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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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பொதுப்பிடுகடன் திணைக்களம்

Public Debt Department

Ref: 08/21/005/107/001

12 December, 2018

To: All CEOs of Licensed Commercial Banks and Primary Dealers

Guidelines/Procedures to Participating Agents on the purchase and sale of Treasury bills and Treasury bonds issued by the Government of Sri Lanka to foreign investors and non-resident Sri Lankans

- (A) The following Guidelines/Procedures which were applicable for the sale and purchase of Treasury bills and Treasury bonds issued by the Government of Sri Lanka to foreign investors and Sri Lankan Diaspora and Migrant workforce are hereby rescinded with effect from 17 November 2017;
- (a) Guidelines/Procedures to Foreign Investors and Non-Resident Sri Lankans on the purchase and sale of Treasury bills and Treasury bonds issued by the Government of Sri Lanka to Foreign Investors and Non-Resident Sri Lankans on 10 April 2013.
- (b) Guidelines/Procedures to Foreign Investors and Non-Resident Sri Lankans on the purchase and sale of Treasury bills and Treasury bonds issued by the Government of Sri Lanka to Licensed Commercial Banks and primary Dealers on 10 April 2013.
- (B) The guidelines and procedures which are indicated below will be applicable with effect from 17 November 2017 in respect of the purchase and sale of Treasury bills and Treasury bonds issued by the Government of Sri Lanka to foreign investors and non-resident Sri Lankans.

1. General

1.1. Eligible Investors

Persons who are eligible to maintain INWARD INVESTMENT ACCOUNT (IIA) in terms of Foreign Exchange (Opening and Maintenance of Accounts for the purpose of engaging in Capital Transactions) Regulations No. 2 of 2017 or any subsequent amendment thereto are eligible to invest in Treasury bills or Treasury bonds.

Only the following categories of investors are eligible to invest in Treasury bills and Treasury bonds issued by the Government of Sri Lanka under this category:

- (a) A non-national resident in or outside Sri Lanka.
- (b) A non-national of Sri Lankan origin, who is a resident outside Sri Lanka
- (c) A Sri Lankan citizen, resident outside Sri Lanka.
- (d) A Company incorporated outside Sri Lanka.

- (e) Country and Regional Funds, Mutual Funds, Unit Trusts and other Institutional investors who are established outside Sri Lanka.
- (f) An administrator or executor of the estate of a deceased person, who maintained an Inward Investment Account with that authorized dealer until the completion of the administration of the deceased person's estate.
- (g) A receiver or liquidator of a Company that maintained an Inward Investment Account with that authorized dealer until proceedings are concluded.
- (h) Any other person or category of persons who may be authorized by the Central Bank from time to time.

All participating agents are required to adhere to the standard "Know Your Customer" (KYC) verification requirements, when entertaining requests for investments.

1.2. Limit on Treasury bill and Treasury bond Investment

The total investment permitted to eligible investors in Treasury bills and Treasury bonds should not exceed the threshold limit approved by the Monetary Board of the Central Bank of Sri Lanka. (Subject to the Clause 2.3 below).

1.3. Tenure of Treasury bills and Treasury bonds

Foreign investors and non-resident Sri Lankans referred to in 1.1 above (hereinafter referred to as 'eligible investors') are permitted to purchase or sell Treasury bills and Treasury bonds with any maturity period.

1.4. Registration

Participating agents shall be responsible for registering details of their investors at the Central Depository System (CDS) maintained by the Public Debt Department (PDD) of the Central Bank of Sri Lanka (CBSL) in terms of the Lanka Settle System Rules.

CDS will inform the aforementioned account holders in following instances.

- (a) A monthly statement confirming the transactions that have taken place / recorded during the month.
- (b) A semiannual statement of the outstanding balance of the account
- (c) A monthly statement of maturity proceeds/interest payments made to the account.

The statements will be addressed directly to the investor, as registered in the CDS.

2. Sales Procedure

Eligible investors are permitted to purchase or sell Treasury bills and Treasury bonds issued by the Government of Sri Lanka.

