

PART III

PART III

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02 / 04 / 002 / 0005 / 003Bank Supervision Department
21st January 2003*To : All Licensed Commercial Banks*

Dear Sir/Madam

BANKING ACT NO. 30 OF 1988
MONTHLY STATEMENT OF LIQUID ASSETS FOR THE OFF-SHORE BANKING UNIT

Reference the Circular dated 24 December 2002, regarding the application of the provisions under Section 21(2) of the Banking Act, No. 30 of 1988 to the off shore banking business of Licensed Commercial Banks, with effect from January 2003.

In terms of the provisions of the above Section, all Licensed Commercial Banks are required to submit a separate monthly return in respect of their off-shore banking business, indicating the total liabilities and the volume of liquid assets maintained by the Off-shore Banking Unit. Your attention is invited to the need to maintain the liquid asset in respect of the off-shore banking business in foreign currency. The return should be denominated in US Dollars, whilst the liquid asset components and the format of the return would be the same as for the Domestic Banking Unit. In view of the fact that the determination would come into operation with effect from 31 January 2003, the first return for the month of January 2003, should be forwarded to the undersigned by 15 February 2003.

You are hereby informed that the penalty for any shortfall in the Statutory Liquid Assets Ratio in terms of Section 21(3) would also be payable in foreign currency.

Yours faithfully,

*Director of Bank Supervision***02 / 04 / 003 / 0400 / 001**Bank Supervision Department
30th January 2003*To : All Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam

**PUBLIC DISCLOSURE BY PUBLICATION OF FINANCIAL STATEMENTS IN
THE PRESS**

I refer to the discussion of the above subject at the meeting of the Chief Executive Officers of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) held on 05.12.2002 and 23.01.2003, and the agreement to publish the financial statements of banks in the press on a quarterly basis.

All LCBs and LSBs are hereby informed that the financial statements of the respective banks should be published in the press on a quarterly basis within two months of the close of the quarter.

While the Banks are encouraged to make any additional voluntary disclosures the format applicable to the publication of half yearly accounts and the guidelines dated 15.08.2001 will be applicable.

With regard to the medium of publication, banks may publish the financial statements in the daily English Newspapers. However, the banks are encouraged to publish the financial statements in Sinhala and/or Tamil to suit the bank's requirements.

This guideline becomes effective from 01.01.2003. Please acknowledge receipt of this letter.

Yours faithfully,

Director of Bank Supervision

02 / 04 / 004 / 0012 / 001

Bank Supervision Department
12th June 2003

*To : All Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam

ACCEPTANCE OF CERTIFICATES OF DEPOSIT

We refer to the discussions held at the Bank Managers' meetings on the above subject and the need to adhere to Know-Your-Customer rules (KYC) in respect of acceptance of certificates of deposits (CDs).

All licensed commercial banks and licensed specialised banks are hereby informed that they may satisfy themselves with KYC in respect of customers who invest in CDs with banks, and maintain records of adequate details pertaining to customer identification of the persons making investment in CDs with the banks, and of persons encashing the CDs from the banks at the date of maturity. The banks are requested to refrain from advertising the issue of CDs with anonymity.

The operating instructions BD/13/93 dated 5/10/1993 issued by the Central Bank on the Scheme of Certificates of Deposit will remain effective.

Yours faithfully,

Actg. Director of Bank Supervision

02 / 04 / 004 / 0012 / 001Bank Supervision Department
16th June 2003*To : All Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam

ACCEPTANCE OF CERTIFICATES OF DEPOSIT

Further to our letter No. 02/04/004/0012/001 dated June 12, 2003 on the above subject, all licensed commercial banks and licensed specialised banks are hereby informed that they should satisfy themselves with KYC in respect of customers who invest in CDs with banks, and maintain records of adequate details pertaining to customer identification of the persons making investment in CDs with the banks, and of persons encashing the CDs from the banks at the date of maturity. The banks are requested to refrain from advertising the issue of CDs with anonymity.

The operating instructions BD/13/93 dated 5/10/1993 issued by the Central Bank on the Scheme of Certificates of Deposit will remain effective.

Yours faithfully,

*Actg. Director of Bank Supervision***02 / 04 / 004 / 0012 / 001**Bank Supervision Department
23rd July 2003*To : All Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam

ACCEPTANCE OF CERTIFICATE OF DEPOSIT (CDS)

Further to our even numbered letters dated 12 June and 16 June 2003 on the above subject, and the discussions at the monthly meeting of the Chief Executive Officers of Licensed Commercial Banks (LCBs) and Licensed Commercial Banks (LSBs).

All LCBs and LSBs are hereby informed that the requirement to maintain details pertaining to customer identification of persons encashing CDs shall not apply in respect of CDs issued before 30 June 2003.

Yours faithfully,

Director of Bank Supervision

Bank Supervision Department
15th August 2003

To : All Licensed Commercial Banks and
Licensed Specialised Banks & SLBA

**AMENDMENT TO DIRECTIONS ON SUSPENSION OF INTEREST ON
NON-PERFORMING ADVANCES AND CLASSIFICATION OF BAD AND DOUBTFUL
ADVANCES FOR PROVISIONING PURPOSES**

As discussed at the meeting of the Chief Executive Officers of Licensed Commercial Banks and Licensed Specialised Banks held on 23 January 2003 and subsequently, the attached amendment to the above Directions is introduced, and would take effect from 01 January 2004.

Please acknowledge receipt.

Director of Bank Supervision

VALUATION OF SECURITIES FOR PROVISIONING PURPOSES

**Amendment to Directions issued under Section 46A of the Banking Act, No. 30 of 1988
as amended by Banking Amendment Act, No. 33 of 1995**

Section 1 of Schedule II of the above Direction will be replaced with the following paragraph with effect from 01.01.2004.

1. Primary Mortgage Over Property

- (i) At the time of first provisioning for a loan, only 75% of the forced sale value (FSV) of the property based on a current professional valuation report can be considered as the value of security (*i.e.* an initial haircut of 25% will be applied);
- (ii) When an advance is transferred to the 'Loss' category, the following progressive discounts will apply to the forced sale value of immovable property held as collateral, based on a current professional valuation report, depending on the time period for which it remains in the 'Loss' category:

<i>No. of years in loss category</i>	<i>% of FSV of immovable property that can be counted as the value of security</i>
1-2 years	60%
2-3 years	50%
3-4 years	40%

All immovable property held as collateral, relating to loans in the Loss category for more than 4 years should be reviewed on a regular basis, and discounted further at the discretion of the Management.

Note: A 'Current professional valuation report',

- i.* In respect of loans granted against residential property which is occupied by the borrower for residential purposes is a report that is not more than four years old.
- ii.* In respect of loans granted for all other purposes is a report that is not more than three years old.

Colombo
15 August, 2003

Sgd. A S Jayawardena
Governor

Bank Supervision Department
8th October 2003

To : All Licensed Commercial Banks

Dear Sir / Madam

MONTHLY STATEMENT OF LIQUID ASSETS
FOR THE OFF-SHORE BANKING UNIT

Further to our letter dated 21 January 2003, and the discussion on the above subject at the Meeting of the Chief Executive Officers of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs), all LCBs are informed as follows:

1. Monthly Return on Liquid Assets - Since the liabilities of the Off-shore Banking Unit (OSBU) are in foreign currency, the liquid assets for meeting the Statutory Liquid Assets Ratio (SLAR) shall also be in foreign currency. A separate return indicating the SLAR for the OSBU in respect of each month, computed on the same basis as for the DBU shall be submitted each month.
2. Placements of the Domestic Banking Unit (DBU) with own OSBU - In computing the liquid assets ratio of the Domestic Banking Unit, placements of the DBU of a LCB with its own OSBU will be limited to 20%. The full amount of the placements should be included in the liability base of the OSBU.
3. Liquid Assets of the OSBU - Banks are required to ensure that the liquid assets included in the computation fall within the meaning of defined liquid assets. In this regard, the following could be considered:
 - a. Securities/Bonds issued by Foreign Governments maturing within 1 year
 - b. Other debt securities and Bonds, maturing within 1 year, which are traded on an exchange, or have an investment grade rating, or are backed by a standby credit facility from a banking institution.

Such investments, which are not already defined as liquid assets, could be included with the prior approval of the Central Bank of Sri Lanka.

Yours faithfully,

Director of Bank Supervision

Bank Supervision Department
20th October 2003

To : All Foreign Bank Branches

Dear Sir

INTERNAL AUDIT FUNCTION

The Basel Committee on Banking Supervision has continuously emphasised the importance of the internal audit function as a vital component of an efficient internal control mechanism in banks. Internal auditing is defined as an “independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a

systemic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.

An effective internal audit function within a bank would be a valuable source of information for bank management and supervisors, as it would indicate the quality of the internal control system of the bank.

In the light of the foregoing, I am directed by the Monetary Board to ensure that all banks have an effective internal audit function in place. Accordingly, all branches of Foreign Banks operating in Sri Lanka are hereby requested to ensure that an Internal Audit Unit of their own is established, or in the absence of the same the Head Office or the Regional Office of such bank carries out an audit of the branch at least annually.

Yours faithfully,

Director of Bank Supervision

02 / 05 / 006 / 0100 / 001

Bank Supervision Department
28th October 2003

*To : All Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam

DISPLAY OF INTEREST RATES AND EXCHANGE RATES

The Central Bank of Sri Lanka welcomes the efforts made by banks to publish their deposit and lending rates. You would no doubt appreciate that adequate market information is vital for improving market efficiency and in promoting healthy competition.

As another step forward in this direction, all licensed commercial banks and specialised banks are requested to compile a representative list of their interest rates on deposits and advances and their buying and selling rates for foreign currencies and to display such information to the general public in all branches and other banking outlets. You would recall that we agreed at an earlier Bank Managers' Meeting to follow this practice, but it is observed that not all banks adequately do so.

All licensed commercial banks and specialised banks are informed that the display of interest rates and exchange rates of banks should commence from 1st January, 2004 the latest. A format suggested for the display of information is enclosed herewith.

Please forward a copy of the list of interest rates and exchange rates displayed to this Department periodically as and when it is revised.

Yours faithfully,

Director of Bank Supervision

Suggested Format for the Display of Interest Rates and Exchange Rates**Bank**

Interest Rates on Deposits [per cent per annum]	Rate as at
Savings Deposits Fixed Deposits - 12 months Interest payable monthly Interest payable at maturity NRFC Savings Deposits - US Dollar - Sterling Pound NRFC One Year Fixed Deposits - US Dollar - Sterling Pound	

Interest Rates on Advances [per cent per annum]	Rate as at
Export Bill Finance - Rupee Facilities Import Bill Finance - Rupee Facilities Lease Finance Lending to Medium Scale Industries (up to 5 years) Residential Housing Pawning US Dollar Loans to Exporters	

Exchange Rates	Rate : Rupees per unit of Foreign Currency as at			
	Currency		Traveller's Cheques	
	Buying Rate	Selling Rate	Buying Rate	Selling Rate
US Dollar Sterling Pound Yen Euro Australian Dollar Singapore Dollar Indian Rupee				

Ref. : 02 / 04 / 002 / 0005 / 003

Bank Supervision Department
21st November 2003*To : All Licensed Commercial Banks and
Licensed Specialised Banks*

Dear Sir / Madam

CAPITAL FUNDS IN RELATION TO PRUDENTIAL LIMITS

All licensed commercial banks and licensed specialised banks are hereby required to ensure that the risk exposures tied to capital funds are maintained within the specified prudential limits of actual capital funds at all times.

Yours faithfully,
Director of Bank Supervision

Bank Supervision Department
24th November 2003

To : *All Licensed Commercial Banks
incorporated in Sri Lanka*

Dear Sir / Madam

BANKING ACT (SINGLE BORROWER LIMIT) DIRECTIONS NO.2 OF 1999

I enclose herewith an amendment to the above Direction, which would take effect immediately.

Yours faithfully,

Director of Bank Supervision

**AMENDMENT TO BANKING ACT (SINGLE BORROWER LIMIT)
DIRECTION NO. 2 OF 1999**

The Single Borrower Limit Direction No. 2 of 1999, issued under Section 46 (1)(c) of the Banking Act is hereby amended by the insertion of the following paragraphs as paragraph 3A and 3B:

- 3A. Where a licensed commercial bank incorporated in Sri Lanka increases its capital funds subsequently through:
- I. funds realised from a new share issue or a rights issue, such increased capital may be considered for the computation of the Single Borrower Limit under paragraph 3 above, from the date on which the proceeds of the share issue were received by the bank and accounted for in its books;
 - II. current year's profits - such profits could be considered to the extent that the External Auditors have certified such profits as being capitalised profits as at the date of certification and may be included in the computation of the Single Borrower Limit under paragraph 3 above;
- 3B. Further, if a licensed commercial bank incorporated in Sri Lanka incurs losses during the current year or if there is any reduction in the retained profits due to payment of dividends etc. capital funds considered for the computation of the Single Borrower Limit under paragraph 3 above should be reduced accordingly to reflect the reduction.

Colombo
18 November, 2003

Sgd. A S Jayawardena
Governor

Bank Supervision Department
24th November 2003

To : All Licensed Specialised Banks

Dear Sir / Madam

**DIRECTION ISSUED UNDER SECTION 76 J (1) OF THE BANKING ACT
ON SINGLE BORROWER LIMIT**

I enclose herewith an amendment to the above Direction, which would take effect immediately.

Yours faithfully,

Director of Bank Supervision

**AMENDMENT TO THE DIRECTION UNDER SECTION 76 J (1)
OF THE BANKING ACT ON SINGLE BORROWER LIMIT**

The Direction issued under section 76J(1) of the Banking Act on Single Borrower Limit is hereby amended by the insertion of the following paragraphs as paragraph 1A and 1B:

- 1A. Where a licensed specialised bank having an equity capital as defined in the Banking Act increases its capital funds subsequently through:
- I. funds realised from a new share issue or a rights issue, such increased capital may be considered for the computation of the Single Borrower Limit under paragraph 1 above, from the date on which the proceeds of the share issue were received by the bank and accounted for in its books;
 - II. current year's profits- such profits could be considered to the extent that the External Auditors have certified such profits as being capitalised profits as at the date of certification and may be included in the computation of the Single Borrower Limit under paragraph 1 above;
- 1B. Further, if a licensed specialised bank incurs losses during the current year or if there is any reduction in the retained profits due to payment of dividends *etc.* capital funds considered for the computation of the Single Borrower Limit under paragraph 1 above should be reduced accordingly to reflect the reduction.

Colombo
18 November, 2003

Sgd. A S Jayawardena
Governor

Circular No. : 35 / 01 / 001 / 0006 / 002

Domestic Operations Department
27th February 2003

*To : All Licensed Commercial Banks and
Primary Dealers*

OPEN MARKET OPERATIONS OF THE CENTRAL BANK OF SRI LANKA
OPERATING PROCEDURES AND GUIDELINES

Licensed Commercial Banks (LCBs) and Primary Dealers (PDs) are hereby informed that the Central Bank of Sri Lanka (CBSL) will implement a new system for conducting its Open Market Operations with LCBs and PDs with effect from March 03, 2003. Operating Procedures and Guidelines applicable for Open Market Operations under this system are attached herewith. Further details of OMO can be obtained from the undersigned (Tel. 477644) or Mr. A. Kamalasiri, Deputy Director (Tel. 477036).

Please note that the present circular supersedes all other circulars on Open Market Operations that have been in operation up to now.

Dr. D.S.Wijesinghe
Director

OPEN MARKET OPERATIONS OF THE CENTRAL BANK OF SRI LANKA
OPERATING PROCEDURES AND GUIDELINES

The Central Bank of Sri Lanka (CBSL) will conduct Open Market Operations (OMO) with Licensed Commercial Banks and primary dealers in government securities, hereinafter referred to as the Participating Institutions (PIs) in order to maintain the stability of inter bank interest rates within an interest rate corridor. The interest rate corridor defined in terms of the Repurchase Rate (lower bound) and the Reverse Repurchase Rate (upper bound of the CBSL) will be announced, and reviewed and changed if necessary on monthly intervals.

On the basis of an assessment of daily market liquidity situation, Market Operations Committee (MOC) of the CBSL will decide whether to absorb liquidity from or to inject liquidity to the market and the amount and the type of transaction under which such absorption or injection of liquidity would be made. The CBSL will announce its decision to the market through on line electronic bidding system and Reuter Screen or any other effective means of communication. The auction system will be used to conduct OMO. The OMO will consist of 'repurchase agreements (RP)', 'reverse repurchase agreements (RRP)', 'outright buying' and 'outright selling'. The current repurchase and reverse repurchase facilities will also be available on overnight basis as standing facilities for PIs which failed to meet their liquidity requirements at the auctions. The current discounting and rediscounting will be replaced by 'outright selling' and 'outright buying'. The collateral used in these transactions will continue to be Treasury bills and Treasury bonds. The CBSL reserves the right to accept or reject any or all bids at auctions, as it deems necessary. The CBSL reserves the right to amend, revise or vary any terms and/or conditions or part thereof of these Operating Procedures & Guidelines with prior notice to PIs.

