

**Circular No. 35/03/016/007/001**

**Consolidated Operating Instructions on  
Market Operations**

**Domestic Operations Department**

**Central Bank of Sri Lanka**

1.0 The Operating Instructions relating to Market Operations of the Central Bank of Sri Lanka (CBSL) are outlined in this consolidated circular which shall come into effect on **01 November 2016**.

2.0 This has reference to the following Operating Instructions Circulars issued by the CBSL;

	<b>Circular Number</b>	<b>Date Issued</b>	<b>Title</b>
01	35/01/005/0006/04	27 January 2004	Operating Instructions on Open Market Operations of the Central Bank of Sri Lanka In Scripless Government Securities dated
02	35/01/005/0006/08	3 May 2004	Operating Instructions on Open Market Operations of the Central Bank of Sri Lanka in Scripless Government Securities
03	35/01/005/0006/17	12 March 2008	Operating Instructions on Issuing Central Bank Securities in Scripless Form Under Open Market Operations of the Central Bank of Sri Lanka
04	35/01/005/0006/18	21 May 2008	Operating Instructions on Long Term Repo Transactions (LTRP) Under the Auction System
05	35/01/005/0006/24	19 March 2009	Operating Instructions On Term Reverse Repurchase Transactions Under The Auction System
06	35/01/005/0006/26	21 May 2009	Open Market Operations Of The Central Bank Of Sri Lanka
07	35/01/005/0006/27	30 October 2009	Operating Instructions On Fx Swap Transactions Under The Auction System
08	35/01/005/0006/28	06 November 2009	Operating Instructions On Issuing Central Bank Securities In Scripless Form Under Open Market Operations Of The Central Bank Of Sri Lanka
09	35/01/005/0006/32	24 July 2013	Operating Instructions on Open Market Operations of the Central Bank of Sri Lanka in Scripless Government Securities
10	35/01/005/0006/33	2 January 2014	Operating Instructions on Open Market Operations of the Central Bank of Sri Lanka

3.0 All Licensed Commercial Banks, Primary Dealers and Employees Provident Fund (EPF)(hereinafter referred to as Participating Institutes, PIs) are hereby informed that with effect from **01 November 2016**, all the above mentioned circulars shall be withdrawn and replaced with this circular (hereinafter referred to as Consolidated circular).

## Section 1: Introduction

- 4.0 CBSL will conduct market operations with PIs, in order to maintain the stability of interbank interest rates within an interest rate corridor, the Standing Rate Corridor (SRC). The SRC is defined in terms of the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) which form the lower bound and the upper bound of the SRC, respectively. The SRC will be reviewed by the CBSL on a monthly basis and the required changes shall be announced accordingly.
- 5.0 On the basis of an assessment of daily market liquidity positions, forecasts of the daily market liquidity and market developments and the policy environment, Market Operations Committee (MOC) of the CBSL shall decide whether to absorb liquidity from or to inject liquidity to the market, the amount, the type and the tenure of instruments.
- 6.0 A. Under Open Market Operations (OMO), PIs shall have access to the following instruments;
- a. Short-Term Auctions
    - a. Short-Term Repo Auctions (STRP)
    - b. Short-Term Reverse Repo Auctions (STRRP)
  - b. Long-Term Auctions
    - a. Long-Term Repo Auctions (LTRP)
    - b. Long-Term Reverse Repo Auctions (LTRRP)
  - c. Outright Auctions
    - a. Outright Sale Auctions
    - b. Outright Purchase Auctions
  - d. Transactions related to Central Bank Securities (CBSL Securities)
    - a. Issuing of CBSL Securities under the Auction System
    - b. Retirement of CBSL Securities under the Auction System
    - c. CBSL Securities Buy-back facility
  - e. Forex Swap Transactions
    - a. Buy-Sell SWAPs
    - b. Sell-Buy SWAPs
- B. Under the standing facility, PI shall have access to the following instruments.

- a. Standing Deposit Facility (SDF)
- b. Standing Lending Facility (SLF)

## **Section 2: Common Instructions to PIs**

- 7.0 The CBSL will announce decision of the MOC to the market through the Online Electronic Bidding System (OEBS) and/or the Money Market screen or any other effective means of communication. The auction system shall be used to conduct OMO except the Standing Facility. PIs shall submit their deals/bids through the respective systems available in the OEBS except in a situation outlined in the paragraph below.
- 8.0 In an event a PI is unable to access the OEBS only due to a technical failure, such a PI is advised to submit their respective deals/bids via telephone to the OMO division of the Domestic Operations Department (DOD) before the close of the respective auction or before the cutoff time of the Standing Facility, as applicable. A letter of confirmation of such deals/bids signed by two authorized officers shall be submitted via fax or email within 15 minutes after the close of the respective auction or the cutoff time, as applicable, highlighting the nature of such technical failure. Such confirmation should include the names and designations of authorized officers. Each such deal/bid shall contain all the relevant information to enable the DOD to enter the transaction manually. CBSL shall then consider such communication as a request to enter a manual deal/bid on behalf of the PI on the basis of the information provided by them. An incorrect or incomplete information to enter the manual bid, shall result in such request being rejected by the CBSL. Bids received (by telephone and/or by fax or email) after the stipulated cutoff times in this clause shall not be entertained under any circumstance. The original of the fax should be sent to DOD before the close of business on the same day.
- 9.0 All Repurchase (Repo) and Reverse Repurchase (Reverse Repo) auction transactions carried out between a PI and the CBSL in terms of the provisions set-out out in sections 4 and 5 of this Consolidated Circular are subject to the provisions of the Master Repurchase and Reverse Repurchase Agreement entered into between such PI and the Monetary Board of the CBSL. The terms used in these Operating Instructions shall have the same meanings assigned to them in the Master Repurchase and Reverse Repurchase Agreement.

