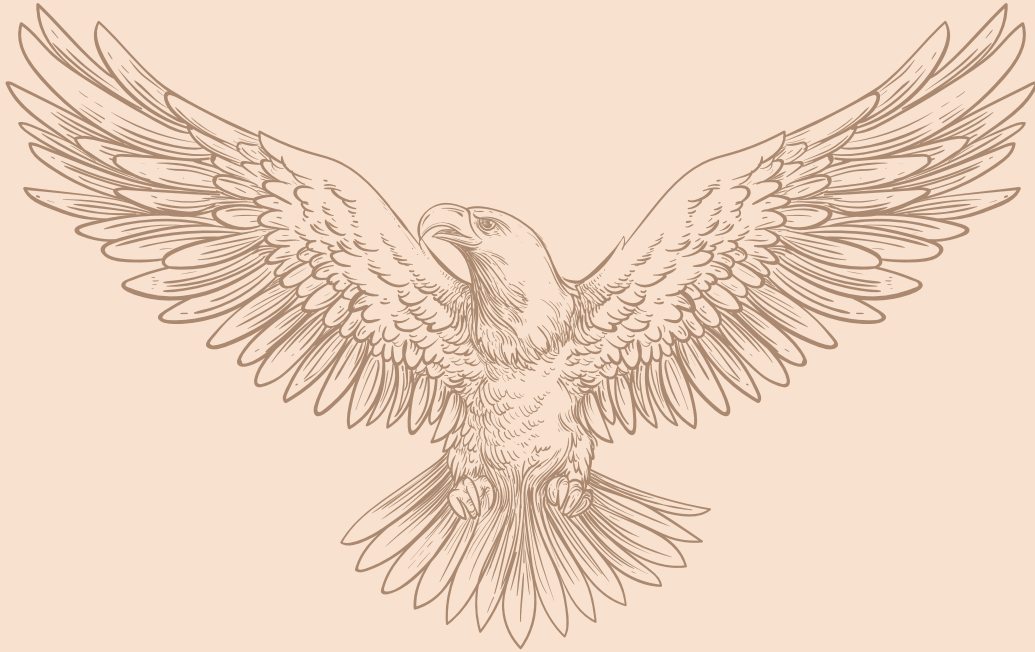
|  | 2019      | 2020      | 2021      | 2022      | 2023      |
|--|-----------|-----------|-----------|-----------|-----------|
| Annual Turnover (Rs. Mn) Equity        | 171,408   | 396,882   | 1,173,157 | 686,602   | 410,629   |
| Domestic (Rs. Mn)                      | 109,003   | 318,354   | 1,112,769 | 634,408   | 371,360   |
| Foreign (Rs. Mn)                       | 62,405    | 78,527    | 60,388.30 | 52,194    | 39,270    |
| Market Days (No)                       | 241       | 209       | 240       | 231       | 242       |
| Daily Average Turnover (Rs. Mn) Equity | 711       | 3,217     | 4,888     | 2,977     | 1,697     |
| Shares traded (No Mn) Equity           | 9,855     | 21,349    | 59,771.69 | 29,048    | 16,989    |
| Domestic (No Mn)                       | 7,091     | 19,808    | 57,904.52 | 28,142    | 15,889    |
| Foreign (No Mn)                        | 2,764     | 1,541     | 1,867.17  | 906       | 1,099     |
| Trades (No) Equity                     | 1,197,205 | 3,070,021 | 8,131,208 | 6,057,233 | 3,618,960 |
| Domestic (No)                          | 1,150,486 | 2,968,092 | 8,009,449 | 5,973,341 | 3,544,022 |
| Foreign (No)                           | 46,719    | 101,929   | 121,759   | 83,892    | 74,938    |
| New Listing (No)                       | 2         | 1         | 13        | 4         | 2         |
| Delisting (No)                         | 10        | 7         | 3         | 11        | 1         |
| Companies Listed                       | 289       | 283       | 296       | 290       | 290       |
| Companies Traded                       | 279       | 266       | 280       | 236       | 276       |
| Market Capitalisation (Rs. Bn)         | 2,851.31  | 2,960.65  | 5,489.17  | 3,847.15  | 4,248.93  |
| Market PER year end (Times)            | 10.83     | 11.3      | 13.63     | 5.0       | 11.1      |
| Turnover to Market Capitalisation (%)  | 6.01      | 13.4      | 21.4      | 17.8      | 9.7       |
| Dividend Yield Year End (%)            | 3.17      | 2.7       | 2.17      | 4.1       | 3.3       |
| Price to Book Value Year End (Times)   | 1.14      | 1.1       | 1.67      | 0.9       | 0.9       |
| Market Cap. As a % of GDP              | 21.5      | 19.7      | 36.7      | 22.8      | 17.6      |

## Additional Information

|   | 2019       | 2020       | 2021      | 2022      | 2023      |
|---|------------|------------|-----------|-----------|-----------|
| <b>Price Indices</b>  |            |            |           |           |           |
| All Share Price Index (ASPI)                                  | 6,129.21   | 6,774.22   | 12,226.01 | 8,489.66  | 10,654.16 |
| y-o-y Change %  | 1.27       | 10.52      | 80.48     | (4.65)    | 25.50     |
| S&P Sri Lanka 20  | 2,936.96   | 2,638.10   | 4,233.25  | 2,635.63  | 3,068.36  |
| y-o-y Change %  | (6.32)     | (10.18)    | 60.47     | (13.05)   | 16.42     |
| <b>Total Return Indices</b>                                   |            |            |           |           |           |
| Total Return Index on ASPI (ASTRI)                            | 8,203.82   | 9,078.65   | 16,423.75 | 11,404.60 | 14,617.77 |
| y-o-y Change %  | 1.70       | 10.7       | 80.91     | (4.65)    | 28.17     |
| Total Return Index on S&P Sri Lanka 20 ( S&P Sri Lanka 20TRI) | 4,603.57   | 4,332.84   | 7,241.29  | 4,749.27  | 5,710.45  |
| y-o-y Change %  | (1.77)     | (5.9)      | 67.13     | (10.71)   | 20.24     |
| <b>Non-National Activity*</b>                                 |            |            |           |           |           |
| Annual Turnover (Rs. Mn)                                      | 62,405     | 78,527     | 60,340    | 52,176    | 39,270    |
| Purchases (Rs. Mn.)   | 56,537     | 52,889     | 34,016    | 67,488    | 41,451    |
| Sales (Rs. Mn.)   | 68,272     | 104,165    | 86,665    | 36,863    | 37,088    |
| Net Foreign Flow  | (11,735.3) | (51,275.7) | (52,649)  | 30,625    | 4,363     |
| Shares Traded (No. Mn.)                                       | 2,764      | 1,541      | 1,866     | 905       | 1,099     |
| Purchases (No. Mn.)   | 3,896      | 928        | 1,308     | 884       | 1,099     |
| Sales (No. Mn.)   | 1,631      | 2,154      | 2,425     | 927       | 1,254     |
| Trades  | 46,719     | 101,929    | 121,692   | 83,883    | 74,938    |
| Purchases (No.)   | 25,759     | 42,134     | 74,172    | 80,859    | 80,379    |
| Sales (No.)   | 67,680     | 161,725    | 169,213   | 86,908    | 69,498    |
| <b>Debt Market</b>  |            |            |           |           |           |
| Corporate Debt  |            |            |           |           |           |
| Turnover (Rs. 000)  | 5,677,080  | 5,856,002  | 1,244,587 | 4,041,226 | 103,321   |
| No of Trades  | 234        | 243        | 93        | 90        | 45        |
| No of Debentured Traded (000)                                 | 55,643     | 54,230     | 11,439    | 38,839    | 930       |
| <b>Unit Trusts</b>  |            |            |           |           |           |
| Net Asset Value (NAV)(Rs. Bn)                                 | 104.79     | 200.94     | 194       | 143       | 407.74    |
| Unit Holders (No.)  | 46,481     | 51,707     | 59,426    | 67,912    | 93,450    |
| Units Issued (No. 000)  | 4,769      | 8,210      | 7,835     | 6,283     | 13,371    |
| Investment in Equity (Rs. Mn.)                                | 9,841      | 14,019     | 17,586    | 11,856    | 18,506    |
| Investment in Treasury Bills (Rs.Mn)                          | 9,150      | 28,613     | 28,755    | 88,879    | 315,239   |
| Investment in other Instruments **(Rs. Mn)                    | 84,542     | 158,725    | 148,907   | 48,187    | 70,175    |

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

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



# A Prosperity Perspective

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# Securities and Exchange Commission of Sri Lanka

## Auditor General’s Report



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தேசிய கணக்காய்வு அலுவலகம்  
NATIONAL AUDIT OFFICE



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எனது இல. } BAN/G/SEC/FA/2023/2  
My No. }

ඔබේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி }  
Date }

16 May 2024

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 2023 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 2023 comprising the Statement of Financial Position as at 31 December 2023 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 material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with 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 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.





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தேசிய கணக்காய்வு அலுவலகம்  
NATIONAL AUDIT OFFICE

## 1.2 Basis for Opinion

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

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

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

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

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

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

## Securities and Exchange Commission of Sri Lanka



### 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



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 தேசிய கணக்காய்வு அலுவலகம்  
 NATIONAL AUDIT OFFICE

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.



## Securities and Exchange Commission of Sri Lanka



- 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

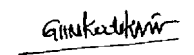
# Statement of Financial Position

| As at 31st December 2023                                | Note | 2023<br>Rs.        | 2022<br>Rs.        |
|---|------|--------------------|--------------------|
| <b>Assets</b>   |      |                    |                    |
| <b>Non Current Assets</b>                               |      |                    |                    |
| Property, Plant & Equipment                             | 7    | 43,089,001         | 59,773,251         |
| Intangible Assets                                       | 7.1  | 24,679,729         | 34,267,756         |
| <b>Current Assets</b>                                   |      |                    |                    |
| Inventories   | 8    | 2,216,963          | 4,159,956          |
| Receivables   | 9    | 197,806,896        | 264,880,170        |
| Investments in Fixed Deposits                           | 10   | 662,333            | 654,244            |
| Deposits, Advances and Prepayments                      | 11   | 63,454,247         | 65,837,245         |
| Cash and Cash Equivalents                               | 12   | 18,112,305         | 52,147,144         |
| <b>Total Assets</b>                                     |      | <b>350,021,474</b> | <b>481,719,766</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   | 26,281,828         | 40,157,488         |
| Retirement Benefit Obligation                           | 15   | 97,520,914         | 68,889,206         |
| Deferred Income - Government Grants FSMP                |      | 35,266,382         | 47,631,620         |
| <b>Current Liabilities</b>                              |      |                    |                    |
| Tax Payable   | 16   | 147,384,953        | 245,819,781        |
| Creditors and Accruals                                  | 17   | 37,721,806         | 22,785,337         |
| Payable to Vendors - FSMP                               | 18   | -                  | 50,122,635         |
| Receipts in Advance                                     |      | 5,845,591          | 6,313,699          |
| <b>Total Funds and Liabilities</b>                      |      | <b>350,021,474</b> | <b>481,719,766</b> |

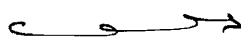
The notes appearing on pages 77 to 89 form an integral part of the financial statements.