A. REPURCHASE TRANSACTIONS (RP)

1. Tenure of the Repurchase transactions, until further notice, will be one day (overnight).
2. The Market Operations Committee (MOC), after assessing the daily liquidity position in the money market will call for quotations (bids) from PIs by 0930 hrs. by way of an announcement on the on line electronic bidding system and Reuter Screen. It will also announce the quantum on offer.
3. The PIs who wish to invest under RP facility are required to submit their bids to the Dealing Desk of the OMO Division of the Domestic Operations Department of the CBSL on or before 1000 hrs. the same day giving the amount and the interest rate.
4. The bids should be submitted through the on line electronic bidding system installed for this purpose. Bids by telephone, or fax will be considered only in the event of a failure of the on line bidding system. Bids submitted via telephone should be confirmed by fax within 15 minutes.
5. A PI can submit up to a maximum of three bids for each tender. Minimum amount of a bid shall be Rupees one million and bids should be in multiples of Rupees one million. Any bid at or above the CBSL reverse repurchase rate will be rejected.
6. Results of the auction will be announced at 1030 hrs. on the on-line electronic bidding system and/or Reuters Screen giving the total amount accepted and the Weighted Average RP rate (WARP).
7. Successful bidders will be informed of the acceptance of their bids and allotment through the electronic bidding system as well as by telephone at 1030 hrs. The allotment will be made at the rates quoted by the successful bidders.
8. The Payments and Settlements Department (PSD) of the CBSL will deliver to the PI by facsimile the Repurchase Agreement in respect of the Treasury bills/ Treasury bonds by CBSL duly signed on behalf of the CBSL. The Agreement shall substantially be in the form as at Annexure I.
9. The PI should deliver by facsimile or by hand the Repurchase Agreement duly signed by two authorised signatories of the PI to the PSD of the CBSL not later than 1230 hrs. on the same day.
10. The acceptance by the CBSL of a bid of a PI will be binding on the PI and the failure of PI to deliver the Repurchase Agreement duly signed by authorised signatories to the CBSL will render the PI liable to pay damages to the CBSL in a sum equivalent to the difference between the sale value and the repurchase value as calculated in terms of these guidelines. The amount liable will be debited to the PIs account with the CBSL on the same day.
11. On receipt of the duly signed Repurchase Agreement from the PI, the PI's account with the CBSL will be debited with the sale value of the underlying securities. Similarly, the PI's account with the CBSL will be credited with the repurchase value which consists of the sale value plus the interest component for the tenor of the Agreement at the maturity of the repurchase transaction.
12. If there are insufficient funds in the PIs A/c. with the CBSL to be debited with the full sale value of the underlying securities, the PI shall be liable to pay damages to the CBSL in a sum equivalent to the difference between the sale value and the repurchase value as calculated in terms of these guidelines.
13. The underlying securities will not be physically delivered to the PI but will be kept in the custody of the CBSL on behalf of the PI.
14. In the event of there being bids at the same rate in excess of the amount offered, the available quantum of Treasury bills/bonds will be allocated among such bidders on a 'pro-rata' basis. Accordingly, the bids at the cut off rate may be partially accepted.
15. The CBSL has the right to hold additional auctions later in the same day as it deems necessary.
16. The terms used herein shall have the same meaning assigned to them in the Repurchase Agreement.

B. REVERSE REPURCHASE AGREEMENTS (RRP)

1. Tenure of Reverse Repurchase transactions, until further notice, will be one day (overnight).
2. The MOC, after assessing the daily liquidity position in the money market, will call for quotations (bids) from PIs by 0930 hrs. by way of an announcement on the on line electronic bidding system or Reuters screen or any other effective means of communication. It will also announce the quantum on offer.

3. The PIs who wish to borrow under this facility should submit their bids to the Dealing Desk of the Open Market Operations (OMO) Division of the Domestic Operations Department of the CBSL on or before 1000 hrs on the same day giving the amount and the interest rate.
4. The bids should be submitted through the on line electronic bidding system installed for this purpose. Bids by telephone, or fax will be considered only in the event of a failure of the on line electronic bidding system. Bids submitted via telephone should be confirmed by fax within 15 minutes.
5. A PI can submit up to a maximum of three bids for each tender. Minimum amount of a bid should be Rupees one million and bids should be in multiples of Rupees one million. Any bid at or below the repurchase rate of the CBSL will be rejected.
6. The results of the auction will be announced at 1030 hrs. on the on line electronic bidding system and/or Reuters screen giving the total amount accepted and the weighted average RRP rate (WARRP).
7. Successful PIs will be informed of the acceptance of their bids and allotment through the electronic bidding system and by telephone at 1030 hrs. The allotment will be made at the rates quoted by the successful bidders.
8. The successful PIs are required to surrender to the PSD of the CBSL the relevant Treasury bills or Treasury bonds with necessary endorsements thereon against which RRP is requested immediately after the CBSL intimates its acceptance as set out at paragraph (6) above and in any event not later than 1230 hrs. the same day.
9. On receipt of the duly endorsed Treasury bills/bonds by the CBSL as set out at paragraph (8) above, the CBSL will deliver to the PI by facsimile the Reverse Repurchase Agreement in respect of the Treasury bill/bond/s accepted by the CBSL duly signed on behalf of the CBSL. The Agreement shall substantially be in the form at Annexure II. The Reverse Repurchase Agreement shall indicate the purchase price in respect of the transaction determined as set out at paragraph (12) hereof and the sell back price determined as set out at paragraph (13) hereof and the purchase value that will be credited and the sell back value that will be debited to the PI's account with the CBSL on the purchase date and the sell back date respectively in respect of that Reverse Repurchase transaction.
10. The PI shall deliver by facsimile or by hand the Reverse Repurchase Agreement duly signed by an authorised signatory of the PI to the OMO Back Office at the PSD of the CBSL not later than 1330 hrs. on the same day. The person signing the Agreement on behalf of the PI will be deemed to have been duly authorised to sign the Agreement on behalf of the PI and the CBSL shall not be liable in any way to further satisfy itself with regard to the authority of such signatory. Where delivery of the Agreement is made as required hereunder by facsimile, a duly executed Agreement shall be delivered by hand to the CBSL by the PI not later than 1600 hrs. on the same day.
11. The account of the PI with CBSL, will be credited with the purchase value of the Treasury bill/bonds on receipt by the CBSL of both the duly endorsed Treasury bill/bond/s and the Agreement duly executed by the PI.
12. The purchase price of the Treasury bills/bonds accepted by the CBSL will be the market value of such securities and is calculated by discounting the securities for the number of days to its/their maturity/ies at the relevant current Primary Market Weighted Average Yield Rate (PMWAYR) adjusted by a margin decided by the CBSL.
13. On the sell back date stipulated in the Agreement referred to above, the account of the PI with the CBSL sell back value which consists of the purchase value plus the interest component which will be calculated at the rate quoted by the PI.
14. The CBSL shall endorse the Treasury bill/bond in favour of the PI on completion of the Reverse Repurchase Agreement, i.e. on the debiting of the PI account and the crediting of the CBSL account with the sell back value on the sell back date.
15. If the sell back date for any Reverse Repurchase transaction is a bank holiday, any obligation of a party to a Reverse Repurchase Agreement arising on such day will be carried out by such party on the immediately succeeding business day. The procedures and guidelines set out herein and in the Reverse Repurchase Agreement executed in respect of any Reverse Repurchase transaction shall be binding on the PI.

16. In the event of there being bids at the same rate in excess of the amount offered, the available quantum will be allocated among such bidders on a 'pro-rata' basis. Accordingly, the bids at the cut off rate may be partially accepted.
17. The CBSL reserves the right to hold additional auctions later in the day as it deems necessary.

C. OUTRIGHT SALE OF TREASURY BILLS OR TREASURY BONDS

1. The CBSL will announce when necessary on the on line electronic bidding system and/or Reuters screen that it intends to sell Treasury bills/bonds giving the amount and details of the securities to be sold and call for quotations (bids) from the PI. Quotations are accepted between 1300 hrs and 1400 hrs. on the date of auction.
2. A PI wishing to purchase any T.bill/bond/s from CBSL shall submit up to a maximum of three bids containing the face value of the T.bill/bond/s to be purchased, the required maturity period of T.bills/ bond/s and interest rate (yield rate) and price expected on or before 1400 hrs. to the OMO Division of the Domestic Operations Department through the electronic bidding system. Only in the event of a failure of the electronic bidding system, bids may be submitted by telephone or fax. The bids that are submitted over the telephone should be confirmed in writing within 15 minutes, but not later than 1400 hrs. No bids will be entertained thereafter under any circumstances.
3. Minimum amount of a bid should be Rupees one million and bids should be in multiples of Rupees on million.
4. PIs whose bids are accepted will be informed of such acceptance and the relevant sale price of the securities by fax or telephone by 1430 hrs. on the same day. The settlement would be on the next working day.
5. The successful bidder's (PI's) account with the CBSL will be debited on the settlement date with the discounted value which will be calculated on the basis of the rate/price or the sale price of T bill or T bond as the case may be, quoted by respective PIs and the maturity date of the T bill/bond.
6. The acceptance by the CBSL of a bid of a PI is binding on the PI and the failure to honour the transaction (purchase by PI) will render the PI liable to pay damages to the CBSL equivalent to the interest component on the purchase price for the remaining period to maturity at the rate quoted by the PI. The amount liable will be debited to the PI's account with CBSL on the settlement day.
7. The underlying securities should be collected by the PIs from the CBSL on the day following the settlement date.
8. In the event of there being bids in excess of the amount offered at the same rate, the available quantum will be allocated among such bidders on a 'pro-rata' basis.
9. The CBSL reserves the right to accept or reject a bid of a PI.

D. OUTRIGHT PURCHASE OF TREASURY BILLS/TREASURY BONDS

1. The CBSL will announce, when necessary, on the on line electronic bidding system and/or Reuters screen that it intends to buy T.bills/bonds giving the amounts and maturities. Quotations are accepted between 1300 hrs and 1400 hrs. on the date of auction.
2. The PIs wishing to sell any T.bills/bond/s of the maturities indicated by CBSL should submit their bids to the Dealing Desk of the Open Market Operations (OMO) Division of the Domestic Operations Department of the CBSL on or before 1400 hrs. on the same day with the following details:
 - (i) Face value of Treasury bills/bonds to be sold
 - (ii) Coupon Rate and Coupon Date, in the case of Treasury bonds
 - (iii) Interest Rate (Yield Rate) and Price expected
 - (iv) Maturity dates of Treasury bills/bonds offered for sale.
3. The PIs should submit their bids through the on line electronic bidding system. In the event of a failure of the on line electronic bidding system, bids may be submitted by telephone and confirmed in writing

within 15 minutes. The PIs whose offers are accepted will be informed of such acceptance by fax by 1430 hrs. on the same day. The settlement would be on the next working day.

4. The PI should deliver physically the Treasury bill/bonds accepted by the CBSL duly endorsed by two authorised signatories of the PI to the OMO Back Office at the PSD of the CBSL not later than 1200 hrs. on the settlement day.
5. The acceptance by the CBSL of a bid of a PI is binding on the PI and the failure to honour the transaction (sale by PI) including the delivery of the Treasury bills/bonds duly endorsed by authorised signatories to the CBSL will render the PI liable to pay damages to the CBSL equivalent to the interest component on the sale value for the remaining period to maturity at the rate quoted by the PI. The amount liable will be debited to the PI's account with CBSL on the settlement day.
6. On receipt of the duly endorsed Treasury bill/bonds from the PI, the PI's account with the CBSL will be credited with the purchase value of the underlying securities. The purchase value will be calculated on the basis of rates quoted by the PI.
7. The CBSL reserves the right to accept or reject any bid for a sale of T bill/T bond repurchase transaction by a PI and/or to delete, amend or revise any terms and/or conditions or part thereof of these operating guidelines without prior notice.

Annexure I

Tel No. 477087, 422094
Fax No. 421192, 421194

OMO Settlement Division
Payments and Settlements Department

REPURCHASE AGREEMENT AGREEMENT NO.

We hereby confirm having sold to you, Government of Sri Lanka Treasury bills (TBs) under a Repurchase Agreement as per details given below:

- | | |
|---------------------------------------|---|
| 1. Treasury Bill No. | : |
| 2. Maturity Date: | : |
| 3. Face Value of TBs (Mn.) | : |
| 4. Agreed Sum for Repurchase | : |
| 5. Date of Sale (Value Date) | : |
| 6. Date of Repurchase (Maturity Date) | : |
| 7. Tenor (No. of Days) | : |
| 8. Rate (Yield), % per annum | : |
| 9. Price (Rs. per Rs.100/-) | : |
| 10. Discounted Value | : |
| 11. Settlement | : |

We will debit (Discounted Value) your A/c. No..... with us on sale date with Rs..... and credit (discounted value + interest) with Rs. on repurchase date.

The above Treasury Bill will be held in our custody on your behalf during the tenor of agreement

.....
 AUTHORISED SIGNATURE
 (CENTRAL BANK)

Time :

.....
 AUTHORISED SIGNATURE
 (CENTRAL BANK)

We agree

Time :

.....
 AUTHORISED SIGNATURE
 (PRIMARY DEALER/COMMERCIAL BANK)

SEAL

Time :

Attn :

.....
 AUTHORISED SIGNATURE
 (PRIMARY DEALER/COMMERCIAL BANK)

SEAL

Time :

Fax No.

Please confirm by fax today before 1230 hrs.

Annexure II

Tel No. 477087, 422094
 Fax No. 421192, 421194

OMO Settlement Division
 Payments and Settlements Department

REVERSE REPURCHASE AGREEMENT AGREEMENT NO.

We hereby confirm having purchased from you, Government of Sri Lanka Treasury bill(s)/bon(s) under an agreement to sell back as per details given below:

1.	T'Bill/Bond No.	Bond Series*	Maturity	Purchase Price	Quantum Offered for Sale (Face Value) (Rs.)	Purchase Value (Rs.)
				Total		

Amount Requested

2. Sell Back Date (Maturity Date) :
 3. Tenor (No. of days) :
 4. Interest Rate (%) :
 5. Sell Back Value :
 6. Settlement :

We will credit (total Purchase Value) to your A/c. No. with us Rs. on the date of purchase on delivery of Treasury bill(s)/bond(s) and debit (Sell Back Value) the said A/c. with Rs. on the date of sell back of the bill(s)/bond(s). The above Treasury bills(s)/bond(s) duly endorsed in our favour should be delivered to the CBSL on the date of purchase. The same will be endorsed and delivered to you on the sell back date.

.....
 AUTHORISED SIGNATURE
 (CENTRAL BANK)

Time :

.....
 AUTHORISED SIGNATURE
 (CENTRAL BANK)

We agree

Time :

.....
 AUTHORISED SIGNATURE
 (PRIMARY DEALER/COMMERCIAL BANK)

SEAL

Time :

Attn :

.....
 AUTHORISED SIGNATURE
 (PRIMARY DEALER/COMMERCIAL BANK)

SEAL

Time :

Fax No.

Please confirm by fax today before 1330 hrs.