- 2.1. In order to effect the transactions in accordance with instructions received from the eligible investors, participating agents shall ensure that such transactions are within the legal requirements and do not breach the System Rules applicable to LankaSettle and any other guidelines issued by PDD and the Department of Foreign Exchange (DFE) of CBSL.
- 2.2. Foreign exchange brought into the country for the purchase of Treasury bills and Treasury bonds and proceeds realized on a sale/maturity of Treasury bills and Treasury bonds and coupon payments or any income realized by way of capital gain shall be routed through an IIA opened or already maintained with a Licensed Commercial Bank in the name of the eligible investor.
- 2.3. Before confirmation of the sale, participating agents shall be responsible to inquire from PDD of CBSL the leeway available in the specified Treasury bill and Treasury bond limit permitted for eligible investors to invest in Treasury bills and Treasury bonds. PDD shall be informed by fax/e-mail once the deal is confirmed.
- 2.4. Participating agents shall be responsible for creating investor accounts promptly for their investors in the CDS and the transactions should be recorded according to the LankaSettle System Rules.

3. Fund Transfers

When an eligible investor buys Treasury bills and Treasury bonds from the primary market, proceeds should be remitted from the IIA of the eligible investors to the relevant Primary Dealer (PD) and PD should remit the proceeds of the Treasury bills and Treasury bonds to CBSL's Real Time Gross Settlement System (RTGS) Account. When an eligible investor purchases/sells Treasury bills and Treasury bonds in the secondary market, the investor/participating agent shall arrange with the Licensed Commercial Bank (LCB) who maintains the IIA to transfer respective Rupee amounts to the relevant party on behalf of the investor.

4. Payment of Coupon and Maturity Proceeds

- 4.1. Maturity proceeds on Treasury bills and Treasury bonds, and coupon payments on Treasury bonds shall be payable in Rupees by the PDD of CBSL on behalf of the Government of Sri Lanka through RTGS to the respective participating agents on the respective dates. Such participating agents are responsible to transfer the respective payments to the IIA of account holders with proceeds value on the same day.
- 4.2. If the maturity date or the coupon payment date falls on a day which is not a business day for the banks in Sri Lanka, the payment of maturity proceeds shall be made on the business day prior to the due date in respect of a Treasury bill and the maturity proceeds and/or coupon payment shall be made on the business day after the due date in respect of a Treasury bond.

5. Repatriation

All proceeds received by sale or maturing of Treasury bills and Treasury bonds and coupon payments on Treasury bonds shall be fully repatriable.

6. Joint Holdings

Treasury bills and Treasury bonds may be held jointly by eligible investors. Payment of maturity proceeds and coupons shall be credited to IIA/IAs of joint holders, based on the agreement between LCB which maintains the IIA and joint holders.

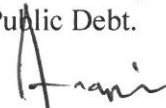
7. Tax Treatment

Interest income/ capital gains earned by foreigners out of investment in Treasury bills and Treasury bonds are not subject to taxation.

8. Other

Eligible investors are permitted to enter into derivative transactions to minimize exchange or other risks. PDD and DFE of CBSL shall monitor and supervise the transactions relating to these Treasury bills and Treasury bonds.

- (C) Further instructions in this regard will be issued by the Director of Foreign Exchange or the Superintendent of Public Debt from time to time.
- (D) In the absence of any specific guideline for any aspect of its operation, participating agents i.e., LCBs, PDs shall comply with the currently applicable operating guidelines, procedures, system rules, regulatory provisions and directions issued by CBSL in the conduct of transactions in Treasury bills and Treasury bonds, issued to local investors. If there are no such applicable rules etc., participating agents are requested to seek clarification regarding the same from the Superintendent of Public Debt.



M Z M Aazim

Superintendent of Public Debt

Central Bank of Sri Lanka

Weblink to Foreign Exchange Regulations and Directions

1. Regulations - These regulations may be cited as Foreign Exchange (Opening and Maintenance of Accounts for the purpose of engaging in Capital Transactions)

Regulations No. 2 of 2017 and shall come into operation on the date on which the Act comes into operation.

<http://www.dfe.lk/web/images/rdevelopment/746c5bfe09dabd6139f57ff854f0f549-2045-56-E.pdf>

2. Direction No. 13 of 2017 under Foreign Exchange Act no. 12 of 2017 – Direction issued to Authorized Dealers on Inward Investment Account (IIA)
<http://www.dfe.lk/web/images/rdevelopment/e4104f199aba29bc04edf45052895952-Directions-No.%2013%20of%202017-IIAs.pdf>