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

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



Nirosha Kodikara  
Director Finance & Administration



Chinthaka Mendis  
Director General



Faizal Salieh  
Chairman

Colombo  
07th May 2024

## Securities and Exchange Commission of Sri Lanka

## Statement of Financial Performance

| For the year ended 31st December 2023   | Note | 2023<br>Rs.          | 2022<br>Rs.          |
|---|------|----------------------|----------------------|
| <b>Income</b>   |      |                      |                      |
| License Fees  |      | 4,100,649            | 3,449,164            |
| Administration Levy   |      | 6,522,148            | 6,152,213            |
| Educational Programmes  |      | 11,629,061           | 8,671,966            |
| Interest Income   |      | 72,280               | 717,743              |
| Other Income  |      | 1,126,302            | 110,261              |
| Interest on Staff Loans   |      | 944,910              | 719,194              |
| Income from FSMP  | 19   | 176,438,871          | 172,252,739          |
| Recognition of Grants   | 14   | 18,087,517           | 19,350,111           |
| <b>Total Income</b>   |      | <b>218,921,738</b>   | <b>211,423,391</b>   |
| <b>Expenditure</b>  |      |                      |                      |
| Personnel Costs   | 20   | (393,499,169)        | (312,436,108)        |
| Administration & Establishment Expenses   | 21   | (236,006,969)        | (179,803,251)        |
| Capital Market Development Expenses   | 22   | (36,029,791)         | (50,328,063)         |
| Finance Charges   | 23   | (48,190)             | (120,430)            |
| <b>Total Expenditure</b>  |      | <b>(665,584,119)</b> | <b>(542,687,852)</b> |
| Income Tax Expense  |      | -                    | -                    |
| <b>Excess of Income over Expenditure</b>  |      | <b>(446,662,381)</b> | <b>(331,264,461)</b> |
| <b>Funds transferred from Cess Fund towards Excess of Expenditure over Income</b> |      | <b>446,662,381</b>   | <b>331,264,461</b>   |

The notes appearing on pages 77 to 89 form an integral part of the financial statements.

# Statement of Changes in Net Assets

| For the year ended 31st December 2023                             | Accumulated<br>Fund<br>Rs. | Total<br>Rs.  |
|---|----------------------------|---------------|
| <b>Balance as at 1st January 2022</b>                             | -                          | -             |
| Excess expenditure over income for the year                       | (331,264,461)              | (331,264,461) |
| Transfer from Cess Fund towards Excess of Expenditure over Income | 331,264,461                | 331,264,461   |
| <b>Balance as at 31st December 2022</b>                           | -                          | -             |
| <b>Balance as at 1st January 2023</b>                             | -                          | -             |
| Excess expenditure over income for the year                       | (446,662,381)              | (446,662,381) |
| Transfer from Cess Fund towards Excess of Expenditure over Income | 446,662,381                | 446,662,381   |
| <b>Balance as at 31st December 2023</b>                           | -                          | -             |

The notes appearing on pages 77 to 89 form an integral part of the financial statements.



## Securities and Exchange Commission of Sri Lanka

## Cash Flow Statement

| For the year ended 31st December 2023                             | Note | 2023<br>Rs.  | 2022<br>Rs.  |
|---|------|--------------|--------------|
| <b>Cash Flows from Operating Activities</b>                       |      |              |              |
| Net Increase/(Decrease) after transfers from Cess Fund            |      | -            | -            |
| <b>Adjustment for</b>   |      |              |              |
| Depreciation  | 7    | 18,077,395   | 19,350,111   |
| Depreciation - FSMP   | 7    | 2,777,212    | 522,195      |
| Amortisation  | 7.1  | 9,588,027    | 56,249       |
| Recognition of Grant  | 14   | (18,087,517) | (19,350,111) |
| Provision for Gratuity  | 15   | 34,938,816   | 19,639,458   |
| Profit on disposal of fixed assets                                |      | (318,034)    | -            |
| Net Increase/(Decrease) before Working Capital Changes            |      | 46,975,899   | 20,217,902   |
| <b>Change of Working Capital</b>                                  |      |              |              |
| (Increase)/Decrease of Stocks                                     |      | 1,942,992    | (1,154,083)  |
| (Increase)/Decrease of Receivable                                 |      | 67,073,275   | (38,670,562) |
| (Increase)/Decrease of Deposits Advances & Prepayments            |      | 2,382,999    | (3,288,263)  |
| Increase/(Decrease) of Receipt in Advance                         |      | (468,107)    | 194,390      |
| Increase/(Decrease) of Tax Payable                                |      | (98,434,827) | (77,199,191) |
| Increase/(Decrease) of Creditors & Accruals                       |      | 14,936,469   | 3,349,156    |
| Increase/(Decrease) Payables                                      |      | (50,122,638) | 50,054,501   |
| Net Increase/(Decrease) after Working Capital Changes             |      | (62,689,838) | (66,714,052) |
| Cash generated from Operating Activities                          |      | (15,713,939) | (46,496,150) |
| Gratuity paid during the year                                     |      | (6,307,108)  | (9,804,479)  |
| Net Cash Inflow/(Outflow) from Operating Activities               |      | (22,021,047) | (56,300,629) |
| <b>Cash Flows into Investing Activities</b>                       |      |              |              |
| Purchase of Property Plant and Equipment                          | 7    | (4,170,358)  | (14,690,841) |
| Purchase of Intangible assets                                     | 7.1  | -            | (34,324,005) |
| Investments in Fixed Deposits                                     |      | (8,090)      | (11,507)     |
| Proceeds from Sale of Property, Plant & Equipment & Intan.Assets  |      | 318,034      | 0            |
| Deferred Income   |      | (12,365,238) | 47,631,620   |
| Net Cash Inflow/(Outflow) from Investing Activities               |      | (16,225,652) | (1,394,732)  |
| <b>Cash Flows from Financing Activities</b>                       |      |              |              |
| Capital transfer from Cess Fund                                   | 14   | 4,211,858    | 804,782      |
| Net Cash Inflow/(Outflow) from Financing Activities               |      | 4,211,858    | 804,782      |
| Net Increase/(Decrease) in Cash and Cash Equivalents              |      | (34,034,841) | (56,890,578) |
| Cash and Cash Equivalents at the beginning of the period (Note A) |      | 52,147,145   | 109,037,723  |
| Cash and Cash Equivalents at the end of the period (Note B)       |      | 18,112,304   | 52,147,145   |
| <b>Note (A)</b>   |      |              |              |
| <b>Cash and Cash Equivalents at the beginning of the period</b>   |      |              |              |
| Investments in Repo   |      | -            | 74,999,999   |
| Cash at Bank  |      | 52,107,145   | 33,997,724   |
| Cash in Hand  |      | 40,000       | 40,000       |
|   |      | 52,147,145   | 109,037,723  |
| <b>Note (B)</b>   |      |              |              |
| <b>Cash and Cash Equivalents at the end of the period</b>         |      |              |              |
| Cash at Bank  | 12   | 18,072,304   | 52,107,145   |
| Cash in Hand  | 12   | 40,000       | 40,000       |
|   |      | 18,112,304   | 52,147,145   |

The notes appearing on pages 77 to 89 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, originally established under 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 which was repealed and replaced by the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021.

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 03 of the SEC Act No. 19 of 2021, the object & purpose of the Act shall be,

- (a) To establish the Securities and Exchange Commission of Sri Lanka;
- (b) To create, maintain and regulate a fair, orderly, efficient and transparent securities market;
- (c) To protect the interest of local and foreign investors; and
- (d) To ensure the maintenance of high professional standards in the provision of services in relation to securities market.

### 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 Net Assets 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 Net Assets 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 recognised as the present value of the defined benefit obligation. Appropriate adjustments are made in respect of interest cost, current service cost, and 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 recognised prospectively.

Information about judgements made in applying accounting policies that have the most significant effect on the amount recognised 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 actuarial valuation are disclosed in Note 15 to the Financial Statements.

# Securities and Exchange Commission of Sri Lanka

## Notes 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 and Intangible Assets

Property, Plant & Equipment (PPE) & Intangible Assets together with any incidental expenses thereon are stated at cost and depreciated/amortised at their respective useful lives. These assets received as grants, were accounted at cost and depreciation/amortisation thereof is charged against the respective reserve account. Subsequent expenditure on PPE and Intangible assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expenses as incurred.

The depreciation/amortisation is provided on the straight-line basis. The Motor Vehicles, Office Equipment, EDP Equipment including Software and Training Equipment were depreciated/amortised taking into consideration the economic useful lives of the assets applying the following rates.

|  |                |
|--|----------------|
| 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% |
| Intangible assets  | 20.00 – 33.33% |

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

\* Computer software not integral to computer hardware are shown as intangible assets and recognised at cost. Following initial recognition these intangible assets are carried at cost less any accumulated amortisation.

### 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 realisable value. The cost of inventories is valued on First-in First-out (FIFO) basis.

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

### 2.4 Receivables

Receivables are stated at the estimated realisable value.

## 3. LIABILITIES & PROVISIONS

### 3.1.1 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 recognised in the statement of financial position is the present value of the defined benefit obligation as at the reporting date. The liability is not externally funded. Unrecognised Actuarial gains or losses and unrecognised past and current service costs are recognised immediately in the Statement of Financial Performance. The net liability for defined benefit obligation will be determined by a qualified actuary as at 31st December 2023 using the Projected Unit Credit method as recommended in the SLPSAS 19.

### 3.2 Liabilities

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

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

### 3.3 Grant

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

## 4. STATEMENT OF FINANCIAL PERFORMANCE

### 4.1 Revenue Recognition

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

### 4.2 Interest Income and Expenses

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

### 4.3 Other Revenue

Other income is recognised 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 recognised 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              |
|---|-------------------|--------------------------------|------------------------------------|---------------------|--------------------|
| <b>Cost</b>   |                   |                                |                                    |                     |                    |
| Balance as at 01.01.2023  | 45,165,786        | 50,909,199                     | 181,364,469                        | 4,326,348           | 281,765,802        |
| Transfers during the year   | -                 | -                              | (41,500)                           | -                   | (41,500)           |
| Additions during the year   | -                 | 3,535,293                      | 676,565                            | -                   | 4,211,858          |
| Additions during the year - FSMP  | -                 | -                              | -                                  | -                   | -                  |
| Disposals during the year   | -                 | (438,358)                      | (787,413)                          | (708,000)           | (1,933,770)        |
| <b>Balance as at 31.12.2023</b>   | <b>45,165,786</b> | <b>54,006,134</b>              | <b>181,212,121</b>                 | <b>3,618,348</b>    | <b>284,002,390</b> |
| <b>Accumulated Depreciation</b>   |                   |                                |                                    |                     |                    |
| Balance as at 01.01.2023  | 34,845,131        | 41,773,301                     | 141,049,389                        | 4,324,731           | 221,992,551        |
| Transfers during the year   | -                 | -                              | (1,043)                            | -                   | (1,043)            |
| Depreciation charge for the year  | 2,863,341         | 2,715,750                      | 12,497,730                         | 1,618               | 18,078,439         |
| Depreciation charge for the year- FSMP  | -                 | -                              | 2,777,212                          | -                   | 2,777,212          |
| Accumulated depreciation on disposals   | -                 | (438,358)                      | (787,413)                          | (708,000)           | (1,933,770)        |
| <b>Balance as at 31.12.2023</b>   | <b>37,708,472</b> | <b>44,050,693</b>              | <b>155,535,875</b>                 | <b>3,618,348</b>    | <b>240,913,389</b> |
| <b>W.D.V. as at 31.12.2023</b>  | <b>7,457,314</b>  | <b>9,955,441</b>               | <b>25,676,246</b>                  | <b>-</b>            | <b>43,089,001</b>  |
| <b>W.D.V. as at 31.12.2022</b>  | <b>10,320,655</b> | <b>9,135,898</b>               | <b>40,315,080</b>                  | <b>1,618</b>        | <b>59,773,251</b>  |
| <b>Cost of the Fully Depreciated Assets as at 31.12.2023 (included in the above mentioned cost)</b> | <b>16,552,286</b> | <b>30,350,708</b>              | <b>107,575,353</b>                 | <b>3,618,348</b>    | <b>158,096,694</b> |
| <b>Useful Life Time (No. of Years)</b>  | <b>10</b>         | <b>8</b>                       | <b>3-5</b>                         | <b>5</b>            |                    |

#### 7.1 Intangible Assets

| Description                            | Computer Software |
|--|-------------------|
| <b>Cost</b>                            |                   |
| Balance as at 01.01.2023               | 34,324,005        |
| Additions during the year              | -                 |
| Disposals during the year              | -                 |
| <b>Balance as at 31.12.2023</b>        | <b>34,324,005</b> |
| <b>Accumulated Amortisation</b>        |                   |
| Balance as at 01.01.2023               | 56,249            |
| Amortisation charge for the year       | 9,588,027         |
| Accumulated amortisation on disposals  | -                 |
| <b>Balance as at 31.12.2023</b>        | <b>9,644,276</b>  |
| <b>N.B.V. as at 31.12.2023</b>         | <b>24,679,729</b> |
| <b>Useful Life Time (No. of Years)</b> | <b>3-5</b>        |

**8 INVENTORIES**

|  | 2023<br>Rs.      | 2022<br>Rs.      |
|--|------------------|------------------|
| Stock of Stationery, Stamp & EDP Consumables | 2,216,963        | 4,159,956        |
| <b>Total</b>                                 | <b>2,216,963</b> | <b>4,159,956</b> |

**9 RECEIVABLES**

|  | 2023<br>Rs.        | 2022<br>Rs.        |
|--|--------------------|--------------------|
| Sundry Debtors                             | 632,846            | 128,910            |
| Receivable from World Bank for FSM Project | -                  | 66,561,467         |
| Festival Advances                          | 1,525,000          | 1,780,000          |
| Staff Loans                                | 38,902,866         | 15,909,726         |
| Receivable from CESS Fund                  | 114,232,537        | 159,723,957        |
| Receivable from Compensation Fund          | 26,047,222         | 15,563,295         |
| Receivable from Settlement Guarantee Fund  | 11,262,760         | 0                  |
| Receivable from an Interdicted Employee    | 5,212,815          | 5,212,815          |
| <b>Total</b>                               | <b>197,806,896</b> | <b>264,880,170</b> |

**10 INVESTMENTS IN FIXED DEPOSITS**

|                        | 2023<br>Rs.    | 2022<br>Rs.    |
|------------------------|----------------|----------------|
| Fixed Deposit with BOC | 662,333        | 654,244        |
| <b>Total</b>           | <b>662,333</b> | <b>654,244</b> |

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.