* Where applicable

Operating Instructions No. : 35 / 01 / 005 / 0007 / 001Domestic Operations Department
20th March 2003*To : All Licensed Commercial Banks***RESERVE REQUIREMENTS**

1. (i) Your attention is invited to the notification made by the Monetary Board of the Central Bank of Sri Lanka under Sections 10(c), 93, 94, 96 and 97 of the Monetary Law Act (Chapter 422 of Ceylon Legislative Enactments) as amended by Monetary Law (Amendment) Act, No. 32 of 2002 and published in the *Gazette* Extraordinary of the Democratic Socialist Republic of Sri Lanka No. 1280/7 of 20th March, 2003 on the above subject.
(ii) In terms of the provisions of Section 93 of the Monetary Law Act, commercial banks operating in Sri Lanka shall maintain reserves against all deposit liabilities denominated in Sri Lanka rupees.
2. (i) In terms of the provisions of Section 94 of the Monetary Law Act, the reserves required to be held by commercial banks against their deposit liabilities specified in Regulation (1) above shall be an amount equal to 10 per centum of the total of such deposit liabilities.
(ii) The reserves required to be held by a commercial bank against the deposit liabilities specified in Regulation (1) above shall take the form of Rupee deposits in the Central Bank provided that an amount over and above two per centum of the average of rupee deposit liabilities specified in Regulation (3) below but not exceeding four per centum thereof may be maintained as a part of its required reserves in the form of Sri Lanka currency notes and coins held by such bank as its assets.
3. The computation of the reserves required to be maintained by a commercial bank shall be made each Thursday on the basis of the daily average of rupee deposit liabilities at the close of the business on each day of the week ending the preceding Tuesday. The reserves permitted to be maintained by way of Sri Lanka currency notes and coins held by a commercial bank shall be the average of the holdings at the end of each day of such week.
4. The reserves computed as specified in Regulation (3) above shall be maintained as an average for the week commencing the Friday following the day of computation to Thursday of the following week. Such average shall be calculated based on the balances at the close of business on each day of such week.
5. Interest at the rate of one tenth of one per centum per day shall be paid by a commercial bank to the Central Bank on any deficiency in reserves. Such interest shall be paid not later than the Friday next following the Thursday on which such required reserves were computed under Section 96 of the Act.
6. A notice issued under the hand of the Director, Domestic Operations or any officer authorised by him in that behalf, stating –
 - (a) That the reserves of such commercial banks are below the amount of the required reserves;
 - (b) The week in respect of which there was a deficiency of such reserve;
 - (c) The amount of such deficiency; and
 - (d) The amount of interest payable on the amount of the deficiencyshall be deemed to be sufficient notice to such bank of the interest due from such bank.
7. Every commercial bank shall not later than 12 noon on each Thursday furnish to the Director, Domestic Operations, Central Bank of Sri Lanka, a return substantially in the form prescribed in the Schedule A hereto.
8. These Regulations shall come in to force on 03 April 2003, upon which the Regulation D published in the Sri Lanka Government *Gazette* Extraordinary No. 804/16 of 3rd February 1994, as amended from time to time shall cease to have any force or effect.

In this regulation unless the context otherwise requires

“Deposit liabilities” shall mean all those liabilities of a commercial bank being:

demand deposits, special deposits, savings deposits, time deposits, placements made by any institution other than a commercial bank in the inter-bank call - money market, margins against letters of credit and special deposit schemes if any, such as pension funds, children’s deposit schemes and other Schemes of a similar nature, and assets held in trust or on behalf of its constituents consequent to deposits made by the denominated in Sri Lanka currency, but does not include inter- commercial bank deposits.

“demand deposits” shall mean all those deposit liabilities of a commercial bank which are denominated in Sri Lanka Rupees, subject to payment in legal tender upon demand by cheque, draft or order; but does not include any such liability if it is subject to payment upon conditions.

“special deposits” shall means all those deposit liabilities of a commercial bank arising out of monies deposited in any special account under Section 10 of the Inland Revenue Act, No.28 of 1979.

“savings deposits” shall mean all deposit liabilities denominated in Sri Lanka currency other than demand deposits, time deposits, and special deposits as defined above.

“time deposits” shall mean all deposit liabilities denominated in Sri Lanka currency accepted for a period of maturity and not withdrawable on demand and repaid with interest.

The above regulation takes effect from 03 April, 2003 and as from this date every commercial bank shall furnish a return substantially in the form prescribed in the Schedule A attached hereto, to the Director, Domestic Operations of the Central bank of Sri Lanka not later than 12 noon on each Thursday (if Thursday is a holiday, on the working day last preceding).

Director
Domestic Operations

SCHEDULE A

FORM OF REPORT

WEEKLY REPORT OF DAILY AVERAGE DEPOSIT LIABILITIES

(RUPEE DEPOSIT LIABILITIES)

Name of Bank :

For the week from Wednesday (.....) to Tuesday (.....)
(date) (date)

To: Director
Domestic Operations Department
Central Bank of Sri Lanka
Colombo 01.

The average amounts of deposit liabilities reported below are based on the deposit balances shown by the books of the Bank at the close of business of the seven days of the week specified above.

I Demand Deposits	II Time Deposits and Savings Deposits	III All other deposit liabilities (including special deposits, margins against letters of credit, <i>etc.</i>)* ¹	IV Total

REQUIRED RESERVES

For week commencing Friday,

1 % of Rs..... (Daily Average of total Rupee Deposit Liabilities)	Rs.
2.	Average of Sri Lanka Currency Notes and Coins held over and above 2 % of average deposit liabilities, but not exceeding 4%	Rs.
3.	Total Reserves required to be held on deposit with the Central Bank (1-2)	Rs.

We/ I hereby certify that the above statement is correct and is in accordance with the books of this bank and that the figures shown above are accordance with the regulations prescribed by the Monetary Board of the Central Bank of Sri Lanka for the purpose.

Date :

.....

Official Signature

*1. In the case of Certificates of Deposit the amount declared should be the paid up value.

Note – (a) Demand deposits are the total of credit balances in current accounts without deducting debit balances in respect of overdraft allowed.

(b) Deposits and placements made by National Development Bank, DFCC bank, National Savings Bank, other Financial Institutions and E.P.F. should be accounted for maintenance of required reserves at prescribed ratios.

(c) All amounts should be shown to the nearest rupee.

Circular No. : 35 / 01 / 005 / 0008 / 001Domestic Operations Department
15th August 2003*To : All Licensed Commercial Banks***CENTRAL BANK'S RATE OF INTEREST ON ADVANCES**

Licensed commercial banks are hereby informed that with effect from 15th August, 2003, the rate of interest on advances by the Central Bank to licensed commercial banks secured by the pledge of –

- (a) Government and Government guaranteed securities; and
- (b) Usance Promissory Notes relating to commercial and production loans

will be fifteen (15) *per centum* per annum.

Dr. D.S.Wijesinghe
Director

A.S. Jayawardena
Governor

Circular No. : 35 / 01 / 005 / 0009 / 001Domestic Operations Department
28th August 2003*To : All Commercial Banks and
Primary Dealers*

The Central Bank cheque book facility granted to commercial banks and primary dealers to effect their transactions against the settlement accounts maintained with the Central Bank will be withdrawn with the implementation of the Real Time Gross Settlement (RTGS) System with effect from 8th September, 2003. Commercial Banks and primary dealers will be allowed to use Central Bank cheques only when the Central Bank declares an 'emergency/contingency' event due to an incident that interrupts or has the potential to interrupt the operations of the RTGS System for a prolonged period.

From 8th September, 2003, all payments which were hitherto effected by way of Central Bank cheques should be effected on the RTGS System. Commercial Banks and primary dealers have already been issued with the System Rules that will be applicable upon the establishment of LankaSettle. Banks and primary dealers should comply with the rules contained therein relating to the RTGS in participating in the RTGS System and should comply with the procedures relating to the payment instructions contained in such Rules.

Accordingly, commercial banks and primary dealers are instructed,

- (i) not to use Central Bank cheques on or after 8th September, 2003 for any transactions except in an emergency/contingency event declared by the Central Bank.
- (ii) to retain one cheque book to be used in an emergency/contingency event and return the balance, if any, along with a list of such cheque books to the undersigned on or before 8th September, 2003; and
- (iii) to issue payment instructions in respect of their settlement accounts in accordance with procedures laid down in LankaSettle Rules issued to the commercial banks and primary dealers on 21st August, 2003.

D.S.Wijesinghe*Director***Circular No. : 35 / 01 / 005 / 0006 / 002**Domestic Operations Department
2nd September 2003*To : All Licensed Commercial Banks and
Primary Dealers***OPERATING INSTRUCTIONS FOR INTRA-DAY LIQUIDITY FACILITY (ILF)**

As provided for in the System Rules of Real Time Gross Settlement System, the Central Bank of Sri Lanka (Central Bank) may, at its discretion, provide funds under Intra-day Liquidity Facility (ILF) to eligible Participating Institutions (PIs) on Real-Time Gross Settlement System (RTGS System) to facilitate smooth operation of the RTGS System. Ordinarily, all Direct Participants on RTGS other than Designated Non-Dealer Bidders are eligible for ILF.

The Operating Instructions pertaining to the provision of ILF by the Central Bank of Sri Lanka against certificated Government Securities are outlined below. These Operating Instructions shall be effective with effect from **5th September, 2003** and may be amended or varied by the Central Bank from time to time with reasonable notice to the PIs.

1. Funds under ILF are provided free of charge by way of intra-day reverse repurchase transactions secured by certificated Government Securities. In order to become eligible for ILF, all eligible PIs should sign an ILF Agreement in a prescribed form with the Central Bank.
2. The Central Bank shall determine, at its discretion, the types of Eligible Securities that will be accepted as security for ILF. At present, all Treasury Bills and Treasury Bonds issued by the Government of Sri Lanka in the form of written certificates shall be eligible to be used as security for ILF.
3. In order to obtain ILF at the start of a Business Day, a PI will have to enter into an ILF deal with the OMO Division of the Domestic Operations Department (DOD) of the Central Bank by telephone on or before 1500 hours on the previous Business Day. Such deal should specify the amount of ILF requested.
4. In addition, a PI must send by fax a letter signed by an authorised officer/s of the PI informing the following details to the OMO Settlement Division of the Payments and Settlements Department (PSD) on or before 1500 hrs on the previous Business Day.
 - (a) Amount of ILF requested
 - (b) Details of securities that will be provided as collateral to the Central Bank. This information should include the Treasury Bill/Treasury Bond numbers, maturity date, bond series, coupon rate and the face value.
5. PIs should handover the securities offered as collateral for ILF which are duly endorsed by authorised signatories in favour of the Central Bank of Sri Lanka to the OMO Settlement Division of the PSD on or before 1700 hrs on the previous Business Day.
6. On or before 0800 hours on the next Business Day, the PI's Settlement Account with the Central Bank will be credited with the rupee value of the securities provided as collateral valued based on the Official Prices determined by the Central Bank for such purpose.
7. If the value of securities valued at Official Prices is lower than the amount of ILF requested by the PI, such PI will be provided ILF only to the extent of the value of securities provided under clause 5. In such event, the PI will be informed the amount of ILF the PI is entitled to by the OMO Settlement Division of the PSD by telephone.
8. The Official Prices of securities shall be determined by the Central Bank from time to time based on the current market prices, taking into account market developments. A list of such Official Prices will be available with the Domestic Operations Department (DOD) of the Central Bank for the information of the PIs on request.
9. In the event of a revision of Official Prices, the Central Bank shall revalue the securities provided as collateral by a PI based on the revised Official Prices. If such revaluation results in a PI having to replenish the securities provided as collateral, the PSD shall request the PI to make such replenishment by delivering duly endorsed securities to the value determined by the Central Bank. In such event, the PI shall promptly deliver such additional securities to the OMO Settlement Division of the PSD on or before 1600 hours on the same Business Day.

In the event the PI fails to provide replenishment of securities as requested by the Central Bank before the time specified in this clause, the Central Bank reserves the right to reduce the amount of ILF provided to such PI by debiting the Settlement Account of the Participant with the Central Bank at the start of the next Business Day by the value of such required replenishment.
10. If the funds obtained by a PI as ILF are insufficient to meet its liquidity requirements during the Business Day, such PI may make a request from the DOD for additional ILF before 1030 hours on such day. Such request must indicate the amount of additional ILF requested by the PI. In addition, the PI must send/fax the following information to the OMO Settlement Division of the PSD by letter:
 - (a) Amount of ILF requested
 - (b) Details of securities that will be provided as collateral to the Central Bank. This information should include the Treasury Bill/Treasury Bond numbers, maturity date, bond series, coupon rate and the face value.

If the Central Bank agrees to provide such additional ILF to the PI, the PI should handover the securities offered as collateral for such additional ILF which are duly endorsed immediately and in any event before 1100 hours to the OMO Settlement Division of the PSD. The PI's Settlement Account with the Central Bank will be credited with the rupee value of the securities provided as collateral valued based on the Official Prices determined by the Central Bank for such purpose within two hours from the receipt of the duly endorsed securities.

Such additional drawdowns of ILF shall be allowed only once in each Business Day in addition to the ILF obtained at the start of the Business Day in terms of clause 3.

11. At the end of the each Business Day at 1600 hours, PIs shall ensure the availability in its Settlement Account with the Central Bank adequate funds to cover in full the outstanding amount of funds obtained in the form of ILF, and if such amount is available in full the Participant shall be deemed to have repaid the funds obtained under the ILF on that day. In such event, the securities will be retained by the Central Bank and the PI will be entitled to ILF against the same securities on the next Business Day.
12. Notwithstanding clause 11 above, Central Bank may, at its discretion, require a PI to repay such amount at the end of the Business Day to the Central Bank against the transfer to the Participant by the Central Bank of securities provided as collateral for such amount.
13. If a PI does not have adequate funds in its Settlement Account at the time stipulated in clause 11 above, to meet its outstanding obligations under ILF in full it would be deemed to be in default for the full sum so outstanding.
14. On the first occasion of such default the PI shall be charged default interest at a rate equivalent to the Bank Rate announced by the Central Bank from time to time and on each succeeding occasion of default such default interest rate shall be increased by 100 basis points, provided that if such default occurs more than once in a one month period the Central Bank shall have the right to retain the securities against which ILF was granted and to deal with them as the Central Bank deems fit, in addition to the right to charge default interest as stipulated in this clause. In the event of repeated default, the Central Bank may withdraw the availability of ILF to the PI for a period of time determined by the Central Bank.
15. Notwithstanding clause 11, if a PI wishes to repay the funds borrowed under ILF in part or in full and collect the relevant securities provided as collateral at the end of a Business Day, it must inform the DOD of such request by telephone on or before 1500 hours. Thereafter, the PI may repay the amount of outstanding ILF in full or in part as agreed with the DOD by making a payment in favour of the Central Bank through the RTGS System on or before 1530 hours. Upon repayment of outstanding ILF in full or in part, the PI may collect the relevant securities which are endorsed in its favour from the OMO Settlement Division of the PSD after two hours from the repayment of ILF.
16. Notwithstanding clause 11, if a PI wishes to repay the funds borrowed under ILF in part or in full and collect the relevant securities provided as collateral during a Business Day, it must inform the DOD of such request by telephone. Thereafter, the PI may repay the amount of outstanding ILF in full or in part as agreed with the DOD by making a payment in favour of the Central Bank through the RTGS System. Upon repayment of outstanding ILF in full or in part, the PI may collect the relevant securities which are endorsed in its favour from the OMO Settlement Division of the PSD after two hours from the repayment of ILF. Such withdrawal during the Business Day shall be allowed only once in each Business Day.
17. Where the PI is a Licensed Commercial Bank, such PI must maintain adequate funds in its Settlement Account to meet the Statutory Reserve Requirement (SRR) imposed in terms of Section 93 of the Monetary Law Act, No. 58 of 1949 (MLA), in addition to the amounts that represent repayment of ILF in terms of clause 11. The funds representing such repayment shall not be taken into account in the computation of SRR in accordance with the MLA and the balance in its Settlement Account for purposes of computing the SRR will be determined after set off of the amount representing such repayment.
18. PIs shall not be entitled to substitute securities.

D.S.Wijesinghe

Director

Circular No. : 35 / 01 / 005 / 0006 / 003

3rd September 2003

*To : All Licensed Commercial Banks and
Primary Dealers***OPERATING INSTRUCTIONS ON OPEN MARKET OPERATIONS OF THE
CENTRAL BANK OF SRI LANKA**

With the implementation of the Real Time Gross Settlement System (RTGS) the operating procedures and guidelines on Open Market Operations issued by the Central Bank of Sri Lanka dated November 21, 2002 and February 27, 2003 will be repealed with effect from September 8, 2003 and the revised Operating Instructions contained in this Circular shall come into operation with effect from September 8, 2003.

The Central Bank of Sri Lanka (CBSL) will conduct Open Market Operations (OMO) with Licensed Commercial Banks and Primary Dealers in government securities, hereinafter referred to as the Participating Institutions (PIs), in order to maintain the stability of inter-bank interest rates within an interest rate corridor. The interest rate corridor defined in terms of the Repurchase Rate (lower bound) and the Reverse Repurchase Rate (upper bound) declared by the CBSL will be announced, reviewed and changed, if necessary, on monthly intervals.

On the basis of an assessment of daily market liquidity situation, Market Operations Committee (MOC) of the CBSL will decide whether to absorb liquidity from or to inject liquidity to the market and the amount and the type of transaction under which such absorption or injection of liquidity would be made. The CBSL will announce its decision to the market through the on-line electronic bidding system and Reuter screen or any other effective means of communication. The auction system will be used to conduct OMO. The OMO will consist of 'repurchase agreements (RP)', 'reverse repurchase agreements (RRP)', 'outright purchases' and 'outright sales'. Repurchase and reverse repurchase facilities will also be available at the prevailing repurchase rate and the reverse repurchase rate respectively on an overnight basis as standing facilities for PIs which failed to meet their liquidity requirements at the auctions. The collateral used in these transactions will be Treasury Bills and Treasury Bonds.

