#### LOCAL TREASURY BILLS ORDINANCE

Regulations made by the Minister of Finance under Section 16 of the Local Treasury Bills Ordinance (Chapter 420) as last amended by Act No.31 of 1995.

February 2002

**Minister of Finance** 

#### Regulations

1. These Regulations may be cited as the Local Treasury Bills Ordinance (Primary Dealers) Regulations No.1 of 2002, and shall come into force on 1<sup>st</sup> February, 2002.

#### 2. Appointment of Primary Dealers

- (1) The Monetary Board may from time to time determine the criteria for the appointment of Primary Dealers for the purposes of the Ordinance.
- (2) A Primary Dealer may enter into transactions in Treasury Bills directly as a counterparty with the Central Bank in the primary and the secondary market and may transact in Treasury Bills for its own account and for the account of customers in accordance with the Ordinance, any other written law, directions, guidelines, operating instructions and contracts as may be applicable.
- (3) Every Primary Dealer appointed by the Monetary Board shall be bound by and comply with these regulations and any directions and guidelines issued by the Central Bank.

#### 3. Application for Appointment as a Primary Dealer

- (1) An application for appointment as a Primary Dealer shall be made to the Central Bank by a Licensed Commercial Bank or any other company or in the case of a company to be formed for the purpose of carrying on the activities of primary dealer by the promoter of such company, in the form set out in Schedule I or Schedule II hereto, as may be appropriate, and shall be accompanied by the documents referred to in the Annex to Schedule I or II.
- (2) The applicant shall furnish to the Central Bank such other information and documents as the Central Bank may consider necessary for the purpose of considering the suitability of the applicant to be appointed as a Primary Dealer.

(3) The Central Bank may conduct such inquiries as it may consider necessary to ascertain the suitability of the applicant to be appointed as a Primary Dealer, including inquiries as regards the competence, character, integrity and suitability of its directors and principal officers.

#### 4. **Appointment**

The Central Bank may, having regard to the suitability of the applicant to be appointed as a Primary Dealer on the basis of the criteria adopted by the Monetary Board for the approval of Primary Dealers, and in the interest of the national economy and the primary dealer system, appoint an applicant as a Primary Dealer.

## 5. Conditions applicable to Licensed Commercial Banks which are appointed as Primary Dealers

Where the Monetary Board appoints a Licensed Commercial Bank as a Primary Dealer, the Bank shall comply with the following conditions:

- (1) (a) The Licensed Commercial Bank shall create and maintain a special reserve, known as the "Primary Dealer Special Reserve" in a minimum amount as may be determined by the Monetary Board from time to time. The Primary Dealer Special Reserve shall be used exclusively for obligations arising from primary dealer operations and activities of the Licensed Commercial Bank.
  - (b) Any variation of the minimum amount determined under sub-paragraph (1)(a) shall be communicated to the Licensed Commercial Bank in writing.
  - (c) When any variation made under subparagraph (1)(b) requires the Licensed Commercial Bank to increase the minimum amount determined under subparagraph (1)(a) or sub-paragraph (1)(b), the Monetary Board may, on application made to it, grant the Licensed Commercial Bank a period of six (6) months or such longer period in which to comply with such requirement.
- (2) The Licensed Commercial Bank shall maintain separate books of accounts in respect of primary dealer activities and conduct such primary dealer activities in a separate unit.
- (3) The Licensed Commercial Bank shall not have on its Board of Directors, a director or an employee of another Primary Dealer Company.
- (4) The primary dealer operations of a Licensed Commercial Bank shall be headed by a qualified and competent person holding a senior management position in such Bank, who shall devote his full time to such primary dealer operations.

- (5) The Licensed Commercial Bank shall be subject to operating guidelines and prudential requirements imposed by the Central Bank from time to time in respect of primary dealer activities and operations.
- (6) The primary dealer activities and operations of a Licensed Commercial Bank shall be monitored and supervised by the Central Bank.