**11 DEPOSITS, ADVANCES & PRE-PAYMENTS**

|   | 2023<br>Rs.       | 2022<br>Rs.       |
|---|-------------------|-------------------|
| Fuel Deposit                                  | 156,000           | 120,000           |
| Mobitel - Corporate Data Packages             | 15,000            | 15,000            |
| Mobitel - Post paid Wingles                   | 12,000            | 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            |
| The Employers' Federation of Ceylon           | 0                 | 62,500            |
| DHL Courier Service                           | 30,000            | 30,000            |
| ORCL - Management Corp. Condominium Plan 1824 | 44,522,736        | 44,522,736        |
| Advances to Suppliers                         | 18,673,987        | 21,030,485        |
| <b>Total</b>                                  | <b>63,454,247</b> | <b>65,837,245</b> |

## Securities and Exchange Commission of Sri Lanka

### Notes to the Financial Statements

#### 12 CASH AND CASH EQUIVALENTS

|              | 2023<br>Rs.       | 2022<br>Rs.       |
|--------------|-------------------|-------------------|
| Cash at Bank | 18,072,304        | 52,107,145        |
| Cash in Hand | 40,000            | 40,000            |
| <b>Total</b> | <b>18,112,304</b> | <b>52,147,145</b> |

#### 13 ACCUMULATED FUND

|   | 2023<br>Rs.   | 2022<br>Rs.   |
|---|---------------|---------------|
| Balance at the beginning of the year                              | 0             | 0             |
| Excess expenditure over income for the year                       | (446,662,381) | (331,264,461) |
| Transfer from Cess Fund towards Excess of Expenditure over Income | 446,662,381   | 331,264,461   |
| <b>Balance at the end of the year</b>                             | <b>0</b>      | <b>0</b>      |

#### 14 GRANT - TRANSFERS FROM CESS FUND FOR CAPITAL EXPENDITURE

|  | 2023<br>Rs.         | 2022<br>Rs.         |
|--|---------------------|---------------------|
| Balance at the beginning of the Year                   | 40,157,488          | 58,702,817          |
| Transfer from Cess Fund for Capital Expenditure        | 4,211,857           | 804,782             |
| Recognition of Grants                                  | (18,087,517)        | (19,350,111)        |
| <b>Balance at the end of the Year</b>                  | <b>26,281,828</b>   | <b>40,157,488</b>   |
| <b>Note:</b>   |                     |                     |
| <b>Recognition of Grant</b>                            |                     |                     |
| <b>The Grant is recognised at the following rates</b>  |                     |                     |
| Motor Vehicles   | 10.00%              | 10.00%              |
| Furniture, Fixtures & Fittings                         | 12.50%              | 12.50%              |
| Office Equipment - Electronic Data Processing & Others | 20.00% to<br>33.33% | 20.00% to<br>33.33% |
| Training Equipment                                     | 20.00%              | 20.00%              |

## 15 RETIREMENT BENEFIT OBLIGATION

|                                       | 2023              | 2022              |
|---------------------------------------|-------------------|-------------------|
| Balance at the beginning of the Year  | 68,889,206        | 59,054,227        |
| Interest Cost                         | 12,400,057        | 6,791,236         |
| Current Service Cost                  | 6,254,212         | 5,320,905         |
| Gratuity paid during the Year         | (6,307,108)       | (9,804,479)       |
| Net actuarial (gain)/ loss            | 16,284,547        | 7,527,317         |
| <b>Balance at the end of the Year</b> | <b>97,520,914</b> | <b>68,889,206</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;

|                              | 2023     | 2022     |
|------------------------------|----------|----------|
| Retirement Age               | 60 years | 55 years |
| Discount Rate                | 13% p.a  | 18% p.a. |
| Future Salary Increment Rate | 10% p.a. | 15% p.a. |

### 15.1 Sensitivity of Assumptions Used

A one percentage change in the assumptions would result in liability as follows.

|             | Discount Rate | Future Salary Increment Rate |
|-------------|---------------|------------------------------|
| 1% Increase | 93,186,040    | 102,803,449                  |
| 1% Decrease | 102,251,213   | 92,608,196                   |

An actuarial valuation of the retirement gratuity obligation was carried out as at December 31, 2023 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".

## 16 INCOME TAX PAYABLE

|  | 2023<br>Rs.        | 2022<br>Rs.        |
|--|--------------------|--------------------|
| Income tax payable for the Y/A 2020/21 | (2,909,457)        | (2,909,457)        |
| Income tax payable for the Y/A 2022/23 | -                  | 248,729,238        |
| Income tax payable for the Y/A 2023/24 | 150,294,410        | 0                  |
| <b>Total</b>                           | <b>147,384,953</b> | <b>245,819,781</b> |

- 16.1** Reference to the Income Tax receivable for the Y/A 2020/21, a tax assessment had been issued by the Inland Revenue Department (IRD), mainly due to disallowing a transfer to the Consolidated Fund which SEC has considered as a qualifying payment. The SEC requested an administrative review against the assessment and it has been acknowledged by the IRD by their letter dated 11th March 2024.



## Securities and Exchange Commission of Sri Lanka

### Notes to the Financial Statements

#### 17 CREDITORS AND ACCRUALS

|   | 2023<br>Rs.       | 2022<br>Rs.       |
|---|-------------------|-------------------|
| E-Communication, Telephone & Internet   | 784,000           | 820,000           |
| Rent & Electricity                      | 1,650,006         | 477,161           |
| Staff Related Expenses                  | 5,236,710         | 4,110,502         |
| External Audit Fees                     | 600,000           | 650,000           |
| Internal Audit Fees                     | 3,905,930         | 1,500,000         |
| Legal and Professional Charges          | 82,600            | 715,991           |
| Public Awareness and Seminar Expenses   | 11,150,881        | 6,488,087         |
| Market Surveillance Cost                | -                 | 1,546,875         |
| Travelling - Local                      | 199,762           | 101,319           |
| Rent Deposit Payable                    | 1,536,792         | 1,536,792         |
| EPF & ETF Payable                       | 4,176,927         | 3,263,226         |
| Repair & Maintenance                    | 354,314           | 1,227,960         |
| Interns Allowance                       | 190,833           | 148,333           |
| Motor Vehicles related expenses         | 21,850            | -                 |
| Stationery, Newspaper & Courier Charges | 170,440           | -                 |
| Staff welfare and Office upkeep         | 351,920           | -                 |
| Consultant Allowance                    | 237,500           | -                 |
| Commission Members' Meeting Fees        | 40,000            | -                 |
| Other Payable                           | 48,869            | 90,669            |
| WHT Payable                             | 12,500            | -                 |
| APIT Payable                            | 6,964,972         | 108,422           |
| Trade Tax                               | 5,000             | -                 |
| <b>Total</b>                            | <b>37,721,806</b> | <b>22,785,337</b> |

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

|                           | 2023<br>Rs. | 2022<br>Rs.       |
|---------------------------|-------------|-------------------|
| Payable to Vendors - FSMP | 0           | 50,122,635        |
| <b>Total</b>              | <b>0</b>    | <b>50,122,635</b> |

Subsequent to the winding up of the Financial Sector Modernisation Project (FSMP) of the World Bank, the Ministry of Finance instructed the SEC to expedite the completion of any remaining activities of the project including submitting withdrawal applications, settlement of advances and to return any unutilised fund balance to the Ministry. Accordingly, the SEC upon completion of all activities pertaining to payments and receipts under the Project, the SEC returned an amount of LKR 445,139.93 to the Ministry of Finance via cheque.

The below were completed under the two components of the FSMP:

##### Component I - Results Based Financing Component

Upon successful completion of identified policy reforms set forth by the World Bank as Disbursement-Linked Results (DLRs), the allocated funds were disbursed to the SEC. Accordingly, the SEC successfully completed all the policy action items stated under component I and, received the allocated funds amounting to a total of USD 2 Million (equivalent to LKR 533,396,869.32)

### Component II - Investment Based Financing Component

Under component II of the FSMP, funding was made available to the Secretariat to procure identified goods and consultancy services and for staff capacity building. As at project closure, the World Bank has disbursed an amount of USD 519,059.54 (equivalent to LKR 163,324,066.66) to the SEC under component II.

## 19 INCOME FROM FSM PROJECT

|                      | 2023<br>Rs.        | 2022<br>Rs.        |
|----------------------|--------------------|--------------------|
| FSMP - DLI Funds     | 164,073,632        | 171,674,295        |
| FSMP - Non DLI Funds | 12,365,239         | 578,444            |
| <b>Total</b>         | <b>176,438,871</b> | <b>172,252,739</b> |

## 20 PERSONNEL COSTS

|   | Note | 2023<br>Rs.        | 2022<br>Rs.        |
|---|------|--------------------|--------------------|
| Staff Salaries                                      |      | 202,907,059        | 160,983,569        |
| Chairman's Allowance                                |      | 1,053,333          | 1,200,000          |
| Reimbursements to the Attorney General's Department |      | 2,261,652          | 6,319,668          |
| Commission Members Meeting Fees                     |      | 1,290,000          | 1,440,000          |
| Consultants Allowance                               |      | 3,900,000          | 3,000,000          |
| Staff Welfare and Other Staff Related Payments      |      | 49,696,830         | 37,965,470         |
| EPF & ETF   |      | 30,147,948         | 24,445,433         |
| Staff Gratuity                                      | 15   | 34,938,816         | 19,639,457         |
| Staff Medical Expenses & Insurance                  |      | 16,974,080         | 16,113,521         |
| Staff Housing Loan Interest Subsidy                 |      | 1,846,995          | 1,914,419          |
| Staff Vehicle Allowance                             |      | 25,291,778         | 25,881,000         |
| Overseas Training and Travelling                    |      | 13,522,257         | 7,081,485          |
| Staff Training - Local                              |      | 2,319,608          | 1,371,374          |
| Subscription of Membership                          |      | 2,003,525          | 1,769,646          |
| Sponsorship for Studies                             |      | 142,123            | 222,784            |
| Advertising-Recruitment                             |      | 2,441,499          | 667,864            |
| Interns Allowance                                   |      | 2,761,667          | 2,420,417          |
| <b>Total</b>  |      | <b>393,499,169</b> | <b>312,436,108</b> |

