



LOCAL TREASURY BILLS ORDINANCE

(Incorporating Amendments up to 31st December, 2004)

Printed by the Central Bank of Sri Lanka.

Local Treasury Bills Ordinance

Owing to the numerous amendments made to the Local Treasury Bills Ordinance it has become necessary to publish a reprint of the Ordinance. This reprint which incorporates amendments made to the Ordinance up to 31st December, 2004 is, however, not a statutory reprint. It is only issued for purpose of convenience.

Sunil Mendis

Governor

Central Bank of Sri Lanka

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LOCAL TREASURY BILLS ORDINANCE

AN ORDINANCE TO PROVIDE FOR THE BORROWING OF MONEY BY THE ISSUE OF TREASURY BILLS IN SRI LANKA.

[31st July, 1923.]

Ordinance
No. 8 of 1923,
Acts
Nos. 35 of 1953,
35 of 1992,
31 of 1995,
1 of 2004.

1. This Ordinance may be cited as the Local Treasury Bills Ordinance. Short title.
2. (1) The Minister in charge of the subject of Finance whenever authorised thereto by a resolution of Parliament may direct the Deputy Secretary to the Treasury to borrow by the issue in Sri Lanka of Sri Lanka Government Treasury Bills, sums not exceeding the amount specified in such resolution; and the Deputy Secretary to the Treasury may also, with the approval of the Minister in charge of the subject of Finance, borrow from time to time by the issue of such Treasury Bills, such sums as may be required to pay off at maturity, bills already lawfully issued by him and outstanding. Power to borrow by the issue of Treasury Bills, &c. [§ 2, 35 of 1992.] [§ 2, 31 of 1995.]

(2) All acts or things necessary for the purpose of, and in connection with, the issue and repayment of Treasury Bills under this Ordinance shall be done on behalf of the Deputy Secretary to the Treasury by the Central Bank.

(3) Treasury Bills may be issued either as bills in the form of written certificates or as Scripless Treasury Bills.

(4) Any application or bids for the purchase of Treasury Bills may, having regard to the interests of the national economy, be restricted to primary dealers and designated non-dealer bidders
3. The principal moneys represented by the Treasury Bills issued under the provisions of this Ordinance are hereby charged upon and shall be payable out of the Consolidated Fund and assets of Sri Lanka. Principal of bills.
4. The proceeds of the issue of the Treasury Bills shall be paid into the Treasury. Proceeds of bills.
5. Every Treasury Bill issued under this Ordinance shall be for the sum of one thousand rupees or a multiple of one thousand rupees and shall be payable at par at such time or times as the Minister in charge of the subject of Finance shall before the issue of such Treasury Bills fix and determine, but not later than one year from the date of issue. Amounts and period of currency of bills. [§ 3, 35 of 1992.] [§ 3, 31 of 1995.]
6. There shall be appropriated out of the Consolidated Fund the necessary sum to pay the principal represented by the Treasury Bills, and the Deputy Secretary to the Treasury shall pay the said principal when the Treasury Bills fall due. Repayment of bills. [§ 2, 1 of 2004.]

Provided however that if the day on which a Treasury Bill falls due is a day on which the Central Bank is not open for business, payment shall be made in accordance with such procedures as may be prescribed.
7. (1) Every Treasury Bill issued under this Ordinance, other than Scripless Treasury Bills, shall bear the signature in facsimile of the Deputy Secretary to the Treasury. Treasury Bills other than Scripless Treasury Bills. [§ 4, 31 of 1995.]

(2) Title to every Treasury Bill, other than a Scripless Treasury Bill, shall be transferable by endorsement and delivery of the Bill.

(3) With respect to every Treasury Bill, other than a Scripless Treasury Bill—

- (a) no endorsement of the Treasury Bill shall be valid unless made by the signature of the holder written on the reverse of the Bill in one of the spaces provided for that purpose, or in a separate assignment or other instrument attached thereto which is in a form prescribed by regulation and issued by the Central Bank;
- (b) a person shall not, by reason only of his having endorsed or endorsed and delivered a Treasury Bill, be liable to pay any money due thereon.

Central Bank to supervise or to monitor the transactions of primary dealers and non dealer bidders.
[§ 3, 1 of 2004.]

7A. Without prejudice to anything contained in this Ordinance particularly the provisions of sections 8, 9, 10 and 11, the Central Bank shall regulate, supervise and monitor the primary dealers and the designated non dealer bidders with respect to their transactions in Treasury Bills issued in the form of written certificates.

Issue of Scripless Treasury Bills.
[§ 3, 1 of 2004.]

7B. The Minister may, by notification published in the *Gazette* and in two local newspapers in Sinhala, Tamil and English, notify the public of a day, from which, Treasury Bills may be issued in the form of Scripless Treasury Bills.

Conversion of Treasury Bills issued in the form of written certificates.
[§ 3, 1 of 2004.]

7c. (1) The Central Bank may by notification published in the *Gazette* and in two local newspapers in Sinhala, Tamil and English, require the holders of Treasury Bills issued in the form of written certificates having a specified date of maturity, if they so desire, to surrender such Bills for conversion into Scripless Treasury Bills in accordance with such procedure as may be prescribed. Such Treasury Bills shall upon conversion into Scripless Treasury Bills be deemed to be Scripless Treasury Bills issued under this Ordinance.

(2) Nothing contained in subsection (1) shall be construed as affecting or discharging the liability of the Government under this Ordinance in respect of a Treasury Bill which is not converted into a Scripless Treasury Bill as provided for in subsection (1).

Issue, trading and maintenance of records of Scripless Treasury Bills.
[§ 4, 31 of 1995.]
[§ 4, 1 of 2004.]

