



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

රාජ්‍ය ණය දෙපාර්තමේන්තුව

பொதுப்பிடுகடன் திணைக்களம்

Public Debt Department

Ref: 08/21/005/012/001

Directions on Primary Issuance of Treasury Bonds

These Directions are issued under Regulation 11(1) of the Registered Stock and Securities (Primary Dealers) Regulations No. 01 of 2009 dated 24 June 2009 made by the Minister of Finance under the Registered Stock and Securities Ordinance No.7 of 1937 and shall be in force from 27 July 2017.

Colombo

Date: 24 July 2017

T.H.B. Sarathchandra

Superintendent of Public Debt

1. Commencing from 27 July 2017 primary issuance of Treasury Bonds shall be in accordance with the Guidelines given in the Schedule hereto.
2. All Primary Dealers shall adhere to the applicable provisions of these Guidelines.
3. Direction on Minimum Subscriptions Levels for Treasury Bill and Bond Auctions dated 15 August 2003 bearing ref: 08/24/002/0005/003 is not applicable for the issuance of Treasury Bonds with effect from 27 July 2017.

Guidelines on Primary Issuance of Treasury Bonds

Part I. General Provisions

1. Introduction

- 1.1. These Guidelines are for the primary issuance of Treasury bonds (T-Bonds) by the Central Bank of Sri Lanka (hereinafter called and referred to as "CBSL"), acting as the agent of the Government of Sri Lanka (hereinafter called and referred to as the "Issuer") for the management of public debt.
- 1.2. The Public Debt Department (PDD) of CBSL shall carry out relevant functions of CBSL with regard to the issuance of T-bonds and shall be the contact point for inquiries relating to the issuance of T-Bonds.
- 1.3. The obligations and duties of CBSL and that of the participants eligible to participate at the primary issuance of T-Bonds (hereinafter called and referred to as "issuance") as set out in these Guidelines are aimed at providing a transparent and efficient framework for proper conduct of such issuance.
- 1.4. T-Bonds are issued in dematerialized (scripless) form and registered in the Central Depository System (CDS) and settled through the Scripless Securities Settlement System (SSSS) as per the System Rules of LankaSettle made under Section 62a of the Monetary Law Act.

Part II. Responsibilities and Duties of CBSL

2. General Responsibilities and Duties

- 2.1 CBSL will:
 - i. organize and facilitate the smooth conduct of the issuance;
 - ii. provide equal access to all eligible participants for such issuances;
 - iii. set the issuance calendar;
 - iv. ensure that all bids in auctions are treated in a fair and transparent manner when allocating T-bonds; and
 - v. maintain, publish and regularly update statistical data on market operations, yields/prices, volumes including a list of all T-Bonds issued showing the amounts outstanding, the issue and maturity dates, coupon rates and any other information as may be relevant for the government debt market.



3. Organisation of the Primary Issuance

- 3.1. T-Bonds shall be issued in Sri Lanka in the primary market as described in these Guidelines.
- 3.2. Primary Dealers (PDs) appointed by the Monetary Board (MB) of CBSL and other participants specially authorized by MB to participate at primary issuances (Auction Participants) shall offer their bids at the issuance.
- 3.3. Other interested parties, whether legal or natural persons resident in Sri Lanka or eligible non-residents, may participate indirectly in the primary market for government securities through PDs where a PD may include such customers' requests in its bids.
- 3.4. CBSL shall, with the approval of the Issuer, set the issuance amount on offer according to Item 7 of these Guidelines and with the approval of the Issuer may, change or amend such amount in the case of a particular issuance provided at least one (01) day's advance notice of any such amendments are made available to all Auction Participants.
- 3.5. Primary issuances of T-Bonds shall be settled on T+2 basis or as specified in the notice of the issuance published by CBSL.

4. Denotation of the Issuance

- 4.1. The International Securities Identification Number (ISIN) and the series shall be unique identifiers of government securities.

Part III. Responsibilities and Duties of Auction Participants

5. Responsibilities of Auction Participants

- 5.1. Each PD shall maintain a minimum bidding requirement and minimum effective participation at auctions as specified in Item 9 of these Guidelines.
- 5.2. An Auction Participant, as applicable, shall at all times follow these Guidelines and any other terms and conditions of the issuances that may be determined and announced by CBSL.
- 5.3. An Auction Participant shall ensure that CBSL has up-to-date specimen authority signatures for T-Bonds and only the persons named in such specimen signatures shall be entitled to submit or sign auction bids either electronically or manually.