\* 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

#### 21 ADMINISTRATION & ESTABLISHMENT EXPENSES

|  | Note | 2023<br>Rs.        | 2022<br>Rs.        |
|--|------|--------------------|--------------------|
| Rent & Car Park Rental   |      | 140,069,454        | 110,895,458        |
| Electricity Charges  |      | 8,624,452          | 4,833,475          |
| Office Upkeep  |      | 344,650            | 512,160            |
| Office Equipment Maintenance & Insurance                       |      | 1,891,059          | 2,134,086          |
| Software Renewal & Maintenance                                 |      | 15,202,944         | 10,741,282         |
| Telephone, Internet, E-Communication and Data processing       |      | 10,338,868         | 8,868,781          |
| Motor Vehicle Fuel, Maintenance, License & Insurance           |      | 10,165,435         | 4,658,580          |
| Professional Fees  |      | 291,367            | 942,031            |
| Meeting Expenses   |      | 1,813,913          | 1,701,589          |
| News Papers, Periodicals and Library Books                     |      | 720,190            | 589,802            |
| Printing & Stationery  |      | 6,194,704          | 6,866,091          |
| Travelling Local   |      | 2,591,423          | 1,380,062          |
| Insurance- All Risk , Public Liability, Cash in Transit & Fire |      | 288,409            | 260,770            |
| Postage, Stamp Duty and Courier Charges                        |      | 1,136,528          | 1,110,706          |
| Legal Expenses   |      | 3,368,860          | 2,646,930          |
| Audit Fees - Internal  |      | 1,850,000          | 1,424,100          |
| Audit Fees - External  |      | 564,100            | 284,000            |
| General Expenses   |      | -                  | 4,212              |
| Trade Tax  |      | 5,000              | 5,000              |
| Entertainment  |      | 102,978            | 15,580             |
| Depreciation/Amortisation - FSMP                               |      | 12,365,239         | 578,444            |
| Depreciation   | 7    | 18,077,395         | 19,350,111         |
| <b>Total</b>   |      | <b>236,006,969</b> | <b>179,803,251</b> |

#### 22 CAPITAL MARKET DEVELOPMENT, EXTERNAL RELATION, CME, SURVEILLANCE AND INVESTIGATION EXPENSES

|  | 2023<br>Rs.       | 2022<br>Rs.       |
|--|-------------------|-------------------|
| Public Awareness Programmes and Capital Market Development | 21,773,762        | 29,328,796        |
| Educational Programmes                                     | 1,959,364         | 1,678,495         |
| International Membership Fees - IOSCO                      | 7,000,543         | 7,334,807         |
| Publicity and Advertising                                  | -                 | 147,015           |
| Market Surveillance Cost                                   | 5,278,991         | 11,820,060        |
| Investigation and Inspection Expenses                      | 17,131            | 18,890            |
| <b>Total</b>   | <b>36,029,791</b> | <b>50,328,063</b> |

#### 23 FINANCE CHARGES

|              | 2023<br>Rs.   | 2022<br>Rs.    |
|--------------|---------------|----------------|
| Bank Charges | 48,190        | 120,430        |
| <b>Total</b> | <b>48,190</b> | <b>120,430</b> |

## 24 COMPARISON OF ACTUAL INCOME AND EXPENDITURE AGAINST THE BUDGET

|  | Actual<br>2023<br>Rs. | Budget<br>2023<br>Rs. | Variance<br>Rs.   |
|--|-----------------------|-----------------------|-------------------|
| <b>Income</b>                                    |                       |                       |                   |
| License Fees                                     | 4,100,649             | 3,655,000             | 445,649           |
| Administration Levy                              | 6,522,148             | 2,000,000             | 4,522,148         |
| Educational Programmes                           | 11,629,061            | 8,357,500             | 3,271,561         |
| Interest Income                                  | 72,280                | 0                     | 72,280            |
| Other income                                     | 1,126,302             | 10,000,000            | (8,873,698)       |
| Interest on Staff Loans                          | 944,910               | 840,000               | 104,910           |
| Income from FSMP                                 | 176,438,871           | 176,269,484           | 169,387           |
| <b>Total Income generated by SEC</b>             | <b>200,834,221</b>    | <b>201,121,984</b>    | <b>(287,763)</b>  |
| <b>Less: Expenditure</b>                         |                       |                       |                   |
| Personnel costs                                  | (370,321,656)         | (369,645,760)         | (675,896)         |
| Administration & establishment cost              | (227,110,129)         | (231,503,488)         | 4,393,358         |
| Professional Development                         | (18,707,703)          | (57,166,110)          | 38,458,407        |
| Professional Charges                             | (13,383,780)          | (21,961,433)          | 8,577,653         |
| Capital market development                       | (36,012,660)          | (54,634,337)          | 18,621,677        |
| Financial charges                                | (48,190)              | (73,373)              | 25,183            |
| <b>Total Revenue Expenditure</b>                 | <b>(665,584,119)</b>  | <b>(734,984,500)</b>  | <b>69,400,381</b> |
| Less: Income Tax Expense                         | -                     | -                     | -                 |
| <b>Excess of Revenue Expenditure over Income</b> | <b>(464,749,898)</b>  | <b>(533,862,516)</b>  | <b>69,112,618</b> |

### 25. CAPITAL COMMITMENTS

There were no capital commitments as at 31.12.2023.

### 26. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31.12.2023.

### 27. EVENTS AFTER THE REPORTING DATE

No material events have occurred after the balance sheet date necessitating any adjustments to the financial statements.

### 28. RELATED PARTY DISCLOSURES

The Chairman and Members of the Commission held office during the year 2023 as stated below;

- Mr. Faizal Salieh, Chairman an appointed Member with effect from 15th February 2023.
- Mr. Manil Jayasinghe, an Appointed Member with effect from 10th January 2022.
- Mr. Sujeewa Mudalige, an Appointed Member with effect from 24th February 2023
- Mr. Anton Godfrey, an appointed Member with effect from 24th February 2023
- 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.
- Mr. Sanjeewa Dissanayake was appointed as an Ex-officio Member by virtue of him holding office as Registrar General of Companies.
- Mrs. Yvette Fernando was appointed as an Ex-officio member by virtue of her holding office as Deputy Governor of the Central Bank of Sri Lanka.
- Mr. Anthony Shanil Fernando, an appointed Member with effect from 24th February 2023.
- Mrs. A. Nilanthi Jayaki De Alwis, an appointed Member with effect from 20th October 2023.
- Mr. Heshana Kuruppu was appointed as an Ex-officio Member by virtue of him holding office as the President of Institute of Chartered Accountants of Sri Lanka with effect from 18th December 2023.
- Mr. Rajeev Amarasooriya, an appointed Member with effect from 24th February 2023.



## Securities and Exchange Commission of Sri Lanka

### Notes to the Financial Statements

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

- Mr. Viraj Dayaratne, PC, Chairman an appointed Member, ceased to hold office with effect from 9th January 2023
- Mr. Anthony Shanil Fernando, ceased to hold office with effect from 24th August 2023
- Mr. Rajeev Amarasooriya, ceased to hold office with effect from 02nd May 2023.
- Mr. Sanjaya Bandara, who was an Ex-officio member by virtue of him holding office as the President of Institute of Chartered Accountants of Sri Lanka, ceased to be a member with effect from 18th December 2023

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

| Name                             | Name of the Related Institution                                 | Relationship  | Shareholding, if any |
|----------------------------------|---|---|----------------------|
| Mr. Faizal Salieh                | Settlement Guarantee Fund                                       | Trustee   | Nil                  |
|                                  | HNB General Insurance Ltd                                       | Independent Non-Executive Director up to 16 February 2023 | Nil                  |
|                                  | The Sri Lanka Institute of Directors                            | Chairman – Completed term in June 2023                    | Nil                  |
|                                  | The Sri Lanka Institute of Directors                            | Immediate Past Chairman with effect from June 2023        | Nil                  |
| Mr. Manil Jayasinghe             | Ernst & Young   | Managing Partner up to 30 June 2023                       | Nil                  |
|                                  | Diesel & Motor Engineering Co. LTD                              | Director with effect from September 2023                  | Nil                  |
|                                  | Ceylon Hospitals PLC  | Director with effect from October 2023                    | Nil                  |
|                                  | NMJ Leisure (Pvt) Ltd   | Director  | Nil                  |
| Mr. Sujeewa Mudalige             | CIC Holdings PLC  | Director  | Nil                  |
|                                  | NDB PLC   |   | Nil                  |
| Mr. Anton Godfrey                | Nil   | Nil   | Nil                  |
| Mrs. A. Nilanthi Jayaki De Alwis | Nil   | Nil   | Nil                  |
|                                  | Nil   | Nil   | Nil                  |
| Mr. R. M. P. Rathnayake          | General Treasury  | Deputy Secretary  | Nil                  |
|                                  | Settlement Guarantee Fund                                       | Trustee   | Nil                  |
|                                  | Bank of Ceylon  | Ex-Officio Member   | Nil                  |
|                                  | Lotus Tower Management Company (Pvt) Limited                    | Director  | Nil                  |
|                                  | National Credit Guarantee Institution Limited                   | Chairman with effect from 02 June 2023                    | Nil                  |
| Mr. Sanjeewa Dissanayake         | The Department of the Registrar of Companies                    | Registrar General of Companies                            | Nil                  |
|                                  | Insurance Regulatory Commission of Sri Lanka                    |   | Nil                  |
|                                  | Accounting Standards Committee of the Institute of CA Sri Lanka | Ex-Officio Member   | Nil                  |
|                                  | Sri Lanka Accounting & Auditing Standards Monitoring Board      |   | Nil                  |
| Ms. Yvette Fernando              | Central Bank of Sri Lanka                                       | Senior Deputy Governor                                    | Nil                  |
|                                  | Credit Information Bureau of Sri Lanka (CRIB)                   | Chairperson   | Nil                  |
|                                  | Api Wenuwen Api Fund  | Member of Board of Management                             | Nil                  |
|                                  | Insurance Regulatory Commission of Sri Lanka                    | Commissioner  | Nil                  |
|                                  | Institute of Bankers of Sri Lanka                               | Chairperson   | Nil                  |
|                                  | Institute of Chartered Accountants of Sri Lanka                 | President with effect from 18th December 2023             | Nil                  |
| Mr. Heshana Kuruppu              | David Pieris Holdings (Pvt) Ltd                                 | Group Finance Director                                    | Nil                  |
|                                  | David Pieris Motor Company (Pvt) Ltd                            |   | Nil                  |
|                                  | David Pieris Automobiles (Pvt) Ltd                              |   | Nil                  |
|                                  | David Pieris Motor Company (Lanka) Ltd                          |   | Nil                  |
|                                  | DP Infotech (Pvt) Ltd   | Non-Executive Director                                    | Nil                  |
|                                  | Electrozen Distributors (Pvt) Ltd                               |   | Nil                  |
|                                  | Electrozen Global (Pvt) Ltd                                     |   | Nil                  |
|                                  | Affiniti Innovations (Pvt) Ltd                                  | Non-Executive Chairman                                    | Nil                  |
|                                  | South Asian Federation of Accountants                           | Vice President  | Nil                  |

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

| Name                        | Name of the Related Institution                 | Relationship                       | Shareholding, if any |
|-----------------------------|---|------------------------------------|----------------------|
| Mr. Viraj Dayaratne, PC     | Settlement Guarantee Fund                       | Trustee                            | Nil                  |
| Mr. Sanjaya Bandara         | Institute of Chartered Accountants of Sri Lanka | President until 18th December 2023 | Nil                  |
|                             | Prime Land Residencies PLC                      |                                    | Nil                  |
|                             | Abans Finance PLC                               | Independent Non Executive Director | Nil                  |
|                             | Luminex PLC                                     |                                    | Nil                  |
| Mr. Anthony Shanil Fernando | Nil   | Nil                                | 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 SEC maintains the following three Current Accounts at Bank of Ceylon (BOC) and the bank balances are tabulated below;

| Name of the Current Account                     | Account Number | Balance as at 31.12.2023 | Balance as at 31.12.2022 |
|---|----------------|--------------------------|--------------------------|
| Securities and Exchange Commission of Sri Lanka | 0000001694     | 25,650,638               | 63,384,501               |
|   | 0009919753     | 676,000                  | 1,488,143                |
|   | 0083810081     | (3,500)                  | 17,255,538               |

The following investments were channeled through BOC during the year 2023.

| Investment Type | Investments made in BOC during the year (Rs.) | Balance as at 31st December 2023 at BOC (Rs.) |
|-----------------|---|---|
| Fixed Deposit   | 0   | 662,333                                       |

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                                       | Amount paid |
|---|--|-------------|
| Institute of Chartered Accountants of Sri Lanka       | Membership Renewals, National Conference and training programmes | 544,300/-   |
| Centre for Banking Studies -Central Bank of Sri Lanka | Training programmes  | 381,000/-   |

# 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.

} BAN/G/CESS/FA/23/3

ඔබේ අංකය  
உமது இல.  
Your No.