8. (1) The Central Bank shall have the authority to take any action necessary for the issue and trading of Scripless Treasury Bills in accordance with the provisions of this Ordinance. Without limiting the generality of the foregoing, the Central Bank shall have the authority to undertake and carry out the following:—

- (a) the making and maintaining of entries in the records of the Central Bank to record the issuance and trading of Scripless Treasury Bills;
- (b) the maintenance of accounts to record the ownership or custodial holdings of Scripless Treasury Bills or interests therein, for or on behalf of direct participants or the Central Bank;
- (c) the appointment from time to time of direct participants referred to in section 9, and the regulation, supervision or monitoring of such

direct participants with respect to their transactions in Scripless Treasury Bills and the performance of their duties as direct participants;

- (d) the appointment from time to time of dealer direct participants referred to in section 10, and the regulation, supervision or monitoring of such dealer direct participants with respect to their transactions in Scripless Treasury Bills and the performance of their duties as dealer direct participants;
- (e) the appointment from time to time of interdealer brokers, and the regulation, supervision or monitoring of such interdealer brokers with respect to their brokering of Scripless Treasury Bills and the performance of their duties as interdealer brokers;
- (f) the appointment from time to time of primary dealers, and the regulation, supervision or monitoring of such primary dealers with respect to their transactions in Scripless Treasury Bills and the performance of their duties as primary dealers;
- (g) the appointment of designated non-dealer bidders and the regulation, supervision or monitoring of such non-dealer bidders with respect to their transactions in Scripless Treasury Bills and the performance of their duties as non-dealer bidders;
- (h) the formulation of a code of conduct for the promotion and development of an orderly market for Scripless Treasury Bills.

(2) The Central Bank may, to the extent not otherwise provided for in sections 8, 9, 10, and 11, issue directions to direct participants or any category thereof to provide for the following:—

- (a) the manner in which the accounts of customers of dealer direct participants are to be maintained and administered;
- (b) the period within which the maturity proceeds paid on Scripless Treasury Bills in such accounts shall be paid to customers or persons entitled thereto;
- (c) the fees that may be charged for maintaining and administering such accounts;
- (d) the regulating, supervising or monitoring of direct participants, dealer direct participants, interdealer brokers or primary dealers;
- (e) the manner and means by which Scripless Treasury Bills, or interests therein, may be purchased, sold, transferred, pledged or encumbered;
- (f) the furnishing of information to the Central Bank, the manner, means and periods at which such information shall be furnished to the Central Bank.

9. (1) The Central Bank, may in writing appoint any primary dealer or other person to be a direct participant who shall be entitled to maintain accounts in respect of Scripless Treasury Bills as are specified in subsection (2).

Direct participants.
[§ 4, 31 of 1995.]
[§ 5, 1 of 2004.]

(2) A direct participant shall maintain in a depository referred to in the Monetary Law Act, Securities Accounts to hold Scripless Treasury Bills and other scripless securities to which such direct participant has title and to record the interest of such direct participant in Scripless Treasury Bills and other Scripless securities in accordance with the rules and regulations made under the Monetary Law Act.

(3) The Central Bank shall pay to a direct participant the maturity proceeds on Scripless Treasury Bills in respect of which such direct participant is recorded as owner in accounts maintained by a direct participant under subsection (2) on the day such maturity proceeds become payable.

(4) The Central Bank may inspect and take copies of any books, records or accounts maintained by a direct participant relating to or affecting any Scripless Treasury Bills held in its own account or in the case of a dealer direct participant, with respect to its own account as well as those held in customers' accounts. The direct participant and its officers, directors, employees, servants and agents shall furnish to the Central Bank all such books, records correspondence or any other document as may be required by the Central Bank and shall provide the Central Bank with all such assistance as it may require to perform the duties imposed on the Central Bank by this Ordinance in respect of issue of Scripless Treasury Bills.

The provisions of this section shall apply to any book, record, accounts and correspondence maintained in an electronic form.

(5) In the event of the Government incurring any liability or making payment of any maturity proceeds with respect to a Scripless Treasury Bill and where such liability arises or such payment is made in consequence or by reason of any default of a direct participant or a dealer direct participant, such participant shall be liable on demand by the Government, to indemnify the Government with respect to such liability or payment.

(6) For the purpose of this section "default" includes —

- (a) any negligence or failure on the part of a direct participant or a dealer direct participant in carrying out of any function or the discharging of any duty assigned to or imposed on, him ,by this Ordinance or by any other written law in relation to any matter dealt with by this Ordinance ; and
- (b) any act or omission on the part of direct participant or dealer direct participant which constitutes an offence under this Ordinance or any other written law in relation to any matter dealt with by this Ordinance —
 - (i) whether or not there has been any prosecution in respect of such offence; or
 - (ii) whether such act or omission was by the direct participant or the dealer direct participant or by any director, officer, employee or agent of such direct participant or dealer direct participant.

10. (1) The Central Bank may appoint in writing any direct participant to be a dealer direct participant.

Dealer direct
participants.
[§ 4, 31 of 1995.]
[§ 6, 1 of 2004.]

(2) A dealer direct participant shall, in addition to maintaining accounts required to be maintained under subsection (2) of section 9, maintain in a depository referred to in the Monetary Law Act, accounts in respect of each of its customers to hold Scripless Treasury Bills and other scripless securities to which each such customer has title and to record the interests of each such customer in Scripless Treasury Bills and other scripless securities in accordance with the regulations and rules made under the Monetary Law Act.

(3) The Central Bank shall pay to a dealer direct participant, in addition to the payments referred to in subsection (3) of section 9, the maturity proceeds on Scripless Treasury Bills in respect of which a customer or such dealer direct participant is recorded as owner in accounts maintained by such dealer direct participant under subsection (2), on the day such maturity proceeds become payable.

(4) No person other than a dealer direct participant may transact in Scripless Treasury Bills on behalf of any other person. Any person other than a direct participant and the Central Bank desiring either to make a transfer or to take a transfer of Scripless Treasury Bills shall do so only through a dealer direct participant.

(5) A dealer direct participant shall maintain books and records to enable it to perform and discharge its duties and functions under this Ordinance and to discharge its obligations to its customers and shall comply with directions, if any, issued by the Central Bank for such purpose.

(6) Upon receipt by a dealer direct participant of any amount by way of payment from the Central Bank in terms of subsection (3) in respect of Scripless Treasury Bills held in a customer account, the dealer direct participant shall pay such amount, within the time specified in any direction issued by the Central Bank, to the customer or to any other party entitled to such payment by law or in terms of a written agreement to which the dealer direct participant and the customer are party.

(7) If a dealer direct participant is unable, for any reason to effect payment to a customer or to a party entitled to payment in terms of subsection (6), within the time specified in any directions issued by the Central Bank, the dealer direct participant shall within such period as may be specified in such directions, transfer the sum remaining unpaid to a prescribed account of the Central Bank and shall provide the Central Bank with such information as may be required by the Central Bank with regard to the payment and the customer or other party, as the case may be.