- 5.4. Auction Participants shall tender their bids at the issuance directly without sending through other Auction Participants.

Part IV. Issuance Process

6. Issuance Calendar

- 6.1. CBSL will announce on a quarterly basis its plans for issuances over the forthcoming quarter one week prior to the commencement of that quarter and will publish in CBSL website.
- 6.2. The issuance calendar contains information regarding the issuance dates, the tenures to be on offer, and the amounts offered.

7. Announcement

- 7.1. CBSL will publish an issuance announcement through publication in CBSL website not later than three (3) working days before the issuance of T-Bonds. The issuance announcement will be released around 1530 hrs on the announcement date. CBSL will publish the announcement in recognised media as soon as possible thereafter. However, CBSL reserves the right to make such announcement at any time in the case of exceptional circumstances due to technical and or natural disturbance.
- 7.2. The issuance announcement includes:
- i. ISIN(s) and the series of the T-bonds being issued;
 - ii. coupon rate;
 - iii. coupon frequency;
 - iv. initial issue date;
 - v. settlement date;
 - vi. maturity date;
 - vii. accrued interest amount;
 - viii. total volume offered in face value basis; and
 - ix. Issuance opening and closing times for submitting bids as stipulated under Item 9 and Item 10 of these Guidelines.
- 7.3 CBSL has the right to issue previously issued securities (reopening) at one or multiple issuances. Such issuance will have the same ISIN, maturity dates and coupon rates stated at the initial issuance.



- 7.4 CBSL reserves the right to postpone or cancel an issuance, which should, however, only be considered in extreme circumstances. In the event of a situation where the issuer, or a significant number of Auction Participants are wholly or partially incapacitated for whatever reason, the issuance may be postponed until later on the same day, or the next available business day, in order that the issuance may still be settled on the same day as originally published. CBSL reserves the right to declare an issuance as ineffective on the basis of the received bids exhibiting unusual or highly distorted prices.

8. Methodology

- 8.1. Two T-bond series are offered at each monthly issuance.
- 8.2. CBSL will reserve to itself the right of accepting any portion of a bid or the whole of it and shall have the right of rejecting any or all bids without assigning any reason thereto.
- 8.3. For each issuance of a series of T-Bonds, an issue date will be specified per series. In general, the issue date for a series will be 1st of the month or 15th of the month.
- 8.4. T-bond issuance for each series advertised comprises of 3 phases. Competition based bidding at the first two phases is open for Auction Participants and issuances under Phase III is limited to PDs.
- 8.5. Settlement of T-bonds issued under Phase I, II and III shall be made on the settlement due date as specified in the issuance announcement under Item 7.
- 8.6. A description of the methodology of issuance under each phase is given below (detailed steps under each phase are discussed under Items 9-11 of these Guidelines):

Phase I: (i) Conducting the multiple price competitive auction. At this auction CBSL determines the amount to be accepted under each series, the cut-off rate and the resultant auction Weighted Average Yield Rate (WAYR). CBSL is required to exercise all reasonable effort to accept the entire offered amount under Phase I subject to receipt of reasonable market bids at this round. Auction Participants are eligible to bid at this phase.

- (ii) Notifying each bidder of its auction outcome under Phase I along with auction WAYR and amount available for bidding under Phase II through the issuance system.



Phase II: Opening of voluntary, volume based bidding for any under allocation subsequent to Phase I above. At this phase each Auction Participant could bid within the time duration specified under Item 10 of these Guidelines after the release of Phase I results. Issuance made at WAYR at this stage will be based on performance of each Auction Participant at Phase I and volume bid at Phase II. Auction Participants are eligible to bid at this phase.

Phase III: Issuance of the remaining volume (the difference between announced amount and aggregate allocated amount under Phase I and Phase II in each series), if any, on a mandatory basis at WAYR among PDs based on each such PD's successful participation at Phases I and II. However, this phase will not be executed unless CBSL accepts 60% of the offered amount in minimum at Phase I. Issuance under this phase will be limited to PDs.