All Repurchase and Reverse Repurchase Transactions carried out between a PI and the CBSL in terms of Parts A, B and C of these Operating Instructions are subject to the provisions of the Master Repurchase and Reverse Repurchase Agreement entered into between such PI and the Monetary Board of the Central Bank of Sri Lanka. The terms used in these Operating Instructions shall have the same meanings assigned to them in the Master Repurchase and Reverse Repurchase Agreement.

The CBSL reserves the right to amend, revise or vary any term and/or condition or any part thereof of these Operating Instructions with prior notice to PIs.

A. Repurchase Transactions (RP)

1. The tenure of Repurchase Transactions, until further notice, will be one day (overnight).
2. The Market Operations Committee (MOC), after assessing the daily liquidity position in the money market will call for quotations (bids) from PIs by 1030 hours by way of an announcement on the on-line electronic bidding system and/or Reuter screen. It will also announce the quantum on offer.
3. A PI who wishes to invest under RP facility is required to submit its bids to the Dealing Desk of the OMO Division of the Domestic Operations Department of the CBSL on or before 1100 hours the same day giving the amount and the interest rate.
4. Bids should be submitted through the on-line electronic bidding system installed for this purpose. Bids by telephone, or fax will be considered only in the event of a failure of the on-line bidding system. Bids submitted via telephone should be confirmed by fax within 15 minutes.

5. A PI can submit up to a maximum of three bids for each tender. The minimum amount of a bid shall be Rupees one million and bids should be in multiples of Rupees one million. Any bid at or above the CBSL reverse repurchase rate will be rejected.
6. Results of the auction will be announced at 1130 hours on the on-line electronic bidding system and/or Reuter screen giving the total amount accepted and the Weighted Average RP rate (WARP).
7. Each successful bidder will be informed of the acceptance of its bid and allotment through the electronic bidding system at 1130 hours. The allotment will be made at the rates quoted by the successful bidder.
8. The Payments and Settlements Department (PSD) of the CBSL will send a confirmation of RP transaction to the PI by facsimile. The confirmation shall substantially be in the form at *Annexure I*. If there is a mistake or an error in such confirmation, the PI should inform the PSD of such mistake or error by facsimile to the Central Bank within half an hour of the issue of the confirmation. In the absence of such intimation within the stipulated time period, it will be deemed that such confirmation is correct/accurate. The PIs should provide to the Central Bank in writing the facsimile numbers and other information necessary for the issue of confirmation to the PI.
9. The PI should make a payment in favour of CBSL, through Real - Time Gross Settlement System (RTGS system) for the sale value of the underlying securities (Purchase Price) not later than 1400 hours on the same day.
10. The PI's Settlement Account with the CBSL will be credited by the CBSL with the repurchase value (Repurchase Price) by 1000 hrs on the maturity date (Repurchase Date).
11. If a PI fails to settle the sale value of securities as specified in Clause 9 above, the PI shall be liable to pay damages to the CBSL in a sum equivalent to the difference between the sale value and the repurchase value as calculated in terms of these Operating Instructions.
12. The underlying securities will not be physically delivered to the PI but will be kept in the custody of the CBSL on behalf of the PI.
13. In the event of there being bids at the same rate in excess of the amount offered, the available quantum of Treasury Bills/Bonds will be allocated among such bidders on a 'pro-rata' basis. Accordingly, the bids at the cut off rate may be partially accepted.
14. The CBSL has the right to hold additional auctions later in the same day, as it deems necessary.

B. Reverse Repurchase Transactions (RRP)

1. Tenure of Reverse Repurchase Transactions, until further notice, will be one day (overnight).
2. The MOC, after assessing the daily liquidity position in the money market, will call for quotations (bids) from PIs by 0930 hours by way of an announcement on the on-line electronic bidding system and/or Reuter screen or any other effective means of communication. It will also announce the quantum on offer.
3. A PI who wishes to borrow under this facility should submit its bid to the Dealing Desk of the Open Market Operations (OMO) Division of the Domestic Operations Department of the CBSL on or before 1000 hours on the same day giving the amount and interest rate.
4. The bids should be submitted through the on-line electronic bidding system installed for this purpose. Bids by telephone, or fax will be considered only in the event of a failure of the on-line electronic bidding system. Bids submitted via telephone should be confirmed by fax within 15 minutes.
5. A PI can submit up to a maximum of three bids for each tender. The minimum amount of a bid should be Rupees one million and bids should be in multiples of Rupees one million. Any bid at or below the repurchase rate of the CBSL will be rejected.
6. The results of the auction will be announced at 1030 hours on the same day on the on-line electronic bidding system and/or Reuter screen giving the total amount accepted and the Weighted Average RRP rate (WARRP).
7. Each successful PI will be informed of the acceptance of its bid and allotment through the electronic bidding system at 1030 hours. The allotment will be made at the rates quoted by the successful bidder.

8. A successful PI is required to surrender to PSD of CBSL the relevant Treasury Bills and/or Treasury Bonds with necessary endorsements thereon against which RRP is requested immediately after the CBSL intimates the acceptance of its bid as set out in clause 6 above and in any event not later than 1130 hours on the same day.
9. On receipt of the duly endorsed Treasury bills/bonds by the CBSL as set out at clause 8 above the CBSL will send a confirmation of the RRP transaction to the PI by facsimile. The confirmation shall substantially be in the form at *Annexure II*. If there is a mistake or an error in such confirmation, the PI should inform the PSD of such mistake or error by facsimile to the Central Bank within half an hour of the issue of the confirmation. In the absence of such intimation within the stipulated time period, it will be deemed that such confirmation is correct/accurate. The PIs should provide to the Central Bank in writing the facsimile numbers and other information necessary for the issue of confirmation to the PI.
10. The Settlement Account of the PI with the CBSL will be credited with the purchase value (Purchase Price) of the Treasury Bills/Bonds within two hours after receipt by the CBSL the duly endorsed Treasury Bills/Bonds.
11. The Purchase Price of the Treasury Bills/Bonds accepted by the CBSL will be the market value of such securities and is calculated by discounting the securities for the number of days to its/their maturities at the relevant current Primary Market Weighted Average Yield Rate (PMWAYR) adjusted by a margin decided by the CBSL.
12. On the sell back date (Repurchase Date) stipulated in the confirmation referred to above, the PI should make a payment before 1200 hours on the same day through the RTGS in favour of CBSL for the sell back value (Repurchase Price) which consists of the Purchase Price plus the interest component which will be calculated at the rate quoted by the PI.
13. The CBSL shall endorse the Treasury Bills/Bonds in favour of the PI on the payment of the Repurchase Price by the PI to the CBSL as set out in clause 12 hereof.
14. If the Repurchase Date for any Reverse Repurchase transaction is a bank holiday, any obligation of a party to a Reverse Repurchase Agreement arising on such day will be carried out by such party on the immediately succeeding business day.
15. In the event of there being bids at the same rate in excess of the amount offered, the available quantum will be allocated among such bidders on a 'pro-rata' basis. Accordingly, the bids at the cut off rate may be partially accepted.
16. The CBSL reserves the right to hold additional auctions later in the day, as it deems necessary.

C. Standing Facility

(a) *Re-purchase Facility (RP)*

1. The RP will be available on an overnight basis.
2. The PIs who wish to use the RP facility under the Standing Facility are required to inform the OMO Division of the Domestic Operations Department (DOD) by telephone or fax about the details of the deal including the amount requested and confirm the deal in writing within 30 minutes to OMO Settlements Division of the Payments and Settlements Department (PSD) but not later than 1330 hours, the same day.
3. The PSD will send a confirmation to PI by fax which indicates the details of the allotment of Treasury Bills and the sale value (Purchase Price) of the respective Treasury Bills. The confirmation shall substantially be in the form of *Annexure I*. If there is a mistake or an error in such confirmation, the PI should inform the PSD of such mistake or error by facsimile to the Central Bank within half an hour of the issue of the confirmation. In the absence of such intimation within the stipulated time period, it will be deemed that such confirmation is correct/accurate. The PIs should provide to the Central Bank in writing the facsimile numbers and other information necessary for the issue of confirmation to the PI.
4. The respective PI should make a payment in favour of the CBSL through RTGS for the sale value (Purchase Price) of the underlying securities within half an hour after receiving the confirmation from the PSD, but not later than 1530 hours.

5. The sale value (Purchase Price) of a Treasury Bills/s and/or Treasury Bond/s under RP will be calculated by discounting the relevant Treasury Bill/s and/or Treasury Bond/s for the tenor of the RP by relevant repurchase rate.
6. The settlement Account of the PI with the CBSL will be credited at 1000 hrs on the maturity date (Repurchase Date) with the buy-back value (Repurchase Price), which consists of the Purchase Price plus the interest component of the RP.
7. The underlying Treasury Bill/s and/or Treasury Bond/s will not be physically delivered to the PI but will be kept in safe custody with the Central Bank.

(b) Reverse Re-purchase Facility (RRP)

1. The RRP will be available on an overnight basis.
2. Under the RRP, the CBSL will purchase Treasury Bill/s and/or Treasury Bond/s from PIs at a discounted price (Purchase Price) with an agreement to sell back on an agreed date at an agreed price (Repurchase Price).
3. The PIs who wish to use the RRP facility are required to inform the OMO Division of the Domestic Operations Department by telephone or fax the details of the deal including the amount requested and confirm the deal in writing by fax or letter within 30 minutes of the deal to OMO Settlements Division of the PSD but not later than 1330 hours the same day.
4. Immediately after the confirmation of the deal, but not later than 1330 hours the same day, the PI is required to deliver to the OMO Settlements Division of the Payments and Settlements Department of the CBSL the relevant Treasury Bill/s and/or Treasury Bond/s, against which RRP is requested, duly endorsed in favour of the CBSL.
5. On receipt of the duly endorsed Treasury Bills/Bonds by the CBSL as set out at Clause 4 above, the PSD will send a confirmation to the PI by facsimile. The confirmation shall substantially be in the form at *Annexure II*. If there is a mistake or an error in such confirmation, the PI should inform the PSD of such mistake or error by facsimile to the Central Bank within half an hour of the issue of the confirmation. In the absence of such intimation within the stipulated time period, it will be deemed that such confirmation is correct/accurate. The PIs should provide to the Central Bank in writing the facsimile numbers and other information necessary for the issue of confirmation to the PI.
6. The Settlement Account of the PI in with the CBSL will be credited with the purchase value (Purchase Price) of the Treasury Bills/Bonds within two hours after receipt by the CBSL the duly endorsed Treasury Bills/Bonds.
7. The Purchase Price of the Treasury Bills/Bonds accepted by the CBSL will be the market value of such securities and is calculated by discounting the securities for the number of days to its/their maturities at the relevant current Primary market Weighted Average Yield Rate (PMWAYR) adjusted by a margin decided by the CBSL.
8. On the sell back date (Repurchase Date) stipulated in the confirmation referred to above, the PI should make a payment before 1200 hours on the same day through the RTGS system in favour of CBSL for the sell back value (Repurchase Price) which consists of the Purchase Price plus the interest component which will be calculated at the rate quoted by the PI.
9. The CBSL shall endorse the Treasury Bills/Bonds in favour of the PI on completion of the settlement of the sell back value by the PI to the CBSL as set out in clause 8 hereof.
10. If the sell back date (Repurchase Date) for any Reverse Repurchase transaction is a bank holiday, an obligation of a party to a Reverse Repurchase Agreement arising on such day will be carried out by such party on the immediately succeeding business day.

D. Outright Sale of Treasury Bills or Treasury Bonds

1. The CBSL will announce when necessary on the on-line electronic bidding system and/or Reuter screen that it intends to sell Treasury Bills/Bonds giving the amount and details of the securities to be sold and

call for quotations (bids) from the PI. Quotations are accepted between 1300 hours and 1400 hours on the date of auction.

2. A PI who wishes to purchase any Treasury Bills/Bonds from CBSL shall submit up to a maximum of three bids containing the face value of the Treasury Bills/Bonds to be purchased, the required maturity period of Treasury Bills/Bonds to be purchased and interest rate (yield rate) and price expected on or before 1400 hours to the OMO Division of the Domestic Operations Department through the electronic bidding system. Only in the event of a failure of the electronic bidding system, bids may be submitted in writing within 15 minutes, but not later than 1400 hours. No bids will be entertained thereafter under any circumstances.
3. Minimum amount of a bid should be Rupees one million and bids should be in multiples of Rupees one million.
4. PIs whose bids are accepted will be informed of such acceptance and the relevant sale price of the securities by fax or telephone by 1430 hours on the same day. The settlement would be on the next business day.
5. The successful bidder (PI) should make a payment through the RTGS System in favour of CBSL on the settlement date with the discounted value which will be calculated on the basis of the rate/price or the sale price of Treasury Bill or Treasury Bond as the case may be, quoted by respective PIs and the maturity date of the Treasury Bill/Bond.
6. The acceptance by the CBSL of a bid of a PI is a binding on the PI and the failure to honour the transaction (purchase by PI) will render the PI liable to pay damages to the CBSL equivalent to the interest component on the purchase price for the remaining period to maturity at the rate quoted by the PI. Such amount shall be debited to the PI's Settlement Account with the CBSL on the settlement date.
7. The underlying securities should be collected by the PIs from the CBSL one hour after making of the payment in terms of clause 5 above subject to the availability of Treasury Bills/Bonds with the CBSL in the required denominations.
8. In the event of there being bids in excess of the amount offered at the same rate, the available quantum would be allocated among such bidders on a 'pro-rata' basis.
9. The CBSL reserves the right to accept or reject a bid of a PI.

Outright Purchase of Treasury Bills/Treasury Bonds

1. The CBSL will announce, when necessary, on the on-line electronic bidding system and/or Reuter screen that it intends to buy Treasury Bills/Bonds giving the amounts and maturities. Quotations are accepted between 1300 hours and 1400 hours on the date of auction.
2. The PIs who wish to sell any Treasury Bills/Bonds of the maturities indicated by CBSL should submit their bids to the Dealing Desk of the Open Market Operations (OMO) Division of the Domestic Operations Department of the CBSL on or before 1400 hours on the same day with the following details;
 - i.* Face value of Treasury Bills/Bonds to be sold
 - ii.* Coupon Rate and Coupon Date, in the case of Treasury Bonds
 - iii.* Interest Rate (Yield Rate) and Price expected
 - iv.* Maturity dates of Treasury Bills/Bonds offered for sale
3. The PIs should submit their bids through the on-line electronic bidding system. In the event of a failure of the on-line electronic bidding system, bids may be submitted by telephone and confirmed in writing within 15 minutes. The PIs whose offers are accepted will be informed of such acceptance by fax by 1430 hrs. on the same day. The settlement would be on the ext working day.
4. The PI should deliver physically the Treasury Bills/Bonds accepted by the CBSL duly endorsed by two authorised signatories of the PI to the OMO Back Office at the PSD of the CBSL not later than 1030 hours on the settlement day.
5. The acceptance by the CBSL of a bid of a PI is binding on the PI and the failure to honour the transaction (sale by PI) including the delivery of the Treasury Bills/Bonds duly endorsed by authorised signatories to

the CBSL will render the PI liable to pay damages to the CBSL equivalent to the interest component on the sale value for the remaining period to maturity at the rate quoted by the PI. Such amount shall be debited to the PI's Settlement Account with the CBSL on the settlement date.

6. On receipt of the duly endorsed Treasury Bills/Bonds from the PI, the PI's Settlement Account with the CBSL will be credited with the purchase value of the underlying securities before 1300 hours. The purchase value will be calculated on the basis of rates quoted by the PI.
7. The CBSL reserves the right to accept or reject any bid for a sale of Treasury Bills/Treasury Bonds by a PI and/or to delete, amend or revise any terms and/or conditions or part thereof without the prior notice.

Director
Payments and Settlements Department

Director
Domestic Operations Department

ANNEXURE I

OMO Settlement Division
Payments and Settlements Department

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.....
.....

Confirmation – Repurchase Transaction

We hereby confirm the sale of Government of Sri Lanka Treasury Bills to your institution under a Repurchase Transaction as per the details given below.

- | | |
|-------------------------------------------|---|
| 1. Treasury Bill No. | - |
| 2. Maturity Date of Treasury Bill | - |
| 3. Face value of Treasury Bills sold (Mn) | - |
| 4. Date of Sale | - |
| 5. Repurchase Date (Maturity date) | - |
| 7. Rate (yield), % per annum | - |
| 8. Price (Rs. per Rs.100/-) | - |
| 9. Discounted value | - |

This confirmation has been issued under the Master Repurchase and Reverse Repurchase Agreement between the Central Bank and your institution.