(8) The sums of money transferred to a prescribed account of the Central Bank in terms of subsection (7) shall be paid to persons entitled thereto and any monies lying unclaimed shall be dealt with or disposed of by the Central Bank in such manner as is prescribed by regulations made for such purpose.

(9) A dealer direct participant shall, except to the extent required for the proper conduct of its business and administration, maintain confidentiality in respect of accounts maintained for a customer and any matter connected therewith and shall not disclose to any person except to the Central Bank, any information relating to an account of a customer unless authorized to do so in writing by the customer, or except where it is required to do so under any law or by an Order of Court.

Transfer of
Scripless
Treasury Bills.
[§ 4, 31 of 1995.]
[§ 7, 1 of 2004.]

Powers of

11. (1) Where a transfer of title to a Scripless Treasury Bill is made by a dealer direct participant from or into an account maintained for a customer under subsection (2) of section 10, or an interest of any customer in a Scripless Treasury Bill is recorded or any amendment or variation is made in respect of any such interest in any Scripless Treasury Bill in such account, such dealer direct participant shall issue to such customer a confirmation in accordance with such directions as may from time to time be issued by the Central Bank.

(2) The provisions of subsection (1) shall not be construed as derogating from any obligation imposed under the Monetary Law Act on the provider of depository facilities for Scripless Securities, to issue statements or confirmations in respect of accounts maintained in such depository and in the event of any conflict or inconsistency between a statement or confirmation so issued by the depository and the statement or confirmation issued under subsection (1), the statement or confirmation issued by the depository, shall prevail.

(3) Subject to the provisions of any applicable written law, a dealer direct participant shall be wholly responsible and liable to customers in respect of all transfers taken or made by such customer through such dealer direct participant.

(4) The confirmation referred to in subsection (1) shall not be capable of being negotiated and shall be used solely as evidence of dealings between such dealer direct participant and the customer in respect of Scripless Treasury Bills to which it relates.

(5) The Central Bank may permit any notification, confirmation, acknowledgment or receipt required under this section to be issued in a non written form and to be transmitted or delivered by wire, telephone, satellite cable or any other such electronic, magnetic or optical media, as may be specified from time to time, by the Central Bank in that behalf.

(6) An electronic record of a Scripless Treasury Bill or any notification, confirmation, acknowledgment, receipt or other document or record issued or maintained for the purposes of this Ordinance in an electronic form, shall not be denied legal effect, validity or enforceability solely on the grounds that such Scripless Treasury Bill is maintained in an electronic form or that such notification confirmation, acknowledgment, receipt or other document or record is issued or maintained in electronic form and such notification confirmation, acknowledgment, receipt or other document may be tendered in evidence in proceedings before any court or tribunal in accordance with Part II and Part III of the Evidence (Special Provisions) Act, No. 14 of 1995 or any other law for the time being in force in relation to the tendering of computer evidence before any court or tribunal.

Central Bank
exercised by
officers &c.
[§ 4, 31 of 1995.]

12. Whenever by any provision of this Ordinance any power, duty or function is authorised or required to be exercised or performed by the Central Bank, such power, duty or function may be exercised or performed by an officer of the Central Bank or any other person authorised in writing in that behalf by the Monetary Board of the Central Bank.

Protection of
action.
[§ 4, 31 of 1995.]

13. No suit or prosecution shall lie against the Government, the Monetary Board or any officer or servant of the Central Bank in respect of any payment made, or any act which, in good faith is done, or purported to be done, under this

Ordinance, by the Government, the Monetary Board or any such officer or servant of the Central Bank.

14. (1) Any person who—

- (a) fails to comply with any provisions of this Ordinance or any regulation, order, or direction given thereunder;
- (b) furnishes for the purposes of this Ordinance any information which is, or any return the contents of which are, to his knowledge false or incorrect;
- (c) with intent to deceive—
 - (i) makes or causes to be made a false entry; or
 - (ii) omits to make, or causes to be omitted, any entry; or
 - (iii) alters, conceals or destroys or causes to be altered, concealed or destroyed any entry,

Offences.
[§ 4, 31 of 1995.]
[§ 8, 1 of 2004.]

in any of the records of the Central Bank, or in any books, records or accounts of any direct participant, or any primary dealer,

shall be guilty of an offence under this Ordinance.

(2) Any person guilty of an offence under this Ordinance shall be liable on conviction after summary trial before a Magistrate, to imprisonment for a term not exceeding five years or to a fine not exceeding ten million rupees or where the offence has resulted in monetary loss or monetary gain or a loss or gain which is quantifiable in monetary terms to any person, to a fine equivalent to twice the value of such loss or gain or to both such imprisonment and fine.

15. Where the person convicted of an offence under this Ordinance is a body corporate, every person, who at the time of the commission of the offence was a Director or an officer of the body corporate shall be deemed to be guilty of that offence unless he proves that the offence was committed without his knowledge, or that he exercised all due diligence to avoid the commission of such offence.

Offences of directors and officers.
[§ 4, 31 of 1995.]

15A. The Scripless Treasury Bills issued under this Ordinance shall be transferred pledged, encumbered, lent, borrowed or otherwise transacted in, as provided by regulations and any transfer, pledge, encumbrance, loan, borrowing or any other transaction effected accordingly shall be valid and effectual notwithstanding any other written law relating to transactions in Treasury Bills issued in the form of written certificates.

Transactions in Scripless Securities.
[§ 9, 1 of 2004.]

15B. (1) The Central Bank may with the consent of Court having regard to the circumstances in which an offence under this Ordinance was committed, compound such offence for a sum of money not exceeding rupees five million or where the offence has resulted in monetary loss or monetary gain or a loss or gain which is quantifiable in monetary terms to any person for a sum of money equivalent to one and a half times the value of such loss or gain.

Compounding of offences.
[§ 9, 1 of 2004.]

(2) The compounding of an offence under this section shall have the effect of an acquittal.

Regulations.
[§ 4, 31 of 1995.]

16. (1) The Minister in charge of the subject of Finance may make regulations for the purpose of giving effect to the provisions of this Ordinance.

