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LankaSecure



This pamphlet describes the “LankaSecure” system which is operated by the Central Bank of Sri Lanka. The LankaSecure system consists of the Central Depository for Government Securities and the Scripless Securities Settlement System. The LankaSecure electronically records transactions and ownership in Government securities and is a customer-based title registry for Government securities.

Central Bank of Sri Lanka

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The Government borrows to finance its budget deficits and to meet its cash requirements by issuing Government securities, such as Treasury bills and bonds. The Government securities market consists of the primary market and the secondary market. In the primary market, the Public Debt Department of the Central Bank auctions Treasury bills and bonds through a competitive bidding process to Primary Dealers in Government securities. In addition, the Public Debt Department also sells Government securities through private placements to large institutional investors, such as the Employees Provident Fund and banks.

Treasury bills are short-term instruments and are issued in maturities of 91 days, 182 days and 364 days, while Treasury bonds are medium or long-term securities and are currently issued in maturities ranging from 2 years to 20 years. The secondary market for Government securities is open to all investors and the public can purchase or sell securities through Primary Dealers or banks. Primary Dealers are required to “make the market” in Government securities by quoting the buying and selling prices for Treasury bills and bonds of differing maturities. Transactions in the secondary market can take the form of outright sales or purchases or repurchase agreements. The yield curve indicates the market interest rates for Government securities from the shortest to the longest maturities.

The Government securities market is the largest financial market in Sri Lanka. Secondary market transactions in Treasury bills amounted to Rs. 443 billion for outright transactions and Rs. 652 billion for repurchase transactions in 2005, while Treasury bonds outright and repurchase transactions amounted to Rs.308 billion and Rs. 2,331 billion in 2005, respectively. The main investors in Government securities are pension and provident funds, savings and commercial banks, insurance companies and private sector companies. Government securities are used as collateral by the Central Bank in the conduct of its open market operations.

The Central Bank operates the customer-based Central Depository for Government securities called “LankaSecure” which electronically records transactions and ownership in Government securities.

The LankaSecure System

The LankaSecure system comprises of the Scripless Securities Settlement System (SSSS) and Scripless Securities Depository System (SSDS). LankaSecure facilitates the issue of Government securities and Central Bank securities in electronic or scripless form and settlement of trades of such scripless securities on a Delivery versus Payment (DvP) basis. Accordingly, transactions are settled in the system if the participant who sells securities has sufficient eligible securities in his Securities Account in LankaSecure and the buying participant has sufficient funds in his Settlement Account in the RTGS System to pay for the transaction. All securities transactions settled in the system are irrevocable.

The SSDS is the title registry as well as the custodian for Government securities. The ownership of securities is

recorded to the beneficiary level in the SSDS. The holders of scripless securities in the SSDS can obtain up to date details of their investments at any point of time through LankaSecureNet, an internet based facility.

The LankaSecure system is a part of the LankaSettle System. The LankaSettle system has two components i.e. the RTGS system (which processes large value and time critical payments) and the LankaSecure system (Scrip-less Securities Settlement System). The integration of the RTGS System and LankaSecure System provides the most secured securities settlement mechanism based on Delivery versus Payment for scrip-less securities transactions. The LankaSecure System is operated by the Payments and Settlements Department of the Central Bank.

Participants in the LankaSecure System

There are two types of participants in the LankaSecure system. They are :

- ◆ Direct Participants
- ◆ Dealer Direct Participants

Direct Participants

A Licensed Commercial Bank (LCB), a Primary Dealer (PD) or any person appointed by the Central Bank under the provisions of the Local treasury Bills Ordinance (LTBO) or the Registered Stocks and Securities Ordinance (RSSO) to participate in the LankaSecure system is known as a Direct Participant (DP). A DP is eligible to have a RTGS Settlement Account and a Securities Settlement Account in the LankaSecure system. A person who has been given DP status only can engage in the Government Securities transactions on his own behalf.