- 8.7. Accordingly, in the event the aggregate volume of the bids accepted at Phase I falling below the amount offered, Phase II of the issuance process will be open. The issuance process may further be extended to Phase III in the event of under allocation following Phase I and II against the amount offered at the Auction.
- 8.8. Aggregate issuances to each Auction Participant under Phase II and Phase III will be released through the issuance system. In addition, after the conclusion of Phase III, CBSL will issue a Press Release announcing aggregate results of issuances under all 3 phases.
- 8.9. All payments on account of issued T-bonds must be made in full on the settlement date as specified in the issuance announcement under Item 7.
- 8.10. On the settlement date, CBSL will issue T-bonds in electronic form through LankaSecure System on DVP (delivery versus payment) basis at a time stipulated in the System Rules of LankaSettle made under Section 62a of the Monetary Law Act.

9. Submission and Acceptance of Bids under Phase I

- 9.1. Authorized Users of Auction Participants shall submit their bids between 0830 hrs to 1100 hrs on the auction day through the electronic bidding platform.
- 9.2. Bidders will have the flexibility to bid at par, at a premium or at a discount.
- 9.3. Bids must be in multiples of Rupees one (1) million, with a minimum bid volume of Rupees five (5) million.



- 9.4. Separate bids shall be forwarded if a bidder wishes to make bids at more than one bid price. The bid price should be quoted in rupees for each Rs. 100 up to five decimal places.
- 9.5. Multiple bids are allowed under this phase.
- 9.6. The minimum permitted total bid volume per PD under Phase I of any auction is calculated as follows:

$$\begin{aligned} & \text{Minimum volume of bidding by each PD (under each ISIN)} \\ &= \frac{\text{Total Amount offered}}{\text{Number of PDs eligible to bid at Primary Auction concerned}} \end{aligned}$$

- 9.7. Each PD is required to secure at least 50% of the Average Issuances (AI) per PD made under Phase I within each quarter, excluding issuances made to non-PD bidders. AI per PD is calculated as follows:

$$\begin{aligned} & \text{AI per PD} \\ &= \frac{\text{Total issuance under phase I} - \text{issuances made to non PD Auction Participants under phase I}}{\text{Number of PDs} *} \end{aligned}$$

* the maximum number of PDs that have been eligible to bid at primary auctions during the quarter concerned.

- 9.8. Authorized users of Auction Participants may place and/or, change their bids within the time window provided in Item 9.1 above. No party is allowed to make any changes to its bids once such time window expires.
- 9.9. In the case of an unavoidable technical issue hindering submission of bids pursuant to Item 9.1 above, the Auction Participant concerned shall at the earliest opportunity notify any Authorized Officer of PDD by way of telephone call or email or fax of such issue and upon acceptance by CBSL, may then within the prescribed time window, send its bids by way of email or fax to any Authorized Officer of PDD or deliver the same directly to any Authorized Officer of PDD. Bids sent via email should originate through designated email IDs of Authorized Users whereas any fax containing bids shall be signed by Authorized Users. Auction Participants may verify delivery of bids by way of email or fax with CBSL using the designated contact telephone number/s. Non-compliance with this requirement may result in relevant bids not being included in the auction.
- 9.10. In the event of acceptance of all the bids of a given price results in the total accepted bids in the auction exceeding the total to be issued under Phase I, volumes to be issued under such price will be pro-rated.



- 9.11. At the end of Phase I, around 1330 hrs of the auction day, each Auction Participant will be notified through the auction system of its bidding outcome at Phase I under each ISIN along with corresponding WAYR and amount available for bidding under Phase II.