(2) In particular and without prejudice to the generality of the foregoing power, such regulations may provide for all or any of the following matters:—

- (a) the terms of issue of Treasury Bills under this Ordinance;
- (b) the mode and manner in which Treasury Bills, may be issued;
- (c) the appointment of primary dealers and the conditions to be observed by, and the privileges entitled to, and the duties to be performed by, the primary dealers;
- (d) the appointment of direct participants, dealer direct participants and interdealer brokers, and their regulation, supervision or monitoring;
- (e) the issue, holding and administration of Scripless Treasury Bills under this Ordinance;
- (f) the manner in which Treasury Bills including Scripless Treasury Bills, or interests therein, may be purchased, sold, transferred, pledged or encumbered;
- (g) the procedures and conditions applicable to the primary issue of, and subsequent transfers and other transactions relating to Treasury Bills.

Interpretation.
[§ 4, 31 of 1995.]
[§ 10, 1 of 2004.]

17. In this Ordinance unless the context otherwise requires:—

“ aggregate customers’ account ” means the single account maintained by a dealer direct participant with the Central Bank in accordance with subsection (2) of section 10;

“ Central Bank ” means the Central Bank of Sri Lanka established by section 5 of the Monetary Law Act;

“ customer ” in relation to a dealer direct participant means any person who purchases or sells or otherwise acquires or disposes of Scripless Treasury Bills or an interest therein through such dealer direct participant or who negotiates with such dealer direct participant for the possible acquisition or disposition of such bill or interest and shall include where the context so permits a legal representative of such customer or of the estate of such customer;

“ dealer direct participant ” means any direct participant appointed by the Central Bank in writing under subsection (1) of section 10 to be a dealer direct participant;

“ designated non-dealer bidder ” means any investor institution other than a primary dealer, that is specifically designated in writing by the Central Bank as eligible to bid directly at Central Bank auctions of Treasury Bills;

“ direct participant ” means any primary dealer or other person appointed by the Central Bank in writing under subsection (1) of section 9 to be a direct participant;

- “interdealer broker” means any person or firm, appointed to be an interdealer broker by the Central Bank pursuant to subsection (1) (e) of section 8;
- “Monetary Law Act” means the Monetary Law Act, (Chapter 422) as amended from time to time and shall include any enactment that replaces such Act in relation to the matters contained therein and where any section is specifically referred to in this Ordinance the reference shall be taken to include corresponding sections in the subsequent enactment ;
- “Own Scripless Treasury Bill account” with reference to a direct participant means the single account maintained by a direct participant with the Central Bank, in accordance with subsection (2) of section 9, to hold Scripless Treasury Bills in his own account.
- “pledge” includes a pledge of, or any security interest in, Scripless Treasury Bills as collateral for loans or advances, or to secure deposits of public moneys or the performance of an obligation;
- “primary dealer” means any commercial bank, company, or other person appointed by the Monetary Board as a primary dealer for the purpose of dealing with the Central Bank as a counterparty in the primary and secondary markets for Treasury Bills;
- “records of the Central Bank” includes records maintained on behalf of the Central Bank by any person appointed for that purpose by the Monetary Board and includes records kept, stored or transmitted in the form of computer film disks, tapes or other magnetic, electronic or optical media;
- “Scripless Treasury Bill” means a treasury bill issued in the form of entries in the records of the Central Bank and not embodied in or represented by, a certificate or other physical instrument;
- “securities account” shall have the same meaning as in the Monetary Law Act (Chapter 422).
- “Treasury Bill” means a Treasury Bill issued under this Ordinance and includes a Scripless Treasury Bill.

LOCAL TREASURY BILLS ORDINANCE

Regulations

(Incorporating Amendments up to 31st December, 2004)

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TREASURY BILLS (CONVERSION INTO SCRIPLESS TREASURY BILLS)

1324/10 of 21.01.2004

Regulations

1. This Regulation may be cited as the Treasury Bills (Conversion into Scripless Treasury Bills) Regulation No. 1 of 2004.

2. A holder of Treasury Bill having a maturity date specified in a notice published in terms of subsection (2) of section 7C of the Local Treasury Bills Ordinance (Chapter 417) (hereinafter referred to as ‘the Ordinance’) in respect of which no encumbrance or transaction subsists or which is not held by such holder for the benefit of another person, shall if such holder desires to convert such Bill into a Scripless Treasury Bill, surrender without endorsement for such conversion, the Bill to held together with a duly completed mandate in a prescribed form—

- (a) where the holder is a direct participant, to the Central Bank; and
- (b) where the holder is a person other than a direct participant to a dealer direct participant.

3. A dealer direct participant to whom a Treasury Bill and a mandate in the prescribed form are surrendered in terms of paragraph (2)(b) of these regulation, shall forthwith issue to the holder an acknowledgement receipt therefore and forward the Bill and mandate so surrendered to the Central Bank.

4. Upon receipt by the Central Bank of a Treasury Bill and mandate surrendered or forwarded in terms of paragraph (2) or (3) of these regulation, the Central Bank shall enter the particulars of the Treasury Bill and of the holder of such Treasury Bill—

- (a) in the case of a direct participant, in an account maintained under subsection (2) of section 9 of the Ordinance by such direct participant in the Central Depository referred to in section 112A of the Monetary Law Act (Chapter 422) to hold Scripless Securities to which such direct participant has title; and
- (b) in the case of any other person, in an account maintained in terms of subsection (2) of Section 10 of the Ordinance by a dealer direct participant named in the said mandate in the Central Depository referred to in section 112A of the Monetary Law Act (Chapter 422) to hold Scripless Securities to which such person has title.

5. Where the holder of a Treasury Bill issued in the form of a written certificate having a maturity date specified in a notice referred to in paragraph (2) of these regulation is the Central Bank, the Central Bank shall enter the particulars of such Treasury Bill and of the holder in the account maintained by the Central Bank in the Central Depository referred to in Section 112A of the Monetary Law Act (Chapter 42) to hold Scripless Securities to which the Central Bank has title.

6. Upon entering the particulars of the Treasury Bill and of the holder in an account as provided for in paragraph (4) or paragraph (5) of these regulation, the Central Bank shall, forthwith cancel such Bill and shall issue a confirmation of such entry and of the cancellation of the Treasury Bill issued in the form of a written certificate, to the holder of the Bill and, where the holder is a person other than a direct participant or the Central Bank, to the dealer direct participant who maintains the account of such holder. A confirmation required to be issued to the holder of a Bill under this paragraph shall be sent to the address of the holder given in the mandate referred to in paragraph (2).