- 10.0 All SDF and SLF transactions carried out between a PI and the CBSL in terms of the provisions set-out in section 3 of this Consolidated Circular are subject to the provisions of the Master Standing Facility Agreement entered into between such PI and the Monetary Board of the CBSL. The terms used in these Operating Instructions shall have the same meanings assigned to them in the Master Standing Facility Agreement.
- 11.0 The CBSL reserves the right to amend, revise or vary any term and/or condition or any part thereof of this Consolidated Circular with prior notice to PIs.
- 12.0 In the event of any inconsistency or conflict between this Consolidated Circular and the Master Repurchase and Reverse Repurchase Agreement and/or Master Standing Facility Agreement, this Consolidated Circular shall prevail.
- 13.0 For all rupee transactions, the minimum value of a deal/bid shall be Rupees one million (Rs. 1,000,000.00) and deals should be in multiples of Rupees one million.
- 14.0 In an event a PI is unable to view or print the confirmation(s) referred to in the following sections, only due to a technical failure in accessing the OEBS, Payments and Settlement Department (PSD) of CBSL may fax a copy of the confirmation(s) to the PI on request.
- 15.0 When entering an SLF deal or a Reverse Repo bid at the auction, the face value of the security/securities to be allocated to the CBSL for each such SLF deal/Reverse Repo bid, shall be calculated by the system automatically based on the CBSL official buying price/s of the respective security/securities. Such official prices are recorded in LankaSecure and can also be retrieved from the OEBS.
- 16.0 PIs can assign any number of International Security Identification Numbers (ISIN) (multiple ISINs) for a given SLF deal or for a Reverse Repo bid. If a SLF deal or a Reverse Repo bid involves securities carrying more than one ISIN, each such ISIN shall be treated as a separate deal/bid.

## 17.0 Recovery of damages

### a. Failure of a PI to honour a bid/deal on the settlement date

The acceptance by the CBSL of a deal/bid of a PI is binding on the PI and if a PI fails to honor a deal/bid in full, due to unavailability of adequate funds in the settlement account or the adequate quantities of the assigned security in their own accounts, before the close of business of LankaSecure on the settlement date, such PI shall be liable to pay damages to the CBSL in a sum equivalent to the interest component of the respective transaction. Such damages shall be debited to the PI's settlement account with the CBSL on the next business day.

### b. Default of a PI on the maturity date

In the event of a PI failing to maintain sufficient funds in its settlement account to pay the sell back value before the close of business of LankaSecure on the maturity date (sell back date) a PI shall pay a sum equivalent to the interest component of the respective transaction and CBSL shall convert such transaction to an outright purchase. In case of such conversion, if the current CBSL official price is higher than the purchase price of such securities, PI shall be liable to pay to the CBSL a sum equivalent to the difference between the current CBSL official price and the original purchase price of the securities or vice versa.

### c. The total sum arising from b. above shall be debited to the PI's settlement account with the CBSL on the following business day.

### d. In the event a PI fails to honor a bid/deal or default more than once the CBSL may suspend a PI from engaging in transactions.

18.0 Once the auction is closed, no amendments shall be made to the bids placed by a PI at the auction under any circumstance.

19.0 Apart from the regular auctions, the CBSL may decide to hold additional auctions during the day, as it deems necessary.

- 20.0 The CBSL reserves the right to accept or reject a deal/bid of a PI.
- 21.0 The official buying and selling prices of Treasury bills and Treasury bonds shall be calculated by the CBSL on a daily basis based on the current market prices and developments.
- 22.0 If the Government declares a sudden bank holiday and if the maturity date in respect of any transaction fall on such holiday, any obligation of a party to such transaction arising on such day shall be fulfilled by such party on the immediately following business day.
- 23.0 A summary along with time schedule of OMO instruments are in the Annexure.
- 24.0 All transactions except for SDF will be on Delivery versus Payment (DVP) basis.
- 25.0 In the event of an auction and there being bids at the cut off interest rate in excess of the amount offered, the available quantum shall be allocated among such bidders on a 'pro rata' basis. Accordingly, the bids at the cut off interest rate may partially be accepted.
- 26.0 Close of Business shall deem to be the time specified for the close of business in the daily operating schedule in the volume 04 of the LankaSettle system rules version 2.1 or its latest version. Generally, the close of business of LankaSecure is 0430 hrs. However, ad hoc adjustments to the operating schedule may be adopted by the Payment and Settlement Department, at its sole discretion, from time to time to deal with unforeseen contingencies. In such event, CBSL will adjust the close of business time and inform the participants as necessary.
- 27.0 PIs are not required to submit any settlement instructions.
- 28.0 Substitution of securities which were submitted in connection with SLF, STRRP and LTRRP transactions shall not be permitted.
- 29.0 Securities transferred to the Domestic Operations Repurchase (DOP) Account of a PI shall not be traded by the PI.

### **Section 3 : Standing Facility**

30.0 The standing facility shall be an overnight facility where PIs can avail the SDF to deposit funds at the CBSL or may use the SLF to borrow funds from the CBSL by providing eligible collateral. The amount so deposited or borrowed under the standing facility may be at their own discretion.

