



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

**REGISTERED STOCK AND SECURITIES
ORDINANCE AND LOCAL TREASURY BILLS
ORDINANCE DIRECTIONS**

20 December 2019

No. 01 of 2019

**REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS OF DEALER DIRECT
PARTICIPANTS IN SCRIPLESS TREASURY BONDS AND SCRIPLESS TREASURY
BILLS**

Issued under Section 21C(3) of the Registered Stock and Securities Ordinance No. 7 of 1937, as amended and Section 8(2) of the Local Treasury Bills Ordinance No. 8 of 1923, as amended.

The Monetary Board issues Directions as follows for the manner in which repurchase and reverse repurchase transactions in Scripless Treasury Bonds and Scripless Treasury Bills shall be carried out by Dealer Direct Participants (DDPs).

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|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Empowerment under the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance | 1.1 In terms of Section 21C(3) of the Registered Stock and Securities Ordinance No. 7 of 1937, as amended and Section 8(2) of the Local Treasury Bills Ordinance No. 8 of 1923, as amended, the Central Bank may issue Directions to Direct Participants or any category thereof to provide for the manner and means by which Scripless Treasury Bonds and Scripless Treasury Bills, or interests therein, may be purchased, sold, transferred, pledged or encumbered. |
| 2. Applicability | 2.1 These Directions shall be applicable to all repurchase and reverse repurchase transactions in Scripless Treasury Bonds and Scripless Treasury Bills entered into by a DDP, except for Intra Day Liquidity Facility (ILF) transactions and repurchase and reverse repurchase transactions entered into with the Open Market Operations and Standing Facilities of the Central Bank of Sri Lanka (CBSL). |



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- 2.2 These Directions shall be applicable in addition to the Scripless Treasury Bonds (Transactions) Regulations of No. 02 of 2004 and Scripless Treasury Bills (Transactions) Regulations of No. 02 of 2004 and the LankaSettle System Rules.
3. Eligible Securities for Repurchase and Reverse Repurchase Transactions
- 3.1 For the purposes of these Directions, a DDP shall use only the Scripless Treasury Bonds and Scripless Treasury Bills issued by CBSL on behalf of the Government, as securities for repurchase and reverse repurchase transactions.
4. Valuation of Eligible Securities, Haircut Requirements and Replenishment of Eligible Securities
- 4.1 Eligible securities used for repurchase and reverse repurchase transactions shall be valued at market value. Market value of such eligible securities shall be calculated using the dirty price corresponding to the average of the buying and selling yield quotes for the relevant security, as indicated in the Daily Summary Report compiled based on the information provided by Primary Dealers and circulated by the Public Debt Department of CBSL, for the relevant date or any other basis which may be prescribed for this purpose by CBSL. In the event that the Daily Summary Report for the relevant date is not available at the time of entering into the transaction, the Daily Summary Report for the immediately preceding working day shall be used.
- 4.2 Notwithstanding Direction 4.1 above, a DDP may use any other input to calculate the market value of eligible securities, subject to such alternative input source being;



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- (i) approved by the Director of Bank Supervision (DBS) in case of DDPs which are Licensed Banks and Director of the Department of Supervision of Non-Bank Financial Institutions (DSNBFI) in case of DDPs which are Primary Dealer Companies;
- (ii) provided for in a documented internal policy of the DDP, and;
- (iii) consistently applied by the DDP.
- 4.3 A DDP shall assess and agree in writing, with the counterparty, the haircut requirement for each repurchase and reverse repurchase transaction, taking into consideration the tenor of the transaction, maturity date and marketability of the eligible securities, assessment of counterparty risk, requirements of the counterparty and any other factor which is deemed relevant.
- 4.4 Notwithstanding Direction 4.3 above, a DDP shall ensure that, at the time of entering into a repurchase transaction, the market value of eligible securities adequately covers the repurchase value of the securities (maturity value of the repurchase transaction), i.e., amount borrowed by the DDP plus the interest that will accrue on the repurchase transaction over its tenor, with a minimum haircut as specified below.

Remaining Term to Maturity of the Eligible Security	Minimum Haircut (%)
up to 1 year	4.0
more than 1 year and up to 3 years	6.0
more than 3 years and up to 5 years	8.0
more than 5 years and up to 8 years	10.0
more than 8 years	12.0



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4.5 Notwithstanding the Direction 4.3 above, a DDP shall ensure that, at the time of entering into a reverse repurchase transaction, the market value of eligible securities adequately covers the resale value of the securities (maturity value of the reverse repurchase transaction), i.e., amount lent by the DDP plus the interest that will accrue on the reverse repurchase transaction over its tenor, with a minimum haircut as specified below.