10. Submission and Acceptance of Bids under Phase II

- 10.1 For a given T-bond series, if the entire amount offered at the issuance is not issued under Phase I, Phase II of the issuance process commences around 1330 hrs of the auction day following release of results through the issuance system and will remain open for one hour.
- 10.2 Under Phase II, each of the Auction Participant may offer a single bid through the issuance system up to the total volume to be issued under Phase II, for subscription at WAYR as announced under Phase I results.
- 10.3 Authorized users of Auction Participants may place and/or, change their bids within the time window provided under Item 10.1 above. No party is allowed to make any changes to its bid once prescribed time window has expired.
- 10.4 In the case of an unavoidable technical issue hindering submission of a bid pursuant to Item 10.1 above, the Auction Participant shall at the earliest opportunity notify any Authorized Officer of PDD by way of telephone call or email or fax of such issue and upon acceptance by CBSL, may then within the prescribed time window, send its bid by way of email or fax to any Authorized Officer of PDD or deliver the same directly to any Authorized Officer of PDD. Any bid sent via email should originate through designated email IDs of Authorized Users whereas any fax containing bids shall be signed by Authorized Users. Auction Participants may verify delivery of bids by way of email or fax with CBSL using the designated contact telephone number/s. Non-compliance with this requirement may result in relevant bids not being included in the auction.
- 10.5 The minimum eligible amount to be issued under Phase II for each Auction Participant is determined as follows:

minimum eligible amount (E_i) of the Auction Participant i under Phase II=

$$\frac{\text{Total amount payable by Auction Participant } i \text{ at Phase I}}{\text{Total amount payable at Phase I}} \times \text{Volume to be issued under Phase II}$$

Whereas $\text{Total amount payable by Auction Participant } i \text{ at Phase I} = \sum_{j=1}^n P_{ij} V_{ij}$,

n = number of successful bids of Auction Participant i at Phase I,

P_{ij} = bid price of the j^{th} successful bid of Auction Participant i at Phase I, and

V_{ij} = Accepted bid volume of the j^{th} successful bid of Auction Participant i at Phase I.



10.6 However, the actual amount that could be issued to an Auction Participant may vary on its offered volume under Phase II and volumes offered for subscription by other Auction Participants under Phase II.

- i. If the aggregate of bids under Phase II exceeds the amount to be issued, allocation to each Auction Participant will be based on such Auction Participant's performance at the competitive auction at Phase I (weighted by each Auction Participant's total payable amount in Phase I).

Scenario 1 - if the total volume bid by the sub-set of Active Auction Participants (an Active Auction Participant is any Auction Participant who has been issued any volume at the competitive auction in Phase I) is more than the volume available for issuance under Phase II, issuance under Phase II will be limited to Active Auction Participants only. Issuance to each such active Auction Participant through Phase II will be based on rounds of an iterative process. At Round 1, allocation to each Auction Participant will be the minimum of E_i calculated under Item 10.5 above and the volume bid under Phase II by the relevant Auction Participant. After end of allocation under Round 1, any remainder to be issued will be considered at Round 2 for further allocation under a similar iterative process executed at Round 1 considering E_i calculated under Item 10.5 and any remaining under allocated volume of the bidder under Phase II following allocation at Round 1. This process will continue until the entire amount available under Phase II is distributed among active Auction Participants. The total allocation to each active Auction Participant under Phase II will be the aggregate of issuances made at each round explained above.

An example of Scenario 1 is exhibited at Annex A.

Scenario 2- if the total volumes bid by the sub-set of active Auction Participants is less than the volume available for issuance under Phase II above entire sub set of Active Auction Participants will be allocated the total volume bid by each Active Auction Participant. The balance unallocated volume will be issued among the rest of the Auction Participants who bid under Phase II proportionate to the volume bid by each such Auction Participant at Phase II.

An example of Scenario 2 is exhibited at Annex B.

- ii. If the aggregate of bids under Phase II is less than the under allocated amount, all bids are accepted.



11. Mandatory Allocation under Phase III

- 11.1 For a given T-bond series, if the entire amount tendered at the issuance is not fully issued under Phase I and Phase II of the issuance process, Phase III is expected to execute electronically soon after the end of Phase II around 1430 hrs of the auction day, provided 60% of the offered amount in minimum is accepted at Phase I.
- 11.2 Issuance under Phase III will only be made to PDs.
- 11.3 Amounts to be issued under Phase III for each PD is determined as follows:

mandatory issuance to K^{th} PD, PD_K is given by:

$$PD_K = \frac{M - A_K}{\sum_{i=1}^n M - A_i} \times \{\text{total announced volume for the issuance} - \text{total volume issued under Phase I \& II}\}$$

where,

$$M = \frac{\text{Total amount offered at auction} - \text{Total amount issued to Non PD Auction Participants at Phases I and II}}{\text{Total Number of PDs eligible to bid at the primary auction concerned}},$$

A_K = Amount issued to PD_K at the Auction under Phases I & II above,

n = Total number of PDs that secured less than M at the Competitive Auction at Phases I & II above

and $1 \leq k \leq n$

Accordingly, only those PDs who have failed to secure the average issuance volume per PD (ie. M) at Phases I and II above are subject to mandatory issuance at Phase III above.