Director
Payments and Settlements

ANNEXURE II

OMO Settlement Division
 Payments and Settlements Department

.....

Confirmation – Reverse Repurchase Transaction

We hereby confirm that the Central Bank of Sri Lanka purchased Government of Sri Lanka Treasury Bill(s)/Bond(s) from your institution under a reverse repurchase transaction as per details given below:

T-Bill/Bond No.	-
Purchase Date	-
Face Value	-
Purchase Value	-
Interest Rate	-
Sell-back Value (Rs per Rs 100/=)	-
Sell-back Date (Maturity Date)	-

This confirmation has been issued under the Master Repurchase and Reverse Repurchase Agreement between the Central Bank and your institution.

Director
 Payments and Settlements

Ref. No. : 06 / 02 / 01 / 2003

Dept. of Exchange Control,
Central Bank of Sri Lanka,
P.O. Box 883,
30 Janadhipathi Mawatha,
Colombo 1.
2003.01.21

*Operating Instructions to Authorised Dealers,
National Development Bank of Sri Lanka and DFCC Bank*

Dear Sirs,

**LOANS AND OVERDRAFTS AND OTHER RUPEE LENDING TO
FOREIGN CONTROLLED COMPANIES**

Your attention is invited to Sub Section 7 of Section 30 of the Exchange Control Act, No. 24 of 1953 (Chapter 423) as amended by Exchange Control (Amendment) Law No. 39 of 1973.

2. In terms of the provisions of the above-mentioned section of the Act, no person resident in Sri Lanka shall, except with the permission of the Central Bank, lend any money to any firm or company (other than a banking company) which is controlled directly or indirectly by persons resident outside Sri Lanka.

3. You are hereby informed that general permission in terms of Sub Section 7 of Section 30 read with Section 48 of the Exchange Control Act has now been granted for you to provide rupee accommodation including loans and advances to companies incorporated in Sri Lanka, with the majority of shareholding owned by persons resident outside Sri Lanka (non resident controlled companies) including such companies approved under Section 17 of the Board of Investment of Sri Lanka Act (BOI Act).

4. You should, however, continue to furnish quarterly statements in respect of total rupee credit facilities granted to all non resident controlled companies approved under Section 17 of the BOI Act, as at the end of each quarter, along with total rupee credit facilities granted to the entire private sector, on or before the 15th day of the month immediately following the end of each quarter, addressed to me quoting reference to these Operating Instructions.

5. Please note that all Operating Instructions issued in this regard to you previously including the letter No. ECD/F/D/1488 dated 10/4/2000 are cancelled with effect from the date of these operating instructions.

Yours faithfully,

Controller of Exchange

Copies to - Governor, DG(N), DG(W), AGGs, D/ER, D/BS, D/IOD ,C.A.

Ref. No. : 06 / 05 / 02 / 2003

Dept. of Exchange Control,
Central Bank of Sri Lanka,
P.O. Box 883,
30 Janadhipathi Mawatha,
Colombo 1.
2003.01.21

Operating Instructions to Authorised Dealers,

Dear Sirs,

CREDIT FACILITIES BY NON RESIDENT SUPPLIERS TO RESIDENT BUYERS

Authorised Dealers are hereby informed that buyers resident in Sri Lanka (importers) may now purchase goods from suppliers resident outside Sri Lanka on credit basis upto a period of 360 days subject to the condition that no interest should be paid on such credit at a rate higher than the prevailing international interest rates for the currency in which the credit is provided.

Yours faithfully,

Controller of Exchange

Copies to - Governor, DG(N), AGGs, D/ER, D/BS, D/IOD, C.A.

Ref. No. : 06 / 02 / 03 / 2003

Dept. of Exchange Control,
Central Bank of Sri Lanka,
P.O. Box 883,
30 Janadhipathi Mawatha,
Colombo 1.
2003.01.21

Operating Instructions to Authorised Dealers,

Dear Sirs,

FOREIGN CURRENCY LOANS TO EXPORTERS

I refer to my Operating Instructions No. ECD/02/97(C&F) dated 3rd January 1997 and EC/5/2000(D) dated 7th April 2000 on the above subject, whereby permission was granted to extend foreign currency loans from off shore units and domestic units of commercial banks to exporters of goods and services.

2. You are hereby informed that in the case of default of foreign currency loans granted in terms of above Operating Instructions, all efforts should be made to realise proceeds of the sale of domestic assets on enforcement of the mortgage in the foreign currency of the transaction. If such efforts fail, rupee proceeds may be converted upto the extent of the amount required for the settlement of the outstanding balance of the loan without my prior approval.

3. However, you should obtain and retain with you satisfactory evidence that attempts to sell the assets against foreign currency to another party have failed and that assessment of credit risk at the time of granting the loan has been properly done.

Yours faithfully,

Controller of Exchange

Copies to - Governor, DG(N), DG(W), AGGs, D/ER, D/BS, D/IOD, C.A.

Ref. No. : 06 / 04 / 04 / 2003

Dept. of Exchange Control,
Central Bank of Sri Lanka,
P.O. Box 883,
30 Janadhipathi Mawatha,
Colombo 1.
2003.01.21

Operating Instructions to Authorised Dealers,

Dear Sirs,

FORWARD SALES AND PURCHASES OF FOREIGN EXCHANGE

Authorised Dealers are hereby informed that forward contracts for the purchase of foreign exchange can now be entered into upto 720 days in respect of repayments of foreign loans, subject to the production of evidence to the selling bank establishing such commitments.

2. Authorised Dealers are also informed that they may enter into contracts to sell foreign currency forward upto 360 days with an importer in respect of his import payments even if such importer has established documentary credits for the import through another Authorised Dealer or is to use another Authorised Dealer to collect import bills on DA (Documents against Acceptance) or DP (Documents against Payment) terms, provided documentary evidence is furnished to the selling bank by the importer in proof of his commitment to make payment in such foreign currency on the basis of valid trade transactions.

3. Our Operating Instructions on the above subject dated 29.01.2001, 14.02.2001, 19.03.2001, 16.07.2001 and 01.03.2002 are hereby rescinded.

Yours faithfully,

Controller of Exchange

Copies to - Governor, DG(N), DG(W), AGG, D/ER, D/BS, D/IOD, C.A.

Ref. No. : 06 / 04 / 05 / 2003

Dept. of Exchange Control,
Central Bank of Sri Lanka,
P.O. Box 883,
30 Janadhipathi Mawatha,
Colombo 1.
2003.01.21

Operating Instructions to Authorised Dealers,

Dear Sirs,

GUARANTEES

Authorised Dealers are hereby informed that they may without the prior approval of this department issue or renew guarantees or similar undertaking of the nature set out below in respect of obligation undertaken by a person resident in Sri Lanka (whether a bank/trading organisation or an individual) the discharge of which would involve a payment in foreign exchange remittable to a person resident outside Sri Lanka.

- (i) Bid Bonds in favour of persons resident outside Sri Lanka without a limit in respect of exports and other service contracts, subject to conditions stipulated in the tender or quotation.
- (ii) Performance Bonds in favour of persons resident outside Sri Lanka without a limit in respect of exports or other service contracts subject to proof of the award of the contract and conditions stipulated in the contract.
- (iii) Letters of guarantees for purposes other than those referred to in item (i) and (ii) above upto a value of US\$ 500,000 subject to the following conditions:
 - (a) Furnishing of evidence in proof of the underlying transaction, which should be a transaction permitted in terms of our Operating Instructions to you or specifically authorised by us.
 - (b) The guarantee containing a clause to the effect that claims under the guarantee would be limited to the amount outstanding to the beneficiary of the guarantee.
 - (c) Any claim under the guarantee should be received in Sri Lanka on or before the expiry date of the guarantee.

2. In the cases where the principal obligor is a person resident outside Sri Lanka and the guarantee is to be given by his agent in Sri Lanka, letters of guarantee upto the value of US \$ 500,000 may be issued at the request of the agent subject to obtaining a counter guarantee or counter indemnity on identical terms from the principal resident outside Sri Lanka in addition to conditions (a) and (b) and (c) of (iii) above.

3. Authorised Dealers are also permitted to make outward remittances arising from valid claims in respect of the guarantees referred to above without reference to the Exchange Control Department.

4. Operating Instructions No. EC/81/92(D) dated 7th August 1992 is hereby rescinded.

Yours faithfully,

Controller of Exchange

Copies to - Governor, DG(N), DG(W), AGGs, D/ER, D/BS, D/IOD, C.A.

Ref. No. : 06 / 07 / 06 / 2003

Dept. of Exchange Control,
Central Bank of Sri Lanka,
P.O. Box 590
30 Janadhipathi Mawatha,
Colombo 1.
2003.02.13

Operating Instructions to Authorised Dealers,

Dear Sirs,

**FREIGHT FORWARDING AND ISSUE OF HOUSE AIRWAY BILLS /
HOUSE BILLS OF LADING / FORWARDERS CARGO RECEIPTS**

Further to my Operating Instructions No. EC/48/91(G) dated 12.07.1991 and EC/04/97(G) dated 4th March 1997 on the above subject, Authorised Dealers are hereby requested to include the following freight forwarders who are registered with the Central Bank of Sri Lanka to the list of freight forwarders given in the Operating Instructions and accept House Airway Bills/House Bills of Lading/Forwarders Cargo Receipts issued by them for negotiation in respect of export cargo.

<i>Name of the Freight Forwarder</i>	<i>Registration No.</i>
1. WestEasterns (Private) Limited	06/07/009/0116
2. BIT Worldwide Logistics Lanka (Pvt) Ltd.	06/07/009/0117
3. Worldlink Shipping Colombo (Pvt) Ltd.	06/07/009/0118
4. S-Net Freight (Pvt) Ltd.	06/07/009/0119
5. Sass Logistics International (Pvt) Ltd.	06/07/009/0120

Yours faithfully,

Controller of Exchange

Ref. No. : 06 / 04 / 11 / 2003

Dept. of Exchange Control,
Central Bank of Sri Lanka,
P.O. Box 883,
30 Janadhipathi Mawatha,
Colombo 1.
9th December 2003

Operating Instructions to All Authorised Dealers,

Dear Sirs,

**REPATRIATION OF SALE PROCEEDS OF PROPERTIES PURCHASED AND/OR
DEVELOPED THROUGH INWARD REMITTANCES OF FOREIGN CURRENCY
BROUGHT INTO THE COUNTRY**

The attention of all authorised dealers are drawn to the notification under Section 7 of the Exchange Control Act published in the Extraordinary *Gazette* Notification 1312/9 dated 28th October 2003 (Annex I).

General permission has been granted in this *Gazette* Notification for the following transactions:

- (a) The payment in Sri Lanka Rupees of the purchase price payable in respect of any residential property in Sri Lanka to a person who is the owner of the property being sold, but who is resident outside Sri Lanka or to the heir of such a person resident outside Sri Lanka provided there is evidence to establish that the property had originally been acquired and/or developed by the owner resident outside Sri Lanka by way of inward remittances brought into the country in convertible foreign currency.
- (b) The repatriation by authorised dealers without reference to the Exchange Control Department to the person resident outside Sri Lanka or to the heir of such person of such amount of the purchase price paid in Sri Lanka Rupees in such circumstances, as described in (a) above, as is equal to the amount brought in by way of inward remittances in convertible foreign currency for the original acquisition and/or development of the property on production of documentary evidence to that effect. Any amount remaining after such repatriation should be deposited in a non resident blocked rupee account in Sri Lanka in the name of the owner or the heir of such property.

Yours faithfully,

Controller of Exchange

Copies to - S/G, DG(N), DG(W), AGG, D/ER, D/BS, D/IOD, C.A.

Ref. No. : 06 / 04 / 12 / 2003

Dept. of Exchange Control,
Central Bank of Sri Lanka,
P.O. Box 883,
30 Janadhipathi Mawatha,
Colombo 1.
10th December 2003

Operating Instructions to All Authorised Dealers,

Dear Sirs,

**LOANS AND ADVANCES IN FOREIGN CURRENCY TO SRI LANKANS
EMPLOYED ABROAD AGAINST THE PLEDGE OF BALANCES
IN NON-RESIDENT FOREIGN CURRENCY (NRFC) ACCOUNTS**

As a further measure of liberalising Exchange Controls and to give the benefit of lower interest rates presently prevailing in respect of foreign currency facilities to Sri Lankans employed abroad, it has been decided to permit Authorised Dealers to grant loans and advances in foreign currency to be utilised *for any purpose in Sri Lanka* against the pledge of their NRFC balances provided they are in a position to service such loans in foreign currency. These loans should be granted subject to the following terms and conditions:

- (1) The loan should be granted only upto 90% of the funds available in the NRFC account of a Sri Lankan employed abroad on pledging his NRFC accounts as a collateral for the loan.
- (2) The foreign currency proceeds of the loan will be released in Sri Lanka Rupees to the borrower by the bank, which grants the loan, purchasing the foreign exchange.
- (3) The tenure of the loan should be decided based on the borrower's probable tenure of employment abroad and should not exceed 5 years.

- (4) The loans should be repaid in foreign currency and in the event of the loan being in arrears for over 3 instalments, the bank should recover the loan from the balance in the borrower's NRFC account.
- (5) Under no circumstances, should the borrower be permitted to settle any outstanding balance of the loan in rupees.

Yours faithfully,

Controller of Exchange

Copies to - S/G, DG(N), DG(W), AGG, D/ER, D/BS, D/IOD, C.A.

The Gazette of the Democratic Socialist Republic of Sri Lanka

EXTRAORDINARY

No. 1312/9 – TUESDAY, OCTOBER 28, 2003

(Published by Authority)

PART I : SECTION (I) – GENERAL

Central Bank of Sri Lanka Notices

THE EXCHANGE CONTROL ACT, (CHAPTER 423)

Notification under Section 7

PERMISSION is hereby granted –

- (a) for the payment in Sri Lanka Rupees, of the purchase price payable in respect of any residential property in Sri Lanka, to a person who is the owner of the property being sold but who is resident outside Sri Lanka or to the heir of such person resident outside Sri Lanka: Provided that such property had originally been acquired or developed by the owner resident outside Sri Lanka and payment for the same was made by way of inward remittances in convertible foreign currency; and
- (b) for the repatriation of such amount of the purchase price paid in Sri Lanka Rupees in such circumstances as is described in (a) above, as is equal to the amount paid by way of inward remittances in convertible foreign currency for the original acquisition or development of the property. Any amount remaining after such repatriation shall be deposited in a non-resident blocked rupee account in Sri Lanka in the name of the owner or the heir of such property.

H. A. G. HETTIARACHCHI

Controller of Exchange

Colombo,

28th October, 2003.

ANNOUNCEMENTS

To : All commercial banks

LIMIT ON DAILY WORKING BALANCES IN FOREIGN CURRENCIES

Please be informed that the maximum amount of the working balances in all foreign currencies the commercial banks should have at the end of each working day has been revised with effect from 1 September 2003. This has been communicated to all commercial banks by our letter No.33/04/014/0009/001 dated 28 August 2003.