#### **3.1 Standing Deposit Facility (SDF)**

31.0 The PIs who wish to use the SDF are required to enter the deal electronically by submitting through OEBS and shall confirm the same to OMO Division of the DOD by telephone or fax not later than 1515 hours.

32.0 The applicable interest rate for the SDF shall be the Central Bank SDFR and the “interest component” shall be calculated for the duration of the respective deposit.

33.0 PSD of the CBSL will directly debit the PI’s settlement account (RTGS account) for the value they wish to place at the SDF not later than 1600 hours on the same day.

34.0 A confirmation of SDF deal will be issued by the PSD to the PI electronically through the OEBS not later than 1600 hours on the same day.

35.0 Confirmation of Debit SWIFT message, that is a FIN 900, will be sent to the respective account holder confirming the debit into their account for the value they placed at the SDF.

36.0 On the maturity date, PSD will credit the PI’s settlement account with the original deposit value plus the interest component, not later than 0830 hrs.

37.0 Confirmation of Credit SWIFT message, that is a FIN 910, will be sent to the respective account holder confirming the credit into their account not later than 0830 hours on the maturity date.



### **3.2 Standing Lending Facility (SLF)**

- 38.0 The SLF operates on the principles of Reverse Repurchase transactions. Under the SLF, the CBSL shall purchase Government securities (Treasury Bill(s) and/or Treasury Bond(s)) from PIs at an agreed price (Purchase Price) with an agreement to sell it back on an agreed date at an agreed price (Repurchase Price/Sell back price).
- 39.0 The sell back value shall consist of purchase price plus the interest component for the respective deal.
- 40.0 The applicable interest rate for the SLF shall be the Central Bank SLFR and the “interest component” shall be calculated for the duration of the respective lending.
- 41.0 The PIs who wish to use the SLF are required to enter the deal electronically by submitting the amount required and the details of the securities through OEBS and shall confirm the amount to OMO Division of the DOD by telephone or fax not later than 1515 hours.
- 42.0 PSD will settle the transaction by crediting the settlement account of the PI for the purchase price of securities (amount requested) against the receipt of purchased securities in to the Domestic Operations Reverse Repurchase (DRP) Account of the CBSL in LankaSecure not later than 1615 hours on the same day.
- 43.0 A confirmation of SLF deal will be issued by the PSD to the PI electronically through the OEBS not later than 1615 hours on the same day indicating the amount accepted, the ISIN(s), face values, yield rate and the maturity date.
- 44.0 On the maturity date (sell back date), CBSL shall transfer the purchased securities back to the PI’s own security account at LankaSecure, not later than 1100 hours, against the receipt of funds into the settlement account of the CBSL for the sell back value (repurchase price) of the securities.

#### **Section 4 : Short-Term Auctions**

- 45.0 The Short-Term (ST) auctions shall be in the form of Repo and Reverse Repo transactions. The tenure of ST auction shall be overnight to one week. The exact tenure and the amount offered shall be decided by the MOC as stated in the paragraph 5.0 of this Operating Instructions. The settlement shall be on same day settlement (T+0) basis.
- 46.0 CBSL shall announce the decision of the MOC by 0930 hours on the same day. The announcement shall include the type of auction on offer (ST Repo or ST Reverse Repo), the amount offered and the maturity date (tenure). Auction will be conducted from 1100 hours to 1130 hours.
- 47.0 Each PI is restricted to a maximum of 3 bids and the total value shall be restricted to the amount offered at the respective auction. Each bid shall contain the amount they wish to invest/borrow and the corresponding bidding interest rate.

##### **4.1 Short-Term Repo (STRP) Auctions**

- 48.0 A PI who wishes to invest under the STRP auction is required to submit their bid/s electronically through the OEBS by selecting the appropriate auction announcement. Any bid at or above the SLFR will be rejected.
- 49.0 The allotment shall be made based on the ascending order of the bidding interest rates quoted by the successful bidder.
- 50.0 Results of the STRP auction shall be announced by 1200 hours via the OEBS giving the total bids received, amount accepted and the Weighted Average Interest Rate. Each bidder (PI) shall be informed of the outcome (rejection, acceptance or partial acceptance of the bid/s) of the auction through the OEBS by 1200 hours.

- 51.0 For each successful bid, securities shall be allocated at the CBSL official selling prices for the allotted amount at the STRP auction and a confirmation of STRP transaction shall be issued to each successful PI electronically via OEBS within one hour after the release of the results. The confirmation shall include the ISIN(s) and the respective face value(s) allocated, amount accepted and the repurchase value.
- 52.0 The settlement of the transactions will be through the Matched Trade Feed (MTF) facility available at LankaSettle. PSD shall settle the transaction on or before 1315 hours by transferring the allocated securities in to the DOP Account of the respective PI in LankaSecure against the receipt of funds (amount accepted) for the sale value of securities to the Settlement Account of the CBSL.
- 53.0 Successful PIs shall ensure that sufficient funds are available in their settlement account to enable the PSD to debit the sales value of securities (amount accepted) in full by 1315 hours.
- 54.0 On the maturity date (repurchase date), PSD will credit the repurchase value of the securities to the settlement account of the PI against the receipt of the sold securities to the securities own account or Domestic Operations Borrowed (DOB) account of the CBSL in LankaSecure, on or before 0830 hours.
- 55.0 The repurchase value shall consist of sales price of the securities (amount accepted) plus the interest component for the respective bid. The interest component of the respective bid shall be calculated based on the amount accepted and the corresponding bidding interest rate of the PI for that bid for the duration of the agreement (tenure).
- 56.0 PIs shall ensure the availability of the Securities Purchased from the CBSL in their DOP Account in LankaSecure on the maturity date (repurchase date) by 0830 hours to enable the reversal of the STRP transaction in full.