7. Every Treasury Bill issued in the form of a written certificate, the particulars of which are entered in an account under paragraph (4) or (5) shall from the date of cancellation of such Bill under paragraph (6) be deemed to be converted into a Scripless Treasury Bill for the purpose of subsection (1) of section 7C of the Ordinance.

For the purposes of paragraph (4), (5) and this paragraph “particulars of the Treasury Bill and of the holder” shall mean such particulars relating to a Treasury Bill and to the holder of such Bill respectively as are required to be recorded in terms of the rules applicable to such Central Depository.

8. A holder of Treasury Bill issued in the form of a written certificate in respect of which an encumbrance or transaction subsists or who is not the beneficial owner of such Bill shall not surrender such Bill under paragraph (2).

9. Unless context otherwise requires the terms and expressions used in these regulations shall have same meanings as assigned to them in the Local Treasury Bills Ordinance (Chapter 417).

SCRIPLESS TREASURY BILLS (TRANSACTIONS)

1325/34 of 30.01.2004

Regulations

1. These Regulations may be cited as the Scripless Treasury Bills (Transactions) Regulations of No. 02 of 2004.

2. Scripless Treasury Bills thta are issued in terms of the Local Treasury Bills Ordinance (Chapter 417) (hereinafter referred to as ‘the Ordinance’) shall be issued on LankaSecure.

3. (1) Any transaction involving a transfer of Scripless Treasury Bills between direct participants shall be effected on a Delivery versus Payment or Receive versus Payment basis unless the transaction underlying the transfer is of such a nature as not to involve a payment, or the parties to such transaction have agreed in writing on any other manner for the settlement of payment in either of which event a transfer of Scripless Treasury Bills may be effected on LankaSecure on a Delivery Free or Receive Free basis.

(2) A person other than a direct participant shall effect a transfer of Scripless Treasury Bills or receive a transfer of Scripless Treasury Bills, or of an interest in Scripless Treasury Bills only through a dealer direct participant who shall maintain Securities Accounts of the relevant Account Type in LankaSecure for each such customer to record such title or interest, as the case may be.

(3) Where a dealer direct participant effects a transaction in Scripless Treasury Bills for a customer involving a transfer of Scripless Treasury Bills from a Securities Account maintained by such dealer direct participant for such customer to a Securities Account maintained by any other direct participant, such transfer shall be effected on a Delivery versus Payment or Receive versus Payment basis as provided for in paragraph 3(4) of this regulation unless instructions are given to the dealer direct participant by the customer for transfer of such Scripless Treasury Bills on a Delivery Free or Receive Free basis.

(4) Payment for a Scripless Treasury Bills transaction effected on a Delivery versus Payment or Receive versus Payment basis for a customer by a dealer direct participant in terms of paragraph 3(3) shall be made on LankaSettle to such dealer direct participant from the Settlement Account of the transferee where the transferee is a direct participant, where the transferee is a customer of a dealer direct participant from the Settlement Account of the dealer direct participant of the transferee.

4. (1) A scripless Treasury Bill may be pledged only in accordance with these regulations.

(2) A pledge of a Scripless Treasury Bill shall be effected by the execution of a written agreement (hereinafter referred to as ‘a Pledge Agreement’) conforming to the requirements specified in these regulations, entered into between the pledgor and the pledgee, and the delivery of the Scripless Treasury Bill to the pledgee.

(3) Subject to the provisions of paragraph 4(4) of this regulation, the delivery of a Scripless Treasury Bill, for the purpose of paragraph 4(2) shall be deemed to have been effected upon the transfer of the Scripless Treasury Bill to a Pledge Account maintained by a dealer direct participant who himself is not the pledgor or pledgee, in which account the pledgor shall be recorded as the owner or pledgor of the Scripless Treasury Bill and the pledgee shall be recorded as the pledgee of the Scripless Treasury Bill.

(4) Notwithstanding the provisions of paragraph 4(3) of this regulation if the pledgee is an Approved Credit Agency in terms of the Mortgage Act (Chapter 89) a pledge of Scripless Treasury Bills may be created:

- (a) by the execution of an instrument in the form set out in the Third Schedule to the Mortgage Act. The Pledge Agreement shall be referred to in the Second Schedule to that instrument; and
- (b) in cases where:—
 - (i) the Pledgee is a direct participant, by transferring the Scripless Treasury Bills that are subject to the Pledge, to a Pledge Account to be maintained by the Pledgee; or
 - (ii) the Pledgee is not a direct participant, by transferring the Scripless Treasury Bills subject to the pledge to a Pledge Account to be maintained by a dealer direct participant,

and the Pledgee shall be recorded as the owner of such Scripless Treasury Bills in such Pledge Account and the pledgor shall be recorded as Pledgor of such Bills and the Pledgor shall upon complying with paragraph (a) and (b) above, be deemed to have created a mortgage in terms of Section 73 of the Mortgage Act and to have deposited the Scripless Treasury Bills with the pledgee and to have executed a transfer of such Bills in favour of the pledgee.

(5) A Dealer Direct Participant who maintains a Pledge Account in terms of paragraph 4(3) or paragraph 4(4)(b) shall also be a party to such Pledge Agreement between the pledgee and the pledgor in its capacity as dealer direct participant and shall act both in the capacity of the Pledgor's dealer direct participant and the Pledgee's dealer direct participant and the obligations and liabilities shall attach to such dealer direct participant in terms of the Pledge Agreement, these regulations and the System Rules according to the capacity in which such dealer direct participant functions at any given point of time.

(6) In the event a notice of default under the Pledge Agreement is served by the pledgor in accordance with the Pledge Agreement on a dealer direct participant who maintains a Pledge Account in terms of paragraph 4(3), the dealer direct participant shall retain the Scripless Treasury Bills in the Pledge Account and shall deal with such bills in such manner as may be directed by courts. Where no court order has been issued:—

- (a) where the pledgee instructs the dealer direct participant in writing, with the written consent of the pledgor, that the Scripless Treasury Bills have been released from the pledge and that such Bills should be released to the person recorded as pledgor, the dealer direct participant shall reposition the Scripless Treasury Bills in a Customer Account in which such pledgor shall be recorded as owner ; or
- (b) where the pledgor instructs the dealer direct participant in writing, with the written consent of the pledgee, that the Scripless Treasury Bills may be transferred to the person recorded as pledgee, the dealer direct participant shall reposition the Scripless Treasury Bills in a Customer Account in which the pledgee shall be recorded as owner.