12. Announcement of Issuance Results

- 12.1 CBSL shall publish information on the aggregate issuance results through CBSL website around 1445 hrs of the auction day.
- 12.2 The published issuance results will in particular include:
- the total offered volume;
 - the aggregate volume bid under Phase I and Phase II;
 - the total volume allocated; and
 - WAYR.

13. General Administrative Arrangements

- 13.1 The names and specimen signatures of the Authorized Users of staff of Auction Participants, their contact telephone numbers, email addresses and fax numbers shall be sent directly to CBSL.
- 13.2 The names of the Authorized Officers of staff of PDD, their contact telephone numbers, email addresses and fax numbers will be sent directly to each Auction Participant.
- 13.3 Each Auction Participant is responsible for correctness of the information contained in the bid.
- 13.4 No bid is deemed to be legally accepted unless the issuance results are announced.

Part V. Claims

14. Claims

- 14.1 Where an Auction Participant believes of any mistake in the issuance results or any other mistake arising relating the issuance, the Auction Participant shall immediately inform CBSL.
- 14.2 Within three (3) working days of receiving notification under Item 14.1 above, CBSL shall respond to the Auction Participant in relation to the subject matter reported.
- 14.3 If the Auction Participant is not satisfied with the way in which the matter is being dealt with, it may send the Governor of CBSL a formal written complaint. CBSL shall investigate the complaint and shall inform the Auction Participant of the results of that investigation and of its conclusions within five (5) working days of receiving the complaint.
- 14.4 Any Auction Participant who is not satisfied with the solution provided by CBSL after the period specified under Item 14.3 above may submit their formal written complaints to the Issuer (Minister in charge of the subject of Finance) who may in turn request the Secretary to the Ministry of Finance for an appropriate investigation and to make recommendations for a suitable remedy.



Part VI. Definitions

15. Definitions

Multiple Price Competitive Auction: An auction requiring participants to submit bids competitively whereas the bid of the lowest yield or highest price receives the allocation first and the process continues until the auction is concluded.

Auction Participants: Primary Dealers appointed by MB and other participants specially authorized by MB to participate at the primary issuance.

Authorized User of Auction Participant: A user who has been appointed by an Auction Participant to submit bids at primary issuances electronically or otherwise.

Authorized Officer of PDD: A member of staff who has been authorized by the Superintendent of Public Debt to communicate with Auction Participants in relation to the receipt of auction bids.



Phase II

Simulation of Allocation - Scenario 1

Announced Amount (Rs. Mn)	90,000
Unsubscribed Volume at the Auction	20%
(Rs. 18,000 mn)	

Total available for allocation
 Total Allocation in Round 1
 Balance to be allocated in R-2
 Total Allocation in Round 2
 Balance to be allocated in R-3
 Total Allocation in Round 3
 Balance to be allocated in R-4
 Total Allocation in Round 4
 Balance to be allocated in R-5
 Total Allocation in Round 5
 Balance to be allocated in R-6

Scenario 1: Total volume bid by the sub-set of active PDs is more than the amount available for allocation at the second round