Y.M.W.B. Weerasekera

Director, International Operations

Central Bank Rates for the Purchase of Foreign Currency Notes from Commercial Banks^{1/}

		Sri Lanka Rupees																							
Effective Date	Circular No.	Australian Dollar (per \$)	Austrian Schilling (per 10 Sch.)	Bahrain Dinar (per Dinar)	Belgian Franc (per 10 Fr.)	Canadian Dollar (per \$)	Danish Kroner (per 10 Kr.)	Deutsch Mark (per DM)	Euro (per 1 Euro)	Finland Markka (per 10 Markka)	French Franc (per 10 Ffr.)	Hong Kong Dollar (per 10 HK \$)	Italian Lira (per 1,000 Lira)	Japanese Yen (per 100 Yen)	Kuwait Dinar (per Dinar)	Netherlands Guilder (per Guilder)	Norwegian Kroner (per 10 Kr.)	Omani Riyal (per Riyal)	Saudi Arabian Riyal (per Riyal)	Singapore Dollar (per \$)	Swedish Kroner (per 10 Kr.)	Swiss Franc (per Sw. Fr.)	U. A. E. Dirham (per Dirham)	U. K. Pound (per £)	U. S. Dollar (per US \$)
07.01.03	2	52.70	70.20	245.65	23.95	59.25	130.10	49.40	96.60	162.50	147.30	118.75	49.90	77.55	309.00	43.85	133.45	240.55	24.70	53.25	106.35	66.40	25.20	149.15	93.55
14.01.03	4	53.95	71.15	245.70	24.25	60.00	131.80	50.05	97.90	164.70	149.25	118.80	50.55	77.65	309.40	44.45	134.90	240.60	24.70	53.30	106.90	67.05	25.20	148.95	93.60
21.01.03	6	54.65	71.65	245.65	24.45	60.35	132.65	50.40	98.60	165.85	150.30	118.75	50.95	78.35	309.75	44.75	135.30	240.55	24.70	53.40	107.35	67.50	25.20	149.05	93.60
28.01.03	8	54.95	72.85	243.85	24.85	61.00	134.80	51.25	100.25	168.65	152.85	118.80	51.80	78.55	310.25	45.50	134.30	240.70	24.70	53.65	108.50	68.40	25.20	151.15	93.65
04.02.03	10	54.25	72.35	245.85	24.65	60.90	133.90	50.90	99.55	167.40	151.75	118.85	51.40	77.10	309.90	45.15	134.10	240.75	24.70	53.25	107.70	68.05	25.25	152.55	93.65
11.02.03	12	54.70	72.75	245.85	24.80	60.85	134.70	51.20	100.15	168.40	152.65	118.85	51.70	76.90	309.80	45.45	133.75	240.75	24.70	52.95	109.25	68.25	25.25	150.95	93.65
18.02.03	14	54.85	72.35	246.05	24.70	60.85	133.95	50.90	99.55	167.40	151.75	118.95	51.40	76.85	309.65	45.15	132.40	240.95	24.75	52.80	109.35	67.55	25.25	149.00	93.75
25.02.03	16	55.45	72.40	246.10	24.70	61.80	134.05	50.95	99.60	167.55	151.85	118.95	51.45	78.35	309.15	45.20	132.15	240.95	24.75	53.25	109.15	67.75	25.25	146.25	93.75
03.03.03	18	56.25	72.60	246.10	24.75	62.45	134.50	51.10	99.95	168.05	152.35	118.95	51.60	78.45	309.40	45.35	129.55	240.95	24.75	53.35	108.95	68.35	25.25	145.95	93.75
11.03.03	20	56.90	74.35	246.10	25.35	63.30	137.80	52.30	102.30	172.10	156.00	119.00	52.85	79.45	310.70	46.45	128.35	241.00	24.75	53.50	110.95	69.60	25.25	148.75	93.75
18.03.03	22	55.65	72.90	246.05	24.85	63.05	135.05	51.30	100.35	168.75	152.95	118.95	51.80	78.70	309.45	45.55	128.35	240.95	24.75	52.90	108.90	68.40	25.25	147.45	93.75

Source : Central Bank of Sri Lanka

^{1/} Central Bank of Sri Lanka has discontinued the quoting of buying prices for foreign currency notes to the market.

Circular No. : RTGS / 01 / 2003

Our Ref. No. : 34 / 07 / 029 / 0001 / 001

Payments and Settlements Department
4th December 2003

To : All Participants of the RTGS System

CHANGE OF BIC OF THE UNION BANK LTD. (INCORPORATED IN PAKISTAN)

You are hereby informed that the SWIFT Bank Identifier Code (BIC) of the Union Bank Ltd. (Incorporated in Pakistan) will be changed from 'MSHQLKLC' to 'UNBLLKLC' with effect from 07.12.2003.

2. The technical procedure in effecting the above change in the RTGS System would involve the following:

- (i) Identification of the Union Bank Ltd. (Incorporated in Pakistan) in the RTGS System would be changed from 'MSHQ' to 'UNBL' with effect from 09.12.2003; and
- (ii) Identification of the RTGS Settlement Account of the Union Bank Ltd. (Incorporated in Pakistan) would be changed from 'MSHQLKLCXXX010004413' to 'UNBLLKLCXXX010004413' with effect from 09.12.2003.

3. When the process of changing the static data of the Union Bank Ltd. (Incorporated in Pakistan) in the RTGS System takes place, you would observe that:

- (i) The Settlement Account No. UNBLLKLCXXX010004413 indicated against the Union Bank Ltd. (Incorporated in Pakistan) would appear in the RTGS System with suspended status only on 05.12.2003, since the said account will not be operative on that date; and
- (ii) The Settlement Account No. MSHQLKLCXXX010004413 of the Union Bank Ltd. (Incorporated in Pakistan) would appear in the RTGS System with suspended status only on 09.12.2003. The suspended status is given to the said account on that date, for the reason that the said account will not be operative with effect from the said date and the operative Settlement Account of the Union Bank Ltd. (Incorporated in Pakistan) in the RTGS System will be 'UNBLLKLCXXX010004413'.

4. Any payment instruction directed to BIC 'MSHQLKLC' to be effected after 06.12.2003 will automatically be rejected by the RTGS System.

K.R.M. Siriwardhane

Director, Payments and Settlements

CODE OF CONDUCT FOR PRIMARY DEALERS

1. Purpose

- 1.1 This code of conduct for primary dealers (the “code” or “code of conduct”) is formulated by Central Bank of Sri Lanka (the “Central Bank”) for the purpose of each of the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance (the “Ordinances”) and each of the Registered Stock and Securities Ordinance (Primary Dealers) Regulations and the Local Treasury Bills Ordinance (Primary Dealers) Regulations (the “Regulations”).
- 1.2 The code of conduct is to commence on 1 September 2003. The code should be read in conjunction with the Primary Dealer Operations Manual and directions issued by the Central Bank from time to time under section 12 of each Regulation. The code of conduct is intended to supplement, and not to replace or modify, applicable laws, regulations or any specific guidelines issued by the Central Bank.
- 1.3 The code of conduct covers transactions in government securities entered into by a primary dealer in the primary, secondary and repo markets and applies where the primary dealer transacts directly as a counterparty with the Central Bank or engages in transactions for its own account or for the account of professional, institutional or retail customers.
- 1.4 The code of conduct is to be observed in a manner that accords with its plain meaning and intention. It is to be interpreted broadly to achieve the objective that a primary dealer acts reliably and professionally in the best interest of its customers and the integrity of the market for government securities.
- 1.5 The performance of a primary dealer is to be evaluated by the Central Bank periodically on its record of compliance with the code of conduct. Pursuant to section 11(1) of each Regulation, on being informed by the Central Bank of any shortcomings, a primary dealer must take the measures recommended by the Central Bank to remedy the shortcomings.
- 1.6 The code of conduct may be varied, added to or revoked in whole or in part at the discretion of the Central Bank by reasonable notice that will enable primary dealers to implement the changes without disruption to the market.
- 1.7 Unless the context otherwise requires, expressions in the code of conduct have the meanings assigned to them in the Ordinances and Regulations.

2. Compliance

- 2.1 A primary dealer, its directors and employees are required to comply with the code of conduct. A primary dealer is responsible for the actions of its directors and employees in the government securities market.
- 2.2 A primary dealer must ensure that its directors and employees
 - (1) comply with the Ordinances, Regulations, any other regulations issued pursuant to the Ordinances, any directions made or guidelines issued by the Central Bank under the Regulations or other regulations, the Primary Dealer Operations Manual issued by the Central Bank under the Regulations and this code of conduct and
 - (2) carry on business activities in a manner which is in the best interests of its customers by developing and implementing adequate compliance policies and procedures and undertaking appropriate training programs for its employees.
- 2.3 A primary dealer must communicate the requirements of this code to its directors and employees and to enforce strict observance of the code by taking appropriate disciplinary action against those who contravene the code.
- 2.4 A primary dealer must appoint a director or senior executive who has the necessary expertise as its compliance officer with responsibility for monitoring the firm’s compliance with the code. The compliance officer must be independent of persons and activities they are monitoring, and must be given the authority and resources required to undertake their responsibilities and provided with all information relevant to the performance of their duties. The compliance officer’s name, position and a

summary of their qualifications and experience must be given to the Central Bank in writing within 7 days of their appointment.

- 2.5 A summary of the results of the compliance monitoring must be reported to the board and internal auditors of the firm at least once every 3 months. The summary should also be made available for inspection by the external auditors. The primary dealer must report these results and remedies adopted to the Central Bank within 3 months of the end of each financial year.
- 2.6 A primary dealer must report any serious breach of the code to the Superintendent of the Public Debt Department at the Central Bank in writing within 2 days of becoming aware of its occurrence. A contravention of the code that is only minor or technical is not required to be reported.
- 2.7 A primary dealer must file a quarterly report in the form specified by the Central Bank within 30 days after the end of each financial quarter.
- 2.8 A primary dealer must keep records relevant to demonstrate compliance with the code for at least 5 years to enable the Central Bank to evaluate the firm's compliance with the code.
- 2.9 A primary dealer must keep registers of all breaches of the code, including minor and technical breaches, and customer complaints and the measures taken to resolve them.

3. Capabilities

- 3.1 A primary dealer must ensure that any person it employs or appoints to conduct business on its behalf is of good character and has the skills and knowledge necessary to act in the capacity in which they are employed or appointed.
- 3.2 A primary dealer must ensure that persons it employs or appoints to conduct business on its behalf are
 - (1) made aware of the provisions of this code,
 - (2) provided with a level of training that will enable them to adhere to the code in conducting their business activities,
 - (3) supervised in a manner that will ensure that they comply with the code in conducting their business activities, and
 - (4) disciplined in the event of any breach of the code or other rules governing the operations of the market for government securities.
- 3.3 A primary dealer must establish and implement written policies and procedures relating to the matters identified in this code of conduct, including those to
 - (1) protect confidential information,
 - (2) specify conditions on which directors and employees may be permitted to deal on their own accounts,
 - (3) ensure that directors and employees always act in the best interests of customers,
 - (4) avoid conflicts of interest and
 - (4) govern the terms on which inducements may be accepted.
- 3.4 If directors and employees of a primary dealer are permitted to deal in government securities on their own accounts and any accounts in which they have an interest in the government securities traded or to be traded
 - (1) they must deal through the primary dealer
 - (2) they must have the written approval of the primary dealer to open the account
 - (3) their transactions must be separately recorded and clearly identified in the records of the primary dealer
 - (4) their transactions must be reported to and actively monitored by the compliance officer of the primary dealer.

For the purposes of the code, a person has an interest in an account where that person has or shares an economic interest in the account directly or indirectly, through any contract, arrangement,

understanding, relationship or otherwise. A person is deemed to have an interest in any account belonging to his or her spouse, children, parents, brothers, sisters, uncles, aunts, cousins and their spouses, spouse's parents, brothers and sisters and their spouses or any relative living at the same address.

- 3.5 A primary dealer must not knowingly deal in government securities for a director or employee of another primary dealer or the holding company or an associate of the other primary dealer unless it has first received the written consent of that primary dealer.
- 3.6 A primary dealer or any director or employee of a primary dealer must not give or offer, directly or indirectly, to any director, employee, shareholder or agent of a customer, any inducement in relation to any business of the customer with the primary dealer, unless the prior written consent of the customer has been obtained. A director or employee of a primary dealer must not receive or ask for, directly or indirectly, any inducement from a customer or any director, employee, shareholder or agent of a customer, in relation to any business of the customer with the primary dealer, unless the prior written consent of the dealer has been obtained. "Inducement" includes any goods, services, advantage, benefit or any other consideration, but does not include normal fees and charges for services.
- 3.7 A primary dealer must have adequate resources, operational systems and safeguards that are necessary
 - (1) for the proper performance of the firm's business activities and
 - (2) to reasonably ensure that the firm's business activities can continue without interruption.

4. Confidentiality

- 4.1 S 9(8) of each Regulation requires a primary dealer to maintain strict confidentiality in respect of its dealings with its customers.
- 4.2 A primary dealer must ensure that its present and past directors and employees do not disclose, or apply pressure on others to disclose, information relating to transactions that have been completed, or are in process or are in the course of negotiation, except with the express consent of the customer, or to the Central Bank in the exercise of its authority, or as required by law.
- 4.3 A primary dealer must ensure information regarding its own trading intentions and inventory positions are kept confidential.
- 4.4 A breach of confidentiality must be investigated immediately by the compliance officer and disciplinary measures taken where appropriate. Where necessary, the dealer's internal control procedures must be modified to prevent a repetition of the breach.

5. Customer Assets

- 5.1 S 9(7) of the Regulations requires a primary dealer to act in a fiduciary capacity in respect of its customers in the holding of, and in the collection and payment of maturity proceeds and interest on, government securities and, for this purpose, to specifically identify and segregate the assets of its customers from its own assets.
- 5.2 A primary dealer must ensure that customer assets are kept separate from its own assets (except to the extent required by law) and that they are properly accounted for and adequately safeguarded.
- 5.3 If primary dealer is authorised to offer discretionary management services, it may operate a discretionary management account on behalf of a customer only with the prior written authority of the customer and on terms where the investment policy is fully disclosed to the customer before any services are provided. The person who is authorised to undertake transactions on behalf of the customer on a discretionary basis must be named in the customer agreement. This function may not be delegated by the primary dealer to another person unless the customer agreement specifically gives the primary dealer the ability to delegate.
- 5.4 A primary dealer must give to each customer at least once a year a written statement that lists all assets held for the customer for which the firm is accountable at any time since any earlier statement.

6. Honesty and Fairness

- 6.1 A primary dealer must at all times in the conduct of its business act in good faith.
- 6.2 A primary dealer must ensure that in the conduct of its business its directors and employees act in good faith.
- 6.3 Where a primary dealer advises or acts on behalf of a customer, it must ensure that
 - (1) any representations made and information given to the customer are complete, accurate and not misleading or deceptive
 - (2) any advertising of their services does not misrepresent the services that they are capable of performing for a customer or the expected performance of any government securities and
 - (3) all fees (including spreads/margins) charged for its services are fair and reasonable and are fully disclosed to the customer before their services are provided. In particular, the primary dealer must inform the customer of the method by which it is compensated when it is acting as principal on a trade with that customer.
- 6.4 A primary dealer must have reasonable grounds to believe that any investment advice provided to the customer is suitable for them taking account of the information disclosed by the customer and the information available to the firm.
- 6.5 Trades for customers must be given preference over those of the primary dealer or its directors and employees. A primary dealer must not trade as principal, and must ensure that its directors and employees do not trade on their own accounts, ahead of a significant purchase or sale in government securities for a customer, with the intent to profit by trading in the securities thereafter. (“front running”).
- 6.6 A primary dealer must not, and must ensure that its directors and employees do not, use material undisclosed information for their own gain or for the advantage or to the disadvantage of others (“insider dealing”).
- 6.7 A primary dealer must not, and must ensure that its directors and employees do not, move or attempt to move prices artificially for their own benefit (“market manipulation”).
- 6.8 A dealer must not, and must ensure its directors and employees do not, undertake trading in a customer account that would be excessive in size or frequency given the financial resources and character of that account (“churning”).
- 6.9 A primary dealer must ensure that its directors and employees do not
 - (1) repeat information that they know to be false, or
 - (2) disseminate information that is unsubstantiated, or which they have reason to suspect may be inaccurate, or may be damaging to a third party.
- 6.10 A primary dealer must not, and must ensure that its directors and employees do not, engage in any improper conduct that may damage the confidence of investors in or hamper the sound development of the market for government securities.

7. Diligence

- 7.1 A primary dealer must at all times conduct its business activities in the best interests of its customers and the integrity of the market for government securities.
- 7.2 A primary dealer must ensure that directors and employees of the firm who advise on or execute securities transactions use clear and unambiguous language at all times. When dealing with retail customers, a primary dealer should use as plain language as possible.
- 7.3 A primary dealer must ensure that a customer’s orders are promptly executed in accordance with the customer’s instructions.
- 7.4 A primary dealer must
 - (1) record orders immediately and document and verify all relevant items of proper execution and
 - (2) properly and promptly record, allocate and distribute executed transactions.

- 7.5 A primary dealer must explain to a customer the nature of the transaction and the risks associated with making the investment and ensure that their orders are executed in a manner that obtains the best possible result for the customer.
- 7.6 A primary dealer acting as principal in relation to customer orders must inform the customer upon the opening of the account and at least annually thereafter and must be able to provide evidence that each principal transaction is executed in a manner that obtains the best possible result for the customer. Any dispute that arises between parties to a transaction must be resolved quickly and fairly with integrity and the utmost respect for the position of each party to the dispute. Confirmations issued for transactions should indicate when the primary dealer was acting as principal.
- 7.7 A primary dealer must establish, implement and regularly review its risk management framework, clearly specifying authorities, limits and policies. Duties and reporting lines must be segregated between front and back offices of the firm and effective communication must be maintained between all levels of employees and across functions. The risk management framework must be approved by the directors and they must be held accountable for its implementation.