}

දිනය  
திகதி  
Date

}

16 May 2024

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 2023 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 Cess Fund of the Securities and Exchange Commission of Sri Lanka (“Fund”) for the year ended 31 December 2023 comprising the Statement of Financial Position as at 31 December 2023 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 material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. 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 2023, 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.



## CESS fund of the Securities and Exchange Commission of Sri Lanka

### Auditor General's Report



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

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

- 2.1 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.
- 2.2 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

  
W. P.C Wickramaratne  
Auditor General

## CESS fund of the Securities and Exchange Commission of Sri Lanka

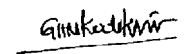
# Statement of Financial Position

| As at 31st December 2023              | Note | 2023<br>Rs.          | 2022<br>Rs.          |
|---------------------------------------|------|----------------------|----------------------|
| <b>Assets</b>                         |      |                      |                      |
| <b>Non Current Assets</b>             |      |                      |                      |
| Investment in Treasury Bonds          |      | 48,022,800           | 3,010,320,650        |
| <b>Current Assets</b>                 |      |                      |                      |
| Investment in Treasury Bonds          |      | 2,917,881,550        | 148,878,960          |
| Investment in Treasury Bills          |      | 2,181,865,396        | 1,453,364,761        |
| Interest Receivable on Treasury Bonds |      | 28,905,222           | 24,559,621           |
| Interest Receivable on Treasury Bills |      | 120,055,761          | 115,829,935          |
| Interest Receivable on Repo           |      | 30,124               | 67,307               |
| Cess Receivable                       |      | 1,871,698            | 6,055,532            |
| Cash and Cash Equivalents             | 7    | 53,711,537           | 75,145,466           |
| <b>Total Assets</b>                   |      | <b>5,352,344,088</b> | <b>4,834,222,233</b> |
| <b>Funds and Liabilities</b>          |      |                      |                      |
| <b>Funds Employed and Reserves</b>    |      |                      |                      |
| Accumulated Fund                      |      | 5,237,847,551        | 4,674,258,276        |
| <b>Current Liabilities</b>            |      |                      |                      |
| Payable to SEC                        |      | 114,232,537          | 159,723,957          |
| Audit Fees                            |      | 264,000              | 240,000              |
| <b>Total Funds and Liabilities</b>    |      | <b>5,352,344,088</b> | <b>4,834,222,233</b> |

The notes appearing on pages 98 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 CESS FUND OF SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA




Nirosha Kodikara  
Director Finance & Administration



Faizal Salieh  
Chairman

Colombo  
07th May 2024



Chinthaka Mendis  
Director General

# Statement of Financial Performance

| For the year ended 31st December 2023                           | Note | 2023<br>Rs.          | 2022<br>Rs.          |
|---|------|----------------------|----------------------|
| <b>Income</b>   |      |                      |                      |
| Cess Received during the year                                   |      | 555,368,722          | 916,667,624          |
| Interest on Treasury Bonds                                      |      | 282,231,921          | 323,891,505          |
| Interest on Treasury Bills                                      |      | 363,364,864          | 148,575,637          |
| Interest on Repo Investments                                    |      | 68,042,515           | 22,753,914           |
| <b>Total Income</b>   |      | <b>1,269,008,022</b> | <b>1,411,888,680</b> |
| <b>Expenditure</b>  |      |                      |                      |
| Funds transferred to the SEC for Operational & Capital Expenses |      | (450,883,659)        | (332,084,732)        |
| Audit Fees  |      | (286,200)            | (268,000)            |
| Bank Charges  |      | (371,122)            | (138,800)            |
| <b>Total Expenditure</b>  |      | <b>(451,540,981)</b> | <b>(332,491,532)</b> |
| <b>Excess of Income over Expenditure (Before tax)</b>           |      | <b>817,467,041</b>   | <b>1,079,397,148</b> |
| Income Tax Expense  | 8    | (253,877,766)        | (289,517,197)        |
| <b>Excess of Income over Expenditure (After tax)</b>            |      | <b>563,589,275</b>   | <b>789,879,951</b>   |

The notes appearing on pages 98 to 102 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**

| For the year ended 31st December 2023          | 2023<br>Rs.          | 2022<br>Rs.          |
|--|----------------------|----------------------|
| <b>Accumulated Fund</b>                        |                      |                      |
| Balance at the beginning of the year           | 4,674,258,276        | 3,884,378,325        |
| Excess of Income over Expenditure for the year | 563,589,275          | 789,879,951          |
| Funds transferred to the Consolidated Fund     | 0                    | 0                    |
| <b>Balance as at the end of the year</b>       | <b>5,237,847,551</b> | <b>4,674,258,276</b> |

The notes appearing on pages 98 to 102 form an integral part of the financial statements.

# Cash Flow Statement

| For the year ended 31st December 2023                             | 2023<br>Rs.   | 2022<br>Rs.     |
|---|---------------|-----------------|
| <b>Cash Flows from Operating Activities</b>                       |               |                 |
| Excess of Income over Expenditure (After tax)                     | 563,589,275   | 789,879,951     |
| Net Increase/ (Decrease) before Working Capital Changes           | 563,589,275   | 789,879,951     |
| <b>Change of Working Capital</b>                                  |               |                 |
| (Increase)/ Decrease of Cess Receivable                           | 4,183,835     | 21,234,418      |
| (Increase)/ Decrease of Interest Receivable on Treasury Bonds     | (4,345,601)   | 51,960,407      |
| (Increase)/ Decrease of Interest Receivable on Treasury Bills     | (4,225,826)   | (115,829,935)   |
| (Increase)/ Decrease of Interest Receivable on Repo               | 37,184        | 78,824          |
| Increase/ (Decrease) of Payables                                  | (45,467,419)  | (33,592,805)    |
|   | (49,817,828)  | (76,149,090)    |
| Net Cash Inflow/ (Outflow) from Operating Activities              | 513,771,447   | 713,730,861     |
| <b>Cash Flows into Investing Activities</b>                       |               |                 |
| Investment in Treasury Bonds                                      | 193,295,259   | 355,702,976     |
| Investment in Treasury Bills                                      | (728,500,635) | (1,453,364,761) |
| Net Cash Inflow/ (Outflow) from Investing Activities              | (535,205,375) | (1,097,661,785) |
| Net Increase/ (Decrease) in Cash and Cash Equivalents             | (21,433,929)  | (383,930,924)   |
| Cash and Cash Equivalents at the beginning of the period (Note A) | 75,145,466    | 459,076,390     |
| Cash and Cash Equivalents at the end of the period (Note B)       | 53,711,537    | 75,145,466      |
| <b>Note (A)</b>   |               |                 |
| <b>Cash and Cash Equivalents at the beginning of the period</b>   |               |                 |
| Investments in Repo   | 73,757,104    | 452,265,730     |
| Cash at Bank  | 1,388,362     | 6,810,660       |
|   | 75,145,466    | 459,076,390     |
| <b>Note (B)</b>   |               |                 |
| <b>Cash and Cash Equivalents at the end of the period</b>         |               |                 |
| Investments in Repo   | 51,917,248    | 73,757,104      |
| Cash at Bank  | 1,794,289     | 1,388,362       |
|   | 53,711,537    | 75,145,466      |

The notes appearing on pages 98 to 102 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 was originally established under the Section 14B (1) 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, which was repealed and replaced by the section 156(1) of the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021.

Section 156 (1) of the SEC Act No. 19 of 2021 reads as 'There shall be established a fund called the "Cess Fund" to be administrated by the Commission to which shall be credited the proceeds of the Cess imposed under Section 155.'

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 156 (2) of the SEC Act No. 19 of 2021 the monies lying to the credit of the Cess Fund shall only be utilised for the purpose of:

- (a) developing the securities market;
- (b) enhancing monies lying to the credit of the Compensation Fund or the Fund of the Commission established under this part;
- (c) meeting all expenditure incurred by the Commission in the management, administration, and operation of the Commission in the exercise, performance and discharge of its duties and functions;
- (d) granting loans for housing, educational, health and transport purposes to the staff of the Commission as the Commission deems appropriate;

(e) to make contributions to pension and provident funds and other schemes established for the benefit of the Director General and its officers and servants and their dependents and nominees; and

(f) to defray the cost of the study, in Sri Lanka or abroad of the officers and servants of the Commission who are of proven merit as determined by the Commission.

Further, in terms of the Section 156 (3) of the SEC Act, any excess money lying to the credit of the Cess Fund may be invested by the Commission in such manner as may be determined by the Commission for the purpose of developing the Cess Fund.

#### 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 Cess Fund 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 Cess Fund 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 recognised 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 realisable 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 recognised in the Statement of Financial Performance on an accrual basis.

### 4.2 Other Income

Other income, if any is recognised on an accrual basis.

## 5 EXPENDITURE RECOGNITION

All expenditure of the Cess Fund is recognised 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 CAH AND CASH EQUIVALENTS

| For the year ended 31st December 2023 | 2023<br>Rs.       | 2022<br>Rs.       |
|---------------------------------------|-------------------|-------------------|
| Investments in Repo                   | 51,917,248        | 73,757,104        |
| Cash at Bank                          | 1,794,289         | 1,388,362         |
| <b>Total</b>                          | <b>53,711,537</b> | <b>75,145,466</b> |



## CESS fund of the Securities and Exchange Commission of Sri Lanka

### Notes to the Financial Statements

#### 8 INCOME TAX EXPENSE

| For the year ended 31st December 2023    | 2023<br>Rs.        | 2022<br>Rs.        |
|--|--------------------|--------------------|
| Income Tax Expense for the Y/A 2021/2022 | 0                  | (495,581)          |
| Income Tax Expense for the Y/A 2022/2023 | (514,193)          | 290,012,778        |
| Income Tax Expense for the Y/A 2023/2024 | 254,391,959        | 0                  |
| <b>Total</b>                             | <b>253,877,766</b> | <b>289,517,197</b> |

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

#### 9 CAPITAL COMMITMENTS

There were no capital commitments as at 31.12.2023.

#### 10 CONTINGENT LIABILITIES

There were no contingent liabilities as at 31.12.2023.

#### 11 EVENTS AFTER THE REPORTING DATE

No material events have occurred after the balance sheet date necessitating any adjustments to the financial statements.

#### 12 RELATED PARTY DISCLOSURES

The Cess Fund is managed by the Members of the Commission of the Securities and Exchange Commission of Sri Lanka.

The Chairman and Members of the Commission held office during the year 2023 as stated below;

- Mr. Faizal Salieh, Chairman an appointed Member with effect from 15th February 2023.
- Mr. Manil Jayasinghe, an Appointed Member with effect from 10th January 2022.