PD	Minimum Eligibility for Phase II (%)	Volume Bid (Rs. Mn)	Eligible Amount1	Allocation 1 (temp)	Allocation 1	Volume 1	Balance Bid Volume 1	Eligible Amount2	Allocation 2 (temp)	Allocation 2	Volume 2	Balance Bid Volume 2	Eligible Amount3	Allocation 3 (temp)	Allocation 3	Volume 3	Balance Bid Volume 3	Eligible Amount4	Allocation 4 (temp)	Allocation 4	Volume 4	Balance Bid Volume 4	Eligible Amount5	Allocation 5	Volume 5	Balance Bid Volume 5	Eligible Amount6	Allocation 6 and above	Total Allocation (Rs. Mn)
A	30.00%	5,000	5,400.00	5,400	5,400	5,400	600	1,659	600	600	600	600	1,405	140	140	140	5,260	181	135	135	135	5,125	1,305	131	131	4,897	126	3,695	4,608
B	25.00%	3,200	3,500.00	3,200	3,200	3,200	600	1,391	600	600	600	600	1,170	140	140	140	3,060	135	135	135	135	2,925	1,058	35	35	2,890	101	3,000	3,200
C	15.00%	1,600	1,700.00	1,600	1,600	1,600	600	834	600	600	600	600	702	140	140	140	1,458	135	135	135	135	1,323	455	131	131	1,192	45	1,400	1,600
D	10.00%	800	800.00	800	800	800	600	555	600	600	600	600	488	140	140	140	662	135	135	135	135	527	218	131	131	396	210	400	800
E	5.00%	350	350.00	350	350	350	600	278	600	600	600	600	234	140	140	140	216	135	135	135	135	81	174	131	131	168	168	350	350
F	4.00%	800	720.00	720	720	720	600	222	600	600	600	600	187	140	140	140	573	135	135	135	135	438	131	131	131	307	168	800	800
G	3.00%	6,000	540.00	540	540	540	600	167	600	600	600	600	140	140	140	140	400	135	135	135	135	265	131	131	131	136	3,495	4,608	4,608
H	2.40%	80	432.00	80	80	80	600	133	600	600	600	600	112	140	140	140	220	135	135	135	135	97	104	131	131	126	101	80	80
I	2.40%	80	144.00	80	80	80	600	44	600	600	600	600	37	140	140	140	463	135	135	135	135	34	35	131	131	34	50	40	40
J	1.20%	40	216.00	40	40	40	600	67	600	600	600	600	56	140	140	140	544	135	135	135	135	27	26	131	131	25	699	922	922
K	0.60%	2,400	108.00	108	108	108	600	33	600	600	600	600	28	140	140	140	2,272	135	135	135	135	27	26	131	131	25	699	922	922
L	0.00%	150	-	-	-	-	600	-	600	600	600	600	-	140	140	140	150	135	135	135	135	150	150	131	131	150	400	400	400
M	0.00%	400	-	-	-	-	600	-	600	600	600	600	-	140	140	140	400	135	135	135	135	400	400	131	131	400	400	400	400
N	0.00%	500	-	-	-	-	600	-	600	600	600	600	-	140	140	140	500	135	135	135	135	500	500	131	131	500	500	500	500
O	0.00%	50	-	-	-	-	600	-	600	600	600	600	-	140	140	140	50	135	135	135	135	50	50	131	131	50	50	50	50
P	0.00%	50	-	-	-	-	600	-	600	600	600	600	-	140	140	140	50	135	135	135	135	50	50	131	131	50	50	50	50
Q	0.00%	50	-	-	-	-	600	-	600	600	600	600	-	140	140	140	50	135	135	135	135	50	50	131	131	50	50	50	50
Total	100.00%	22,020	18,000	12,438	12,438	12,438	9,582	5,562	880	880	880	880	4,682	169	169	169	8,702	4,513	162	162	162	8,371	157	157	157	8,214	4,194	18,000	18,000
Under Allocation																													

* Minimum eligibility of an Auction Participant for Phase II is calculated as follows: Total amount payable by the Auction Participant at Phase I / Total amount payable by all Auction Participants at Phase I.

Simulation for Allocation - Scenario 2

Announced Amount (Rs. Mn)	90,000
Unsubscribed Volume at the Auction	20% (i.e. 18,000 mn)

Scenario 2: Total volume bid by the sub-set of active PIDs is less than the amount available for allocation at the second round

PID	Minimum Eligibility for Phase II % (*)	Volume Bid (Rs. Mn)	Total Allocation (Rs. Mn)
A	30%	4,670	4,670
B	25%	3,200	3,200
C	15%	1,500	1,500
D	10%	400	400
E	5%	300	300
F	4%	750	750
G	3%	200	200
H	3%	-	-
I	2%	100	100
J	1%	-	-
K	1%	30	30
L	1%	2,300	2,300
M	0%	6,790	6,413
N	0%	500	485
O	0%	1,125	569
P	0%	113	57
Q	0%	113	57
Total	100%	22,450	18,000
Under Allocation			

* Minimum eligibility of an Auction Participant for Phase II is calculated as follows: Total amount payable by the Auction Participant at Phase I / Total amount payable by all Auction Participants at Phase I.