Remaining Term to Maturity of the Eligible Security	Minimum Haircut (%)
up to 1 year	4.0
more than 1 year and up to 3 years	6.0
more than 3 years and up to 5 years	8.0
more than 5 years and up to 8 years	10.0
more than 8 years	12.0

4.6 Notwithstanding the Directions 4.4 and 4.5 above, haircuts less than those required by Directions 4.4 and 4.5 above may be used for repurchase and reverse repurchase transactions entered into between two Direct Participants, with the written agreement of both parties.

4.7 In the event of the market value of securities falling below the repurchase value of the securities (maturity value of the repurchase transaction), at any time prior to the maturity of the transaction, a DDP shall allocate additional eligible securities for the said transaction or settle part of the transaction in cash, prior to the closure of the LankaSettle System on the relevant day, to the extent required to ensure that the total market value of eligible securities adequately covers the said maturity value of the repurchase transaction.



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- 4.8 In the event of the market value of securities falling below the resale value of the securities (maturity value of the reverse repurchase transaction), at any time prior to the maturity of the transaction, a DDP shall obtain additional eligible securities for the said transaction or obtain cash for partial settlement of the transaction, prior to the closure of the LankaSettle System on the relevant day, to the extent required to ensure that the total market value of eligible securities adequately covers the said maturity value of the reverse repurchase transaction.
5. Sale, Substitution and Maturity of Eligible Securities
- 5.1 A DDP shall not sell on outright basis, the eligible securities received for reverse repurchase transactions.
- 5.2 A DDP may use the securities received for reverse repurchase transactions for repurchase transactions only if such use is explicitly provided for in the Repurchase or Reverse Repurchase Agreement entered into with the counterparty and if so provided for, in accordance with conditions included in the Repurchase or Reverse Repurchase Agreement.
- 5.3 A DDP may sell, either on outright or repurchase basis, the securities used for a repurchase transaction only if such trading is explicitly provided for in the Repurchase or Reverse Repurchase Agreement entered into with the counterparty and if so provided for, in accordance with conditions included in the Repurchase or Reverse Repurchase Agreement.
- 5.4 If a DDP decides to sell the securities used for a repurchase transaction in terms of the provisions of Direction 5.3 above or transfer the securities used for a repurchase transaction out of the securities account of the counterparty held at the Central Depository System (CDS), the



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DDP shall ensure that the securities being sold or transferred out are substituted in the securities account of the counterparty held at the CDS, by other eligible securities to the extent required by Directions 4.4 or 4.6, depending on which is applicable to the relevant transaction, prior to or simultaneously with the removal of the securities from the securities account of the counterparty held at the CDS.

5.5 Where a counterparty of a DDP intends to sell the securities used for a reverse repurchase transaction or transfer the securities used for a reverse repurchase transaction out of the securities account of the counterparty held at the CDS, the DDP shall obtain other eligible securities to the extent required by Directions 4.5 or 4.6, depending on which is applicable to the relevant transaction, in substitution of the securities being sold or transferred out of the securities account of the counterparty held at the CDS, prior to or simultaneously with the removal of the securities from the securities account of the counterparty held at the CDS.

5.6 Where the eligible securities used for a repurchase transaction or securities received for a reverse repurchase transaction matures during the tenor of the transaction, the DDP shall allocate or obtain, as the case may be, eligible securities with a market value equivalent to or exceeding the market value of the maturing eligible securities, in substitution of the maturing eligible securities.



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6. Responsibilities of the DDP, Board of Directors, Risk Management, Compliance and Internal Audit
- 6.1 In entering into repurchase and reverse repurchase transactions, a DDP shall manage all relevant risks including counterparty credit risk, market risk, operational risk, liquidity risk and legal risk associated with such transactions.
- 6.2 In entering into repurchase and reverse repurchase transactions, the DDP shall ensure that relevant requirements stipulated in all applicable Laws, Regulations, Directions, Codes of Conduct, LankaSettle System Rules and other guidelines are strictly adhered to.
- 6.3 The Board of Directors of a DDP shall ensure DDP's compliance with these Directions and formulate policies, procedures and guidelines covering repurchase and reverse repurchase transactions and establish an effective risk management framework and internal controls on repurchase and reverse repurchase transactions including the preparation of periodic reconciliations of securities, in order to ensure such compliance.
- 6.4 The Compliance Officer or any other officer heading the compliance function of a DDP shall conduct independent verifications to ascertain the DDP's compliance with these Directions and report the findings of such verifications to the Board of Directors or to a relevant sub-committee of the Board of Directors on a regular basis, at least quarterly.
- 6.5 The DDP shall assess the adequacy of internal controls on repurchase and reverse repurchase transactions by conducting internal audits at least bi-annually and by obtaining a certification from the external auditor on a regular basis, at least annually.