## 6. Conditions applicable to Companies which are appointed as Primary Dealers

Where the Monetary Board appoints a company as a Primary Dealer hereinafter referred to as a "Primary Dealer Company", the Company shall comply with the following conditions:

- (1) The Memorandum of Association of the Company shall limit its objects to carrying on the activities set out in Schedule III to these Regulations and to activities ancillary to, or in connection with such activities.
- (2) The Company shall maintain a minimum capital as determined by the Monetary Board from time to time, of which the Tier II capital shall not exceed 50 per centum of the Tier I capital.
- (3) The Company shall not have on its Board of Directors, a director or an employee of another Primary Dealer or except for the Chief Executive Officer, an employee of the company.
- (4) The company shall not have on its Board of Directors any person who is subject to any disqualification applicable to directors of a licensed commercial bank in terms of the Banking Act provided however an employee or a director of a licensed commercial bank which is not a primary dealer shall not be disqualified to be a director of a Primary Dealer Company.
- (5) The Company shall not register, without prior written approval of the Monetary Board, any shareholding of a person if such shareholding results in a change in the controlling interest in the Primary Dealer Company. For this purpose "controlling interest" shall mean the holding of 51% or more of the paid-up share capital of the Company.
- (6) The Company shall not register without the prior written approval of the Monetary Board any shareholding of more than 10 per centum of the issued capital of the Company of a person if such person is the holding company or a subsidiary of any other Primary Dealer.

#### 8. Suspension and Cancellation of Appointment of a Primary Dealer

- (1) The Monetary Board may suspend a Primary Dealer from carrying on the business and activities of a Primary Dealer for a period which shall not exceed six months or may cancel the appointment of a Primary Dealer, if such Primary Dealer has failed to comply with any law, regulation, direction, guideline or code of conduct applicable to it or acts in a manner detrimental to the interest of the Primary Dealer system or to the national economy.
- (2) Where the Monetary Board suspends a Primary Dealer from carrying on the business and activities of a Primary Dealer under sub-paragraph (1) above, the Monetary Board may at or before the expiry of the period of suspension, extend the suspension for a further period -
  - (a) if it is of the opinion that further time is required to ensure the proper discharge by the Primary Dealer of its obligations and duties to the Central Bank, other Primary Dealers, direct participants and customers; or
  - (b) if a request for such extension is made by the Primary Dealer and the Monetary Board considers it to be in the interest of the Primary Dealer system to grant such extension.

A suspension may be extended in terms of this sub-paragraph notwithstanding that by such extension the maximum period of time specified in sub-paragraph (1) will be exceeded.

- (3) The Monetary Board may revoke the suspension imposed on a Primary Dealer if it is of the opinion that the situation that led to the suspension has been rectified and it will not be detrimental to the interest of the Primary Dealer system or to the national economy to revoke such suspension.
- (4) The Monetary Board may at the expiry of a period of suspension, cancel the appointment of a Primary Dealer if in its opinion the continuance of business by the Primary Dealer is detrimental to the interest of the Primary Dealer system and to the national economy.
- (5) A Primary Dealer whose appointment is suspended or cancelled shall not have the right to deal with the Central Bank as counterparty in the primary and secondary markets in securities and shall not transact new business with customers and shall not be entitled to utilize the facilities provided by the Central Bank to Primary Dealers except to the extent permitted by the Central Bank for the discharge of such Primary Dealer's obligations and duties to the Central Bank, other Primary Dealers, customers and others in accordance with directions issued by the Monetary Board.

## APPLICATION TO BE A PRIMARY DEALER IN GOVERNMENT/TREASURY SECURITIES AND CENTRAL BANK SECURITIES

#### **Licensed Commercial Bank**

(1)	Name of the Bank:
(2)	Date of Incorporation of the Bank in Sri Lanka/ Date of Establishment of the Branch in Sri Lanka*:
(3)	Directors of the Bank:
(4)	Capital & Reserves of the Bank/Branch*: (As per the latest audited financial statements)
(5)	Evidence of Experience in activities relating to the government securities market, money and capital market:
(6)	Specific reasons for the application to be a Primary Dealer:
(7)	Limit on the investment in Government Securities, if any, imposed by the Head Office*:
	Secretary to the Board of Directors of the Bank/Chief Executive*
	Seal of the Bank
	Date:
	* In the case of a branch office of a Bank incorporated outside Sri Lanka

