

Circular No. 35/01/005/0006/36

Domestic Operations Department

12 April 2018

To: All Licensed Commercial Banks and Primary Dealers

Operating Instructions pertaining to the provision of the Intra-Day Liquidity Facility (ILF) Against Scrippless Government Securities on LankaSettle

These Operating instructions (OI) shall come into effect on 12th April 2018 and may be amended or varied by the Central Bank of Sri Lanka (CBSL) from time to time with reasonable notice to the Participating Institutions (PIs). OI pertaining to the provision of the ILF by the CBSL against eligible collateral are outlined below.

As provided for in the LankaSettle System Rules, CBSL may, at its discretion, provide funds under the Intra-day Liquidity Facility (ILF) to PIs of the LankaSettle System with a view to facilitating the smooth operation of the Real Time Gross Settlement (RTGS) System.

1. Ordinarily, all Dealer Direct Participants on LankaSettle other than Designated Non-Dealer Bidders are eligible for using the ILF. For the purposes of these OI;
 - i. LankaSettle System Rules (hereinafter referred to as System Rules) are the rules issued by the CBSL for the operations of the LankaSettle System in terms of the Monetary Law Act, which may be amended from time to time.
 - ii. PIs are the participants as defined under the general provisions of the System Rules. In order to become eligible for using the ILF, a PI shall sign an ILF Agreement in a prescribed form with the CBSL as required in rule 7.1 of volume 2 of the System Rules; and
 - iii. Eligible securities shall have the same meaning as defined in section 7.2 of volume 2 of the System Rules.
2. No encumbered security or a security owned by a third party shall be used by a PI as collateral to avail the ILF. In the event a PI was found to have used such security, the payments applicable to such use as specified in section 11.3 of volume 3 of the System Rules will be imposed.

3. Funds under ILF are provided free of interest upon the PI transferring eligible securities to the CBSL in accordance with these OI on the condition that the said securities shall be repurchased by the PI by repaying the outstanding amount obtained under the ILF on or before the time specified for repayment of such amount in the daily operating schedule in the System Rules.
4. Substitution of securities provided as collateral for ILF shall not be permitted.

Procedure to drawdown funds under the ILF

5. The CBSL will provide funds under the ILF only to the extent of the value of the Eligible Securities available in the ILF account of the PI at a given time. The value of Eligible Securities calculated based on the Official Prices determined by the CBSL for such purpose will be credited to each PI's Settlement Account in the RTGS.
6. Eligible Securities available in the ILF account of the PI at the end of the previous business day will be automatically transferred to the CBSL's ILF account at the time of opening of the System for business.
7. PIs may carry out multiple ILF drawdowns and repayments at their discretion within a business day, as and when an Intra-day liquidity requirement arises, by initiating a request through the System. A PI who wishes to obtain funds under the ILF shall reposition a sufficient quantity of Eligible Securities in its ILF account in the LankaSecure in order to avail the ILF.

Official Prices of Securities

8. The Official Prices of Eligible Securities shall be determined by the CBSL on a daily basis, based on the latest available current market prices and market developments. A haircut is applied in arriving at the official prices depending on the type of the security and tenor. Such Official Prices are recorded in the LankaSecure System and in the Online Electronic Bidding System (OEBS) used for Open Market Operations (OMO).

Settlement of funds obtained under the ILF at the end of the business day

9. PIs may return the funds borrowed under the ILF fully or partially and regain whole or part of the securities used as collateral before the time specified for repayment of funds borrowed under the ILF in the daily operating schedule issued in terms of the System Rules.
10. All outstanding ILF balances should be settled by the PIs before the close of business as specified in the daily operating schedule issued in terms of the System Rules. For this purpose, PIs must ensure

that sufficient funds are available in their Settlement Accounts in the RTGS at the time of reversal of ILF balances to enable CBSL to recover any outstanding ILF balances.

11. The process of recovery of outstanding ILF balances is initiated through the system at the time specified for the same in the daily operating schedule issued in terms of the LankaSettle system rules. A settlement request will be submitted to RTGS on DVP terms which will transfer securities from the CBSL's ILF Account to the ILF Account of the PI, subject to availability of funds in the respective RTGS account. The reversal of ILF balances will be done at the original price and the original transaction value.

Default of funds borrowed under the ILF

12. If a PI fails, for any reason whatsoever, to settle in full to CBSL, the amount outstanding under the ILF at the time specified in clause 10 above, the PI shall be deemed to be in default for the full sum so outstanding and shall become liable to pay default interest as set out in clause 16 below. Such default interest shall be debited to the PI's Settlement account with the CBSL on the next business day.
13. Where a PI is deemed to be in default as set out above, such PI should repay in full, the amount in default and the default interest before the close of business on the next Business Day.
14. The system will revalue the securities in the custody of the CBSL and generate the reversal payment amount on the next business day based on the official prices relevant for the next business day. If the revalued amount is higher than the total amount of default and default interest, CBSL will repay the excess amount to the credit of the PI's settlement account in the RTGS. If the revalued amount is lower than the total amount of default and the default interest, CBSL will charge the difference by debiting the PI's settlement account in the RTGS.
15. The PI should ensure the availability of sufficient funds in its Settlement Account in the RTGS for the repayment of the revalued amount in default and the default interest on or before the close of business on the next Business Day. In the event the PI fails to settle the amount set out above before the end of business on the next Business Day, CBSL shall retain the securities against which such funds were provided and deal with them as CBSL deems fit.
16. On the first occasion of default of ILF, a PI shall be charged default interest at a rate of 5 per cent per month or part thereof. On each succeeding occasion of default during a calendar year, such default interest rate shall be increased by 100 basis points, provided that where such default occurs more

than once within a 30 day period from the preceding default, CBSL shall have the right to retain the securities against which ILF was granted and to deal with them as CBSL deems fit, in addition to the right to charge default interest as stipulated in this clause. In the event of repeated default, the CBSL may withdraw the availability of the ILF to the PI for a period of time determined by the CBSL.

17. Notwithstanding the other provisions of the ILF agreement or Operating Instructions and notwithstanding the fact that default has not occurred more than once within the preceding 30 day period, the CBSL may, at its sole discretion, taking into consideration the circumstances of a default, decide to retain the securities, and to deal with them as the CBSL deems fit.
18. As set out in clause 2 above, if a PI is found to have used third party securities for availing of ILF, such PI will be considered to have violated both the System Rules and these OI. Following payments specified in the said rules shall be imposed for such violations.

Table 1: Payments for violation of rules relating to the ILF

Amount borrowed against third party securities (Rs. million)	Rates charged per day (%)
Up to 1,000	2.0
Above 1,000	2.5

19. Notwithstanding the other provisions of these OI, CBSL may at its sole discretion, taking into consideration the circumstances of a default or use of third party securities, withdraw the availability of the ILF to a PI permanently or for a period of time determined by the CBSL.
20. Operating instructions issued in terms of circulars captioned ‘Operating Instructions on provision of Intra-Day Liquidity Facility (ILF) Against Scripless Government Securities on LankaSettle’ bearing no. ~~35/01/005/0006/5~~ dated 27 January 2004, no. ~~35/01/005/0006/07~~ dated 3 May 2004 and no. ~~35/01/005/0006/29~~ dated 24 March 2011 are hereby rescinded.
21. In the event of any discrepancy between these operating instructions and the ILF agreement, the ILF agreement prevails.

Sgd./P W D N R Rodrigo
Director/Domestic Operations