(7) Scripless Treasury Bills in a Pledge Account shall not be capable of being traded.

(8) A Pledge Agreement shall set out all agreements of parties relating to the pledge and shall without restricting the generality of the aforesaid, provide for the matters set out in Schedule II to these regulations.

(9) The Central Bank may specify the form of Pledge Agreement to be used for the purpose of these regulations.

(10) Maturity proceeds due on a pledged Scripless Treasury Bill shall be paid by the Central Bank to the direct participant or the dealer direct participant who maintains the Pledge Account and it shall be the duty of such direct participant or dealer direct participant, as the case may be, to pay such maturity proceeds to the person recorded as owner of such Scripless Bill, unless otherwise required under a written law or by the Pledge Agreement.

5. (1) Repurchase Transactions and Reverse Repurchase Transactions in Scripless Treasury Bills may be effected only in accordance with these regulations.

(2) A Repurchase Transaction or Reverse Repurchase Transaction in Scripless Treasury Bills shall be preceded by a written agreement (hereinafter referred to as a 'Repurchase/Reverse Repurchase Agreement') conforming to the requirements imposed by these regulations and entered into between the parties to the transaction. If one party is a customer of a dealer direct participant or both parties are customers of a dealer direct participant or of two respective dealer direct participants, the dealer direct participant or dealer direct participants, as the case may be, shall also be party to such Agreement.

(3) A Repurchase/Reverse Repurchase Agreement shall set out the terms and conditions agreed to by the parties to the transaction. Without prejudice to the generality of the foregoing, a Repurchase/Reverse Repurchase Agreement shall provide for the matters set out in Schedule III to these regulations. A Repurchase or Reverse Repurchase Agreement may consist of more than one document to be read together.

(4) The Central Bank may specify the form of Repurchase/Reverse Repurchase Agreement to be used by parties for the purpose of these regulations.

(5) Where a dealer direct participant acts in the capacity of a dealer direct participant for both parties in a Repurchase Transaction or a Reverse Repurchase Transaction, the obligations and liabilities shall attach to such dealer direct participant in terms of the Repurchase/ Reverse Repurchase Agreement, these regulations and the System Rules according to the capacity in which such dealer direct participant functions at any given point of time.

6. (1) A dealer direct participant shall have entered into a Customer Agreement with each customer for whom a Securities Account is maintained by such dealer direct participant in terms of paragraph 3(2) of this regulation, which agreement shall provide for the matters set out in Schedule I to these regulations. The Central Bank may prescribe the form of Customer Agreement to be used for the purposes of these regulations. A Customer Agreement shall not be terminated by a dealer direct participant unless it has ceased to hold any Securities Account or to hold funds arising from Scripless treasury Bills or from transactions therein for the customer and has discharged its obligations to the customer under applicable written law and the Customer Agreement.

(2) Without prejudice to the duties and responsibilities vested in it in terms of applicable written law and in terms of the Customer Agreement, a dealer direct participant shall —

- (a) promptly and accurately record on LankaSecure the particulars relating to the customer as required by the System Rules when the customer obtains title to or an interest in a Scripless Treasury Bill;
- (b) promptly and accurately record in LankaSecure any change of title or interest and other particulars relating to the owner or interest holder, as the case may be, of a

Scripless Treasury Bill in a Securities Account maintained by the dealer direct participant for a customer;

- (c) make payment to a customer of maturity proceeds due to the customer on Scripless Treasury Bills or of other monies due to the customer on account of transactions in Scripless Treasury Bills, and comply with directions, if any, issued by the Central Bank in that regard;
- (d) where monies of or due to a customer are in the custody of the dealer direct participant such monies shall be held separate from its own funds in a bank account maintained for such customer or customers;
- (e) proper books and records shall be maintained in respect of the dealings of the dealer direct participant with or on behalf of a customer, and reasonable access shall be provided to the customer to such books and records;
- (f) issue of confirmations and statements to customers relating to the Securities Accounts and funds held for them as required by any written law or by directions issued by the Central Bank;
- (g) subject to any other written law and the System Rules, effect transactions on behalf of a customer only as provided for in the Customer Agreement; and
- (h) unless otherwise required by any other written law, a dealer direct participant shall not transfer or reposition a Scripless Treasury Bill which is in a Securities Account maintained for a customer to or in another Securities Account except in accordance with an approval or instruction issued by the customer in accordance with the Customer Agreement or in accordance with any other agreement in respect of a transaction in Scripless Treasury Bills to which the customer and the dealer direct participant are parties.

7. In these regulations —

“Approved Credit Agency” has the same meaning assigned to it in section 3 of the Mortgage Act;

“Central Bank” means the Central Bank of Sri Lanka established under the Monetary Law Act (Chapter 422);

“customer” has the same meaning assigned to it in the Local Treasury Bills Ordinance (Chapter 417);

“Customer Account” means an account in which the title or interest of a customer to a Scripless Treasury Bill is recorded;

“dealer direct participant” means a person appointed as a dealer direct participant in terms of the Registered Stock and Securities Ordinance (Chapter 420) and Local Treasury Bills Ordinance (Chapter 417);

“Delivery Free” or “Receive Free Transaction” means a transaction which requires only a transfer of Scripless Treasury Bills on LankaSecure and does not require a transfer of funds on RTGS against such transfer of Bills;

“Delivery versus Payment” or “Receive versus Payment” means a transaction in which a transfer of funds in RTGS by one party is effected against the transfer of Scripless Treasury Bills on LankaSecure by the other and the transaction is settled by crediting the Settlement Account of one party and the Securities Account of the other;

“direct participant” means a person appointed as a direct participant in terms of the Registered Stock and Securities Ordinance (Chapter 420) and Local Treasury Bills Ordinance (Chapter 417);