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7. Disclosure and Reporting Requirements
- 7.1 A DDP shall disclose in its annual audited financial statements;
- (i) the carrying value of securities allocated for repurchase transactions as at the period end date
 - (ii) the market value of securities received for reverse repurchase transactions as at the period end date
 - (iii) DDP's policy on haircuts for repurchase and reverse repurchase transactions
 - (iv) any penalties imposed on the DDP under Direction 8 below
- 7.2 DDPs which are Licensed Banks shall report to the DBS, the details of the repurchase and reverse repurchase transactions in such format and at such intervals as may be required by the DBS.
- 7.3 DDPs which are Primary Dealer Companies shall report to the DSNBFI, the details of the repurchase and reverse repurchase transactions in such format and at such intervals as may be required by the DSNBFI.
8. Penalties for Non-compliance with Directions
- 8.1 Where a DDP fails to allocate or obtain sufficient eligible securities as required by Directions 4.4, 4.5, 4.7, 4.8 and 5.5 above or as agreed with a Direct Participant in terms of Direction 4.6 above, DBS, in case of DDPs which are Licensed Banks, and DSNBFI, in case of DDPs which are Primary Dealer Companies, may impose on such DDP, a penalty of 2.0 per cent (2.0%) of the difference between the market value of allocated or obtained eligible securities and the market value of eligible securities required to be allocated or obtained with respect to the relevant repurchase or reverse repurchase transaction, per day.
- 8.2 Where a DDP uses the securities received for reverse repurchase transactions in violation of the provisions of Directions 5.1 and 5.2



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above or sells the securities used for a repurchase transaction or transfers the securities used for a repurchase transaction out of the securities account of the counterparty held at the CDS in violation of the provisions of Directions 5.3 and 5.4 above, DBS in case of DDPs which are Licensed Banks and DSNBFI in case of DDPs which are Primary Dealer Companies, may impose on such DDP, a penalty of 2.0 per cent (2.0%) of the face value of the securities so misused, per day.

8.3 Where a DDP is unable to comply with any provision of these Directions due to reasons beyond the control of the DDP, such DDP shall inform of such circumstances to the DBS or DSNBFI, as the case may be, not later than 4.00 p.m. on the following working day, and if such reasons are acceptable to the relevant Director, penalties in terms of Directions 8.1 and 8.2 above shall not be imposed on such DDP.

9. Effective Date, Transitional Provisions and Rescinding of Previous Directions
- 9.1 These Directions shall be effective from 01.01.2020 subject to the transitional provisions in Directions 9.2 and 9.3 below.
- 9.2 Where the templates of the Repurchase or Reverse Repurchase Agreement or any other documentation used by a DDP contains any clause which is in contradiction to any Direction herein, the DDP shall make necessary amendments to such template to ensure compliance with these Directions, before 31.03.2020.
- 9.3 Where the existing Repurchase or Reverse Repurchase Agreements entered into with any of the counterparties of a DDP contains any clause which is in contradiction with any Direction herein, the DDP shall enter into a new Repurchase or Reverse Repurchase Agreement or make necessary amendments to the existing Repurchase or Reverse



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Repurchase Agreement with such counterparties, to ensure compliance with these Directions, before 30.06.2020.

9.4 Direction on Repurchase or Reverse Repurchase Agreements dated 02.05.2002 and Direction on Accounting for Repo Transactions dated 19.12.2003, both issued by the Superintendent of Public Debt, are hereby rescinded.

10. Definitions

10.1 For the purposes of these Directions;

- (i) **a repurchase transaction** shall mean a transaction where a DDP sells an eligible security with an agreement to purchase it on an agreed date at an agreed price.
- (ii) **a reverse repurchase transaction** shall mean a transaction where a DDP purchases an eligible security with an agreement to sell it on an agreed date at an agreed price.
- (iii) **haircut** shall mean the discount applied on the market value of a security.
- (iv) **direct participant** shall mean a person appointed as a direct participant in terms of the Registered Stock and Securities Ordinance (Chapter 420) and Local Treasury Bills Ordinance (Chapter 417).
- (v) **dealer direct participant** shall mean a person appointed as a dealer direct participant in terms of the Registered Stock and Securities Ordinance (Chapter 420) and Local Treasury Bills Ordinance (Chapter 417).
- (vi) **counterparty** shall mean the person or entity with whom a DDP enters into a repurchase or a reverse repurchase transaction.



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- (vii) **dirty price** shall mean the price of the eligible security inclusive of interest that has accrued on the relevant security from the date of last coupon payment, to the relevant date.
- (viii) **carrying value** shall mean the value at which the eligible security is reported in the annual audited financial statements.

Dr. Indrajit Coomaraswamy
*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