8. Conflicts of Interest

- 8.1 A primary dealer must act for the benefit of the customer and must place their customers' interests ahead of the interests of the primary dealer, its directors and employees.
- 8.2 A primary dealer must not undertake business with or on behalf of a customer where it has directly or indirectly a conflicting interest unless it has disclosed to the customer the nature and extent of the interest before the customer enters into any relevant transaction. A conflicting interest may be between the primary dealer and its customer or between the customer and another customer.

9. Know Your Customer

- 9.1 Before providing any service to a customer for the first time, and throughout the business relationship, a primary dealer must possess adequate documentation of the identity of the customer. If the customer is not resident in Sri Lanka, the primary dealer must also possess adequate documentation of the customer's country and place of residence.
- 9.2 Before providing any service to a customer, the primary dealer must obtain from the customer information enabling the firm to determine if the services to be provided are appropriate for the customer and to meet any duties owing to the customer in respect of the services to be provided.

10. Disclosure of Information

- 10.1 A primary dealer must give its customers timely information that is fair, clear and not misleading about
- (1) the firm, its business activities, the services it provides, its directors, and employees and others who may act on their behalf
 - (2) the essential features of any transaction in which a customer is to engage and concerning the execution of their orders
 - (3) the proper identification and regular confirmation of any assets belonging to the customer that the firm is holding or has under its control
 - (4) all risks a customer may need to know to make an informed investment decision.
- 10.2 Before providing any service to a customer, a primary dealer must enter into a signed written agreement with the customer that is clear and readily understandable and sets out the rights and obligations of the parties and a description of the services to be provided.

Ref. No. : 08 / 24 / 002 / 005 / 01

DIRECTIONS ON CUSTODIAL & TRUST HOLDINGS OF SCRIP SECURITIES

This direction is issued under section 10 of the Regulations made by the President dated 1 March 2000 under the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance and will come into effect from 1 January 2002.

Colombo

February 14, 2003.

K.G.D.D. Dheerasinghe

Superintendent of Public Debt

- (1) A dealer direct participant shall deposit any securities purchased, received or retained by the dealer direct participant for the account of a customer in a custodial securities account in the name of the customer, provided that where a security purchased, received or retained by a dealer direct participant on behalf of more than one customer the dealer direct participant shall maintain accounts to show the rights of each such customer in the security and such security shall be maintained in a custodial securities account on behalf of all such customers.
- (2) A dealer direct participant shall deal with securities held on behalf of a customer by the dealer direct participant only in accordance with instructions given by the customer to the dealer direct participant in writing.
- (3) Where securities are physically held by a dealer direct participant on behalf of a customer such securities shall be physically segregated from the securities of the dealer direct participant or of other customers of the dealer direct participant, and shall be held in safe and secure custody.
- (4) Securities held by the dealer direct participant on behalf of a customer shall be clearly identified in the records of the dealer direct participant as being held for the customer, and shall not form part of the assets of the dealer direct participant.
- (5) The dealer direct participant's records relating to securities held on behalf of customers shall be available for inspection by the Central Bank and to the customer or the customer's authorised representative at reasonable times, subject to applicable laws.
- (6) A dealer direct participant shall furnish to the Central Bank returns in respect of custodial holdings of securities on a monthly basis in the format at Schedule – I.
- (7) A dealer direct participant shall issue to its customers confirmations in respect of purchases and sales of securities on behalf of the customer in the format at Schedule – II and shall, in addition, issue to the customers a monthly statement with respect to the securities held by the dealer direct participant on behalf of the customers. Where a dealer direct participant holds a security on behalf of more than one customer, the dealer direct participant shall issue a confirmation to each such customer at the time that the customer acquires a right in the security, specifying the serial number of the security due to the customer and the coupon rate, if any, payable to the customer on such security in the format at Schedule – II.

SCHEDULE I

**REGISTER OF SECURITIES HELD IN CUSTODY/TRUST ON BEHALF OF CUSTOMERS
FOR THE MONTH OF**

Purchase Date	Name of Customer	Reference No. of Confirmation Letter	Purchase Amount (Face Value)	Maturity Date	T.Bill/ T.Bond	Part/Full Ownership/ Beneficial Ownership	Face Value of T.Bill/ Bond	Securities			
								In		Out	
								Sig-nature	Date	Sig-nature	Date

SCHEDULE II

CONFIRMATION ADVICE

Purchase of Treasury Bills under Custodial Arrangements

Reference No. :
Date :
Name of Customer :
Address :

Dear Sir/ Madam,

Purchase of Treasury Bills

With reference to your application, we confirm that the following Treasury Bill/s is/are held in our custody on your behalf. On maturity you will receive the face value of the Treasury Bill/s.

1. Face Value :
2. Treasury Bill No. :
3. Purchase Date :
4. Yield :
5. Price :
6. Maturity Date :

Yours faithfully,

.....
Manager

.....
Authorised Officer

CONFIRMATION ADVICE**Purchase of Treasury Bonds under Custodial Arrangements**

Reference No. :
 Date :
 Name of Customer :
 Address :

Dear Sir/ Madam,

Purchase of Treasury Bonds

With reference to your application, we confirm that the following Treasury Bond/s is/are held in our custody on your behalf. On maturity you will receive the face value of the Treasury Bond/s and on coupon payment dates you will receive semi-annual interest payments

1. Face Value :
 2. Treasury Bond No. :
 3. Coupon Rate :
 4. Yield :
 5. Purchase Date :
 6. Coupon Payment Dates :
 7. Interest Payment Amounts :
 8. Maturity Date :
 9. Accrued Interest Paid :
 10. Clean Price :
 11 Total Price Paid :

Yours faithfully,

.....
Manager

.....
Authorised Officer

CONFIRMATION ADVICE**Purchase of Treasury Bills under Trust Arrangements**

Reference No. :
 Date :
 Name of Customer :
 Address :

Dear Sir/ Madam,

Treasury Bills held in Trust

With reference to your application, we confirm that the following Treasury Bill/s is/are held in trust by us and that your beneficial ownership in the Bill/s is as stated in Item 1 below . On maturity you will receive the said value of the Treasury Bill/s as stated in Item 1 below.

1. Value of Beneficial Ownership :
 2. Treasury Bill No. & Face Value :
 3. Purchase Date :
 4. Yield :
 5. Price :
 6. Maturity Date :

Yours faithfully,

.....
Manager

.....
Authorised Officer

SCHEDULE II

CONFIRMATION ADVICE

Purchase of Treasury Bonds under Trust Arrangements

- Reference No. :
 Date :
 Name of Customer :
 Address :

Dear Sir/ Madam,

Treasury Bonds held in Trust

With reference to your application, we confirm that the following Treasury Bond/s is/are held by us in trust and that your beneficial ownership of the Bond is as stated in Item 1 below. On maturity you will receive the said value of the Treasury Bond/s as stated in Item 1 and on coupon payment dates you will receive semi-annual interest payments as stated in Item 7.

1. Value of Beneficial Ownership :
 2. Treasury Bond No and Face Value :
 3. Coupon Rate :
 4. Yield :
 5. Purchase Date :
 6. Coupon Payment Dates :
 7. Value of Interest Payment :
 8. Maturity Date :
 9. Accrued Interest Paid :
 10. Clean Price Paid :
 11. Total Price Paid :

Yours faithfully,

.....
Manager

.....
Authorised Officer

DIRECTION ON FORWARD RATE AGREEMENTS AND INTEREST RATE SWAPS

This Direction is issued under Section 12 of the Regulations made by the Minister of Finance dated February 1, 2002 under the Local Treasury Bills Ordinance and the Registered Stocks and Securities Ordinance and will come into effect from April 1, 2003.

Colombo
April 1, 2003.

K.G.D.D. Dheerasinghe
Superintendent of Public Debt

Financial derivatives such as Forward Rate Agreement (FRA) and Interest Rate Swaps (IRS) are useful for managing interest rates risks.

Description of the Product

1. A Forward Rate Agreement (FRA) is a financial contract between two parties to exchange interest payments for a 'notional principal' amount on settlement date, for a specified period from start date to maturity date. Accordingly, on the settlement date, cash payments based on contract rate (fixed) and the settlement rate, are made by the parties to one another. The settlement rate is the agreed bench-mark/reference rate prevailing on the settlement date.
2. An Interest Rate Swap (IRS) is an agreement between two parties to exchange a stream of interest payments for a 'notional principal' amount on multiple occasions during a specified period. Such agreements generally involve the exchange or swapping of future fixed rate interest payments for future floating rate interest payments or the exchange of future floating rate interest payments for future floating rate interest payments. Accordingly, on each payment date that occurs during the swap period, cash payments based on the fixed/floating and floating rates, are made by the parties to one another.

Participants

3. Primary Dealers (PDs) can undertake FRAs/IRS as a product for their own balance sheet management and for market making. PDs can offer these products to Licensed Commercial Banks, Licensed Specialised Banks, Registered Finance Companies, Registered Leasing Companies, Registered Insurance Companies, institutional investors and corporates for hedging their own balance sheet exposures.

Product Policy and Internal Control System

4. Prior to undertaking FRAs/IRS, PDs are required to inform Public Debt Department (PDD), Central Bank of Sri Lanka and abide by such reporting and any prudential requirements as prescribed by the Central Bank of Sri Lanka, from time to time.
5. PDs are required to ensure that appropriate infrastructure and risk management systems such as ability to price the product and to "mark to market" their positions, monitor and limit exposures on an ongoing basis, etc., are put in place.
6. A copy of the document detailing Product Policy and Internal Control System should be submitted to the Public Debt Department, Central Bank of Sri Lanka.

Types of FRAs/IRS

7. PDs can undertake different types of basic FRAs/IRS. Swaps having explicit/implicit option features such as caps/floors/collars are not permitted.

Bench Mark Rate

8. The benchmark rate shall be the Treasury Bill or Treasury Bond rate

Size

9. There will be no restriction on the minimum or maximum size of 'notional principal' amounts of FRAs/IRS. Norms with regard to size are expected to emerge in the market with the development of the product.

Tenor

10. There will be no restriction on the minimum or maximum tenor of the FRAs/IRS.

Capital Adequacy

11. PDs are required to maintain capital for FRAs/IRS, as per the stipulations contained in *Annex 1*.

Exposure Limits

12. In order to set exposure limits for counterparties, PDs may apply the conversion factors to notional principal amounts as per the exposure method prescribed in *Annex 1*.
13. Furthermore, while dealing with corporates and institutions other than Licensed Commercial Banks, PDs should exercise due diligence to ensure that they are undertaking FRAs/IRS only for hedging their own rupee balance sheet exposures. PDs are advised to also obtain a certificate from the authorised signatory/signatories of corporate/s to the effect that the transactions undertaken by them are meant for hedging balance sheet exposures only, *i.e.*, size and tenor of the transactions undertaken are not in excess of their underlying rupee exposures.

Swap Position

14. Preferably, PDs should undertake FRAs/IRS only for hedging underlying genuine exposures. However, recognising the crucial role played by the market maker in development of the product and creating of the market itself, PDs have been allowed to undertake market making activity, which would involve at times dealing in the market without underlying exposure. ***However to ensure that market makers do not over extend themselves, market makers are required to place prudential limits on swap positions, which may arise on account of market making activity.***

Accounting and Valuation

15. Transactions for hedging and market making purposes should be recorded separately. ***While transactions for market making purposes should be “marked to market” (at least at weekly intervals), those for hedging purposes could be accounted for on accrual basis.*** PDs should adopt accounting treatment on the basis of the International Accounting Standards (IAS 32 & 39). PDs may refer to *Annex 2*.

Documentation

16. For uniformity and standardisation, PDs should use International Swap Dealers Association (ISDA) documentation, as suitably modified to comply with these Directions for undertaking FRAs/IRS transactions. Institutions should further evaluate whether the counterparty has the legal capacity, power and authority to enter into FRAs/IRS transactions.

Reporting

17. PDs are required to report, as per the proforma indicated in *Annex – 3* their FRAs/IRS operations on a monthly basis to Public Debt Department, Central Bank of Sri Lanka.
18. These directions are intended to form the basis for development of Rupee derivative products such as FRAs/IRS in the country. The directions are subject to review, on the basis of development of FRAs/IRS market.

Annex 1**Capital Adequacy for Primary Dealers on Interest Rate Contracts for Credit Risk**

Primary Dealers undertaking Forward Rate Agreements and Interest Rate Swaps, will be required to fulfill the following minimum capital/capital adequacy requirements:

Over and above the minimum capital requirements and the capital adequacy ratio required by the Direction on Capital Adequacy, Primary Dealers will have to maintain additional capital at 12 per cent of Risk Weighted Assets (RWA) towards credit risk on Interest Rate Contracts.

The methodology for these off-balance sheet items will be as follows :

- (i) The notional principal amount will be multiplied by the conversion factors given below to arrive at the adjusted value.
 - @ 0.5 per cent of notional principal value for original maturity of less than 1 year.
 - @ 1.0 per cent for original maturity of one year and less than two years.
 - @ 1.0 per cent for each additional year.
- (ii) The adjusted value thus obtained shall be multiplied by the risk weight applicable to the counter party as specified below.

Primary Dealers/Licensed Commercial Banks	20 per cent.
All others	100 per cent.

Annex 2**Accounting Norms****Accounting for Hedge Swaps**

- (i) Interest Rate Swap which hedges interest bearing asset or liability should generally be accounted for like the hedge of the asset or liability.
- (ii) The Swap that is accounted for like a hedge should be accounted for on accrual basis except the swap designated with an asset or liability that is carried at market value or lower of cost or market value in the financial statements. In that case the swap should be marked to market with the resulting gain or loss recorded as an adjustment to the market value of designated asset or liability.
- (iii) Gains or losses on the termination of swaps should be recognised when the offsetting gain or loss is recognised on the designated asset or liability. This implies that any gain or loss on the terminated swap would be deferred and recognised over the shorter of the remaining contractual life of the swap or the remaining life of the asset/liability.
- (iv) **Redesignation of Hedge Items**
If a hedge is redesignated from one item of asset/liability to another item of asset/liability such redesignation should be accounted for as the termination of one hedge and acquisition of another. On the date of redesignation the swap should be marked to market and the mark to market value would be amortised over the shorter period of the remaining life of the swap or remaining life of the asset/liability. The offsetting mark to market entry adjustments would be treated as premium received or paid for hedge on the newly designated item of asset/liability and this would be amortised over the life of the redesignated asset/liability or remaining term of the swap whichever is shorter.
- (v) When a PD is acting like a broker for matching parties and is not a Principal to the contract itself, then the fee should be recognised immediately as an income. In case where the bank acts like a Principal the fee should be amortised over the life of the contract.

Accounting for Trading Positions

The following should be used as general principles for accounting of trading transactions.

- (i) Trading swaps should be marked to market with changes recorded in the income statement.
- (ii) Income and expenses relating to these swaps should be recognised on the settlement date.
- (iii) Fees should be recognised as immediate income or expenditure.
- (iv) Gains or losses on the termination of the swaps should be recorded as immediate income or expenses.

Disclosures

The following should be disclosed in the note to the balance sheet:

- the notional principal of swap agreements;
- nature and terms of the swaps including information on credit and market risk and the accounting policies adopted for recording the swaps;
- quantification of the losses which would be incurred if counterparties failed to fulfil their obligation under the agreement;
- collateral required by the entity upon entering into swaps;
- any concentration of credit risk arising from the swaps. Examples of concentration could be exposures to particular industries or swaps with highly geared companies; and
- the “fair” value of the total swaps book. If the swaps are linked to specific assets, liabilities or commitments, the fair value would be estimated amount that the entity would receive or pay to terminate the swap agreements at balance date. For a trading swap the fair value would be its mark to market value.

Annex 3

Monthly Return on Forward Rate Agreement/Interest Rate Swaps

Name of the Institution :

Month and Year :

1. Gross Notional Amount (Rs.):

Total :

Of which for

Hedging :

Market Making :

2. FRAs/IRS contracted during the month of 200...

Original Maturity	No. of Contracts	Notional Amount (Rs.)	Floating# Rate (Range)	Fixed Rate (Range)	Floating@# Rate (Range)
Upto 3 Months					
3 – 6 Months					
6 – 12 Months					
1-2 Years					
2-3 Years					
3-4 Years					
4-5 Years					
5-6 Years					
6-7 Years					
7-8 Years					
8-9 Years					
9-10 Years					
10-11 Years					
11-12 Years					
12-13 Years					
13-14 Years					
14-15 Years					

Along with rates benchmarks should also be mentioned in brackets.

@ Rate pertaining to second leg, if the swap is 'floating to floating' in nature.