- “LankaSecure” means the Scripless Securities Depository System established in terms of the Monetary Law Act (Chapter 422) to electronically issue Scripless Securities, store holdings of and to record ownership and interests in such Scripless Securities and to settle transactions in Scripless Securities, which forms a component of LankaSettle;
- “LankaSettle” means the Sri Lanka Real Time Gross Settlement and Scripless Securities Depository System established for the purposes of sections 62A and 112A of the Monetary Law Act (Chapter 422);
- “Monetary Law Act” means the Monetary Law Act (Chapter 422) as amended from time to time;
- “Mortgage Act” means the Mortgage Act (Chapter 89);
- “pledge” means the creation of a security interest in Scripless Treasury Bills to secure the performance of an obligation owed by one party to another;
- “reposition” means the moving of a Scripless Treasury Bill from one Securities Account maintained by a dealer direct participant to another Securities Account maintained by the same dealer direct participant;
- “Real Time Gross Settlement (RTGS)” means the facility for the processing and settlement of payments electronically on a gross basis in real-time which forms a component of LankaSettle;
- “Scripless Treasury Bills” mean scripless treasury bills issued in terms of the Local Treasury Bills Ordinance (Chapter 417) and includes treasury bills that have been converted into Scripless Treasury Bills in terms of that Ordinance;
- “Scripless Securities” means Scripless Treasury Bonds, Scripless Treasury Bills and securities issued by the Central Bank in scripless form in terms of the Monetary Law Act (Chapter 422);
- “Securities Account” means an account maintained in LankaSecure by a direct participant to record title and interests in Scripless Treasury Bonds of such direct participant and if such direct participant is a dealer direct participant, of its customers;
- “Settlement Account” means a funds account maintained by a direct participant with the Central Bank in accordance with a Mandate Agreement; and
- “System Rules” means the procedures and standards adopted by the Central Bank and issued to participants from time to time in terms of the Monetary Law Act (Chapter 422) which govern the operation of LankaSettle and participation by direct participants in LankaSettle.

SCHEDULE I

MATTERS TO BE PROVIDED FOR IN A CUSTOMER AGREEMENT

The following matters may be provided for in a Customer Agreement:—

- (a) identification the customer and dealer direct participant;
- (b) identification the persons authorized to act on behalf of the customer for purposes of the Agreement;
- (c) authorization the dealer direct participant to open and maintain Securities Accounts to hold Scripless Securities and interests therein of the customer in accordance with authority granted and instructions issued in terms of the Agreement;
- (d) identification the transactions, if any, that the dealer direct participant is authorized to carry out for the customer without specific instructions being issued by the customer;
- (e) authorization of the dealer direct participant to execute instructions issued by the customer in terms of the Agreement, subject to the System Rules;
- (f) authorization of the dealer direct participant to receive maturity proceeds on Scripless Treasury Bills to which the customer is entitled, and proceeds of transactions in Scripless Treasury Bills carried out on a Delivery versus Payment or Receive versus Payment basis for the customer;
- (g) specify the fees and charges payable to the dealer direct participant by the customer;
- (h) require the customer to report in-writing any errors in confirmations or statements issued by the Central Bank or by the dealer direct participant within 14 days of receipt of the confirmation or statement;
- (i) provide for liability of the dealer direct participant for negligence or default on its part or on the part of any of its employees or agents in the carrying out of its responsibilities, duties and functions on behalf of the customer;
- (j) indemnify the dealer direct participant from loss or liability arising from the carrying out of instructions of the customer given in accordance with the Agreement where there has been no negligence or default on its own part;
- (k) authorize the dealer direct participant to rectify an erroneous debit or credit to a Securities Account of the customer under written notice to the customer;
- (l) specify the methods by which instructions may be given by the customer to the dealer direct participant for purposes of the Agreement;
- (m) require the customer to provide promptly to the dealer direct participant all information required in respect of the customer for the opening and maintenance of Securities Accounts for the customer, and upon the occurrence of any change to promptly update such information;
- (n) specify information relating to the parties for the service of any notice in terms of the Agreement and require parties to update such information upon the occurrence of any change; and
- (o) require the dealer direct participant to act in accordance with applicable written law in the carrying out of its responsibilities, duties and functions as a dealer direct participant in the provision of services to the customer.

SCHEDULE II

MATTERS TO BE PROVIDED FOR IN A PLEDGE AGREEMENT

The following matters may be provided for in a Pledge Agreement:—

- (a) identify the pledgee and pledgor;
- (b) identify the Scripless Treasury Bills pledged;
- (c) specify the capital sum lent or the obligation to be performed in respect of which the Scripless Treasury Bills are pledged;
- (d) specify the rate of interest, if any, to be paid on the capital sum so secured and the date or dates on which such interests is payable;

- (e) specify the date or dates on which repayment so secured is due or the obligation so secured is to be discharged;
- (f) specify the dealer direct participant, if any, who is party to the Pledge Agreement;
- (g) specify the means by which any instructions required to be given to the dealer direct participant under the Pledge Agreement shall be given;
- (h) provide for the manner in which maturity proceeds, if any, paid on the pledged Scripless Treasury Bills during the period of the pledge are to be dealt with;
- (i) specify whether substitution, or replenishment of the pledged Scripless Treasury Bills is permitted, and the manner for effecting such substitution or replenishment;
- (j) specify the address at which notice of default, if any, is to be served on the pledgor and address at which the dealer direct participant is to be served with notice of such default.

SCHEDULE III

MATTERS TO BE PROVIDED FOR IN A REPURCHASE OR REVERSE REPURCHASE AGREEMENT

The following matters may be provided for in a Repurchase or Reverse Repurchase Agreement—

- (a) identify the Scripless Treasury Bills which are the subject matter of the trade;
- (b) identify the parties to the trade;
- (c) identify the price at which Scripless Treasury Bills are being sold or purchased, and the price at which they will be repurchased or resold;
- (d) identify the date on which Scripless Treasury Bills are to be repurchased or resold;
- (e) state whether substitution of Scripless Treasury Bills is permitted;
- (f) state whether replenishment of Scripless Treasury Bills can be called for during the tenure of the Agreement;
- (g) state whether Scripless Treasury Bills may be traded during the tenure of the Agreement;
- (h) state how market value of Scripless Treasury Bills is to be determined;
- (i) state the manner in which maturity proceeds paid on a Scripless Treasury Bill that is subject to the Repurchase or Reverse Repurchase Agreement are to be dealt with.