#### Annex to Schedule I

## Documents to be submitted with the Application (Licensed Commercial Bank)

- (a) A Resolution of the Board of Directors of the Bank/Head Office approving the Bank functioning as a Primary Dealer.
- (b) An undertaking from the Bank/Branch to abide by the rules and regulations, code of conduct and related guidelines and directions pertaining to Primary Dealer operations, to be issued by the Central Bank from time to time.
- (c) List of Senior Managers involved in activities relating to Primary Dealers with qualifications and experience.
- (d) A detailed work plan with projections for the expansion of the institutional network and customer base relating to Government Securities and Central Bank Securities operations.
- (e) Latest available audited financial statements of the Bank.

Superintendent, Public Debt Dept., Central Bank of Sri Lanka, Colombo 1.

# APPLICATION TO BE A PRIMARY DEALER COMPANY IN GOVRNMENT/TREASURY SECURITIES AND CENTRAL BANK SECURITIES

	We(Name of the	Company) hereby apply to be appointed
as	as a Primary Dealer in terms of the Local Treas	ury Bills Ordinance and the Registered
Sto	Stock and Securities Ordinance. Particulars relation	ig to the company are given below.
Se	Section A - General Information.	
1.	1. Name of the applicant company:	
2.	2. Registered Address:	
	Telephone No.: Fax No	
	E.Mail:	
3.	3. Date of Incorporation	

4. Type of Organisation (Pvt., Ltd. or Public Ltd. or other)

5.	Details of bank account/s				
	Name of the Bank	C/A	S/A		
	& Branch	No.	No.		
Sec	etion B: Evaluation :				
(1)	Share Capital				
			Rs. Mn.		
	Authorised				
	Issued and fully paid				
	(pl. Indicate names of share holders)				
(2)	Names of Directors:				
	(List out separately their academic	ic/professional qu	nalifications and experience).		
(3)	Management:				
	(List out all key officials i	including CEO	with their academic/professional		
	qualifications and experience.)				

#### (4) Details of Employment:

Grade	Existing				Proposed			
	Male	e	Female		Male		Female	
	P	C	P	C	P	C	P	C
Executive								
Non- Executive								
Total								

P = Permanent	C = Casual
	C – Casuai

(5) Evidence of experience in activities relating to government securities and money and capital markets

(6) Evidence with regard to the necessary infrastructure facilities to undertake primary/secondary market transactions.

(7) Any specific reasons for the application to be considered for primary dealer status.

(8) Any other matters which the applicant considers useful for the Central Bank of Sri Lanka to evaluate the application.
(9) Documents referred to in Schedule III  ( Please annex the documents )
(10) We further undertake to provide any further information or documents that Central Bank of Sri Lanka may consider necessary for the purpose of considering our suitability to be appointed as a Primary Dealer.
Signature of authorised officer :
Name of the Applicant Company
Date:
Note:
Where the space provided is insufficient, information may be given in an additional sheet of paper under the same reference number.

#### Annex to Schedule II

#### **Documents to be submitted with the application**

- I. Memorandum and Article of Association of the Company.
- II. Certificate of Incorporation of the Company.
- III. Resolution of the Board of Directors to make an application to the Central Bank of Sri Lanka for appointment as Primary Dealers and authorising the signatory of the application to sign the application on behalf of the applicant.
- IV. An undertaking from the Company to abide by the rules and regulations, directions, code of conduct and related guidelines pertaining to Primary Dealer and to primary/secondary market transactions issued by the CBSL from time to time.
- V. Last audited financial statements of the Company.

#### Schedule III

#### **Activities of Primary Dealers**

- (1) Bidding at primary auctions conducted by the Central Bank of Treasury Bills, Treasury bonds and instruments issued by the Government and the Central Bank and purchasing such securities in such primary market.
- (2) Engaging in the secondary market in Treasury Bills, Treasury Bonds, and other Government and Central Bank Securities with the Central Bank and others.
- (3) Promoting and developing a secondary market in Treasury Bills, Treasury Bonds and other Government and Central Bank Securities; and
- (4) Any activities connected or incidental to the activities set out in paragraph (1) to (3) above.