- Mr. Sujeewa Mudalige, an Appointed Member with effect from 24th February 2023.
  - Mr. Anton Godfrey, an appointed Member with effect from 24th February 2023.
  - 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.
  - Mr. Sanjeewa Dissanayake was appointed as an Ex-officio Member by virtue of him holding office as Registrar General of Companies.
  - Mrs. Yvette Fernando was appointed as an Ex-officio member by virtue of her holding office as Deputy Governor of the Central Bank of Sri Lanka.
  - Mr. Anthony Shanil Fernando, an appointed Member with effect from 24th February 2023.
  - Mrs. A. Nilanthi Jayaki De Alwis, an appointed Member with effect from 20th October 2023.
  - Mr. Heshana Kuruppu was appointed as an Ex-officio Member by virtue of him holding office as the President of Institute of Chartered Accountants of Sri Lanka with effect from 18th December 2023.
  - Mr. Rajeev Amarasooriya, an appointed Member with effect from 24th February 2023.
- The following Ex-officio Members of the Commission ceased to hold office as stated below.
- Mr. Viraj Dayaratne, PC, Chairman an appointed Member, ceased to hold office on 9th January 2023
  - Mr. Anthony Shanil Fernando, ceased to hold office on 24th August 2023
  - Mr. Rajeev Amarasooriya, ceased to hold office on 02nd May 2023.
  - Mr. Sanjaya Bandara, who was an Ex-officio member by virtue of him holding office as the President of Institute of Chartered Accountants of Sri Lanka, ceased to be a member with effect from 18th December 2023

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

| Name                             | Name of the Related Institution                            | Relationship  | Shareholding, if any |
|----------------------------------|--|---|----------------------|
| Mr. Faizal Salieh                | Settlement Guarantee Fund                                  | Trustee   | Nil                  |
|                                  | HNB General Insurance Ltd                                  | Independent Non-Executive Director upto 16 February .2023 | Nil                  |
|                                  | The Sri Lanka Institute of Directors                       | Chairman – Completed term in June 2023                    | Nil                  |
|                                  | The Sri Lanka Institute of Directors                       | Immediate Past Chairman with effect from June 2023        | Nil                  |
| Mr. Manil Jayasinghe             | Ernst & Young  | Managing Partner up to 30 June 2023                       | Nil                  |
|                                  | Diesel & Motor Engineering Co. LTD                         | Director with effect from September 2023                  | Nil                  |
|                                  | Ceylon Hospitals PLC                                       | Director with effect from October 2023                    | Nil                  |
|                                  | NMJ Leisure (Pvt) Ltd                                      | Director  | Nil                  |
| Mr. Sujeewa Mudalige             | CIC Holdings PLC   | Director  |                      |
|                                  | NDB PLC  |   |                      |
| Mr. Anton Godfrey                | Nil  | Nil   | Nil                  |
| Mrs. A. Nilanthi Jayaki De Alwis | Nil  | Nil   | Nil                  |
| Mr. R. M. P. Rathnayake          | General Treasury   | Deputy Secretary  | Nil                  |
|                                  | Settlement Guarantee Fund                                  | Trustee   | Nil                  |
|                                  | Bank of Ceylon   | Ex-Officio Member   |                      |
|                                  | Lotus Tower Management Company (Pvt) Limited               | Director  | Nil                  |
|                                  | National Credit Guarantee Institution Limited              | Chairman with effect from 02 June 2023                    | Nil                  |
| Mr. Sanjeewa Dissanayake         | The Department of the Registrar of Companies               | Registrar General of Companies                            | Nil                  |
|                                  | Insurance Regulatory Commission of Sri Lanka               |   | Nil                  |
|                                  | Accounting Standards Committee of the ICASL                | Ex-Officio Member   | Nil                  |
|                                  | Sri Lanka Accounting & Auditing Standards Monitoring Board |   | Nil                  |
| Ms. Yvette Fernando              | Central Bank of Sri Lanka                                  | Senior Deputy Governor                                    | Nil                  |
|                                  | Credit Information Bureau of Sri Lanka (CRIB)              | Chairperson   | Nil                  |
|                                  | Api Wenuwen Api Fund                                       | Member of Board Management                                | Nil                  |
|                                  | Insurance Regulatory Commission of Sri Lanka               | Commissioner  | Nil                  |
|                                  | Institute of Bankers of Sri Lanka                          | Chairperson   | Nil                  |
| Mr. Heshana Kuruppu              | Institute of Chartered Accountants of Sri Lanka            | President with effect from 18th December 2023             | Nil                  |
|                                  | David Pieris Holdings (Pvt) Ltd                            | Group Finance Director                                    | Nil                  |
|                                  | David Pieris Motor Company (Pvt) Ltd                       |   |                      |
|                                  | David Pieris Automobiles (Pvt) Ltd                         |   |                      |
|                                  | David Pieris Motor Company (Lanka) Ltd                     |   |                      |
|                                  | DP Infotech (Pvt) Ltd                                      | Non-Executive Director                                    | Nil                  |
|                                  | Electrozen Distributors (Pvt) Ltd                          |   |                      |
|                                  | Electrozen Global (Pvt) Ltd                                |   |                      |
|                                  | Affiniti Innovations (Pvt) Ltd                             | Non-Executive Chairman                                    | Nil                  |
|                                  | South Asian Federation of Accountants                      | Vice President  | Nil                  |

## CESS fund of the Securities and Exchange Commission of Sri Lanka

### Notes to the Financial Statements

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

| Name                        | Name of the Related Institution                 | Relationship                       | Shareholding, if any |
|-----------------------------|---|------------------------------------|----------------------|
| Mr. Viraj Dayaratne, PC     | Settlement Guarantee Fund                       | Trustee                            | Nil                  |
| Mr. Sanjaya Bandara         | Institute of Chartered Accountants of Sri Lanka | President until 18th December 2023 | Nil                  |
|                             | Prime Land Residencies PLC                      |                                    | Nil                  |
|                             | Abans Finance PLC                               | Independent Non-Executive Director | Nil                  |
|                             | Luminex PLC                                     |                                    | Nil                  |
| Mr. Anthony Shanil Fernando | Nil   | Nil                                | 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 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 31.12.2023 | Balance as at 31.12.2022 |
|--|----------------|--------------------------|--------------------------|
| Cess Fund of the Securities and Exchange Commission of Sri Lanka | 0009834430     | 758,577                  | 363,351                  |

The following investments were channeled through BOC during the year 2023.

| Investment Type    | Investments made in BOC during the year (Rs.) | Balance as at 31st December 2023 at BOC (Rs.) |
|--------------------|---|---|
| Treasury Bonds     | 0   | 3,010,320,651                                 |
| Treasury Bills     | 2,920,858,397                                 | 2,181,865,396                                 |
| Investment in Repo | 21,307,460,170                                | 51,917,248                                    |
| <b>Total</b>       | <b>24,228,318,567</b>                         | <b>5,244,103,295</b>                          |

# 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.

BAN/G/COM/FA/23/4

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

16 May 2024

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 2023 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 Compensation Fund of the Securities and Exchange Commission of Sri Lanka (“Fund”) for the year ended 31 December 2023 comprising the Statement of Financial Position as at 31 December 2023 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 material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. 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 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.





# Compensation Fund of the Securities and Exchange Commission of Sri Lanka

## Auditor General's Report



### 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.

# Compensation Fund of the Securities and Exchange Commission of Sri Lanka

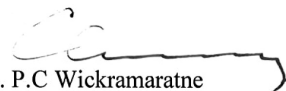
## Auditor General's Report



### 2. Report on Other Legal and Regulatory Requirements

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

- 2.1 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.
- 2.2 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

  
W. P.C Wickramaratne

Auditor General

# Statement of Financial Position

| As at 31st December 2023                               | Note | 2023<br>Rs.        | 2022<br>Rs.        |
|--|------|--------------------|--------------------|
| <b>Assets</b>  |      |                    |                    |
| <b>Non Current Assets</b>                              |      |                    |                    |
| Investment in Treasury Bonds                           |      | -                  | 369,424,068        |
| <b>Current Assets</b>                                  |      |                    |                    |
| Investment in Treasury Bonds                           |      | 364,797,020        | 24,816,310         |
| Investment in Treasury Bills                           |      | 316,298,243        | 201,936,911        |
| Interest Receivable on Treasury Bonds & Treasury Bills |      | 4,881,903          | 4,594,270          |
| Interest Receivable on Repo                            |      | 26,066,606         | 15,878,275         |
| Cess Receivable  |      | 841                | 8,460              |
| Cash and Cash Equivalents                              | 7    | 1,792,442          | 8,615,687          |
| <b>Total Assets</b>                                    |      | <b>713,837,055</b> | <b>625,273,981</b> |
| <b>Funds and Liabilities</b>                           |      |                    |                    |
| <b>Funds Employed and Reserves</b>                     |      |                    |                    |
| Accumulated Fund                                       |      | 687,591,834        | 609,508,687        |
| <b>Current Liabilities</b>                             |      |                    |                    |
| Payable to SEC - Income Tax                            |      | 26,047,221         | 15,563,294         |
| Audit Fees   |      | 198,000            | 202,000            |
| <b>Total Funds and Liabilities</b>                     |      | <b>713,837,055</b> | <b>625,273,981</b> |

The notes appearing on pages 111 to 115 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



**Nirosha Kodikara**  
Director Finance & Administration



**Chinthaka Mendis**  
Director General



**Faizal Salieh**  
Chairman

Colombo  
07th May 2024



## Compensation Fund of the Securities and Exchange Commission of Sri Lanka

# Statement of Financial Performance

| For the year ended 31st December 2023                 | Note | 2023<br>Rs.        | 2022<br>Rs.       |
|---|------|--------------------|-------------------|
| <b>Income</b>   |      |                    |                   |
| Interest on Treasury Bonds                            |      | 34,993,992         | 46,233,518        |
| Interest on Treasury Bills                            |      | 53,151,838         | 17,168,552        |
| Interest on Repo Investments                          |      | 6,051,914          | 1,157,502         |
| Compounded Fines Received during the year             |      | 17,900,000         | 10,400,000        |
| <b>Total Income</b>                                   |      | <b>112,097,744</b> | <b>74,959,572</b> |
| <b>Expenditure</b>                                    |      |                    |                   |
| Audit Fees  |      | (223,700)          | (200,000)         |
| Bank Charges  |      | (252,622)          | (72,180)          |
| <b>Total Expenditure</b>                              |      | <b>(476,322)</b>   | <b>(272,180)</b>  |
| <b>Excess of Income over Expenditure (Before Tax)</b> |      | <b>111,621,422</b> | <b>74,687,392</b> |
| Income Tax Expense                                    | 8    | (33,538,275)       | (20,749,823)      |
| <b>Excess of Income over Expenditure (After Tax)</b>  |      | <b>78,083,147</b>  | <b>53,937,569</b> |

The notes appearing on pages 111 to 115 form an integral part of the financial statements.

# Statement of Changes in Compensation Fund

| For the year ended 31st December 2023 | 2023<br>Rs.        | 2022<br>Rs.        |
|---------------------------------------|--------------------|--------------------|
| <b>Accumulated Fund</b>               |                    |                    |
| Balance at the beginning of the Year  | 609,508,687        | 555,571,118        |
| Excess of Income over Expenditure     | 78,083,147         | 53,937,569         |
| <b>Balance at the end of the Year</b> | <b>687,591,834</b> | <b>609,508,687</b> |

The notes appearing on pages 111 to 115 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 2023                              | 2023<br>Rs.      | 2022<br>Rs.      |
|--|------------------|------------------|
| <b>Cash Flows from Operating Activities</b>                        |                  |                  |
| Excess of Income over Expenditure                                  | 78,083,147       | 53,937,569       |
| Net Increase/ (Decrease) before Working Capital Changes            | 78,083,147       | 53,937,569       |
| <b>Change of Working Capital</b>                                   |                  |                  |
| (Increase)/ Decrease of Interest Receivable on Treasury Bonds      | (287,633)        | 8,407,946        |
| (Increase)/ Decrease of Interest Receivable on Treasury Bills      | (10,188,330)     | (15,878,275)     |
| (Increase)/ Decrease of Interest Receivable on Repo                | 7,620            | 4,945            |
| Increase/ (Decrease) of Payable to SEC                             | 10,483,926       | 9,717,762        |
| Increase/ (Decrease) of Other Payables                             | (4,000)          | 2,000            |
|  | 11,583           | 2,254,379        |
| Net Cash Inflow/ (Outflow) from Operating Activities               | 78,094,729       | 56,191,947       |
| <b>Cash Flows into Investing Activities</b>                        |                  |                  |
| Investment in Treasury Bonds                                       | 29,443,357       | 113,632,425      |
| Investment in Treasury Bills                                       | (114,361,332)    | (201,936,911)    |
| Net Cash Inflow/ (Outflow) from Investing Activities               | (84,917,975)     | (88,304,486)     |
| Net Increase/ (Decrease) in Cash and Cash Equivalents              | (6,823,245)      | (32,112,539)     |
| Cash and Cash Equivalents at the beginning of the period (Note A)  | 8,615,687        | 40,728,226       |
| <b>Cash and Cash Equivalents at the end of the period (Note B)</b> | <b>1,792,442</b> | <b>8,615,687</b> |
| <b>Note (A)</b>  |                  |                  |
| <b>Cash and Cash Equivalents at the beginning of the period</b>    |                  |                  |
| Investments in Repo  | 8,000,000        | 40,000,000       |
| Cash at Bank   | 615,687          | 728,226          |
|  | 8,615,687        | 40,728,226       |
| <b>Note (B)</b>  |                  |                  |
| <b>Cash and Cash Equivalents at the end of the period</b>          |                  |                  |
| Investments in Repo  | 1,200,000        | 8,000,000        |
| Cash at Bank   | 592,442          | 615,687          |
|  | 1,792,442        | 8,615,687        |

The notes appearing on pages 111 to 115 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 was established under the Section 38 (1) 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, which was repealed and replaced by the section 158(1) of the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021.

