



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

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

09 July 2021

No. 01 of 2021

MINIMUM CAPITAL REQUIREMENT OF PRIMARY DEALER COMPANIES

In terms of powers conferred by the Regulations 6(1) read with 11(1) of the Local Treasury Bills (Primary Dealers) Regulations No. 01 of 2009, or as amended and the Regulations 6(1) read with 11(1) of the Registered Stock and Securities (Primary Dealers) Regulations No. 01 of 2009, or as amended, 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, the Monetary Board, having regard to the viability and stability of the primary dealer system, issues Directions as follows on minimum capital requirement of Primary Dealer (PD) Companies.

1. Empowerment under the Local Treasury Bills (Primary Dealers) Regulations and Registered Stock and Securities (Primary Dealers) Regulations
 - 1.1 In terms of the Regulation 11(1) of the Local Treasury Bills (Primary Dealers) Regulations No. 01 of 2009, or as amended and the Regulation 11(1) of the Registered Stock and Securities (Primary Dealers) Regulations No. 01 of 2009, or as amended, the Central Bank may issue Directions to a PD to ensure compliance with the Regulations including Directions on capital, reserves, capital adequacy and other prudential and operating requirements of a Primary Dealer.
 - 1.2 In terms of the Regulation 6(1) of the Local Treasury Bills (Primary Dealers) Regulations No. 01 of 2009, or as amended and the Regulation 6(1) of the Registered Stock and Securities (Primary Dealers) Regulations No. 01 of 2009, or as amended, the Monetary Board may having regard to the viability and stability of the PD system, determine the capital required to be maintained by a PD Company and may vary such determination, from time to time.



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2. Minimum Capital Requirement 2.1 Every PD Company shall, at all times, maintain the core capital at a level not less than Rs. 1.0 billion until 31.12.2021, and thereafter, maintain such capital at a level not less than the amounts stipulated in Table 1 below with effect from the respective date.

Table 1- Minimum Capital Requirement for PD Companies

Effective Date	Amount (Rs. Billion)
01.01.2022	2.0
01.01.2023	2.5

3. Special Risk Reserve 3.1 Every PD Company shall, at all times, maintain a special risk reserve, in order to promote the safety, soundness and the stability of the PD Company and the PD system and to build up the PD Company's capital base.
- 3.2 Every PD Company shall, out of the audited profit (after tax) of each financial year, transfer to the special risk reserve, a sum not less than 10 per cent of such profits.
- 3.3 Notwithstanding the direction 3.2 above, the Director of the Department of Supervision of Non-Bank Financial Institutions (DSNBFI) may, at any time, require a PD Company to transfer a sum higher than that required by direction 3.2.
- 3.4 A PD Company may, upon an application made to the DSNBFI, be permitted to transfer a sum less than that required by direction 3.2 or to draw down the special risk reserve, after an assessment of PD Company's performance, capital position and risk profile, and



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subject to such terms and conditions as DSNBFI may deem necessary.

**4. Capital
Assessment and
Planning Process**

4.1 Every PD Company shall have a sound capital assessment process, which determines the level of capital and its buffers to be maintained against all material risk exposures which can reliably be quantified under normal and stress conditions.

4.2 Every PD Company shall develop a capital plan with time targets, approved by its Board of Directors, at least for three years, which stipulates means by which the Company intends to meet its current and future capital needs in line with the Company's strategies, risk profile and regulatory requirements. Such plan shall also capture the future expansions, other sources of funds, distribution policies and potential uncertainties.

4.3 Where a PD Company maintains the core capital at a level below Rs. 2.5 billion as at the effective date of these directions or at any time thereafter and if such shortfall persists for a period more than 3 months, such Company shall, within 3 months, submit a time bound plan for capital augmentation, in line with the minimum capital requirements and time frames as stipulated in the direction 2.1 above, which shall be acceptable to DSNBFI.

5. Distributions

5.1 Every PD Company shall have a distribution policy approved by its Board of Directors, which stipulates the criteria for making distributions of its earnings.

5.2 Prior to making a distribution, a PD Company shall notify the details of such distribution to DSNBFI and distributions under following



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circumstances require the prior written approval of DSNBFI.

- (i) Accumulated distribution for the period which such distribution relates to (including the proposed distribution) exceeds the profit (after tax) for the said period, or a PD Company has incurred a cumulative loss for that period, as per the latest available financial statements; or
- (ii) Making the distribution requires the use of earnings of prior financial years; or
- (iii) Accumulated earnings of prior financial years remain negative before or after the proposed distribution; or
- (iv) Core capital remains at a level below Rs. 2.5 billion before or after the proposed distribution

5.3 Where a PD Company decides to make a distribution for an interim period or prior to availability of annual audited financial statements, the Company shall ensure that it retains a sum not less than that required by directions 3.2, 3.3 and 3.4 above, as applicable, based on the profits (after tax) for the period which such distribution relates to, as per its latest available financial statements.

5.4 Where a PD Company has failed to comply with the minimum capital requirements stipulated in the direction 2.1 above or with the minimum Risk Weighted Capital Adequacy Ratio as at the end of the period for which a distribution relates to, or if a PD Company fails to comply with the said requirements after a proposed distribution, such PD Company shall not make any distribution until such compliance is effected and confirmed to DSNBFI.



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- 5.5 Every PD Company shall ensure that it has complied with any other legal and/or regulatory requirements with regard to distributions of the PD Company.
- 5.6 A PD Company shall not enter into transactions with any counterparty with a view of undue transferring of profits or losses of the Company.
6. Disclosures
- 6.1 A PD Company shall disclose as explanatory notes in its annual audited financial statements;
- (i) Where a PD Company has failed to comply with the minimum capital requirements within the time frames as stipulated in the direction 2.1 above, such fact with the value of shortfall in core capital
- (ii) Description of events, if any, which occurs between the end of the reporting period and the date on which the financial statements are authorized for issue, which resulted in a depletion of its core capital to a level below the minimum capital requirements stipulated in direction 2.1 above.
7. Effective Date and Revocation of Previous Directions
- 7.1 These Directions shall be effective from 01.08.2021.
- 7.2 Primary Dealer Companies (Minimum Core Capital) Direction No. 1 of 2015 is revoked from the effective date of these Directions.
8. Definitions
- 8.1 For the purposes of these directions;
- (i) "Distribution" shall have same meaning as defined in the Companies Act, No. 07 of 2007, or as amended.
- (ii) "Primary Dealer Company" shall mean a Company which is



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appointed as a Primary Dealer in terms of the Local Treasury Bills (Primary Dealers) Regulations No. 01 of 2009, or as amended and Registered Stock and Securities (Primary Dealers) Regulations No. 01 of 2009, or as amended and excludes a Licensed Commercial Bank so appointed as a Primary Dealer.

- (iii) "Risk Weighted Capital Adequacy Ratio" shall mean the ratio which is computed as per the Direction on Risk Weighted Capital Adequacy Framework for Primary Dealers dated 22.06.2006, or as amended.
- (iv) "Core Capital" shall mean the Tier I capital as defined in the Local Treasury Bills (Primary Dealers) Regulations No. 01 of 2009, or as amended and Registered Stock and Securities (Primary Dealers) Regulations No. 01 of 2009, or as amended.

Prof. W D Lakshman
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