#### **4.2 Short-Term Reverse Repo (STRRP) Auctions**

- 57.0 A PI who wishes to borrow from the STRRP auction is required to submit their bid/s electronically through the OEBS by selecting the appropriate auction announcement. PIs are

required to submit the security details ISIN(s) together with their bids. Any bid at or below the SDFR will be rejected.

- 58.0 The allotment shall be made based on the descending order of the bidding interest rates quoted by the successful bidder.
- 59.0 Results of the STRRP auction shall be announced by 1200 hours via the OEBS giving the total bids received, amount accepted and the Weighted Average rate. Each bidder (PI) shall be informed of the outcome (rejection, acceptance or partial acceptance of the bid/s) of the auction through the OEBS by 1200 hours.
- 60.0 A confirmation of STRRP transaction will be issued to each successful PI electronically via OEBS within one hour after the release of the results. The confirmation shall include the ISIN(s) and the respective face value(s) allocated (recalculated face values if the bid is partially accepted), amount accepted and the sales price.
- 61.0 The settlement of the transactions shall be processed on or before 1315 hours on the same day through the MTF facility available at LankaSettle. PSD shall settle the transaction by crediting the settlement account of the PI for the purchase price of securities (amount accepted) against the receipt of purchased securities into the DRP Account of the CBSL in LankaSecure.
- 62.0 On the maturity date (sell back date), CBSL shall transfer the purchased securities back to the PI's own security account at LankaSecure, not later than 1100 hours, against the receipt of funds into the settlement account of the CBSL for the sell back value (repurchase price) of the purchased security/securities.
- 63.0 The sell back value shall consist of purchase price of the securities (amount accepted) plus the interest component for the respective bid. The interest component of the respective bid shall be calculated based on the amount accepted and the corresponding bidding interest rate of the PI for that bid for the duration of the agreement (tenure).

## **Section 5 : Long Term Auctions**

- 64.0 Long Term auctions shall be in the form of Repo and Reverse Repo transactions. The tenure of a long term auction shall be more than 1 week.
- 65.0 CBSL shall announce the decision of the MOC to conduct a long term auction by 0930 hours on the auction day or one business day in advance to the auction date. The announcement shall include the type of auction on offer (LTRP or LTRRP), the amount offered, the maturity date (tenure), auction date and the settlement date.
- 66.0 Each PI is restricted to a maximum of 6 bids and the total bid/s value shall be restricted to the amount offered at the respective auction. Each bid shall contain the amount they wish to invest/borrow and the corresponding bidding interest rate. Auction will be conducted from 1300 hours to 1400 hours. Settlement day will be the following business day.

### **5.1 Long Term Repo (LTRP) Auctions**

- 67.0 A PI who wishes to invest in the LTRP auction is required to submit their bid/s on the auction date electronically through the OEBS by selecting the appropriate auction announcement.
- 68.0 The allotment shall be made based on the ascending order of the bidding interest rates quoted by the successful bidder.
- 69.0 Results of the LTRP auction shall be announced after 30 minutes from the auction cutoff time on the auction date via the OEBS giving the total bids received, amount accepted and the Weighted Average Interest Rate. Each bidder (PI) shall be informed of the outcome (rejection, acceptance or partial acceptance of the bid/s) of the auction through the OEBS by 1430 hours.
- 70.0 For each successful bid, securities shall be allocated at the CBSL official term selling prices for the allotted amount at the LTRP auction and a confirmation of LTRP transaction shall

be issued to each successful PI electronically via OEBS within one hour after the release of the results. The confirmation shall include the ISIN/s and the respective face value/s allocated, amount accepted and the repurchase value, and the maturity date.

- 71.0 On the settlement date, the settlement of the transactions shall be through the MTF facility available at LankaSettle. PSD shall settle the transaction on or before 0830 hours on the settlement date by transferring the allocated securities (purchased securities) into the DOP Account of the respective PI in LankaSecure against the receipt of funds (amount accepted) for the sale value of securities (purchase price) to the Settlement Account of the CBSL.
- 72.0 Successful PIs shall ensure that sufficient funds are available in their settlement account to enable the PSD to debit the sales value of securities (amount accepted) in full by 0830 hours on the settlement date.
- 73.0 On the maturity date (repurchase date), PSD will credit the repurchase value of the securities to the settlement account of the PI against the receipt of the sold securities to the own or DOB account of the CBSL in LankaSecure, on or before 0830 hours.
- 74.0 The repurchase value shall consist of sales price of the securities (amount accepted) plus the interest component for the respective bid. The interest component of the respective bid shall be calculated based on the amount accepted and the corresponding bidding interest rate of the PI for that bid for the duration of the agreement (tenure).

## **5.2 Long Term Reverse Repo (LTRRP) Auctions**

- 75.0 A PI who wishes to borrow from the LTRRP auction is required to submit their bid/s electronically through the OEBS by selecting the appropriate auction announcement. PIs are required to submit the security details ISIN(s) together with their bids.
- 76.0 The allotment shall be made based on the descending order of the bidding interest rates quoted by the successful bidder.

