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இலங்கை மத்திய வங்கி

CENTRAL BANK OF SRI LANKA

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Public Debt Department

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Circular No : SSSS/03/2007

To : All CEOs of Licensed Specialized Banks

**Appointing Licensed Specialized Banks (LSBs) as Direct Participants and Dealer Direct Participants in the LankaSettle System in Terms of Section 8(1) of the Local Treasury Bills Ordinance and 21C(2) of the Registered Stocks and Securities Ordinance**

You are hereby informed that the Central Bank of Sri Lanka (CBSL) has decided to allow all LSBs to apply for Direct Participant (DP)/Dealer Direct Participant (DDP) status in the LankaSettle. LSBs can apply for Direct Participant/Dealer Direct Participant status with effect from 7<sup>th</sup> September, 2007. The selection criteria for appointment and Terms and Conditions applicable for LSBs are given below.

**1. Criteria for Selection**

(a) Criteria for selection of LSBs as DPs and DDPs is based on;

(i) Financial soundness of the LSB

This is measured by using two year averages of following ratios relating to applicant LSB and LSB sector average is considered as the benchmark for comparison.

- ▶ Regulatory capital/Risk Weighted Assets(CAR)
- ▶ Gross NPL Ratio
- ▶ Net NPL Ratio
- ▶ Statutory Liquid Assets Ratio
- ▶ Return on Equity
- ▶ Return on Assets
- ▶ Staff Cost Ratio (Personal expenses/Operating expenses)
- ▶ Operating Cost to Net Income Ratio (Efficiency Ratio)

- (ii) Local Rating Status  
Applicant LSB should obtain a rating from an acceptable rating agency (Fitch Ratings Ltd., Lanka Rating Agency or any International Rating Agency).
- (iii) Availability of Internal IT Infrastructure at a satisfactory level to the CBSL.
- (iv) Availability of Business Continuity Plan for Real Time Gross Settlement (RTGS)/Scripless Securities Settlement System (SSSS) participation and business strategy for next 5 years which are acceptable to the CBSL.
- (v) The ability of LSB to establish IT communication infrastructure in compliance with CBSL requirement to connect the national payment system. Following are the minimum requirements.
  - ▶ SWIFT connectivity
  - ▶ CBSL WIDE AREA NETWORK connectivity
  - ▶ Possession of required knowledge and experience to carry out the IT related activities
- (b) The Score Card method developed by the CBSL on the above criteria is used to assess the eligibility of LSBs to appoint as DPs and DDPs.
- (c) In addition to the criteria mentioned above, the CBSL will consider the management quality of the LSB and its track record in selecting LSBs as DPs or DDPs, specifically the operational risks and risk mitigating measures adopted by the LSBs.
- (d) However, the CBSL has the discretion to consider any other necessary/relevant factors whenever it may think necessary for appointing an LSB as a DP or DDP.
- (e) A Selection Committee, appointed by the CBSL will assess the eligibility of LSBs as DPs and DDPs.

## 2. Terms and Conditions

Selected LSBs will be treated as DPs/DDPs in the RTGS and SSSS subject to the conditions set out herein.

- (a) Selected LSB is provided with a securities settlement account and a RTGS settlement account subject to rules and regulations applicable to DPs/DDPs under Registered Stocks and Securities Ordinance (RSSO), Local Treasury Bills Ordinance (LTBO), Monetary Law Act (MLA) and LankaSettle System Rules.
- (b) Selected LSB is provided with Intra-Day Liquidity Facility of the CBSL subject to the terms and conditions as may be decided by the CBSL from time to time.
- (c) CBSL has the sole authority to supervise activities relating to RTGS and SSSS of selected LSBs in terms of LTBO, RSSO, MLA and Payment and Settlement Systems Act..

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Mrs. C Premaratne  
Superintendent of Public Debt