Section 158 (1) of the SEC Act. 19 of 2021 reads as 'There shall be established a fund called the "Compensation Fund", by the Commission for the purpose of granting limited compensation to any investor who suffers pecuniary loss as a result of any licensed stockbroker or licensed stock dealer being found by the Commission as being 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 158 (1) of the SEC Act No.19 of 2021, the purpose of establishing the Compensation Fund is to grant limited compensation to any investor who suffers pecuniary loss as a result of any licensed stockbroker or licensed stock dealer being found by the Commission as being incapable of meeting its contractual obligations.

Further, the Section 158 (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;

(b) such sums of money as may be credited to the Fund under the provisions of this Act; and

(c) such sums of money as may be credited from the Cess Fund as approved by the Commission.

In addition, in terms of the Section 158 (3) of the SEC Act, monies belonging to the Compensation Fund may be invested by the Commission in such manner as may be determined by the Commission.

### 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 Compensation Fund 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

# Compensation Fund of the Securities and Exchange Commission of Sri Lanka

## Notes to the Financial Statements

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 recognised 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 realisable 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 recognised 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 recognised on cash basis.

### 4.3 Other Income

Other income, if any is recognised on an accrual basis.

## 5 EXPENDITURE RECOGNITION

All expenditure of the Compensation Fund is recognised 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 CASH AND CASH EQUIVALENTS

| For the year ended 31st December 2023 | 2023<br>Rs.      | 2022<br>Rs.      |
|---------------------------------------|------------------|------------------|
| Investments in Repo                   | 1,200,000        | 8,000,000        |
| Cash at Bank                          | 592,442          | 615,687          |
| <b>Total</b>                          | <b>1,792,442</b> | <b>8,615,687</b> |



## 8 INCOME TAX EXPENSE

| For the year ended 31st December 2023    | 2023<br>Rs.       | 2022<br>Rs.       |
|--|-------------------|-------------------|
| Income Tax Expense for the Y/A 2022/2023 | 51,849            | 20,749,823        |
| Income Tax Expense for the Y/A 2023/2024 | 33,486,426        | -                 |
| <b>Total</b>                             | <b>33,538,275</b> | <b>20,749,823</b> |

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

### 9 CAPITAL COMMITMENTS

There were no capital commitments as at 31.12.2023.

### 10 CONTINGENT LIABILITIES

There were no contingent liabilities as at 31.12.2023.

### 11 EVENTS AFTER THE REPORTING DATE

No material events have occurred after the balance sheet date necessitating any adjustments to the financial statements.

### 12 RELATED PARTY DISCLOSURES

The Compensation Fund is managed by the Members of the Commission of the Securities and Exchange Commission of Sri Lanka.

The Chairman and Members of the Commission held office during the year 2023 as stated below;

- Mr. Faizal Salieh, Chairman an appointed Member with effect from 15th February 2023.

- Mr. Manil Jayasinghe, an Appointed Member with effect from 10th January 2022.

- Mr. Sujeewa Mudalige, an Appointed Member with effect from 24th February 2023.

- Mr. Anton Godfrey, an appointed Member with effect from 24th February 2023.

- 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.

- Mr. Sanjeewa Dissanayake was appointed as an Ex-officio Member by virtue of him holding office as Registrar General of Companies.

- Mrs. Yvette Fernando was appointed as an Ex-officio member by virtue of her holding office as Deputy Governor of the Central Bank of Sri Lanka.

- Mr. Anthony Shanil Fernando, an appointed Member with effect from 24th February 2023.

- Mrs. A. Nilanthi Jayaki De Alwis, an appointed Member with effect from 20th October 2023.

- Mr. Heshana Kuruppu was appointed as an Ex-officio Member by virtue of him holding office as the President of Institute of Chartered Accountants of Sri Lanka with effect from 18th December 2023.

- Mr. Rajeev Amarasooriya, an appointed Member with effect from 24th February 2023.

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

- Mr. Viraj Dayaratne, PC, Chairman an appointed Member, ceased to hold office on 9th January 2023.

- Mr. Anthony Shanil Fernando, ceased to hold office on 24th August 2023

- Mr. Rajeev Amarasooriya, ceased to hold office on 02nd May 2023.

- Mr. Sanjaya Bandara, who was an Ex-officio member by virtue of him holding office as the president of Institute of Chartered Accountants of Sri Lanka, ceased to be a member with effect from 18th December 2023.

## Compensation Fund of the Securities and Exchange Commission of Sri Lanka

### Notes to the Financial Statements

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

| Name                             | Name of the Related Institution                            | Relationship                                       | Shareholding, if any |     |
|----------------------------------|--|--|----------------------|-----|
| Mr. Faizal Salieh                | Settlement Guarantee Fund                                  | Trustee  | Nil                  |     |
|                                  | HNB General Insurance Ltd                                  | Independent Non-Executive Director upto 16.02.2023 | Nil                  |     |
|                                  | The Sri Lanka Institute of Directors                       | Chairman – Completed term in June 2023             | Nil                  |     |
|                                  | The Sri Lanka Institute of Directors                       | Immediate Past Chairman with effect from June 2023 | Nil                  |     |
| Mr. Manil Jayasinghe             | Ernst & Young  | Managing Partner up to 30.06.2023                  | Nil                  |     |
|                                  | Diesel & Motor Engineering Co. LTD                         | Director with effect from September 2023           | Nil                  |     |
|                                  | Ceylon Hospitals PLC                                       | Director with effect from October 2023             | Nil                  |     |
|                                  | NMJ Leisure (Pvt) Ltd                                      | Director   | Nil                  |     |
| Mr. Sujeewa Mudalige             | CIC Holdings PLC   | Director   | Nil                  |     |
|                                  | NDB PLC  |  | Nil                  |     |
| Mr. Anton Godfrey                | Nil  | Nil  | Nil                  |     |
| Mrs. A. Nilanthi Jayaki De Alwis | Nil  | Nil  | Nil                  |     |
|                                  | Nil  | Nil  | Nil                  |     |
| Mr. R. M. P. Rathnayake          | General Treasury   | Deputy Secretary                                   | Nil                  |     |
|                                  | Settlement Guarantee Fund                                  | Trustee  | Nil                  |     |
|                                  | Bank of Ceylon   | Ex-Officio Member                                  | Nil                  |     |
|                                  | Lotus Tower Management Company (Pvt) Limited               | Director   | Nil                  |     |
|                                  | National Credit Guarantee Institution Limited              | Chairman with effect from 02 June 2023             | Nil                  |     |
| Mr. Sanjeewa Dissanayake         | The Department of the Registrar of Companies               | Registrar General of Companies                     | Nil                  |     |
|                                  | Insurance Regulatory Commission of Sri Lanka               |  | Nil                  |     |
|                                  | Accounting Standards Committee of the CA Sri Lanka         |  | Ex-Officio Member    | Nil |
|                                  | Sri Lanka Accounting & Auditing Standards Monitoring Board |  | Nil                  |     |
| Ms. Yvette Fernando              | Central Bank of Sri Lanka                                  | Senior Deputy Governor                             | Nil                  |     |
|                                  | Credit Information Bureau of Sri Lanka (CRIB)              | Chairperson  | Nil                  |     |
|                                  | Api Wenuwen Api Fund                                       | Member of Board Management                         | Nil                  |     |
|                                  | Insurance Regulatory Commission of Sri Lanka               | Commissioner                                       | Nil                  |     |
|                                  | Institute of Bankers of Sri Lanka                          | Chairperson  | Nil                  |     |
| Mr. Heshana Kuruppu              | Institute of Chartered Accountants of Sri Lanka            | President with effect from 18th December 2023      | Nil                  |     |
|                                  | David Pieris Holdings (Pvt) Ltd                            | Group Finance Director                             | Nil                  |     |
|                                  | David Pieris Motor Company (Pvt) Ltd                       |  |                      |     |
|                                  | David Pieris Automobiles (Pvt) Ltd                         |  |                      |     |
|                                  | David Pieris Motor Company (Lanka) Ltd                     |  |                      |     |
|                                  | DP Infotech (Pvt) Ltd                                      | Non-Executive Director                             | Nil                  |     |
|                                  | Electrozen Distributors (Pvt) Ltd                          |  |                      |     |
|                                  | Electrozen Global (Pvt) Ltd                                |  |                      |     |
|                                  | Affiniti Innovations (Pvt) Ltd                             |  |                      |     |
|                                  | South Asian Federation of Accountants                      | Non-Executive Chairman                             | Nil                  |     |
|                                  | Vice President   | Nil  |                      |     |

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

| Name                        | Name of the Related Institution                 | Relationship                       | Shareholding, if any |
|-----------------------------|---|------------------------------------|----------------------|
| Mr. Viraj Dayaratne, PC     | Settlement Guarantee Fund                       | Trustee                            | Nil                  |
| Mr. Sanjeewa Dissanayake    | Institute of Chartered Accountants of Sri Lanka | President until 18th December 2023 | Nil                  |
|                             | Prime Land Residencies PLC                      |                                    | Nil                  |
|                             | Abans Finance PLC                               | Independent Non-Executive Director | Nil                  |
|                             | Luminex PLC                                     |                                    | Nil                  |
| Mr. Anthony Shanil Fernando | Nil   | Nil                                | 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 Compensation 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 31.12.2023 | Balance as at 31.12.2022 |
|--|----------------|--------------------------|--------------------------|
| Compensation Fund of the Securities and Exchange Commission of Sri Lanka | 75433985       | 592,441                  | 615,687                  |

The following investments were channeled through BOC during the year 2023.

| Investment Type    | Investments made in BOC during the year (Rs.) | Balance as at 31st December 2023 at BOC (Rs.) |
|--------------------|---|---|
| Treasury Bonds     | 0   | 369,424,068                                   |
| Treasury Bills     | 347,189,119                                   | 316,298,243                                   |
| Investment in Repo | 1,806,216,154                                 | 1,200,000                                     |
| <b>Total</b>       | <b>2,153,405,273</b>                          | <b>686,922,311</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.

BAN/G/SGF/FA/23/5

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

16 May 2024

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 Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka for the year ended 31 December 2023 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 2023 comprising the Statement of Financial Position as at 31 December 2023 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 material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with 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 2023, 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.



## Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka

### Auditor General's Report



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.

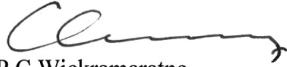
I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



## 2. Report on Other Legal and Regulatory Requirements

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

- 2.1 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.
- 2.2 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.