- 77.0 Results of the LTRRP auction shall be announced after 30 minutes from the auction cutoff time on the auction date via the OEBS giving the total bids received, amount accepted and the Weighted Average rate. Each bidder (PI) shall be informed of the outcome (rejection, acceptance or partial acceptance of the bid/s) of the auction through the OEBS after 30 minutes from the auction cutoff time.
- 78.0 A confirmation of LTRRP transaction will be issued to each successful PI electronically via OEBS within one hour after the release of the results. The confirmation shall include the ISIN/s and the respective face value/s allocated (recalculated face values if the bid is partially accepted), amount accepted and the sales price.
- 79.0 On the settlement date, the settlement of the transactions shall be processed through the MTF facility available at LankaSettle at or before 1145 hours. PSD shall settle the transaction by crediting the settlement account of the PI for the purchase price of securities (amount requested) against the receipt of purchased securities in to the DRP Account of the CBSL in LankaSecure.
- 80.0 On the maturity date (sell back date), CBSL shall transfer the purchased securities back to the PI's own security account at LankaSecure, not later than 1100 hours, against the receipt of funds in to the settlement account of the CBSL for the sell back value (repurchase price) of the purchased security/securities.
- 81.0 The sell back value shall consist of purchase price of the securities (amount accepted) plus the interest component for the respective bid. The interest component of the respective bid shall be calculated based on the amount accepted and the corresponding bidding interest rate of the PI for that bid for the duration of the agreement (tenure).

## **Section 6 : Outright Auctions**

- 82.0 The CBSL may decide to conduct outright auction/s to sell Treasury-bills and/or bonds outright from its holdings or to purchase them outright from the secondary market.

- 83.0 CBSL shall announce the decision of the MOC to conduct an outright auction by 0930 hours on the auction day or one business day in advance to the auction date. The announcement shall include the type of auction on offer (outright sale or purchase), the amount offered (the face value of the securities), the maturity date, days to maturity, auction date and the settlement date. The settlement date for outright transactions will be the following business day.
- 84.0 Each PI is restricted to a maximum of 6 bids which are accepted between 1300 hours to 1400 hours and the total bid/s value shall be restricted to the amount offered at the respective auction. Each bid shall contain the face value of the securities they wish to buy/sell, the required maturity period of Treasury-bills/bonds to be purchased/ sold, Coupon rate and coupon date in the case of Treasury bonds purchases, the corresponding bidding interest rate (yield rate) and the expected price.

#### **6.1 Outright Sale Auctions**

- 85.0 A PI who wishes to purchase T-bills/bonds on offer from the outright sale auction is required to submit their bid/s on the auction date electronically through the OEBS by selecting the appropriate auction announcement.
- 86.0 The allotment shall be made based on the ascending order of the bidding interest (yield) rates quoted by the successful bidder.
- 87.0 Results of the outright sale auction shall be announced after 30 minutes from the auction cutoff time via the OEBS giving the total bids received, amount accepted and the Weighted Average Yield Rate. Each bidder (PI) shall be informed of the outcome (rejection, acceptance or partial acceptance of the bid/s) of the auction along with the relevant sales price of the securities where applicable, through the OEBS after 30 minutes from the auction cutoff time on the auction date.
- 88.0 On the settlement date, the settlement of the transactions shall be through the MTF facility available at LankaSettle. PSD shall settle the transaction on or before 0830 hours on the settlement date by transferring the securities sold into the own account of the respective



successful bidder (PI) in LankaSecure against the receipt of funds for the sale value of securities (discounted value of the securities sold) to the Settlement Account of the CBSL.

89.0 The discounted value of securities sold shall be calculated on the basis of the bidding interest rate (yield rate) of Treasury bills/bonds as the case may be, quoted by the respective successful bidder (PI) and the maturity date of the Treasury bill/bond.

## **6.2 Outright Purchase Auctions**

90.0 A PI who wishes to sell T-bills/bonds of the maturities indicated (offered) by the CBSL at the outright purchase auction, is required to submit their bid/s on the auction date electronically through OEBS by selecting the appropriate auction announcement.

91.0 The allotment shall be made based on the descending order of the bidding interest (yield) rates quoted by the successful bidder.

92.0 Results of the outright purchase auction shall be announced after 30 minutes from the auction cutoff time via the OEBS giving the total bids received, amount accepted and the Weighted Average Yield Rate. Each bidder (PI) shall be informed of the outcome (rejection, acceptance or partial acceptance of the bid/s) of the auction along with the relevant purchase price of the securities, through the OEBS after 30 minutes from the auction cutoff time on the auction date.

93.0 The settlement of the transactions shall be processed on or before 0830 hours on the settlement date through the MTF facility available at LankaSettle. PSD shall settle the transaction by crediting the settlement account of the PI for the purchase value of securities (discounted value of the securities purchased), against the receipt of the securities purchased in to the own securities account of the CBSL in LankaSecure.

94.0 The discounted value of securities shall be calculated on the basis of the bidding interest rate (yield rate) Treasury bills/bonds as the case may be, quoted by the respective successful bidder (PI) and the maturity date of the Treasury bill/bond.