SCRIPLESS TREASURY BILLS (RECOGNITION OF TRUSTS)**of 29.12.2004****Regulations**

1. These regulations may be cited as the Scripless Treasury Bills (Recognition of Trusts) Regulation No. 3 of 2004.

2. The Central Bank may, recognize the existence of a trust in respect of a Scripless Treasury Bill held in a scripless securities account in which a direct participant is recorded as owner, only if—

- (a) the scheme for the creation of such trust, the terms of such trust, the trust instrument and other agreements and documents relating to the same have received the prior approval of the Central Bank;
- (b) the direct participant has in the manner specified in any directions as are issued from time to time by the Central Bank, notified the Central Bank of the creation of the trust, and that the treasury bills held in such account are held in trust by such direct participant for the beneficiaries of a specified trust; and
- (c) the trust as is described above has been created in accordance with the law for the time being in force.

3. Notwithstanding the provisions of regulation 2, the Central Bank may on being notified in the manner aforesaid, recognize the existence of a trust expressed, implied or constructive, in respect of a scripless treasury bill held in a scripless securities account of a direct participant, if—

- (a) the primary objective of the direct participant shall be to act as a central depository to a stock exchange licensed under the Securities and Exchange Commission Act, No.36 of 1987 which has been approved by the Minister in consultation with the Securities and Exchange Commission established by the Securities and Exchange Commission Act; and
- (b) the Central Bank has satisfied itself of the existence of such trust on the basis of documents furnished to it.

4. In approving a trust under regulation 2, or determining whether notice should be taken of a trust under regulation 3, the Central Bank shall satisfy itself that the creation of such trust is in the interest of the development of a sound and efficient secondary market in government securities.

5. No obligation shall be imposed on the Central Bank towards the beneficiaries of a trust by the recognition of the existence of a trust in terms of these regulations. Such recognition shall only serve as notice to the Central Bank that the scripless treasury bills in the account specified in the notice under regulation 2 or 3 are held by a direct participant as trustee and not as beneficial owner.

6. Scripless treasury bills, which are subject to a trust and recognized in terms of these regulations shall be held in a Trust Account maintained by a direct participant in the central depository in terms of the Sri Lanka Real-Time Gross Settlement (RTGS) and Central Depository Regulations, No.1 of 2004, published in *Gazette* Extraordinary No. 1331/8 of

March 09, 2004 as amended by regulations published in *Gazette* Extraordinary No.1348/11 of July 8, 2004.

7. A direct participant shall not hold scripless treasury bills to which it has any beneficial interest or which do not form part of the trust property, in an account in which scripless treasury bills held in trust by such direct participant are held.

8. A direct participant shall operate an account in which scripless treasury bills are held in trust by such direct participant only in accordance with and for the purposes stipulated in the trust instrument and/or any other agreements, documents or rules relating to such trust.

9. A direct participant shall utilize any payment received from the Central Bank by way of maturity proceeds and other income arising from scripless treasury bills held in trust by such direct participant, only in accordance with the terms of such trust.

10. A direct participant shall not make any changes to a scheme, terms, instrument, agreement or other document, unless—

(a) such direct participant has furnished the Central Bank a schedule of the intended changes, for the information of the Central Bank; and

(b) the Central Bank has signified in writing, its approval of the intended changes.

11. The Central Bank may call for such information and documents, as it may consider necessary for implementing the provisions of these regulations or in respect of a beneficiary of a trust.

12. In case of any inconsistency or conflict between the provisions of these regulations and the provisions of any other regulations or directions issued under the Local Treasury Bills Ordinance or under any other law, the provisions of these regulations shall prevail.

13. The terms and expressions used in these regulations shall in so far as the same is necessary for the purpose of these regulations, have the same meanings as are assigned to them in the Local Treasury Bills Ordinance (Chapter 417).

LOCAL TREASURY BILLS ORDINANCE

Guidelines & Directions

(Incorporating Amendments up to 31st December, 2004)

Printed by the Central Bank of Sri Lanka.

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TREASURY BILL GUIDELINES

1. Effective from 20th October, 1999 at primary auctions, Treasury Bills will be issued with 91 days, 182 days and 364 days of day counts to maturity instead of three month, six month and twelve month Treasury Bills which were issued hitherto.

2. Primary Dealers are advised to price their bids submitted at primary auctions accordingly. Treasury Bills which have been issued to-date with 3 month, 6 month and 12 month maturities will remain with such maturities with which they were issued prior to 20th October, 1999 until such time such Treasury Bills mature and are repaid.

3. With the change outlined in (1) above, the day count used on Actual/Actual basis at primary auctions of Treasury Bills will be done away with. In order to be able to maintain a uniform practice in the market, Primary Dealers are expected to comply with the day count base of 364 days. The formula for secondary market transactions would be Actual/364 days.

4. Though the new formula for day counts is effective from 19th October, 1999, Primary Dealers may comply with the new day count requirement with regard to secondary market transaction involving Treasury Bills that were issued prior to this effective date with 3 month, 6 month and 12 month maturities. This would bring about uniformity with regard to day count without any time lag.

5. In the event of bank holidays falling on maturity dates of Treasury Bills, as is the current practice, the settlement dates will be the working days preceding such maturity dates.

Addl. Superintendent of Public Debt

11th October, 1999

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 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

SCHEDULE II

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

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.

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 FORMAT

FIRM & 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

Ref. No. : 08 / 24 / 032 / 0003 / 003

Public Debt Department
Central Bank of Sri Lanka
30 Janadhipathi Mawatha
Colombo 1.

31st December 2003

To : Chief Executive Officers of Primary Dealers

**VALUATION OF TRADING PORTFOLIO OF
PRIMARY DEALERS (PDS)**

We write with reference to our Direction on “Segregation of Proprietary Government Securities Accounts” dated 10 January 2002.

As per the direction, all PDs are required to value their trading portfolios using the “purchased prices” in the “weekly report on weighted average market prices” compiled by the Public Debt Department (PDD). In the event purchased prices are not available in the weekly report, PDs should use “sold prices” compiled by the PDD for portfolio valuation. Further, in the absence of both purchased & sold weighted average market prices PDs should use purchased/sold prices in the weekly report for the previous week and so on for portfolio valuation.

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