Dealer Direct Participants

A DP may also be appointed as a Dealer Direct Participants (DDP) under the RSSO and LTBO. The difference between a DP and a DDP is that a DDP can maintain Government securities accounts on behalf of customers. According to the existing legal provisions, all Licensed Commercial Banks and Primary Dealers can be given DDP status.

Opening Accounts in LankaSecure

Accounts are established in the LankaSecure system to record receipts of securities based on the transaction type. Accounts are identified in the LankaSecure system using information of participant, account type, owner of securities and International Securities Identification Number (ISIN).

Types of Accounts in LankaSecure

The following account types are available in the system.

- (1) OWN - Participant's Own account holds securities owned by the participants.

- (2) ILF - Account for Intraday Liquidity Facility holds securities transferred to the Central Bank as collateral for intraday liquidity facility.
- (3) PLG - Pledge Account hold securities that have been pledged to the participant.
- (4) CSL - Resident Customer Account holds securities owned by a person resident in Sri Lanka.
- (5) CSF - Non-resident customer Account hold securities owned by a person resident outside Sri Lanka.
- (6) CRP - Tradable Repo Account holds securities that are transferred to a participant under a Reverse Repo Agreement with another participant or a customer. The securities in the CRP can be traded.
- (7) REP - Non-tradable Repo Account holds securities that are transferred to a participant under a Reverse Repo Agreement with another participant or a customer. The securities in the REP cannot be traded.
- (8) CRE - Tradable Customer Reverse Repurchase Account holds securities that are transferred to a customer under a reverse repurchase agreement of the customer with counterparty. The securities available in this account can be traded.
- (9) CRR - Non-tradable Customer Reverse Repurchase Account holds securities that are transferred to a customer under a reverse repurchase agreement of the customer with counterparty. The securities available in this account cannot be traded.
- (10) STI - Statutory Investment Account is maintained by a participant to hold securities to meet any statutory requirement imposed on a participant.
- (11) PAP – Primary Auction Purchase Account holds securities purchased at primary auction until they are released on the settlement day.
- (12) DOP – Domestic Operations Repo Account holds securities transferred to a participant by the Central bank under a Repo Agreement and these securities cannot be traded.
- (13) DRP – Domestic Operations reverse Repo Account holds securities transferred to the Central Bank under a Reverse Repo Agreement and securities in this account cannot be traded.
- (14) TRT - Trust Account is maintained by a Direct Participant to records securities which are held by it as legal owner and which are subject to a trust as recognized in terms of RSSO and LTBO.

Types of Transactions in LankaSecure

- i. Outright Transactions (Sales or purchases).
- ii. Delivery /Receive Free Transactions (Securities movements without fund transfers between participants).
- iii. Repo/Reverse Repo Transactions (Short term investments where sales /purchases of securities with an agreement to buy/sell back on an agreed date).

- iv. Repositioning (Movement of securities between accounts of the same participant).
- v. Cancellation of Transactions (Cancelling before the settlement of a transaction).

Except in the case of cancellations, the ownership of securities changes hands in all other transactions.

Mode of Communication

Communication regarding transactions in the LankaSecure is based on the SWIFT system which is a reputable financial communication system.

Settlement Procedure under LankaSecure

Settlement for transactions is based on T+0 to T+n where “n” could be from 1 to 31 days. All secondary market transactions are settled on DvP1 basis where transfer of funds and securities takes place at the same time, eliminating settlement risk.

Fund settlement for securities transactions are made through RTGS.

The system does not accept partial settlements so that participants have to maintain sufficient balances in their settlement accounts.

Payments of Maturity Proceeds and Coupons

- (1) Due payments for outstanding scrip securities are made by the Central Bank upon receipt of such securities/coupons outside the system
- (2) Due payments for all scripless securities are made by the system through the RTGS.
- (3) It is an obligation of the DDP to make payments due to their customers on the due date of payment.
- (4) While crediting due payments to participant's accounts, the system notifies details of such payments directly to customers.