## **Section 7 : Central Bank (CBSL) Securities**

- 95.0 The CBSL may decide, as and when it deemed necessary, to issue CBSL securities and/or to early retire the already issued CBSL securities, under Section 91(1)(b) of the Monetary Law Act (Chapter 422), as part of Open Market Operations to absorb excess rupee liquidity.
- 96.0 CBSL may decide to;
- i. Issuing of CBSL Securities under the Auction System
  - ii. Retirement of CBSL Securities under the Auction System
  - iii. CBSL Securities Sell-back facility
- 97.0 The main features of these securities are as follows:
- i.) CBSL securities will be issued in scripless form.
  - ii.) CBSL Securities are negotiable.
  - iii.) The terms and regulations applied to the operations of Scripless Securities Settlement System (SSSS) and Central Depository System (CDS) will be applied on transferring and the settlement of CBSL securities.
  - iv.) CBSL securities are marketable. However, these securities shall not be eligible as a collateral for Intra-day liquidity facility (ILF), SLF or reverse repurchase transactions with the CBSL.
  - v.) Similar to government Treasury bills, CBSL securities shall also be issued on a discount basis.
  - vi.) PIs are eligible to purchase these securities from the Central Bank. The general public may purchase CBSL Securities from the secondary market through commercial banks or primary dealers.
  - vii.) Similar to government securities, the primary issue of these securities is subject to the applicable withholding tax on interest income.
  - viii.) The tenure (maturity period) of CBSL securities shall be decided by the CBSL.

## **7.1 Issuing of CBSL Securities under the Auction System (Short Term and Long Term)**

- 98.0 CBSL shall announce the decision of the MOC to conduct an auction to issue CBSL securities on the auction day or one business day in advance to the auction date. The auction announcement shall include the type of auction (Short-term or Long-Term), amount offered (face value) and the maturity period of the securities to be sold, date and the time of the auction and the settlement date.
- 99.0 CBSL may decide to issue either short tenure or longer tenure CBSL securities. Short-tenure CBSL securities shall be from 1 day up to 1 week while longer tenure securities shall be issued for more than one week.
- 100.0 The auction will be conducted through the OEBS under the option for outright sale auction. A PI who wishes to purchase CBSL securities from the auction, is required to submit their bid/s giving the amount (face value of securities expected to purchase) and the bidding interest (yield) rate on the auction date, during the time indicated in the auction announcement, electronically through the OEBS by selecting the appropriate sale auction announcement.
- 101.0 Each PI is restricted to a maximum of 6 bids for each maturity and the total bid/s value shall be restricted to the amount offered at the respective auction.
- 102.0 The bidding interest (yield) rates quoted by PI, shall be the yield rate with the withholding tax (WHT).
- 103.0 The allotment shall be made based on the ascending order of the bidding interest (yield) rates quoted by the successful bidder.
- 104.0 Results of the auction shall be announced after 30 minutes from the close of the auction via the OEBS giving the total bids received, amount accepted and the Weighted Average Yield Rate. Each bidder (PI) shall be informed of the outcome (rejection, acceptance or partial acceptance of the bid/s) of the auction along with the relevant sales

price (including WHT) of the securities, through the OEBS after 30 minutes from the close of the auction on the auction date.

105.0 The sale price (including WHT) of each successful bid shall be calculated by discounting the face value of securities at the bidding interest (yield) rates quoted by the respective PI adjusted for the WHT (after tax rate) for the maturity period of the securities.

106.0 A confirmation of the deal/s shall be issued by the PSD to the PI electronically through the OEBS within one hour after the release of the results confirming the amount accepted, ISIN(s), face values, and the maturity date.

107.0 The settlement of the transactions shall be made through the MTF facility available at LankaSettle. On the settlement date, PSD shall settle the transactions at the respective settlement times specified in clause 108 below, by transferring the face value of securities sold in to the own account of the respective PI in LankaSecure against the receipt of funds for the sale value of securities (discounted value of the securities sold/price with WHT) to the Settlement Account of the CBSL.

108.0 The settlement times shall be as follows;

- i. For short-tenure CBSL security auctions, the settlement shall be made within 2 hours after the close of the respective auction on the auction date.
- ii. For long tenure CBSL security auctions, the settlement time shall be made on or before 0830 hours on the respective settlement date.

109.0 On the maturity date, the system will automatically initiate the maturity settlement by transferring securities to the own securities account of the CBSL and maturity proceeds (face value of the securities) to the settlement account of the PI who held relevant securities on the immediately preceding business day prior to the maturity date, on or before 0830 hours.

## **7.2 Issue of CBSL securities at a pre-determined rate**

- 110.0 The CBSL may issue, CBSL securities to PIs at a pre-determined yield rate.
- 111.0 The maturity period, the yield rate (with withholding tax) and the settlement date of CBSL securities to be issued at a pre-determined rate will be decided by the MOC and announced through on-line electronic bidding system / Money Market Monitoring System or/and any other means of communication, inviting PIs to purchase them between 1100 hours to 1430 hours on each business day entering into a deal with the OMO Division of DOD.
- 112.0 The PIs who wish to purchase CBSL securities at the pre-determined rates are required to inform the OMO Division of the DOD by telephone or fax message, the amount required to purchase (face value) not later than 1430 hours of the same day.
- 113.0 PIs are requested to submit the amount required to purchase (face value) to the electronic bidding system (under standing facility, outright sale option) on or before 1500 hours.
- 114.0 PIs whose deals were accepted could view such acceptance through the on-line electronic bidding system (under standing facility outright sale option) by 1500 hours on the same day.
- 115.0 In those cases where the settlement is on the deal date itself, Matched Trade Feed file will be submitted to LankaSecure on or before 1500 hours of the deal date. If the settlement is on a following day, a Matched Trade Feed file will be submitted to LankaSecure on or before 0830 hours on the settlement date.
- 116.0 The system will settle the transaction by transferring securities sold to the respective Own Accounts of the PIs against the receipt of funds to the Settlement Account of the CBSL for the discounted value of the securities sold.
- 117.0 The sale value (sale price including withholding tax) will be calculated by discounting the face value of securities sold by the applicable interest rate adjusted for the withholding tax (after tax rate) for the maturity period of the security.

