

Ref.: 08/24/003/0014/001

### **Direction on Short Selling of Treasury bills and Treasury bonds by Primary Dealers**

This Direction is issued under Regulation 11 of the Local Treasury Bills (Primary Dealers) Regulations No. 01 of 2009 dated 24.06.2009 and Regulation 11 of the Registered Stock and Securities (Primary Dealers) Regulations No. 01 of 2009 dated 24.06.2009 made by the Minister of Finance under the Local Treasury Bills Ordinance No. 8 of 1923 and the Registered Stock and Securities Ordinance No. 7 of 1937, respectively, and will be effective from 26.12.2013.

Colombo

Date: 26 December 2013



**N W G R D Nanayakkara**  
**Superintendent of Public Debt**

1. Short selling is an essential feature for the smooth and efficient market making in government securities as it provides operational flexibility for efficient price discovery while enhancing the market liquidity by enhancing the secondary market activities. Central Bank of Sri Lanka (CBSL) is of the view that allowing short selling of Treasury bills and Treasury bonds in the secondary market would encourage active participation of Primary Dealers at primary auctions.
2. In view of the above, Primary Dealers are allowed to engage in Short Selling in Treasury bills and Treasury bonds under the following terms and conditions;
  - (a) Only the Primary Dealers who have successful bids in Treasury bills or Treasury bonds primary auctions conducted and confirmed by CBSL, can engage in short selling;
  - (b) Short selling can only be carried out during the period starting from the announcement of successful bids at the primary auctions in Treasury bills or Treasury bonds by CBSL, to the end date of settlement of such successful bids;

- (c) ISIN wise total of Treasury bills or Treasury bonds short sales at any given point in time during the time period mentioned in 2.(b) above shall be 'equal to' or 'less than' the amount of successful bids for Treasury bills or Treasury bonds accepted and duly confirmed by CBSL at the respective Treasury bill or Treasury bond auction;
  - (d) Delivery of Treasury bills or Treasury bonds relating to the short selling of securities by the Primary Dealer referred to in 2.(a) above, shall only be made from the securities credited by CBSL to the Primary Dealer's account at the LankaSecure Scripless Securities Depository System;
  - (e) Primary Dealers shall record all short sales in the LankaSecure on the trade date;
  - (f) Primary Dealers shall not net the short sale amounts for the purpose of arriving at the risk weighted assets for the calculation of Risk Weighted Capital Adequacy Ratio;
  - (g) Primary Dealers shall introduce suitable internal controls to ensure strict compliance with the above mentioned prudential requirements;
  - (h) Short sale positions of Treasury bills and Treasury bonds shall be reported weekly to the Public Debt Department of CBSL in the Format given in Annex 1.
3. Direction on Short Selling of Securities dated 6 January 2004 issued by the Superintendent of Public Debt is hereby rescinded.



