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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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பொதுப்பிடுகடன் திணைக்களம்

Public Debt Department

November 20, 2009

Ref:08/24/001/0001/009

Chief Executive Officers of Primary Dealers

Direction on Diversification of Primary Dealer Activities

This direction is issued under Section 11 of the regulations dated June 24, 2009, issued by the Minister of Finance under the Registered Stocks and Securities Ordinance and the Local Treasury Bills Ordinance and will be effective from December 02, 2009.

1. Primary Dealers are permitted to engage in following activities;
 - (a) Bidding at primary auctions conducted by the Central Bank of Sri Lanka for Treasury bills, Treasury bonds and instruments issued by the Government and the Central Bank and purchasing such securities in such primary market;
 - (b) Engaging in the secondary market in Treasury bills, Treasury bonds, and other Government and Central Bank Securities with the Central Bank and others;
 - (c) Promoting and developing a secondary market in Treasury bills, Treasury bonds and other Government and Central Bank Securities;
 - (d) Engaging in fee based activities to earn an income, which have no adverse impact on capital, such as portfolio management services, project appraisal services, loan syndication services, merger and acquisition advisory services and consultancy services;
 - (e) Investing in ordinary shares or debentures of its own group companies of banking and finance in nature which are regulated by a regulatory authority in Sri Lanka subject to the conditions in sections 2. and 3. below ; and,

- (f) Any activity connected with or incidental to the activities set out in paragraph (a) to (c) above;
2. Primary Dealers will be permitted to engage in activity, 1.(e), only after obtaining approval from the Public Debt Department (PDD). PDD upon receipt of a written request by the Primary Dealer, may grant permission on a case by case basis for the diversification activity by evaluating the said request.
 3. Primary Dealers shall engage in diversified activities only with capital over and above the minimum required capital under the existing directions and the said capital which is utilized for the said diversified activities should be limited to 25 per cent of the total capital of the Primary Dealer. Total capital should be the capital stated in the latest audited financial statements.
 4. The investments in shares of an own group company shall be deducted from available capital when calculating the capital adequacy ratio (CAR), in order to prevent use of same amount of capital funds for capital adequacy purposes by both institutions.
 5. Primary Dealers are not permitted to set up subsidiaries by investing in a major share holding of its own group companies.
 6. The share investments should be marked to market on a monthly basis and the gain/loss should be taken in to the profit and loss account.
 7. Specific approvals of other regulators, if needed should be obtained in respect of the activities detailed under 1.(d) and 1.(e) above
 8. Primary Dealers should restrict their activities to those which are detailed under 1.(a) to 1.(f). Primary Dealers should divest/cease to engage in any other investment /activity carried out by them, if any, within a period of six months from the date of this direction.

9. Primary Dealer Units of Licensed Commercial Banks are required to maintain separate set of accounts on transactions relating to Government securities of primary and secondary market. In addition, Primary Dealer Units are required to provide any information, which PDD may request from time to time.

10. In case of Primary Dealer Units of Licensed Commercial Banks, any inconsistencies in this direction with the provisions of the Banking Act No 30 of 1988, as amended, and any Directions, Determinations, Orders and Circulars issued thereunder, and any other applicable laws, the provisions of such Acts and the Directions, Determinations, Orders and Circulars shall prevail.

11. All Primary Dealers are required to maintain separate records on diversified activities and report to the PDD along with monthly financial statements. The report should contain information as given in Annex I.

12. The Primary Dealers shall maintain the following ratios in the event they have been given permission by the PDD as given in 2. above.

- i. Risk Weighted Capital Adequacy Ratio (RWCAR) of 10%.
- ii. Minimum annual turnover ratio of 10 times for Treasury bonds and 20 times for Treasury bills. Annual turnover ratio is computed as a ratio of total volume of outright transactions in the secondary market during the last 12 months to average stock of the trading portfolio of that period.
- iii. minimum average effective participation ratio of 5% separately for Treasury bond and Treasury bill auctions, as monitored on a half yearly basis for the periods, January – June and July - December.

Please acknowledge receipt.

C.J.P.Siriwardene
Superintendent of Public Debt

Report on diversified activities which do not utilize capital

- 1.Type of activity :
- 2.Total income earned from each activity :

(The income earned from these activities should be shown separately as 'fee income' in the P& L)

Report on diversified activities which utilize capital

- 1.) Name of Invested company :
- 2.) Investment value :
- 3.) Number of shares :
- 4.) % share of total capital of the invested company :
- 5.) Mark to market valuation :
- 6.) Basis of obtaining the market value :
- 7.) Details of Transfers/sale of shares during the reporting period :
- 8.) Details of Investment in Debentures :