118.0 On the maturity date, the system will automatically initiate the settlement by transferring securities to the CBSL own account and maturity proceeds to RTGS A/c of PIs that held relevant securities on the business day prior to the maturity date.

119.0 The Central Bank reserves the right to change the yield rate and the maturity period of CBSL securities to be issued under a pre- determined rate as and when it is deemed necessary and such changes will be notified to PIs through on-line electronic bidding system/Money Market Monitoring System or any other means of communication on or before 0930 hours on the day it will become effective.

### **7.3 Early Retirement of CBSL Securities under the Auction System**

120.0 The MOC may decide, as and when it is deemed necessary, to retire CBSL securities prior to the respective maturity date/s through an auction.

121.0 CBSL shall announce the decision of the MOC to conduct an auction to retire (purchase) CBSL securities prior to the maturity date, on the auction day or one business day in advance to the auction date. The auction announcement shall include the amount offered (face value), the maturity date(s) and the ISIN(s) of the securities to be purchased, date and the time of the auction and the settlement date.

122.0 A PI who wishes to sell the respective CBSL securities at the auction, is required to submit their bid/s giving the amount (face value of securities expected to sell) and the bidding interest (yield) rate on the auction date, between 1300 hours and 1400 hours, electronically through the OEBS by selecting the appropriate auction announcement under outright purchase auction option. The settlement time shall be made on or before 0830 hours on the next business day.

123.0 Each PI is restricted to a maximum of 6 bids for each maturity (ISIN) and the total bid(s) value shall be restricted to the amount offered at the respective auction.

124.0 The allotment shall be made based on the descending order of the bidding interest (yield) rates quoted by the successful bidder.

125.0 Results of the auction shall be announced after 30 minutes after the close of the auction via the OEBS giving the total bids received, amount accepted and the Weighted Average Yield Rate. Each bidder (PI) shall be informed of the outcome (rejection, acceptance or partial acceptance of the bid(s)) of the auction and the relevant purchase price of the CBSL securities, through the OEBS after 30 minutes after the close of the auction on the auction date.

126.0 The settlement of the transactions shall be processed on or before 0830 hours on the settlement day through the MTF facility available at LankaSettle. PSD shall settle the transaction by crediting the settlement account of the PI for the purchase value of securities (discounted value of the CBSL securities purchased), against the receipt of the CBSL securities into the own securities account of the CBSL in LankaSecure.

127.0 The purchase price of the CBSL securities shall be calculated by discounting the value of each successful bid (face value of securities to be purchased) at the rate quoted by the respective PI for the remaining days to maturity of the securities.

#### **7.4 CBSL Securities Sell-Back Facility and early retirement at a predetermined rate**

128.0 The CBSL provides following facilities for the PIs in relation to CBSL securities;

- a. to sell-back their holdings of CBSL securities to the CBSL prior to maturity at the CBSL SLFR.
- b. CBSL will retire (purchase) CBSL securities prior to the maturity at a predetermined rate

129.0 In the event of 128 (a), PIs are permitted to sell-back their holdings of CBSL securities prior to the maturity dates of the respective CBSL security to the CBSL in case they are in need of liquidity at a discount at an interest rate comparable with the CBSL SLFR for the remaining period of maturity. In the event of 128 (b) CBSL will announce that it intends to retire (purchase) CBSL securities at a predetermined rate giving rate, maturity dates and ISIN of the CBSL securities to be retired prior to maturity

- 130.0 The PIs who wish to use the above facilities are required to inform the OMO Division of the DOD by telephone or fax stating the amount (face value of the CBSL securities) expected to sell-back not later than 1515 hours.
- 131.0 The PI shall confirm the deal (amount required to sell and the ISIN) electronically by submitting the same through the OEBS by selecting outright purchase option under the standing facility not later than 1515 hours on the same day. The settlement shall be on the same day (T+0) settlement basis.
- 132.0 A confirmation of the deal shall be issued by the PSD to the PI electronically through the OEBS not later than 1615 hours on the same day confirming the amount accepted, ISIN(s), face values, and the yield rate.
- 133.0 The purchase value (purchase price) of the CBSL securities shall be calculated by discounting the face value of the CBSL securities at the CBSL SLFR in the event of 128 (a) and at a predetermined rate in the event of 128 (b), for the remaining days to maturity of the securities.
- 134.0 The settlement of the transactions shall be through the MTF facility available at LankaSettle. PSD shall settle the transaction on or before 1615 hours on the same day, by crediting the settlement account of the PI for the purchase value of securities (discounted value of the CBSL securities purchased), against the receipt of the securities purchased in to the own securities account of the CBSL in LankaSecure.

### **Section 8 : Foreign Exchange SWAP (Fx SWAP) Transactions**

- 135.0 The procedures, guidelines, terms and conditions in this section apply only to Licenced Commercial Banks (LCB).
- 136.0 The MOC of the CBSL may decide to conduct Fx SWAP transactions as an instrument in monetary policy operations either to absorb or inject liquidity from or to the market. Fx SWAP transactions are those that involve the purchase of one currency against another at an



initial date with an agreement to reverse that transaction at a future date at an agreed rate. As long as the nature of the transaction is concerned, Fx SWAPs are similar to Repos, but with collateral being the foreign currency in place of Government Securities.