3. FRAs/IRS outstanding as at the end of the month of 200...

Residual Maturity/ Repricing Date*	No. of Contracts	Notional Amount (Rs.)	Floating # Rate (Range)	Fixed Rate (Range)	Floating@# Rate (Range)
Upto 3 Months					
3 – 6 Months					
6 – 12 Months					
1-2 Years					
2-3 Years					
3-4 Years					
4-5 Years					
5-6 Years					
6-7 Years					
7-8 Years					
8-9 Years					
9-10 Years					
10-11 Years					
11-12 Years					
12-13 Years					
13-14 Years					
14-15 Years					

* Residual maturity or repricing date, whichever is earlier, is to be reported.

Along with rates benchmarks should also be mentioned in brackets.

@ Rate pertaining to second leg, if the swap is 'floating to floating' in future.

Ref. No. : 08 / 24 / 002 / 0005 / 001

Public Debt Department
Central Bank of Sri Lanka
30 Janadhipathi Mawatha
Colombo 1.
23rd July 2003

To : Chief Executive Officer

- Ceybank Securities Ltd.
- Commercial Bank Primary Dealer Ltd.
- NSB Fund Management Co. Ltd.
- HNB Securities Ltd.
- First Capital Treasuries Ltd.
- Sampath Surakum Ltd.
- Seylan Bank Asset Management Ltd.
- Ceylinco Shriram Securities Ltd.
- Peoples' Bank
- Hongkong & Shanghai Banking Corporation Ltd.
- Capital Alliance Ltd.

**DIRECTION ON FIRM TWO WAY QUOTES (BID AND OFFER PRICES) FOR
BENCHMARK MATURITIES**

We refer to the Direction on Secondary Market Firm Two Way Quotes issued on July 2, 2002 where PDs are required to make firm two way quotes for 12 month Treasury Bills.

In order to promote the liquidity of medium and long-term market, it is necessary to expand the firm two-way quote requirement for selected benchmark maturities.

In this regard, the Public Debt Department has selected four benchmark maturities, that cover short to medium- term securities.

All PDs are hereby required to make *firm (effective) two-way quotes* for the following benchmark maturities for trading with the public.

Firm Two Way Quotes for Selected Benchmark Maturities

- (a) 3 month Treasury Bills
- (b) 12 month Treasury Bills
- (c) 2 year Treasury Bonds
- (d) 5 year Treasury Bonds

- All PDs required to submit their effective buying and selling quotes for securities in the benchmark maturities to the Public Debt Department in the specimen format provided in the Annex. The firm two way quotes should be e-mailed to the Public Debt Department by at least 10.00 a.m. daily. The e-mail address is pdebt@cbsl.lk
- All PDs are also required to put their effective buying and selling quotes for securities in the benchmark maturities on the Bloomberg Screen by 10 a.m. daily.

PDs are also encouraged to make two way quotes for securities in other maturities.

All PDs are required to comply with this direction with immediate effect and non compliance may result in prohibition to participate in auctions conducted by the Public Debt Department in the future.

This direction is issued under Section 12 of the Regulations made by the Minister of Finance dated February 1, 2002 in terms of the Registered Stocks and Securities Ordinance & the Local Treasury Bills Ordinance.

K.G.D.D. Dheerasinghe
Superintendent of Public Debt

ANNEX

SPECIMEN FORMATFIRM & EFFECTIVE TWO WAY QUOTES

Name of Primary Dealer :

<i>Instrument / Period</i>	<i>Buying Yield Rate (Range)</i>	<i>Selling Yield Rate (Range)</i>
3 Month Treasury Bill		
12 Month Treasury Bill		
2 Year Treasury Bond		
3 Year Treasury Bond (optional)		
4 Year Treasury Bond (optional)		
5 Year Treasury Bond		
6 Year Treasury Bond (optional)		
10 Year Treasury Bond (optional)		
15 Year Treasury Bond (optional)		

Ref. No. : 08 / 24 / 002 / 0005 / 003

Public Debt Department
Central Bank of Sri Lanka
30 Janadhipathi Mawatha
Colombo 1.
15th August 2003

To : Chief Executive Officer of Primary Dealers

DIRECTION ON MINIMUM SUBSCRIPTIONS LEVELS FOR TREASURY BILL AND BOND AUCTIONS

This direction is issued in terms of Section 12 of the Regulations dated February 1, 2002 issued by the Minister of Finance under the Registered Stocks and Securities Ordinance and the Local Treasury Bills Ordinance. In terms of this direction each Primary Dealer is hereby required to subscribe a minimum 10% of the amount offered for each maturity at each Treasury Bond auction and Treasury Bill auctions in order to ensure that the auctions are fully subscribed.

All Primary Dealers are required to comply with this direction with immediate effect.

K.G.D.D. Dheerasinghe
Superintendent of Public Debt

Ref. No. : 08 / 24 / 002 / 0005 / 003

Public Debt Department
Central Bank of Sri Lanka
30 Janadhipathi Mawatha
Colombo 1.
28th November 2003

To : Chief Executive Officers of Primary Dealers

DIRECTION ON SPECIAL RISK RESERVE

In order to promote the safety, soundness and the stability of the Primary Dealer (PD) system and to build up PD capital base, with effect from July 1, 2004, Primary Dealers (PDs) are required to transfer a percentage of their profit after tax annually to a Special Risk Reserve as follows.

- a. 50% of the profit after tax annually by the PDs who maintain capital funds less than Rs.400 million
- b. 25% of the profit after tax annually by the PDs who maintain capital funds in excess of Rs.400 million.

This direction is issued in terms of Section 12 of the Regulations dated February 1, 2002 issued by the Minister of Finance under the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance.

Please acknowledge receipt.

K.G.D.D. Dheerasinghe
Superintendent of Public Debt

Ref. No. : 08 / 24 / 002 / 0005 / 003

Public Debt Department
Central Bank of Sri Lanka
30 Janadhipathi Mawatha
Colombo 1.
28th November 2003

To : Chief Executive Officers of Primary Dealers

DIRECTION ON MINIMUM CAPITAL REQUIREMENT

In terms of the direction dated December 23, 2002 issued under the section 7 of the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance, all Primary Dealers (PDs) are required to maintain a minimum capital requirement of Rs. 200 million of which a minimum of Rs. 150 million should be maintained as Tier-I capital.

However, in view of the changing market conditions and viability and stability of the primary dealer system, the Central Bank of Sri Lanka has decided that the minimum capital maintained by a primary dealer should be increased to Rs. 400 million of which minimum Rs. 350 million should be maintained as Tier-1 Capital. The timeframe for enhancement of minimum capital from Rs. 200 million to Rs. 400 million will be as follows.

	<u>Before 31/12/2004</u>	<u>Before 1/7/2005</u>
Minimum Capital Funds Required	Rs.350 million	Rs.400 million

The composition of Tier I capital and Tier II capital for the above purpose is as follows :

Tier-1 Capital

- (a) Issued and paid up ordinary share capital.
- (b) Issued and paid up non-cumulative preference shares (non-redeemable or redeemable at issuer's option).
- (c) Share premium account.
- (d) Reserves created or increased by appropriations of retained earnings or other surpluses eg. retained profits and other reserves (excluding fixed assets revaluation reserve).

Less

Goodwill and other intangible assets accumulated losses, investments in shares of subsidiaries and affiliate companies.

Tier-2 Capital

- (a) Short term subordinated debt.
- (b) Long term subordinated debt.
- (c) Cumulative preference shares.
- (d) Perpetual subordinated debt.

K.G.D.D. Dheerasinghe
Superintendent of Public Debt

Ref. No. : 08 / 24 / 002 / 0005 / 003

Public Debt Department
Central Bank of Sri Lanka
30 Janadhipathi Mawatha
Colombo 1.
19th December 2003

To : Chief Executive Officers of Primary Dealers

DIRECTION ON ACCOUNTING FOR REPO TRANSACTIONS

All Repurchase and Reverse Repurchase transactions should be recorded to reflect the true commercial effect or substance of the transaction. As all Repo transactions are in effect collateralised borrowings/lending, they should be accounted for as follows.

1. Repurchase Transactions
Dr. Cash/Bank
Cr. Repurchase A/c
2. Reverse Repurchase Transactions
Dr. Reverse Repurchase A/c
Cr. Cash

Carrying value/Book value of securities given as Collateral for Repo borrowings should also be taken out of the Trading/Investment portfolio account and put into a separate encumbered Trading/Investment portfolio account. When preparing the Balance Sheet, Primary Dealers should report the encumbered and unencumbered securities together but a note to the accounts should disclose the value of encumbered securities included in the Trading/Investment portfolio. A note to the accounts should also disclose the market value of securities obtained as collateral on Reverse Repurchase transactions and the policy on haircuts on the collateral taken on Reverse Repurchase transactions.

K.G.D.D. Dheerasinghe

Superintendent of Public Debt

FINANCE LEASING ACT NO.56 OF 2000

Direction given by the Director of Department of Supervision of Non-Bank Financial Institutions, under section 34 read with section 43 of the Finance Leasing Act No.56 of 2000.

Mrs. L K Gunatilake
Director

Department of Supervision of Non-Bank Financial Institutions
Central Bank of Sri Lanka.

On this 21st day of August 2003.

FINANCE LEASING (REPORTING REQUIREMENTS)
DIRECTION NO.1 OF 2003

- (1) This Direction may be cited as Finance Leasing (Reporting Requirements) Direction No.1 of 2003 and shall apply to every registered finance leasing establishment, other than licensed banks and finance companies which are governed by the Banking Act, No.30 of 1988 and the Finance Companies Act, No.78 of 1988, respectively. The Direction shall come into operation with immediate effect.
- (2) Every registered finance leasing establishment to which this Direction is applicable (hereinafter referred to as a “relevant establishment”) shall submit to the Director, within one month after the end of each quarter, on a format to be provided by the Director,
 - (i) a profit and loss account in respect of such quarter; and
 - (ii) a balance sheet as at the end of such quarter.
- (3) Every relevant establishment shall submit to the Director, within 6 months after the end of each financial year,
 - (i) the audited financial statements relating to such financial year, certified by the auditors; and
 - (ii) a certified copy of auditor’s confidential letter submitted by the auditors to the Board of Directors of the Company at the completion of their audit for the financial year.
- (4) Every relevant establishment shall submit to the Director, within one month after the end of each quarter, a statement on finance leases and other advances where payments under such leases and advances are in arrears for 3 months or more as at the end of such quarter, on a format to be provided by the Director.
- (5) Every relevant establishment shall submit to the Director, within one month after the end of each quarter, a statement of the finance leases and other advances granted to its directors, employees and close relations of such directors and employees and outstanding as at the end of such quarter, on a format to be provided by the Director.
- (6) Every relevant establishment shall submit to the Director, within one month from the end of each quarter, a statement of the value of finance leases and other advances granted and outstanding as at the end of such quarter to any one person in excess of 10 per cent of the capital funds, as shown in the last audited balance sheet of the Company, on a format to be provided by the Director.
- (7) Every relevant establishment shall submit to the Director a statement on outstanding amounts of its borrowings, excluding debentures, bank overdrafts and bank loans, as at the end of each month on or before the 15th day of the immediately following month, on a format to be provided by the Director.
- (8) Every relevant establishment shall submit to the Director, a statement indicating the rates of interest charged on finance leases and other advances entered into during each month, on or before the 15th day of the immediately following month on a format to be provided by the director.

- (9) Every relevant establishment shall inform the Director any changes relating to the following within 7 days of such change –
- (a) composition of Board of Directors ;
 - (b) Chief Executive Officer; and
 - (c) registered place of business including location of branches.
- (10) Every relevant establishment shall submit to the Director such information as the Director may require, within such time as may be specified in such requirements, for the purpose of ensuring that such establishments maintain efficient standards.
- (11) For the purpose of this Direction:
- (i) ‘Director’ and ‘finance lease’ shall have the same meanings as given in section 43 of Finance Leasing Act, No.56 of 2000;
 - (ii) ‘Capital funds’ shall include issued and paid-up ordinary shares, non-cumulative, non-redeemable preference shares, free reserves created or increased by appropriations of audited profits or audited realised surpluses; and the balance in the audited profit & loss account.

The Gazette of the Democratic Socialist Republic of Sri Lanka

EXTRAORDINARY

No. 1294/24 – WEDNESDAY, JUNE 25, 2003

(Published by Authority)

PART I : SECTION (I) – GENERAL

Central Bank of Sri Lanka Notices

FINANCE COMPANIES ACT, NO. 78 OF 1988 AS AMENDED BY ACT, NO. 23 OF 1991

Direction given by the Monetary Board of the Central Bank of Sri Lanka under Section 9 of the Finance Companies Act, No. 78 of 1988 as amended by Act, No. 23 of 1991.

A S Jayawardena

Chairman

Monetary Board of the Central Bank of Sri Lanka

On this 23rd day of June, 2003.

1. This Direction may be cited as Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction, No. 2 of 2003, and shall apply to every finance company registered under Finance Companies Act, No. 78 of 1988 as amended by Act, No. 23 of 1991, and shall come into operation with effect from 01 July, 2003.
2. For the purpose of computing the capital adequacy ratio of finance companies, the constituents of capital shall be divided into–

- (i) Tier 1 – Core capital : Representing permanent shareholders’ equity (paid-up shares/common stock) and reserves created or increased by appropriations of retained earnings or other surpluses, *i.e.* share premiums, retained profits and other reserves; and
- (ii) Tier 2 – Supplementary capital : Representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt, such as, hybrid capital instruments and unsecured subordinated term debt.
3. Every finance company shall at all times maintain a minimum total risk weighted capital adequacy ratio of 10 *per cent* in relation to its risk weighted assets with core capital ratio constituting not less than 5 *per cent*, computed as per instructions as may be issued from time to time by the Director. Where a finance company is not in a position to comply with the requirements stipulated in this paragraph at the commencement of this Direction, the Monetary Board may give the finance company a period of two years from the commencement of this Direction to comply with such requirements.
4. Every finance company shall furnish to the Director :
- (i) a return as at the end of each quarter, on the format given in the instructions issued under paragraph 3 within thirty days after the end of each quarter;
- (ii) a return based on the audited balance sheet as at the end of the each financial year, on the same format given for the quarterly return, referred to in sub-paragraph (1) above, within six months after the end of each financial year.
5. In this Direction “Director” means the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

The Gazette of the Democratic Socialist Republic of Sri Lanka

EXTRAORDINARY

No. 1295/35 – SUNDAY, JULY 06, 2003

(Published by Authority)

PART I : SECTION (I) – GENERAL

Central Bank of Sri Lanka Notices

C O R R E C T I O N

FINANCE COMPANIES ACT, NO. 78 OF 1988 AS AMENDED BY ACT, NO. 23 OF 1991

Finance Companies (Capital Funds) Direction No. 1 of 2003, as given below should have been published as a part of *Gazette* Notification, No. 1294/24 dated 25.06.2003.

Direction given by the Monetary Board of the Central Bank of Sri Lanka under Sections 4 and 9 of the Finance Companies Act, No. 78 of 1988 as amended by Act, No. 23 of 1991.

A S Jayawardena

Chairman

Monetary Board of the Central Bank of Sri Lanka

On this 23rd day of June, 2003.

1. This Direction may be cited as Finance Companies (Capital Funds) Direction No. 1 of 2003, and shall apply to every finance company registered under the Finance Companies Act, No. 78 of 1988 as amended by Act, No. 23 of 1991, and shall come into operation with effect from 01 July, 2003.
2. Every finance company shall maintain capital funds which shall not at any time be less than ten (10) *per cent* of its total deposit liabilities.
3. Every finance company shall:–
 - (a) maintain a reserve fund; and
 - (b) transfer to such reserve fund out of the net profits of each year, after due provision has been made for Taxation and Bad and Doubtful Debts –
 - (i) so long as the capital funds are not less than twenty five (25) *per cent* of total deposit liabilities, a sum equal to not less than five (5) *per cent* of the net profits;
 - (ii) so long as the capital funds are less than twenty five (25) *per cent* of total deposit liabilities, but not less than ten (10) *per cent* thereof, a sum equal to not less than twenty (20) *per cent* of the net profits; and
 - (iii) so long as the capital funds are less than ten (10) *per cent* of the total deposit liabilities, a sum equal to not less than fifty (50) *per cent* of the net profits.
4. In this Direction –
 - (i) “capital funds” shall have the same meaning as contained in the definition in Section 46 of the Finance Companies Act, No. 78 of 1988;
 - (ii) “total deposit liabilities” mean the average of a finance company’s month-end deposit liabilities during the final three months of the financial year, for the purpose of para 3(b) of this Direction.
5. The Finance Companies (Capital Funds) Direction, No. 9 of 1991 is hereby revoked.