Statements to Investors by LankaSecure

LankaSecure issues three statements to investors.

- i. Statement of Transactions - A monthly statement confirming the transactions that took place during the month.
- ii. Statement of Holdings – A bi-annual statement confirming the outstanding balances held by each customer.
- iii. Statement of Payments- A statement indicating the maturity proceeds/coupons payments, whenever such payment is made to the customer..

Responsibilities and Obligations of Direct Participants and Dealer Direct Participants.

As per regulations made by the Minister of Finance under Section 55 of the RSSO and Section 16 of the LTBO, the duties and responsibilities of Dealer Direct Participants (DDP) are given below.

- (a) To promptly and accurately record on LankaSecure the particulars relating to the customer as required by the System Rules when the customer obtains title to or an interest in a scripless Treasury bond or a scripless Treasury bill.
- (b) To promptly and accurately record in LankaSecure any change of title or interest and other particulars relating to the owner or interest holder as the case may be, of a scripless Treasury bond/bill in a Securities Account maintained by the DDP for a customer.
- (c) To make payment to a customer of any interest, maturity proceeds, or redemption proceeds, if any, due to the customer on scripless Treasury bonds/bills or of other monies due to the customer on account of transactions in scripless Treasury bonds/bills and comply with directions, if any, issued by the Central Bank in respect of such payment.
- (d) Where monies of or due to a customer are in the custody of the DDP, such monies shall be held separate from its own funds in a bank account maintained for such customer or customers.
- (e) Proper books and records shall be maintained in respect of the dealings of the DDP with or on behalf of a customer, and reasonable access shall be provided to the customer to such books and records.
- (f) Issue of confirmations and statements to customers relating to the Securities Accounts and funds held for such customers as required by any written law or by directions issued by the Central Bank.
- (g) Subject to any written law and the System Rules, effect transactions on behalf of a customer only as provided for in the Customer Agreement and
- (h) Unless otherwise required by any other written law, a DDP shall not transfer or reposition a scripless Treasury bond/bill which is in a Securities Account maintained for a customer to or in another Securities Account except in accordance with an approval or instruction issued by the customer in accordance

with the Customer Agreement or in accordance with any other agreement in respect of a transaction in scripless Treasury bonds/bills to which the customer and the DDP are parties.

- (i) In addition to above responsibilities related to transactions, DDPs have to abide to the System Rules and other regulations pertaining to their participation formulated under RSSO, LTBO and MLA.

The Rights of Customers

A customer has to enter into an agreement with a DDP to transact in Government securities. The matters to be included in the Customer Agreement has been described by Schedule 1 of the regulations issued by the Minister of Finance under Section 55 of the RSSO and Section 16 of the LTBO. The following are the rights of investors.

- (a) Authorizing the DDP to execute instructions issued by the customer in terms of the Customer Agreement subject to the System Rules.
- (b) Authorizing the DDP to receive interest, maturity proceeds and redemption proceeds, if any on scripless Treasury bonds/bills to which the customer is entitled and proceeds of transactions in scripless Treasury bonds/bills carried out on a Delivery versus Payment or Receive versus Payment basis for the customer.
- (c) Providing promptly to the DDP all information required in respect of the customer for the opening and maintenance of Securities Accounts.
- (d) Specifying information relating to the parties of any notice in terms of the agreement and requiring parties to update such information upon the occurrence of any change.
- (e) Ensuring that the DDP acts in accordance with any written law in the carrying out of its responsibilities, duties and functions as a DDP for the provision of services to the customer.
- (f) In addition, maintaining accounts in the CDS, receiving due (interest and maturities) payments without delay, receiving statements relating to their investments, obtaining information for their transactions, requesting any cancellation of transaction if they do not agree, taking legal actions for any discrepancy and changing name and addresses as and when required can also be identified as rights of investors.

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