W. P.C Wickramaratne

Auditor General

## Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka

# Statement of Financial Position

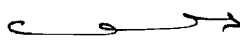
| As at 31st December 2023              | Note | 2023<br>Rs.          | 2022<br>Rs.          |
|---------------------------------------|------|----------------------|----------------------|
| <b>Assets</b>                         |      |                      |                      |
| <b>Non Current Assets</b>             |      |                      |                      |
| Investments in Treasury Bonds         |      | -                    | 90,631,135           |
| Investments in Fixed Deposits         |      | -                    | 300,000,000          |
| <b>Current Assets</b>                 |      |                      |                      |
| Investments in Treasury Bonds         |      | 90,631,135           | 104,229,240          |
| Investments in Treasury Bills         |      | 1,146,692,978        | 555,183,888          |
| Interest Receivable on Treasury Bond  |      | 4,937,500            | 8,451,206            |
| Interest Receivable on Fixed Deposits |      | -                    | 50,054,797           |
| Interest Receivable on Treasury Bills |      | 76,718,382           | 44,371,549           |
| Interest Receivable on Repo           |      | 2,242                | 9,519                |
| Cash and Cash Equivalents             | 5    | 3,783,399            | 9,412,567            |
| <b>Total Assets</b>                   |      | <b>1,322,765,636</b> | <b>1,162,343,902</b> |
| <b>Funds and Liabilities</b>          |      |                      |                      |
| <b>Funds Employed and 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                      |      | 1,028,305,407        | 891,173,149          |
| <b>Current Liabilities</b>            |      |                      |                      |
| Income Tax Payable                    | 6    | 32,999,470           | 20,970,753           |
| Payable to SEC                        |      | 11,262,760           | 0                    |
| Audit Fees Payable                    |      | 198,000              | 200,000              |
| <b>Total Funds and Liabilities</b>    |      | <b>1,322,765,636</b> | <b>1,162,343,902</b> |

The notes appearing on pages 124 to 126 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

  
 Nirosha Kodikara  
 Director Finance & Administration

  
 Chinthaka Mendis  
 Director General

  
 Faizal Salieh  
 Chairman

Colombo  
 07th May 2024

# Statement of Financial Performance

| For the year ended 31st December 2023                 | Note | 2023<br>Rs.        | 2022<br>Rs.        |
|---|------|--------------------|--------------------|
| <b>Income</b>   |      |                    |                    |
| Interest on Investments - Repurchase Agreements       |      | 18,650,158         | 4,438,743          |
| Interest on Investments - Treasury Bonds              |      | 11,612,198         | 41,994,928         |
| Interest on Investments - Treasury Bills              |      | 153,122,102        | 47,443,738         |
| Interest on Investments - Fixed Deposits              |      | 13,054,518         | 19,273,973         |
| <b>Total Income</b>                                   |      | <b>196,438,976</b> | <b>113,151,382</b> |
| <b>Expenditure</b>                                    |      |                    |                    |
| Audit Fees  |      | (225,700)          | (291,000)          |
| Bank Charges  |      | (292,036)          | (106,480)          |
| <b>Total Expenditure</b>                              |      | <b>(517,736)</b>   | <b>(397,480)</b>   |
| <b>Excess of Income over Expenditure (Before Tax)</b> |      | <b>195,921,240</b> | <b>112,753,901</b> |
| Income Tax Expense                                    | 7    | (58,788,983)       | (28,067,832)       |
| <b>Excess of Income over Expenditure (After Tax)</b>  |      | <b>137,132,257</b> | <b>84,686,069</b>  |

The notes appearing on pages 124 to 126 form an integral part of the financial statements.

## Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka

# Statement of Changes in Net Assets

| For the year ended 31st December 2023          | 2023<br>Rs.          | 2022<br>Rs.        |
|--|----------------------|--------------------|
| <b>Accumulated Fund</b>                        |                      |                    |
| Balance at the beginning of the year           | 891,173,149          | 806,487,080        |
| Excess of Income over Expenditure for the year | 137,132,257          | 84,686,069         |
| <b>Balance at the end of the year</b>          | <b>1,028,305,407</b> | <b>891,173,149</b> |

The notes appearing on pages 124 to 126 form an integral part of the financial statements.



# Cash Flow Statement

| For the year ended 31st December 2023                                | 2023<br>Rs.      | 2022<br>Rs.        |
|--|------------------|--------------------|
| <b>Cash Flow from Operating Activities</b>                           |                  |                    |
| Excess of Income over Expenditure                                    | 137,132,257      | 84,686,069         |
| Net Increase/ (Decrease) before Working Capital Changes              | 137,132,257      | 84,686,069         |
| <b>Change of Working Capital</b>                                     |                  |                    |
| (Increase)/ Decrease of Other Receivables                            | 21,228,948       | (53,989,850)       |
| Increase/ (Decrease) of Payables                                     | 23,289,477       | 11,666,606         |
|  | 44,518,425       | (42,323,244)       |
| Net Cash Inflow/ (Outflow) from Operating Activities                 | 181,650,682      | 42,362,826         |
| <b>Cash Flow from Investing Activities</b>                           |                  |                    |
| Investments in Treasury Bonds  | 104,229,240      | 278,775,190        |
| Investments in Fixed Deposits  | 300,000,000      | 0                  |
| Investments in Treasury Bills  | (591,509,090)    | (555,183,888)      |
| Net Cash Inflow/ (Outflow) from Investing Activities                 | (187,279,850)    | (276,408,698)      |
| Net Increase/ (Decrease) in Cash and Cash Equivalents                | (5,629,168)      | (234,045,873)      |
| Cash & Cash Equivalents at the beginning of the period (Note A)      | 9,412,567        | 243,458,440        |
| <b>Cash &amp; Cash Equivalents at the end of the period (Note B)</b> | <b>3,783,399</b> | <b>9,412,567</b>   |
| <b>Note (A)</b>  |                  |                    |
| <b>Cash &amp; Cash Equivalents at the beginning of the period</b>    |                  |                    |
| Investments in Repo  | 9,000,001        | 242,950,000        |
| Cash at Bank   | 412,566          | 508,440            |
| <b>Total</b>   | <b>9,412,567</b> | <b>243,458,440</b> |
| <b>Note (B)</b>  |                  |                    |
| <b>Cash &amp; Cash Equivalents at the end of the period</b>          |                  |                    |
| Investments in Repo  | 3,200,001        | 9,000,001          |
| Cash at Bank   | 583,398          | 412,566            |
| <b>Total</b>   | <b>3,783,399</b> | <b>9,412,567</b>   |

The notes appearing on pages 124 to 126 form an integral part of the financial statements.

# Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka

## 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 established in 1998 by virtue of the Deed of Trust No. 1376, as amended. 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 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.

#### 1.4 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.

### 1.5 CHANGES IN ACCOUNTING POLICIES

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

### 1.6 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 realisable 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 recognised on an accrual basis.

#### 4.2 EXPENDITURE RECOGNITION

All expenditure incurred in maintaining the SGF has been recognised 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. CASH AND CASH EQUIVALENTS

| For the year ended 31st December 2023 | 2023<br>Rs.      | 2022<br>Rs.      |
|---------------------------------------|------------------|------------------|
| Investments in Repo                   | 3,200,001        | 9,000,001        |
| Cash at Bank                          | 583,398          | 412,566          |
| <b>Total</b>                          | <b>3,783,399</b> | <b>9,412,567</b> |

### 6. INCOME TAX PAYABLE

| For the year ended 31st December 2023    | 2023<br>Rs.       | 2022<br>Rs.       |
|--|-------------------|-------------------|
| Income Tax Payable for the Y/A 2021/2022 | (101,382)         | (101,382)         |
| Income Tax Payable for the Y/A 2022/2023 | 0                 | 20,970,753        |
| Income Tax Payable for the Y/A 2023/2024 | 33,100,852        | 0                 |
| <b>Total</b>                             | <b>32,054,470</b> | <b>20,970,753</b> |

## 7. INCOME TAX EXPENSE

| For the year ended 31st December 2023    | 2023<br>Rs.       | 2022<br>Rs.       |
|--|-------------------|-------------------|
| Income Tax Expense for the Y/A 2022/2023 | 12,611            | 28,067,832        |
| Income Tax Expense for the Y/A 2023/2024 | 58,776,372        | 0                 |
| <b>Total</b>                             | <b>58,788,983</b> | <b>28,067,832</b> |

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

## 8. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2023.

## 9. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2023.

## 10. EVENTS AFTER THE REPORTING DATE

The Trustees monitor events closely and where necessary adjustments or disclosures are made in the current

financial statements in respect of material post balance sheet events as appropriate.

## 11. RELATED PARTY DISCLOSURE

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

The following Trustees of the SGF held office during the year 2023;

- Mr. Faizal Salieh, Chairman SEC
- Mr. Chinthaka Mendis, Director General of SEC
- Mr. Dilshan Wirasekara, Chairman CSE
- Mr. Rajeeva Bandaranaike, Chief Executive Officer CSE
- Mr. R.M.P. Rathnayake, Commissioner SEC and the Deputy Secretary to the Treasury

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

| Name   | Name of the Related Institution                 | Relationship  | Shareholding, if any |
|--|---|---|----------------------|
| Mr. Faizal Salieh                            | Securities and Exchange Commission of Sri Lanka | Chairman  | Nil                  |
|  | HNB General Insurance Ltd                       | Independent Non-Executive Director up to 16 February 2023 | Nil                  |
|  | The Sri Lanka Institute of Directors            | Chairman – Completed term in June 2023                    | Nil                  |
|  | The Sri Lanka Institute of Directors            | Immediate Past Chairman with effect from June 2023        | Nil                  |
| Mr. Dilshan Wirasekara                       | Colombo Stock Exchange                          | Chairman  | Nil                  |
|  | Hatter Corp (pvt) Ltd                           | Director  | 16.67%               |
|  | The Central Depository Systems (pvt) Ltd        | Chairman  | Nil                  |
|  | First Capital Limited                           | Managing Director/ CEO                                    | Nil                  |
|  | First Capital Treasuries PLC                    | Non Executive Director                                    | Nil                  |
|  | First Capital Advisory Services (pvt) Ltd       | Managing Director   | Nil                  |
|  | First Capital Holding PLC                       | Managing Director/ CEO                                    | Nil                  |
|  | First Capital Asset Management Ltd              | Managing Director/ CEO                                    | Nil                  |
|  | First Capital Markets Limited                   | Director/ CEO   | Nil                  |
|  | First Capital Equities (pvt) Limited            | Managing Director   | Nil                  |
| First Capital Trustee Services (pvt) Limited | Director/ CEO                                   | Nil   |                      |

## Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka

### Notes to the Financial Statements

| Name                     | Name of the Related Institution                              | Relationship                           | Shareholding, if any |
|--------------------------|--|--|----------------------|
| Mr. Rajeeva Bandaranaike | Colombo Stock Exchange                                       | Chief Executive Officer                | Nil                  |
|                          | Lanka Financial Services Bureau Limited                      | Director                               | Nil                  |
| Mr. R. M. P. Rathnayake  | General Treasury   | Deputy Secretary to the Treasury       | Nil                  |
|                          | Securities and Exchange Commission of Sri Lanka              | Ex-Officio Member                      | Nil                  |
|                          | Bank of Ceylon   |  | Nil                  |
|                          | Lotus Tower Management Company (Pvt) Limited                 | Director                               | Nil                  |
|                          | National Credit Guarantee Institution Limited                | Chairman with effect from 02 June 2023 | Nil                  |
| Mr.Chinthaka Mendis      | Securities and Exchange Commission of Sri Lanka              | Director General                       | Nil                  |
|                          | Sri Lanka Accounting and Auditing Standards Monitoring Board | Ex-officio Member                      | Nil                  |
|                          | Construction Guarantee Fund                                  | Trustee                                | Nil                  |

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

| Name                   | Name of the Related Institution                 | Relationship                    | Shareholding, if any |
|------------------------|---|---------------------------------|----------------------|
| Mr. Viraj Dayaratne PC | Securities and Exchange Commission of Sri Lanka | Chairman until 9th January 2023 | 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 31.12.2023 | Balance as at 31.12.2022 |
|--|----------------|--------------------------|--------------------------|
| Settlement Guarantee Fund of the Securities and Exchange Commission of Sri Lanka | 1833           | 583,398                  | 412,566                  |

The following investments were channeled through BOC during the year 2023.

| Investment Type    | Investments made in BOC during the year (Rs.) | Balance as at 31st December 2023 at BOC (Rs.) |
|--------------------|---|---|
| Treasury Bonds     | -   | 90,631,135                                    |
| Treasury Bills     | 1,228,296,019                                 | 1,146,692,978                                 |
| Investment in Repo | 5,749,189,375                                 | 3,200,001                                     |
| <b>Total</b>       | <b>6,977,485,394</b>                          | <b>1,240,524,114</b>                          |

# Corporate Information

**Office Address**

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

**Telephone**

+94 11 2143843

**Fax**

+94 11 2439149

**E-mail**

mail@sec.gov.lk

**Web**

www.sec.gov.lk

**Accounting Year**

Year ended 31st December 2023

**Auditors**

The Auditor General

**Bankers**

Bank of Ceylon  
Sampath Bank PLC  
Commercial Bank of Ceylon PLC  
Hatton National Bank PLC

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