- 137.0 All Fx SWAP transactions are carried out only between LCBs and the CBSL. The CBSL shall engage in two types of Fx SWAPs under the OMO;
- i. Sell-Buy FxSWAPs ; and
  - ii. Buy-Sell Fx SWAPs
- 138.0 The terms and conditions and the operating procedures for both Sell-Buy and Buy-Sell Fx SWAP transactions are as outlined in this section.
- 139.0 The tenure of both Sell-Buy and Buy-Sell Fx SWAP transactions shall be limited to a maximum of 365 days.
- 140.0 CBSL shall announce the decision of the MOC to conduct a Sell-Buy or Buy-Sell Fx SWAP auction, by 0930 hours on the auction day or one business day in advance to the auction date. The announcement shall include the amount offered, date of auction, tenure and the settlement date of the 1st leg and the maturity date of the 2nd leg.
- 141.0 An LCB who wishes to enter into Fx SWAP agreement with the CBSL is required to submit their bids on the auction date electronically through the OEBS by selecting the appropriate auction announcement.
- 142.0 The Fx SWAP auction shall be opened for bids from 1300 hours – 1400 hours on the auction date.
- 143.0 Bids are accepted only in US dollars (USD) until further notice.
- 144.0 A commercial bank can submit up to a maximum of six bids for each tender. The minimum value of a bid shall be US dollars (USD) one million (\$ 1,000,000.00) and bids shall be in multiples of US dollars (USD) one hundred thousand (\$ 100,000). Each bid shall contain the amount in US dollars (USD) and swap points (variable rate tenders).

- 145.0 SWAP points shall be entered into the OEBS in rupee terms with two decimal points.  
e.g. 0.20 = twenty cents.
- 146.0 The allotment shall be made based on the SWAP points quoted by the successful bidder.
- 147.0 In the event of there being bids at the cutoff SWAP points in excess of the amount offered, the available quantum of Sell-Buy or Buy-Sell Fx SWAP shall be allocated among such bidders on a 'pro rata' basis. Accordingly, the bids at the cut off SWAP points may partially be accepted.
- 148.0 Results of the Fx SWAP auction shall be announced after 30 minutes from the close of auction on the auction date via OEBS giving the total bids received, amount accepted and the Weighted Average SWAP points.
- 149.0 Each bidder shall be informed of the outcome (rejection, acceptance or partial acceptance of the bid(s)) of the auction along with the allotted value of the Fx SWAP through the OEBS after 30 minutes from the close of auction on the auction date.
- 150.0 A confirmation of the Fx SWAP transactions shall be issued to each successful PI electronically via OEBS within one hour after the release of the results confirming the amount accepted, tenure, maturity date, and the SWAP points.
- 151.0 The International Operations Department (IOD) of the CBSL shall carry out the respective Sell-Buy or Buy-Sell Fx SWAP transactions in physical form and shall send deal confirmations to each successful bidder.
- 152.0 Settlement procedure for Sell-Buy or Buy-Sell Fx SWAP transactions shall be identical to the settlement of other similar foreign exchange Fx SWAP transactions.

**Director/Domestic Operations Department**

## Time schedule and summary of OMO instruments \*

Details	Instrument					
	Short Term Repo/Reverse Repo auctions	Long Term Repo/Reverse Repo Auctions	Outright Sale/Purchase Auction	Foreign Exchange SWAP	Standing Facility	Central Bank Securities
Security	Treasury Bills and Treasury Bonds			Foreign Exchange	Treasury Bills and Treasury Bonds	CBSL Securities
Auction Announcement**	T+0	T-1 or T+0			-	Short term - T+0 Long term/New Issue - T-1 Retirement - T+0 or T-1
Auction Time	1100 -1130 hrs	1300 - 1400 hrs			Cutoff time 1515 hrs	Issue - 1100-1430 hrs Retirement - 1300-1400 hrs
Result Announcement	30 min after the auction cutoff time				1615	30 min after the auction cutoff time
No. of Maximum Bids	3	6	6	6	Unlimited	6
Settlement on OEBS	T+0	T+1			T+0	by 1500 hrs
Settlement time	T+0 by 1315 hrs	Repo - T+1 by 0830 hrs  Reverse Repo - T+1 by 1145 hrs	T+1 by 0830 hrs	T+1	SDF - by 1600 hrs  SLF - by 1615 hrs	by 0830 hrs  Sell back facility - T+0 by 1615 hrs Retirement - T+1 by 0830 hrs
Maturity date reversal	Repo - by 0830 hrs Reverse Repo - by 1100 hrs	Repo - by 0830 hrs Reverse repo - by 1100 hrs	-	by close of business	SDF - by 0830 hrs SLF - by 1100 hrs	by 0830 hrs
Counterparty***	LCB, PD and EPF			LCB	LCB, PD and EPF	LCB, PD and EPF
Tenor	1-7 days	More than 7 days	-	Upto 1 Year	Overnight	Upto 1 Year

\* Purpose of this table is only to provide a guide to instruments. Pls are required to refer to the specific auction announcement when bidding

\*\* 0930 hrs on auction date when T+0

\*\*\* Licensed Commercial Banks (LCBs), Primary Dealers (PDs) and Employees' Provident Fund (EPF)